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BRUNEI DARUSSALAM

September 2021

2021 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 2021 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 1, 2021 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 1, 2021, following discussions that ended on June 21, 2021, 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 July 27, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Brunei Darussalam.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/271

IMF Executive Board Concludes 2021 Article IV Consultation with Brunei Darussalam

FOR IMMEDIATE RELEASE

Washington, DC – September 20, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Brunei Darussalam.

Brunei's economic performance—which was strong before the COVID-19 pandemic—has been buffeted by the health crisis and a pandemic-induced oil and gas (O&G) price shock. The authorities responded fast and decisively. The number of new infections was quickly suppressed, thanks to a swift public health response, effective health measures and non-pharmaceutical interventions. The O&G sector saw a significant output contraction in 2020—the largest since the oil price shock in mid-2014. In the non-O&G sector, growth performance was more heterogenous. Stringent containment measures implemented in the early stages of the pandemic negatively affected contact-intensive sectors (such as hotels, restaurants and air transport) which contracted by 1.6 percent in 2020. In contrast, growth in the downstream non-O&G sector, led by manufacture of petroleum and chemical products, was exceptionally strong, contributing 4.6 percentage points to real GDP growth in 2020. Strong fiscal and monetary policy responses helped sustain production and household income and consumption. As a result, the economy performed strongly in 2020, with real GDP posting positive growth of 1.1 percent—a rare outcome amidst negative growth in the region.

Economic activity is projected to strengthen in 2021-22, albeit at varying speeds across sectors, and to continue improving over the medium term on the back of further diversification. The outlook remains, however, subject to unusual uncertainty, with significant risks skewed to the downside. In particular, the recent resurgence of the pandemic and associated containment measures would slow the recovery, especially in the contact-intensive sectors. However, the strong fiscal and regulatory policy responses would help sustain production and household income and consumption. Stronger vaccine rollouts and energy prices could surprise to the upside.

Real GDP growth is projected at around 2 percent over the medium term and, reflecting important diversification efforts, the share of non-O&G is projected to rise further to around 52 percent of GDP by 2026. Employment is expected to increase as the recovery strengthens. Headline inflation is projected to remain relatively high, averaging 2.5 percent in 2021. Over the medium term, price pressure is expected to subside. The fiscal position is also expected to recover over the medium term. The current account surplus is expected to increase in the medium term, reflecting stronger exports of O&G and downstream products.

The high uncertainty about the path of the pandemic and global economic outlook as well as vulnerabilities to global oil price shocks pose major headwinds for Brunei. The macroeconomic policy mix should continue to support the recovery in the short term, while aiming to

[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.

strengthen resilience and promote economic transformation in the longer term. Continued short-term fiscal support is necessary to put the recovery on a solid footing. Brunei's ample fiscal reserves, with virtually no public debt, should be leveraged to underpin the recovery in private demand, while incentivizing resource re-allocation. At the same time, reforms aimed at improving the fiscal position—including a strengthening of the medium-term fiscal framework—should continue in order to achieve sustainable long-term expenditure and improve intergenerational equity. Financial sector regulation and supervision should remain vigilant. The development of a holistic macroprudential framework should be stepped-up to safeguard financial stability, while continuing to ensure access by productive sectors to financing. Structural policies to build human capital and attract higher value-added FDI would need to be strengthened. Accelerating digital and green growth will be critical to foster resilience.

Brunei has made noticeable efforts in fiscal consolidation and economic diversification, facilitating private sector employment and FDI attraction. Several initiatives to improve fiscal positions have been implemented, including a fiscal consolidation program aimed at reducing wasteful spending in the medium term, the establishment of a medium-term fiscal framework, a containment in public employment, and a first step of a subsidy reform—such as the launch of high-quality fuel without subsidy, a smart metering system for power and water, and the digitalized National Welfare System. The authorities have accelerated their efforts to diversify the economy with commencement of the Economic Blueprint, emphasizing human capital development and linkage to regional and global trade. Private sector employment has been enhanced with a variety of measures such as JobCentre Brunei, Politeknik Brunei, I-Ready, Lifelong Learning Center, SkillsPlus to facilitate job matching and training. Sizable FDI has been attracted mainly in the downstream industry thanks to customized supports from the authorities and improved business environment particularly in starting a business. Also, the authorities have established new policy packages on digitalization and climate change response for smart and green growth. The authorities remain committed to further fostering the development of the financial sector, while putting in place regulatory safeguards to preserve financial stability, including strengthening the AML/FCT framework to maintain overall financial system integrity.

Executive Board Assessment[2]

Executive Directors commended the authorities for the strong, timely, and multi-pronged policy response to the COVID-19 pandemic and associated decline in oil and gas prices. Noting the still very uncertain outlook, with risks skewed to the downside, Directors stressed the need to maintain supportive policies until the recovery is on a firm path. They also underscored the importance of continued reforms to support economic transformation, strengthen resilience, and foster green, digital, and inclusive growth.

Directors welcomed the authorities' continuous efforts to strengthen the fiscal position. In this regard, they were encouraged by several recent initiatives, including the establishment of a credible medium-term budget framework, measures to increase efficiency of public spending, rationalization of public employment, and steps to reform subsidies. Directors saw scope for

[2] 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 summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

further efforts in these areas over the medium term to reduce vulnerabilities and support intergenerational equity.

Directors agreed that the peg to the Singapore dollar remains appropriate, providing a credible nominal anchor for macroeconomic and financial stability, and helping to deepen trade and investment linkages, including with Singapore.

Directors noted the resilience of the banking sector. They commended the authorities' initiatives to enhance risk-based supervision through an early warning exercise, introduce the Basel III framework, and develop a holistic macroprudential framework. Directors also welcomed the recent legislative changes aimed at strengthening the AML/CFT regulatory and supervisory framework.

Directors encouraged the authorities to continue to build on their efforts to diversify the economy, further attract FDI, and enhance human capital and improve private employment. They welcomed the policy priorities of the recently released Economic Blueprint, and highlighted the importance of accelerating digital and green growth to foster job creation and enhance resilience.

Directors welcomed the steps taken to address data gaps and the authorities' commitment to further improve data compilation and reporting. They noted the authorities' plan to request further capacity development support from the IMF to improve data collection and dissemination.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2016–26

Area: 5,765 sq. kilometers
Population (2019): 433,285
Nominal GDP per capita (2019): US$31,087
Main export destinations (2019): Japan (34.7), Thailand (10.1), Australia (8.8), Korea (8.6)
Unemployment rate (2019): 6.8%
Labor force participation rate (2019): total 64.3%; male 72.5%; female 54.8%

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices											
Nominal GDP (millions of Brunei dollars)	15,748	16,747	18,301	18,375	16,561	20,626	21,086	20,237	20,141	20,192	20,356
Nominal non-oil and gas GDP (millions of Brunei dollars)	7,463	7,514	7,572	7,733	7,642	8,333	8,550	8,705	8,869	9,046	9,233
Real GDP (percentage change) 1/	-2.5	1.3	0.1	3.9	1.1	2.0	2.6	2.4	2.2	2.1	2.1
Oil and gas sector GDP	-2.8	1.2	-2.8	3.9	-4.9	0.5	0.9	1.1	1.4	1.3	1.3
Non-oil and gas sector GDP	-2.0	1.5	3.9	3.9	8.8	3.6	4.4	3.7	3.0	2.8	2.8
Oil production ('000 barrels/day)	121	113	112	121	110	109	108	106	105	102	101
Natural gas output (millions BTUs/day)	1,397	1,430	1,372	1,313	1,077	1,065	1,081	1,094	1,123	1,158	1,192
Average Brunei oil price (U.S. dollars per barrel)	44.6	55.9	73.2	68.6	43.1	62.7	62.9	58.9	57.2	55.7	55.1
Average Brunei gas price (U.S. dollars per million BTU)	7.3	8.3	10.5	9.1	6.7	7.1	8.7	7.3	7.3	7.3	7.3
Consumer prices (period average, percentage change)	-0.4	-1.3	1.1	-0.4	1.9	2.5	1.5	1.0	1.0	1.0	1.0
					(Fiscal Year, In percent of GDP)						
Public finances: budgetary central government											
Total revenue	22.7	22.7	32.7	26.4	12.5	19.1	19.4	18.5	19.1	18.8	18.7
Oil and gas	16.2	17.5	26.4	19.8	7.7	13.6	13.8	12.6	13.1	12.7	12.4
Other	6.5	5.3	6.3	6.5	4.9	5.5	5.6	5.9	6.0	6.1	6.3
Total expenditure	39.3	35.6	32.5	31.9	32.2	28.4	28.8	29.0	29.6	29.7	29.8
Current	31.2	30.4	29.8	29.5	30.9	26.0	26.2	27.1	27.3	27.4	27.3
Capital	8.1	5.2	2.7	2.4	1.3	2.4	2.6	2.0	2.3	2.3	2.4
Overall balance 2/	-16.6	-12.9	0.2	-5.6	-19.7	-9.3	-9.4	-10.5	-10.5	-10.9	-11.1
Non-oil and gas balance	-65.1	-63.2	-56.9	-54.0	-53.0	-52.4	-52.1	-49.8	-49.9	-49.1	-47.1
(In percent of non-oil and gas GDP)											
					(12-month percent change)						
Money and banking											
Private sector credit	-6.1	-5.3	-3.1	2.0	0.2	2.5	1.9	1.5	1.5	1.4	1.3
Narrow money	-0.1	-5.7	-3.0	6.6	20.8	15.1	4.5	2.4	1.9	1.9	1.0
Broad money	1.5	-0.4	2.8	4.3	-0.4	3.7	3.2	2.8	1.8	1.8	1.7
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Goods	2,154	2,403	2,358	2,212	1,385	1,213	862	507	923	1,009	1,388
Exports	4,813	5,475	6,448	7,213	6,541	7,481	7,881	8,375	9,355	9,900	10,789
Of which: oil and gas	4,321	5,021	2,691	3,244	2,943	3,883	4,536	4,051	4,130	4,207	4,205
Imports	2,659	3,072	4,089	5,001	5,156	6,268	7,019	7,868	8,432	8,892	9,401
Services (net)	-1,114	-698	-1,002	-1,189	-854	-869	-891	-914	-938	-961	-985
Primary income (net)	835	721	85	362	362	893	1,344	1,781	1,967	2,094	2,113
Secondary income (net)	-404	-442	-504	-490	-350	-448	-429	-409	-429	-422	-420
Current account balance	1,470	1,985	937	895	542	789	886	965	1,523	1,719	2,096
Current account balance (in percent of GDP)	12.9	16.4	6.9	6.6	4.5	5.1	5.5	6.1	9.7	10.8	13.0
Gross official reserves 3/	3,322	3,300	3,221	4,052	3,721	4,242	4,352	4,462	4,574	4,686	4,798
In months of next year's imports of goods and services	9.2	7.0	5.7	7.6	6.0	6.1	5.7	5.5	5.4	5.2	5.1
Brunei dollars per U.S. dollar (period average)	1.38	1.38	1.35	1.36	1.38	…	…	…	…	…	…
Brunei dollar per U.S. dollar (end of period)	1.44	1.35	1.37	1.36	1.33	…	…	…	…	…	…

