



October 2023

# BRUNEI DARUSSALAM

## 2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BRUNEI DARUSSALAM

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Brunei Darussalam, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 11, 2023 consideration of the staff report that concluded the Article IV consultation with Brunei Darussalam.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 11, 2023, following discussions that ended on June 28, 2023, with the officials of Brunei Darussalam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 25, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Brunei Darussalam.

The documents listed below have been or will be separately released.

### Selected Issues

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**International Monetary Fund  
Washington, D.C.**



## IMF Executive Board Concludes 2023 Article IV Consultation with Brunei Darussalam

FOR IMMEDIATE RELEASE

**Washington, DC – October 6, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Brunei Darussalam.

Brunei has begun to recover from the pandemic, with COVID-19 restrictions lifted and borders reopened in 2022. However, the recovery has been hindered by reduced Oil and Gas (O&G) sector production, despite rising commodity prices. Real GDP contracted in 2022 due to a decline in O&G production, but this was partly offset by growth in downstream O&G activities and non-O&G sectors. The labor market improved, although gains were primarily in lower-paid jobs. Inflation rose in 2022 to 3.7 percent but has since moderated, with the stable exchange rate helping to mitigate the impact of imported inflation. The fiscal and current account position improved in 2022, 1.6 and 19.6 percent, respectively, driven by higher O&G prices and an expansion of exports from the downstream sector. The banking sector remains stable, liquid, and well capitalized with declining non-performing loans, while domestic lending showed signs of recovery, particularly in the corporate sector.

The recovery is expected to be uneven and uncertainty surrounding the outlook remains high. Growth is forecasted to contract by about 1 percent in 2023 on the back of reduced oil and gas (O&G) production—largely driven by the deferment of infrastructure maintenance in the O&G sector—but the recovery in the non-O&G sector will continue to contribute positively, aiding diversification efforts. Inflation is predicted to moderate to 1.7 percent, with the easing of global supply chain bottlenecks and commodity price normalization. The overall fiscal and external positions are projected to weaken to deficit of around -9 percent of GDP and a surplus of 10.6 percent of GDP respectively in 2023, and through the medium-term. Key challenges going forward include the gradually narrowing fiscal space, the need to shield the economy against O&G sector volatility, global decarbonization pressures, and ensuring intergenerational equity. Risks, such as protracted O&G maintenance activities and a less favorable external environment could impede the recovery, while higher O&G prices could provide an upside.

### Executive Board Assessment<sup>2</sup>

Executive Directors noted that a contraction in the oil and gas sector weakened the recovery from the pandemic and the outlook remains subject to substantial downside risks. Against this challenging economic landscape, Directors stressed the need for prudent policies and structural reforms to support the recovery, maintain macroeconomic stability, and promote

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

diversification and climate resilience. Continued capacity development supported by the Fund remains important.

Directors emphasized the importance of fiscal prudence amid substantial uncertainties in oil and gas production and prices and long-term decarbonization pressures. They welcomed the authorities' focus on a growth-friendly fiscal consolidation that protects the vulnerable and raises public investment. Mobilization of non-oil and gas revenues, implementation of targeted subsidies, wage bill rationalization, and improvements in fiscal transparency and risk analysis would be important in this endeavor. A strong and credible medium-term fiscal framework would also be essential.

Directors agreed that Brunei's enduring currency board arrangement with Singapore has ensured macroeconomic and financial sector stability. They encouraged further alignment of policy rates with the Monetary Authority of Singapore and more effective liquidity management.

Directors welcomed that the financial sector remains resilient, with strong capital buffers and abundant liquidity. While systemic risks remained contained, they called for continuous vigilance against tail risks amid tightening global financial conditions. Directors also emphasized the need for greater financial market development and additional enhancements in prudential frameworks and AML/CFT enforcement.

Directors welcomed the authorities' efforts to support Brunei's economic diversification and climate transition goals and urged the authorities to continue pressing ahead with critical policy reforms, given the importance of these goals for Brunei's long-term prosperity. Priorities include human capital development, digitalization, enhancing public investments and PPPs, regional integration and data quality. Despite Brunei's small global emissions share, Directors welcomed the nation's ambitious commitment to achieve a Net Zero Target by 2050. They underscored the urgency of advancing the transition plan and advocated a comprehensive approach for climate objectives and revenue diversification, including incorporating the recommendations from the Climate Public Investment Management Assessment. Considering the implications of carbon pricing for climate mitigation and revenue diversification could also be important.

## Brunei Darussalam: Selected Economic and Financial Indicators, 2018–28

Area: 5,765 sq. kilometers

Population (2021): 440,715

Nominal GDP per capita (2021): US\$31,449.1

Main export destinations (Nov 2022): Australia (21.2 percent), Japan (15.8), China (15.0), and Singapore (13.4)

Unemployment rate (2021): 4.9%

Labor force participation rate (2020): total 63.8%; male 71.7%; female 54.9%

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Output and Prices</b>											
Nominal GDP (millions of Brunei dollars)	18,301	18,375	16,564	18,822	23,003	20,321	21,483	22,220	22,952	23,900	24,883
Nominal non-oil and gas GDP (millions of Brunei dollars)	8,047	8,268	8,868	9,790	11,043	11,958	12,738	13,545	14,683	15,829	17,061
Real GDP (percentage change) 1/	0.1	3.9	1.1	-1.6	-1.6	-0.8	3.5	2.8	3.0	3.1	3.2
Oil and gas sector GDP	-1.5	3.9	-4.9	-4.8	-7.3	-4.7	6.3	3.5	2.1	1.9	1.5
Non-oil and gas sector GDP	2.1	3.9	8.9	2.0	4.3	2.8	0.9	2.1	3.6	4.0	4.5
Oil production ('000 barrels/day)	112	121	110	107	92	84	79	94	102	94	94
Natural gas output (millions BTUs/day)	1,372	1,402	1,358	1,253	1,151	1,114	1,270	1,220	1,195	1,319	1,331
Average Brunei oil price (U.S. dollars per barrel)	73.2	68.6	43.3	72.1	107.7	83.0	79.1	75.3	73.3	71.1	69.6
Average Brunei gas price (U.S. dollars per million BTU)	10.5	9.1	6.7	9.1	14.4	5.4	5.8	5.4	4.4	3.9	3.3
Consumer prices (period average, percentage change)	1.0	-0.4	1.9	1.7	3.7	1.7	1.5	1.0	1.0	1.0	1.0
<b>Public Finances: Budgetary Central Government</b>											
Total revenue	32.7	26.4	12.6	24.1	28.3	19.5	19.4	18.6	17.4	16.5	15.7
Oil and gas	26.4	19.8	7.7	20.2	24.5	14.8	14.7	13.6	12.1	11.0	9.9
Other	6.3	6.5	5.0	3.9	3.9	4.7	4.8	5.0	5.3	5.5	5.8
Total Expenditure	32.5	31.9	32.6	29.2	26.7	28.7	27.2	26.5	25.8	25.0	24.3
Current	29.8	29.5	31.3	28.1	25.7	26.7	25.9	25.3	24.6	23.8	23.0
Capital	2.7	2.4	1.3	1.1	1.0	1.9	1.3	1.3	1.3	1.2	1.2
Overall balance 2/	0.2	-5.6	-20.0	-5.1	1.6	-9.2	-7.7	-7.9	-8.5	-8.5	-8.5
Non-oil and Gas Balance (In percent of non-oil and gas GDP)	-53.5	-49.5	-46.1	-44.3	-39.2	-38.2	-35.1	-32.7	-30.0	-27.6	-25.3
<b>Money and Banking</b>											
Private Sector Credit	-3.1	2.0	0.2	2.7	6.0	4.0	2.0	2.0	2.0	2.0	2.0
Narrow money	-3.0	6.6	20.8	6.5	1.2	3.8	3.8	3.8	3.8	3.8	3.8
Broad money	2.8	4.3	-0.4	2.7	1.3	2.7	2.7	2.7	2.7	2.7	2.7
<b>Balance of Payments</b>											
Goods	2,360	2,208	1,385	2,680	5,153	2,797	3,130	3,467	3,636	3,793	3,989
Exports	6,473	7,207	6,542	11,006	14,130	10,475	10,814	11,139	11,441	11,645	12,088
Of which: oil and gas	2,691	3,244	2,943	4,730	5,660	3,344	3,565	3,718	3,830	3,723	3,787
Imports	4,113	4,999	5,157	8,326	8,977	7,678	7,684	7,672	7,804	7,852	8,098
Services (net)	-1,008	-1,189	-854	-697	-848	-948	-1,043	-1,036	-1,024	-1,013	-1,002
Primary Income (net)	84	361	362	90	-370	261	306	209	150	106	119
Secondary Income (net)	-506	-490	-350	-502	-671	-508	-560	-580	-549	-563	-564
Current Account Balance	930	890	542	1,572	3,264	1,603	1,832	2,060	2,214	2,323	2,542
Current Account Balance (in percent of GDP)	6.9	6.6	4.5	11.2	19.6	10.6	11.6	12.7	13.2	13.3	14.0
Gross Official Reserves 3/	3,407	4,273	3,997	4,980	5,035	5,145	5,257	5,369	5,481	5,593	5,705
In months of next year's imports of goods and services	6.0	8.1	5.2	5.9	6.7	6.7	6.8	6.8	6.9	6.8	6.8
Brunei dollars per U.S. dollar (period average)	1.35	1.36	1.38	1.34	1.38	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.36	1.35	1.32	1.35	1.34	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Non-oil and gas GDP includes the downstream sector.

2/ In absence of government debt and interest payments, this is also primary balance.

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.



# BRUNEI DARUSSALAM

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

August 25, 2023

### KEY ISSUES

**Context and Recent Developments.** Brunei's high vaccination rates have allowed for the removal of COVID-19 restrictions and reopening of borders; however, reduced oil and gas (O&G) production have undermined the recovery. The financial sector remains liquid and well-capitalized. High fuel prices helped strengthen the fiscal and external positions in 2022. Inflation hit a historical high but has recently declined. The 2023 Article IV consultation took place in the context of a volatile O&G market, and a difficult external environment. Key policy challenges include the narrowing fiscal space, the need to shield the economy against O&G price and output volatility, global decarbonization pressures, and ensuring inter-generational equity. The government is committed to diversifying towards a low-carbon economy.

**Outlook and Risks.** Growth in 2023 would remain negative due to extended O&G infrastructure maintenance, while non-oil sectors will contribute positively to growth, aiding diversification. Inflation is anticipated to moderate further. The overall fiscal and external positions are projected to weaken in 2023 and the medium-term. Downside risks include the further protraction in maintenance activities in the O&G sector and a worsened external environment; climate-related transition risk are significant in the medium-term. Higher O&G prices and new O&G discoveries are upside risks.

**Main Policy Recommendations.** Policies should continue to support the recovery in the short term, while promoting economic diversification and resilience in the longer term.

- **Fiscal Policy.** Maintain a prudent fiscal stance in the near-term, while protecting the vulnerable. A credible medium term fiscal framework focused on the non-O&G balance as a share of non-O&G GDP should anchor consolidation efforts, through mobilizing non-O&G revenue, containing public employment and wages, and improving performance and fiscal transparency of government-linked companies (GLCs). Replacing broad-based subsidies with targeted fiscal support and protecting high quality investments will be key to enabling a growth-friendly and sustainable consolidation.
- **Monetary Operations.** Further alignment of policy rates with Monetary Authority of Singapore (MAS) will enhance monetary policy transmission, while continuing to support the sustainability of the peg. Efforts to absorb excess liquidity and support a more active liquidity management would help strengthen the price signal from the

overnight policy rate towards banks' retail rates and to develop a domestic interbank market.

- **Financial Policy.** Strengthen macro- and micro-prudential and stress testing frameworks to maintain financial stability. Developing the interbank market and deepening the financial system will encourage private sector credit growth.
- **Climate Policy:** Develop a multipronged approach for climate objectives and revenue diversification, as a step towards broader climate transition goals. Implications of carbon pricing for emissions reduction and revenue diversification can be considered, while providing well-targeted fiscal support for impacted communities and workers. Prioritize National Climate Change Policy (BNCCP) objectives in new development plans and consider implementing climate stress tests for the financial sector.
- **Structural Policy for Diversification.** Prioritize human capital development and digitalization, and strengthen the regulatory framework for public private partnership (PPPs). Consider more extensive participation in regional trade and economic partnerships.

**Approved By**  
**Maria Gonzalez and**  
**Fabian Bornhorst**

Mission meetings were held during June 14–June 28, 2023. The mission team comprised: Ritu Basu (Head), Natasha Che, Jonghyun Kim (Virtual), Ganchimeg Ganpurev (Virtual) (all APD), and Shohhei Kawase (OAP) and Vybhavi Balasundharam (FAD), Nadiah Abu Bakar (OED) joined the mission. Raja Anwar (Alternate Executive Director) joined the concluding meeting.

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## CONTEXT AND RECENT DEVELOPMENTS

**1. Brunei is recovering from the impact of the pandemic.** With high vaccination rates, the government started removing COVID-19 restrictions in November 2021 and reopened the borders in June 2022. However, reduced activity in the O&G sector negatively impacted the recovery, despite surging commodity prices.

**2. Policies have been geared towards restoring the pre-pandemic macroeconomic policy framework.** The policy support deployed during the pandemic has been largely withdrawn. The budget has shifted focus to promoting recovery and diversification by scaling up public investment. The authorities remained focused on supporting the continued stability of the domestic banking system.

**3. Real GDP contracted in 2022, led by a decline in O&G production, due to protracted infrastructure maintenance.** Overall, real GDP fell by 1.6 percent (Table 1). This was partly offset by growth in both downstream O&G activities and the non-O&G sector, with diversification continuing. This resulted from the post-pandemic reopening and the authorities' support to priority sectors,<sup>1</sup> including through investing in logistics to support exports.<sup>2</sup>

**Brunei Darussalam: Contributions to Real GDP Growth**  
(In y-o-y percentage points)

	2021	2022	2022				2022 Q1-4 Share in GDP
	Year	Year	Q1	Q2	Q3	Q4	
GDP		-1.6	-1.6	-3.5	-3.2	1.9	-1.6
Oil & Gas sector	-2.6	-3.2	-5.0	-5.0	-1.4	-3.8	48.5
Oil and gas mining	-1.2	-2.4	-3.1	-2.6	-1.1	-2.7	37.6
Manufacture of LNG	-1.4	-0.8	-1.9	-2.4	-0.3	-1.0	11.0
Non-Oil and Gas sector	1.0	1.6	1.4	1.7	3.3	2.2	51.5
Downstream activities	-0.2	0.2	0.6	1.2	0.4	1.0	6.1
Other non-oil and gas activities	1.1	1.4	0.9	0.5	3.0	1.2	45.3

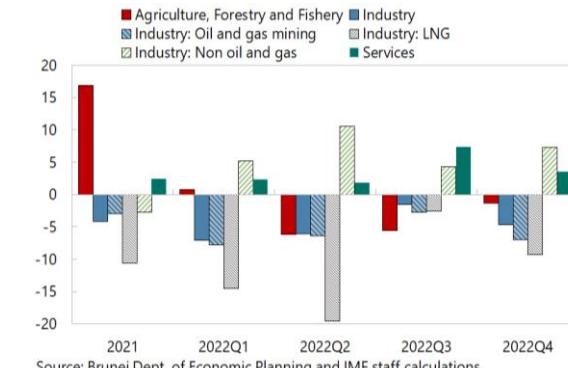
Source: Brunei Dept. of Economic Planning and IMF staff calculations.

**4. The labor market improved, with the unemployment rate falling from 7.3 percent in 2020 to 5.2 percent in 2022.** The

employment gains were mainly for lower-paid jobs. Labor Force Survey data indicates that the manufacturing sector is the largest contributor to employment gains. However, preliminary data for 2022 showed an increase in unemployment among workers with tertiary education.

**5. Inflation increased in 2022 but has since moderated.** Average headline inflation more than doubled (from 1.7 percent in 2021 to 3.7 percent in 2022), driven by higher food prices, supply chain disruptions, and increased transport costs associated with higher airfares. Inflation peaked at 4.5 percent in August 2022, the

**Brunei Darussalam: Sectoral Growth**  
(In y-o-y percentage)

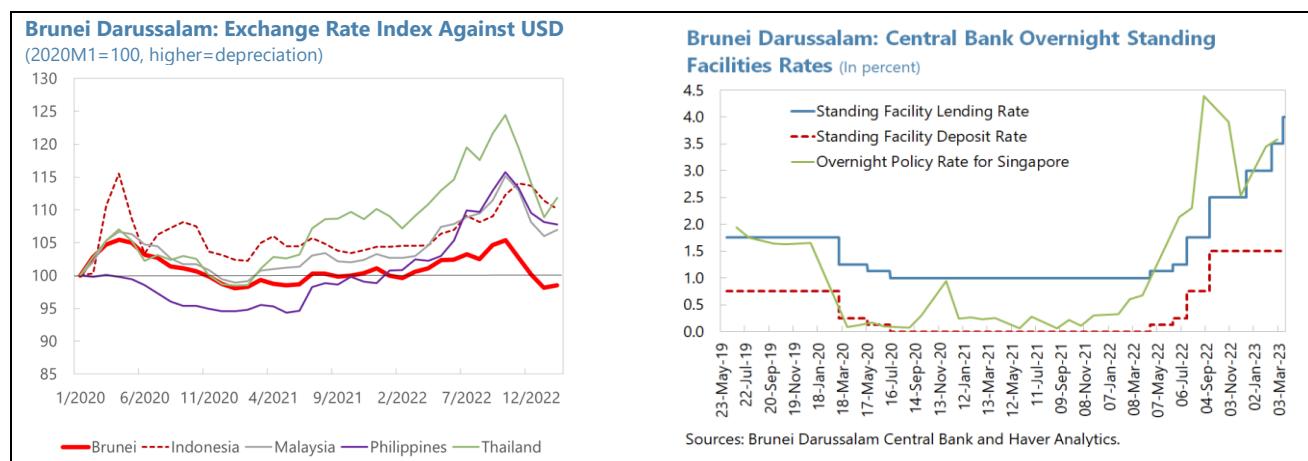
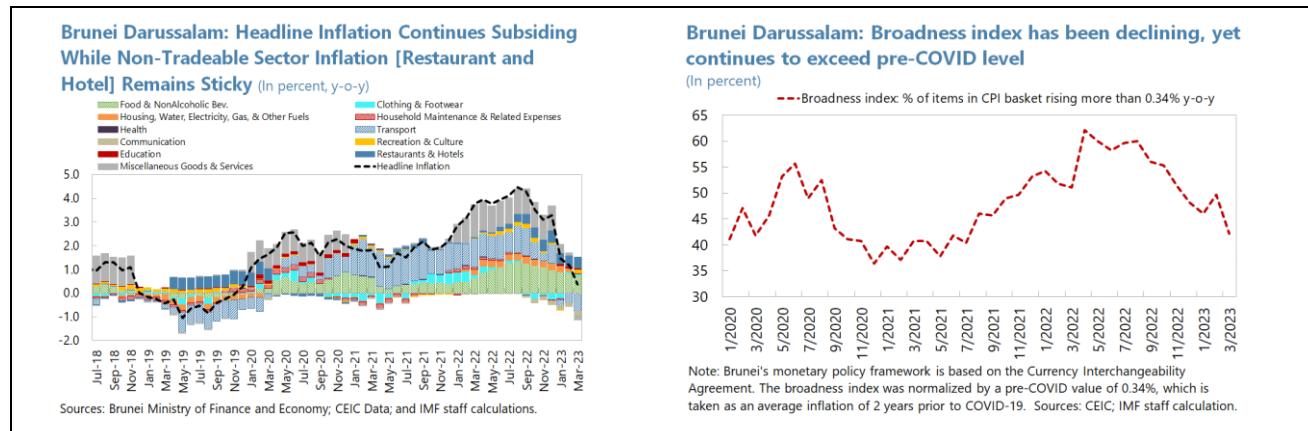


Source: Brunei Dept. of Economic Planning and IMF staff calculations.

