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FOREWORD

Fiscal and Monetary Review Annual 2009 consists of the report of Brunei Darussalam's fiscal performance for the Fiscal Year 2009/2010 starting from 1 April 2009 ending 31 March 2010 as well as the country's monetary and financial developments for the calendar year 2009.

EXECUTIVE SUMMARY

The first half of 2009 has been a challenging period as the world could still feel the deteriorating impacts of the global financial crisis on their exports as well as on the liquidity problems of their banks. Due to collective efforts by governments to take their economies out of recession by injecting fiscal stimuli and easing the monetary policy, the second half of the year paved a path to recovery. Although the crisis had limited impact on Brunei Darussalam's financial sector, it was still felt where it mattered most- the oil and gas industry.

Oil prices in 2009 averaged at US\$61.73 per barrel, a decline of 36.4 percent from 2008 average. The lower oil and gas prices coupled with reduction in oil production have resulted in lower Government revenue collected from the oil and gas sector of B\$5,589.7 million for FY 2009/10, a decline of 47 percent from the previous fiscal year. This decline greatly affected the overall revenue collected by the Government, which fell by 44.3 percent to B\$6,335.3 million. Government expenditure, on the other hand, rose by 9.7 percent to B\$6,611.2 million due to faster implementation of National Development Plan projects. The overall fiscal balance for FY 2009/10 indicated a deficit of B\$275.9 million.

On the Monetary front, a total of eighteen Government Short Term Sukuk Al-Ijarah were successfully issued in 2009 as part of Brunei Darussalam's efforts to develop its capital market. As for foreign exchange, as at end of year 2009, the Brunei Dollar strengthened against the major global currencies such as the US Dollar, the Hong Kong Dollar, Japanese Yen and Euro. However, it weakened against other currencies such as the Sterling Pound and Australian Dollar. Currency in circulation experienced growth at the end of 2009, increasing by 3.6 percent. Meanwhile, External Assets increased to B\$1,107.9 million providing more than 100 percent coverage to the currency in circulation. Broad money increased by 17.4 percent annually largely due to the increase in Quasi money by 40 percent.

In the banking sector, Total Banking Assets decreased by 16.0 percent to B\$15.6 billion and Total Deposits fell by 17.5 percent to B\$13.6 billion for 2009. Total Loans, on the other hand, declined by 5.7 percent to B\$5.7 billion. Total Non-Performing Assets (NPA) of the banking industry stood at 10.3 percent. On banking regulations, three notices and one guideline were issued for the year under Section 66 of the Banking Order, 2006 (BO) and two notices under Section 66 of the Islamic Banking Order, 2008 (IBO).

In the Insurance and Takaful Industry, Total Assets decreased by 1.7 percent to B\$999.1 million. Overall Industry Premiums decreased by 4.8 percent to B\$186.4 million. However, since the introduction of the Insurance Order in 2006; growth in premiums has been substantial due to the requirement for risks in Brunei Darussalam to be covered by locally issued policies. On the other hand, Overall Industry Gross Claims, increased by 0.8 percent to B\$96.5 million.



Global Economic Review

The year 2009 marked the culmination of the global financial crisis. Average worldwide GDP declined by 0.6 percent, a stark contrast from its average in 2008 of 3.0 percent growth. Average oil price, which had previously been steadily increasing to a peak of US\$97.03 a barrel in 2008, plunged in 2009 by 36.4 percent to US\$61.73 a barrel, close to the 2006 average.

In the United States, average GDP growth for 2009 was -2.4 percent, a decrease from 0.4 percent the previous year. Unemployment remained high reaching 10.0 percent by the end of the year despite the steady recovery resulting from the injection of a stimulus package that had helped bring about a seasonally adjusted annualised GDP growth of 2.2 percent and 5.6 percent in the third and fourth quarter, respectively. However, once the effects of the stimulus subsidies, it is forecasted that growth will settle into a more regular and steady pace at an average rate of 3.1 percent in 2010.

Europe was one of the worst hit during the financial crisis owing to substantial imbalances in the advanced European economies; and external financial constraints in the emerging European economies. Average GDP in the region declined in 2009 by 4.0 percent, down from 1.0 percent growth in 2008, whereas in the Euro Area GDP slumped 4.1 percent from 0.6 percent growth in 2008. Recovery in the region has been slow due to factors which include concerns of sovereign debt default; large fiscal and current account imbalances; and financial sector deleveraging. Growth in Europe is expected to continue its steady but slow trend with a forecast of 1.3 percent growth in 2010. However, recovery in this region is uneven with certain countries at risk of defaulting on their sovereign bonds expected to undergo another decline in their GDP.

In Japan, average economic growth for the year was at -5.2 percent which was a reduction of 4 percentage points from 2008. Recovery has been mainly contributed by growth in exports. However, domestic demand has been weak, unemployment has increased and deflation has returned. Consequently, the outlook for Japan, although positive, remains weak and is expected to grow by 1.9 percent in 2010 supported mainly by fiscal stimulus and increasing exports.

China has shown a V-shaped recovery. After a weak first quarter, growth accelerated quickly to register an annual growth rate of 8.7 percent, which was only slightly lower than growth in 2008 of 9.6 percent. The strong growth was attributed to the forceful expansionary fiscal and monetary policies which led to strong public investment and

increasing domestic demand. Export growth was in the negative during most of the year but returned to positive territory by December. It is expected that 2010 will see China grow by 10.0 percent as a result of continued expansionary policy, increasing private consumption and investment as well as rebounding exports.

The emerging economies as defined by the IMF, registered growth of 2.4 percent which was down from its average in 2008 of 6.1 percent, but still encouraging compared to their advanced counterparts. This positive growth reflected the strong expansion of output by the leaders of the global recovery – Developing Asia, which grew by 6.6 percent. In 2010, it is expected that the growth in the emerging economies will accelerate and output will increase by 6.3 percent.

Among the ASEAN-5, Vietnam has showed robustness in its economy by registering economic growth of 5.3 percent. In contrast, Thailand saw its GDP contracted by as much as -2.3 percent. Growth rates for the Philippines, Malaysia and Indonesia are 0.9 percent, -1.7 percent and 4.5 percent, respectively. Outlook for this region is favourable, with growth forecast of 5.4 percent for 2010 spurred mainly by domestic demand [IMF WEO, April 2010].

In 2010, the global economy is expected to grow by 4.2 percent and oil price is expected to rebound to an average of US\$80.00 a barrel. However, estimations of recovery will be dependent on several upside and downside risks. The upside risks are the improvements in sentiments and confidence towards the financial markets and the economic outlook which could spur improvement in capital flows, trade and private demand. On the other hand, the downside risks are the concerns regarding worsening budgetary positions and fiscal sustainability in a few global economies. It is feared that these downside risks could unsettle financial markets and induce a slowdown of the recovery through increased borrowing costs to businesses and households.

A multi-speed recovery brought about by varying policies brings about unique challenges across different regions and countries. For most economies, stimulus needs to be maintained for another year amidst possible risk of a double-dip recession and returning financial sector troubles. However in the emerging and developing economies, where growth is more rapid, withdrawal of the stimulus packages might need to be done much sooner as not to fuel asset bubbles, overheating and financial excesses.

Fiscal Sector Developments

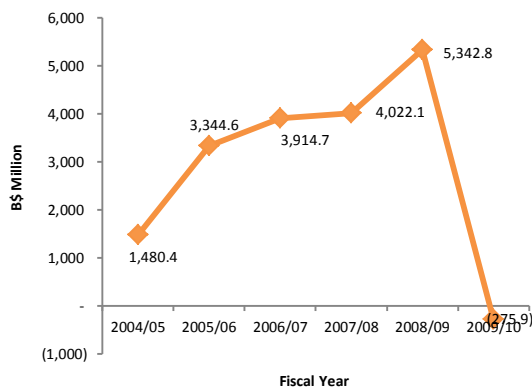
OVERVIEW

- Fiscal deficit for FY 2009/10 was B\$275.9 million.
- Total Government Revenue was B\$6,335.3 million and Total Expenditure was B\$6,611.2 million.
- 88.2 percent of Total Government Revenue was generated from the Oil & Gas sector and 11.8 percent from the Non-Oil sector.
- Total Government Expenditure increased by 9.7 percent from the previous year.