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.

INTERNATIONAL MONETARY FUND

BRUNEI DARUSSALAM

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 27, 2021

KEY ISSUES

Context. Brunei's economic performance—which was strong before the COVID-19 pandemic—has been buffeted by the health crisis and a pandemic-induced oil and gas price shock. The authorities responded fast and decisively. The number of new infections was quickly suppressed, thanks to a swift public health response, effective health measures and non-pharmaceutical interventions. Strong fiscal and regulatory policy responses helped sustain production and household income and consumption. Past diversification efforts and reforms bore fruit when it was most needed. As a result, the economy performed strongly in 2020, with real GDP posting positive growth of 1.1 percent—a rare outcome amidst negative growth in the region. Economic activity is projected to strengthen in 2021-22, albeit at varying speeds across sectors, and to continue improving over the medium term on the back of further diversification. The outlook is, however, subject to unusual uncertainty, with significant risks skewed to the downside. Sustained strong policy actions are needed to ensure continued resilience, while nurturing green, digital and inclusive growth.

Main policy recommendations. Policies should continue to support the recovery, limit scarring, and promote further economic transformation to foster resilience.

- In the short term, continued fiscal support is necessary to put the recovery on a solid footing. Brunei's ample fiscal reserves, with virtually no public debt, should be leveraged to underpin the recovery in private demand, while incentivizing resource re-allocation.
- Reforms aimed at improving the fiscal position over time—including strengthening medium-term fiscal frameworks—should continue in order to achieve sustainable long-term expenditure and improve intergenerational equity.
- Financial sector regulation and supervision should remain vigilant. The development of a holistic macroprudential framework should be stepped-up to safeguard financial stability, while continuing to ensure access by productive sectors to financing.
- Targeted labor market policies should be ramped up. Policies to build human capital and attract higher value-added FDI need to be strengthened. Accelerating digital and green growth will be critical to foster longer-term economic transformation and resilience.

Approved By
Odd Per Brekk (APD) and Bjoern Rother (SPR)

Mission meetings were held virtually during June 8 – 21, 2021. The mission team comprised: Davide Furceri (Head), Anthony Tan, Sang Mok Lee, and Kaustubh Chahande (all APD). Zaidi Mahyuddin (OED) joined the mission. Rosemary Lim (Executive Director) and Firman Mochtar (Alternate Executive Director) joined the concluding meeting. Data used in this report for staff analyses are as of July 21, 2021, unless otherwise noted.

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APPENDICES

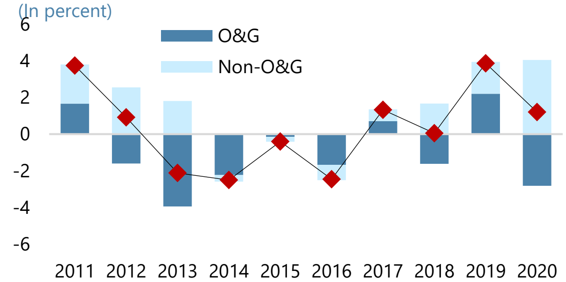
CONTEXT AND RECENT DEVELOPMENTS

1. **The Brunei economy has been buffeted by the COVID-19 pandemic and the associated oil and gas (O&G) price decline**. The first confirmed COVID-19 case was reported in the Sultanate on March 9, 2020. The number of cases increased rapidly to 100 cases in just 15 days, with the first COVID-19 fatality reported on March 28, 2020. In addition to the health shock, Brunei had to contend with the pandemic-induced decline in global oil and gas prices, which dropped by 22 percent from 2019 to 2020. Thanks to early and decisive interventions, the authorities succeeded in suppressing the first wave of the outbreak (as of mid-July 2021, there had been no cases of community transmission since May 5, 2020) and rolled out economic relief measures to cushion the economic toll (Appendix I). As a result, the economy performed well in 2020, with real GDP posting 1.1 percent growth—a rare outcome amidst a sea of negative growth in the region.

2. **Economic performance has varied across sectors.** The oil and gas sector saw a significant output contraction in 2020—the largest since the oil price shock in mid-2014. Despite the pickup in global oil prices since October last year, Brunei's O&G sector in Q4 2020 has remained in large contraction (-8.6 percent yoy) due to the unscheduled shutdown and maintenance of some offshore O&G facilities. In the non-O&G sector, growth performance was more heterogenous. Stringent containment measures implemented in the early stages of the pandemic negatively affected contact-intensive sectors (such as hotels, restaurants and air transport) which contracted by 1.6 percent. In contrast, growth in the downstream non-O&G sector, led by manufacture of petroleum and chemical products, was exceptionally strong (+324 percent yoy) contributing 4.6 percentage points to real GDP growth in 2020.[1]

Contributions to Real GDP Growth

(In percent)



Real GDP Growth

(In percent)

	2019	2020					2021
	Year	Q1	Q2	Q3	Q4	Year	Q1
GDP	**3.9**	**2.3**	**3.4**	**0.4**	**-1.4**	**1.1**	**-1.4**
O&G	-1.9	-4.0	-1.3	-5.6	-8.6	-4.9	-5.3
Non-O&G	2.1	10.6	9.6	7.8	7.4	8.8	3.2
Downstream Activities 1/	-	*764.8*	*480.5*	*432.9*	*142.5*	*323.9*	*-71.0*
Excluding Downstream Activities	*0.6*	*-2.1*	*-2.4*	*-0.2*	*-1.8*	*-1.4*	*1.5*

Sources: Brunei authorities, CEIC Data.

1/ Annual growth figure for downstream non-O&G activities are not available for 2019, as operations commenced in late-2019,

3. **The pandemic has affected local and non-local workers differently.** While employment of local workers increased due to positive economic growth and the facilitation of job matching through the JobCentre Brunei website and expanding the I-Ready Apprenticeship program, non-local employment was negatively impacted by entry restrictions to Brunei. The combined result was a decline of the labor force and a potential increase in the unemployment rate. Across sectors,

[1] Hengyi Industries is a joint venture between China's Zhejiang Hengyi Group and Damai Holdings (part of Brunei Government Strategic Development Capital Fund). It is a major refinery and petrochemical plant, and a major FDI project. Operations commenced in late 2019 and reached full capacity in 2020.

employment increased in wholesale and retail, health and social work, and construction, while it declined slightly in manufacturing and mining and quarrying.

4. **Headline inflation rose to 1.9 percent in 2020**, mainly on account of higher food prices—reflecting supply constraints—and an increase in insurance prices.

5. **The fiscal deficit increased from 5.6 percent of GDP in FY2019/20 to 19.7 percent in FY2020/21.** The widening of the deficit largely reflected lower energy prices and oil production and exports, which reduced O&G revenue from 19.8 percent of GDP in FY2019/20 to 7.7 percent in FY2020/21. The decline in revenue has been partly offset by a trend decline in expenditure, reflecting authorities' efforts to improve fiscal sustainability. The government allocated BND15 million in FY2020/21 to meet the immediate needs of the health sector. The government also rolled out a sizeable economic relief package to support the households and firms most affected by the pandemic, including the deferment of payments on Employee Trust Fund and Supplemental Contributory Pensions contributions, discounts on corporate income taxes, rents and utilities, deferment on principal payments of financing to all sectors, and 25 percent payroll subsidies to affected micro, small and medium enterprises (MSMEs) with less than 100 employees (Appendix I). The stimulus package amounted to BND450 million–about 2.7 percent of GDP.

