

Brunei Bond Market Challenges and Opportunities

This chapter discusses some of the actual and perceived challenges facing the bond market in Brunei Darussalam and its participants. This chapter also aims to describe the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

A. Challenges in the Brunei Bond Market

1. Financial Infrastructure Development

Financial infrastructure in Brunei Darussalam is still at an early stage of implementation. Brunei Darussalam is making rapid progress and huge efforts in establishing the necessary infrastructure, such as the CSD and the Brunei Securities Exchange, to support the development of the capital market, particularly the debt securities and *sukuk* market.

2. More Demand Than Supply of *Sukuk*

The demand for Brunei Government Sukuk Al-Ijarah remains strong and this demand will continue to be supported by the strong liquidity in the financial system. The market is encouraged to seek alternative funding by issuing debt securities or *sukuk* to foster more product development and thus increase investment opportunities.

B. Opportunities in the Brunei Bond Market

1. Monetary and Financial Stability

Brunei Darussalam has established a stable monetary and competitive fiscal environment, supported by AMBD's progressively robust regulatory framework. Such is a prerequisite for strong economic and financial development. The World Economic Forum has consistently ranked Brunei Darussalam highly as a destination renowned for a stable macroeconomic environment.

The cornerstone of Brunei Darussalam's monetary policy remains the Currency Interchangeability Agreement with Singapore, which is buttressed by the Currency Board framework, as prescribed by the Currency Order, 2004. These longstanding arrangements—the Currency Interchangeability Agreement has been in place since 1967—anchor the Brunei dollar to the Singapore dollar. The Currency Board framework is a highly credible arrangement that promotes fiscal discipline. Underpinning the macroeconomic stability of Brunei Darussalam with a credible anchor currency supported by prudent fiscal policy has served Brunei Darussalam well in creating a conducive investment environment protected by the rule of law and a modern infrastructure aimed at supporting the growth of the financial sector.

As such, the private placement segment of the Brunei bond market could present opportunities for both nonresident issuers and investors to issue debt securities, including note issuance programs such as MTN, with a defined expectation toward issuance documentation and rapid time-to-market in the absence of regulatory approval requirements.

2. Islamic Finance Hub

Brunei Darussalam has the potential to compete within one of the global financial sector's fastest-growing services: Islamic finance. Brunei Darussalam's political, social, and (increasingly) economic framework aligns to Islamic teachings and principles, providing the country with a competitive edge. This is exemplified by the national commitment to the Melayu Islam Beraja philosophy that has been in practice for 600 years, contributing to political and social stability. Brunei Darussalam is well-positioned to leverage its capacity to provide niche Islamic financial services to international clients and capitalize on its membership and location in the fast-developing ASEAN region.

3. Islamic Regulatory Framework to Meet International Standards

In a globalized financial services sector shaped by ever-increasing complexities and financial instruments, having in place a regulatory framework that meets international standards is critical to any country's ambition to become a financial hub. While Brunei Darussalam's existing legal framework is broadly adequate for the domestic market, AMBD is undertaking many initiatives to align the remaining gaps relative to international standards.

In Islamic finance, AMBD is participating in the Islamic Financial Services Board working groups for the formulation of standards and guidelines. This will help promote the development of a prudent and transparent Islamic financial services industry in Brunei Darussalam through introducing new (or adapting existing) international standards consistent with Syariah principles for adoption.

4. ASEAN+3 Multi-Currency Bond Issuance Framework

The implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) is expected to benefit not only AMBIF issuances but also the Brunei bond market at large. The Brunei bond market continues to generate significant interest and is likely to attract attention and opportunity to invest in AMBIF bonds, notes, and *sukuk* from new institutional (professional) investor types in Brunei Darussalam and from other regional markets.