FISCAL POSITION

Total revenue in FY 2009/10 of B\$6,335.3 million was down by 44.3 percent from B\$11,367.2 million in FY 2008/09. Compared to expenditure of B\$6,024.4 million in the previous fiscal year, FY 2009/10 Expenditure of B\$6,611.2 million was up by 9.7 percent. Consequently, this has brought about a fiscal deficit in FY 2009/10 of B\$275.9 million as compared to a fiscal surplus of B\$5,342.8 recorded in FY 2008/09.

Figure 2.1: Fiscal Surplus/Deficit Balances



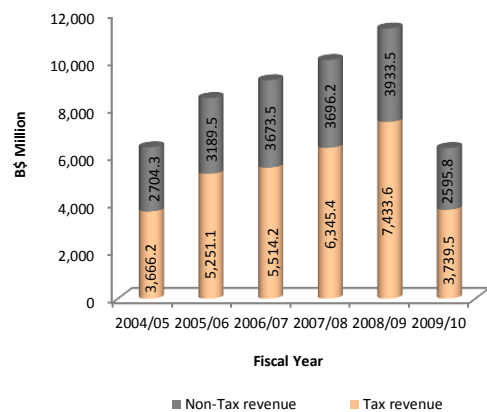
GOVERNMENT REVENUE

Total Government Revenue comprises Tax and Non-Tax Revenue.

- Tax Revenue in FY 2009/10 of B\$3,739.6 million was a decrease of 49.7 percent from the revenue collected for FY 2008/09 of B\$7,433.6 million.
- Non-Tax Revenue in FY 2009/10 of B\$2,595.8 million also recorded a fall of 34.0 percent, where it was B\$3,933.5 million in FY 2008/09.

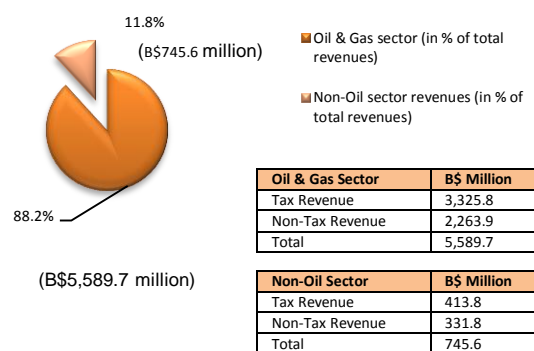
- The decline in collection from both Tax and Non-Tax Revenues in FY 2009/10 resulted in a decrease of Government Revenue of B\$5,031.9 million in comparison with FY 2008/09 Revenue.

Figure 2.2: Tax Revenue & Non-Tax Revenue, FY 2005/06 – FY 2009/10



- As shown in Figure 2.3, about 88.2 percent of Total Revenue of B\$6,335.3 million was generated from the Oil and Gas sector.
- Whereas, the Non-Oil sector contributed 11.8 percent at B\$745.6 million.

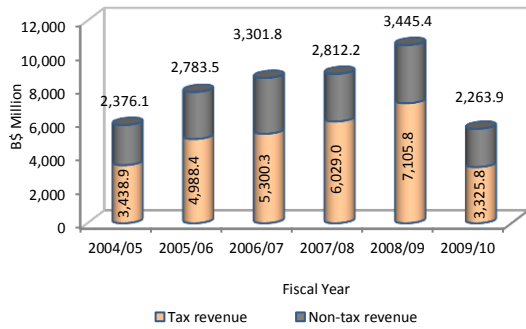
Figure 2.3: Percentage Proportion of Total Revenue, FY 2009/10



- As shown in Figure 2.4, Tax Revenue generated from the Oil and Gas sector in FY 2009/10 was B\$3,325.8 million, a fall of 53.2 percent from that collected in FY 2008/09 of B\$7,105.8 million.

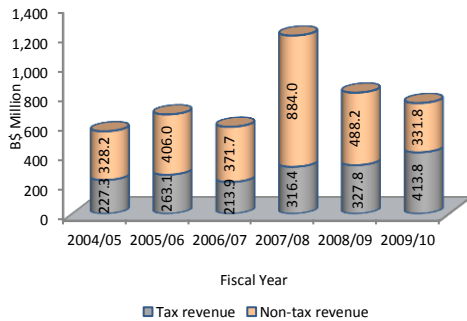
Non-Tax Revenue from the Oil and Gas sector for FY 2009/10 million also experienced a fall of 34.3 percent to B\$2,263.9.

Figure 2.4: Tax & Non-Tax Revenue from the Oil & Gas sector, FY 2004/05 – FY 2009/10



- Whereas, Figure 2.5 shows that the Tax Revenue from the Non-Oil sector generated in FY 2009/10 was up by 26.2 percent to B\$413.8 million from B\$327.8 million collected in FY 2008/09.
- Non-Tax Revenue from the Non-Oil sector was however down by 32.0 percent to B\$331.8 from B\$488.2 million recorded in FY 2008/09.

Figure 2.5: Tax & Non-Tax Revenue from Non-Oil Sector, FY 2004/05 – FY 2009/10



- Overall, Oil and Gas sector Revenue in FY 2009/10 was B\$5,589.7 million, a decrease of 47.0 percent from the amount generated in FY 2008/09 of B\$10,551.2 million as shown in Figure 2.6.
- Non-Oil sector Revenue experienced a contraction of 9.0 percent, generating revenue of B\$745.6 million in FY 2009/10 as compared to B\$816.0 million in FY 2008/09.

Figure 2.6: Oil & Non-Oil Sector Revenues, FY 2004/05 – FY 2009/10

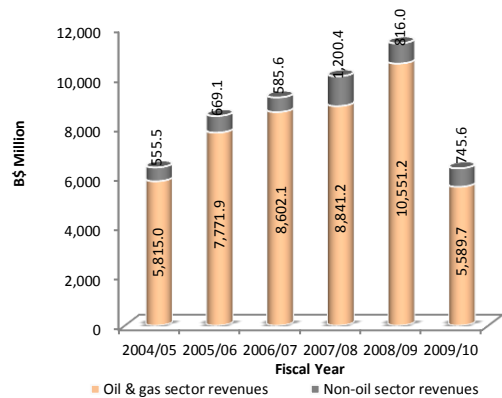


Table 2.1: Budgeted & Actual Revenue Comparison

	Budgeted Current Revenue (B\$ million) FY 2009/10	Actual Current Revenue (B\$ million) FY 2009/10	Proportion of Revenue Collected (%)
Total Revenue	4,000.4	6,335.3	158.4
Tax Revenue	2,512.0	3,739.6	148.9
Non-Tax Revenue	1,488.4	2,595.8	174.4

- Table 2.1, shows that Total Government Revenue collected in 2009 was above the estimated budget by 58.4 percent or by B\$2,334.9 million.

Box 2.1: TAX RATE CHANGES

Year	Tax Rate
2007	30%
2008	27.5%
2009	25.5%
2010	23.5%

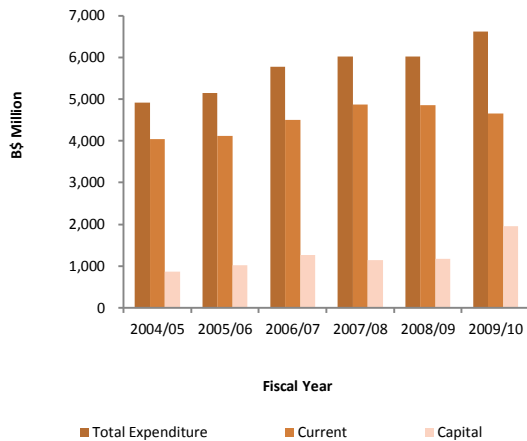
The Revenue Division has introduced The Income Tax Act (Amendment) Order 2008 and 2009 which resulted in reduction of tax rates as shown in the table above. Among the objectives for the reduction of tax rates are as follows:

- To create a competitive tax rate among tax administrators in this region;
- To create a conducive business environment which is attractive to foreign investors; and
- To reduce tax liabilities of SMEs.