Text Table. Brunei Darussalam: Fiscal Development [1/]

	2016/17	2017/18	2018/19	2019/20	2020/21
	(Percent of GDP)				
Revenue	22.7	22.7	32.7	26.4	12.5
Oil & Gas	16.2	17.5	26.4	19.8	7.7
Non-Oil & Gas	6.5	5.3	6.3	6.5	4.9
Expenditure	39.3	35.6	32.5	31.9	32.2
Current	31.2	30.4	29.8	29.5	30.9
Capital	8.1	5.2	2.7	2.4	1.3
Overall Balance 2/	-16.6	-12.9	0.2	-5.6	-19.7
Non-O&G Balance (% of Non-O&G GDP)	-65.1	-63.2	-56.9	-54.0	-53.0
	(millions of BND)				
Nominal GDP	15,906	17,048	18,453	18,385	16,213
Nominal non-O&G GDP	7,476	7,529	7,612	7,710	7,815

Source: Brunei authorities, IMF staff estimates

1/ Fiscal year: April-March

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

6. **The current account surplus narrowed.** Exports contracted in 2020 in line with declining O&G production amid a downturn in global demand. Imports have held up, led by robust demand for imported crude as downstream refinery activities expanded. As a result, the current account surplus narrowed to 4.5 percent of GDP in 2020 (2019: 6.6 percent of GDP). The external position is assessed to be substantially weaker than the level implied by medium-level fundamentals and desirable policies (Appendix II).

7. **The banking system remains sound and well-capitalized.** The bank capital ratio remains adequate, well above regulatory requirements (2020: 20.8 percent), while the gross performing loan ratio remains stable (2020: 4.7 percent) partly due to policy support. However, private sector credit growth has slowed since Q1 2020, reflecting the weaker demand, mainly by the household sector.

Authorities' Views

8. **The authorities broadly agreed with the assessment of recent developments.** While the pandemic continues to have disproportionate impact on some sectors (notably hotels and air transport), it has also contributed to higher domestic consumption. This has benefited local businesses (such as the wholesale and retail sectors) which saw an increase in activities during the pandemic. As a result, there has also been a notable shift in the direction of bank lending to the

business sector. They expect these positive developments to continue given that with current travel restrictions Bruneians will spend more domestically rather than abroad. The key growth driver stemmed from the robust activities in the downstream non-O&G sector, which helped to mitigate the decline in upstream O&G production, which was weighed down by ongoing rejuvenation and major maintenance works. The authorities reiterated that through a 'whole-of-government'[2] approach, Brunei was able to contain the spread of the virus early, which resulted in over a year of zero cases of community infections so far. Together with timely rollout of economic relief measures, it helped to support vulnerable households and businesses affected by the pandemic, while paving the way of a swift re-opening of the economy.

OUTLOOK AND RISKS

9. Growth is projected to improve in 2021-22. The O&G sector is projected to recover marginally in 2021 (+0.5 percent yoy) amid ongoing rejuvenation program and scheduled major maintenance of offshore facilities, with the outlook gradually strengthening over the medium term. In the non-O&G sector, downstream activities are expected to remain strong, driven by the commencement of new FDI projects, particularly Brunei Fertilizer Industries, which are expected to come onstream towards H2 2021. The contact-intensive non-O&G sector is also expected to pick up in 2021[3] as domestic containment measures are phased out and vaccination is progressing (as of mid-July 2021, one-quarter of the population had received at least one dose—Appendix I). For 2021-22, growth is projected to accelerate to 2-3 percent, before slowing to around 2 percent over the medium term.[4] With continued diversification, the share of non-O&G is projected to rise further to 52 percent of GDP by 2026.

10. Employment is expected to increase in 2021 as the recovery strengthens. The number of workers paying pension contributions in 2021 has exceeded the peak in 2020 (increasing from 58,630 in July 2020 to 61,088 in January 2021), suggesting a continuous improvement in local private employment. However, given that travel restrictions remain in place, the extended border closure will continue to have a negative impact on non-local employment.

11. Headline inflation is projected to remain relatively high, averaging 2.5 percent in 2021, given the anticipated cost-push inflation from limited alternative import supplies and higher logistics costs due to the pandemic. Over the medium term, price pressure is expected to subside, including through ongoing measures to increase domestic food supplies. Structural factors, including subsidies and the currency's peg to the Singapore dollar, will help mitigate upside risks.

12. The fiscal balance is expected to improve in 2021 as energy prices and economic activity pick up. However, absent strong consolidation measures aimed at reducing spending, the fiscal deficit is projected to fluctuate at 9-11 percent of GDP during FY2021/22-2026/27. Revenues are projected at about 18.7 percent of GDP in FY2026/27, with declining energy prices and oil

[2] 'Whole-of-government' refers to unified inter-government agency coordination and implementation of government policies.

[3] Non-O&G sector activities grew by 3.2 percent yoy in Q1 2021, supported by the recovery in the contact-intensive sectors.

[4] Medium-term output losses due to the pandemic—defined as revisions to projected 2025 GDP levels between the January 2020 and current forecasts—are estimated to be 4.3 percent compared to 7.5 percent for Asia.

production being offset by higher gas production and non-O&G revenue. Expenditures are projected at about 29.8 percent of GDP in FY2026/27.

13. The current account surplus is projected to increase in 2021-22. The current account surplus has narrowed over the past several years, mainly due to large import demand for FDI-related infrastructure and weaker oil and gas prices. With the completion of major FDI projects, imports are starting to slow and exports proceeds are expected to increase. The current account surplus is projected to be at about 5 percent of GDP in 2021-22, before increasing to about 13 percent of GDP in 2026. Taking into account the new SDR allocation of about US$650 billion in 2021 (of which Brunei's allocation would be US$412 million), Brunei's reserves (excluding gold) under this baseline scenario would stand at around 210 percent of the Fund's assessing reserves adequacy (ARA) composite metric in 2021. [5]

14. Projections are subject to unusual uncertainty, with significant risks skewed to the downside. In particular, the continuing weakness in the O&G sector could weigh on growth over the forecast horizon. Resurgence of the pandemic and delayed structural transformation would slow the recovery. New waves of infections around the world and the potential for new virus strains in undermining vaccine efficacy are concerning and could undermine global confidence. In addition, COVID-19 infection spillovers from other countries in the region is a material risk.[6] However, stronger energy prices could surprise to the upside. A setback to the global economic recovery would have knock-on effects of global oil prices (Box), derailing the prospects of recovery but large fiscal buffers could be deployed if necessary. Unexpected changes in energy production and delays in large-scale FDI projects are additional risks.

Authorities' Views

15. The authorities concurred that despite the challenges, the outlook remains positive. They expect the economy to grow between 0.8 and 1.6 percent in 2021, driven by continuing strong momentum in the downstream non-O&G sector. The scheduled commencement of production by Brunei Fertilizer Industries towards end of 2021, and the planned Hengyi Industries' Phase 2 construction project in 2022 are expected to provide growth impetus over the medium term. However, as in any major FDI project, the authorities acknowledged that there are uncertainties surrounding the commissioning of such activities and are mindful of the risks. Inflation pressures have risen, mainly from higher cost-push inflation stemming from limited alternative import supplies and higher logistics costs due to the pandemic. To address rising price pressures, the government has introduced measures to increase domestic food supplies (such as the collaboration between the Ministry of Primary Resources and Tourism and local entrepreneurs to increase the number of chicken coops to meet the local demand for broilers). While the uncertainties of the pandemic will continue to be a risk to the broader economic outlook, vaccination will be key in helping to prevent a

[5] The SDR allocation is contingent on the Board of Governors approval. Under a non-SDR allocation alternative scenario, reserves (excluding gold) stand at around 190 percent of the Fund's ARA metric in 2021.

[6] In response to the rising number of COVID-19 new cases in several countries in the region, Brunei suspended the entry for foreign nationals departing from or through India from April 27 and extended the suspension to Nepal, Sri Lanka, Pakistan and Bangladesh from May 17.

second wave of infections. In this regard, the authorities are making good progress in the vaccine rollout and are expecting more supplies of vaccines this year.

ECONOMIC POLICIES

The high uncertainty about the path of the pandemic and global economic outlook as well as vulnerabilities to global oil price shocks pose major headwinds for Brunei. Persistent low oil prices would gradually erode fiscal buffers, while low productivity in the non-O&G sector would weigh on medium-term potential growth and job creation. The macroeconomic policy mix should continue to support the recovery in the short term, while aiming to strengthen resilience and promote economic transformation in the longer term. Continued short-term fiscal support is necessary to put the recovery on a solid footing. Brunei's ample fiscal reserves, with virtually no public debt, should be leveraged to underpin the recovery in private demand, while incentivizing resource re-allocation. At the same time, reforms aimed at improving the fiscal position—including a strengthening of the medium-term fiscal framework—should continue in order to achieve sustainable long-term expenditure and improve intergenerational equity. Structural policies to build human capital and attract higher value-added FDI would need to be strengthened. Accelerating digital and green growth will be critical to foster resilience.