<sup>1</sup> Downstream O&G industries, food, services, tourism, and information and communication technology.

<sup>2</sup> Downstream activity was led by the increased production of methanol, ammonia, and granular urea in the newly established Brunei Fertilizer Industries, which commenced production in 2022. The retail, restaurant, and hotel industries, as well as land and air transportation also grew in the second half of the year with the reopening.

highest over 25 years, but declined to 0.2 percent by April 2023. This was led by moderation in food prices, and the temporary imposition of administered staples pricing; some prices in the domestic non-tradable sector, such as hotels and restaurants, remain elevated.



## 6. A stable exchange rate, underpinned by Brunei's longstanding currency board arrangement with Singapore, also assisted in mitigating the impact of imported inflation.

Depreciation of Brunei dollar against the USD after the pandemic has been mild. In addition, the Brunei Darussalam Central Bank (BDCB) has raised the Overnight Standing Facilities Rates in line with the rising interest rate environment.

## 7. The overall fiscal position improved to a surplus of 1.6 percent of GDP in FY2022/23 from a deficit of 5.1 percent in FY2021/22.

This was on the back of windfall revenues from higher global energy prices, which more than compensated the decline in O&G volumes resulting from production disruptions. The winding down of the COVID-19 pandemic spending also generated savings of around 3 percent of GDP. The non-O&G Balance (excluding O&G revenue and royalty payments) also narrowed by 5 ppts of GDP.

**Text Table 1. Brunei Darussalam: Fiscal Development<sup>1/</sup>**

	2018/19	2019/20	2020/21	2021/22	2022/23
	(Percent of GDP)				
Revenue	32.7	26.4	12.6	24.1	28.3
Oil & Gas	26.4	19.8	7.7	20.2	24.5
Non-Oil & Gas	6.3	6.5	5.0	3.9	3.9
Expenditure	32.5	31.9	32.6	29.2	26.7
Current	29.8	29.5	31.3	28.1	25.7
Capital 2/	2.7	2.4	1.3	1.1	1.0
Overall Balance 3/	0.2	-5.6	-20.0	-5.1	1.6
Non-O&G Balance (% of Non-O&G GDP)	-53.5	-49.5	-46.1	-44.3	-39.2
(millions of BND)					
Nominal GDP	18,453	18,385	16,241	19,802	22,333
Nominal non-O&G GDP	8,103	8,418	9,098	10,103	11,272

Source: Brunei authorities, IMF staff estimates

1/ Fiscal year: April–March.

2/ Some of the decline in capital spending is a result of re-classification of some spending to current spending in line with GFSM and shifting of spending outside the budget process.

3/ In absence of government debt and interest payments, this is also primary balance.

**8. The current account surplus increased in 2022.** The CA balance is estimated to have increased from 11.2 percent to 19.6 percent of GDP in 2022, driven by higher O&G prices boosting merchandise exports and expanding exports from the downstream sector. Raw material imports – mainly mineral fuels – also grew on the back of petrochemical manufacturing expansion. Preliminary estimates suggest the external position was substantially weaker than the level implied by fundamentals and desirable policy settings (Appendix I).

**9. The banking sector remains stable, and risks appear contained.** The capital ratio of banks is strong at around 20 percent of risk-weighted assets in 2022, well above regulatory requirements (10 percent). Gross non-performing loans (NPL) as a share of total loan declined from 3.6 percent in 2021 to 3.3 percent in 2022, and NPL (net of provisions) to capital ratio rose from 4.9 percent to 5.5 percent, due to write-offs. Banks continue to have abundant liquidity funded mostly by domestic deposits.<sup>3</sup>

#### Brunei Darussalam: Selected Financial Soundness Indicators

(In percent)

<sup>3</sup> Around 15 percent of deposits are from the government.

## 10. Domestic lending showed signs of recovery, particularly in the corporate sector.

Domestic credit increased by 6.0 percent y/y in 2022, after a pandemic-led decline (0.2 percent from 2019 to 2020). Banks' lending to the domestic corporate sector grew by 8.8 percent y/y in 2022, driven mainly by loans to the manufacturing and infrastructure sectors, while credit to households grew by 1.3 percent. Private sector credit overall remains low at around 40 percent of GDP.

## OUTLOOK AND RISKS

### 11. Real GDP is projected to decline by around 1 percent in 2023.

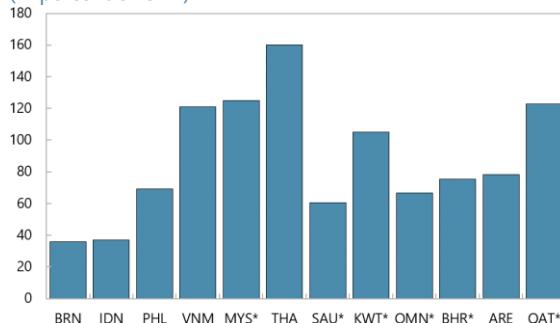
The domestic non-tradeable sector would continue the recovery initiated in the second half of 2022, the downstream sector's growth is expected to flatten due to maintenance activities at the Hengyi refinery. O&G production would continue to negatively impact real GDP in 2023, as drilling and maintenance projects have been further prolonged by the pandemic-related spillovers. While subject to uncertainty, the estimated output gap, negative in 2022, will remain negative in 2023 and gradually close in the next couple of years. Credit growth would stay modest. Private consumption will remain a key growth driver, while investment would pick up moderately, supported by infrastructure investments.

**12. Inflation is projected to moderate** to 1.7 percent on average in 2023. Past inflation drivers—the global supply chain bottlenecks and commodity prices—have been easing. Brunei's currency board arrangement with the Singapore dollar and the presence of administered end-user prices for major commodities would also continue to soften the impact of global prices.<sup>4</sup>

**13. The overall fiscal deficit is projected to become expansionary for FY 2023/24.** Lower O&G revenues and higher capital spending would lead to an overall fiscal deficit of 9.2 percent of GDP in FY2023/24. Total revenue would decline to 19.5 percent of GDP, due both to the prolonged O&G infrastructure maintenance and softening commodity prices. Total expenditures would increase to 28.7 percent of GDP, led by an expansion of capital spending to aid the recovery. This is appropriate as investments have lagged in recent years, and as capital spending tends to have

### Brunei Darussalam: Domestic Credit to the Private Sector is Low Relative to Peers

(In percent of GDP)

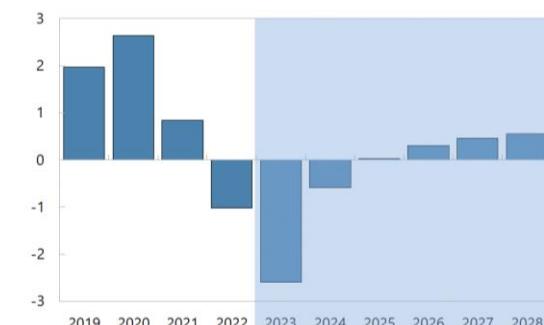


Sources: CEIC, IMF International Financial Statistics, World Economic Outlook database, and IMF Staff calculations.

Note: The numbers are averaged over 2020–2022. Data for countries with \*\* includes only depository institutions. Data for PHL, ARE, and VNM are up to 2022Q3.

### Brunei Darussalam: Output Gap

(In percent of potential GDP)



Sources: Brunei authorities and IMF staff estimates.

<sup>4</sup> It also maintains long-term price controls for 10 products including petroleum products, rice, sugar, and cooking oil to protect households from commodity price volatility.

higher fiscal multipliers than current spending. The deficit would be financed by drawing down from the Fiscal Stabilization Reserve Fund (FSRF).<sup>5</sup> Nevertheless, the non-O&G balance would maintain a prudent stance, continuing to decline gradually by about 1 ppt of GDP in the fiscal year.

**14. The current account surplus would narrow.** Lower oil prices would lower export revenues from both O&G sector and downstream sector. Imports would stay buoyant as the economy rebounds and domestic demand grows. Terms of trade are expected to worsen in 2023, contributing to a decline in the current account surplus, to around 10 percent of GDP. Brunei's international reserves (excluding gold) stood at around 195 percent of the Fund's assessing reserves adequacy (ARA) metric in 2022. The entire SDR allocation (US\$412 million) is currently saved as reserves.

**15. Risks are tilted to the downside.** The key risks include oil price uncertainty, with a sharp decline potentially spilling over to other sectors, geopolitical tensions leading to supply chain disruptions, weaker global demand, domestic production disruptions. With global decarbonization pressures, the transition to renewable energies could lead to downstream assets such as refineries becoming stranded if they are not repurposed or adapted for new energy sources. To mitigate these risks, Brunei should focus on diversifying its economy, reducing dependence on O&G exports, and investing in renewable energy sources while promoting sustainable economic growth. Higher O&G prices and O&G discoveries constitute upside risks.

#### **Authorities' Views**

**16. The authorities concur with staff's assessment on near-term outlook and risks.** They explained that the deferred O&G rejuvenation and development activities due to the pandemic are only beginning to normalize this year. They expect assets rejuvenation to continue for the next couple of years, with a recovery of the overall production starting in 2024. They expect the O&G sector's overall growth to be positive over the medium term as efforts are geared towards ensuring continued success in upstream activities. Despite the recent sharp drop in inflation, the authorities consider the future of price levels difficult to predict, as inflation is significantly influenced by international prices. The authorities reiterate their commitment to continued diversification of the economy and concur that the climate transition is an important medium-term risk.

## **ECONOMIC POLICIES TO SECURE RESILIENCE AND SUPPORT ECONOMIC TRANSFORMATION**

### **A. Fiscal Policy**

**17. While the investment-driven fiscal expansion in FY2023/24 is appropriate given the cyclical position and pandemic scarring, a growth-friendly fiscal consolidation should be**

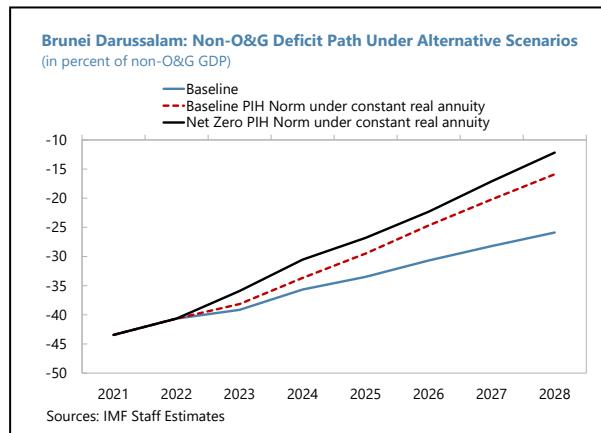
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<sup>5</sup> The FSRF is an extrabudgetary fund that provides funding to the annual budget to eliminate any revenue shortfall. The FSRF is a sub-fund of the Sustainability Fund that receives allocations from the umbrella fund - Consolidated Fund (CF) - on an annual basis. The CF also includes, among others, the Sustainability Fund and, the sovereign wealth fund of Brunei (General Reserve Fund (GRF)), managed by the Brunei Investment Agency. The CF is not part of the GIR, and there are no explicit rules on fund allocation between the different sub-funds; the funds can flow both ways.

**prioritized.** The presence of a narrowing, but still negative output gap, and a muted fiscal impulse reduces the need for a sharp up-front adjustment given cyclical considerations. However, a targeted fiscal consolidation – through reductions in spending items and/or revenue-raising efforts to reduce the overall deficit, while supporting the economically vulnerable and protecting productive investments – would be consistent with supporting the recovery, without unduly delaying the needed medium-term consolidation. Any revenue overperformance and/or under execution of subsidies should be saved on a precautionary basis, especially given the volatility of O&G revenues and the need to restore and rebuild buffers to manage the climate transition risks.

**18. Brunei can leverage its fiscal reserves to deploy temporary support should downside risks materialize.<sup>6</sup>** The government should build the capacity for targeted cash transfers which are less costly and more efficient. This restraint is critical given the declining fiscal space over the longer term. In addition, developing contingency planning frameworks, including on reallocation of spending, and targeting of economic support, that vary with the nature and magnitude of shocks, including climate shocks, can improve the efficiency of the response.

**19. Given the dependence on an uncertain stream of O&G reserves and global price volatility, a resumption of medium-term fiscal consolidation efforts is called for.<sup>7</sup>** Staff welcomes the government's consolidation efforts in recent years: government expenditure has steadily declined, underpinning a sustained narrowing of the non-O&G deficit as a share of non-O&G GDP. However, an assessment based on the Permanent Income Hypothesis<sup>8</sup> (PIH) finds a persistent gap between the staff's baseline non-O&G deficit path and the sustainable PIH norm for non-O&G deficit that would ensure inter-generational equity. Under current policies, the PIH norm of a constant annuity in real terms indicates the need for further fiscal consolidation of cumulative 10 percent of non-O&G GDP between 2023-28 relative to the baseline during the transition period; continued fiscal prudence is needed in the long-term to close the gap. Alternative scenarios with lower energy prices and demand, reflecting the global net-zero targets would call for additional consolidation during the transition period.

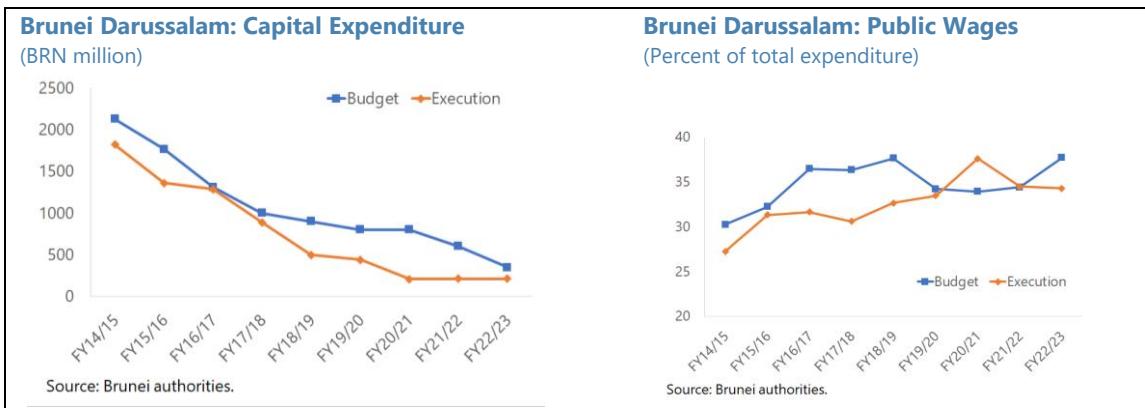


**20. Brunei has at its disposal a range of measures to consider implementing over the medium term.** These specific measures could bring significant savings and additional revenue:

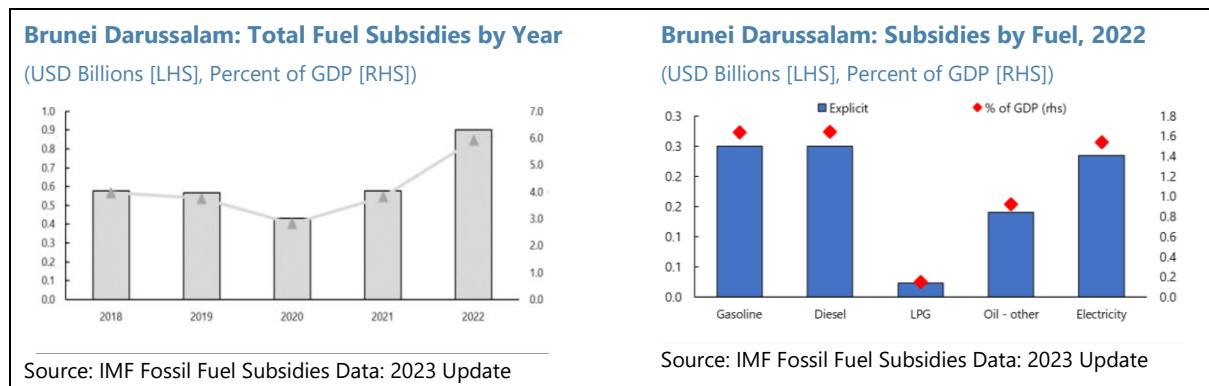
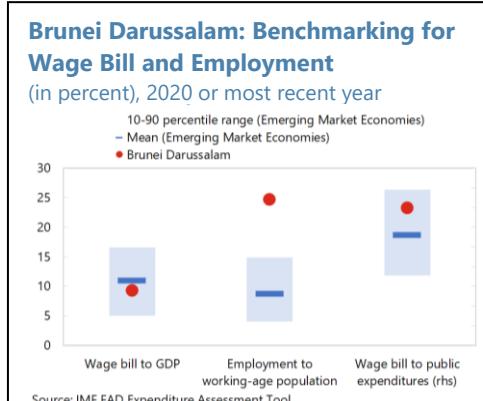
<sup>6</sup> Fiscal reserves include all funds available in the Consolidated Fund.

<sup>7</sup> Proven reserves are likely to be depleted in about 27 years (BP Statistical Review of World Energy 2021), subject to a production capacity of 110 thousand barrels a day and assuming no further discovery of oil fields.

<sup>8</sup>See accompanying SIP, Balasundharam and Kim (2023). "Designing an Equitable and Sustainable Fiscal Strategy for Brunei" for details.



- **Wage bill rationalization.** Brunei's public sector wage bill as share of total expenditures has increased by around 10 percent over the last decade. It amounts to around 35 percent of total expenditures, compared to 25 percent of the ASEAN region and less than 30 percent average for Emerging Market Economies EMEs). Efforts could focus on downsizing through attrition (i.e., less than 1:1 replacement), intensified manpower auditing, continued tightening of temporary jobs, and strengthening public sector productivity, to mitigate any adverse impacts on service delivery.
- **Targeted subsidies.** Brunei subsidizes energy, housing, utilities, and telecom services.<sup>9</sup> Shifting from broad-based to targeted subsidies could reduce distortions, improve distributional outcomes, and lower costs. Priorities include gradually phasing out energy subsidies (estimated at around 6 percent of GDP in 2022) along with gradual pass-through of international prices for imported products under price controls while protecting vulnerable households. Implementing the digitalized National Welfare System will help to improve targeting of schemes.<sup>10</sup>



<sup>9</sup> It has the lowest electricity rate and the highest energy and water consumption intensity of all ASEAN countries.

<sup>10</sup> Brunei has universal old-age pension, disability grants, and financial support for weak households on top of free education up to the university level and free health care services.

