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IMF Executive Board Concludes 2019 Article IV Consultation with Brunei Darussalam

On September 10, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the 2019 Article IV consultation¹ with Brunei Darussalam and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.²

Brunei Darussalam's economy has been adjusting to lower oil and gas (O&G) prices since 2014, with the authorities undertaking wide-ranging reforms. The decline in O&G prices led to large budget deficits and narrower current account surpluses. In response, the authorities in 2015 launched a comprehensive reform program aimed at: (i) ensuring long-term fiscal sustainability and intergenerational equity, and (ii) fostering economic diversification by improving the business climate, developing the financial sector, attracting FDI in priority business clusters, and supporting micro, small and medium-sized enterprises (MSMEs).

Growth in 2018 was lower than expected, slowing down to 0.1 percent. Unscheduled maintenance of O&G fields hampered both crude oil and liquified natural gas (LNG) production. Non-O&G growth continued to improve, underpinned by ongoing construction projects. In expenditure terms, lower public spending and net exports—reflecting fiscal consolidation and large infrastructure related imports—offset higher private investment. Average inflation moved into positive territory in 2018, at 0.1 percent, but has turned negative again this year. Current

¹ 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.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

account surplus decreased to 7.9 percent of GDP in 2018, due to higher imports linked to large infrastructure projects. The fiscal balance was better than expected, recording a surplus in FY2018/19 for the first time since the 2014 oil price shock.

Growth is expected to pick up in 2019 to 1.8 percent, with the outlook improving further over the medium term, driven by stronger O&G activities from asset rejuvenation and large FDI projects. The ramp-up of capital spending under the 11th National Development Plan (RKN11) would also support the non-O&G growth. The start of operations of large downstream investment projects—the Hengyi refinery and Brunei Fertilizer Industries—and stronger O&G activities will further improve the outlook from 2020 onward. Inflation would remain low. The current account surplus would increase over the medium term, reflecting stronger exports of O&G and downstream products. The fiscal position would deteriorate owing to lower O&G prices this year, while it is expected to recover over the medium term. Risks to the near-term outlook are tilted to the downside. Lower-than-expected O&G prices or production would reduce fiscal revenues and exports, with significant spillovers to the non-O&G sector.

The authorities have made substantial progress in fiscal consolidation, improving the business climate, and developing the financial sector. The fiscal consolidation initiatives include corporatization and privatization, public-private partnership, evaluation of subsidies against targets, fiscal management enhancement, revenue diversification, and amalgamation of the government’s asset management system. From 2015 to 2019, Brunei made strides in improving the World Bank Doing Business scores, with strong progress in access to credit and starting a business. Brunei has attracted sizable FDI in its five priority business clusters, mainly in the downstream O&G sector. The authorities have also set up centers and programs, such as JobCenter Brunei, I-Ready, and the Center for Capacity Building, to foster job opportunities and increase job matching. Finally, they have taken wide-ranging measures in developing the financial sector, while strengthening macroprudential framework and supervisory system.

Executive Board Assessment

In concluding the 2019 Article IV consultation with Brunei Darussalam, Executive Directors endorsed staff’s appraisal, as follows:

Brunei Darussalam’s economy has been adjusting to the lower O&G prices since 2014, with the authorities undertaking wide-ranging reforms. Brunei has made significant progress in consolidating the fiscal position, improving the business climate, attracting FDI, developing the

financial sector, and strengthening regulation. Growth is expected to pick up in 2019, with the outlook improving further over the medium term, driven by a pickup in the O&G sector and large investment projects. Nevertheless, Brunei faces challenges and risks. Future oil production and prices remain uncertain. Against this backdrop, the reforms should continue to ensure long-term sustainability and intergenerational equity, increase productivity and competitiveness, diversify the sources of growth, reduce unemployment—especially youth unemployment, and build resilience to shocks.

Staff supports the authorities' fiscal consolidation program, although more ambition is called for to bring the fiscal position gradually closer to that implied by intergenerational equity considerations. Over the medium term, staff recommends: (i) continue reforms in public services and the wage bill, including streamlining civil service vacancies, (ii) reform fuel subsidies, (iii) rebalance further budget spending toward growth-enhancing activities, and (iv) increase non-O&G revenues. Adopting a formal medium-term fiscal framework would help control spending and delink it from O&G revenue fluctuations. Digitalization can help improve public financial management.

The peg to the Singapore dollar remains appropriate, providing a credible nominal anchor and stability to the financial system. The external position is assessed to be weaker in 2018 than fundamentals. However, the current account balance, on current policies, is expected to rebound, closing the gap over the medium term as new downstream exports rise.

The authorities' initiatives toward economic diversification are commendable. Brunei has made strides in improving business environment, while attracting sizable FDI in the priority business clusters, mainly in the downstream O&G sector. Going forward, continued efforts are needed to further improve the business environment, attract quality FDI, enhance human capital, and reform labor market to foster private sector led-growth and reduce unemployment.

Staff supports the authorities' initiatives to develop the financial sector, while safeguarding financial stability and integrity. The initiatives include steps to broaden the investor base, establish a secondary bond market, develop the required infrastructure and rules for establishing a stock exchange, and put all the three pillars of Basel II in place. Given the size of banking assets placed offshore, the AMBD should closely monitor the potential risks emanating from external shocks. Staff supports the recent progress in strengthening the AML/CFT framework and the additional measures planned for the upcoming mutual evaluation.