A. Supporting the Economy While Improving Intergenerational Equity

Dual Approach for Recovery and Sustainability

16. Fiscal policy should remain supportive until the private sector recovery is entrenched. Fiscal support targeted to address the health crisis and prevent scarring has been implemented, including the establishment of a national isolation center, special allowance for healthcare workers, and a 50 percent discount on corporate income tax in affected sectors.[7] The authorities' plan to keep expenditure in FY2021/22 unchanged at the FY2020/21 level despite decreased revenue is appropriate, given the current slack in the non-downstream of the non-O&G sector.[8] While the unprecedented fiscal measures in the economic relief package expired in September 2020 as COVID-19 was well contained, some fiscal and financial support measures have been extended until September 2021. Broad lifelines should be phased out gradually and support withdrawn once there are signs of a self-sustained recovery in private domestic demand, and future support should then be geared towards achieving re-allocation of resources to new dynamic (green and digital) sectors.

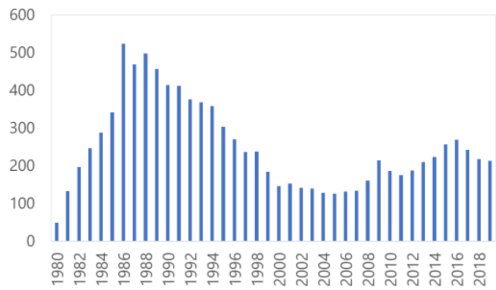
17. Looking ahead, a resumption of medium-term fiscal consolidation efforts is called for. The government has made good progress in fiscal consolidation, consistent with the Fund's recommendations. However, the fiscal deficit could further widen if O&G prices drop to the lowest level during the pandemic (Box). The gap between expenditure and sustainable long-term expenditure—under the permanent income hypothesis (PIH) used for oil-exporting economies—has declined since the previous Article IV consultation and is now projected at about 2.6 percent of GDP in 2026. Closing the current gap would require further efforts, including through a reduction in

[7] A contingent budget of BND20 million for communicable diseases has been established for FY2021/22.

[8] The output gap for the year 2020 in non-downstream non-O&G sector is estimated to be between -1.4 and -2.3 percent.

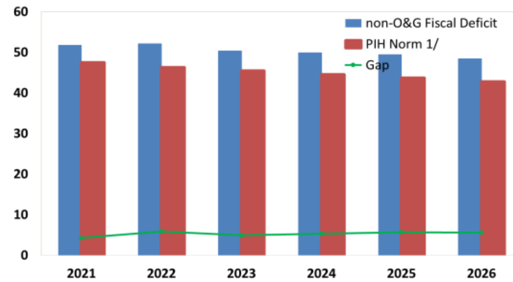
inefficient spending and reliance on O&G revenue. Substantial fiscal buffers with virtually no public debt enable the government to adjust public finance gradually, limiting the negative growth impact.

Brunei Darussalam: Cumulative Fiscal Balance
(In percent of GDP)



Sources: Brunei authorities, IMF staff calculations.

Brunei Darussalam: Non-O&G Fiscal Deficit vs. PIH Norm
(in percent of non-O&G GDP)



Source: IMF staff estimates.
1/ Using a constant real per-capital annuity

Fiscal Consolidation

18. Fiscal consolidation strategies should preserve growth-enhancing spending. The government has been implementing the fiscal consolidation program since 2018, requesting ministries to prepare a five-year plan that includes reforms to reduce inefficient spending. Government expenditure has steadily declined from 39.3 percent of GDP in FY2016/17 to 32.2 percent in FY2020/21. At the same time, while spending on physical infrastructure has been curtailed substantially, undermining potential growth, limited progress has been made in restraining current spending.

19. Reforming the current untargeted subsidy scheme is a priority in order to reduce inefficient resource allocation and consumption inequality.[9] Subsidies should be managed in a consolidated way and included as formal budgetary items, and a strategy for subsidies reform should be initiated, with: (i) careful and gradual implementation; (ii) clear and continuous communication; and (iii) compensatory measures for the vulnerable. While the authorities have made tangible efforts to reform subsidies—such as launching high quality fuel without subsidy, installing a smart metering system for electricity and water in 2020, establishing the digitalized National Welfare System for efficient and targeted social expenditure in July 2020 as well as discussing electricity tariff adjustment—additional steps to reduce subsidies gradually—away from the more distorting items (such as fuel) and from the high-income groups (such as the abolition of fuel subsidy on luxury cars) —are encouraged.

20. Reducing the wage gap between the public and private sector would help addressing labor market duality. The authorities have narrowed public employment opportunities by tightening temporary job offerings and reformed the pension system to eliminate differences between public and private workers. However, public wages remains well above private-sector levels and represent more than 30 percent of government expenditure, despite a decrease in the number

[9] The scope of subsidies is widespread ranging from fuel, electricity, water, food, housing to healthcare. The cost on fuel was estimated at 1-1.5 percent of GDP in the IMF technical assistance (2015).

of public officials in FY2021/2022.[10,11] Policy reforms are needed to contain civil service hiring through intensified manpower auditing, control of the level of public salaries and strengthened labor productivity in the public sector.

21. Curtailing reliance on O&G sector would reduce fiscal vulnerabilities. The recent developments in downstream industry give an opportunity to redesign the tax system associated with non-O&G sector.[12] Tax administration should be strengthened, and the tax system needs to be broadened from recalibrating property taxes, expanding excise taxes particularly on products with a negative impact on health and environment, and adopting a Goods and Services Tax (GST).

22. The reforms laid out above would contribute to economic diversification while strengthening the fiscal position. More ambitious reforms of fuel subsidies and public wages (the adjustment scenario) could achieve a reduction in the deficit path by 1.4 percent of GDP annually in the medium term, relative to the baseline scenario reflecting the authorities' current policies. Such an adjustment would contribute toward closing the gap between expenditure and sustainable long-term expenditure. The remaining gap could be filled by (i) bolstering subsidy reforms on housing, electricity, water, food, and healthcare, (ii) cutting in inefficient spending, and (iii) implementing corporatization and privatization.

Text Table. Brunei Darussalam: Medium-Term Fiscal Balances under Different Scenarios

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	cumulative
	(Fiscal year basis, percent of GDP)						2021/22-2026/27
Fiscal balance under:							
Baseline scenario	-9.3	-9.4	-10.5	-10.5	-10.9	-11.1	-61.7
Policy adjustments 1/	-9.3	-8.7	-9.5	-9.1	-9.5	-9.7	-55.7

Source: IMF Staff calculations

1/ Policy adjustments relative to the baseline: containing wage bill (0.2 percent of GDP) and fuel subsidy reform (1.2 percent of GDP) gradually from 2022/23 to 2024/25, and sustained in the medium term.

Public Finance Management

23. Strengthening public finance management would improve spending efficiency. Brunei's quality of infrastructure falls short of that in countries with similar economic structures and income levels. The Public Investment Management Assessment (PIMA) of the IMF would help the authorities to improve the efficiency of the public investment process by evaluating the current system and identifying effective policy options (Appendix IV). The recently adopted Medium-Term Fiscal Framework (MTFF) and the inclusion of medium-term projections for annual budgeting purposes are important reforms. Further development of the MTFF, such as the inclusion of potential gains from fiscal consolidation programs and taxation changes into the medium-term budget, would bolster the fiscal framework. The adoption of fiscal rules—including the introduction of a primary balance-to

[10] While salaries budget per government employee is BND32,089 in FY2019/20, average income is BND19,368 in 2019.

[11] The salaries and number of government employee: (FY2020/21 budget) BND1.99 billion and 67,126 → (FY2021/22 budget) BND2.02 billion and 65,281.

[12] Non-O&G tax revenue represents 9.9 percent of total revenue and 2.0 percent of GDP on average during FY2018/19-FY2020/21.

non-hydrocarbon GDP target and a contingency plan identifying revenue and expenditure measures that could be taken in the event of a sharp drop in energy prices—would reduce fiscal procyclicality and help anchoring medium-term fiscal targets.

24. The authorities' efforts on corporatization, privatization, and public-private partnership (PPP) are tangible steps to strengthen public finance management. A corporatization and PPP special committee was established under the Ministry of Finance and Economy (MoFE) in 2018 and has reviewed a range of sectors (electricity, water, post office, and air transportation) for corporatization.[13] Further efforts on corporatization, PPP as well as privatization should contribute to fiscal consolidation through increased revenue and private sector development.

25. Reducing the budget-execution gap and off-budget measures would help enhance fiscal transparency. Despite significant efforts to better align actual and budgeted spending—including through more realistic assumptions on economic activity—the gap between budget targets and outturns has not lessened due to drastic volatility in oil and gas prices. Also, public funds have been managed and utilized off-budget.[14] Policies aimed at improving consistency between budgets and outturns—such as strict controls on budget execution and changes—and reducing off-budgets activities would improve the allocation of public resources consistently with national priorities, while improving fiscal integrity and transparency.

