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**EXECUTIVE SUMMARY**

In Q2 09, the Government Fiscal Surplus registered at B\$577.6 million which indicated an increase of 167 percent q-o-q. Total Government Revenue was recorded at B\$1,459.7 million representing a decrease of 38.2 percent from Q1 09. The oil & gas sector continued its lead role of generating income for the nation by contributing B\$1,235.4 million while the non-oil & gas sector contributed B\$224.3 million which accounted for 84.6 and 15.4 percent of Total Government Revenue respectively. On the other hand, Total Government Expenditure registered a decrease of 58.9 percent amounting to B\$882.1 million whereby current expenditure decreased by 56.3 percent q-o-q to B\$748.7 million and capital expenditure decreased by 69.0 percent q-o-q to B\$133.4 million.

In line with the efforts to develop Brunei Darussalam's capital market, the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam issued series 28 through 32 of its Government Short Term Sukuk Al-Ijarah. Since the maiden offering in April 2006, the aggregate amount of the Sukuk Al-Ijarah now stands at B\$1.690 billion. On the foreign exchange, the Brunei Dollar rebounded q-o-q against the US Dollar, the Japanese Yen and other major Asian currencies. However, it weakened against other currencies namely the Pound Sterling, Euro, the Australian Dollar and the Indonesian Rupiah. Currency in circulation fell by 1.7 percent to B\$870.6 million while both Broad Money and Quasi Money decreased by 2.0 percent and 3.9 percent respectively.

With regards to regulation, the Authority issued one notice under Section 66 of the Banking Order (BO) 2006 and two under the Islamic Banking Order (IBO). Notice No.2/2009 (BO) is regarding additional capital buffer whilst notices No. 1/2009 (IBO) and No. 3/2009 improves transparency and disclosure to ensure better safeguarding of customer interests. In Banking, decreases were recorded in Total Banking Assets by 12.2 percent to B\$16.6 billion and in Total Deposits by 15.5 percent to B\$ 13.1 billion. Total Loans saw a marginal decline from last quarter by 0.2 percent bringing the total amount to B\$6,045.0 million but Non-performing loans (NPLs) increased by 1.9 percent, bringing the NPLs to Total Loans ratio to 10.7 percent.

## GLOBAL ECONOMIC REVIEW

In Q2 09, the global economy contracted at a slower pace suggesting that the current recession is bottoming out owing to strong global stimulus measures taken by Central Banks and Governments worldwide as well as improvements in the global consumer and business confidence. At the same time, global inflation rates continued to fall as downward pressures on prices reflected the rising spare capacity as a result of the contraction in economic activity. In Q2 09 oil prices rebounded to an average of US\$59.71 per barrel thereby counteracting, to some extent, the downward inflationary pressures.

The US economy continued to contract but at a slower speed with real GDP declining at 1 percent q-o-q following a 6.1 percent q-o-q contraction in the first quarter. This decline in economic activity can be attributed to still sluggish global consumption which also affected real investments and exports. Prices on the other hand deflated further with CPI inflation rate at -1.4 percent in June 2009 from -1.3 percent in May. Despite signs of improving financial conditions, the overnight target rate was maintained at the 0 – 0.25 percent range.

|                | 2008 |      |      |      | 2009 |      |
|----------------|------|------|------|------|------|------|
|                | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   |
| United States  | -1.5 | 2.8  | -0.5 | -6.2 | -6.1 | -1.0 |
| Euro           | -1.6 | -0.2 | -0.2 | -1.5 | -2.5 | -0.5 |
| United Kingdom | -3.8 | 0.0  | -0.7 | -1.6 | -1.9 | -0.7 |
| Japan          | 0.7  | -0.9 | -0.6 | -3.8 | -3.8 | 0.9  |

Sources: Bureau of Economic Analysis; Eurostat; National Statistics UK; Cabinet Office, Japan

Economic activity in the Eurozone area contracted at a slower pace of 0.5 percent q-o-q fuelling optimistic hopes that the trade area will soon pull out of the recession. The Eurozone Annualised Harmonised Index of Consumer Prices fell further to 0.5 percent. Domestic demand and industrial output remained weak. The European Central Bank (ECB) maintained its overnight rates at 1.0 percent.

In the United Kingdom, real GDP declined at a more moderate pace of 0.7 percent q-o-q reflecting the less negative effects from the deteriorating domestic demand and the slump in industrial output. Meanwhile, annual HICP inflation has declined further standing at 1.8 percent for June 2009, down from 2.2 percent in May. Since March 2009, the Monetary Policy Committee maintained the official Bank Rate paid on commercial bank reserves at 0.5%. Furthermore, the Bank of England increased the size of the asset purchase programme to a total of GBP 125 billion.

Japan experienced economic recovery entering the second quarter of 2009 with a modest real GDP growth of 0.9 percent y-o-y. This increase can be attributed to positive q-o-q growths of exports by 6.3 percent, private consumption by 0.8 percent and government investment

by 8.1 percent, with the latter two improvements arising primarily from the fiscal stimulus. Japan's CPI registered a further decline of -1.8 percent y-o-y in June, reflecting the widening output gap and base effects related to energy prices. The Bank of Japan (BoJ) decided to leave its target for uncollateralised overnight rate unchanged at 0.1 percent.

In China, annual GDP growth rose to 7.9 percent y-o-y owing to the successful implementation of the People Republic of China's Government two-year fiscal package which boosted fixed investment growth and domestic demand. Meanwhile, CPI Inflation continued to be negative, with consumer prices being 1.8 percent lower in July compared to a year ago.

The pace of decline for economic activity in the ASEAN-4 nations namely Indonesia, Malaysia, the Philippines and Thailand have moderated with their q-o-q rate of change in real GDP at 4.0 percent, -3.9 percent, 0.8 percent and -4.9 percent respectively. These figures can be attributed to improvements in the domestic demand and industrial output growth. Inflation rates also moderated during this quarter and Thailand even experienced deflationary pressures on their prices recording inflation rate of -2.8 percent. In line with the global monetary policies, the ASEAN-4 nations have maintained their policy stance of low interest rates.

The economic performance of the Newly Industrialized Economies (NIEs) namely Hong Kong, Korea, Singapore and Taiwan, in the second quarter showed hopeful signs of economic recovery. Korea's economy boosted even further at 18.2 percent q-o-q while Singapore, Hong Kong and Taiwan's pace of economic contraction moderated at -3.1 percent, -3.7 percent and -6.9 percent respectively. In both Taiwan and Hong Kong, export orders and industrial production improved in June, mainly reflecting the soft statistical base in June last year. CPI Inflation rates for Singapore, Hong Kong and Taiwan registered a negative value of -0.5 percent -0.1 percent and -0.8 percent respectively while Korea's prices continued at an upward trend of 2.8 percent.

## FISCAL SECTOR DEVELOPMENTS

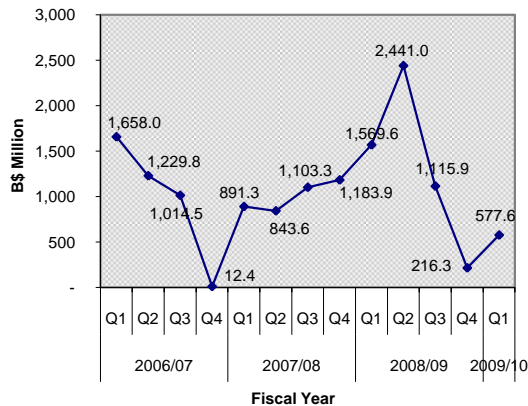
### OVERVIEW

- Fiscal surplus was recorded at B\$577.6 million
- Total Government Revenue decreased by 38.2 percent q-o-q to B\$1,459.7 million
- Total Government Expenditure decreased by 58.9 percent q-o-q to B\$882.1 million
- Tax revenue declined by 39.9 percent q-o-q.
- Non-Tax revenue declined by 36.2 percent q-o-q
- Current expenditure decreased by 56.3 percent q-o-q to B\$748.7 million
- Capital expenditure decreased by 69 percent q-o-q to B\$133.4 million

### FISCAL POSITION

Fiscal surplus for Q1 FY09/10 was provisionally at B\$577.6 million which indicated an increase of 167 percent q-o-q. This substantial increase was a result of higher-than-expected revenue collection by 46 percent. At the same time, actual expenditure was lower-than-expected whereby the utilization rate of the budgeted expenditure was 75 percent for Current Expenditure and only 32.5 percent for Capital Expenditure.