- **Pensions.** While recent pension reforms allow for greater flexibility and wider coverage, the new scheme needs to be carefully managed to limit spending pressures, especially given an aging population.<sup>11</sup>
- **Revenue mobilization efforts.** Brunei's relies on the least efficient tax bases (i.e., CIT, Customs Duty, Stamp Duty). The government has significant scope to broaden the tax base, by recalibrating property taxes, adopting goods and services taxes (GSTs), expanding excise taxes on goods with negative externalities, and reducing tax exemptions. Undertaking a tax policy diagnostic could help identify the scope and prioritization of reforms. Implementing carbon pricing could provide significant additional revenues (1.6 -7.2 percent of GDP above the baseline in 2030). The policy yielding the greatest emissions reduction and highest revenues is the combination of a carbon tax reaching \$50 per tonne by 2030 and the fuel subsidies phase-out, while feebates would bring additional 1.6 percent of GDP in medium-term savings to the budget, and in support of the green transition.<sup>12</sup> Efforts to strengthen revenue administration such as the "One Common Billing System" (OCBS) should continue, leveraging digitalization.<sup>13</sup>

**Text Table 2. Brunei Darussalam: Details of Carbon Pricing Schemes in Asia Pacific Region, 2021**

Country/ Region	Year Introduced	Coverage of Energy Sectors			Coverage Rate, all GHGs (percent)	Price, \$/tonne	Revenue/Rent, % GDP	Point of Tax/Regulation	Revenue Use
<b>Carbon Taxes</b>									
Indonesia	2022	✓			26	2	0.05	Midstream	General budget
Singapore	2019	✓	✓		80	4	0.04	Midstream	General budget
<b>ETTs</b>									
China	2013, 2014, 2016, 2021	✓			38	9	0.32	Downstream	Environmental spending proposal
Korea	2015	✓	✓	✓	73	19	0.99	Downstream	Environmental spending
New Zealand	2008	✓	✓	✓	49	53	0.20	Downstream	General budget, environmental spending
<b>Hybrid</b>									
Japan	2010, 2011, 2012	✓	✓	✓	✓	77	2	0.05	Midstream
Environmental spending									

Sources: World Bank Carbon Pricing Dashboard (2022); OECD (2019); World Bank (2019); Fraser Institute (2020); ICAP (2022); Government sources.

Notes: Revenue/rent excludes revenue loss from erosion of prior fuel tax bases.

<sup>11</sup> The new pension scheme (SPK) has lifetime annuity (compared to a 20-year limit previously) and guaranteed returns up to a certain threshold (compared to being driven by market rates previously).

<sup>12</sup> See accompanying SIP, Zhunussova and Basu (2023). "Addressing Climate Change Mitigation, Revenue Diversification in Brunei Darussalam: Role of Carbon Pricing" for details. All policies reduce carbon dioxide emissions below baseline levels by 10-50 percent by 2030, with most of the reductions coming from the power generation and industry sectors. Higher carbon pricing would have a negative impact on GDP growth, but this could be partially or totally offset with effective revenue recycling.

<sup>13</sup> The OBCS —launched in February 2020—to help facilitate government's revenue collection by allowing the public to make payments online has expanded coverage and contributed to improved revenue collections.

- **Corporatization and privatization.** The pandemic has delayed the corporatization efforts of some GLCs.<sup>14</sup> Accelerating the efforts laid out in the Fiscal Consolidation Plan (FCP), and strengthening corporate governance and transparency (below), along with privatizing some GLCs, can generate fiscal savings and promote competition.

**21. Ensuring a sustainable fiscal position will require continued strengthening of fiscal frameworks.** This would require establishing a credible risk-based medium-term fiscal framework (MTFF) to provide forward guidance on fiscal policy and reduce the risks of fiscal procyclicality, building on experience with the RKN framework and Fiscal Outlook, and ensuring integration with the upcoming 12<sup>th</sup> National Development Plan (2023–27).<sup>15</sup> Consideration could then be given to introduce a long-term anchor for fiscal policy, reflecting Brunei’s fiscal policy objectives, natural resource endowments, and expected returns from accumulated net financial assets domestically and abroad, while allowing for flexibility to respond to shocks. Finally, fiscal risk analysis, incorporating climate risks, should be integrated into the economic and fiscal planning.

**22. Enhancing transparency will support effective fiscal management and accountability.**

This can be achieved by publishing business plans, reports, and audited financial statements for GLCs; establishing an integrated public financial management (PFM) system including the central government, extra budgetary funds, GLCs, and the sovereign wealth fund; preparing realistic budgets and strengthening budget execution; implementing a Treasury Single Account; and streamlining procurement practices across line ministries.

**Authorities’ Views**

**23. The authorities broadly agree with the fiscal policy recommendations, including the need for fiscal prudence.** The government remains committed to the implementation of the Fiscal Consolidation Plan (FCP) that has been delayed by the pandemic. It aims to narrow the fiscal deficit, while ensuring that fiscal buffers are rebuilt to safeguard sustainability. Revenue mobilization efforts have focused on expanding the excise tax on goods with negative health and environmental externalities and strengthening revenue administration through digitalization of corporate and land tax payments. To contain the fiscal burden from public wages, any request for new posts from departments are now vetted by a special committee under the Public Service Department. Darussalam Assets is working with specific ministries and agencies to reassess the requirements and the processes for corporatization.

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<sup>14</sup> Darussalam Assets—a private-limited company owned by the government since 2012—and Strategic Development Capital (SDC) Fund—a governmental investment fund for economic development—which manages 33 GLCs, though the total rises to 70 when subsidiaries are included, has been the primary avenue for corporatization. The GLCs, owned either wholly or partially by the government, operate in a variety of sectors, including energy, finance, transportation, and construction, among others.

<sup>15</sup> The annual Fiscal Outlook provides 5-year forecasts of aggregate budget components, but they do not constitute a MTFF that aligns fiscal policy and budget preparation.

## B. Protecting Financial Stability and Enhancing Financial Market Depth

**24. The currency board arrangement with Singapore is sound and has played a key role in supporting Brunei's macroeconomic and financial sector stability<sup>16</sup>.** It allows Brunei to benefit from Singapore's macroeconomic management expertise and supports stable inflation. The peg also fosters economic stability by minimizing exchange rate fluctuations.

**25. Monetary operations can be further improved to enhance interest rate transmission and facilitate financial deepening.** Further aligning policy rates with the Monetary Authority of Singapore, adjusted for the level of the country risk premia, would help stabilize money market rates closer to the level implied by the uncovered interest rate (UIP) condition. A step-up in the I-bills issuance and more active liquidity management would help to strengthen the price signal from the overnight policy rate towards banks' retail rates.

**26. The financial sector has strong capital buffers and abundant liquidity, and systemic risk is assessed to be contained.** The sector is dominated by banks. The sectoral loan exposures are at 30 percent of total banking assets, or 27 percent of GDP, and the credit-to-GDP gap<sup>17</sup> is estimated to be negative, even as corporate credit growth is picking up (¶11). Over 50 percent of the banks' portfolio is allocated to investments offshore; related market risks appear to be mitigated by large capital buffers and liquidity. Supervisors should remain mindful of tail risks given the tightening of global financial conditions and financial market uncertainties. For the medium to long-run the BDCB could consider undertaking climate stress tests for financial institutions as part of the sustainable finance roadmap.

**27. The authorities should continue strengthening their financial regulatory frameworks.**

The BDCB has been implementing risk-based supervision<sup>18</sup> and invested in a macro stress testing framework for the banking sector since 2019. They started imposing the additional capital buffer requirement for D-SIBs in 2023. BDCB has been using macroprudential tools to address sectoral risks, including debt-service-to-income ratios<sup>19</sup>. Wider use of macroprudential toolkits can be considered, including utilizing a countercyclical capital buffer requirement.

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<sup>16</sup> The central bank (BDCB) strictly adheres to the coverage of all issued liabilities in Brunei dollars (BND) by foreign currency. In addition, to the external required back-up ratio set as the Currency Fund over the Currency in Circulation (CIC), on a monthly basis, the BDCB compiles and monitors a more conservative internal ratio defined as the Total External Assets over the Monetary Base. The absence of monetary financing also safeguards the currency board.

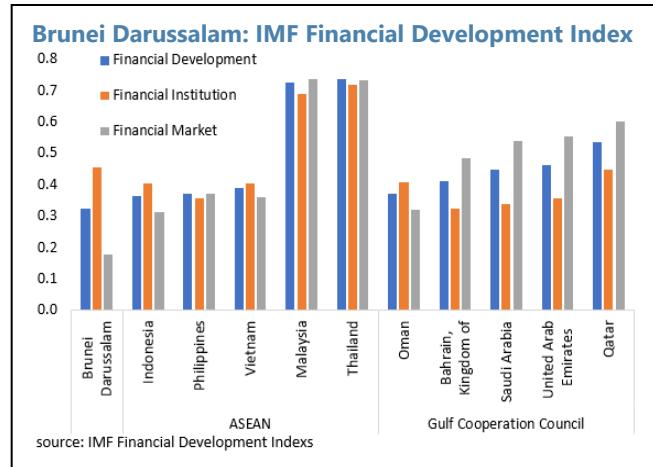
<sup>17</sup> Difference between actual credit-to-GDP ratio and its historical trend, estimated using HP filter.

<sup>18</sup> All three pillars of the Basel II have been implemented: Pillar I requirement became effective in March 2017, requiring both conventional and Islamic banks to maintain a minimum capital adequacy ratio (CAR) of 10 percent. Under Pillar II, banks are required to prepare an Internal Capital Adequacy Assessment Process (ICAAP) and to submit the ICAAP documents on an annual basis since June 2019. Banks are required to provide enhanced disclosure on risk and capital management in line with the requirement under the Pillar III since March 2019.

<sup>19</sup> The macro prudential toolkit includes: (i) a Total Debt Service Ratio (TDSR); borrowers' monthly total debt obligation relative to net income should be less than 70 percent; (ii) Cap on Unsecured Personal loans: unsecured personal credit facilities are restricted to 18 times of the borrowers' net monthly income; and (iii) Minimum Cash Balance requirement (reserve requirement) at 6 percent. A cap on loan-to-value ratios was revoked in late 2016.

## 28. Efforts are needed to further enhance the depth of financial markets.

The Financial Development (FD) Index for Brunei is low compared to ASEAN and GCC peers<sup>20</sup>. Structural excess liquidity has hampered the development of interbank markets and weakened monetary transmission. Developing domestic interbank market is an important step towards financial deepening and support private-sector growth.



**29. The authorities are taking steps to promote financial sector growth and ensure financial security and integrity.** A digital payment hub that enables the integration of existing payment systems is currently being developed and is expected to be ready by the end of 2023. The BDCB has also issued guidelines to strengthen IT and operational risk management. The notice and guidelines on E-KYC were issued in July 2022 to facilitate non-face-to-face customer onboarding and due diligence. Addressing timely the priority recommendations made by the Asia Pacific Group on Money Laundering (APG) in the Mutual Evaluation Report adopted in July 2023 would further improve effectiveness of Brunei's AML/CFT regime.<sup>21</sup>

### Authorities' Views

**30. The authorities broadly agreed with the assessment of financial policies.** They welcomed the recommendations of recent IMF TA on strengthening liquidity management, liquidity forecasting, and interbank market development and agreed with the importance to enhance monetary transmission. They acknowledged the plausible tail risks given the current global and financial market uncertainty and they undertake stress tests for financial institutions at least annually. They plan to implement the liquidity standard of Basel III agreement between 2023 and 2024 and other Basel III framework in a phased way. The authorities also indicated that several measures are in progress for developing a secondary market of government sukuk and I-bills, encouraging the issuance of corporate bonds/sukuk, and establishing a stock exchange.

<sup>20</sup> FD index is a relative ranking of countries on how developed financial institutions and financial markets are in terms of their depth (size and liquidity), access (ability of individuals and companies to access financial services), and efficiency (ability of institutions to provide financial services at low cost and with sustainable revenues and the level of activity of capital markets). Financial Institutions (FI) index covers banks, insurance companies, mutual funds, and pension funds. Financial Markets (FM) index covers stock and bond markets.

<sup>21</sup>The amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations were completed in 2022 and became effective on 1 November 2022. The amendments to the Criminal Asset Recovery Order was completed in 2023 and became effective on 31<sup>st</sup> of January.

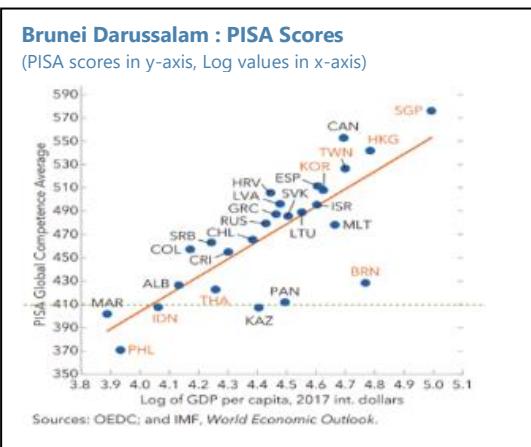
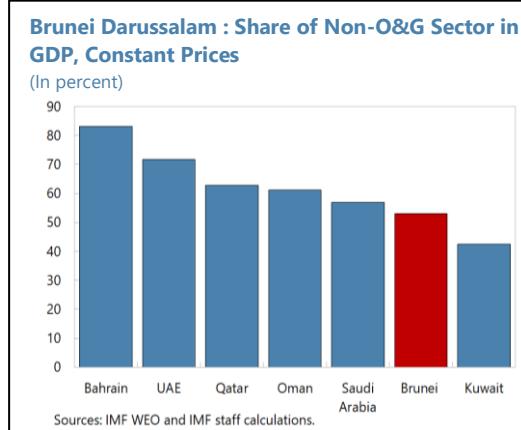
## C. Structural Reforms to Support Economic Diversification

**31. Diversification would help reduce reliance on the O&G sector and creating a more resilient economy.**<sup>22</sup> Continued efforts are needed to enhance resilient infrastructure, improve the business environment to help attract foreign investment and stimulate domestic entrepreneurship. Participation in regional trade agreements could provide Brunei with larger and more diverse market access.

**32. Enhancing human capital development is critical** to address skills mismatches and underemployment, particularly among the youth. Brunei's education system has room for improvement, given the country's relatively low PISA scores relative to income level. The authorities have been proactive in implementing training initiatives.<sup>23</sup>

**33. Strengthening public investment institutions and enhancing Public-Private Partnerships (PPPs) can support private sector growth.** Prioritizing reforms identified in the recent Public Investment Management Assessment (PIMA), to better plan and execute capital projects would be critical. An improved regulatory framework that ensures fair risk-sharing, along with careful expansion of PPPs, can foster better fiscal management, as well as facilitate a mutual learning environment among enterprises.

**34. Implementing the Digital Economy Masterplan 2025 would help to boost productivity,** and mitigating economic scarring from the pandemic.<sup>24</sup> On this, a few flagship projects have been identified, including the ongoing Digital Identity and Digital Payment Hub projects to improve public service efficiency and reduce digital payment costs.



<sup>22</sup> While the O&G industry remains the most critical sector in the economy, the share of activity outside of O&G extraction increased steadily from 37 percent in 2010 to 52 percent in 2021.

<sup>23</sup> For example, the Brunei ICT Industry Competency Framework (BIICF) launched in August 2022 seeks to ensure that local ICT professionals have the relevant competency consistent with the skills requirements of industries.

<sup>24</sup> The Masterplan focuses on digital infrastructure, government, workforce, and innovation, to develop a thriving digital ecosystem and the authorities are implementing digitalization initiatives, such as the Digital Identity Project.

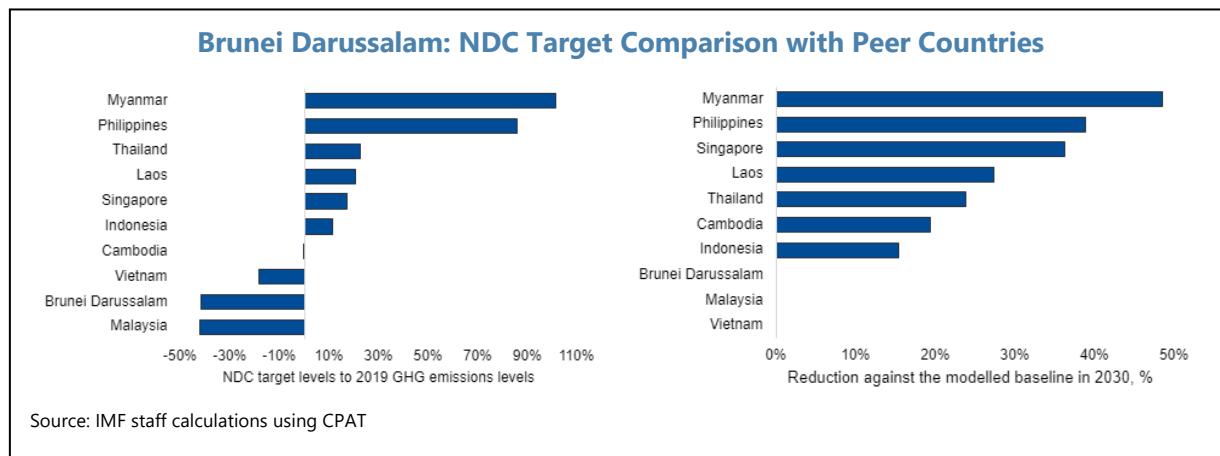
### **Authorities' Views**

#### **35. The authorities agree that diversification is key for building a more robust economy.**

They emphasized that efforts have been undertaken in enhancing the five priority sectors with encouraging progress. They expect the diversification momentum to continue, with additional O&G downstream activities, such as Hengyi phase 2, to sustain the positive trend in the non-oil and gas sector. The authorities reiterated their ambition in pursuing digital transformation. They also relayed that they did not lose sight of the human capital loss incurred during the pandemic and elaborated on initiatives addressing this issue, including the publication of frameworks for implementing skills-based curriculums for schools.

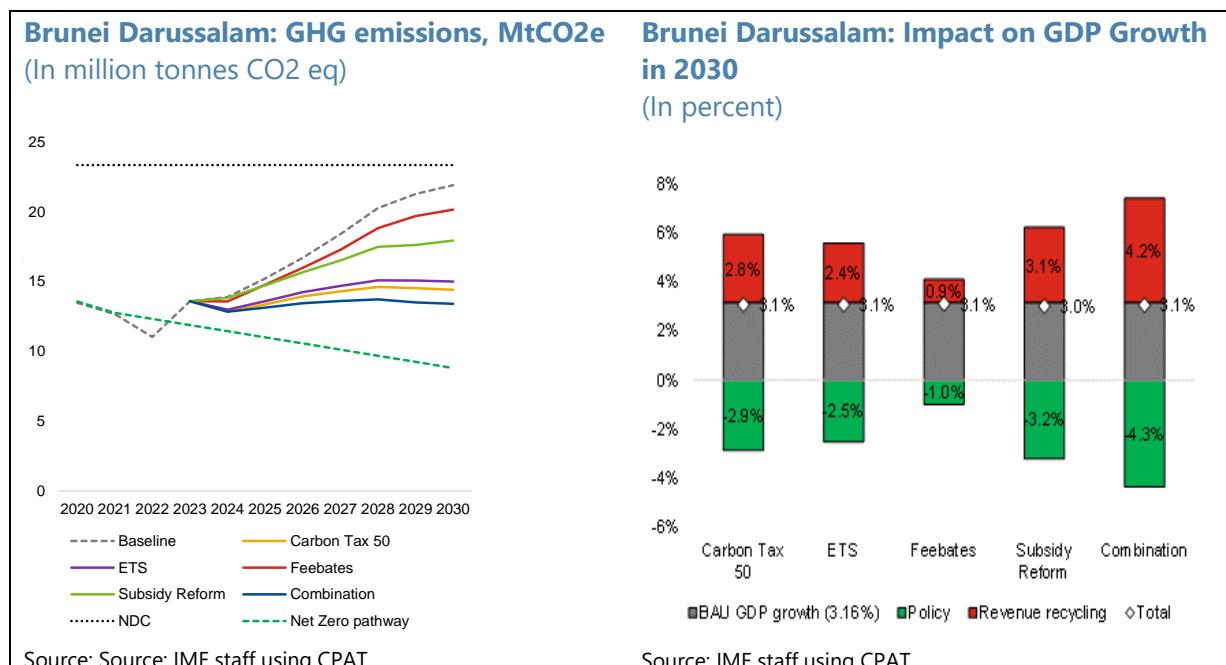
### **D. Climate Change Policies**

**36. Despite its negligible share of global emissions, Brunei has committed to an ambitious Net Zero Target by 2050.** According to business-as-usual projections, Brunei will meet its unconditional Greenhouse Gas (GHG) target under the Nationally Determined Contributions (NDC) (2020), of 23.6 MtCO<sub>2</sub>e in 2030.<sup>25</sup> More efforts will be needed to stay in line with declared Net Zero Emissions target by 2050 and to ensure macro-critical risks are addressed while transitioning. A broad-based carbon pricing strategy combined with energy subsidy reforms would support achieving these targets while raising revenues.<sup>26</sup> Reaching other general targets by 2035 including, inter alia, renewables and electric vehicles, forest coverage, efficiency of electricity demand, industrial emissions, and climate awareness education, would help lower the abatement costs for achieving the net zero target.