Authorities' Views

26. The authorities agreed with continuing fiscal reforms, underscoring budgetary investment on diversification and private sector development and cost-effective spending. The authorities have advanced fiscal consolidation, implementing the Fiscal Consolidation Program since FY2020/21 with 117 initiatives and reallocating inefficient spending to future investment. The development expenditure execution delayed by COVID-19 is expected to resume in FY2021/22. The authorities have taken steps to reform subsidies in more efficient manner such as through the launch of premium fuel without subsidy, smart meter for water and power as well as exploratory discussions on power tariff improvements. The establishment of the National Welfare System is also aimed to ensure support to those most in need and enables the government to conduct assessments in more targeted and systematic manner. The MoFE is in the process of consolidating subsidies data across the line-ministries through the ongoing Treasury Accounting and Financial Information System 2.0 project. Strengthening the Public Service Department/Commission ensured optimization of manpower through the implementation of manpower auditing. This also avoided duplication of functions and redundancy whilst ensuring equitable and efficient deployment through redeployment and retraining and only resorting to new recruitment only when deemed necessary. Deliberations are being undertaken on possible expansions of excise taxes in the near future, especially on goods harmful to the environment and health, which will serve a dual purpose of achieving socio-economic sustainability and increasing government revenue. The authorities agreed with the need to

[13] For example, the government printing agency was corporatized to Print Plus in 2020.

[14] Brunei maintains several extra-budgetary funds for different purposes. The consolidated fund holds the fiscal surpluses and provides capital transfers to other extra-budgetary funds. The sustainability fund for long-term fiscal sustainability has sub-funds designated for pension payment, development investment and fiscal deficit compensation. The general reserve fund, as a sovereign wealth fund, manages financial savings for intergenerational equity.

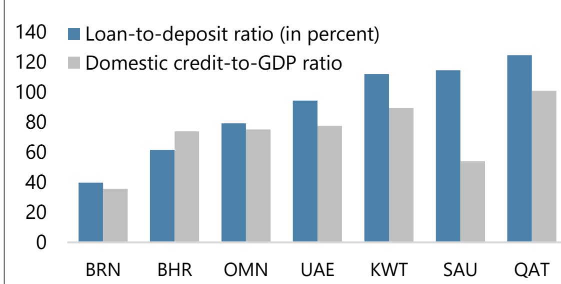
strengthen public finance management, showing interest in the PIMA of the IMF to optimize the public investment. Capacity building would be beneficial to strengthen the MTFF and the adoption of fiscal rules such as targeting a primary balance to non-O&G GDP will take time for review, while looking appropriate to Brunei. As part of its efforts to ensure efficient public finance and stimulate the private sector, the authorities have undertaken to corporatize the printing service of the government and to implement PPP in the health and fisheries sector. In addition, the authorities adopted timely fiscal measures including the deferment on contributions towards Employee Trust Fund and Supplemental Contributory Pension as well as the salary subsidies for sector-targeted MSMEs to mitigate negative impacts from COVID-19. All budgetary expenditures and procurements for responding COVID-19 have been examined by the Auditor General.

B. Safeguarding Financial Stability

27. The Currency-Interchangeability Agreement between Brunei and Singapore promotes monetary and financial stability. Under this arrangement, the monetary authorities and licensed banks in both countries are obliged to accept and exchange each other's currencies at par and without charge, into their own currency. As the Brunei dollar is anchored to the Singapore dollar, Singapore's monetary policy has a direct influence on monetary conditions in Brunei. This framework has been beneficial for macroeconomic stability—inflation in Brunei has been low and stable, averaging 1.1 percent over 1983–2020.

28. While the banking system is sound, domestic credit continues to lag as compared to peers. Brunei's banking system loan-to-deposit ratio has declined due to weaker credit demand associated with the pandemic and remains much lower than peers in the GCC countries. This difference reflects structural factors such as Brunei's small domestic market and the relatively shallow financial system. However, the composition of lending has seen a positive shift towards the business sector in recent years.

Selected Indicators of Financial Development (2020 or latest), *(In percent)*



Sources: Haver Analytics, World Bank, IMF staff calculations

29. The authorities have taken wide-ranging measures to develop and improve the resilience of the financial sector. The authorities have taken steps to put all three pillars of Basel II in place. Early this year, the Brunei Darussalam Central Bank (BDCB) issued a consultation paper to the industry on Basel III Implementation Roadmap, paving the way for the introduction of the Basel III framework. Discussions are on-going to develop a holistic macroprudential framework to safeguard financial stability, including a preliminary assessment of the countercyclical capital buffer. On MSME financing, given that most MSMEs typically lack proven track records and collateral, access to financing would continue to be a key hurdle, impeding private sector development. It is encouraging to note that the Credit Bureau continued to serve its purpose, helping to promote greater lending transparency, as well as prudent lending and borrowings. The Credit Bureau is planning to roll out other services, such as the Portfolio Alerts and Monitoring module by end of the year. The module will allow the banks and finance companies to monitor their existing customer accounts portfolio in order to provide customer behavioral insights and therefore support decision-making. Robust implementation of AML/CFT regulatory and supervisory framework is also critical to safeguard financial integrity. In this regard, staff notes that two laws were amended in 2020, namely the Criminal Asset Recovery Order and the Companies Act. In addition, amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) regulations are currently being prepared, while the Counter Proliferation Financing Order is being finalized.[15]

30. Volatility in global oil price calls for a careful monitoring of risks associated with banks' placement of excess liquidity abroad. Given the low intermediation, banks in Brunei tend to place excess liquidity abroad, notably in the inter-bank market, as well as in short-term money market instruments and government securities, for example in Singapore. Such placement of excess liquidity abroad would depend on the volume of export proceeds and investment income, which is in turn subject to fluctuations in global oil prices. The risk could stem from foreign currency exposure to large exchange rate fluctuations for non-Singapore dollar-denominated placements, resulting in large financial losses. The authorities should remain vigilant and strengthen the risk management framework for monitoring and controlling liquidity risk, as financial conditions may shift abruptly and be accompanied by weaker global oil prices.

Authorities' Views

31. The authorities broadly agreed with the assessment of financial policies. In response to the pandemic, the authorities moved quickly to put in place targeted financial assistance as part of the broader economic relief package. This has helped to alleviate financial distress of affected households and businesses. They noted that further extension of these regulatory measures will depend on evolving macroeconomic conditions, and be done in consultation with other stakeholders. On the financial risks from banks' offshore placement activities, the authorities acknowledged the inherent risks from large exchange rate swings and are actively monitoring banks' foreign currency exposure continuously. On broader financial policies, the BDCB has put in place regulatory and supervisory framework for domestic systemically important financial institutions. The authorities also indicated that the development of a holistic macroprudential policy framework remains in progress. The authorities considered that the Currency Interchangeability Agreement has been mutually beneficial for both Brunei and Singapore, which reflects both countries' underlying economic fundamentals, such as the strong external balance position, which in turn enabled both countries to benefit from stronger trade and investment linkages.

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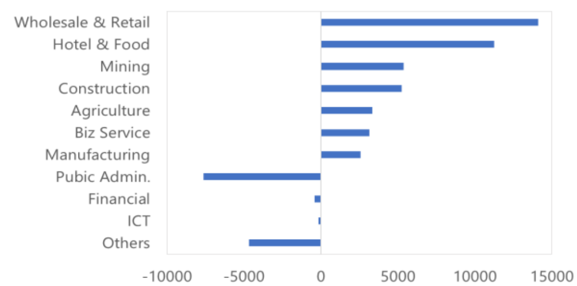
[15] In 2020, the Asia Pacific Group on Money Laundering Mutual Evaluation initiated Brunei's third round of evaluation process. The Financial Intelligence Unit as the National Anti-Money Laundering and Terrorism Financing Committee Secretariat is the coordinator for Brunei. The responses to the Technical Compliance Questionnaire were submitted in May 2020 with the first round of clarifications completed in October 2020. The Effectiveness Questionnaire responses were submitted in October 2020. In January 2021, the second round of clarifications for the Technical Compliance questionnaire responses were provided to the assessment team. The evaluation is currently on pause until three months before the onsite to Brunei can be scheduled according with the global pandemic situation.

C. Promoting Private Sector Developments and Fostering Economic Transformation

32. The recent initiatives to increase private sector employment are welcome. Private sector employment has grown steadily to about 147,000 in 2019 from 101,000 in 2014, but mainly in low value-added services such as wholesale and retail, and hotel and food. In addition, duality remains high—local workers accounted for 97.5 percent of public employment but only 50.7 percent of private jobs in 2019—as does youth unemployment. To address these challenges, the authorities have developed several initiatives including recently the JobCentre Brunei for job matching, the Institute of Brunei Technical Education, the Politeknik Brunei and the I-Ready Apprenticeship program for job seekers training, the Lifelong Learning Center and the SkillsPlus Program for upskilling and reskilling. They have also introduced a salary guideline for selected job positions to address low pay in the private sector. In particular, the Manpower Planning and Employment Council has integrated and coordinated the efforts in the government and the private sector. Moreover, the Manpower Industry Steering Committee has played the role of collaborative platform between industries, regulator and training agencies, identifying employment demand, developing the competency framework, and reducing skill mismatch in the labor market.

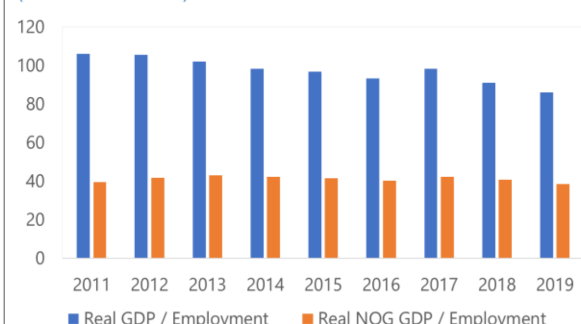
Brunei Darussalam: Change in Employment
(From 2014 to 2019)



Source: Brunei authorities.