Figure 2.1: Surplus/Deficit Balances

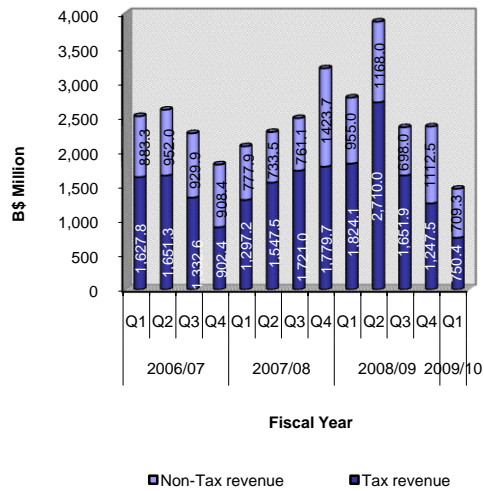


Source: Treasury Department, Ministry of Finance

### GOVERNMENT REVENUE

In Q1 FY09/10, Total Government Revenue was recorded at B\$1,459.7 million; a decrease of 38.2 percent from the previous quarter. Tax revenue and Non-Tax revenue declined by 39.9 percent and 36.2 percent q-o-q respectively. As shown in Figure 2.2, Tax revenue collected amounted to B\$750.4 million while B\$709.3 million was collected for Non-Tax revenue.

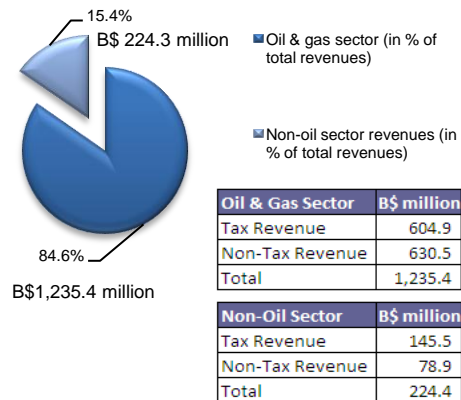
Figure 2.2: Tax Revenue & Non-Tax Revenue, Q1 FY2006/07 – Q1 FY2009/10



Source: Treasury Department, Ministry of Finance

As shown in Figure 2.3, the Oil & Gas Sector continued to play a major role in generating income recording it at B\$1,235.4 million which was 84.6 percent of Total Government Revenue, while the Non-Oil Sector contributed to 15.4 percent of the Total Government Revenue amounting to B\$224.3 million.

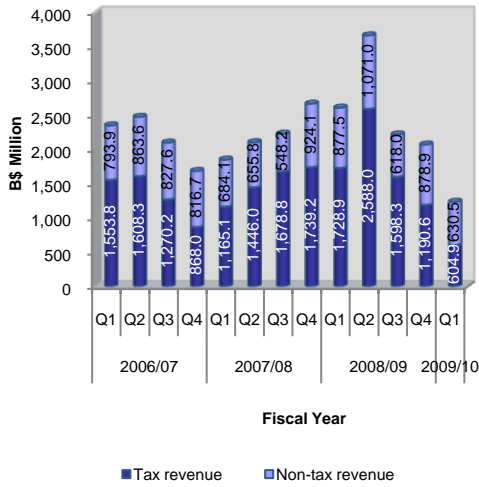
Figure 2.3 Percentage Proportion of Total Revenue Q1 2009/10



Source: Treasury Department, Ministry of Finance

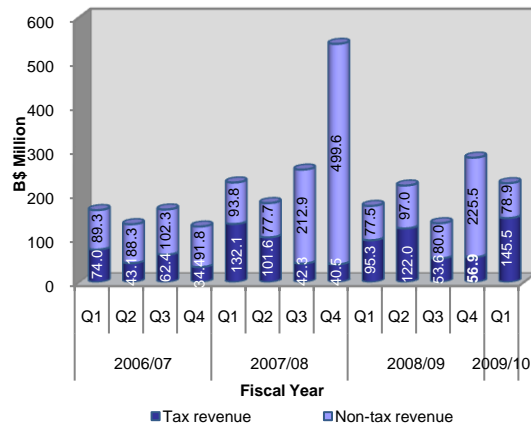
In Figure 2.4, Tax revenue from the Oil & Gas Sector declined by 49.2 percent q-o-q to B\$604.9 million, and Non-Tax revenue from the said sector also decreased by 28.3 percent to B\$630.5 million.

**Figure 2.4: Tax and Non-Tax Revenue from the Oil & Gas Sector, Q1 FY2006/07- Q1 FY2009/10**



Source: Treasury Department, Ministry of Finance

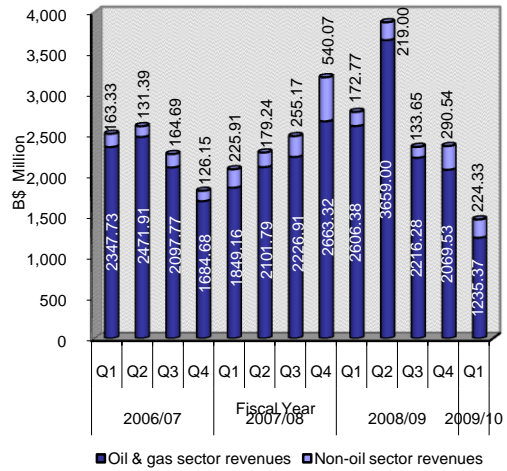
**Figure 2.5: Tax & Non-Tax Revenue from Non-oil Sector Revenues, Q1 FY2006/07 – Q1 FY2009/10**



Source: Treasury Department, Ministry of Finance

Tax revenue from the Non-Oil Sector increased significantly by 155.7 percent q-o-q while Non-Tax Revenue from the said sector declined by 66.2 percent. Tax Revenue collected was amounted to B\$145.5 million from B\$56.9 million, while for Non-Tax revenue, B\$78.9 million was collected.

**Figure 2.6: Oil & Non-oil Sector Revenues, Q1 FY2006/07 – Q1FY2009/10**



Source: Treasury Department, Ministry of Finance

As shown in Figure 2.6, Oil and Gas sector declined by 40.3 percent from B\$2,069.5 million to B\$1,235.4 million while the Non-Oil Sector also decreased by 22.8 percent from B\$290.54 million to B\$224.3 million.

