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# THE CURRENCY BOARD OF BRUNEI DARUSSALAM

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The Johns Hopkins Institute for Applied Economics,
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The *Studies in Applied Economics* series is under the general direction of Professor Steve H. Hanke, Founder and Co-Director of the Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu). This working paper is one in a series on currency boards. The currency board working papers will fill gaps in the history, statistics, and scholarship of the subject, and provide proponents of the system useful historical case studies. The authors are mainly students at the Johns Hopkins University in Baltimore.

## About the Author

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## Abstract

Since 1967, Brunei Darussalam has employed a currency board, capable of regulating inflation and government spending, as its monetary system. This paper examines the history and formation of the currency board in Brunei Darussalam and analyzes its orthodoxy throughout its existence. A workbook with balance sheets compiled from 1967-1987 and 1998-2020 accompanies this paper. An appendix of the legislative history of Brunei Darussalam's currency board can also be found at the end of this paper.

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**Link to digitized currency board data:** tinyurl.com/CurrencyBoardofBrunei
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## Political Background

Brunei first came into contact with Europeans in the early 1500s, when the Portuguese colonized Malacca, now a southern Malaysian state.[1] Because many Muslims feared Portuguese Catholicism and forced conversion to it, large numbers of former Malaccan residents migrated to Johor, a port city adjacent to Brunei. This exodus encouraged greater interaction between former Muslim residents of Malacca and Bruneian residents, eventually inspiring mass conversion in Brunei to Islam. Previously, Brunei had been predominantly animist. This Islamic foundation persists to this day in what is now known as the state of Brunei Darussalam.

The Portuguese, having colonized Malacca, were committed to establishing a trading empire, and quickly engaged the residents of Brunei in barter. By the end of the 16th century, trade with the Portuguese thrived. Chinese traders, sent by the Ming Dynasty, also bartered extensively with Brunei, particularly during the height of the Chinese empire in the early 16th century.[2] The addition of Spanish merchants in the 1530s added a layer of complexity to Bruneian trading practices, as both Spanish and Portuguese ships jockeyed for control of the Bruneian import and export market.[3] The end of the 16th century saw this intra-European competition mellow, as both Spain and Portugal proved to be valuable trading partners, primarily through barter, for the newly Islamic nation of Brunei.[4]

With the rise of the British Empire in the 18th and 19th centuries, Brunei's traditional trading partners began struggling to obtain entry to the Southeast Asian nation's market. By the early 1800s, maritime trade with the Chinese faded, as Chinese junk ship traders were largely recalled by a protectionist and declining Qing dynasty.[5] Brunei also struggled internally with dynastic contests between two families vying for control of the tiny nation. This instability plagued Bruneian traders, and barter declined rapidly. By 1800, the Bruneian state had expanded past its current borders, annexing the now-Malaysian state of Sarawak. It was in Sarawak that the majority of rebellion against Bruneian authorities occurred. Rebellion plagued the region throughout the 1830s, and the weakened regime in Brunei failed to maintain order.

In 1839, English "adventurer" James Brooke arrived in Sarawak. Noticing his formidable forces, the Penigran (governor) of Sarawak, Pengiran Muda Hassim (appointed by the Sultan of Brunei), requested his assistance in quelling the ongoing rebellion.[6] In return for his support, Brooke demanded governorship of Sarawak. Upon successful repression of the rebels, Brooke was ratified as governor of Sarawak in 1842 by then-Sultan of Brunei, Omar.[7] This marked the first annexation of Bruneian territory by British entities.

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[1] Bowman, J. S. (2000). *Columbia Chronologies of Asian History and Culture*. New York: Columbia University Press..

[2] Vienne and Lanier, M. D., & Lanier, E. (2015). *Brunei: From the Age of Commerce to the 21st Century*. Singapore: NUS Press [National University of Singapore] in association with IRASEC.

[3] Ibid.

[4] Ibid.

[5] Ibid.

[6] Bowman, *Columbia Chronologies of Asian History and Culture*, 411.

[7] Vienne and Lanier, *Brunei: From the Age of Commerce to the 21st Century*, 79.

Pengiran Muda Hassim and Sultan Omar, however, then became engaged in a dynastic rivalry over the throne of Brunei. The rivalry came to a head in late 1845 when the Sultan ordered the assassination of the Pengiran. Brooke, who had backed the late Penigran in the royal struggle, retaliated with a show of military force, forcefully deposing Sultan Omar in July of 1846. The Sultan was later reinstated that year under the following terms: that he swear loyalty to Queen Victoria of Britain, grant Britain the right to suppress piracy off Brunei's coasts, and allow Britain to annex another Bruneian province in nearby Labuan, which then had vast coal reserves.

British influence continued to advance in the region, and in 1847, the Sultan was pressured into ceding all control of Brunei's trade to Britain. Later, in 1888, Sultan Hassim (the son of the aforementioned Pengiran Hassim) signed a protectorate agreement with Britain, which ceded litigation rights to Britain while maintaining internal autonomy and independence.[8] As British encroachment continued into the region, however, trade with other nations stopped, and the Sultanate ran dry financially. In 1906, Sultan Hassim agreed to a treaty with Britain that would, at his death, send a resident adviser from Britain to assist in administration of the nation and offer protection in exchange for a steady salary for the Sultan.[9] In short, Brunei was to formally become a British colony.[10]

Under British rule, Brunei's large deposits of coal and oil began to be exploited. By 1935, Brunei became the third largest oil producer in the British Empire. To this day, the Bruneian economy is highly dependent on the export of natural resources despite attempts to diversify. The resources of Brunei ceased to fuel Britain on December 16th, 1941, as Japan invaded and captured Brunei. Japanese rule lasted for nearly four years; on June 10th, 1945, Allied forces recaptured Brunei and established British military administration of the nation.[11] The British resident was reinstated and continued to dictate affairs in the nation until 1959, when, under intense international pressure, Britain granted Brunei the ability to establish its own constitution, which outlined the transition from a British colony to an independent constitutional monarchy.[12] Despite the withdrawal of the resident, Britain still persisted as the administrative authority in Brunei.

Throughout the 1960s, as both Malaysia and Singapore gained independence, Bruneian citizens began to organize and demand liberation. In the 1970s, this process was largely realized, as Brunei regained "full internal autonomy" in 1971, and Britain began to withdraw a large portion of its military presence. In 1977, the United Nations called for free elections in Brunei, as the constitution drafted in 1959 had yet to be fully realized (the Sultan, under dictation by the British, was ruling as both monarch and prime minister).[13] On January 1, 1984, Brunei gained full

[8] Ibid.
[9] Bowman, *Columbia Chronologies of Asian History and Culture*, 412.
[10] Vienne and Lanier, *Brunei: From the Age of Commerce to the 21st Century* , 91.
[11] Ibid.
[12] Bowman, *Columbia Chronologies of Asian History and Culture,* 412. The Sultan continues to have a degree of political power shared by only a handful of the world's other monarchs.
[13] Ibid.

independence, as Britain fully withdrew and the Sultan stepped down as prime minister. The nation of Brunei Darussalam was established.