GOVERNMENT EXPENDITURE

In FY 2009/10, Government Expenditure increased from B\$6,024.4 million in FY 2008/09 to B\$6,611.2 million.

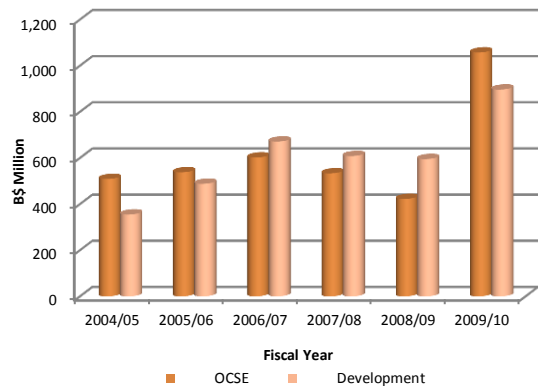
Figure 2.7: Government Expenditure, FY 2004/05 – 2009/10



Capital Expenditure

Capital Expenditure rose by 66.3 percent from B\$1,175.0 million to B\$1,954.1 million. This was reflected by an increase in both Other Charges Special Expenditure (80.6 percent) and Development Expenditure (52.1 percent).

Figure 2.9: Actual Capital Expenditure, FY 2004/05 – 2009/10



Current Expenditure

Current Expenditure decreased by 4.0 percent to B\$4,657.1 million from B\$4,849.4 million in the previous year. This was mainly due to a decline in Charged Expenditure by 24.3 percent which represented 25.7 percent of the Total Current Expenditure.

However, an increasing trend can be observed on both Wages and Salaries Expenditure (8.5 percent) and Other Charges Annually Recurrent (OCAR) Expenditure (3.3 percent).

Figure 2.8: Actual Current Expenditure, FY 2004/05 – 2009/10



Monetary and Financial Sector Developments

OVERVIEW

- Total issuance of Sukuk Al-Ijarah for 2009 was B\$617 million.
- M0 grew by 3.6 percent.
- Broad money expanded by 17.4 percent in 2009.
- Average deposit rates came down corresponding to the global market rates.
- Total banking assets fell by 16 percent with the decrease in loans of 5.7 percent.
- Total assets of the Finance companies went up by 15.5 percent.

MONETARY DEVELOPMENTS

i. Government Short Term Sukuk Al-Ijarah

In line with the Government's continuous effort to diversify its economy, a total of 18 Government Short Term Sukuk Al-Ijarah were successfully issued in 2009. These *sukuk* carried a maturity of 91 days except for two issues which have a maturity of 364 days. The total issuance of Sukuk Al-Ijarah at the end of 2009 was B\$617 million, while the aggregate amount of the Sukuk Al-Ijarah issued since the maiden offering in April 2006 has passed the \$2 billion mark (\$2.011 billion) as shown in Table 3.1.

Table 3.1: Brunei Government Short-Term Sukuk Al-Ijarah Issuances for 2009

Series	Issuance (B\$m)	Terms (days)	Issuance Date	Maturity Date	Rental Yield (p.a)
24	31	91	5 Feb 09	07 May 09	0.40%
25	60	91	19 Feb 09	21 May 09	0.39%
26	11	364	5 Mar 09	04 Mar 10	0.50%
27	63	91	19 Mar 09	18 Jun 09	0.34%
28	25	91	09 Apr 09	09 Jul 09	0.30%
29	30	91	23 Apr 09	23 Jul 09	0.30%
30	21	91	07 May 09	06 Aug 09	0.30%
31	35	91	21 May 09	20 Aug 09	0.30%
32	20	91	11 Jun 09	10 Sep 09	0.30%
33	45	91	09 Jul 09	08 Oct 09	0.30%
34	50	364	30 Jul 09	29 Jul 10	0.45%
35	25	91	13 Aug 09	12 Nov 09	0.33%
36	32	91	27 Aug 09	26 Nov 09	0.30%
37	38	91	17 Sep 09	17 Dec 09	0.35%
38	33	91	08 Oct 09	07 Jan 10	0.36%
39	30	91	22 Oct 09	21 Jan 10	0.38%
40	25	91	19 Nov 09	18 Feb 10	0.39%
41	43	91	03 Dec 09	04 Mar 10	0.39%

On the global monetary developments, many central banks have reduced interest rates to unusually low levels, in some cases close to zero, as an effort to increase liquidity in the financial market in the wake of the global financial crisis. Refer to Table 3.2.

Table 3.2: Policy Rates of Selected Central Banks (in percent)

Banks	2005	2006	2007	2008	2009
Federal Reserve (FED)	4.25	5.25	4.25	0.25	0.25
Bank of England (BOE)	4.5	5.0	5.5	2.0	0.5
European Central Bank (ECB)	2.25	3.5	4.0	2.5	1.0
Bank of Japan (BoJ)	-	0.25	0.5	0.23	0.1
Monetary Authority Singapore (MAS)	3.25	0.5	1.25	0.13	0.5
Bank Negara Malaysia (BNM)	3.0	3.5	3.5	3.25	2.0

ii. Foreign exchange

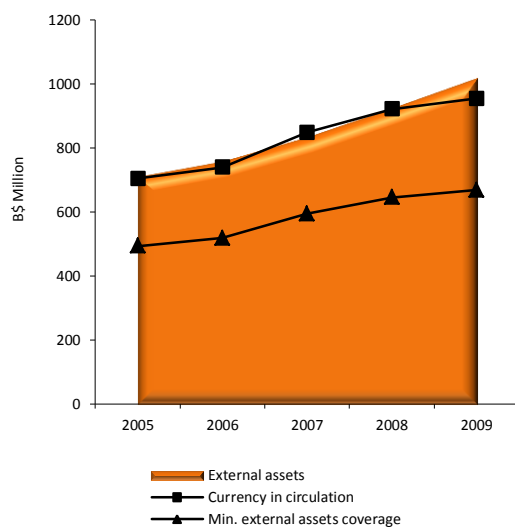
Table 3.3: Foreign Exchange Rate (End of Period) – Brunei Dollar Against Selected Currencies

	2007	2008	2009
B\$ to 1 unit of Foreign Currency			
US Dollar	1.4412	1.4392	1.4034
Sterling Pound	2.8798	2.0769	2.2541
Euro	2.1252	2.0258	2.0163
Australian Dollar	1.2707	0.9959	1.2567
B\$ to 100 unit of Foreign Currency			
Hong Kong Dollar	18.47	18.57	18.1
Indonesian Rupiah	0.015352	0.013143	0.014934
Japanese Yen	1.2871	1.5924	1.5194
Philippine Peso	3.4938	3.0235	3.0406
Thai Baht	4.2785	4.1297	4.2094

As at end of 2009, the Brunei Dollar strengthened against the US Dollar (2.5 percent), the Euro (0.5 percent), the Hong Kong Dollar (2.5 percent) and the Japanese Yen (4.6 percent). However, it weakened against the Pound Sterling (-9 percent), the Australian Dollar (-26 percent), Indonesian Rupiah (-14 percent), the Philippine Peso (-1 percent) and the Thai Baht (-2 percent).

iii. Money Supply

Figure 3.1: Currency in Circulation (Mo) and External – Assets Back-up

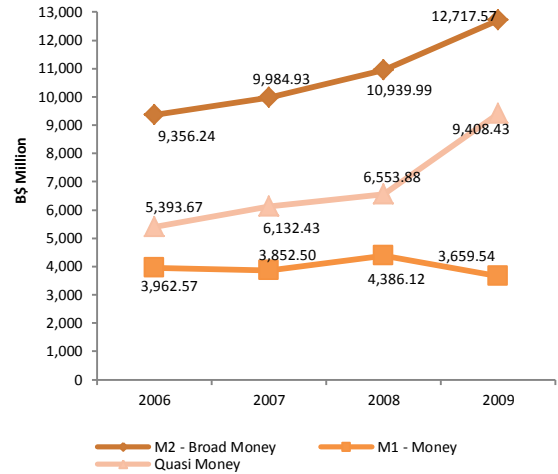


Currency in circulation (M0)¹ grew by 3.6 percent in 2009 (2008: 8.6 percent). In the same year, external assets of Brunei Currency and Monetary Board increased to \$1,107.9 million (2008: \$923.7 million). This provided more than 100 percent