**Table 2.1 : Budgeted & Actual Revenue Comparison**

|                 | Budgeted Revenue per quarter (B\$ million) | Actual Revenue (B\$ million) | Proportion of Revenue Collected     |
|-----------------|--|------------------------------|-------------------------------------|
|                 | Q1 09/10                                   | (Q1 2009/10)                 | (%)                                 |
| Total Revenue   | 1,000.1                                    | 1,459.7                      | 146.0                               |
| Tax Revenue     | 628.0                                      | 750.4                        | 119.5                               |
| Non-Tax Revenue | 372.1                                      | 709.3                        | 190.6                               |
|                 | Budgeted Revenue (FY 09/10)                | Actual Revenue (Q1 2009/10)  | Proportion of Revenue Collected (%) |
| Total Revenue   | 4,000.4                                    | 1,459.7                      | 36.5                                |
| Tax Revenue     | 2,512.0                                    | 750.4                        | 29.9                                |
| Non-Tax Revenue | 1,488.4                                    | 709.3                        | 47.7                                |

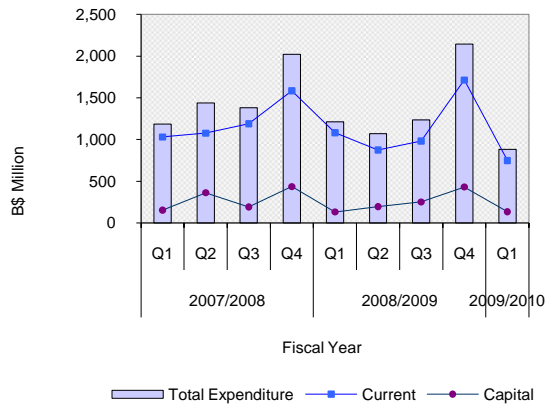
Source: Expenditure Division; and Treasury Department, Ministry of Finance

From Table 2.1, it can be observed that the Total Government Revenue collected for Q1 FY09/10 was higher by 46.0 percent than estimated.

**GOVERNMENT EXPENDITURE**

Total Government Expenditure decreased by 58.9 percent to B\$882.1 million compared to the previous quarter. The decrease is mainly attributed to the spending at the beginning of the financial year whereby trend shows that the first quarter spending is the least.

**Figure 2.7: Government Expenditure, Q1 FY07/08 – Q1 FY09/10**



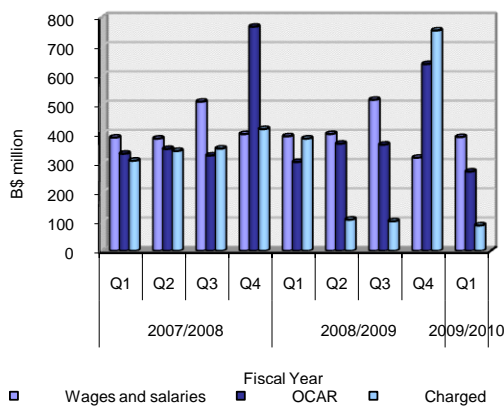
Source: Treasury Department, Ministry of Finance

**Current Expenditure**

Current Expenditure registered a decrease of 56.3 percent to B\$748.7 million in comparison to the previous quarter.

Wages and Salaries represented the highest portion of total Current Expenditure by 52.0 per cent. It amounted at B\$389.7 million showing an increase of 22.1 per cent q-o-q. Other Charges Annually Recurrent (OCAR), consisting of 36.3 percent of current expenditure, shows a declining trend of 57.5 percent q-o-q. Charged expenditure also decreased significantly by 88.4 percent to B\$87.4 million from B\$754.5 million in Q4 FY08/09.

**Figure 2.8: Actual Current Expenditure (Wages & Salaries, OCAR & Charged) Q1 FY07/08 – Q1 FY09/10**



Source: Treasury Department, Ministry of Finance

**Table 2.2: Budgeted & Actual Current Expenditure Comparison**

|                     | Budgeted Current Exp | Actual Current Exp | Proportion of Budget Utilised |
|---------------------|----------------------|--------------------|-------------------------------|
|                     | Q1 FY 09/10          |                    | (in Percent)                  |
| Current Expenditure | 1,003.2              | 748.7              | 74.6                          |
| Wages & Salaries    | 446.8                | 389.7              | 87.2                          |
| OCAR                | 389.1                | 271.7              | 69.8                          |
| Charged             | 167.3                | 87.4               | 52.2                          |

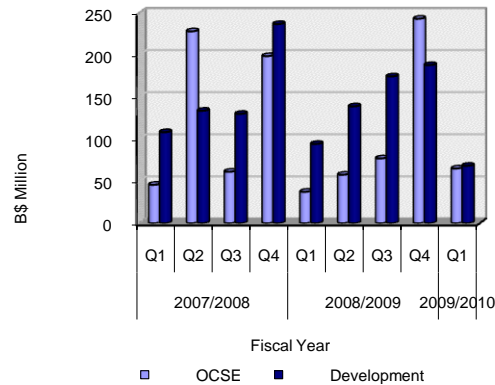
Source: Expenditure Division; and Treasury Department, Ministry of Finance

An amount of B\$5,655 million was allocated for the fiscal year 09/10 at which about 15.6 percent has been spent. The spending for period in Q1 FY09/10 is shown in Table 2.1.

**Capital Expenditure**

As planning of projects are still underway at the beginning of the financial year, payments are only made after the final completion or completion of certain stages of the projects. As a result, Capital Expenditure decreased by 69.0 percent q-o-q to B\$133.4 million in Q1 FY 09/10 due to decrease in spending in OCSE and development expenditure by 73.2 and 63.7 percent respectively.

**Figure 2.9: Actual Capital Expenditure (OCSE & Development) Q1 FY07/08 – Q1 FY09/10**



Source: Treasury Department, Ministry of Finance

**Table 2.3: Budgeted & Actual Capital Expenditure Comparison**

|                     | Budgeted Capital Exp | Actual Capital Exp | Proportion of Budget Utilised |
|---------------------|----------------------|--------------------|-------------------------------|
|                     | Q1 FY 09/10          |                    | (in Percent)                  |
| Capital Expenditure | 410.5                | 133.4              | 32.5                          |
| Development         | 148.0                | 65.1               | 44.0                          |
| OCSE                | 262.5                | 68.3               | 26.0                          |

Source: Expenditure Division; and Treasury Department, Ministry of Finance

Overall, about 8.1 percent of the budgeted capital expenditure of B\$1,642.2 million for FY 09/10 has been utilised.

## MONETARY & BANKING SECTOR DEVELOPMENTS

### OVERVIEW

- The aggregate amount of Sukuk Al-Ijarah issued since April 2006 is B\$1.690 billion
- Broad money decreased by 2 percent
- Quasi money declined by 3.9 percent
- Total Deposits decreased by 15.5 percent
- Total Banking Assets declined by 12.2 percent
- Average NPL ratio is 10.7.

### MONETARY DEVELOPMENTS

#### i. Government Short Term Sukuk Al-Ijarah

Five Government Short Term Sukuk Al-Ijarah were issued in Q2 09, of which all five were of 91 days maturity. The aggregate amount of the Sukuk Al-Ijarah issued since the maiden offering in April 2006 up to Q2 09 was B\$1.690 billion.

Table 3.1: Issuance of Government Sukuk Al-Ijarah

| Series | Issuance (B\$ M) | Terms (days) | Issuance Date | Maturity Date | Rental Yield (p.a) |
|--------|------------------|--------------|---------------|---------------|--------------------|
| 28     | 25               | 91           | 9 Apr 09      | 9 Jul 09      | 0.30%              |
| 29     | 30               | 91           | 23 Apr 09     | 23 Jul 09     | 0.30%              |
| 30     | 21               | 91           | 7 May 09      | 6 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%              |

Source: Brunei Currency and Monetary Board, Ministry of Finance

#### ii. Foreign exchange

Table 3.1: Brunei Dollar Against Selected Currencies

|  | Q2 2008<br>End Of<br>Period | Q1 2009<br>End Of<br>Period | Q2 2009<br>End Of<br>Period |
|--|-----------------------------|-----------------------------|-----------------------------|
| <b>B\$ to 1 unit of Foreign Currency</b>   |                             |                             |                             |
| US Dollar                                  | 1.3616                      | 1.5194                      | 1.4498                      |
| Pound Sterling                             | 2.7142                      | 2.1771                      | 2.4129                      |
| Euro                                       | 2.1493                      | 2.0153                      | 2.0464                      |
| Australian Dollar                          | 1.3101                      | 1.0463                      | 1.1761                      |
| <b>B\$ to 100 unit of Foreign Currency</b> |                             |                             |                             |
| Hong Kong Dollar                           | 17.45                       | 19.6                        | 18.71                       |
| Indonesian Rupiah                          | 0.014761                    | 0.013104                    | 0.014182                    |
| Japanese Yen                               | 1.2819                      | 1.545                       | 1.5115                      |
| Philippine Peso                            | 3.0329                      | 3.1389                      | 3.0091                      |
| Thai Baht                                  | 4.0614                      | 4.277                       | 4.2616                      |