## Background of Brunei's Currency

Prior to European arrival in the 16th century, Brunei's economy operated primarily through barter, with the vast majority of citizens owning little to no currency.[14] Some Chinese coins circulated, but they functioned as both legal tender and antiques during this period. Following the inception of trade with both Portugal and Spain, European coins started to circulate within Brunei. Spanish coins were used so widely that, in fact, they became standard coinage in Brunei. Circulating alongside Spanish currency was indigenous coinage in Brunei, which circulated from the mid 17th century to the end of the 19th century. These coins had Arabic inscriptions along with either native animals from Brunei or past Sultans. This trio of Spanish, Chinese, and indigenous currency operated as legal tender until 1888, when Brunei came under British protectorate rule.[15]

In 1888, Brunei adopted the currency of the British Straits Settlements colony, which had been circulating in Penang, Singapore, Malacca, and Dinding since 1871.[16] The Straits dollar was similar to the silver dollar (peso) issued in Spain and its colonies in various forms since 1497, which, in effect, became the first international currency. Even several banks in Singapore issued notes denominated in silver dollars. In 1897, the Board of Commissioners of Currency for the Straits Settlements was established with the sole right to issue currency notes.[17] The board originally had a fixed rate of exchange with silver, and from 1903-1906 the board briefly debated adopting a gold standard.[18] [19] In 1906, the Board of Commissioners of Currency for the Straits Settlements voted for a return back to the silver standard, which would last up until the beginning of World War One.[20] This was due to the fact that the economic growth of the Straits Settlements, particularly from 1897-1903, was, "commensurate with that of silver standard countries."[21]

From 1906-1938, the Malay states used Straits Settlements currency but "shared none of the profit from its issuance."[22] This was maintained as the Board of Commissioners of Currency for the Straits Settlements abandoned the silver standard in 1914 and established a sterling

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[14] Shaw, W., & Ali, M. K. (1971). *Paper Currency of Malaysia, Singapore and Brunei: (1849-1970)*. Kuala Lumpur: Muzium Negara.
[15] Ibid.
[16] Chalmers, R. (2015 [1894]). *History of Currency in the British Colonies*. Mansfield Center, CT.: Scholar Select, 382-7.
[17] Ho, S. (2016, March 08). "History of Singapore Currency", 1.
[18] Kemmerer, E. W. (1904). "A Gold Standard for the Straits Settlements." *Political Science Quarterly,* 638-646.
[19] Ibid.
[20] George, J. (2016, March). "The Malayan Currency Board." Johns Hopkins University, Institute for Applied Economics, Global Health, and the Study of Business Enterprise, Studies in Applied Economics no. 53, 4.
[21] Kemmerer, "A Gold Standard for the Straits Settlements", 644.
[22] George, "The Malayan Currency Board", 4.

exchange standard of 2 shillings and 4 pence per one Straits Settlement dollar.[23] The sterling exchange standard also led to the exchange of reserves for the currency board, which were originally dominated by gold and silver, to reserves held "primarily in sterling."[24]

Shang-Yi Lee, the author of an authoritative history of money in Singapore remarks, "After 1926, the Malay states began to take a renewed interest in currency issue, as evidently there had been good currency profit."[25] The Board of Commissioners of Currency for the Straits Settlements appointed Sir Basil Blackett, a British financial expert, to devise a plan to distribute profits equitably among the states of the region. Blackett's plan, published in 1934, outlined a strategy to divide currency liabilities and profit by currency circulation, with Brunei receiving 0.75% of all profits from issuance. The Currency Ordinance of 1938 adopted Blackett's proposal and renamed the Board of Commissioners of Currency of the Straits Settlements as the Board of Commissioners of Currency of Malaya to reflect its expanded membership.

During World War II, Southeast Asia was occupied by Japanese forces. The currency board ceased local operations, even though its assets were safe in London. The Japanese occupation forces issued their own currency, which depreciated greatly during the war. People held onto currency board notes in the expectation that they would become convertible into sterling again after an Allied victory, which was indeed what happened. After the war, the Board welcomed the territories of Sarawak and New Borneo into the All Malaya Currency Board. This geopolitical shift, coupled with wartime inflation, caused the board to enter into a new agreement in 1950.[26] After a redemption period, notes and coins issued prior to 1950 ceased to be legal tender in the Straits Settlements. The Straits Settlements continued to operate under a currency board and the aforementioned system of profit distribution based on consumption; this meant that Brunei continued to receive 0.75% of the profits of currency issuance. A new dollar, the Malaya and British Borneo dollar, was then issued by the Board of Commissioners of Currency, Malaya and British Borneo (formerly the Board of Commissioners of Currency of Malaya).[27] From 1953-1967, the Malaya and British Borneo dollar operated as sole legal tender in Brunei (as well as in the other Straits Settlements).

The independence of Malaysia in 1957 and Singapore in 1959, along with Malaysia's establishment of Bank Negara Malaysia as an embryonic central bank, required revision of the currency agreement between the Straits Settlements.[28] In 1960, the Board of Commissioners of Currency, Malaya and British Borneo allowed increased fiduciary issue (although it apparently never took advantage of the provision) and lessened restrictions on the allowance of non-sterling foreign reserves. The Board also established provisions for withdrawal from both the All Malaya

[23] Lee, S. (1990). *The Monetary and Banking Development of Singapore and Malaysia*. Singapore, NUS Press, 14-17. The pound sterling at the time consisted of 20 shillings or 240 pence.
[24] Ibid.
[25] Ibid.
[26] Ibid.
[27] George, "The Malayan Currency Board", 4.
[28] Schenk, C. R. (2013). "The Dissolution of a Monetary Union: The Case of Malaysia and Singapore 1963–1974." *Journal of Imperial and Commonwealth History,* 499-500.

Currency Board and from the authority of the Board of Commissioners of Currency, Malaya and British Borneo. To do so, the new currency authorities would recall the Board's old currency and redeem it for sterling securities at market prices from the board.