<sup>25</sup> 23.6 MtCO<sub>2</sub>e target is calculated as 20 percent reduction from 29.5 MtCO<sub>2</sub>e business-as-usual emissions in 2030 specified by the authorities, from NDC 2020.

<sup>26</sup> See Footnote 23 for details.



Source: Source: IMF staff using CPAT.

Source: IMF staff using CPAT.

### 37. The authorities have taken steps to address climate change but more action is needed.

Alongside with updating its NDC, the country is planning to commission a 30 MW solar power plant and implementing a Net-Metering system. However, the new solar plant would be less than three percent of existing generation capacity in the country and additional measures will be needed to reach targeted 30 percent of renewable generation capacity by 2035. The impact of the Net Metering system on emissions cannot be evaluated due to data availability. The mitigation gap between the baseline and Net Zero Emissions pathway in 2030 might be closed by 13 (power and industry feebates) to 65 (combination of carbon tax and subsidies phase-out) percent by different scenarios evaluated by the team. The negative impact of these reforms on GDP (see, footnote 12) can be offset by revenue recycling, lowering the GDP growth in 2030 only by 0.1-0.2 percentage points.

### 38. Efforts should focus on implementing the plans without delay to meet the climate goals.

It would be critical to fully integrate the BNCCP objectives in the upcoming medium-term national development plan (RKN12) and sectoral plans/regulations, and formalize the role of the Brunei Climate Change Secretariat (BCCS) as the key coordinator of BNCCP implementation. The government should also develop a systematic approach to identifying and reporting climate-related expenditures. The institutional framework for carbon pricing and policies to reduce industrial sector emissions should be finalized. Developing the National Adaptation Plan (NAP) and investing in climate resilient infrastructure projects would yield high returns by reducing the with climate change costs.<sup>27</sup>

<sup>27</sup> Annual mean temperature in Brunei has risen steadily at 0.25°C per decade and would rise by 1.7-3.3°C towards 2100 relative to the 1995–2014 baseline. Further warming would lead to more extreme temperatures and rainfalls, increasing risks of climate-related events. The sea level could rise by 0.3-0.6 meters on average by 2100 in some scenarios, posing a major threat to coastal zones particularly along the Brunei Bay.

### **Authorities' Views**

**39. The authorities concur that more efforts are needed to reach the Net Zero target.**

However, energy subsidy reform is not part of the authorities' strategy. They are focusing on more accurately assessing the emissions data before resuming work on establishing carbon pricing and are considering a follow up virtual workshop request to unpack the results from the recent climate policy assessment tool (CPAT). To improve tracking and transparency, they have launched the Mandatory Directive in April 2023 to direct all facilities that emit and/or remove greenhouse gases to report on a regular basis. To streamline the reporting, they are currently developing a national online reporting platform, which is expected to be live by the end of the year. A 30MW solar plant project is currently being planned for commissioning by Q4 2024 (on top of 6MW already installed), and a Net-Metering program is being implemented in all sectors to encourage growth of installed solar capacity. Finally, the first iteration of the NAP is expected to be completed and submitted to UNFCCC in 2023.

## **E. Data Issues and Capacity Building**

**40. Data quality should continue to improve, and recent technical assistance missions highlighted important areas of capacity development.** Data provision is broadly adequate for surveillance. While, improving the timeliness in national accounts data and frequency and timeliness in balance of payment data would further aid surveillance, these deficiencies are not having any significant impact on surveillance. The authorities are working towards implementing the recommendations by the Fund's TA mission in 2020 to close external sector data gaps, including improving the classification within external sector accounts and adding outward investment data to business survey. The TA mission on liquidity management in February 2023 recommended measures to improve the liquidity and forecasting frameworks of the BDCB. Brunei also undertook a Public Investment Management Assessment (PIMA) and Climate PIMA in April 2023.

### **Authorities' Views**

**41. The authorities agree with the need to enhance data quality and dissemination.** They stressed that progress is made in the timeliness of annual BoP data publication, which has been shortened from 6 to 5 months. However, increasing data frequency would be difficult as some data sources, including government agencies and private companies, are not able to report data every quarter. They expressed interest in receiving technical assistance for updating the CPI basket and rebasing the national accounts statistics.

## **STAFF APPRAISAL**

**42. Despite the support provided by the post-pandemic reopening, growth in 2022 was negatively affected by reduced activities in the O&G sector.** Downstream O&G activities and non-O&G sectors positively contributed to growth in 2022 and aided diversification efforts; however, the O&G sector registered negative growth due to protracted infrastructure maintenance.

Inflation has been moderating with the easing of bottlenecks in global supply chain and commodity prices. Estimates suggest the external position for 2022 is substantially weaker than suggested by fundamentals and desirable policies and the output gap is assessed to be negative.

**43. Given the uncertainty around O&G reserves and prices, and the long-term decarbonization pressures, fiscal prudence should be maintained by implementing a well-targeted consolidation policy,** while protecting the vulnerable and public investment. While the investment-driven fiscal expansion in FY 2023/24 is appropriate in view of the cyclical position and scarring from pandemic, a growth-friendly fiscal consolidation should be prioritized. A credible medium-term fiscal framework focused on the non-O&G balance as a share of non-O&G GDP should anchor consolidation efforts, and could focus on mobilizing non-O&G revenue, containing the wage bill, shifting from broad-based to targeted subsidies, improving fiscal transparency of GLCs, and enhancing fiscal risk analysis. The fiscal reserves could be leveraged to deploy temporary policy support should downside risks materialize.

**44. Brunei's longstanding currency board arrangement with Singapore has played a key role in supporting Brunei's macroeconomic and financial sector stability.** Further alignment of policy rates with the Monetary Authority of Singapore, adjusted for the level of the country risk premia, would help bring money market rates closer to the level implied by the uncovered interest rate (UIP) condition. A step-up in the I-bills issuance to absorb the excess liquidity and, overall, a more active liquidity management would help to strengthen the price signal from the overnight policy rate towards banks' retail rates.

**45. The financial sector is stable, has strong capital buffers and abundant liquidity, and efforts are needed to deepen the financial markets to support economic diversification.** Systemic risk is assessed to be contained but supervisors should continue to remain mindful of tail risks due to tightening of global financial conditions. Efforts to further implement prudential frameworks and to improve AML/CFT effectiveness are welcome. Developing the domestic interbank money market and deepening the financial system will encourage private sector credit growth.

**46. Despite its negligible share of global emissions, Brunei has committed to an ambitious Net Zero Target by 2050 and efforts should focus on implementing the transition plan without delay.** A multipronged approach for climate objectives and revenue diversification will facilitate steps towards broader climate transition goals. Implications of carbon pricing for emissions reduction and revenue diversification can be considered, while providing well-targeted fiscal support for communities and workers who are likely to be impacted by the transition. Additionally, prioritizing National Climate Change Policy (BNCCP) objectives in the new development plans, formalizing the role of the Brunei Climate Change Secretariat (BCCS), and considering implementing climate stress tests for the financial sector could be helpful.

**47. Structural reform efforts should focus on reducing O&G dependency.** Developing human capital, enhancing public investments and PPPs, and improving digitalization could support economic diversification.

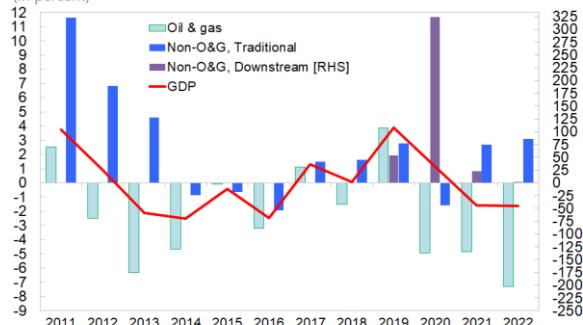
**48. Data quality should be improved.** Efforts to enhance the timeliness of national accounts and frequency of balance of payment data publication would be welcome. Overall, the consultation was enriched by strong CD-surveillance integration.

**49. It is expected that the next Article IV consultation with Brunei Darussalam will be held on the standard 12-month cycle.**

## Figure 1. Brunei Darussalam: Real and Fiscal Indicators

GDP continued to contract in 2022 despite the positive boost from post-pandemic reopening...

### Growth in Real GDP and Major Components (In percent)

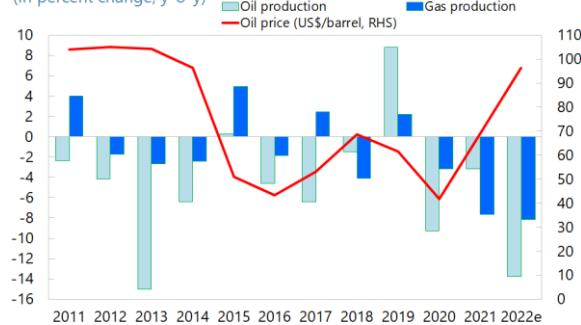


Note: Non-O&G Downstream starts in 2018 and its growth rate start in 2019.

Sources: Brunei authorities; and IMF staff estimates.

...mainly due to the decline in Q&G sector production from protracted maintenance activities.

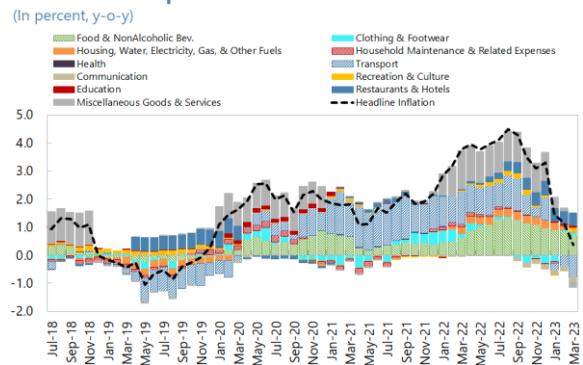
### Energy Sector Production and Oil Price (In percent change, y-o-y)



Sources: Brunei authorities; CEIC Data; IMF, *World Economic Outlook*; and IMF staff estimates.

Inflation has been declining since the summer of 2022 owing to lower food and fuel prices, but is still higher than the historical norm of Brunei.

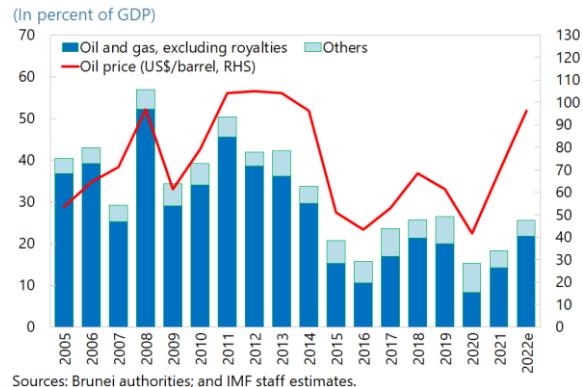
### Inflation Decomposition (In percent, y-o-y)



Sources: Brunei Ministry of Finance and Economy; CEIC Data; and IMF staff calculations.

...supported by increases in oil prices...

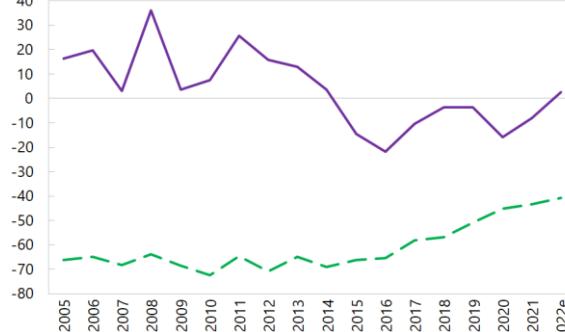
### Fiscal Revenues (In percent of GDP)



Sources: Brunei authorities; and IMF staff estimates.

Fiscal balance has improved...

### Fiscal Balance (In percent)



Sources: Brunei authorities; and IMF staff estimates.

....and continued efforts in fiscal consolidation.

### Fiscal Expenditure (In percent of GDP)

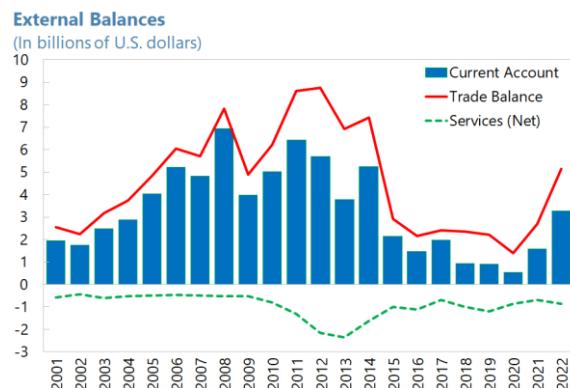


Note: Fiscal deficit is increasing because of lower O&G prices & production, and COVID-19 stimulus enacted by the govt.

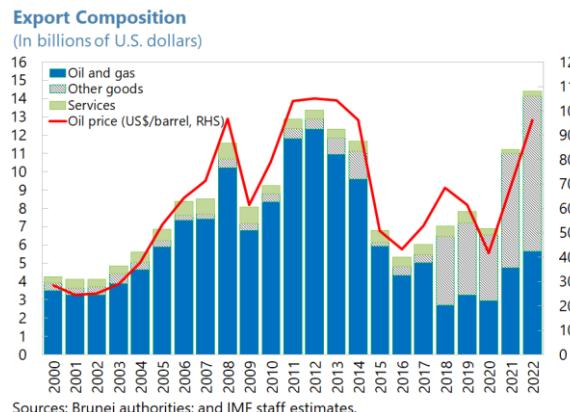
Sources: Brunei authorities; and IMF staff estimates.

## Figure 2. Brunei Darussalam: External and Financial Indicators

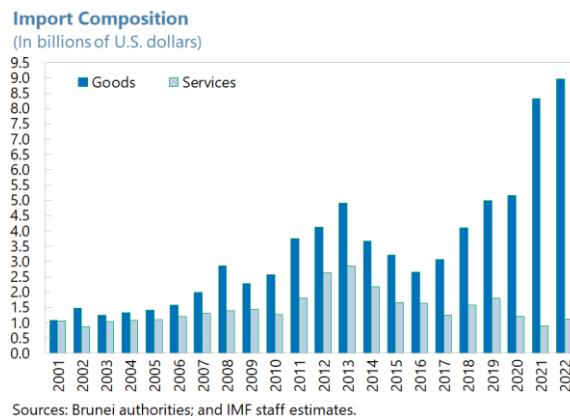
*Current account balance increased in 2022...*



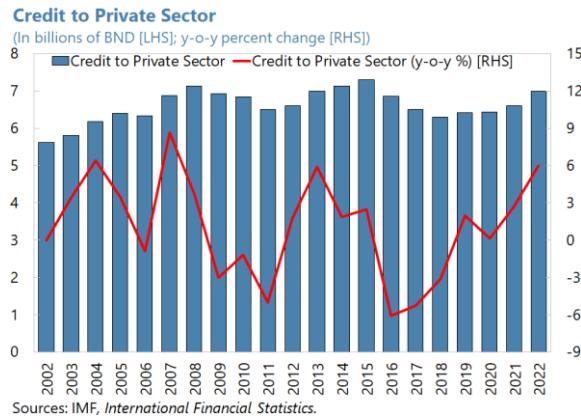
*...supported by expansion in the O&G downstream sector and the increases in fuel prices.*



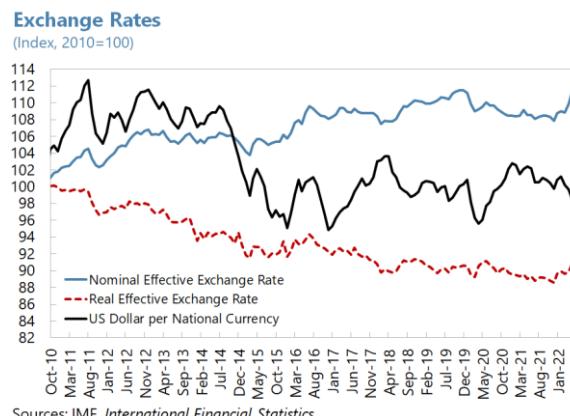
*Imports also saw large increase mainly from material imports of the growing downstream sector.*



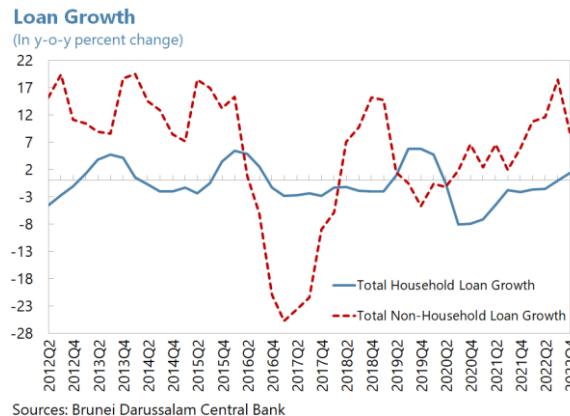
*Credit to private sector saw positive growth in 2022...*



*Nominal and real effective exchange rates both appreciated slightly in 2022 owing to positive terms of trade shock.*



*...with loans to the corporate sector leading the growth.*

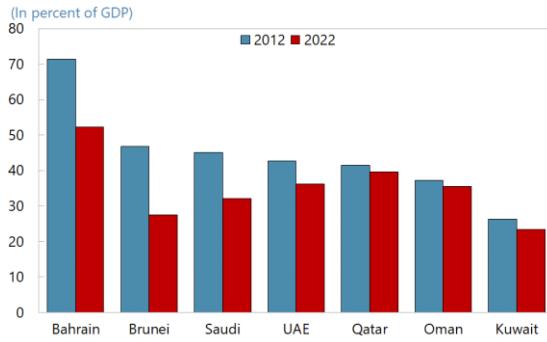


### Figure 3. Brunei Darussalam: Fiscal Indicators in Comparison with GCC Countries

Brunei's fiscal revenue since 2012 has declined due to slowdown in production and weaker O&G prices...