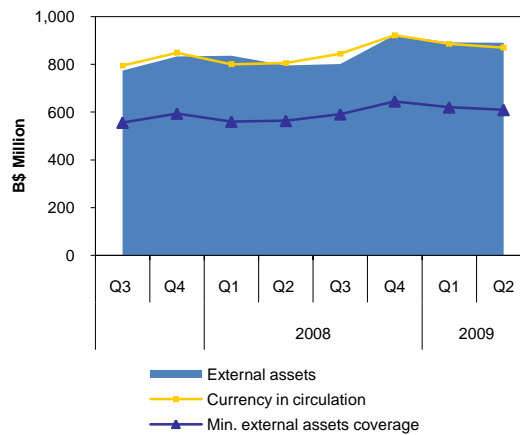
Source: Brunei Currency and Monetary Board, Ministry of Finance

The Brunei Dollar strengthened against the US Dollar (4.58 percent) and the Japanese Yen (2.17 percent). However, it weakened against the other major currencies namely the Pound Sterling, Australian Dollar and the Euro.

Against major Asian currencies the Brunei dollar strengthened: Hong Kong Dollar (4.54 percent), Philippine Peso (4.14 percent) and Thai Baht (0.36 percent) but weakened against Indonesian Rupiah (8.23 percent).

#### iii. Monetary Aggregates

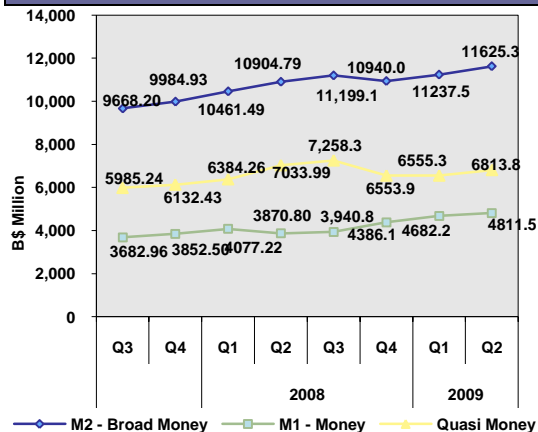
Figure 3.1: Currency in circulation (M0) and External Assets Back-up



Source: Brunei Currency and Monetary Board, Ministry of Finance

Currency in circulation (M0)<sup>1</sup> fell by 1.7 percent to B\$870.6 million. With an External assets position of B\$891.1 million, it provided for more than 100 percent coverage as compared to the Currency in Circulation. At the same time, Liquid assets coverage was also well above the statutory requirement of 30 percent, which was 45.6 percent.

Figure 3.2: Monetary Aggregates

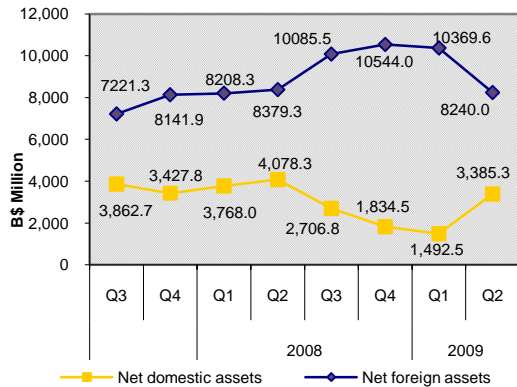


Source: Brunei Currency and Monetary Board & Financial Institutions Division, Ministry of Finance

<sup>1</sup> M0 = Currency in circulation outside BCMB

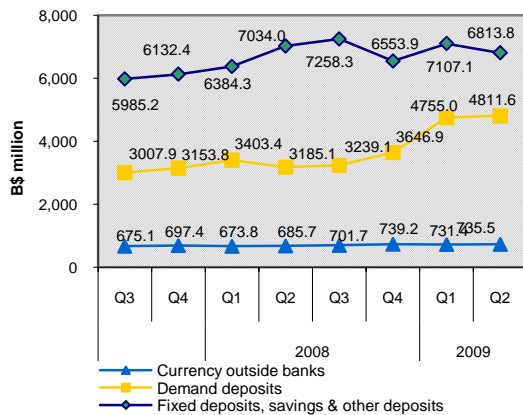
Net foreign assets<sup>2</sup> decreased by 20.5 percent q-o-q to B\$8,240.0 million. Meanwhile, Domestic claims<sup>3</sup> increased by 57.1 percent q-o-q due to the increase in net Claims on Government by 41 percent q-o-q. Claims on public non-financial corporations continued to fall by 8 percent q-o-q to B\$80.3 million. However, Claims on private sector increased slightly by 0.3 percent.

Figure 3.3: Net Foreign Assets and Domestic Claims



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

Figure 3.4: Components of Money and Quasi Money



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

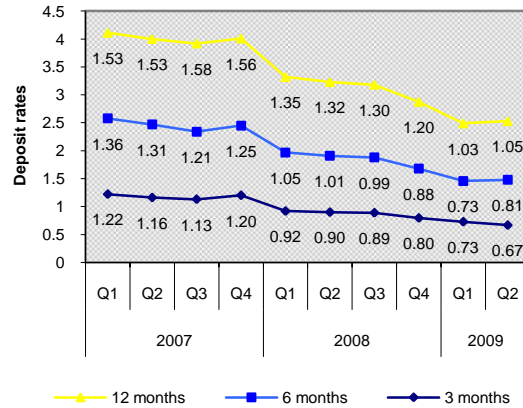
Broad money decreased by 2.0 percent due mostly to the decrease of Quasi Money of 3.9 percent. Demand Deposit, on the other hand, increased by 1.18 percent.

### DEPOSIT RATES

The declining trend in average deposit rates continued in the second quarter 2009 primarily in the term deposit rates subsequent with the global market rates. Despite this trend, the local banks have a higher rate compared to the rates offered by the foreign banks.

Table 3.3 : Brunei Fixed-Deposit Rates

| Months | Q2 2008 | Q1 2009 | Q2 2009 | y-o-y % | q-o-q % |
|--------|---------|---------|---------|---------|---------|
| 3      | 0.90    | 0.73    | 0.67    | -26%    | -9%     |
| 6      | 1.01    | 0.73    | 0.81    | -20%    | 11%     |
| 12     | 1.32    | 1.03    | 1.05    | -20%    | 2%      |



Source: Financial Institutions Division, Ministry of Finance

### FINANCIAL SECTOR DEVELOPMENT

The Authority recently has issued 3 notices under Section 66 of the Banking Order (BO) 2006 and Islamic Banking Order (IBO), 2008 as follows:-

- Notice No.2/2009 (BO) on Maintenance of Statutory Reserve Fund and Distribution of Profits was issued on the 6<sup>th</sup> April 2009
- Notice No. 1/2009 (IBO) on Financing Facilities was issued on the 8<sup>th</sup> June 2009
- Notice No.3/2009 (BO) on Credit (Financing) Facilities was issued on the 8<sup>th</sup> June 2009.

The rationale for Notice No. 2/2009 (BO) is to serve as a capital buffer in addition to paid-up and assigned capital of banks, to cover potential losses in banking business.

The rationale for Notice No. 1/2009 (IBO) and Notice No. 3 /2009 (BO) is to ensure that customer interest is better safeguard through enhancing disclosure and transparency requirements so that customers know and understand upfront, the obligation they are about to enter to.