On December 12, 1964, Malaysia decided to issue its own currency through Bank Negara Malaysia from December 12, 1966 onwards. This meant that Malaysia would formally withdraw from the All Malaya Currency Board. The economic historian Catherine Schenk wrote, "Malaysia's impetus for quickly winding up the currency board was believed in London to come mainly from political forces" regarding the inflexibility on note issue powers as a member of the All Malaya Currency Board.[29] Brunei received an offer to join Malaysia's new arrangements, and a round of negotiations between Bruneian and Malaysian authorities began. Brunei had two major provisions: that they have a place on the policy making body of the Bank Negara Malaysia, and that the portrait of the Yang di-Pertuan Agong (constitutional monarch) of Malaysia not appear on the new currency notes.[30] Bruneian authorities also favored the continuation of a currency board rather than the operation of a central bank.[31] Upon rejection of these proposals by Malaysian authorities, Brunei moved to establish its own currency board. Singapore likewise established its own currency board when the Malayan currency union dissolved, although later it replaced its currency board with a central bank.

## History of Brunei's Currency Board

Bruneian politics in the early 1960s revolved around the prospect of unification with Malaysia.[32] The citizens of Brunei strongly opposed unification in favor of full ratification of the Bruneian constitution, which had been ratified in 1959 but never formally implemented. The Sultan echoed the sentiments of his people but felt that British authorities would compel Brunei to unify with a neighboring nation. Abhorring unification with Sarawak or North Borneo, which had traditionally lagged behind Brunei in terms of GDP per capita, the Sultan advocated for Malaysian unification as a compromise. In 1962, under intense pressure from the Bruneian populace, the Sultan held the first elections for the Bruneian parliament. The PRB (Brunei People's Party), which opposed unification with Malaysia, won by a landslide.[33] Fearing a deterioration of relations with Malaysia, the Sultan denied the PRB the ability to both consult with the Sultan about Malaysian unification and to be a part of the Bruneian parliament, usurping the position of Prime Minister for himself.[34] Outcry occurred throughout Brunei, spearheaded by a rebellion repressed by the Sultan (with the aid of British forces). While the rebellion failed to depose the Sultan, it did illuminate that

[29] Ibid.
[30] Saunders, G. E. (2015). *A History of Brunei,* 158.
[31] Krus, N., & Schuler, K. (2014, 2020). "Currency Board Financial Statements." Johns Hopkins University, Institute for Applied Economics, Global Health, and the Study of Business Enterprise, 63.
[32] Yusop, M. (1998). "The Malaysia Plan and the First Brunei Elections." *Journal of the Malaysian Branch of the Royal Asiatic Society,* 57.
[33] Bowman, *Columbia Chronologies of Asian History and Culture*, 412.
[34] Yusop "The Malaysia Plan and the First Brunei Elections", 72.

union with Malaysia would have produced continued pressure for a constitutional monarchy (which would limit the powers of the sultanate), an arrangement that the Sultan feared.[35]

Despite the public outcry against formal Malaysian unification in Brunei, Malaysia invited Brunei to join Bank Negara Malaysia and accept its currency, largely due to potential revenue streams that would have flowed from Brunei to the Bank Negara Malaysia.[36] Of course, due to the previous rejection of Brunei's unification proposals, the unification of the monetary systems of Brunei and Malaysia failed to materialize. In August of 1966, once both parties failed to reach an agreement, Brunei decided to establish its own independent monetary authority.

*The Currency Act of 1967*

After Britain withdrew its resident adviser in 1959, it granted Brunei greater autonomy of internal affairs. This meant that Brunei's monetary authority, which was formally established in 1967, would be under the direction and administration of Bruneian authorities. The Currency Act of 1967 formally established the Brunei Darussalam Currency Board.[37] Per the Currency Act, "the principal objects of the Board...[are]...to issue currency...to maintain external reserves in order to safeguard the international value of that currency, and to promote monetary stability in Brunei Darussalam." The Board was also the "principal licensing and monitoring body for the country's banks and finance companies."[38]

From an administrative standpoint, the Board was to have an undesignated number of members, chaired by either the Minister of Finance or an appointee by the Sultan of Brunei.[39] Furthermore, the board was mandated to meet twice a year, with the quorum being 2 members (one of which was the chairman). The Board also was granted internal autonomy, with the authority to self-regulate and create subcommittees with representatives of its own choosing.[40] While the board operated under the wing of the Ministry of Finance, it was also a separate branch within the Ministry, permitting the board free reign to establish offices and appoint administrative officials at its discretion.

With the breakup of the All Malaya Currency Board, the members of the Brunei Darussalam Currency Board obtained the right to issue individual national currencies.[41] The 1967 Currency Act created a new Bruneian currency, the Brunei dollar, with a parity of 0.290299 grams of gold to 1 Brunei dollar. This rate was equivalent to the cross-rate that had existed between the Malayan dollar and the U.S. dollar. The exchange rate of the Brunei dollar could fluctuate depending on the recommendation of the Board to the Sultan. The original exchange rate was 8.5714 Brunei dollars (B$) per pound sterling. However, after the devaluation of sterling on 18

[35] Saunders, *A History of Brunei,* 157-158.
[36] Ibid.
[37] Brunei. (1967). Currency Act of 1967, 6-13.
[38] Sidhu, J. S. (2017). *Historical Dictionary of Brunei Darussalam*, 86.
[39] Brunei, Currency Act of 1967, 6-13.
[40] Ibid.
[41] Ibid.

November 1967, the rate changed to B$7.3469 per pound sterling. The gold parity remained unchanged.[42]

Currency commissions were originally set at no more than ⅔% of each dollar of issuance (or 3/32 of 1 penny sterling per Brunei $1). On December 7, 1967, the commission changed to 0.1094 penny sterling per Brunei $1. Then, the commission became B$0.0246 per £1 sterling on October 1, 1968. The Brunei Darussalam Currency Board apparently ceased charging a commission shortly after, but we were unable to find an exact date when it happened.

The Board was also granted the sole authority (with the consent of the Sultan) to design and issue denominations and forms of the Brunei dollar. The original choice by the Board was to revive the designs originally used by monetary authorities from the 17th through 19th centuries (albeit with updated portraits and designs). The Brunei dollar was divided into 100 cents, like its predecessors: the Straits dollar and the Malayan dollar. It was decided that the Board would begin issuing currency notes on August 22, 1967.

The Currency Act required the Board's external assets to consist of "gold, sterling or currencies other than the Brunei Darussalam currency."[43] These assets could be securities (maturing within five years), currencies, or liquid capital. The liquid assets had to amount to no less than 30% of the Board's total demand liabilities and had to mature within five years. In total, the net external assets were mandated to amount to no less than 70% of the Board's demand liabilities. Finally, total assets (including foreign and domestic assets) had to be maintained at a ratio of 1:1 with the aggregate amount of the Board's currency notes and coins in circulation.[44] This original ratio of 70% external reserves to the monetary base was reduced in 1977 under Amendment 5 of the 1967 Currency Act.[45] We were not able to locate this Amendment in full.