¹ MO = Currency in circulation outside BCMB

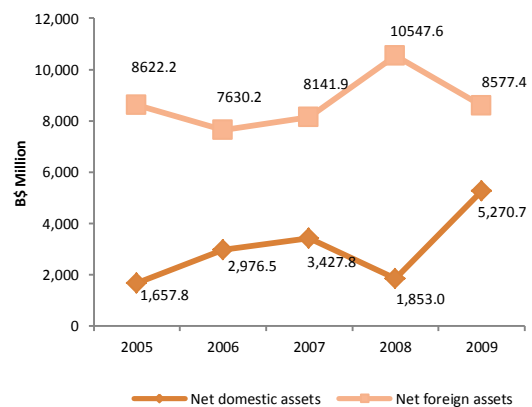
coverage for the currency in circulation. At the same time, liquid assets coverage was also well above the statutory requirement of 30 percent, which was 53.5 percent (2008: 46.6 percent).

Figure 3.2: Monetary Aggregates



Net foreign assets² decreased by 19 percent in 2009. Domestic claims³, on the other hand, increased sharply to \$5,002.1 million (2008: \$1,852.9 million). The sharp increase in domestic claims was largely attributed to the considerable decline in Liabilities to the Government of 59.3 percent. Meanwhile, Claims on private sector and Claims on public non-financial corporations have decreased by 3 percent and 31.2 percent, respectively.

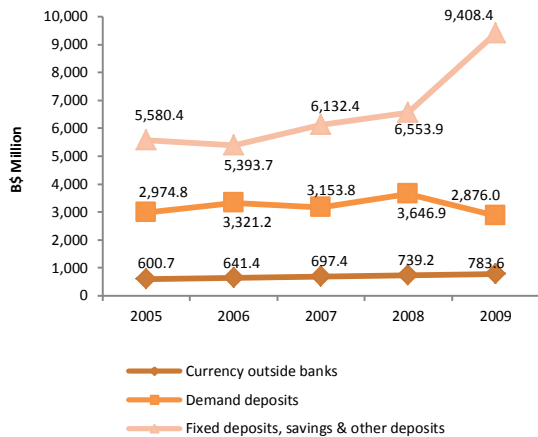
Figure 3.3: Net Foreign Assets and Domestic Claims



² Net Foreign Assets = BCMB net claims on non-residents + Commercial banks net claims on non-residents

³ Domestic claims = Net claims on Government + Claims on Public nonfinancial corporations + Claims on Private sector

Figure 3.4: Components of Money and Quasi Money



Broad money increased by 17.4 percent in 2009 compared to 9.6 percent in 2008. This was largely attributed to an increase of 40 percent (2008: 6.9 percent) in quasi money, which consists of fixed deposits, savings and other deposits.

DEPOSIT RATES

During the year, the banks’ average deposit interest rates shifted further downwards in response to the trend in global interest rates. The 6 months and 12 months deposit rates declined by 17 basis points and 19 basis points during the year to 0.71 percent and 1.01 percent at end 2009 respectively, while the short term, (less than 3 months) deposit rate declined by a wider margin of 25 basis points during the year to 0.55 percent at end 2009.

Mths	2006	2007	2008	2009	y-o-y %
3	0.98	1.20	0.80	0.55	-31.3
6	1.09	1.25	0.88	0.71	-19.3
12	1.35	1.56	1.20	1.01	-15.8

FINANCIAL SECTOR DEVELOPMENTS AND SYSTEM STABILITY

Overview

Brunei Darussalam’s financial system continued to be resilient in the aftermath of the global financial crisis. Overall, financial institutions maintained their soundness with sustained profitability, increased capitalisation and improvements in risk management, supported by enhanced regulation and supervision.

The global financial crisis has not had a major impact on Brunei Darussalam’s financial institutions, as domestic banks did not have direct exposure to

sub-prime mortgage assets, US mortgage linked securities or to the failed financial institutions.

Financial System - Growth Trend

Contraction in 2009 - Total assets of the financial institutions decreased by 13.7 percent, reaching B\$18.6 billion at end 2009. The contraction in total assets was the result of a significant decline in Bank deposits which serves as the resource base for banking assets and was recorded in the government deposits sector.

Licensed Banks accounted for 84.3 percent of total financial system assets and continued to maintain their dominant position in the financial sector. Licensed Finance Companies accounted for the second largest share of assets with 8.6 percent followed by Insurance Companies and Takaful with a 5.4 percent share. Both International Insurance Companies and Licensed International (Off-shore) Banks continued to hold the smallest shares of assets at 0.8 percent.

Table 3.5: The Structure of the Financial System

Financial Institution	2008		2009(a)	
	Amount (B\$ Million)	Percent, share of Total	Amount (B\$ Million)	Percent, share of Total
Institutions Regulated by the MOF				
Deposit Taking Institutions	20,269	94.3	17,401	93.8
Licensed Banks inc TAIB	18,651	86.7	15,651	84.3
Conventional	12,325	57.3	9,362	50.4
Islamic	6,326	29.4	6,289	33.9
Licensed Finance Companies	1,387	6.5	1,602	8.6
Licensed International (Off-shore) Banks	231	1.1	148	0.8
Other Financial Institutions	1,233	5.7	1,157	6.2
Insurance Companies & Takaful	1,016	4.7	999	5.4
Conventional	827	3.8	800	4.3
Takaful	189	0.9	199	1.1
International Insurance Companies	217	1.0	158	0.8
Total Assets	21,502	100.0	18,558	100.0

* (a) Provisional

Financial System Stability

Financial system stability was strengthened further in 2009, following the continued enhancement of regulatory and supervisory measures over the key financial institutions. Overall, the key financial soundness indicators in the banking and finance company sector, which account for over 93.8 per cent of financial system assets, were maintained at healthy levels. Strong capital and liquidity levels, together with sustained earnings and improved risk management systems, resulted in maintaining system stability despite a marginal deterioration in asset quality. The exposure of the banks to market risk was negligible due to the low trading portfolios and minimal exposure to foreign exchange risk as a result of substantial foreign currency assets held in Singapore Dollars by licensed banks.

Table 3.6: Selected Financial Soundness Indicators			
Financial Institutions and Indicators, Percent	2008	2009	
Licensed Banks			
Regulatory Capital to Risk Weighted Assets	14.0	17.9	
Tier 1 Capital to Risk Weighted Assets	13.8	18.8	
Non Performing Loans Net of Provisions to Capital Funds	6.5	10.6	
Non Performing Loans to Gross Loans	8.4	10.3	
Net Non Performing Loans (Net of provisions) to Gross Loans	1.6	3.1	
Return on Assets (Before Tax)	1.5	1.5	
Return on Equity (After Tax)	13.4	13.2	
Interest Margin to total assets	2.5	2.3	
Non-Interest Expense to Gross Income	45.5	45.7	
Liquid Assets to Total Assets	59.3	59.1	
Liquid Assets to Total Deposits (Non bank customers)	78.1	71.7	
Liquid Assets to Demand and Savings Deposits (Non bank customers)	186.8	146.6	
Licensed Finance Companies			
Total Capital Funds to Total Assets	8.0	9.2	
Non Performing Loans Net of Provisions to Capital Funds	5.4	7.6	
Non Performing Loans to Gross Loans	2.4	2.1	
Net Non Performing Loans (Net of provisions) to Gross Loans	0.5	0.9	
Return on Assets (Before Tax)	2.6	4.2	
Return on Equity (After Tax)	20.4	38.2	
Interest Margin to total assets	5.9	6.2	
Non-Interest Expense to Gross Income	55.2	27.6	
Liquid Assets to Total Assets	10.9	17.0	
Liquid Assets to Total Deposits (Non bank customers)	17.3	25.3	

BANKING SYSTEM

Brunei Darussalam’s banking system is characterized by a dual banking system consisting of Islamic banks and conventional banks. As of 2009, the banking system consists, together with the Trust Fund TAIB⁴ which is a statutory body, of nine banks, of which two are Islamic Banks and seven are conventional banks. Another distinct market segment within the industry is the indigenous banks comprising three (including TAIB) and the foreign banks comprising six. As of end 2009, the number of banking outlets and Automated Teller Machine (ATMs) operated by the banking sector amounted to 58 and 180, respectively.