<sup>2</sup> Net foreign assets = BCMB net claims on nonresidents + Commercial banks net claims on nonresidents

<sup>3</sup> Domestic claims = Net claims on Government + Claims on Public Nonfinancial Corporations + Claims on Private Sector

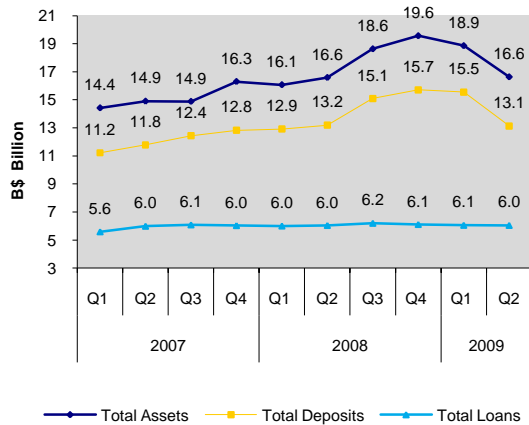
**BANKING SYSTEM<sup>4</sup>**

Total banking assets declined by 12.2 percent q-o-q from B\$18.9 billion to B\$16.6 billion. In the segmental trend, the local banks and the foreign banks recorded a decrease in assets of 8.1 percent and 15.0 percent q-o-q respectively. Total offshore deposits also declined by 21.5 percent q-o-q from B\$9.3 billion to B\$7.3 billion. This was largely attributed to the decrease in the foreign bank segment of 27.6 percent q-o-q from B\$7.3 billion to B\$5.3 billion.

The decrease in total assets was represented by a commensurate decrease in total deposits of the banking industry of 15.5 percent q-o-q from B\$15.5 billion to B\$13.1 billion. This was mostly reflected in the foreign bank deposits which recorded a decrease of 25.3 percent q-o-q from B\$9.1 billion to B\$6.8 billion, while the local banks record a decrease of 1.6 percent q-o-q from B\$6.4 billion to B\$6.3 billion.

There was no significant change in the loan trend q-o-q with only a decrease of 0.1 percent to B\$6.05 billion.

**Figure 3.6: Total Assets, Total Deposits and Total Loans**



Source: Financial Institutions Division, Ministry of Finance

The industry’s loans to deposit ratio stood at 46.1 percent. However, the local banks have a higher loan to deposit ratio of 63.6 percent.

The banking sector remained highly liquid primarily with the foreign banks which accounted for 69.4 percent of total liquid assets and 72.9 percent of total offshore deposits in the industry.

**DIRECTION OF LENDING**

The direction of lending was mainly dominated by household debt<sup>5</sup> at 62.0 percent of total credit at which

39.0 percent was accounted by personal loans. However, personal loans continued to show a decreasing trend by registering a decline of 2.0 percent q-o-q and 7.6 percent y-o-y as a result of the Ministry of Finance’s loan-capping ratio directive in May 2005.

**Table 3.4: Direction of Lending**

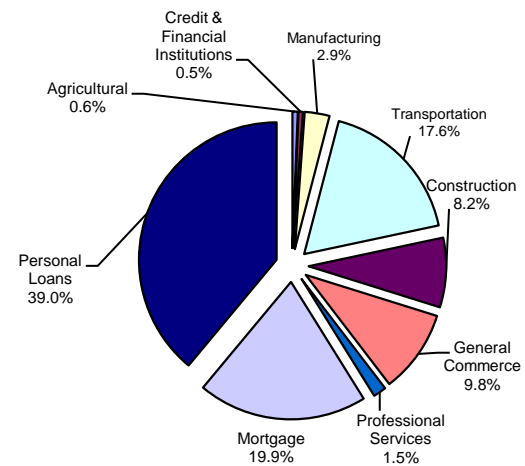
| DIRECTION OF LENDING            | Q2 2008           | Q1 2009        | Q2 2009        | y-o-y        | q-o-q       |
|---------------------------------|-------------------|----------------|----------------|--------------|-------------|
|                                 | (in B\$ millions) |                |                | (in percent) |             |
| Agricultural                    | 35.2              | 37.7           | 37.9           | 7.7          | 0.5         |
| Credit & Financial Institutions | 24.3              | 29.6           | 31.4           | 29.2         | 6.1         |
| Manufacturing                   | 159.5             | 150.1          | 176.3          | 10.5         | 17.5        |
| Transportation                  | 991.9             | 1,087.5        | 1,063.9        | 7.3          | -2.2        |
| Construction                    | 522.7             | 469.4          | 493.5          | -5.6         | 5.1         |
| General Commerce                | 567.0             | 582.6          | 591.5          | 4.3          | 1.5         |
| Professional Services           | 87.8              | 87.9           | 92.6           | 5.5          | 5.3         |
| Mortgage/property financing     | 1,105.0           | 1,207.0        | 1,204.0        | -7.3         | 0.2         |
| Personal                        | 2,548.6           | 2,403.2        | 2,354.6        | -7.6         | -2.0        |
| <b>Total Loans</b>              | <b>6,042.0</b>    | <b>6,055.0</b> | <b>6,045.0</b> | <b>0.1</b>   | <b>-0.2</b> |

Property financing remained to be the second largest sectoral lending followed by the Transportation sector financing.

On a y-o-y basis, the credit and financial institutions sector showed the highest growth by 29.2 percent. The Manufacturing sector recorded the highest q-o-q increase by 17.5 percent from B\$150.1 million to B\$176.3 million while the Transportation sector recorded the highest q-o-q decrease of 2.2 percent from B\$1,087.5 million to B\$1,063.9 million.

**Figure 3.7: Direction of Lending in percent**

**Direction of Lending as at Q2 2009**



Source: Financial Institutions Division, Ministry of Finance

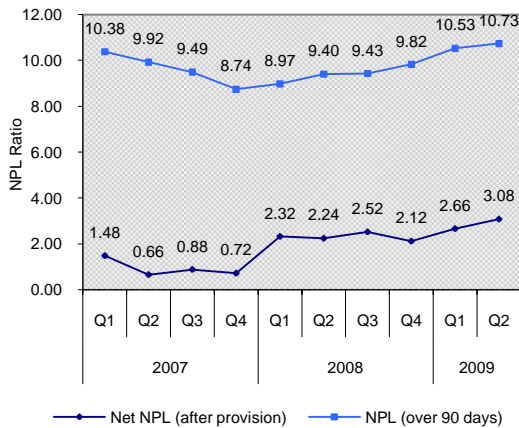
<sup>4</sup> In previous issues of the Fiscal and Monetary Review, the banking system comprised wholly of banks operating in Brunei Darussalam. However, due to the increasingly significant banking activities of the trust fund, Tabung Amanah Islam Brunei (TAIB), the definition of the banking system has been amended to include the banks and trust fund.

<sup>5</sup> Household debt = personal loans + residential housing + automobiles

### NON-PERFORMING LOANS

The overall Non-Performing Loans (NPL) of the banking industry amounted to B\$649.1 million which is an increase of 1.9 percent q-o-q resulting in a NPL to Total Loans Ratio of 10.7 percent. Provision cover for NPL<sup>6</sup>, however, stood at 71.3 percent, a decline of 2.7 percent q-o-q. By sectoral concentration, the number of loans going into default was mainly of personal loans.