The authorities should address the remaining data gaps. Staff welcomes the authorities' commitment to publishing the NSDP in line with the recent IMF TA on e-GDDS, as well as the authorities' plan to request further TA from the IMF to improve data collection and dissemination.

Brunei Darussalam: Selected Economic and Financial Indicators, 2014–24

Area: 5,765 sq. kilometers
 Population (2018): 442,400
 Nominal GDP per capita (2018): US\$30,668
 Main export destinations (2018): Japan (34.7), Thailand (10.1), Australia (8.8), Korea (8.6)
 Unemployment rate (2017): 9.3%
 Labor force participation rate (2017): total 62.7%; male 68.9%; female 56.5%

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices											
Nominal GDP (millions of Brunei dollars)	21,664	17,778	15,748	16,747	18,301	16,907	17,281	17,498	17,879	18,213	18,575
Nominal non-oil and gas GDP (millions of Brunei dollars)	7,733	7,658	7,463	7,521	7,595	7,653	8,048	8,302	8,554	8,709	8,877
Real GDP (percentage change) 1/	-2.5	-0.4	-2.5	1.3	0.1	1.8	4.7	3.6	3.5	2.4	2.1
Oil and gas sector GDP	-3.7	-0.2	-2.8	1.2	-1.1	2.4	3.2	3.3	3.5	2.9	2.6
Non-oil and gas sector GDP	-0.8	-0.6	-1.9	1.5	1.7	1.0	6.8	4.0	3.6	1.8	1.5
Oil production ('000 barrels/day)	126	127	121	113	112	115	118	122	126	129	132
Natural gas output (millions cu. ft./day)	1,170	1,228	1,205	1,234	1,184	1,205	1,246	1,291	1,342	1,382	1,421
Average Brunei oil price (U.S. dollars per barrel)	104.4	53.9	44.6	55.9	73.2	65.5	61.9	59.8	59.0	59.0	59.3
Average Brunei gas price (U.S. dollars per million BTU)	16.6	10.6	7.3	8.3	10.5	6.5	7.3	7.3	7.3	7.3	7.3
Consumer prices (period average, percentage change)	-0.2	-0.4	-0.7	-0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Consumer prices (end of period, percent change)	1.2	-1.0	-1.6	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2
	(In percent of GDP)										
Public finances: budgetary central government											
Total revenue	37.7	24.2	17.7	26.0	28.6	23.9	24.1	23.8	23.6	24.2	24.9
Oil and gas	32.9	18.4	12.3	17.4	23.4	17.9	18.1	17.6	17.4	18.0	18.8
Other	4.7	5.8	5.4	8.6	5.2	6.0	6.1	6.2	6.2	6.1	6.1
Total expenditure	34.1	38.7	39.4	36.6	32.2	35.4	35.5	34.9	34.1	33.5	32.9
Current	25.3	29.6	30.6	30.7	28.9	31.5	30.8	30.4	29.7	29.2	28.6
Capital	8.8	9.1	8.7	5.9	3.3	3.8	4.6	4.6	4.5	4.4	4.3
Overall balance 2/	3.6	-14.5	-21.7	-10.6	-3.6	-11.5	-11.3	-11.1	-10.5	-9.4	-8.0
Non-oil and gas overall deficit	-71.5	-68.9	-67.7	-57.1	-58.6	-60.0	-58.2	-55.8	-53.6	-52.5	-51.3
	(In percent of non-oil and gas GDP)										
	(12-month percent change)										
Money and banking											
Private sector credit	1.8	2.6	-6.2	-5.3	-3.1	0.4	1.0	1.6	1.5	1.2	1.0
Narrow money	-1.5	6.4	-0.1	-5.7	-3.0	1.9	3.1	3.7	3.6	2.7	2.0
Broad money	3.2	-1.8	1.5	-0.4	2.8	3.9	3.3	3.1	2.7	2.3	2.2
	(In millions of U.S. dollars, unless otherwise indicated)										
Balance of payments											
Goods	7,479	2,910	2,154	2,403	2,364	1,605	2,157	2,424	2,764	3,094	3,502
Exports	11,149	6,127	4,813	5,475	6,470	4,952	7,180	8,098	8,474	8,723	8,868
Of which: oil and gas	9,604	5,909	4,321	5,021	6,114	4,775	4,801	4,724	4,876	5,015	5,148
Imports	3,670	3,217	2,659	3,072	4,105	3,347	5,022	5,674	5,710	5,629	5,366
Services (net)	-955	-1,007	-1,114	-698	-1,005	-709	-745	-770	-792	-818	-832
Primary income (net)	-20	650	835	721	215	614	593	634	636	643	629
Secondary income (net)	-1,045	-397	-404	-442	-506	-451	-466	-474	-464	-468	-469
Current account balance	5,459	2,157	1,470	1,985	1,068	1,060	1,539	1,814	2,144	2,452	2,831
Current account balance (in percent of GDP)	31.9	16.7	12.9	16.4	7.9	8.5	12.0	13.8	15.9	17.6	19.8
Gross official reserves 3/	3,471	3,211	3,322	3,300	3,221	3,327	3,435	3,543	3,654	3,764	3,876
In months of next year's imports of goods and services	8.6	9.0	9.2	7.0	8.3	6.3	5.9	6.0	6.2	6.6	...
Brunei dollars per U.S. dollar (period average)	1.27	1.37	1.38	1.38	1.35	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.32	1.41	1.44	1.35	1.37	...	...	...	...	...	...

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 Autoriti Monetari Brunei Darussalam, SDR holdings, and reserve position in the Fund.