33. Productivity could be boosted by upgrading innovative competency and human capital. Stagnant productivity is holding back potential growth. Enhancing productivity through state-of-the art technology and innovation and boosting human capital are priorities in the FY2021/22 budget. However, R&D expenditure, at 0.3 percent of GDP in 2018, lags that in peers. Further expanding public R&D investment, building incentive system to boost R&D in the private sector and fostering cooperation between the academic and the business sectors are important steps to enhance productivity. Brunei has made significant efforts on human capital development but there is still room to improve in tertiary education—tertiary enrolment is inferior to peers and biased to females (1.4 times larger than for males).

Brunei Darussalam: Productivity
(In thousands of BND)



Sources: Brunei authorities, IMF staff estimates and calculations.

34. Digitalization—accelerated by the Digital Economy Masterplan 2025—would contribute to diversification. The Masterplan was initiated for a "smart nation" in line with a national vision of Wawasan Brunei 2035 and lists 25 projects to be implemented over five years, covering the public transport information system, a national business service platform, school network infrastructure, a halal certification system, as well as three flagship projects of digital ID, digital payment and national information hub as the backbone of the digital ecosystem. Institutions for personal data protection, cyber security and e-commerce have also been established. To maximize the payoff of the Masterplan, the ICT industry should be further developed, expanding the young and tech-savvy workforce.

35. Efforts to attract and diversify Foreign Direct Investment (FDI) could be enhanced. The FDI Action and Support Center (FAST) established in 2015 has facilitated FDI by streamlining regulation and business environment issues with relevant agencies. The FDI of BND669 million (3.8 percent of GDP) annually during 2018-20 has been attracted and concentrated in the manufacturing sector including mega-projects of Hengyi industries (2017-20, USD3.4 billion) and Brunei Fertilizer Industries (2017-21, USD1.3 billion). Foreign workers who take a substantial part in the initial stage of FDI will be replaced gradually with local employees according to the plan agreed with investors. Further efforts are needed to attract quality FDI—by improving the business climate and upgrading FDI incentives—and diversify FDI across industries to increase inter-sector positive spillovers.

36. The unveiling of the Economic Blueprint is welcome. The Blueprint will align policies to further accelerate economic diversification efforts, advance private sector development, and foster a green and digital economy. It comes at an important time as the economy is emerging from the effects of the pandemic and will serve as a guide for the formulation of Industrial Roadmaps and Key Sector Masterplans in priority areas as engines of growth. The Blueprint's emphasis on human capital development and further expansion of trade linkages—such as participation in the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—is welcome. The commitment to green investment and infrastructure is appropriate.

37. Brunei Darussalam National Climate Change Policy (BNCCP) would contribute to economic and environmental sustainability. The authorities ratified the Paris Agreement in 2016. In 2020, they launched the BNCCP and submitted—on December 31st—their Nationally Determined Contribution to the United Nations Framework Convention on Climate Change, with the aim of reducing by 20 percent the amount of greenhouse gas emission relative to business as usual by 2030. The authorities are further developing a detailed medium-term plan to achieve the emission objective, including carbon pricing strategies. The shift to a low carbon economy would offer green growth and job opportunities. At the same time, targeted transfers are needed to compensate households, workers, and firms that are particularly affected by the higher energy prices. Complementary policies would be also needed to ensure that potential impacts from the implementation of the BNCCP and other low carbon policies on existing employment would be mitigated, including through opportunities for reskilling and upskilling for green jobs.

Strategies for Brunei's National Climate Change Policy

Source: Brunei Authorities.

Authorities' Views

38. The authorities underscored the progress towards diversifying the economy and strengthening spillovers of FDI. The COVID-19 crisis provides an opportunity to foster change and step on diversification, digitalization, private sector development and climate change. In January 2021, the authorities launched the Economic Blueprint, which acts as a guide for stakeholders to build on the country's economic success through well-defined aspirations and policy directions, complementing the efforts to achieve Wawasan Brunei 2035's Goal 3 (Dynamic and Sustainable Economy). To ensure the success towards this goal, the Macroeconomic Development Committee was formed as a platform to discuss the development of the country's macroeconomic outcomes as well as to produce a holistic direction. The authorities emphasized the importance of FDI and agreed on diversifying FDI projects to maximize their spin-off effects. Cross-border trade/investment have been encouraged by expanding FTAs (such as the RCEP signed in 2020). Efforts have been made to secure fair competition in the market. Continuing corporatization, PPP and privatization have also facilitated the private sector growth, with SOEs playing a strategic role to further stimulate market development. The authorities agreed on the need to expand high value-added employment, emphasizing education and training for expert competency. A variety of initiatives such as JobCentre Brunei, I-Ready and SkillsPlus has been proceeded on the close cooperation between ministries and industries. The authorities underlined the importance of improving productivity through investment on education and infrastructure, while looking for policies to improve sectors with weak productivity. They welcomed future engagements with the IMF to enhance its sectoral productivity especially in the five priority clusters. The authorities have accelerated digitalization by launching the Digital Economy Masterplan 2025 with sizable investment of about BND74.6 million. The restructuring of the communication industry has contributed to heightening efficiency and lowering consumer burdens with competition being preserved by opening market participation to private companies. The authorities have also implemented the BNCCP launched in 2020, including a pilot program to promote electric vehicles with a target of 60 percent of total car sales in 2035.

D. Addressing Data Issues and Building Capacity

39. Recent improvements in data compilation and dissemination are welcome, but more could be done. Data provision continues to improve and is broadly adequate for surveillance, and the authorities' commitment to international data standards and best practices are welcome. Staff continues to encourage the authorities to publish national accounts and balance of payments data in a timely manner, while ensuring their quality. The authorities have requested TA to strengthen their capacity on external sector data compilation. Phase 1 of the external sector STA mission has been concluded, providing useful insights into the challenges faced by the authorities and helpful advice, including steps to address the relatively large errors and omissions. Phase 2 of the STA mission is expected to take place this year. Working level officers across ministries/government agencies in Brunei could benefit from the learning opportunities offered by the Fund's regional training institute (IMF-STI).

Authorities' Views

40. The authorities remain committed to improving data compilation and dissemination and welcomes further TA from the IMF. Progress has been made in improving data compilation and the quality of data reporting. The authorities acknowledged the Fund's expertise, and accordingly, expressed strong interest in further IMF TA. In this regard, they called for continuing engagement on these issues.

STAFF APPRAISAL

41. Brunei Darussalam has weathered well the challenges caused by the COVID-19 crisis. The policy response has been strong and expeditious and the multi-year diversification and reforms are paying off at a time when most needed. The growth momentum seen in 2020 is expected to strengthen in 2021-22, reflecting important diversification efforts.

42. Continued fiscal support in the near term should be followed by longer-term fiscal reforms, including measures to reduce subsidies and promote intergenerational equity. Fiscal support should continue until the recovery from COVID-19 is put on a solid footing. Looking beyond the short term, staff recommends a resumption of fiscal consolidation, aimed at aligning the fiscal position with the level of sustainable long-term expenditure. This effort could include: (i) preservation of growth-enhancing spending, (ii) reform of the subsidy scheme, (iii) reduction in the wage gap between the public and private sector, and (iv) a broadening of the non-O&G tax base. Establishment of public investment management system would help put public finances on an efficient and stable basis. Corporatization, PPP and privatization would further help mitigate fiscal pressures and develop the private sector.

43. The authorities' initiatives to diversity the economy, further attract FDI and improve private employment are commendable. Structural reforms aimed at economic diversification and private sector development should remain a focus. Policies should aim at diversifying FDI to boost its positive spillovers to the local economy, improving the business environment, upgrading the innovative competency, enhancing human capital and strengthening labor policies to provide more job opportunities with high value. In this perspective, the policy priorities of the recently released Economic Blueprint are appropriate. The authorities' focus on digitalization and the climate change response should provide new opportunities for economic growth and resilience.

44. The peg to the Singapore dollar remains appropriate. The Currency Interchangeability Arrangement has been beneficial to Brunei. The framework provides a credible nominal anchor for macroeconomic and financial stability, and also helps to deepen trade and investment linkages, notably with Singapore.

45. While the financial system is sound, financial supervision should remain vigilant. Continuing volatility in global oil prices calls for careful monitoring of financial risks of the banking system. The initiatives to enhance overall risk-based supervision through an early warning exercise, to introduce the Basel III framework, and to develop a holistic macroprudential framework are positive developments in this direction. To safeguard financial integrity, staff also notes the recent legislative changes aimed at strengthening the AML/CFT regulatory and supervisory framework and look forward to the next stage of the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation.

46. Due primarily to falling exports and the pandemic-induced decline in oil prices, Brunei's external position in 2020 is assessed to be substantially weaker than the level implied by medium-level fundamentals and desirable policies. Looking ahead, the current account surplus is projected to rebound over the medium term in line with the recovery in O&G production and prices. Ongoing diversification efforts in the downstream non-O&G sector are important and will help to strengthen the external position.

47. The steps taken to address data gaps are welcome. Staff commends the commitment by the authorities to further improve data compilation and reporting and welcomes the authorities' plan to leverage the IMF for future TA and training needs.