Table 3.7: Financial Highlights of the Banking Sector

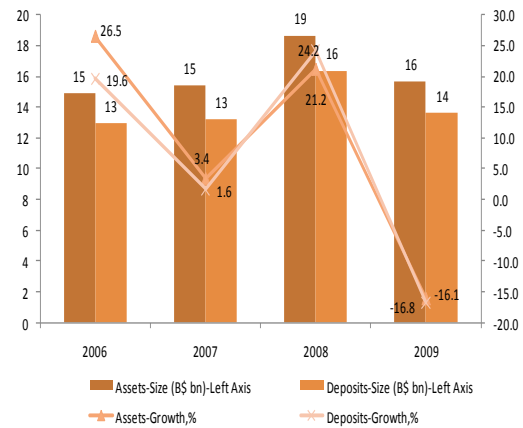
(in B\$ million)	2006	2007	2008	2009	y-o-y %
Assets	14,887	15,394	18,625	15,651	-16.0
Deposits	12,973	13,184	16,513	13,618	-17.5
Loans/ Financing	5,363	5,933	6,018	5,673	-5.7

Overall, despite the negative trend in total assets and deposits, the performance of the banking sector remained healthy supported by strong profits and strengthened capital position.

Table 3.8: Distribution of Credit/Financing

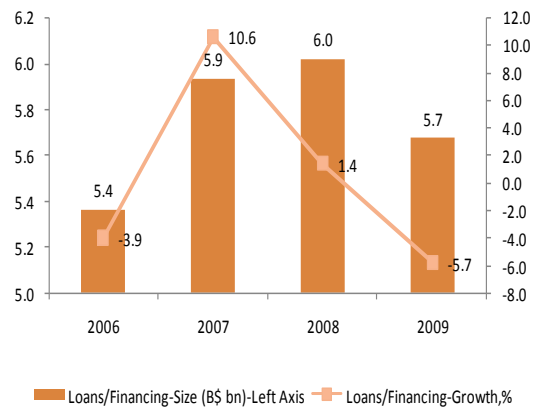
Sector	2009 (B\$ mn)	Growth (over 2008)		% Share of Total Loans	
		Amount (B\$ mil)	%	2008	2009
HOUSEHOLD SECTOR	5,008	-65	-1.3	69.1	69.2
Personal Loans (Inc credit cards and cons. Durable)	2,515	27	1.1	33.9	34.7
Automobile Financing	1,751	97	5.8	22.6	24.2
Residential Housing	526	40	8.3	6.6	7.3
Home Improvement	215	-229	-51.6	6.0	3.0
NON HOUSEHOLD SECTOR	2,237	-36	-1.6	30.9	30.8
Transportation (Exclude automobile)	602	-3	-0.6	8.2	8.2
General Commerce	590	-13	-2.1	8.2	8.1
Construction	446	-58	-11.5	6.9	6.2
Property/Mortgage (Exclude households)	296	37	14.1	3.5	4.1
Manufacturing	149	3	2.1	2.0	2.1
Others	154	-2	-1.3	2.1	2.1
Total	7,245	-101	-1.4	100.0	100.0

Figure 3.5: Banks Assets and Deposits-Size and Growth



Credit/Financing growth decelerating: From positive growth in 2007, the deceleration in credit growth in 2008 continued in 2009. Total credit/financing declined by 5.7 percent to B\$5.7 billion. A greater moderation was seen in lending to the household sector as a result of the mandatory capping of personal loans. Although credit growth has declined in the recent years, financing operations accounted for 36.2 percent of bank assets as against 32.3 percent at end 2008.

Figure 3.6: Banks Total Loans Advances/Financing-Size & Growth



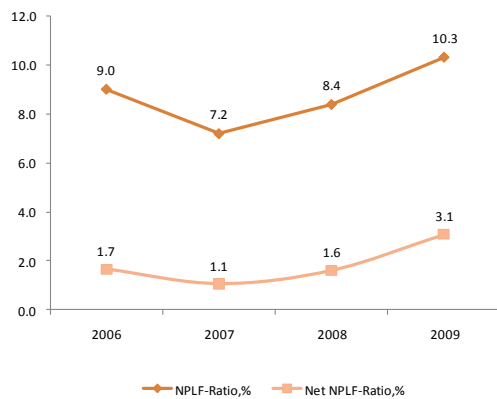
Direction of Credit/Financing: Household debt remained the largest credit/financing segment at 69.1 percent of total credit/financing (banks and finance companies) with personal loans still representing the largest sub-sector at 34.7 percent of total credit/financing facilities.

⁴ TAIB carries out functions similar to an Islamic Bank.

Assets Quality

Asset quality of Licensed Banks continued to deteriorate with an increase in the gross NPA ratio in 2009 to 10.3 percent, an increase of 1.9 percent from a level of 8.4 percent in 2008. In absolute terms, NPA increased by 15.9 percent. The net NPA ratio (net of provision for NPA) increased to 3.1 percent in 2009 from 1.6 percent in 2008 as a result of new transfers of NPA and a reduction in loan loss provisioning.

Figure 3.7: Trend in Gross NPLFs and Net NPLFs



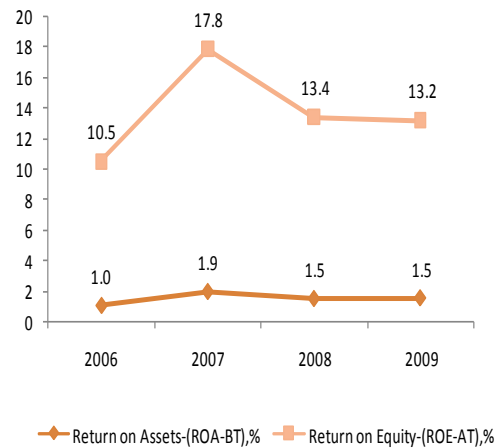
Liquidity

Overall the banks continued to maintain a high level of liquidity against total assets at 59.1 percent and against their short term liabilities at 146.6 percent.

Profitability

The key profitability indicators of Licensed Banks namely the Return on Assets-(ROA) and Return on Equity (ROE) in 2009 continued to be maintained at 2008 levels despite a decline of 7.2 percent in net interest/profit income from B\$ 423.5 million in 2008 to B\$393.0 million in 2009. This was a result of a decline in total assets and a further decline in interest/profit expense of the banks, by 46.3 percent in 2009 which had declined already by 28.1 percent in 2008. The steady decline in interest/profit on deposits was the direct result of the low yielding portfolio of offshore assets held by the banks constituting 53.2 per cent of banking assets. This has led to a decline in interest/profit income by 19.6 percent in 2009.

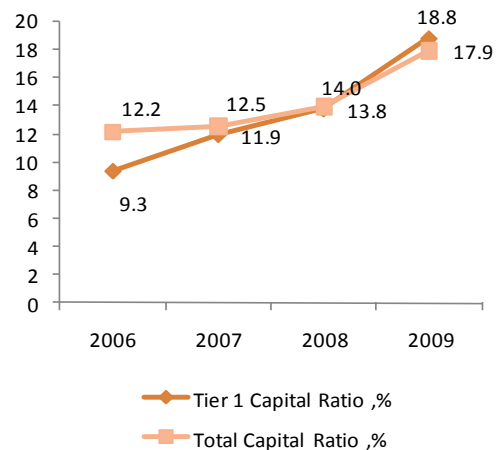
Figure 3.8: Banks Profitability Indicators



Capital

Bank capitalization has increased as a result of the application of the prudential regulations on capital adequacy (CAR) and statutory reserve fund (SRF) to all licensed banks. The increased capitalization is also reflected in stronger capital adequacy ratios (CAR) for the Licensed Banks at 17.9 percent and the Tier 1 CAR at 18.8 percent, well above the regulatory requirements of 10 percent and 5 percent respectively, enhancing the resilience of the banking sector.