The Board was vested with the power to open accounts and accept deposits abroad and in Brunei, purchase, sell, and discount treasury bills of Brunei, purchase public securities, acquire property to establish offices, and act as an agent for monetary institutions (among others).[46] The final power became particularly relevant during the 1990s, when Brunei Darussalam contemplated joining the International Monetary Fund (IMF). On October 10, 1995 the decision was made to join the Fund, and as a result, gold was eliminated as a de jure denominator for exchange rates in Brunei.[47] De facto, gold had ceased to play a role in the monetary system since the collapse of the Bretton Woods international monetary system beginning in August 1971.

Originally, the minimum amount accepted for issuing Brunei dollars was 10,000 pounds sterling, and the minimum the board accepted for redeeming Brunei dollars was $100,000 Brunei dollars.

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[42] Krus and Schuler, "Currency Board Financial Statements", 64.
[43] Brunei, Currency Act of 1967, 11-13.
[44] Ibid.
[45] Krus and Schuler, "Currency Board Financial Statements", 63.
[46] Brunei, Currency Act of 1967, 12-13. For further elaboration on the Board's powers, please see the 1967 Currency Act in full.
[47] Krus and Schuler, "Currency Board Financial Statements", 64.

Redemption initially occurred only on Tuesdays and Thursdays from 9-10:30 AM in the capital city of Bandar Seri Bagawan.

*The Currency Interchangeability Agreement of 1967*

Since the 19th century, Singapore has been an important financial channel for Brunei, particularly as a trading center capable of providing a valuable hub for the acquisition of external assets. Furthermore, Brunei's plethora of natural resources allowed and continually allows for large revenue to funnel into the tiny nation. Brunei needed and continues to need a financial center capable of managing these exchanges. Singapore's financial channels proved to be sufficient in the eyes of the founders of the Brunei Currency Board to serve this purpose. Thus, an agreement was established between Brunei and Singapore to maintain steady exchange rates between the Singapore dollar and the Brunei dollar. This agreement, titled the Currency Interchangeability Agreement of 1967, "allows banks in Brunei to shift funds into Singapore without running the risks of currency fluctuations."[48] Due to the stability of this currency peg, this agreement allows for easy acquisition of external assets by Brunei Darussalam.

Under the Currency Interchangeability Agreement of 1967, "the Brunei Currency Board will accept from banks in Brunei, notes and coins issued by the Board of Commissioners of Currency, Singapore, and will exchange such notes and coins at par and without charge into notes and coins issued by the Brunei currency board."[49] This stable exchange continues to this day, and was commemorated in 2017 with the issue of limited edition $50 polymer notes with the theme "Flourishing Growth" in both Brunei Darussalam and Singapore.

After 1967, the Currency Board of Brunei Darussalam functioned as outlined in the 1967 Currency Act. As the Australian economist Peter Drake has noted, "in any tiny, open economy [like that of Brunei Darussalam], the scope for stimulating private investment and output through domestic monetary expansion by way of bank lending will be severely limited, at least initially".[50] Hence, the establishment of a currency board in Brunei reassured domestic money holders and foreign traders that monetary inflation and exchange rate fluctuations would not occur, since the Brunei dollar was fixed to a fairly reliable foreign currency. As mentioned previously, Brunei's economy has been dominated by the export of natural resources, and thus has been closely dependent on foreign trader confidence. The stability of the Brunei dollar allowed for sustained export of Bruneian oil and gas; in 1979, at the end of a decade of sustained economic growth in Brunei, oil and gas made up 88% of Brunei's GNP.[51] This monetary stability also promoted sustained foreign trade past the 1970s. For example, in 1973, the Mitsubishi Corporation signed a contract with authorities in Brunei where gas was supplied to three Japanese utility plants for 20 years. This enabled consistent revenue streams for Brunei.

The establishment of Brunei as a "sovereign, democratic, and independent Malay Muslim monarchy in 1984" did not affect the administration of Brunei's currency board.[52] Joining the Association of Southeastern Asian Nations (ASEAN) "a week after the declaration of full

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[48] Sidhu. *Historical Dictionary of Brunei Darussalam.* 86.
[49] Currency Interchangeability Agreement [between Brunei and Singapore] (2020), 1.
[50] Drake, P. J. (2004). *Currency, Credit and Commerce: Early Growth in Southeast Asia,* 151.
[51] Saunders*, A History of Brunei,* 165-175.
[52] Ibid.

independence," further strengthened ties with Singapore diplomatically and cemented the neighboring nation as a valuable economic ally.[53] This alliance continues to this day.

It is unclear when Brunei stopped using the pound sterling as an anchor currency for the Brunei dollar.[54] The Currency Interchangeability Agreement in practice means that the Singapore dollar has been the anchor currency for the Brunei dollar since the Singapore dollar began to float on June 21, 1973. Before that, the Singapore dollar used the pound sterling as its own anchor until switching to the U.S. dollar on June 25, 1972.

*The Currency and Monetary Order of 2004*

In 2004, the Brunei Currency Board was renamed the "Brunei Currency and Monetary Board" under the Currency and Monetary Order of 2004.[55] This Order made a number of changes to the Monetary Authority of Brunei Darussalam (under the Currency Act of 1967), which we have broken down into three categories: organizational, currency, and asset alterations.

Organizationally, instead of an undefined number of board members, the order specified that there would be an appointed position of Minister of the Board (who would be the chairman) and five other members. These included the Minister of Finance of Brunei Darussalam and four other persons named by the Sultan, two of which were experienced in banking and finance. Instead of meeting twice a year, the board was now required to meet on a quarterly basis. Meetings could also be held without the chairman (if the deputy chairman, the minister of finance, was present).[56] A section of the order also added "disqualification of members," specifying bankruptcy, incapability of performance, dishonesty convictions, or missing three consecutive meetings as sufficient for expulsion from membership to the Board.[57]

The Currency and Monetary Order of 2004 also installed great changes to the currency of Brunei. The minting facility of Brunei, stationed in Bandar Seri Begawan, was originally registered as an entity under the administration of the Brunei Darussalam Currency Board. Under the new Order, it was registered as a separate, independent entity, capable of autonomous internal affairs.[58] The Board was also endowed with the ability to conduct demonetization, the withdrawal of money from circulation in Brunei.[59] Finally, the Order modernized the aforementioned Currency Act of 1967, prohibiting digital photography of any notes and coins in circulation.