Figure 3.8: NPL percentage



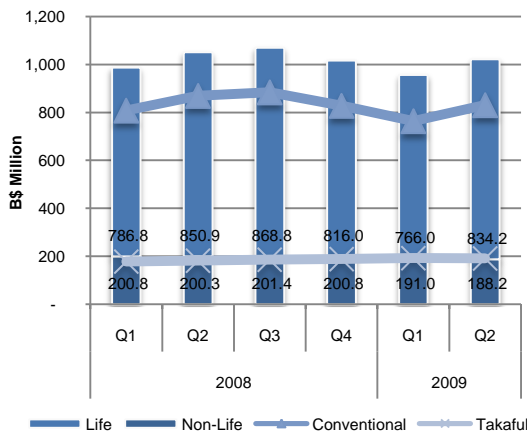
Source: Financial Institutions Division, Ministry of Finance

### INSURANCE AND TAKAFUL INDUSTRY

In Q2 2009, the industry improved marginally with increases in Assets and Gross Premiums and decrease in Gross Claims.

Industry Assets stood at B\$ 1,022.4 million which was an increase of 6.8 percent from B\$ 957.0 million in Q1 2009. This can be attributed to the increase in Life Assets of 8.9 percent from B\$ 766.0 million to B\$ 834.2 million.

Figure 3.9: Total Assets, Q1 2008 – Q2 2009

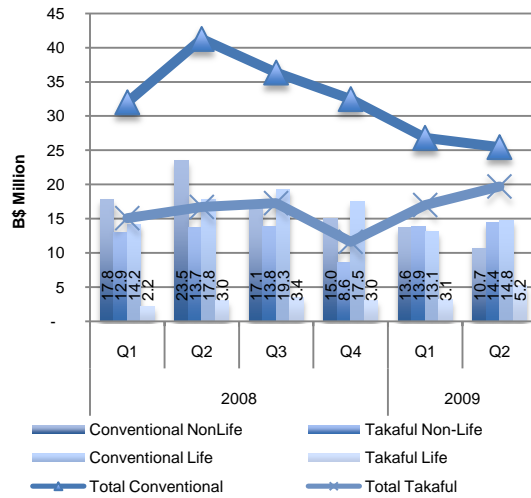


Source: Financial Institutions Division, Ministry of Finance

<sup>6</sup> Total Provision cover for NPL stands for Total provision over Total NPA

Industry Gross Premiums grew by 3.1 percent from B\$ 43.8 million in Q1 2009 to B\$ 45.1 million in Q2 2009. Life Premiums grew by 22.9 percent q-o-q while Non-Life Premiums decreased by 8.7 percent q-o-q.

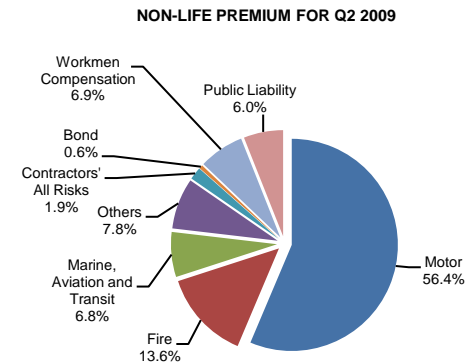
Figure 3.10: Gross Premiums, Q1 2008 – Q2 2009



Source: Financial Institutions Division, Ministry of Finance

Motor business continued to dominate the non-life business at 56.4 percent of total non-life premiums despite recording a decrease of 5.7 percent from B\$ 15.0 million to B\$ 14.2 million in Q2 2009. Fire business was the second largest class of non-life business at 13.6 percent and grew by 2.8 percent q-o-q from B\$ 3.3 million to B\$ 3.4 million.

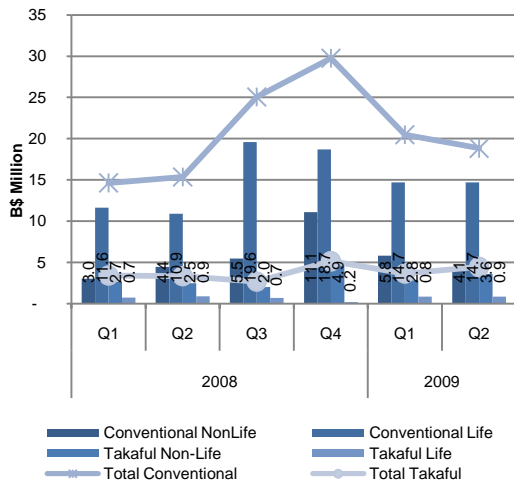
Figure 3.11: Non-Life Gross Premiums Percentage, Q2 2009



Source: Financial Institutions Division, Ministry of Finance

Industry Gross Claims saw a decrease of 3.6 percent from B\$ 24.1 million to B\$ 23.2 million in Q2 2009. Non-Life Claims decreased by 10.5 percent while Life Claims increased by 0.2 percent.

Figure 3.12: Gross Claims, Q1 2008 – Q1 2009

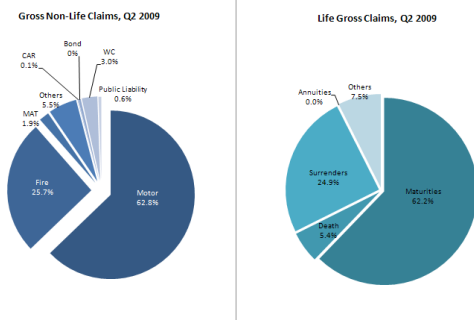


Source: Financial Institutions Division, Ministry of Finance

Motor Claims recorded an increase of 6.8 percent q-o-q from B\$ 4.5 million to B\$4.8 million in Q2 2009. Fire Claims increased by 89.2 percent from B\$ 1.0 million to B\$ 1.9 million.

Meanwhile in Life business, the increase in Maturities attributed to the overall increase in Life Claims. Maturities increased by 13.4 percent from B\$ 8.5 million to B\$ 9.8 million.

Figure 3.13: Gross Claims Percentage, Q2 2009

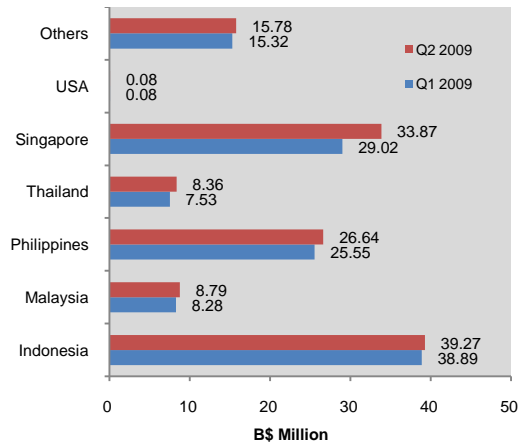


Source: Financial Institutions Division, Ministry of Finance

**MONEY REMITTANCE**

The total money remitted in Q2 2009 increased by 6.5 percent q-o-q amounting to B\$ 132.80 million as a result of the increase in remittances made to Singapore (16.7 percent); Thailand (11.0 percent); Malaysia (4.3 percent); and Indonesia (1.0 percent). However, the remittances made to the United States of America and Australia both declined.

Figure 3.14: Total Money Remitted



| MONEY REMITTED         | Q2 2008       | Q1 2009 | Q2 2009      |
|------------------------|---------------|---------|--------------|
| <b>Total (in B\$m)</b> | 124.4         | 124.7   | 132.8        |
| <b>% Change</b>        | 6.75% (y-o-y) | -       | 6.5% (q-o-q) |

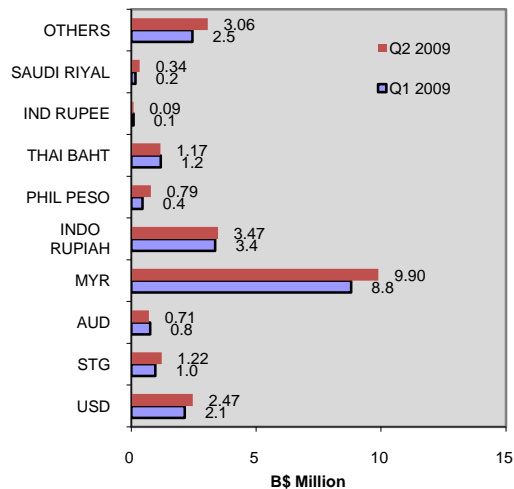
Source: Financial Institutions Division, Ministry of Finance

**FOREIGN CURRENCY EXCHANGE**

The amount of foreign currencies bought totalled B\$ 23.21 million in Q2 2009 which was an increase of 13.9 percent q-o-q. Such growth was caused by the increase in the purchase of Saudi Riyal (100 percent); Philippine pesos (75.6 percent); Pound Sterling (25.8 percent); Other Significant Currencies (15.4 percent); United States Dollar (15.4 percent); Malaysian Ringgit (12.5 percent) and Indonesian Rupiah (3.3 percent).