...and relatively small non-O&G revenue.

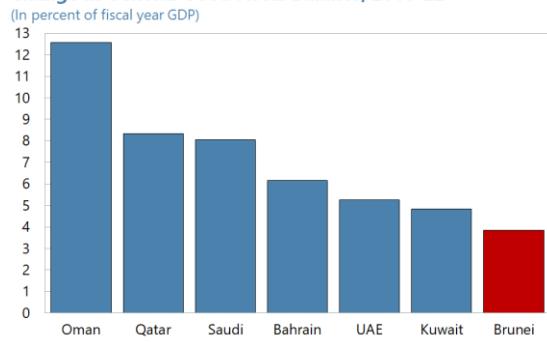
**General Government Revenue**



Source: IMF, *World Economic Outlook*.

Progress in fiscal consolidation has been made...

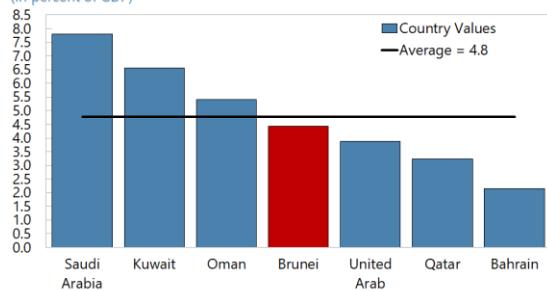
**Change in General Govt. Fiscal Balance, 2018-22**



Source: IMF, *World Economic Outlook*.

Brunei's public education expenditures are lagging its peers...

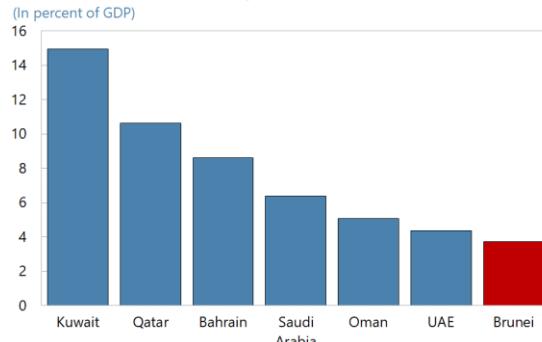
**Gov. Expenditure on Education, 2020 or latest year available**



Note: Data for Oman as of 2019 and Brunei as of 2016.

Sources: World Bank, *World Development Indicators*; UNESCO Institute for Statistics.

**Non-Oil and Gas Revenue, 2022e**



Sources: IMF, *Middle East & Central Asia Regional Economic Outlook*; and IMF Staff calculations.

...More efforts are needed given its relatively modest hydrocarbon generating capacity compared to GCC countries.

**Oil and Gas Production in GCC Countries and Brunei, 2021**

	Oil 1/	Natural gas 2/	Population (Millions)
Saudi Arabia	10,954.0	117.3	35.5
United Arab Emirates	3,668.0	57.0	9.6
Kuwait	2,741.0	17.4	4.7
Qatar	1,746.0	177.0	2.6
Oman	971.0	41.8	4.5
Bahrain	-	17.2	1.5
Brunei Darussalam	107.0	11.5	0.4

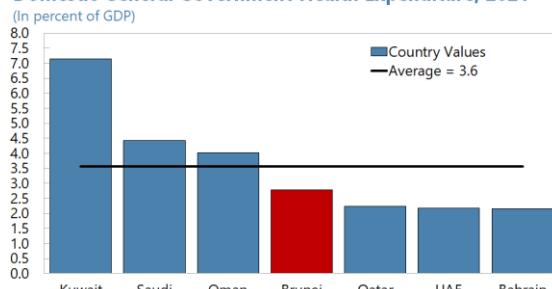
Source: BP Statistical Review of World Energy, 2021; IMF, WEO; International Energy Agency.

1/ In thousands of barrels per day. Includes crude oil, shale oil, oil sands and natural gas

2/ In billion cubic meters.

...and the same holds for health expenditures.

**Domestic General Government Health Expenditure, 2021**

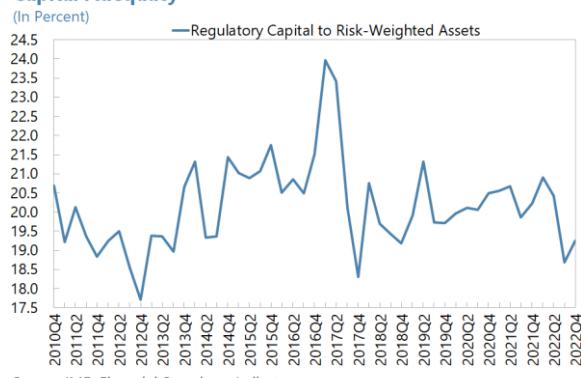


Sources: Global Health Security Index 2021 by Johns Hopkins Center for Health Security, Nuclear Threat Initiative, and the Economist Intelligence Unit; IMF, *World Economic Outlook*; and IMF staff calculations.

#### Figure 4. Brunei Darussalam: Financial Stability Indicators

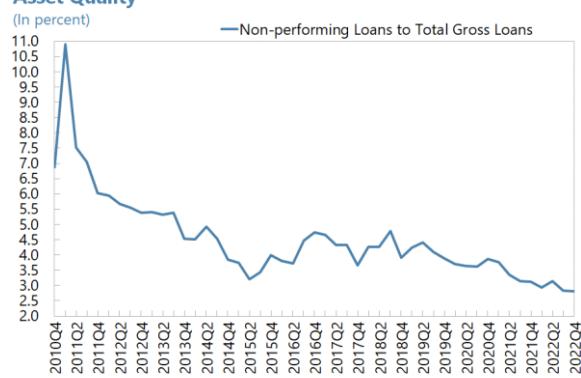
*Banks' capital ratio declined in 2022, but remains well capitalized ...*

##### Capital Adequacy



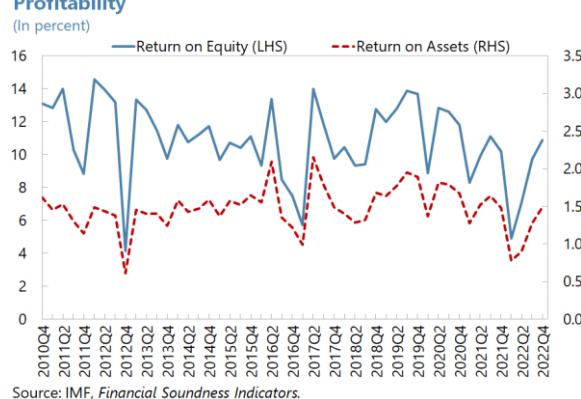
*NPL shares have further declined since 2020...*

##### Asset Quality



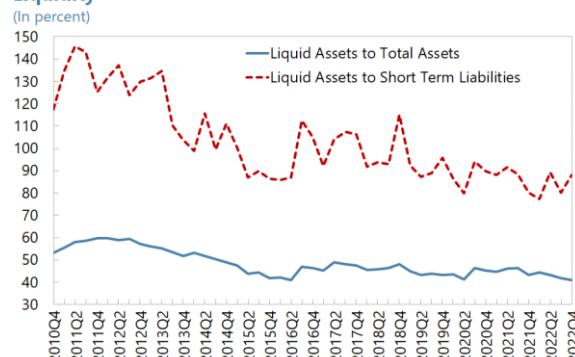
*Banks' profitability is recovering after a temporal decline during the COVID-19 pandemic...*

##### Profitability



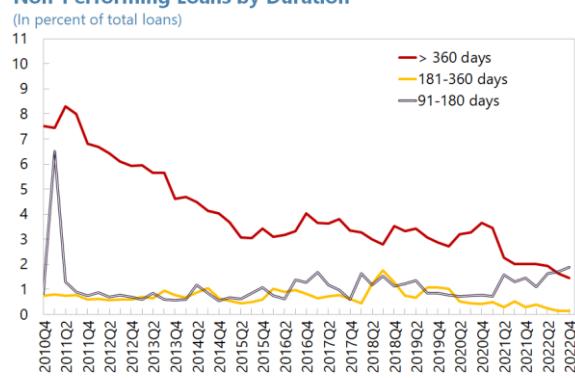
*...with ample liquidity even with a declining trend.*

##### Liquidity



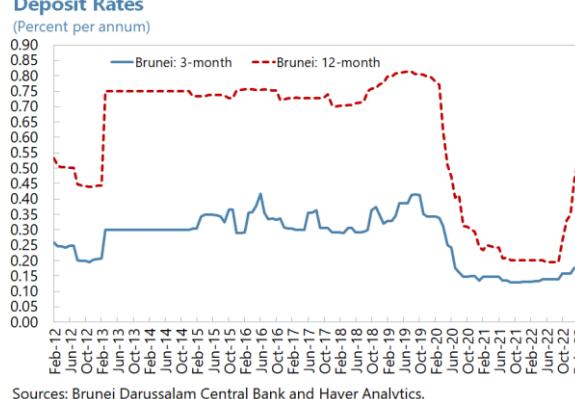
*...mostly due to a decrease in NPLs of over 1 year.*

##### Non-Performing Loans by Duration



*...while deposit rates are also picking up in 2022.*

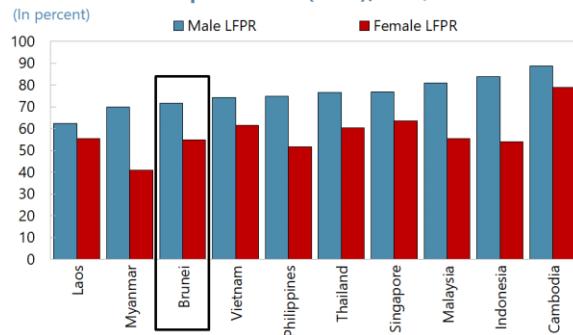
##### Deposit Rates



### Figure 5. Brunei Darussalam: Labor Market

When compared to other SEA peers, Brunei's labor force participation is low for both genders.

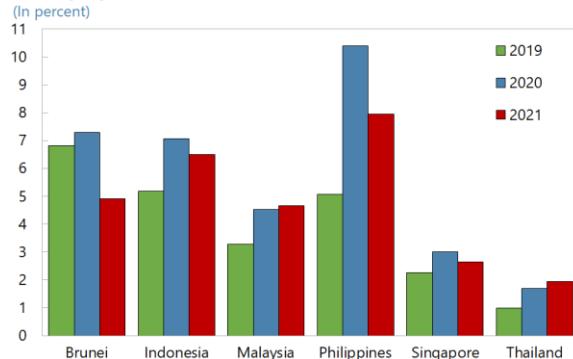
#### Labor Force Participation Rate (LFPR), 2021/2022\*



Source: CEIC Data. Note: Indonesia, Philippines, Singapore, and Thailand are as of 2022, and rest are as of 2021.

Unemployment rate is relatively high compared to peers...

#### Unemployment Rate



Sources: Brunei Dept. of Planning & Statistics; and CEIC Data.

Employment creation concentrates in lower paying end of the non-tradable sector as well as the downstream sector.

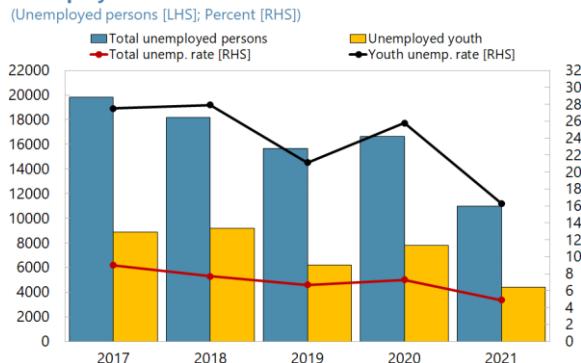
#### Employment Change by Industry



Sources: Brunei Dept. of Economic Planning & Statistics; and Haver Analytics.

Unemployment has declined likely due to reduced labor supply during the pandemic.

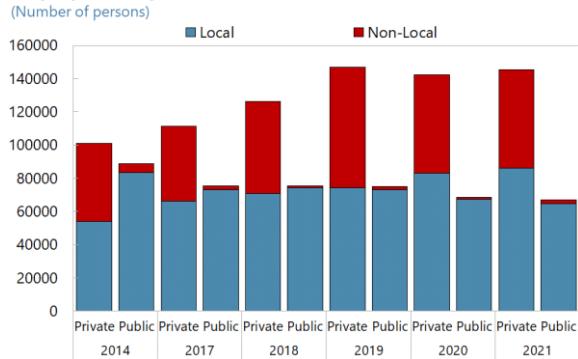
#### Unemployment



Source: Brunei Dept. of Economic Planning & Statistics.

Private sector employs a large share of foreign workers but it has declined during the pandemic...

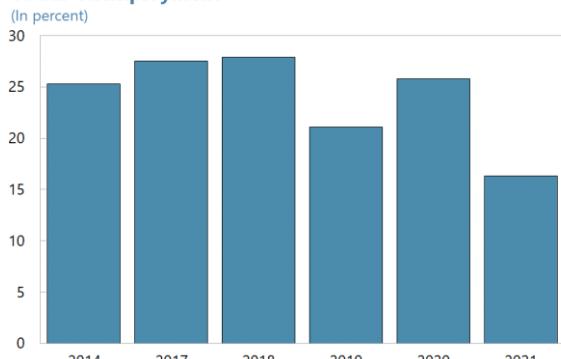
#### Employment by Sector and Residence



Source: Brunei Dept. of Economic Planning & Statistics.

Youth unemployment has declined in 2021, though remains high.

#### Youth Unemployment



Sources: Brunei Dept. of Planning & Statistics; and Haver Analytics

## Figure 6. Brunei Darussalam: Governance and Competitiveness

*Brunei outperforms the peers in governance indicators*

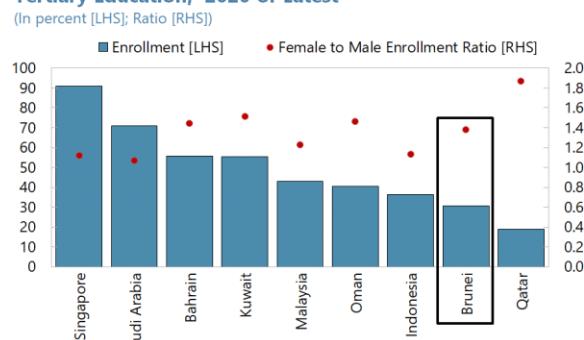
### Worldwide Governance Indicators, 2021



Sources: Worldwide Governance Indicators (WGI); D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank).

*The provision of higher education is lagging...*

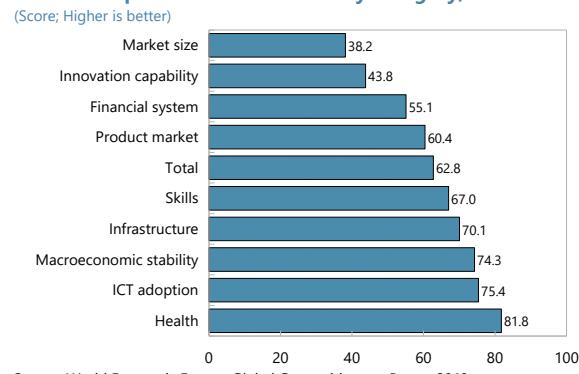
### Tertiary Education, 2020 or Latest



Note: Brunei, Kuwait, Malaysia, and Singapore data as of 2020; Indonesia as of 2018.  
Source: World Bank Development Indicators.

Limited domestic market size poses a challenge to attracting investment and diversifying industries...

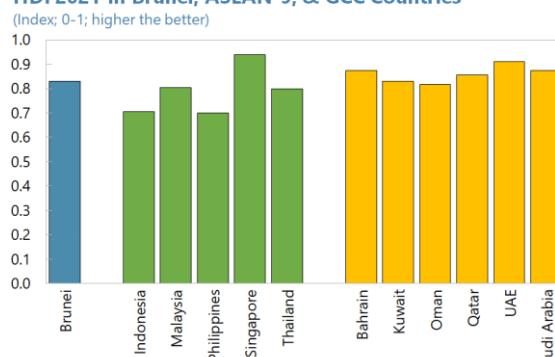
### Global Competitiveness Indicators by Category, 2019



Source: World Economic Forum, *Global Competitiveness Report 2019*.

*...while scores similarly to the comparison groups in human development indicators.*

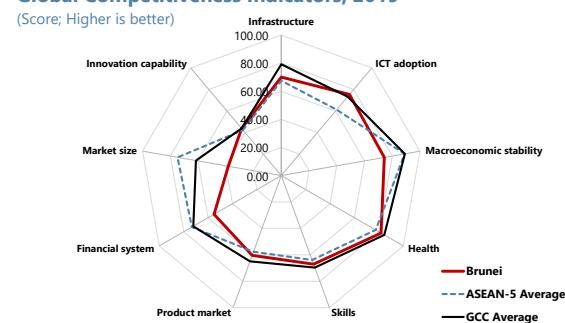
### HDI 2021 in Brunei, ASEAN-5, & GCC Countries



Sources: United Nations Development Programme (UNDP); and Haver Analytics.

*...and improved labor force quality, better infrastructure and financial development can help improve competitiveness.*

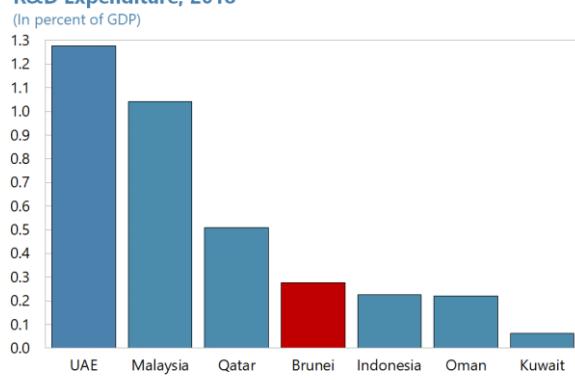
### Global Competitiveness Indicators, 2019



Sources: World Economic Forum, *The Global Competitiveness Report 2019*, and IMF staff calculations.

*...and investments in innovation capacities are also lacking.*

### R&D Expenditure, 2018



Source: UNESCO Institute for Statistics.

**Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2018–28**

Area: 5,765 sq. kilometers  
 Population (2021): 440,715  
 Nominal GDP per capita (2021): US\$31,449.1

Main export destinations (Nov 2022): Australia (21.2 percent), Japan (15.8), China (15.0), and Singapore (13.4)

Unemployment rate (2021): 4.9%

Labor force participation rate (2020): total 63.8%; male 71.7%; female 54.9%

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Output and Prices</b>											
Nominal GDP (millions of Brunei dollars)	18,301	18,375	16,564	18,822	23,003	20,321	21,483	22,220	22,952	23,900	24,883
Nominal non-oil and gas GDP (millions of Brunei dollars)	8,047	8,268	8,868	9,790	11,043	11,958	12,738	13,545	14,683	15,829	17,061
Real GDP (percentage change) 1/	0.1	3.9	1.1	-1.6	-1.6	-0.8	3.5	2.8	3.0	3.1	3.2
Oil and gas sector GDP	-1.5	3.9	-4.9	-4.8	-7.3	-4.7	6.3	3.5	2.1	1.9	1.5
Non-oil and gas sector GDP	2.1	3.9	8.9	2.0	4.3	2.8	0.9	2.1	3.6	4.0	4.5
Oil production ('000 barrels/day)	112	121	110	107	92	84	79	94	102	94	94
Natural gas output (millions BTUs/day)	1,372	1,402	1,358	1,253	1,151	1,114	1,270	1,220	1,195	1,319	1,331
Average Brunei oil price (U.S. dollars per barrel)	73.2	68.6	43.3	72.1	107.7	83.0	79.1	75.3	73.3	71.1	69.6
Average Brunei gas price (U.S. dollars per million BTU)	10.5	9.1	6.7	9.1	14.4	5.4	5.8	5.4	4.4	3.9	3.3
Consumer prices (period average, percentage change)	1.0	-0.4	1.9	1.7	3.7	1.7	1.5	1.0	1.0	1.0	1.0
(Fiscal Year, In percent of GDP)											
<b>Public Finances: Budgetary Central Government</b>											
Total revenue	32.7	26.4	12.6	24.1	28.3	19.5	19.4	18.6	17.4	16.5	15.7
Oil and gas	26.4	19.8	7.7	20.2	24.5	14.8	14.7	13.6	12.1	11.0	9.9
Other	6.3	6.5	5.0	3.9	3.9	4.7	4.8	5.0	5.3	5.5	5.8
Total Expenditure	32.5	31.9	32.6	29.2	26.7	28.7	27.2	26.5	25.8	25.0	24.3
Current	29.8	29.5	31.3	28.1	25.7	26.7	25.9	25.3	24.6	23.8	23.0
Capital	2.7	2.4	1.3	1.1	1.0	1.9	1.3	1.3	1.3	1.2	1.2
Overall balance 2/	0.2	-5.6	-20.0	-5.1	1.6	-9.2	-7.7	-7.9	-8.5	-8.5	-8.5
Non-oil and Gas Balance (In percent of non-oil and gas GDP)	-53.5	-49.5	-46.1	-44.3	-39.2	-38.2	-35.1	-32.7	-30.0	-27.6	-25.3
(12-month percent change)											
<b>Money and Banking</b>											
Private Sector Credit	-3.1	2.0	0.2	2.7	6.0	4.0	2.0	2.0	2.0	2.0	2.0
Narrow money	-3.0	6.6	20.8	6.5	1.2	3.8	3.8	3.8	3.8	3.8	3.8
Broad money	2.8	4.3	-0.4	2.7	1.3	2.7	2.7	2.7	2.7	2.7	2.7
(In millions of U.S. dollars, unless otherwise indicated)											
<b>Balance of Payments</b>											
Goods	2,360	2,208	1,385	2,680	5,153	2,797	3,130	3,467	3,636	3,793	3,989
Exports	6,473	7,207	6,542	11,006	14,130	10,475	10,814	11,139	11,441	11,645	12,088
Of which: oil and gas	2,691	3,244	2,943	4,730	5,660	3,344	3,565	3,718	3,830	3,723	3,787
Imports	4,113	4,999	5,157	8,326	8,977	7,678	7,684	7,672	7,804	7,852	8,098
Services (net)	-1,008	-1,189	-854	-697	-848	-948	-1,043	-1,036	-1,024	-1,013	-1,002
Primary Income (net)	84	361	362	90	-370	261	306	209	150	106	119
Secondary Income (net)	-506	-490	-350	-502	-671	-508	-560	-580	-549	-563	-564
Current Account Balance	930	890	542	1,572	3,264	1,603	1,832	2,060	2,214	2,323	2,542
Current Account Balance (in percent of GDP)	6.9	6.6	4.5	11.2	19.6	10.6	11.6	12.7	13.2	13.3	14.0
Gross Official Reserves 3/	3,407	4,273	3,997	4,980	5,035	5,145	5,257	5,369	5,481	5,593	5,705
In months of next year's imports of goods and services	6.0	8.1	5.2	5.9	6.7	6.7	6.8	6.8	6.9	6.8	6.8
Brunei dollars per U.S. dollar (period average)	1.35	1.36	1.38	1.34	1.38	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.36	1.35	1.32	1.35	1.34	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Non-oil and gas GDP includes the downstream sector.

2/ In absence of government debt and interest payments, this is also primary balance.

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.

**Table 2. Brunei Darussalam: Budgetary Central Government Developments, 2018/19–2028/29 1/**

	2018/19	2019/20	2020/21	2021/22	2022/23 Est.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.
(In millions of Brunei dollars)											
Revenue	6,027	4,846	2,051	4,768	6,326	4,019	4,212	4,172	4,031	3,987	3,957
Tax	3,352	2,209	884	1,749	2,384	1,139	1,209	1,162	1,071	1,036	1,013
Oil and gas	3,004	1,858	546	1,404	2,017	766	811	734	595	511	434
Other	348	351	338	346	367	374	398	429	476	525	579
Nontax revenue	2,675	2,636	1,167	3,018	3,942	2,879	3,003	3,010	2,960	2,952	2,944
Oil and gas	1,869	1,787	697	2,601	3,445	2,284	2,364	2,323	2,216	2,144	2,067
Other	806	849	471	417	497	596	639	687	745	807	877
Expenditure	5,997	5,873	5,292	5,780	5,961	5,907	5,885	5,946	5,993	6,043	6,100
Current	5,501	5,432	5,085	5,569	5,748	5,511	5,606	5,663	5,703	5,745	5,795
Wages and salaries	1,957	1,966	1,969	1,993	2,044	2,148	2,177	2,199	2,221	2,243	2,266
Other	3,544	3,466	3,116	3,576	3,705	3,363	3,429	3,464	3,481	3,502	3,529
Of which: Royalty payment	509	506	292	542	677	291	308	303	279	258	244
Capital	496	441	207	211	213	396	279	283	291	298	305
Of which: Development expenditure	496	441	207	211	213	396	279	283	291	298	305
Overall balance 2/	30	-1,027	-3,241	-1,012.7	365	-1,888	-1,673	-1,774	-1,962	-2,056	-2,143
Non-oil and gas overall balance	-4,334	-4,167	-4,191	-4,475	-4,420	-4,647	-4,541	-4,528	-4,494	-4,453	-4,401
(In percent of GDP)											
Revenue	32.7	26.4	12.6	24.1	28.3	19.5	19.4	18.6	17.4	16.5	15.7
Tax	18.2	12.0	5.4	8.8	10.7	5.5	5.6	5.2	4.6	4.3	4.0
Oil and gas	16.3	10.1	3.4	7.1	9.0	3.7	3.7	3.3	2.6	2.1	1.7
Other	1.9	1.9	2.1	1.7	1.6	1.8	1.8	1.9	2.1	2.2	2.3
Nontax revenue	14.5	14.3	7.2	15.2	17.7	14.0	13.9	13.4	12.8	12.2	11.7
Oil and gas	10.1	9.7	4.3	13.1	15.4	11.1	10.9	10.4	9.6	8.9	8.2
Other	4.4	4.6	2.9	2.1	2.2	2.9	2.9	3.1	3.2	3.3	3.5
Expenditure	32.5	31.9	32.6	29.2	26.7	28.7	27.2	26.5	25.8	25.0	24.3
Current	29.8	29.5	31.3	28.1	25.7	26.7	25.9	25.3	24.6	23.8	23.0
Wages and salaries	10.6	10.7	12.1	10.1	9.2	10.4	10.0	9.8	9.6	9.3	9.0
Other	19.2	18.9	19.2	18.1	16.6	16.3	15.8	15.5	15.0	14.5	14.0
Of which: Royalty payment	2.8	2.8	1.8	2.7	3.0	1.4	1.4	1.4	1.2	1.1	1.0
Capital	2.7	2.4	1.3	1.1	1.0	1.9	1.3	1.3	1.3	1.2	1.2
Of which: Development expenditure	2.7	2.4	1.3	1.1	1.0	1.9	1.3	1.3	1.3	1.2	1.2
Overall balance 2/	0.2	-5.6	-20.0	-5.1	1.6	-9.2	-7.7	-7.9	-8.5	-8.5	-8.5
Non-oil and gas overall balance	-23.5	-22.7	-25.8	-22.6	-19.8	-22.5	-21.0	-20.2	-19.4	-18.4	-17.5
in percent of non-oil and gas GDP	-53.5	-49.5	-46.1	-44.3	-39.2	-38.2	-35.1	-32.7	-30.0	-27.6	-25.3
Memorandum items:											
Nominal GDP (in millions of Brunei dollars)	18,453	18,385	16,241	19,802	22,333	20,611	21,667	22,403	23,189	24,146	25,142
Non-oil and gas GDP (in millions of Brunei dollars)	8,103	8,418	9,098	10,103	11,272	12,153	12,940	13,830	14,970	16,137	17,394

Sources: Data provided by the Brunei authorities, and Fund staff estimates and projections.

1/ GFSM 1986 Presentation (cash-based); fiscal year ends March 31.

2/ In absence of government debt and interest payments, this is also primary balance.

**Table 3. Brunei Darussalam: Balance of Payments, 2018–28 1/**

	2018	2019	2020	2021	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
(In millions of U.S. dollars; unless otherwise indicated)											
Current account	930	890	542	1,572	3,264	1,603	1,832	2,060	2,214	2,323	2,542
In percent of GDP	6.9	6.6	4.5	11.2	19.6	10.6	11.6	12.7	13.2	13.3	14.0
Goods	2,360	2,208	1,385	2,680	5,153	2,797	3,130	3,467	3,636	3,793	3,989
Exports	6,473	7,207	6,542	11,006	14,130	10,475	10,814	11,139	11,441	11,645	12,088
Oil and gas	2,691	3,244	2,943	4,730	5,660	3,344	3,565	3,718	3,830	3,723	3,787
Other 2/	3,782	3,963	3,599	6,276	8,469	7,131	7,249	7,421	7,611	7,922	8,300
Imports	4,113	4,999	5,157	8,326	8,977	7,678	7,684	7,672	7,804	7,852	8,098
Services	-1,008	-1,189	-854	-697	-848	-948	-1,043	-1,036	-1,024	-1,013	-1,002
Receipts	569	618	352	201	282	408	545	589	639	688	739
Payments	1,578	1,806	1,206	899	1,130	1,356	1,588	1,625	1,663	1,701	1,741
Primary income	84	361	362	90	-370	261	306	209	150	106	119
Receipts	997	1,027	920	959	549	1,207	1,287	1,195	1,121	1,080	1,092
Payments	913	666	559	869	919	946	981	985	970	973	974
Secondary income	-506	-490	-350	-502	-671	-508	-560	-580	-549	-563	-564
Receipts	32	46	47	66	49	54	56	53	54	55	54
Payments	538	536	396	569	720	562	617	633	604	618	618
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account											
Net lending (+) / net borrowing (-)	52	-405	244	-119	2,386	1,493	1,720	1,948	2,102	2,211	2,430
Net acquisition of financial assets	717	1,684	632	-19	1,324	1,588	1,658	1,886	2,083	2,213	2,470
Net incurrence of liabilities	665	2,090	388	100	-1,063	95	-63	-62	-19	3	40
Direct investment											
of which: Direct investment abroad	0	0	0	0	0	0	0	0	0	0	0
of which: Direct investment in Brunei	516	373	566	205	-292	227	252	274	297	325	355
Portfolio investment											
of which: Portfolio investment assets	-1,436	1,400	1,161	-237	456	1,144	1,189	1,280	1,425	1,501	1,722
Other investment 2/											
of which: Other investment assets	2,153	284	-528	218	868	444	469	606	658	712	747
of which: Other investment liabilities	148	1,716	-177	-105	-770	-132	-315	-337	-317	-322	-316
Errors and omissions	-898	-538	-715	-603	-800	0	0	0	0	0	0
Reserve assets	-10	761	-446	-4	77	110	112	112	112	112	112
Gross official reserves 3/	3,407	4,273	3,997	4,980	5,035	5,145	5,257	5,369	5,481	5,593	5,705
In months of next year's imports of goods and services	6.0	8.1	5.2	5.9	6.7	6.7	6.8	6.8	6.9	6.8	6.8
Memorandum items:											
Exchange rates											
Brunei dollars per U.S. dollar (period average)	1.35	1.36	1.38	1.34	1.38	...	...	...	...	...	...
Nominal GDP (in millions of U.S. dollars)	13,567	13,469	12,006	14,006	16,682	15,153	15,783	16,237	16,769	17,464	18,189

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Reflects BPM6 presentation adopted by the authorities. Includes official revisions in March 2014, which improved data coverage and methodology, but lack of comprehensive balance of payments data remains.

2/ Includes changes in banks' foreign assets and liabilities and in estimated BIA investments.

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.

**Table 4. Brunei Darussalam: Monetary Developments, 2018–28**

	2018	2019	2020	2021	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
(In millions of Brunei dollars, end of period)											
<b>Central Bank Survey</b>											
External assets (net) 1/	4,012	4,918	4,488	5,449	5,542	5,727	5,957	6,120	6,276	6,426	6,577
Foreign exchange holdings	3,917	4,983	4,439	5,341	5,424	5,625	5,833	6,000	6,153	6,304	6,455
Other assets	63	19	-14	65	17	23	35	25	27	29	27
Currency issued	1,249	1,228	1,358	1,431	1,422	1,458	1,505	1,569	1,615	1,655	1,706
Reserve money excluding currency outside ODCs	1,705	2,371	1,792	2,737	2,815	2,968	3,171	3,283	3,401	3,510	3,616
Other liabilities	1,235	1,513	1,499	1,510	1,489	1,489	1,489	1,489	1,489	1,489	1,489
<b>Depository Corporations Survey</b>											
Foreign assets (net)	13,600	14,325	13,317	15,026	16,047	16,273	16,789	17,371	18,079	18,782	19,537
Net claims on government	-1,871	-1,619	-585	-1,940	-3,016	-3,016	-3,016	-3,016	-3,016	-3,016	-3,016
Claims on nonfinancial public sector	575	483	411	361	253	274	292	311	337	363	392
Claims on private sector	6,296	6,420	6,430	6,604	6,998	7,278	7,423	7,572	7,723	7,878	8,035
Claims on other financial corporations	72	-97	-96	22	21	-19	9	4	-2	4	2
Capital accounts	3,416	3,728	3,936	3,989	3,958	4,286	4,566	4,855	5,263	5,673	6,115
Other items (net)	-314	-78	-1	-60	-68	-43	-57	-56	-52	-55	-55
Broad money	14,930	15,567	15,500	15,920	16,119	16,547	16,988	17,443	17,911	18,392	18,889
Money	4,274	4,558	5,504	5,861	5,934	6,158	6,392	6,634	6,886	7,147	7,418
Of which: currency outside depository corps	1,084	1,053	1,183	1,267	1,256	1,293	1,332	1,372	1,413	1,456	1,499
Quasi-money	10,656	11,009	9,997	10,058	10,185	10,389	10,597	10,809	11,025	11,245	11,470
(12-month percent change)											
<b>Depository Corporations Survey</b>											
Foreign assets (net)	2.6	5.3	-7.0	12.8	6.8	1.4	3.2	3.5	4.1	3.9	4.0
Claims on private sector	-3.1	2.0	0.2	2.7	6.0	4.0	2.0	2.0	2.0	2.0	2.0
Memorandum items:											
Central bank net external asset ratio 2/	3.1	4.1	3.3	3.8	3.8	3.9	3.8	3.7	3.8	3.8	3.8
Brunei dollars per U.S. dollar (end of period)	1.36	1.35	1.32	1.35	1.34	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Comprises central bank's foreign exchange assets, SDR holdings, and reserve position in the Fund.

2/ Ratio of foreign exchange holding to currency.

**Table 5. Brunei Darussalam: Financial Soundness Indicators, 2016–22 1/**

(In percent)

	2016	2017	2018	2019	2020	2021	2022
Capital Adequacy 2/							
Regulatory capital to risk-weighted assets	21.5	18.9	19.3	20.1	20.8	21.5	20.2
Tier 1 capital to risk weighted assets	23.2	18.2	18.9	19.7	20.5	21.2	20.0
NPL net of provisions to capital	7.8	4.4	7.8	6.5	6.1	4.9	5.5
Assets Quality							
NPL to total loans	5.9	4.4	5.7	4.6	4.7	3.6	3.3
NPL net of provisions to total loans	3.3	1.6	2.9	2.4	2.4	1.9	2.1
Provision coverage (specific provisions to total NPLs)	43.3	62.8	49.5	48.2	48.2	47.5	37.8
Profitability (Annualized)							
Return on assets (before tax)	1.0	1.4	1.5	1.8	1.5	1.3	1.3
Return on equity (after tax)	6.5	8.9	11.2	12.5	10.6	8.6	9.5
Non-interest expense to gross income (efficiency ratio)	53.6	51.5	48.9	47.2	50.7	57.1	56.7
Liquidity							
Liquid assets to total assets	50.4	51.0	51.7	46.5	48.2	45.5	43.8
Liquid assets to total deposits	60.0	60.0	61.8	55.2	60.2	54.1	51.8
Liquid assets to demand and Savings deposits (nonbank customers)	115.0	115.2	126.0	103.2	95.9	84.1	95.1
Loans to deposits ratio	35.8	34.5	35.7	37.6	38.9	37.4	36.5

Source: BDCB.

1/ Data excludes finance companies, which is classified as depository corporations. Numbers are for Q4 of each year.

2/ Capital adequacy ratios differ between 2016 and 2017, mainly due to the implementation of Basel II risk weighting in 2017.

**Table 6. Brunei Darussalam: Indicators of Vulnerability, 2018–28**

	2018	2019	2020	2021	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
<b>Financial sector indicators 1/</b>											
Broad money (M2, percent change, y/y)	2.8	4.3	-0.4	2.7	1.3	2.7	2.7	2.7	2.7	2.7	2.7
Private sector credit (percent change, y/y)	-3.1	2.0	0.2	2.7	6.0	4.0	2.0	2.0	2.0	2.0	2.0
NPL to total loans	3.9	3.9	3.9	3.1	2.8	...	...	...	...	...	...
NPL net of provisions to capital	4.6	6.4	5.9	5.4	5.8	...	...	...	...	...	...
Regulatory capital to risk-weighted assets	19.2	19.7	20.5	20.2	19.3	...	...	...	...	...	...
<b>External indicators</b>											
Exports of goods and services (percent change, in U.S. dollars)	16.9	11.1	-11.9	62.6	28.6	-24.5	4.4	3.2	3.0	2.1	4.0
Imports of goods and services (percent change, in U.S. dollars)	31.7	19.6	-6.5	45.0	9.6	-10.6	2.6	0.3	1.8	0.9	3.0
Current account balance (in millions of U.S. dollars)	929	890	542	1,570	3,264	1,603	1,832	2,060	2,214	2,323	2,542
(In percent of GDP)	6.9	6.6	4.5	11.2	19.6	10.6	11.6	12.7	13.2	13.3	14.0
Gross official reserves (in millions of U.S. dollars)	3,407	4,273	3,997	4,980	5,035	5,145	5,257	5,369	5,481	5,593	5,705
(In months of next year's imports of goods and services)	6.0	8.1	5.2	5.9	6.7	6.7	6.8	6.8	6.9	6.8	6.8

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ The calculation of Financial Soundness Indicators is based on the IMF's *Financial Soundness Indicators: Compilation Guide*.