As mentioned previously, we believe there was an Amendment (Amendment 5 of 1977) that allowed the board to deviate from its original 7:10 minimum ratio of foreign assets to the monetary base. However, the Currency and Monetary Order of 2004 officially cemented this

[53] Ibid .
[54] Krus and Schuler, "Currency Board Financial Statements", 64.
[55] Brunei. (2004), Currency and Monetary Order of 2004, 227-235.
[56] Ibid.
[57] Ibid.
[58] Ibid.
[59] Ibid.

ruling.[60] This deviation could only be instituted upon unanimous concurrence between all members of the Board.

*Autoriti Monetari Brunei Darussalam Order of 2010*

In 2010, four units that had previously been under the Ministry of Finance merged to form the Autoriti Monetari Brunei Darussalam. These included the Financial Institutions Division, the Brunei Currency and Monetary Board, the Brunei International Financial Center, and parts of the Research and International Division of the Ministry of Finance. The Autoriti Monetari Brunei Darussalam was established as "the central bank of Brunei Darussalam."[61] The goals of this established central bank were to limit inflation, continually stabilize the financial system, establish a financial services sector, and assist in establishing efficient payment systems.

The current administration of the central bank is quite similar to the earlier administration of the Brunei Currency and Monetary Board: a board of directors headed by a chairman, with a deputy chairman, and four to seven directors appointed by the Sultan.[62] The directors are mandated to meet once every two months in Bandar Seri Begawan and self-regulate their proceedings.[63] The Autoriti Monetari Brunei Darussalam can conduct credit operations with banks in Brunei and can lend to the government. This deviates from traditional monetary policy under an orthodox currency board, which does not lend to the government.[64] This order also established the right of the bank to establish reserve requirements for banks, influenced by bank runs during the financial crisis of 2008. Furthermore, the Order permits the central bank to be a lender of last resort for a bank or financial institution, another deviation from traditional currency board orthodoxy.[65] However, while the central bank's establishment may have threatened the existing Currency Board's order, subsection 78 specified that "nothing in this order shall affect the operation of the Currency Order, 2004."[66]

*Currency and Monetary Amendment Order, 2010*

Another enactment adopted with the above order was the Currency and Monetary Amendment Order of 2010, which altered the Currency and Monetary Order of 2004. The Autoriti Monetari Brunei Darussalam, the newly founded central bank of Brunei, was charged with the general administration of Brunei's Currency Board.[67] All persons employed by the board were immediately transferred into service of the central bank, and all existing arrangements (such as outstanding purchases of external assets) were also transferred to the bank.[68]

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[60] Ibid.
[61] Brunei. (2010). Autoriti Monetari Brunei Darussalam Order of 2010, 1-43.
[62] Ibid.
[63] Ibid.
[64] Ibid.
[65] Ibid.
[66] Ibid.
[67] Brunei. (2010). Currency and Monetary Amendment Order, 5047-5053.
[68] Ibid.

Furthermore, the Currency and Monetary Order of 2010 specified the "ability of the central bank to buy and sell domestic currency notes and coins against gold, silver or foreign currencies eligible for inclusion in the reserve of external assets."[69] Perhaps most pertinently, this order mandated that a currency fund, holding foreign currencies, gold, and silver (in short, all external assets), be formed.[70] These external assets are currently mandated to be at least 100% of the monetary base in Brunei Darussalam.

As a result of the formation of the Autoriti Monetari Brunei Darussalam, the Brunei Currency and Monetary Board was officially dissolved. All references made to the Brunei Currency and Monetary Board since 2010 refer to the Autoriti Monetari Brunei Darussalam.

The Brunei Currency Board (and the Brunei Currency and Monetary Board) published periodic financial statements in the Brunei government gazette but produced no stand-alone annual reports. However, the Autoriti Monetari Brunei Darussalam has published annual reports since its establishment in 2010.

## Definition of an Orthodox Currency Board

An orthodox currency board is defined as a monetary authority that issues notes and coins fully backed by foreign reserves.[71] Often, net foreign assets may modestly exceed 100% of the monetary base; the Malayan Currency Board had a ceiling of 115%. The rationale of the extra reserves is to provide a buffer against the depreciation of the securities the board holds. When a currency board exceeds its ceiling on reserves, it pays out the excess as profits, or seigniorage. Another characteristic of an orthodox currency board is that its currency should be fully convertible into the foreign (anchor) currency at a fixed exchange rate. An orthodox currency board does not hold significant domestic assets, because it does not lend to the government or to domestic corporations.[72] A corollary is that an orthodox currency board cannot act as a lender of last resort to banks.

The question we consider here is whether Brunei Darussalam's currency board has been orthodox since its inception in 1967. We have noted that by law, Brunei Darussalam's foreign assets up until 2010 only had to be 70% of the monetary base, which does not satisfy the 100-115% level explained above. Full convertibility between Brunei's anchor currencies, which had previously been the pound sterling and now is the Singapore dollar, has existed throughout the existence of the Board. Recently, we have seen fluctuations in domestic assets held by the Brunei Currency Board, which had been steadily held in significant amounts prior to the implementation the 2010 reforms. This also suggests unorthodoxy. Finally, the establishment of the Autoriti Monetari Brunei Darussalam has created the ability for Brunei Darussalam's monetary authority

[69] Ibid.
[70] Ibid.
[71] Schuler, K. (2005, August). "Ignorance and Influence: U.S. Economists on Argentina's Depression of 1998-2002." *Econ Journal Watch,* 243-244.
[72] Ibid.

to supply capital to the government and act as a lender of last resort for financial centers in Brunei. Thisfurther suggests unorthodoxy.

In short, while Brunei Darussalam's Currency Board has exhibited some traits of orthodoxy, its legal framework indicates that it need not operate as an orthodox currency board. But, how has it operated in practice?

## Calculations and Tests

Annual and monthly or quarterly balance sheet data on the Currency Board of Brunei from its beginning in 1967 through early 2020 has been digitized, benefitting from previous work by Nicholas Krus. The sources of the data are as follows:

- From the board's inception in 1967 to September 1989, quarterly data from the *Brunei Gazette* (scattered quarters missing).
- Data could not be found from December 1987 to December 1998.
- From March 1999 to September 2001, monthly data from the International Monetary Fund's International Financial Statistics database was used due to a lack of data from Brunei Darussalam authorities.
- Since December 2001, monthly balance sheets are available from the Autoriti Monetari Brunei Darussalam, which we have included in our accompanying spreadsheet entitled "Combined Data."