Despite the significant increases recorded in the major currencies purchased, the Australian Dollar and Thai Baht fell by 5.3 percent and 1 percent respectively.

Figure 3.15: Buying of Foreign Currencies



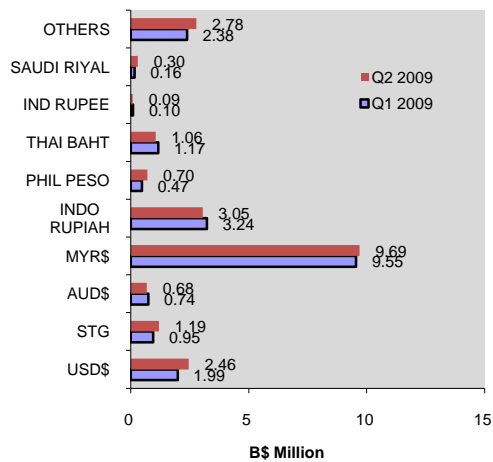
| BUYING                 | Q2 2008            | Q1 2009 | Q2 2009          |
|------------------------|--------------------|---------|------------------|
| <b>Total (in B\$m)</b> | 27.2               | 20.4    | 23.2             |
| <b>% Change</b>        | - 14.7%<br>(y-o-y) | -       | 13.9%<br>(q-o-q) |

Source: Financial Institutions Division, Ministry of Finance

Foreign currencies sold amounted to B\$ 22.0 million in Q2 2009 and this recorded an increase of 6.0 percent q-o-q. The small increase of the sales figure was due to the fall in Indian Rupee (10.0 percent); Thai Baht (9.4 percent); Australian Dollar (8.1 percent); Indonesian Rupiah (5.9 percent) and Other Significant Currencies (1.8 percent).

However, Q2 2009 observed major increases in foreign currencies sold especially the Saudi Riyal (87.5 percent), Philippine Pesos (48.9 percent), Pound Sterling (25.3 percent), United States Dollar (23.6 percent) and also Malaysian Ringgit (1.6 percent).

**Figure 3.16: Selling of Foreign Currencies**



| SELLING                | Q2 2008            | Q1 2009 | Q2 2009         |
|------------------------|--------------------|---------|-----------------|
| <b>Total (in B\$m)</b> | 26.0               | 20.1    | 22.0            |
| <b>% Change</b>        | - 15.4%<br>(y-o-y) | -       | 6.0%<br>(q-o-q) |

Source: Financial Institutions Division, Ministry of Finance

TABLE A : Brunei Darussalam - FISCAL INDICATORS (Fiscal Position)

|   | 2006/07        |                |                |                | 2007/08        |                |                |                | 2008/09        |                |                |                | 2009/10        |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | Q1             | Q2             | Q3             | Q4             | Q1             | Q2             | Q3             | Q4             | Q1             | Q2             | Q3             | Q4             | Q1             |
|   | (B\$ million)  |                |                |                |                |                |                |                |                |                |                |                |                |
| <b>Total Revenue</b>                                    | <b>2,511.1</b> | <b>2,603.3</b> | <b>2,262.5</b> | <b>1,810.8</b> | <b>2,075.1</b> | <b>2,281.0</b> | <b>2,482.1</b> | <b>3,203.4</b> | <b>2,779.2</b> | <b>3,878.1</b> | <b>2,349.9</b> | <b>2,360.1</b> | <b>1,459.7</b> |
| <i>Tax Revenue</i>                                      | 1,627.8        | 1,651.3        | 1,332.6        | 902.4          | 1,297.1        | 1,547.5        | 1,721.0        | 1,779.7        | 1,824.1        | 2,710.1        | 1,651.9        | 1,247.4        | 750.4          |
| <b>Oil &amp; Gas sector</b>                             | 1,553.8        | 1,608.3        | 1,270.2        | 868.0          | 1,165.1        | 1,446.0        | 1,678.8        | 1,739.2        | 1,728.9        | 2,587.7        | 1,598.3        | 1,190.6        | 604.9          |
| <b>Non-oil sector</b>                                   | 74.1           | 43.1           | 62.4           | 34.4           | 132.0          | 101.6          | 42.3           | 40.5           | 95.3           | 122.5          | 53.6           | 56.9           | 145.5          |
| <i>Non-tax revenue</i>                                  | 883.3          | 952.00         | 929.9          | 908.41         | 777.9          | 733.5          | 761.1          | 1,423.7        | 955.0          | 1,168.0        | 698.0          | 1,112.5        | 709.3          |
| <b>Oil &amp; Gas sector</b>                             | 793.9          | 863.6          | 827.6          | 816.66         | 684.1          | 655.8          | 548.2          | 924.1          | 877.5          | 1,071.3        | 618.0          | 878.9          | 630.4          |
| <b>Non-oil sector</b>                                   | 89.3           | 88.3           | 102.3          | 91.75          | 93.8           | 77.7           | 212.9          | 499.6          | 77.5           | 96.7           | 80.0           | 233.7          | 78.9           |
| <b>Total Expenditure</b>                                | <b>853.1</b>   | <b>1,373.5</b> | <b>1,247.9</b> | <b>1,798.5</b> | <b>1,183.8</b> | <b>1,437.5</b> | <b>1,378.8</b> | <b>2,019.5</b> | <b>1,212.8</b> | <b>1,070.9</b> | <b>1,234.1</b> | <b>2,143.8</b> | <b>882.1</b>   |
| <i>Current Expenditure</i>                              | 714.2          | 1,138.7        | 977.4          | 1,185.7        | 1,029.8        | 1,075.8        | 1,187.6        | 1,584.3        | 1,081.1        | 874.4          | 982.6          | 1,713.0        | 748.7          |
| <b>Wages and salaries</b>                               | 345.2          | 387.9          | 418.7          | 466.5          | 388.1          | 384.4          | 510.7          | 399.9          | 392.2          | 400.3          | 517.2          | 319.0          | 389.7          |
| <b>OCAR</b>   | 278.6          | 179.3          | 221.4          | 411.3          | 332.8          | 349.1          | 326.6          | 767.3          | 304.3          | 367.0          | 363.8          | 639.5          | 271.7          |
| <b>Charged</b>  | 90.4           | 571.5          | 337.3          | 307.9          | 308.9          | 342.3          | 350.3          | 417.1          | 384.6          | 107.1          | 101.7          | 754.5          | 87.4           |
| <i>Capital Expenditure</i>                              | 138.9          | 234.9          | 270.6          | 612.8          | 154.0          | 361.6          | 191.2          | 435.2          | 131.7          | 196.6          | 251.5          | 430.8          | 133.4          |
| <b>OCSE</b>   | 62.9           | 86.0           | 76.3           | 363.0          | 45.7           | 228.0          | 61.3           | 198.6          | 37.4           | 57.7           | 77.1           | 242.9          | 65.1           |
| <b>Development</b>                                      | 75.9           | 148.9          | 194.3          | 249.8          | 108.2          | 133.7          | 130.0          | 236.6          | 94.24          | 138.9          | 174.4          | 187.9          | 68.29          |
| <i>Investments in Public Enterprises</i>                | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Surplus or deficit (-), excl. transfer</b>           | <b>1,658.0</b> | <b>1,229.8</b> | <b>1,014.5</b> | <b>12.4</b>    | <b>891.3</b>   | <b>843.6</b>   | <b>1,103.3</b> | <b>1,183.9</b> | <b>1,566.4</b> | <b>2,807.2</b> | <b>1,115.9</b> | <b>216.3</b>   | <b>577.6</b>   |
| <b>Memorandum items</b>                                 |                |                |                |                |                |                |                |                |                |                |                |                |                |
| <b>Oil &amp; gas sector revenues</b>                    | 2,347.7        | 2,471.9        | 2,097.8        | 1,684.7        | 1,849.2        | 2,101.8        | 2,226.9        | 2,663.3        | 2,606.4        | 3,658.9        | 2,216.3        | 2,069.5        | 1,235.4        |
| <b>Non-oil sector revenues</b>                          | 163.3          | 131.4          | 164.7          | 126.2          | 225.9          | 179.2          | 255.2          | 540.1          | 172.8          | 219.2          | 133.65         | 290.5          | 224.3          |
| <b>Oil &amp; gas sector (in % of total revenues)</b>    | 93.5           | 95.0           | 92.7           | 93.0           | 89.1           | 92.1           | 89.7           | 83.1           | 93.8           | 94.4           | 94.3           | 87.7           | 84.6           |
| <b>Non-oil sector revenues (in % of total revenues)</b> | 6.5            | 5.1            | 7.3            | 7.0            | 10.9           | 7.9            | 10.3           | 16.9           | 6.2            | 5.6            | 5.7            | 12.3           | 15.4           |