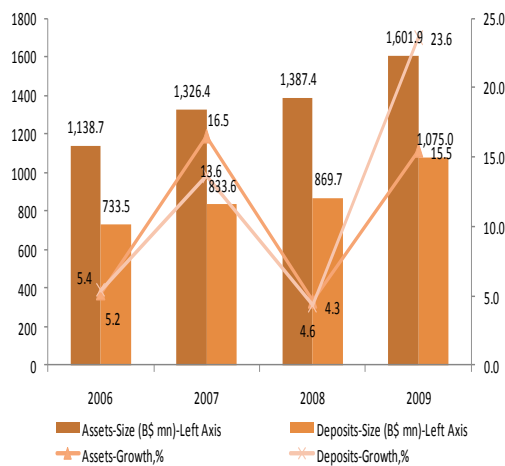
Figure 3.9: Banks Capital Adequacy Ratios



LICENSED FINANCE COMPANIES

The finance companies segment consists of three companies of which two are fully owned subsidiaries of locally incorporated licensed banks and the other is a subsidiary of a foreign bank. One of the three Licensed Finance Companies is an Islamic finance company. The licensed finance companies continue to outpace the banks in asset growth and are the fastest growing sector in the financial system.

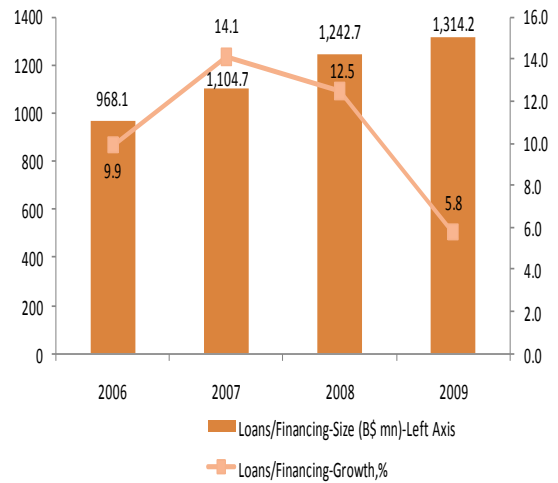
Figure 3.10: Finance Companies Assets and Deposits-Size and Growth



Total assets increased by 15.5 percent in 2009 financed by a 23.6 percent increase in deposits and a 32.3 percent increase in capital funds contributed by the statutory reserve fund. Deposits accounted for 67.1 percent of total resources of Licensed Finance Companies and continued to be their major source of funding.

Credit/financing growth moderate: Credit growth in the Licensed Finance Companies has slackened from 12.5 percent in 2008 to 5.8 percent in 2009 and accounted for 82.0 percent of total assets. This trend was reflected in a commensurate sector-wise slow-down in automobile financing in 2009 from an 11.1 percent growth in 2008 to a 5.8 percent growth in 2009.

Figure 3.11: Finance Companies Total Loans Advances/Financing Size & Growth



Asset quality as illustrated in the industry NPA ratio for 2009 was 2.1 percent and had declined from 2.4 percent in 2008. All other financial soundness indicators of the Licensed Finance Companies were maintained at healthy levels in 2009 (Refer to Selected Financial Soundness Indicators Table no 3.6).

LICENSED INTERNATIONAL (OFFSHORE) BANKS

The four licensed offshore banks also contributed to the contraction in financial system assets by a decline of 36.0 percent in asset growth in 2009. In 2008, the assets also showed a decrease of 37.1 percent. Total assets which stood at B\$368.1 million in 2007 had declined by 59.8 percent to B\$148.1 million in 2009. The decline was due to the decrease in loans and advances by 53.8 percent as well as deposits by 38.4 percent.

Box 3.1 : Regulatory and Supervisory Developments

The stability of the financial system was further enhanced through several regulatory and supervisory initiatives taken by the Ministry of Finance in 2009 to strengthen the safety and soundness of the financial system.

In strengthening the regulatory framework for the Licensed Banks, the following prudential regulations and notices were issued:-

Credit Risk Management:**Banking Order, 2006**

- i. 3rd March 2009 and effective by 30th September 2009- Notice No.1/2009 on Classification of Advances as Non Performing and the Treatment of Interest on Non-Performing Advances
- ii. 3rd March 2009 and effective by 30th September 2009- Guidelines No.1/2009 on Provision for bad and doubtful debts.
- iii. 8th June 2009- Notice No.3/2009 on Credit (Financing) Facilities to prohibit the application of Rule 78 in the computation of the early repayment liability of credit customers and the mandatory requirement to publish the effective rates of interest on deposits and lending

Islamic Banking Order, 2008

- iv. 8th June 2009- Notice No. 1/2009 on Financing Facilities to prohibit the application of Rule 78 in the computation of the early repayment liability of finance customers and the mandatory requirement for banks to publish the effective rates of interest on deposits and financing.

Solvency Risk:**Banking Order, 2006**

- v. 6th April 2009 - Notice No.2/2009 on Maintenance of Statutory Reserve Fund and Distribution of Profits; and

Islamic Banking Order, 2008

- i. 25th August 2009 - Notice No.2/2009 on Maintenance of Statutory Reserve Fund and Distribution of Profits.

Other Regulatory Policy Initiatives

- i. Introduction of new prescribed audited annual accounts and statements formats for Licensed Banks, with effect from financial year ending 2009, for;
 - Publication in the press and exhibition in bank premises
 - Preparation of annual audited accounts of banks and Reporting to the Authority
- ii. Implementation of new capital adequacy framework for Licensed Banks.
- iii. Implementation of the new Off-site Surveillance reporting system for Licensed Banks and Licensed Financial Companies
- iv. The Financial Institutions Division under the Ministry of Finance continued its dialogue with the banking community through the quarterly meetings with Chief Executive Officers of Banks under the Chairmanship of the Permanent Secretary of Ministry of Finance.
- v. 30th December 2009 Credit Card Notice No 1/2010 to curb and control excessive consumer indebtedness.

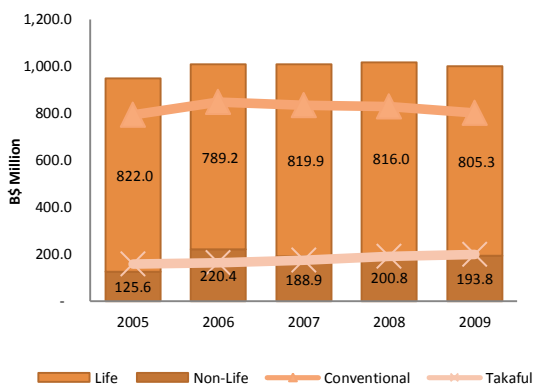
INSURANCE AND TAKAFUL INDUSTRY

The Insurance and Takaful industry consists of nine conventional insurance companies and three Takaful operators. There are three conventional life insurers; six conventional non-life insurers and three composite Takaful operators.

The Takaful Order 2008, introduced on 30 September 2008, provides for prudential requirements for Takaful activities in Brunei Darussalam in line with the Insurance Order 2006. Similar to the Insurance Order, the Takaful Order does not allow for composite businesses, that is, companies offering general and life insurance / Takaful. Therefore, existing Takaful operators are required to apply for separate licences for general or family Takaful business and in addition, are required to meet the minimum capital requirements of B\$ 8 million per licence.

Despite the financial turmoil in 2009, the insurance and Takaful industry showed resilience. Total assets decreased only slightly by 1.7 percent from B\$ 1,016.7 million to B\$ 999.1 million. Life assets constituted 80.6 percent of total assets, of which the majority was from conventional life insurers. In terms of trend, the Takaful operators have been increasing their asset size steadily over the last 5 years, while conventional insurers have decreased since 2006.