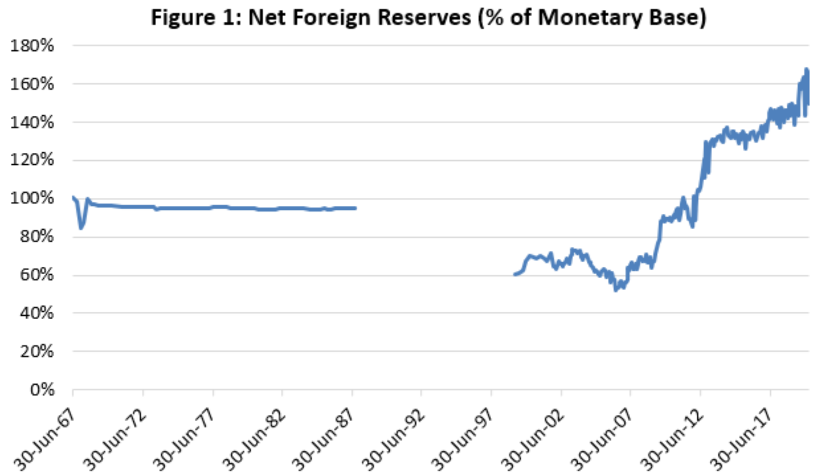
We performed various tests on the items in the balance sheets to help determine how close Brunei's monetary authority has been to currency board orthodoxy.

### Test 1: Foreign Assets, Domestic Assets, and Monetary Base

First, we examined net foreign assets as a percentage of the monetary base of Brunei Darussalam (including notes and coins in circulation). Foreign assets comprise gold, silver, and foreign currencies.

As mentioned previously, an orthodox currency board holds net foreign reserves equal to 100% or somewhat more of the monetary base. In Brunei Darussalam, from 1967-1987, the Currency Board only met this requirement twice, on 30 June 1967 and 30 June 1968 (a mere 2.8% of the period). Of course, the mandate by the Currency Act of 1967 only required a proportion of 70% of external assets to the monetary base. However, foreign reserves were almost always above 90% and even 95% of the monetary base.

Unorthodoxy persisted in our measurements from 1999-2010, with foreign assets to monetary base percentages consistently dropping below the 70% threshold (the lowest being 52% on May 31$^{st}$, 2006). This is likely due to the passage of the Currency and Monetary Order of 2004, which allowed the Board to lower external assets to below 70% of the monetary base upon unanimous agreement by the members of the board.



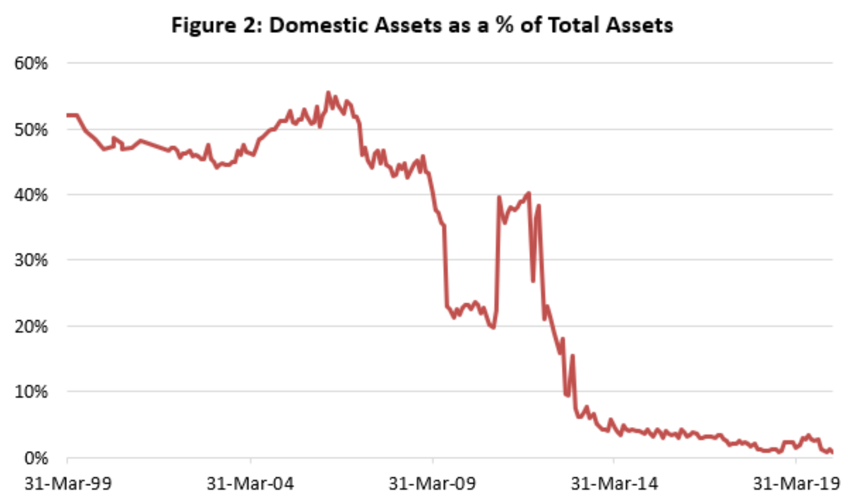

*Sources*: June 1967-September 1987: *Brunei* Gazette. December 1987-December 1998: no data.

The passage of the Currency and Monetary (Amendment) Order in 2010 mandated external assets to be at least 100% of the monetary base in Brunei Darussalam. As a result, net foreign reserves increased rapidly following the implementation of this Order. However, from 2010 to the latest data, in March 2020, we only measured a brief period of currency board orthodoxy, from March to October 2012. In November 2012, external assets rose above 110% of the monetary base. As of March 2020, the ratio was 150%.

In summary, the monetary authority was fairly orthodox from 1967 until 1989, when data is nowhere to be found. The authority was then orthodox from March to October 2012.

### Test 2: Domestic Assets as a Percentage of Total Assets

For Test 2, domestic assets as a percentage of the total assets of the monetary authority was measured. Data on domestic assets could not be found until March 1999. So, the analysis begins there.




*Sources*: March 1999-September 2001: International Monetary Fund. December 1999-latest:

Orthodox currency boards should have a negligible amount of domestic assets as a percentage of total assets. Some Boards hold small amounts of domestic assets on hand to pay salaries and expenses; as a result, we will classify 0-5% of domestic assets as a percentage of total assets as an orthodox measure.

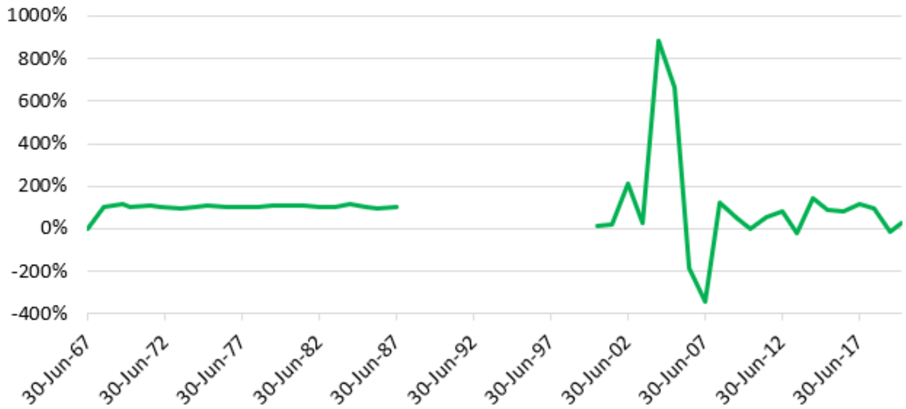
From March 1999 to March 2007, around half of the monetary authority's total assets were domestic. This percentage is too high to be considered orthodox. Starting in 2012, domestic assets plummeted, and since October 2013, they have consistently fallen into the range of orthodoxy, measuring just 0.8% of total assets in March 2020. This is due to the dissolution of the 1967 Currency Act under the Currency and Monetary (Amendment) Order of 2010. Under this order, the Currency Board of Brunei Darussalam (managed by the Autoriti Monetari Brunei Darussalam) was not mandated to hold any significant percentage of domestic assets. The implementation of this order allowed for the Board to liquidate domestic asset holdings.