## Appendix I. External Sector Assessment<sup>1</sup>

**Overall Assessment:** The external position of Brunei in 2022 was substantially weaker than the level implied by fundamentals and desirable policies. The current account surplus increased relative to 2021 despite further slowdown in O&G export volume, due to increasing oil prices and growth of downstream exports. The current account surplus is projected to decline in 2023 owing to moderation in fuel prices and slower expansion of the downstream sector. The current account is expected to stabilize over the medium term as downstream activities mature and the country's export portfolio further diversifies. Substantial international and fiscal reserves offer protection against external disturbances, and the currency peg to the Singapore dollar continues to be a suitable and reliable nominal anchor.

**Potential Policy Responses:** Implementing fiscal consolidation efforts may contribute to rebalancing the external position effectively.

### Current Account

**Background.** The current account balance has increased since 2020, reaching an estimated surplus of 19.6 percent of GDP in 2022. Exports of mineral fuels, the most important export category, registered an increase of close to 40 percent y/y, aided by increases in fuel prices. The exports of chemical products, from the O&G downstream sector, also grew in 2022, by around 30 percent, lower than in the previous two years as the sector's production capacity matures. Imports were strong in 2022, increasing by 27 percent y/y. The largest contributor to the increase is the imported raw materials (including crude oil) mainly to provide feedstock for the downstream petrochemical sector, which constitutes 63 percent of total imports in 2022 and grew near 50 percent y/y. The current account balance is projected to moderate in 2023 as fuel prices decline. Over the medium term, the CA surplus is expected to stabilize at around 14 percent of GDP as export products diversify.

**Assessment.** The EBA-Lite 3.0 model suggests that the adjusted current account balance in 2022 is below the norm.<sup>1</sup> After taking into account the cyclical adjustment and one-off pandemic adjustor for tourism, the adjusted CA surplus for 2022 stood at 13.5 percent of GDP. Meanwhile, the estimated current account norm—the level of the current account balance estimated based on underlying fundamentals—indicates a surplus of 18.7 percent of GDP. This results in a current account gap—the difference between actual current account balance and its norm, both cyclically adjusted—of -5.2 percent of GDP. The cyclical adjustment to the actual CA balance mainly reflects the transitory factor of higher fuel prices that led to a short-term increase in the terms of trade for 2022, which explained why the cyclically adjusted CA balance is lower than the actual balance. In addition, the Covid-19 adjustor took into account the fact that the net tourism balance of Brunei before the pandemic was slightly negative. The travel restrictions during the pandemic thus led to a reduction in net tourism outflow, which is likely to be temporary. Still, the estimated CA gap is subject to considerable uncertainties.

<sup>1</sup>The EBA-Lite methodology uses regression analysis to predict the equilibrium current account level consistent with a range of structural and policy factors. The EBA-lite current account model is estimated on a wide range of countries, and it may not fully capture the unique features of each country, including commodity exporters such as Brunei.

<sup>1</sup> Prepared by Natasha Che (APD).

## Brunei Darussalam: EBA-lite Model Results, 2022

	CA model 1/ REER model 1/ (in percent of GDP)
<b>CA-Actual</b>	<b>19.6</b>
Cyclical contributions (from model) (-)	5.5
COVID-19 adjustors (-) 2/	0.6
<b>Adjusted CA</b>	<b>13.5</b>
<b>CA Norm</b> (from model) 3/	<b>18.7</b>
Adjustments to the norm (-)	0.0
<b>Adjusted CA Norm</b>	<b>18.7</b>
<b>CA Gap</b>	<b>-5.2</b>
o/w Relative policy gap	13.5
Elasticity	-0.4
<b>REER Gap</b> (in percent)	<b>12.5</b>
	<b>4.0</b>

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on trade balance.

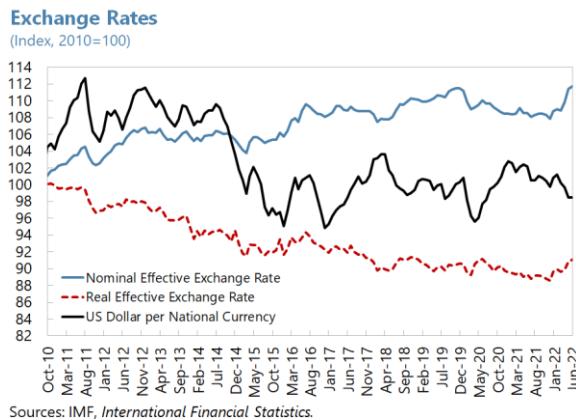
3/ Cyclically adjusted, including multilateral consistency adjustments.

### Real Exchange Rate

**Background.** The real effective exchange rate (REER) has seen an uptick in 2022 after the trend decline in previous years. This largely reflects the positive terms of trade shock over the past year owing to increases in fuel prices.

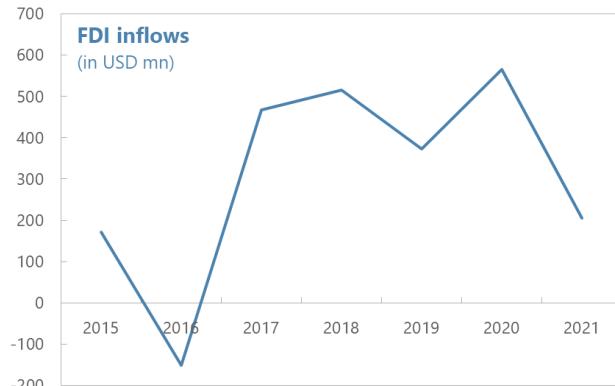
**Assessment.** The REER model indicates a REER gap of 4 percent in 2022, and an associated current account gap of -1.7 percent. This result is qualitatively consistent with the result from the EBA-Lite model. Both models indicate that the external position of Brunei in 2022 was weaker than suggested by fundamentals.

Maintaining the peg to the Singapore dollar is fitting, as it offers a dependable nominal anchor for economic and financial stability. Brunei's fund managers can take advantage of Singapore's extensive financial markets due to currency board agreement, as Brunei's surplus liquidity is mostly channeled into Singapore dollar assets. The peg also helps to anchor inflation expectations. Moreover, it aids diversification efforts by attracting foreign direct investment, in addition to promoting price stability.



## Capital Flows

**Background.** Capital inflows into Brunei primarily consist of FDI flows, which have moderated in the last year after strong growth since 2017. This reflects the completion of construction of large FDI projects in the O&G downstream sector, such as the Hengyi refinery project. The baseline outlook for FDI is modest. But in view of the strong growth in the downstream sector, continued expansion is possible. And the commencement of any capital-intensive new FDI project could propel a large jump in FDI inflow, given the small base. Capital outflows reflect to a large extent domestic banks' holdings of foreign assets, including the excess liquidities placed abroad. The data on international investment positions, including foreign asset and liability positions, are not published



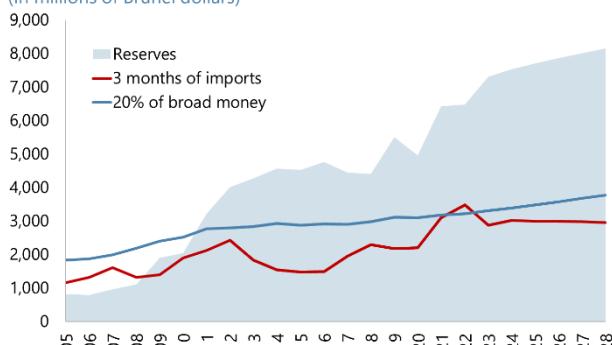
**Assessment.** Domestic banks' large holding of excess liquidity abroad, mainly in Singapore, is a risk. Though the fixed exchange rate arrangement with the Singapore dollar is a mitigating factor.

## FX Intervention and Reserves Level

**Background.** Brunei's international reserves (excluding gold) in 2022 was estimated at USD 4.8 billion, equivalent to 6.7 months of imports and 40 percent of broad money. In addition, the level of reserves was around 195 percent of the Fund's composite metric, which exceeds the recommended 100–150 percent adequacy range.

**Assessment.** Official reserve level remains adequate and in line with sustaining the currency board arrangement with Singapore.<sup>2</sup> However, as a major energy exporter, the additional precautionary liquidity is recommended for coping with adverse terms of trade shocks. In this regard, Brunei's reserve coverage is in line with other countries that heavily rely on O&G exports.

**Brunei Darussalam: Reserve Adequacy, 2005–2028**  
(In millions of Brunei dollars)



Sources: Brunei authorities; and IMF staff estimates.

<sup>2</sup> The currency board arrangement between Singapore and Brunei remains sound. The central bank (BDCB) is strictly adhering to the coverage of all issued liabilities in Brunei dollars (BND) by foreign currency. In addition, to the external required back-up ratio set as the Currency Fund over the Currency in Circulation (CIC), on a monthly basis, the BDCB compiles and monitors a more conservative internal ratio defined as the Total External Assets over the Monetary Base. The absence of monetary financing also safeguards the currency board.

## Appendix II. Risk Assessment Matrix<sup>1</sup>

	Risks	Likelihood	Expected Impact	Policy Response
External	<b>Intensification of regional conflict(s).</b> Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	<b>High</b>	<b>Medium</b> Supply-chain disruption due to regional conflicts increases import prices and inflation. Higher energy prices improve fiscal and external balances.	<ul style="list-style-type: none"> <li>Expand fiscal reserves along with continuous fiscal consolidation,</li> <li>Accelerate food production, and support vulnerable households through cash transfers while allowing for international prices to pass through to domestic consumers.</li> </ul>
	<b>Monetary policy miscalibration.</b> Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	<b>Medium</b>	<b>Medium</b> Local prices are pushed up since necessities are mostly imported. The lower-income population is most affected.	<ul style="list-style-type: none"> <li>Frontload the envisaged fiscal tightening to help stabilize prices</li> <li>Provide targeted support to the population in need.</li> <li>Monitor and supervise the financial market with timely macroprudential policies,</li> </ul>
	<b>Systemic financial instability.</b> Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	<b>Medium</b>	<b>Medium</b> Leveraged economic entities have difficulty in financing due to rising interest rates. Increased volatility in financial market affects sovereign holding valuations.	<ul style="list-style-type: none"> <li>Monitor and supervise the financial market with timely macroprudential policies,</li> <li>Supply appropriate liquidity for viable business and indebted households,</li> <li>Manage sovereign assets cautiously.</li> </ul>
	<b>Abrupt global slowdown or recession.</b> Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	<b>Medium</b>	<b>Medium</b> Fiscal and external balances are negatively affected by lower fuel prices. FDI inflow is reduced.	<ul style="list-style-type: none"> <li>Accelerate the diversification of export products.</li> <li>Improve business climate to attract foreign investments.</li> <li>Provide targeted and temporary financial and fiscal support to firms and households.</li> </ul>
	<b>Commodity price volatility.</b> A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	<b>Medium</b>	<b>High</b> High energy prices improve fiscal and external balances with positive effects on domestic demand. Surging food prices heighten inflation and put a strain on the vulnerable household.	<ul style="list-style-type: none"> <li>Expand fiscal reserves along with continuous fiscal consolidation,</li> <li>Accelerate food production, and support needy households.</li> </ul>
	<b>Deepening geo-economic fragmentation.</b> Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth	<b>High</b>	<b>Medium</b> Supply disruptions and weaker confidence can undermine investment, but potentially increase commodity prices depending on the degree of fragmentation.	<ul style="list-style-type: none"> <li>Build fiscal buffers with fiscal consolidation that provides strong protections to those in needs. Increase public investment to promote economic diversification.</li> </ul>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

<b>Domestic</b>	<b>Unexpected variations in energy production.</b> Oil and gas production changes by speed of maintenance works and rejuvenation programs, execution of new projects as well as exploration and excavation results.	<b>Medium</b>	<b>High</b> Declined (Increased) production lowers (augments) fiscal revenues, and exports.	<ul style="list-style-type: none"> <li>Diversify the economy and secure revenue from Non-O&amp;G sector. Refrain from procyclical fiscal policy and build additional fiscal reserves.</li> <li>Strengthen contingency planning</li> </ul>
	<b>Postponement in large FDI projects.</b>	<b>Medium</b>	<b>Medium</b> Delayed projects hinder growth and diversification.	<ul style="list-style-type: none"> <li>Expand public investment,</li> <li>Attract more FDI by improving business environment.</li> </ul>
	<b>Delays in implementing the fiscal consolidation plan</b>	<b>High</b>	<b>High</b> Decline in fiscal reserves that would require even deeper fiscal consolidation later on to ensure a sustainable fiscal path.	<ul style="list-style-type: none"> <li>Adopt revenue and expenditure measures to credibly reduce the fiscal deficit, while shifting from broad-based subsidies to more targeted social protection.</li> <li>Support fiscal consolidation by implementing structural reforms to boost growth and diversify the economy.</li> </ul>

## Appendix III. Status of Staff Advice in 2022 Article IV Consultation

<b>Staff Advice</b>	<b>Policy Actions</b>
<b>Fiscal Policy</b>	
Continue fiscal support in the near term and resume consolidation for the longer term by preserving growth-enhancing spending, reforming subsidies, containing public wages, promoting corporatization and PPPs, and broadening tax base, while improving public finance management.	The government has unwound the pandemic response and has shifted focus to promoting recovery and diversification by scaling up public investment. The government has not announced any major tax measures and has delayed the corporatization efforts announced in the FCP, which is expected to help curtail the wage bill in addition to further diligence in recruitment. <sup>1</sup> The government has launched the digitalization of the National Welfare System and revised the eligibility criteria of old-age pension recipients while expanding coverage to people with disabilities. <sup>2</sup> The government has launched the Unified Smart Metering System (USMS) that combines water and electricity into a single account. ) However, more efforts are needed to move from broad based subsidies to a targeted social protection system. The government undertook the Public Investment Management Assessment (PIMA) as well as the Climate PIMA (C-PIMA) in April 2023. The new Treasury Accounting and Financial Information System (TAFIS) is expected to be rolled out in FY2024/25. The Brunei Investment Agency regularly conducts tail stress tests to assess risks from global decarbonization pressures on oil prices over the long-term and incorporates such assessments to devise prudent risk management strategies.
<b>Financial Sector Policies</b>	
Further development of the financial sector while strengthening regulatory, supervision and macroprudential framework to safeguard financial stability.	The authorities have taken steps to further develop the financial sector while strengthening its surveillance and regulatory frameworks to safeguard financial stability. The issuance of I-Bills started in October 2020 to support liquidity management of the financial sector. TA was implemented in January–February 2023 to enhance liquidity management and monetary transmission. The development of a holistic macroprudential framework remains in progress, including a countercyclical capital buffer requirement and a framework to quantify liquidity risks. TA on bank stress testing took place in April 2022. A plan to establish a stock exchange is underway.
Strengthening AML/CFT framework to safeguard financial system integrity.	The authorities remain committed to strengthening AML/CFT legal and regulatory framework. The amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations were completed in 2022 and became effective on 1 November 2022. The amendments to the Criminal Asset Recovery Order was completed in 2023 and became effective on 31 January. Brunei's Mutual Evaluation process by the APG has commenced, with the on-site visit conducted in November 2022. The Mutual Evaluation Report was adopted in the APG Plenary in July 2023. The Counter Proliferation Financing Order is being finalized and expected to be adopted in the near term.

<sup>1</sup> In May 2023, the government implemented amendments to the customs import and excise duties to streamline the duty structure with the ASEAN Harmonized Tariff Nomenclature (AHTN) 2022; to control the use of certain products in order to improve the health and well-being of residents; to reduce carbon footprint and promote energy saving; to reduce prices of certain consumer goods; to enhance the competitiveness of business as well as to fulfill certain commitments under the Free Trade Agreements (FTAs) with several countries.

<sup>2</sup> The recent revision of the Old Age Pension and People with Different Abilities Allowance Order Act (Amendment) 2021 tightened eligibility rules for old-age pension, whereby permanent residents with foreign citizenship no longer qualify for the \$250 monthly pension. This decreased the number of beneficiaries by three percent to 42,700 from 43,941 due to amended laws.

<b><i>Structural Policies</i></b>	
Diversify the economy and develop the private sector by FDI attraction, business environment improvement, human capital enhancement, and active labor market policies, while accelerating digitalization and climate change responses.	<p>In terms of FDI activities, Hengyi Industries Sdn. Bhd. is currently conducting feasibility studies and the implementation scope for the Phase 2 project, which will increase the production capacity from 8 million metric tons annually to 10 million tons annually. The project for both these phases is expected to provide approximately 3,900 job opportunities. Brunei Fertilizer Industries has succeeded in producing more than 631 thousand metric tons of urea fertilizer since January 2022. As of February 2023, BFI has successfully exported 556 thousand metric tons of urea fertilizer with revenue value of US\$322 million. The Government, through the Brunei Economic Development Board is holding discussions with several foreign direct-investment and domestic companies to evaluate and improve several project proposals that have been received to-date, including proposals related to the Oil and Gas and Food and Logistics Downstream Sectors.</p> <p>To guide private sector development, the government launched the first series of salary guidelines (minimum salary scales for selected job positions as per the job levels) for the private sector. The guidelines serve as recommendation and are not legally enforceable. Darussalam Enterprise's (DARe) engagement in public-private partnership under projects such as Brunei Food Industry Development and the Brunei Innovation Lab will have to be enhanced to give local businesses access to opportunities and services that can foster higher-quality economic activity and growth. DARe through initiatives such as entrepreneurial skill training and support to obtain international standard certification. Budget 2023 confirms a \$6.3 million allocation under the Temburong Region Progress Authority (TRPA) for the Temburong District development projects. These projects aim to boost investment, support MSMEs through spin-off activities, and create new employment opportunities.</p> <p>The authorities acknowledged that the coordinated execution of the Digital Economy Masterplan (2025), is crucial for improving public sector efficiency (Digital Government), boosting the productivity of the private sector (Digital Industry) and developing a highly skilled digital workforce (Digital Society). In its efforts to becoming a Smart Nation a few flagship projects have been identified, including the implementation of the Digital Payment Hub, and the Digital Identity Project.</p>
<b><i>Structural Policies (concluded)</i></b>	
Implement the Brunei Darussalam National Climate Change Policy (BNCCP) to meet the Nationally Determined Contribution (NDC) target	The Government is on track to achieve the commitment target under the Paris Agreement to reduce by 20 percent the amount of greenhouse gas emission, against the business-as-usual level of 29.5 MtCO <sub>2</sub> e, by 2030. Other climate change mitigation activities in the past year include the planting of 42,928 trees, reduction in the level of waste disposal through garbage reduction, reduction in greenhouse gas emission in the industrial sector, and the increase in renewable energy though the construction of solar projects.
<b><i>Data Issues</i></b>	
Improve data compilation and reporting.	The authorities have committed to publishing the National Summary Data Page (NSDP) continuously. The Brunei Darussalam Central Bank has started to release the Business Sentiment Index in November 2021.



# BRUNEI DARUSSALAM

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 25, 2023

Prepared By

Asia and Pacific Department

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# FUND RELATIONS

(As of July 31, 2023)

**Membership Status:** Joined October 10, 1995; Article VIII

## General Resources Account

	SDR Millions	Percent of Quota
Quota	301.30	100.00
Fund holdings of currency (exchange rate)	266.31	88.39
Reserve position in Fund	35.20	11.68

## SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	492.29	100.00
Holdings	507.34	103.06

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

**Projected Obligations to Fund:** None

**Implementation of HIPC Initiative:** Not applicable

**Safeguards Assessments:** Not applicable

## Exchange Arrangements

Brunei Darussalam's exchange rate arrangement is a currency board arrangement, with the Brunei dollar exchanged at par with the Singapore dollar. Brunei has accepted the obligations under Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

## Article IV Consultation

Brunei is on the 12-month consultation cycle. The Executive Board concluded the 2022 Article IV consultation on September 16, 2022.