Figure 3.12: Insurance Companies & Takaful Total Assets, 2005 - 2009

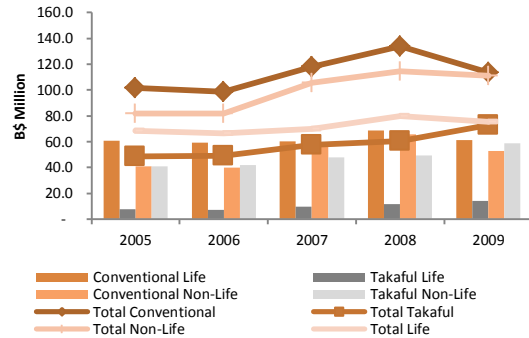


In 2009, premiums decreased by 4.8 percent from B\$195.8 million to B\$186.4 million. However, since the introduction of the Insurance Order in 2006, growth in premiums has been substantial due to the requirement for risks in Brunei Darussalam to be covered by locally issued policies.

The market share of conventional insurers was 61.0 percent, with Takaful operators owning 39.0 percent market share. Conventional insurers continued to dominate the life business with 81.1 percent market share, while Takaful operators have

managed to gain the bigger market share of 52.6 percent in non-life business.

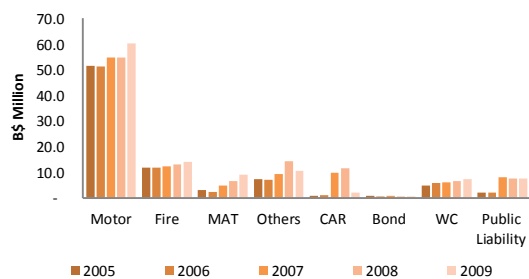
Figure 3.13: Insurance Companies & Takaful Total Premiums, 2005 - 2009



Life insurance premiums amounted to B\$ 75.3 million in 2009, which was a decrease of 5.9 percent from B\$80.0 million in 2008. It was observed that the Takaful family had increased in recent years amounting to B\$14.2 million in 2009 compared to B\$7.4 million in 2005, which is a 91.9 percent growth within the last 5 years.

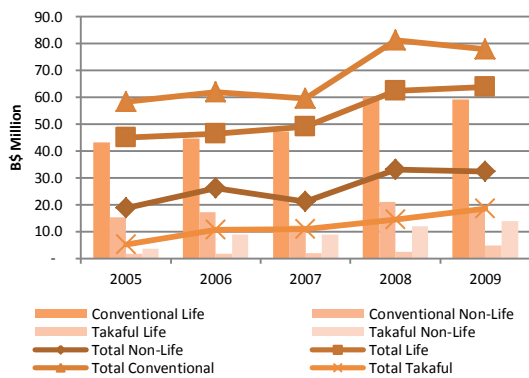
In terms of non-life portfolio, it can be seen that motor insurance was the main source of business for Takaful operators with 81.6 percent of their premium portfolio derived from motor business while conventional insurers possess a more diversified portfolio. Fire was the second highest class of non-life business at 12.7 percent, of which B\$14.1 million was written in 2009. This was followed by Others at 9.4 percent (B\$10.4 million); Marine, Aviation and Transit at 8.0 percent (B\$8.9 million); Public Liability at 6.8 percent (B\$7.6 million); Workmen Compensation at 6.6 percent (B\$7.4 million); Contractors' All Risks at 1.7 percent (B\$1.9 million) and Bond at 0.5 percent (B\$0.5 million).

Figure 3.14: Insurance Companies & Takaful Non-Life Premiums (By Class), 2005 - 2009



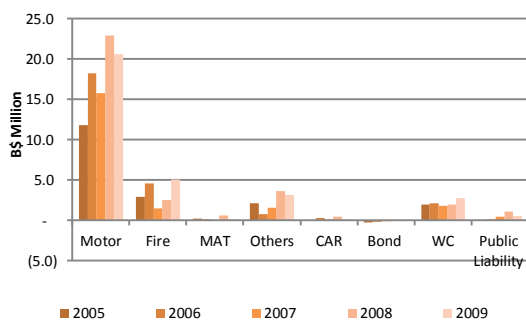
Total claims increased by 0.78 percent from B\$95.7 million in 2008 to B\$96.5 million in 2009. In the last 5 years, there has been a steady increase in claims, in both non-life and life business.

Figure 3.15: Insurance Companies & Takaful Total Claims, 2005 - 2009



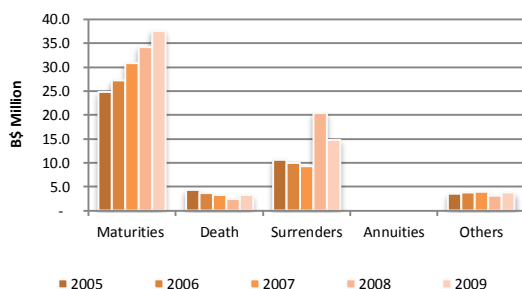
Non-life claims amounted to B\$32.4 million compared to B\$33.2 million in 2008. Motor claims represented 63.6 percent of total non-life claims and has decreased by 10.0 percent from B\$22.9 million to B\$20.6 million. This was followed by Fire at 15.6 percent (B\$5.1 million); Others at 9.8 percent (B\$3.2 million) and Workmen Compensation at 8.6 percent (B\$2.8 million).

Figure 3.16: Insurance Companies & Takaful Non-Life Claims (By Class), 2005 - 2009



Meanwhile, in life business, claims amounted to B\$64.1 million which was an increase of 2.5 percent from B\$62.5 million in 2008. Maturities benefits have shown an increasing trend in the last five years and stood at B\$38.7 million in 2009.

Figure 3.17: Insurance Companies & Takaful Life Claims (By Class), 2005 - 2009



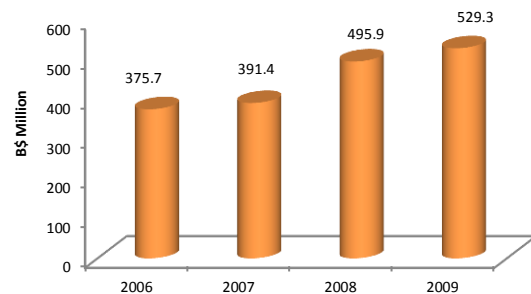
MONEY REMITTANCE

The Money Remittance industry is one of the important financial intermediaries in Brunei Darussalam. Its main role is to provide a platform for easier access and competitive means of remitting money abroad and its service is mainly used by foreign worker population.

Due to its nature of being easily accessible, its vulnerability to be utilised as a gateway for money laundering and terrorist financing as well as other financial crimes is very high. This is one of the reasons for the limited number of licenses issued and applications accepted. Since 2007, no new licenses have been granted and no application openings have been made.

In 2009, one remittance business license was revoked due to non-compliance to the terms and conditions of its license. Consequently, the number of remittance companies in existence has decreased from 26 in 2007 to 22 companies at the end of December 2009.

Figure 3.18 Total Money Remitted (2006 – 2009)

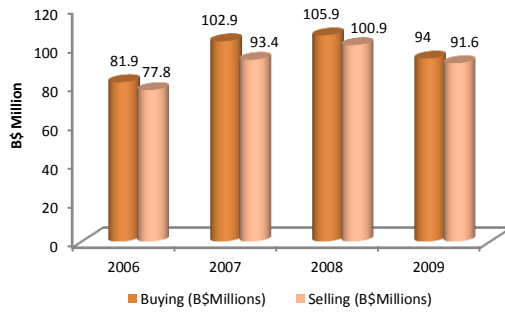


For the year ending 2009, total money remitted was B\$529.3 million recording an increase of 6.7 percent. Outward remittances to Indonesia were still the dominant destination with a market share of 30.5 percent and to Singapore with a market share of 24.4 percent.