As a result of our findings, we can conclude that test one's brief demonstrated period of orthodoxy in mid-2012 is undermined by Test 2, which finds significant percentages of domestic assets as a percentage of Brunei Darussalam's total assets during this period. Furthermore, the orthodoxy demonstrated in Test 2 from October 2013 to March 2020 (with domestic assets being below 5% of Brunei Darussalam's total assets) is undermined by test one, which suggested an unorthodox amount of foreign assets as a percentage of the total monetary base of Brunei Darussalam during this period.

**Test 3: Reserve Pass-Through**

Test 3 measured the percentage of the change in the monetary base divided by the change in foreign assets, on a year-over-year basis. Data is missing from December 1987 to December 1998.

**Figure 3: Reserve Pass-Through as a % of Monetary Base**




*Sources*: June 1967-September 1987: *Brunei* Gazette. December 1987-December 1998: no data. March 1999-September 2001: International Monetary Fund. December 1999-latest: AMDB.

A range of 80-120% of reserve pass-through as a percentage of the monetary base is considered orthodox. A reserve pass-through rate of 100% means that if the monetary base rises or falls by a certain amount, then the foreign reserves change by the exact same amount.[73] Note that we began analysis 1968, as this test involves a rate of change. From June 1968 until data end in June 1987, the reserve pass-through ratio fell within the range 80-120%, suggesting that the currency board was, in fact, orthodox.

Between June 2000 and June 2014, the reserve pass-through ratio fluctuates substantially. Only one month, June 2012, had an orthodox reserve pass-through rate. This (in conjunction with Test 2) further undermines the apparent period of orthodoxy in 2012 that we measured in Test 1.

From June 2015 to June 2018 the reserve pass-through ratio remained between 80% and 120%, suggesting orthodoxy. Recall that Test 2 measured domestic assets as below 5% during this period. However, Test 1 demonstrated that foreign assets as a percentage of the monetary base were above 120% suggesting unorthodoxy.

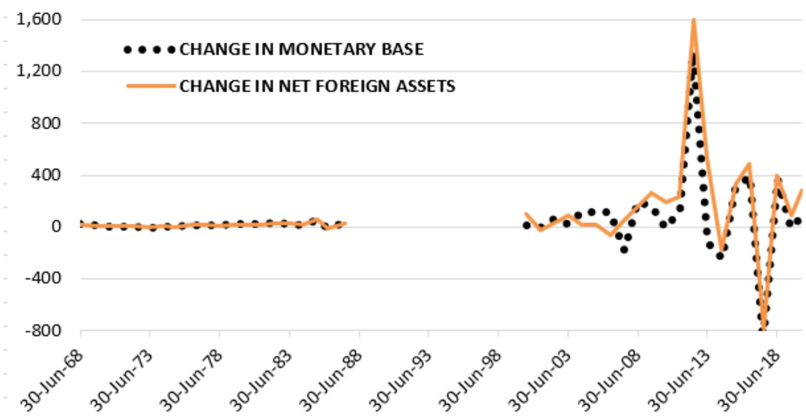
Finally, 2019 and 2020 have seen a reversion in Brunei Darussalam back to unorthodox reserve pass-through practices, with percentages falling far below the 80% threshold.

[73] Hanke, S. (2008). "Friedman: Float or Fix?" *Cato Journal*, 28(2), 275-285.

## Further Tests

Test 4 measures the annual changes in the monetary base and net foreign assets, as depicted in Figure 4. If the changes in the monetary base and the changes in net foreign assets correlate with one another, we can call the board orthodox. We see in Figure 4 that the changes in Brunei Darussalam's monetary base and net foreign assets roughly correlate with one another. Note again that data is unavailable from December 1987 to December 1998 here and in subsequent tests.

**Figure 4: Changes in Monetary Base and Net Foreign Assets (Million Brunei Dollars)**

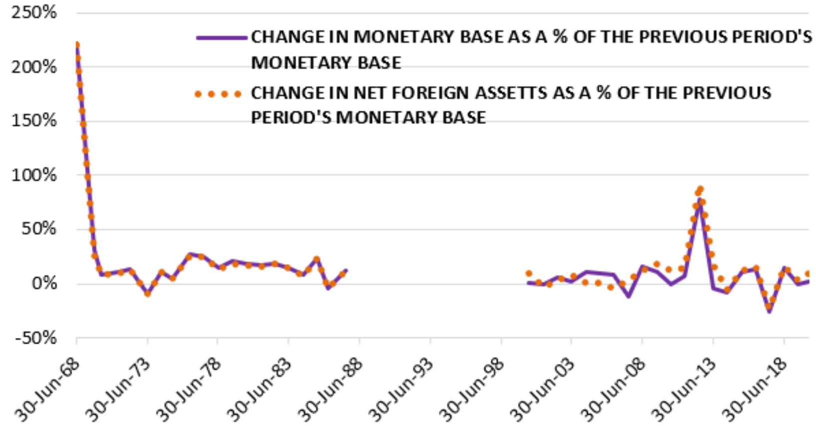



*Sources*: June 1967-September 1987: *Brunei* Gazette. December 1987-December 1998: no data. March 1999-September 2001: International Monetary Fund. December 1999-latest: AMDB.

Test 5, depicted in Figure 5, calculates the change in net foreign assets and the monetary base as a percentage of the previous period's monetary base. From 1967 through 1987, the discrepancies between the changes are relatively small. The largest discrepancy was in 1969, 4.91 percentage points. Because this was both the largest difference and was relatively small, we can conclude that the annual changes in net foreign assets and monetary base in Brunei Darussalam from 1967 to 1987 suggest orthodoxy.

From June 2000 to March 2020, however, the change in net foreign assets and the monetary base as a percentage of the previous period's monetary base are steadily above 5%, which we mark as the threshold of significance. Large discrepancies include 20.82 percentage points in June 2013, 15.81 percentage points in June 2007, 14.41 percentage points in June 2012, and 9.26 percentage points in June 2004. These discrepancies suggest unorthodoxy.