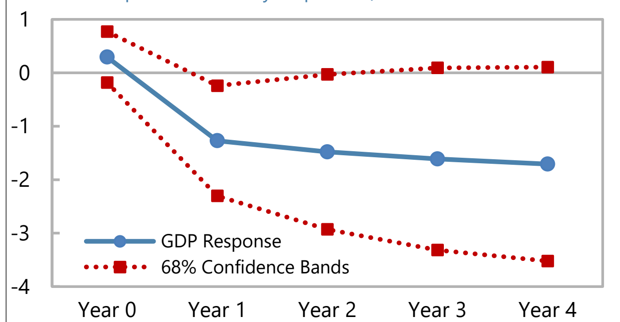
48. It is expected that the next Article IV consultation with Brunei Darussalam will be held on the standard 12-month cycle.

Box 1. Implications of Oil and Gas Price Developments for the Outlook

Renewed spikes of global uncertainty concerning O&G prices would likely put a break on the recovery in economic activity. Staff analysis suggests that a one standard deviation increase in global oil prices uncertainty—as occurred, for example, in 2014-2016—would lower output by close to 2 percent over a four-year period. In a downside risk scenario in which O&G prices fall back to the lowest level observed at the height of the global lockdown recession in Q2 2020, i.e. oil price at US$29.34/barrel, and gas price at US$2.8/MMBTU, and assuming these low prices are sustained until 2026, the impact on macroeconomic balances will be significant. In this tail risk scenario, relative to the baseline, the fiscal deficit is projected to widen by 11 percentage points of GDP on average, over 2021-26. The current account would shift to a deficit of 2 percent of GDP on average, over 2021-26. In an upside risk scenario with sustained strong oil and gas prices, i.e. oil price at US$70/barrel and gas price at US$9/MMBTU, the improvement in fiscal deficit and the current account will be around 50 percent and 70 percent, respectively, compared to the baseline, on average over 2021-26.

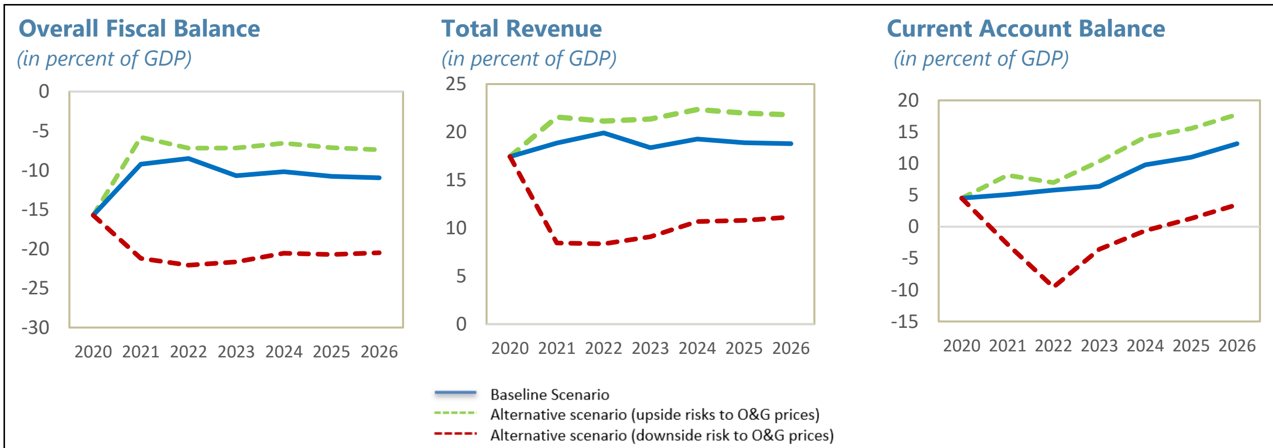
Brunei: GDP response to Oil Price Uncertainty

(Cumulative change in real GDP growth in response to 1 std. dev. shock to oil price uncertainty; in percent)



Note: Figure depicts values obtained from a VAR(3) model's cumulative orthagonalized IRF.

Sources: Brunei Dept. Economic Planning & Development; Ahir, H., N. Bloom, and D. Furceri. 2018. "World Uncertainty Index," Unpublished; and IMF Staff Calculations.



Sources: IMF staff estimates.

Notes: Under the baseline scenario, O&G prices are based on the global assumptions in the World Economic Outlook April 2021 vintage, where Brunei oil price is assumed to be USD64.2/barrel and gas price at 5.84 per million metric British thermal unit (MMBTU). Downside risks to O&G prices refer to a scenario in which prices fall back to the lowest level observed at the height of the global lockdown recession in Q2 2020 (i.e. oil price at USD29.34/barrel and gas price at USD2.8/MMBTU. Upside risks to O&G prices refer to the scenario in oil price stays at USD70/barrel and gas price at USD9/MMBTU.

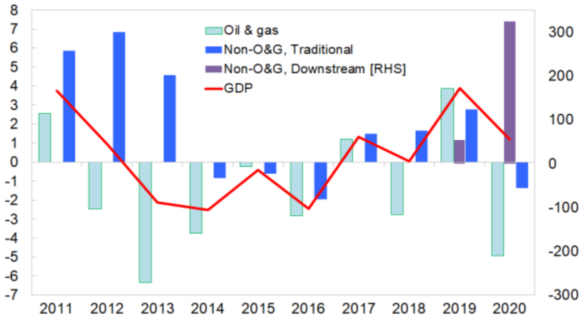
Figure 1. Brunei Darussalam: Real and Fiscal Indicators

Real GDP growth was supported by expansions in the downstream non-O&G sector…

…helping to mitigate declining O&G production and falling oil prices.

Real GDP Growth

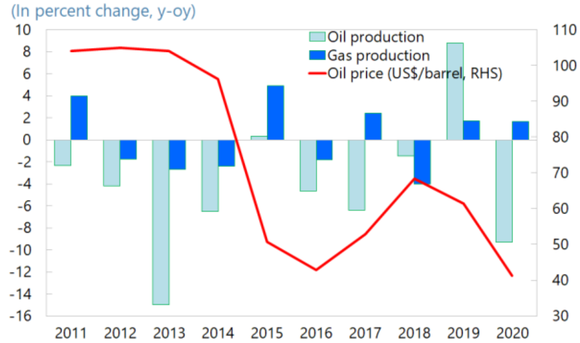
(In percent)



Note: Non-O&G, Downstream starts in 2018 and growth rate start in 2019.
Sources: Brunei authorities; and IMF staff estimates.

Energy Sector Production and Oil Price

(In percent change, y-oy)



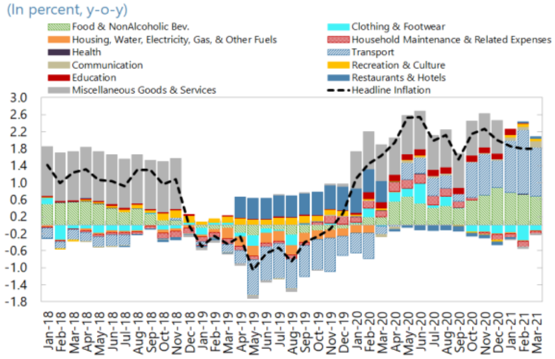
Sources: Brunei authorities; CEIC Data; IMF, *World Economic Outlook*; and IMF staff estimates.

Inflation increased to the fastest pace in more than a decade due mainly to higher food prices

The fiscal deficit widened…

Inflation Decomposition

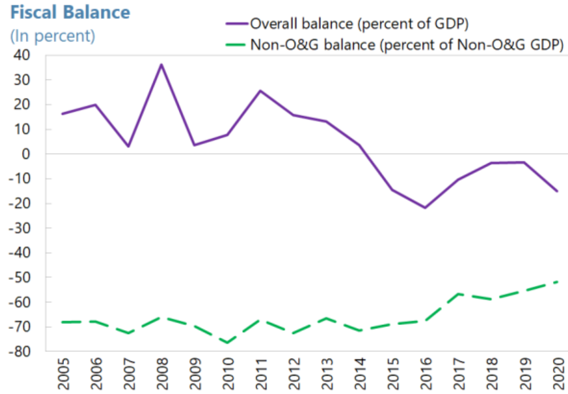
(In percent, y-o-y)



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

Fiscal Balance

(In percent)



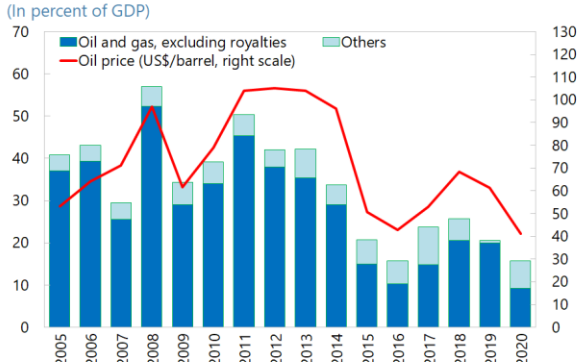
Sources: Brunei authorities; and IMF staff estimates.

…driven by drastic O&G price drop…

… partly compensated by a trend decline in government spending.