FOREIGN CURRENCY EXCHANGE

In 2009, foreign currency purchased amounted to B\$94.0 million, a decrease of 11.2 percent. The sale of foreign currencies of B\$91.6 million also recorded a decrease of 9.2 percent from the previous year.

**Figure 3.19: Total Money Exchanged
(2006 – 2009)**



Statistical Tables and Glossary

Table A: Brunei Darussalam – Fiscal Indicators (Fiscal Position)						
Fiscal Year	B\$ Million					
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Total Revenue	6,370.4	8,441.0	9,187.7	10,041.6	11,367.2	6,335.3
<i>Tax Revenue</i>	3,666.2	5,251.1	5,514.2	6,345.4	7,433.6	3,739.35
Oil & Gas sector	3,438.9	4,988.4	5,300.3	6,029.0	7,105.8	3,325.8
Non-oil sector	227.3	263.1	213.9	316.4	327.8	413.8
<i>Non-tax revenue</i>	2,704.3	3,189.5	3,673.5	3,696.2	3,933.5	2,595.8
Oil & Gas sector	2,376.1	2,783.5	3,301.8	2,812.2	3,445.4	2,263.9
Non-oil sector	328.2	406.0	371.7	884.0	488.2	331.8
Total Expenditure	4,890.0	5,096.4	5,273.0	6,019.5	6,024.4	6,611.2
<i>Current Expenditure</i>	4,002.2	4,086.4	4,015.9	4,877.6	4,849.4	4,657.1
Wages and salaries	1,420.1	1,475.7	1,618.4	1,683.1	1,612.2	1,749.7
OCAR	1,360.4	1,422.1	1,090.4	1,775.9	1,654.2	1,708.7
Charged	1,221.6	1,188.6	1,307.1	1,418.6	1,583.1	1,198.7
<i>Capital Expenditure</i>	862.8	1,010.1	1,257.1	1,142.0	1,175.0	1,954.1
OCSE	508.2	525.5	588.2	533.5	585.4	1,057.4
Development	354.6	484.6	668.9	608.4	589.6	896.7
<i>Investments in Public Enterprises</i>	25.0	0.0	0.0	0.0	0.0	0.0
Surplus or deficit (-), excl. Transfer	1,480.4	3,344.6	3,914.7	4,022.1	5,342.8	-275.9
Memorandum Items						
Oil & gas sector revenues	5,815.0	7,771.9	8,602.1	8,841.2	10,551.2	5,589.7
Non-oil sector revenues	555.5	669.1	585.6	1,200.4	816.0	745.6
Oil & gas sector (in % of total revenues)	91.3%	92.1%	93.6%	88.0%	92.8%	88.2%
Non-oil sector revenues (in % of total revenues)	8.7%	7.9%	6.4%	12.0%	7.2%	11.8%

Source: Expenditure Division and Treasury Department, Ministry of Finance

Table B: Central Bank Survey (Brunei Currency and Monetary Board)	B\$ Million		
	2007	2008	2009
Net Foreign Assets	963.0	1,079.6	1,449.7
Claim On Nonresidents	997.7	1,114.9	1,938.0
Liabilities To Nonresidents	-34.7	-35.3	-488.4
Claim On Other Depository Corporations	800.6	941.8	536.9
Net Claim On Central Government	-306.9	-270.6	-268.5
Claims On Central Government	0.5	0.7	0.9
Liabilities To Central Government	-307.5	-271.2	-269.3
Claims On Other Sectors	0.0	0.0	0.0
Claims On Other Financial Corporation	0.0	0.0	0.0
Claims On State and Local Government	0.0	0.0	0.0
Claims On Public Nonfinancial Corporations	0.0	0.0	0.0
Claims On Private Sector	0.0	0.0	0.0
Monetary Base	1,458.9	1,691.3	1,624.3
Currency In Circulation	848.8	921.8	954.5
Liabilities To Other Depository Corporations	610.1	769.5	669.8
Liabilities To Other Sectors	0.000	0.0	0.0
Other Liabilities To Other Depository Corporations	0.0	0.0	0.0
Deposit and Securities Other Than Shares Excluded From Monetary Base	0.0	0.0	0.0
Deposits Included In Broad Money	0.0	0.0	0.0
Securities Other Than Shares Included In Broad	0.0	0.0	0.0
Deposits Excluded From Broad Money	0.0	0.0	0.0
Securities Other Than Shares Excluded From Broad Money	0.0	0.0	0.0
Loans	0.0	0.0	0.0
Financial Derivatives	0.0	0.0	0.0
Shares and Other Equity	88.0	79.2	114.2
Other Items (Net)	-90.3	-19.7	-20.5

Source: Brunei Currency and Monetary Board, Ministry of Finance

Table C: Depository Corporations Survey	B\$ Million		
	2007	2008	2009
Net Foreign Assets	8,141.9	10,547.6	8,577.4
Claims On Nonresidents	8,688.9	10,962.0	9,479.9
Liabilities To Nonresidents	-546.9	-414.5	-414.1
Domestic Claims	3,427.8	1,852.9	5,002.2
Net Claims On Central Government	-3,577.1	-5,375.9	-1,981.5
Claims On Central Government	129.7	203.5	288.2
Liabilities To Central Government	-3,706.9	-5,579.3	-2,270.6
Claims On Other Sectors	7,004.9	7,228.9	6,983.7
Claims On Other Financial Corporations	0.0	0.1	0.1
Claims On State and Local Government	0.0	0.0	0.0
Claims On Public Nonfinancial Corporations	122.7	91.9	63.3
Claims On Private Sector	6,882.3	7,136.8	6,920.2
Broad Money Liabilities	9,983.7	10,939.9	11,041.8
Currency Outside Depository Corporations	697.4	739.2	-170.9
Transferable Deposits	3,153.8	3,646.9	4,606.9
Other Deposits	6,131.9	6,552.8	6,604.7
Securities Other Than Shares	0.5	1.1	1.1
Deposits Excluded From Broad Money	0.0	0.0	0.0
Securities Other Than Shares Excluded From Broad Money	0.0	0.0	0.0
Loans	0.0	0.0	0.0
Financial Derivatives	0.0	0.0	0.0
Insurance Technical Reserves	0.0	0.0	0.0
Shares and Other Equity	1,660.3	1,784.4	2,018.6
Other Items (Net)	-74.2	-323.8	-435.3

Source: Brunei Currency and Monetary Board, Ministry of Finance

Table D: Monetary Aggregates and Broad Money Components			
	B\$ Million		
	2007	2008	2009
M0	848.8	921.8	954.5
Money	3,851.2	4,386.1	3,646.1
Quasi Money	6,132.4	6,553.9	9,194.9
Broad Money	9,983.7	10,939.9	12,840.9
Broad Money Components			
Currency outside banks	697.4	739.2	783.6
Demand deposits	3,002.4	3,464.3	2,862.5
Money	3,851.2	4,386.1	3,646.0
Fixed deposits, savings & other deposits	6,132.4	6,553.9	9,194.9

Source: Brunei Currency and Monetary Board, Ministry of Finance

GLOSSARY

Broad Money: Comprises of money and quasi money.

Central Bank: Consists of the Brunei Currency and Monetary Board (BCMB) only.

Depository Corporations (DC): Comprises of central bank and other depository corporations.

M0: Comprises of currency in circulation.

Money: Comprises of currency outside depository corporations and transferable deposits of other financial corporations, public non-financial corporations, and private sector with commercial banks in national currency.

Other Charges Annually Recurrent (OCAR): Annually recurring expenditure e.g: electric bills.

Other Charges Special Expenditure (OCSE): A one-off expenditure e.g: to buy a vehicle.

Other Depository Corporations (ODC): Comprises of commercial banks, financial companies, and a trust fund.

Other Financial Corporations (OFC): Comprises of insurance companies only. It excludes pension funds, securities companies, assets management companies, offshore financial institutions, money remittances companies, and money changing companies.

Other Items (Net): Includes claims on other financial corporations.

Quasi Money: Comprises of other deposits of other financial corporations, public non-financial corporations, and private sector with other depository corporations held by the private sector in national currency.