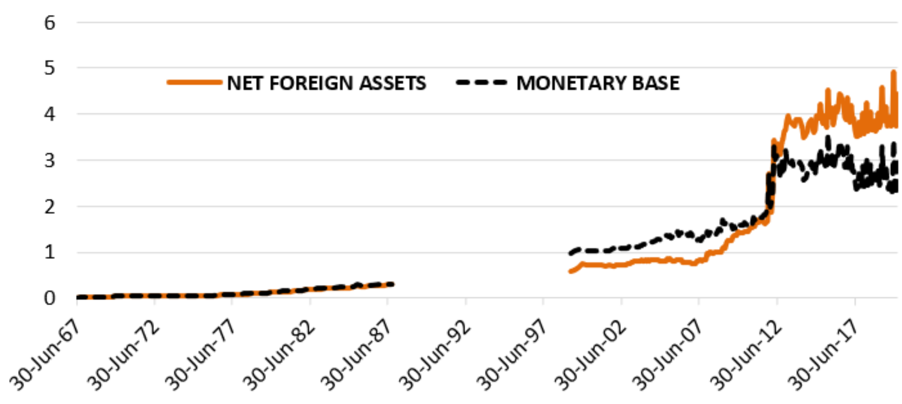
**Figure 5: Change in Net Foreign Assets and Monetary Base as a % of the Previous Period's Monetary Base**




*Sources*: June 1967-September 1987: *Brunei* Gazette. December 1987-December 1998: no data. March 1999-September 2001: International Monetary Fund. December 1999-latest: AMDB.

Test 6 examines if the changes in the monetary base and net foreign assets are insignificant compared to the size of the monetary base. If so, then a large reserve pass-through as a percentage of the monetary base (analyzed in Test 3) can be ignored. For our analysis, we call any change between 0% and 5% insignificant. We can conclude that, for both periods of our analysis, from June 1968 to June 1987 and June 2000 to March 2020, the changes in the monetary base and net foreign assets were significant. Only 4 of the 41 time periods that we analyzed had changes in the monetary base and net foreign assets below the 5% threshold of insignificancy, a mere 10% of the data. As a result, we conclude that we should not dismiss the results of the previous ratio tests on the grounds that the numbers involved were too small.

**Figure 6: Net Foreign Assets and Monetary Base (Billion Brunei Dollars)**




*Sources*: June 1967-September 1987: *Brunei* Gazette. December 1987-December 1998: no data. March 1999-September 2001: International Monetary Fund. December 1999-latest: AMDB.

Also included is a simple comparison of the levels of the monetary base and net foreign assets in Brunei Darussalam, as depicted in Figure 6. The levels of both the monetary base and net foreign assets do appear to mirror each other, suggesting orthodoxy.

## Conclusion

Brunei Darussalam's Currency Board has exhibited traits of orthodoxy throughout its existence, such as a fixed exchange rate with anchor currencies (the pound sterling and the Singapore dollar). Despite legal provisions allowing unorthodoxy, our tests demonstrate operation close to an orthodox currency board from 1967 until data stop in 1987 (as demonstrated by Tests 1, 3, 4, 5, and 6). However, since the resumption of data, the board has been unorthodox. This has come as a result of the lack of restrictions on domestic assets throughout most of the years of the operation of the Board, little to no parallels in changes of net foreign assets and the monetary base, and fluctuating reserve pass through ratios. We were not able to identify any periods of orthodoxy during this period, as each of our tests seemed to contradict the findings of the others. Test 1 suggested orthodoxy from March to October of 2012, but this is quickly undermined by tests 2, 3, 4, and 5. Test 2 suggests orthodoxy from 31 October 2013 to 31 March 2020, but this is undermined by tests 1, 3, 4, and 5. Test 3 suggests orthodoxy from 2015-2018, contradicted by tests 1, 4, and 5. Overall, while Brunei Darussalam's Currency Board has not exhibited traits of orthodoxy in recent years, but it has fostered monetary stability, helping the nation remain one of the wealthiest in Southeast Asia.

## Postscript on Data

The companion spreadsheet workbook to this paper contains the underlying data, calculations, and original versions of the graphs. The spreadsheets in the workbook also contain data not used in the paper, notably, balance sheets for each year Brunei Darussalam's Currency Board has been active. Data for some years are missing because we were unable to obtain some back issues of the *Brunei Gazette,* where the data was presumably published.

## Appendix: Legislative History of Brunei's Currency Board

| Date of Enactment | Law | Outcome |
|---|---|---|
| 28 January 1967 | Currency Act Parts I, II, V | The Brunei Currency Board is established, and the first Minister is appointed. |
| 12 June 1967 | Currency Act Parts III (except Section 17 (1) (b)), IV | The Brunei Currency Board becomes the sole issuer of currency in Brunei and the recall of other currencies begins. |
| 5 July 1967 | Currency Interchangeability Agreement | The Brunei Currency Board and Singapore's monetary authority would accept each other's currency at 1:1. |
| 1 September 1967 | Currency Act Part III, Section 17 (1)(b) | The external asset ratio of 70% of demand liabilities is instituted. |
| 16 January 1969 | Currency Enactment Act (under the Currency Act of 1967), Section 247 | Cessation of currency notes and coins of the Board of Commissioners of Currency, Malaya and British Borneo to be Legal Tender in Brunei Darussalam. |
| 1977 | Amendment 5 of the Currency Act of 1967 | The Board's orthodoxy is diminished. |
| 1 January 1984 | Currency Enactment Act (under the Currency Act of 1967), Section 12 | The Brunei Currency Board issues new coins in celebration of independence. |
| 8 January 1984 | Decision to join ASEAN | The Brunei Currency Board votes to join the Association of Southeast Asian Nations (ASEAN). |
| 10 October 1995 | Decision to join IMF | The Brunei Currency Board votes to join the International Monetary Fund (IMF), and as a result, gold is abolished as a denominator for Brunei's exchange rate. |
| 12 February 2004 | Currency and Monetary Order, Part II | The Brunei Currency Board is renamed. It is now known as the Brunei Currency and Monetary Board. |
| 12 February 2004 | Currency and Monetary Order, Part IV | The Brunei Currency and Monetary Board is allowed the power to lower the ratio of net foreign assets to below 70% after a vote. |
| 7 September 2005 | Currency and Monetary (Amendment) Order, 2005 | All assets and liabilities originally belonging to the Brunei Currency Board are now transferred to the Brunei Currency and Monetary Board. |
| 18 August 2007 | Currency and Monetary (Amendment) Order, 2007 | The accounts of the Brunei Currency and Monetary Board are now audited annually. |

| | | |
|---|---|---|
| 16 December 2010 | Currency and Monetary (Amendment) Order, 2010 | The Autoriti Monetari Brunei Darussalam (which formally begins on 1 January 2011) is charged with administration of Brunei's currency board. Foreign assets are now mandated to be no less than 100% of the monetary base. |
| 1 January 2011 | Autoriti Monetari Brunei Darussalam Order, 2010 | The Autoriti Monetari Brunei Darussalam is established as Brunei's central bank. |

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*Note:* Previous scholarly literature on Brunei's currency board system is scarce.

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