Source: Expenditure Division, Treasury Department, Ministry of Finance

| Table B: Central Bank Survey   |            |            |            |
|--|------------|------------|------------|
| <i>Millions of Brunei Dollars</i>                                    | Apr-09     | May-09     | Jun-09     |
| Net Foreign Assets   | 1125.0225  | 1105.9608  | 1126.7942  |
| Claim On Nonresidents  | 1162.3918  | 1167.9568  | 1158.4108  |
| Liabilities To Nonresidents  | -37.369342 | -61.996068 | -31.616592 |
| Claim On Other Depository Corporations                               | 865.60124  | 876.70539  | 808.89681  |
| Net Claim On Central Government                                      | -314.91251 | -316.94531 | -318.94647 |
| Claims On Central Government   | 0.73546    | 0.70266    | 0.7015     |
| Liabilities To Central Government                                    | -315.64797 | -317.64797 | -319.64797 |
| Claims On Other Sectors  | 0.000      | 0.000      | 0.000      |
| Claims On Other Financial Corporation                                | 0.000      | 0.000      | 0.000      |
| Claims On State and Local Government                                 | 0.000      | 0.000      | 0.000      |
| Claims On Public Nonfinancial Corporations                           | 0.000      | 0.000      | 0.000      |
| Claims On Private Sector   | 0.000      | 0.000      | 0.000      |
| Monetary Base  | 1696.0461  | 1621.2888  | 1622.9391  |
| Currency In Circulation  | 871.56773  | 885.90376  | 870.60124  |
| Liabilities To Other Depository Corporations                         | 824.47834  | 735.38504  | 752.33783  |
| Liabilities To Other Sectors   | 0.000      | 0.000      | 0.000      |
| Other Liabilities To Other Depository Corporations                   | 0.000      | 0.000      | 0.000      |
| Deposit and Securities Other Than Shares Excluded From Monetary Base | 0.000      | 0.000      | 0.000      |
| Deposits Included In Broad Money                                     | 0.000      | 0.000      | 0.000      |
| Securities Other Than Shares Included In Broad                       | 0.000      | 0.000      | 0.000      |
| Deposits Excluded From Broad Money                                   | 0.000      | 0.000      | 0.000      |
| Securities Other Than Shares Excluded From Broad Money               | 0.000      | 0.000      | 0.000      |
| Loans  | 0.000      | 0.000      | 0.000      |
| Financial Derivatives  | 0.000      | 0.000      | 0.000      |
| Shares and Other Equity  | 48.214908  | 110.12601  | 57.36789   |
| Other Items (Net)  | -68.549789 | -65.693972 | -63.562399 |

Source: Brunei Currency and Monetary Board, Ministry of Finance

| <b>Table C: Depository Corporations</b>                |               |               |               |
|--|---------------|---------------|---------------|
| <i>Millions of Brunei Dollars</i>                      | <b>Apr-09</b> | <b>May-09</b> | <b>Jun-09</b> |
| Net Foreign Assets                                     | 9410.6008     | 7281.1148     | 8239.996      |
| Claims On Nonresidents                                 | 9813.6297     | 7770.6766     | 8710.1029     |
| Liabilities To Nonresidents                            | -403.02888    | -489.56183    | -470.10688    |
| Domestic Claims  | 3674.1734     | 5340.8963     | 4759.9774     |
| Net Claims On Central Government                       | -3585.234     | -1898.0984    | -2470.3375    |
| Claims On Central Government                           | 235.52681     | 210.5462      | 167.56375     |
| Liabilities To Central Government                      | -3820.7608    | -2108.6446    | -2637.9012    |
| Claims On Other Sectors                                | 7259.4074     | 7238.9947     | 7230.3149     |
| Claims On Other Financial Corporations                 | 0.053         | 0.052         | 0.121         |
| Claims On State and Local Government                   | 0             | 0             | 0             |
| Claims On Public Nonfinancial Corporations             | 85.643        | 84.03         | 80.326        |
| Claims On Private Sector                               | 7173.7114     | 7154.9127     | 7149.8679     |
| Broad Money Liabilities                                | 11588.298     | 11223.177     | 11625.334     |
| Currency Outside Depository Corporations               | 720.20075     | 725.54362     | 735.51735     |
| Transferable Deposits                                  | 3899.5483     | 3942.3525     | 4076.0338     |
| Other Deposits   | 6967.7469     | 6554.783      | 6812.946      |
| Securities Other Than Shares                           | 0.802         | 0.498         | 0.837         |
| Deposits Excluded From Broad Money                     | 0             | 0             | 0             |
| Securities Other Than Shares Excluded From Broad Money | 0             | 0             | 0             |
| Loans  | 0             | 0             | 0             |
| Financial Derivatives                                  | 0             | 0             | 0             |
| Insurance Technical Reserves                           | 0             | 0             | 0             |
| Shares and Other Equity                                | 1864.7682     | 1810.498      | 1887.8865     |
| Other Items (Net)                                      | -314.259      | -355.953      | -513.247      |

Source: Brunei Currency and Monetary Board, Ministry of Finance

| <b>Table D: Monetary Aggregates and Broad Money Components</b> |           |           |           |
|--|-----------|-----------|-----------|
| <i>Millions of Brunei Dollars</i>                              | Apr-09    | May-09    | Jun-09    |
| M0   | 871.57    | 885.90    | 870.60    |
| Money  | 4,619.75  | 4,682.23  | 4,811.55  |
| Quasi Money  | 6,968.55  | 6,555.28  | 6,813.78  |
| Broad Money  | 11,588.30 | 11,237.51 | 11,625.33 |
| <b>Broad Money Components</b>                                  |           |           |           |
| Currency outside banks   | 720.20    | 739.88    | 735.52    |
| Demand deposits  | 3899.55   | 3942.35   | 4076.03   |
| Money  | 4,619.75  | 4,682.23  | 4,811.55  |
| Fixed deposits, savings & other deposits                       | 6,968.55  | 6,555.28  | 6,813.78  |

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 Corporation (DC):** Comprises of central banks and other depository corporation.

**MO:** 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 Corporation (ODC):** Comprises of commercial banks, financial companies, and a trust fund.

**Other Financial Corporation (OFC):** Comprises of insurance companies. 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.