**FSAP Participation:** Not applicable

**Technical Assistance**

**FAD:** A Medium-Term Strategy for Fiscal Sustainability (June 1998)

**FAD:** Public Financial Management (December 2006, June 2011, April 2014)

**FAD:** Fuel Subsidy Reform (April 2016)

**MFD:** Developing the Financial System of Brunei Darussalam (December 1997)

**MCM/MFD:** Establishment of Brunei Darussalam Monetary Authority (January 2006, December 2006, August 2008)

**MCM:** Payment and Settlement Systems/Liquid Payment and Settlement Systems (May 2012), Liquidity Monitoring (January 2015), Monetary and Financial Statistical (March 2015), Scoping mission on the systemic risk monitoring and macroprudential policy frameworks (April 2018), Framework for bank resolution and crisis management (April 2018)

**STA:** Monetary and Financial Statistics (October 1998, January 2006, July-August 2008, October 2009, July 2010, November 2011)

**STA:** Balance of Payments Statistics (May 1996, June-July 2003, June 2004)

**STA:** Government Finance Statistics (October 2011, May 2017)

**STA:** Enhanced General Data Dissemination System (June 2019)

**STA:** External Sector Statistics (July 2020)

**MCM:** Review of Macro Stress Testing (April 2022)

**MCM:** Liquidity Management and Forecasting (February 2023)

**FAD:** Public Investment Management Assessment (April 2023)

# STATISTICAL ISSUES

## Assessment of Data Adequacy for Surveillance

**General:** Data provision continues to improve and is broadly adequate for surveillance. However, the timeliness of quarterly GDP publication, and the frequency and timeliness of external sector accounts data have room to improve. Data dissemination delays have shortened for a number of indicators with the introduction of an Advance Release Calendar (ARC) in 2015 by the Department of Statistics (DOS), in line with international standards for national statistics releases. The DOS is also working on providing data to all users through several links such as [www.data.gov.bn/](http://www.data.gov.bn/). The National Statistics Committee is working to strengthen data collection and compilation processes across relevant agencies. The authorities remain committed to continue improving statistical capacity to enhance data quality and progressing toward international standards and best practices. The use of the IMF's Data Quality Assessment Framework for all national statistics is recommended.

**National accounts:** Quarterly GDP is available with a one-period lag. In 2015, GDP estimates were rebased to 2010. The 2010 rebased series incorporated data from the most recent benchmark censuses and surveys, such as the 2010/11 Household Expenditure Survey, the 2011 Population and Housing Census, and the 2011 Economic Census. These source data have been updated. Therefore, GDP too needs to be rebased from 2010 base year to a more recent year. The coverage of the government sector was extended to include statutory bodies. GDP by Income Approach as well as Gross National Income and Savings are also released.

**Price statistics:** Monthly CPI is available within six weeks from the end of the reference month. The CPI weights were derived using the 2015/16 Household Expenditure Survey, and should be updated to reflect more recent expenditure patterns in the country. The compilation of producer price indices has been planned but has yet to be implemented. Unite value indices for imports and exports are produced.

**Labor statistics:** The DEPS conducts annual Labor Force Survey since 2014 which was designed and implemented with technical assistance from the International Labor Organization using the latest international standards. For the first time, an inter-censal update was conducted in 2016 to update the housing and household frame to be used for the Labor Force Survey. Data on wages are limited. There is still scope to enhance data quality.

**Sales statistics:** Quarterly retail sales index, and food and beverage index statistics are available with a one-period lag. The compilation is based on the Quarterly Survey of Business conducted by the Department of Planning and Statistics, with weights obtained from the 2017 Annual Census of Enterprises.

**Government finance statistics:** Shortcomings exist mainly in classification of some flows and in consolidation of major government institutional units. Deficiencies in budgetary central government data include: recording taxes net of subsidies and omission of key fiscal flows, e.g., property income on assets, unrecorded subsidy schemes, and some capital transfers to extra-budgetary institutions. Currently, the Treasury's priority is to ensure that the GFS cash flow statement for the budgetary central government is updated quarterly. Data sources generated from Treasury Accounting Financial Information System are continuously monitored and enhanced. The coverage could be expanded to general government by consolidating the financial accounts for the budgetary central government, the extra-budgetary units, and the social security funds. Government finance statistics are not reported for publication in either the *Government Finance Statistics Yearbook* or the *International Financial Statistics*. The authorities are committed to improving their capacity to compile GFS, including through participating in IMF training courses on GFS.

**Monetary statistics:** The Brunei Darussalam Central Bank (BDCB) compiles and reports to STA monthly monetary data for the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) using the standardized report forms (SRFs). The data are comprehensive and reported on a regular and timely basis. The BDCB is working to further improve data compilation and reduce dissemination lags. the BDCB reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.

**Financial sector surveillance:** The BDCB reports quarterly financial soundness indicators (FSIs) to the Fund, which are published on the IMF's FSI website. The reported FSIs comprise all the core (12) and 10 encouraged FSIs for deposit takers.

**External sector statistics:** Balance of payments statistics is reported to STA in BPM6 format on an annual basis. The main compilation challenges are that (i) the reported data in the balance of payments lack the granularity recommended by best practices, hindering basic cross-checks to improve validations; (ii) a few items in the standard presentation of the balance of payments contain a very large number of embedded transactions, making the compilation task prone to imprecisions; and (iii) data adequacy would benefit from more frequent and timely data reporting at quarterly level. Compilation of international investment position on BPM6 basis has been finished but has not been released. Starting from 2021, the Ministry of Finance and Economy reported data to the Coordinated Direct Investment Survey, covering inward direct investment data back to 2016.

## Data Standards and Quality

Participant in the Enhanced General Data Dissemination System (e-GDDS), Brunei Darussalam launched the National Summary Data Page in August 2019.

**Brunei Darussalam: Table of Common Indicators Required for Surveillance**  
**(As of July 5, 2023)**

	Date of Latest Observation	Date Received	Frequency of Data <sup>8</sup>	Frequency of Reporting <sup>8</sup>	Frequency of Publication <sup>8</sup>
Exchange rates	06/2023	07/2023	M	M	M
International reserve assets and reserve liabilities of the Monetary Authorities <sup>1</sup>	03/2023	05/2023	M	M	M
Reserve/base money	03/2023	06/2023	M	M	M
Broad money	04/2023	06/2023	M	M	M
Central bank balance sheet	03/2023	05/2023	M	M	M
Consolidated balance sheet of the banking system	03/2023	05/2023	M	M	M
Interest rates <sup>2</sup>	04/2023	06/2023	M	M	M
Consumer price index	04/2023	05/2023	M	M	M
Revenue, expenditure, balance and composition of financing <sup>3</sup> – general government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing <sup>3</sup> – budgetary central government	Q4/FY2022/23	05/2023	Q	A	A
Stocks of central government and central government-guaranteed debt <sup>5</sup>	Q4/FY2022/23	05/2023	M	M	M
External current account balance	2022	7/2023	A	A	A
Exports and imports of goods	02/2023	05/2023	M	M	M
GDP/GNP	Q4/2022	05/2023	Q	Q	Q
Gross external debt <sup>6</sup>	NA	NA	NA	NA	NA
International investment position <sup>7</sup>	2022	06/2023	A	A	NA

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing. Central government data are on FY basis.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> No reported external debt.

<sup>7</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>8</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annually (S), Annually (A), Irregular (I); Not Available (NA).

**Statement by Raja Anwar, Alternate Executive Director,  
and Nadiah Abu Bakar, Advisor to the Executive Director, on Brunei Darussalam  
September 11, 2023**

1. On behalf of the Brunei Darussalam's authorities, we would like to thank the AIV IMF Mission team for the constructive policy discussions during the 2023 Article IV consultation. The authorities find staff's appraisal balanced and appreciate staff's acknowledgement of the authorities' efforts and initiatives in strengthening and diversifying the economy. Overall, the authorities are in broad agreement with the main thrust of staff's appraisal including the constructive recommendations going forward.

**Recent Economic Developments and Outlook**

2. Brunei Darussalam's economy grew by 0.8 percent y-o-y in the first quarter of 2023. This is driven by strong growth in the non-oil and gas (O&G) sector, which grew by 6.2 percent y-o-y following an expansion of the services sector, notably air transport (285.1 percent), finance (71.7 percent) and other transport services (33.1 percent). The strong growth of the non-O&G sector offset the 5 percent decline of the O&G sector, which is still experiencing the knock-on effect from the COVID-19 pandemic that caused several deferments in rejuvenation, exploration and development activities. The assets rejuvenation activities are expected to continue over the next couple of years, with a positive recovery of overall production expected starting in 2024.

3. Inflation rose to 3.7 percent in 2022 from 1.7 percent in 2021, mainly due to increased food prices, supply chain disruptions and higher transport cost attributed to higher airfares. Inflation has since moderated and continues to be manageable, with CPI inflation in the first five months of 2023 declining to 0.8% compared to the same period in 2022. This was mainly due to a moderation in food price increases as disruptions to supply chains eased.

4. The key risks to the economy remain largely unchanged, reflecting the continued importance of the oil and gas sector to the economy. The authorities take note of staff's risk assessment and reiterate their strong commitment to expedite economic diversification, which have borne fruit in recent years.

**Fiscal Policy**

5. The theme of Brunei Darussalam's National Budget for this year is 'Building a Prosperous Future Together', that is designed to further strengthen the country's efforts in achieving the three national Vision, Wawasan Brunei 2035, goals, namely Educated, Highly Skilled and Successful People; High Quality of Life of the People; and a Dynamic and Sustainable Economy. Building on the previous financial year's budget theme, 'Towards Resilient Socio-Economic Development', this year's budget focuses on three priorities, namely:-

- Implementing activities that will increase the country's productivity to support an inclusive and sustainable growth.
- Preserving public welfare through resilient facilities and infrastructure. This includes upgrading connectivity; improving utilities efficiency; and strengthening health and education facilities; and

- Development of dynamic, proactive and innovative human capital.

6. Fiscal prudence continues to underpin the authorities' fiscal policy and public finance management. The authorities remain committed to deepen implementation of the Fiscal Consolidation Plan (FCP). Launched in 2019, the FCP aims to achieve productivity gains, cost savings and revenue generation to durably reduce the medium-term fiscal deficit and strengthen fiscal sustainability. Initiatives under the FCP include corporatization and privatization, public-private partnership (PPP), a review of fees and charges, revenue diversification and mobilization as well as consolidation of the government's asset management systems.

7. The authorities take note of staff's assessment on the need for further fiscal consolidation of a cumulative 10 percent of non-O&G GDP by FY2028/29 to ensure long-term fiscal sustainability and inter-generational equity. The authorities will carefully consider staff's fiscal policy advice and recommendations to achieve this, particularly to ensure that essential development spending and the vulnerable and marginalized groups are protected.

8. The authorities have taken steps to improve revenue mobilization in recent years. One of the key initiatives has been to expand the excise tax on goods with negative health and environmental externalities. This includes taxes on tobacco, alcohol, sugary beverages, and plastic containers. The government believes that these taxes will help to discourage consumption of these goods and raise revenue that can be used to fund public health and environmental programs. Another key initiative has been to strengthen revenue administration through digitalization. This includes the introduction of a new electronic tax filing system for businesses and the development of a land tax portal to make it easier for businesses and individuals to pay their taxes and reduce the risk of tax evasion. In addition to the initiatives mentioned above, the government of Brunei is also considering other ways to improve revenue mobilization through a review of its charges and fees as well as other broad-based taxes. The authorities appreciate staff's analysis on carbon pricing, which provides valuable input to policy assessments, which is currently focused on improving the accuracy of emissions data and the necessary framework to pilot a domestic Voluntary Carbon Offset.

9. On expenditure rationalization, the authorities' have taken steps to reform subsidies such as through the launch of premium fuel without subsidy, implementation of smart meter for water and power as well as exploratory discussions on power and water tariff reforms. The digitalization of the National Welfare System is also aimed at ensuring support to those most in need and enabling the authorities to conduct assessments in a more targeted and systematic manner. The authorities are also in the process of consolidating subsidy data across the line-ministries through the ongoing Treasury Accounting and Financial Information System 2.0 project, which is expected to be rolled out in FY2024/25.

10. The authorities recently announced some reforms to its pension system ('*Skim Persaraan Kebangsaan*'), to improve the adequacy and sustainability of the pension system. It is also designed with the contributory members in mind to ensure they have secure retirement income. The key reforms include eliminating the earnings cap on employer and employee contributions, extending benefits to informal workers and the self-employed and introducing a lifetime annuity payout option.

11. The authorities would like to extend its appreciation to staff on the provision of a Public Investment Management Assessment (PIMA) and Climate PIMA in April 2023. The authorities look forward to the TA report and the reform recommendations to enhance planning and execution of its capital investments. With regards to the establishment of a Medium-Term Fiscal Framework (MTFF), the Fiscal Forecasting Unit has been providing medium-term revenue and expenditure forecasts for risk management purposes. The authorities agree with staff's recommendations to improve MTFFs, establish fiscal rules, and develop revenue mobilization strategies and requests staff's capacity development support in this regard.

### **Monetary and Financial Sector Policies**

12. The existing currency board arrangement with the peg to Singapore dollar remains appropriate and supports stable inflation. This monetary policy framework has been beneficial in preserving macroeconomic stability for Brunei Darussalam. The authorities take note of staff's recommendation to improve monetary operations and transmission, including on policy rates setting against that of the Monetary Authority of Singapore. The recommendation was also discussed in the recent IMF TA on Monetary Operations and Liquidity Management, which the authorities have taken on-board in its workplan.

13. Despite the challenging macroeconomic environment, the banking sector remains liquid and well capitalized. Key financial soundness indicators continue to depict financial strength with aggregate capital adequacy ratio (CAR) of 21.3 percent as of Q1 2023, and gross nonperforming loans (NPL) at 3.2 percent. The CAR is well above the minimum regulatory requirement of 10.0 percent as stipulated in the Banking Order, 2006 and Islamic Banking Order, 2008. Additionally, in line with the increasing interest/profit rate environment, an upward trend was recorded in banking sector profitability.

14. The authorities will continue to guard against financial vulnerabilities and continuously review the adequacy of its regulatory and supervisory frameworks in ensuring a conducive environment for supporting economic activity, the development of the financial services industry as well as to safeguard monetary and financial stability. The authorities plan to implement Basel III liquidity standards between 2023 and 2024 and other elements of the Basel III framework in phases.

15. In line with the Brunei Darussalam Central Bank's (BDCB) commitment to manage and mitigate systemic risks in the financial sector, identified Domestic Systemically Important Banks (D-SIBs) for 2023 have been subjected to additional policy measures, such as Higher Loss Absorbency (HLA) capital requirements to further enhance their resilience.

16. The authorities remain committed to strengthening AML/CFT regulatory and supervisory frameworks to safeguard financial integrity. Two laws were amended in 2022, namely the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations and the Criminal Asset Recovery Order. The BDCB also introduced provisions requiring oversight of virtual assets through amendments to Notice on Requirements for Payment Systems and issuance of new Guidelines on Offering Trading of Security Tokens, in line with the Financial Action Task Force's (FATF) Recommendation 15, as determined by the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation.

17. On capital market development, several measures have been implemented towards developing a secondary market for government sukuks and I-bills, enabling the issuance of corporate bonds/sukuk, and establishing a stock exchange. On the regulatory front, the authorities issued enhancements to its Notice on Licensing Examination and Guideline on Conducting the Regulated Activity of Giving or Offering Investment Advice to provide clarity on requirements relating to the conduct of Islamic investment business activities.

### **Reforms for Sustainable and Resilient Economic Development**

18. The authorities remain committed to accelerate economic diversification to support a resilient and sustainable medium-term economic growth. They emphasized that continuous efforts have been undertaken to enhance the five priority sectors for diversification, namely Downstream O&G; Food; ICT; Tourism and Services. Efforts in these priority sectors have borne fruit with their contribution to GDP increasing from 46.9 percent in 2010 to 55.9 percent in 2022. The authorities expect the diversification momentum to intensify, with additional O&G downstream activities, such as Petrochemical Intermediate & Derivative products (PID) and Hengyi phase 2, to sustain the positive trend in the non-O&G sector.

19. The authorities reiterated their ambition to pursue digital transformation and becoming a Smart Nation, in line with the Digital Economy Masterplan 2025. The Masterplan sets out several goals, including increasing the use of digital technologies in businesses and government, improving the country's digital infrastructure, and building a skilled workforce in digital technologies. A few flagship projects have been identified including the current implementation of the Digital Identity and Digital Payment Hub. The authorities are also investing in infrastructure and initiatives to support this goal, including the expansion of the reach and affordability of broadband internet, developing a 5G network, and building a national data center.

20. The authorities also remain committed in supporting the growth of MSMEs, which play an important role in job creation, economic diversification and poverty reduction. Various initiatives are in place to nurture and support MSME growth and development, including to facilitate digitalization of MSMEs, access to financing and access to the global market.

21. The authorities recently announced a new minimum wage policy, which will be introduced in phases beginning from July 12, 2023, starting with the (i) banking and finance; and (ii) ICT industries. The minimum wage in these sectors will be set at BND500 per month for full-time workers, while part-time workers will earn at least BND2.62 per hour. The authorities will monitor the impact of the minimum wage reforms and adjust as needed, in close collaboration with employers to ensure the reform is implemented smoothly. With the introduction of the minimum wage, the authorities hope to improve the living standards of low-income earners as well as help attract and retain skilled workers in Brunei.

22. Brunei Darussalam remains dedicated to playing its part in addressing climate change and delivering climate goals through the implementation of ten (10) key strategies in the Brunei Darussalam National Climate Change Policy (BNCCP). The Brunei National Climate Change Council provides oversight and support to ensure the delivery of the Nationally Determined Contributions (NDC) commitments and establish a strong foundation to achieve their ambition of moving towards Net Zero by 2050. Brunei Darussalam communicated its NDC in 2020 with

a commitment to reduce total national greenhouse gas (GHG) emissions by 20 per cent relative to Business-As-Usual levels by 2030. Brunei Darussalam has also intensified efforts in driving energy transition, forest preservation and facilitation of climate mitigation and adaptation. To ensure transparency in meeting climate change commitments and targets, a Mandatory Reporting Directive was launched in April 2023, with the objective of enhancing transparency of emissions reporting and to substantiate actions to achieve the climate ambitions. Brunei Darussalam also places great importance on adaptation efforts and is in the process of developing a National Climate Change Adaptation Plan to coordinate adaptation efforts for a climate-resilient and adaptive nation. As a display of its commitment to regional progress in climate change, Brunei Darussalam will host the ASEAN Centre for Climate Change (ACCC), which is intended to be a climate research hub and strategic coordinator for climate activities and initiatives for the region.

### **Final Remarks**

23. The authorities would again like to thank the Mission for their insights, productive discussions and recommendations. The policy dialogue through the Fund's Article IV Consultation process has provided the authorities with valuable advice from an independent and trusted institution. The authorities also wish to convey their appreciation to the Fund for providing its expertise, constructive policy advice and technical assistance, and look forward to elevating the level of interaction and relationship with the Fund in the future.