Fiscal Revenues

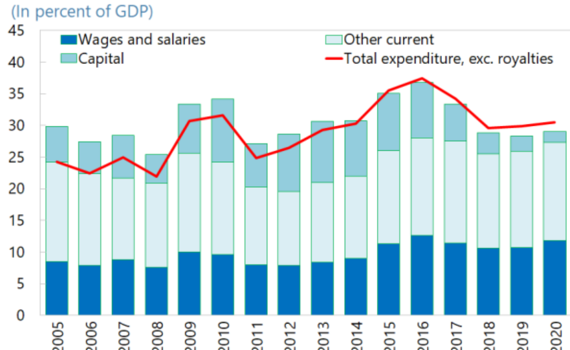
(In percent of GDP)



Sources: Brunei authorities; and IMF staff estimates.

Fiscal Expenditure

(In percent of GDP)

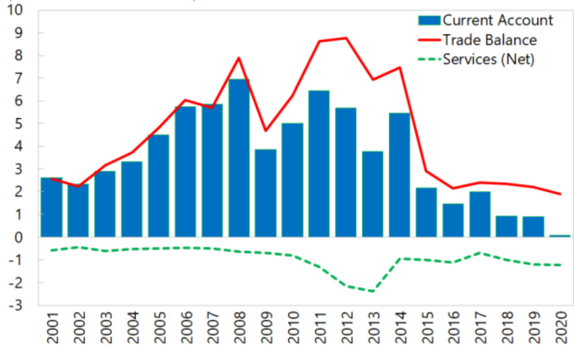


Note: Fiscal deficit is increasing because of lower O&G prices & production, and COVID-19 stimulus enacted by the govt. Sources: Brunei authorities; and IMF staff estimates.

Figure 2. Brunei Darussalam: External and Financial Indicators

The current account surplus narrowed further in 2020…

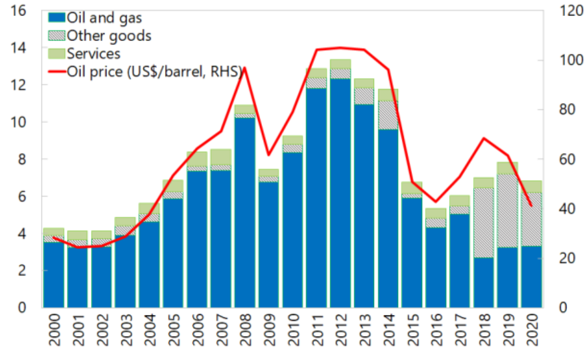
External Balances
(In billions of U.S. dollars)



Sources: Brunei authorities; and IMF staff estimates.

…led by falling goods exports.

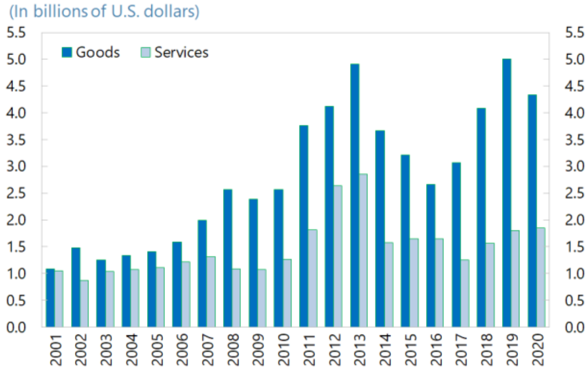
Export Composition
(In billions of U.S. dollars)



Sources: Brunei authorities; and IMF staff estimates.

Imports remained robust, owing to strong demand for imported crude for downstream non-O&G sector.

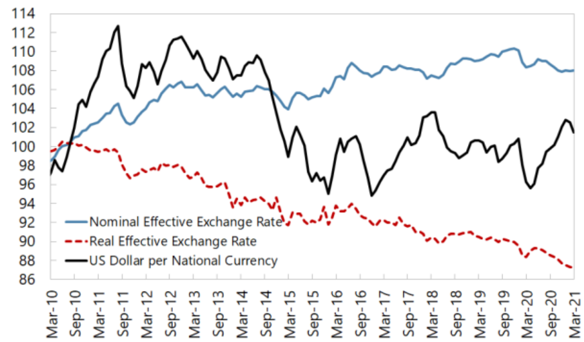
Import Composition
(In billions of U.S. dollars)



Sources: Brunei authorities; and IMF staff estimates.

The nominal effective exchange rate remained largely stable, while on real terms it is declining due partly to lower global oil prices.

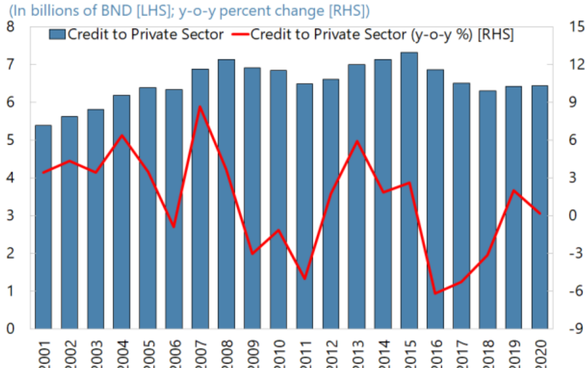
Exchange Rates
(Index, 2010=100)



Sources: IMF, *International Financial Statistics.*

Private sector credit growth declined in 2020…

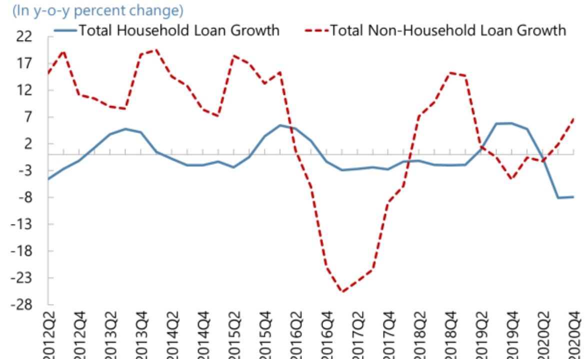
Credit to Private Sector
(In billions of BND [LHS]; y-o-y percent change [RHS])



Sources: IMF, *International Financial Statistics.*

… mainly due to declining households loan growth.

Brunei Darussalam: Loan Growth
(In y-o-y percent change)

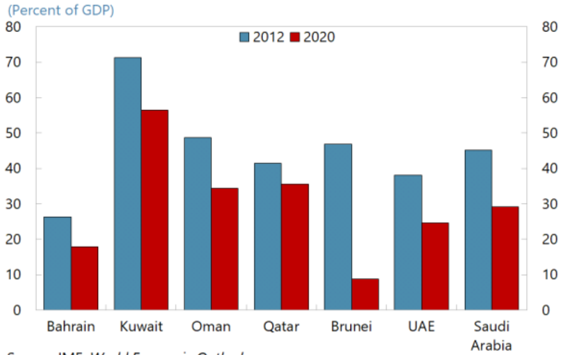


Sources: Brunei Darussalam Central Bank

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

Brunei's fiscal revenue has declined since 2012 due to weaker O&G prices…

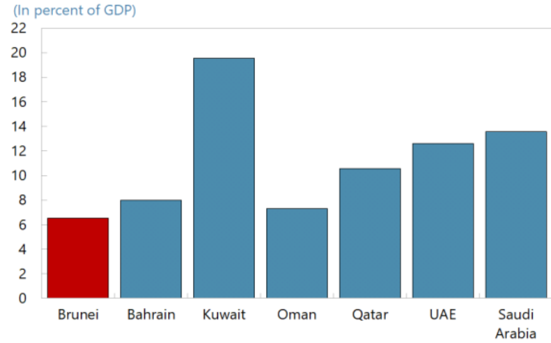
General Government Revenue
(Percent of GDP)



Source: IMF, *World Economic Outlook.*

…and small non-O&G revenue.

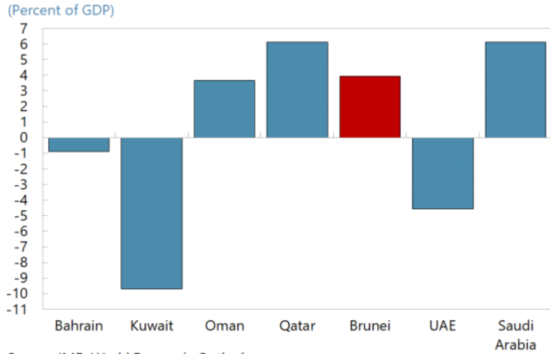
Non-Oil and Gas Revenue
(In percent of GDP)



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

Some progress on fiscal consolidation has been made.

Fiscal Consolidation, 2016-20
(Percent of GDP)



Source: IMF, *World Economic Outlook.*

Brunei's hydrocarbon generating capacity is relatively modest compared to GCC countries.

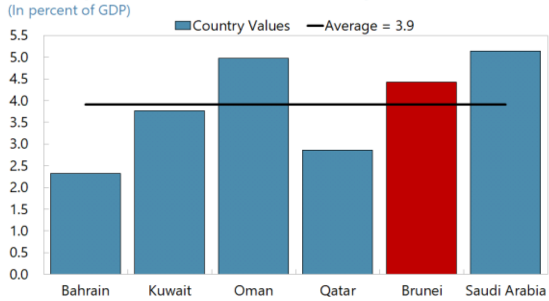
Oil and Gas Production in GCC Countries and Brunei, 2019

	Oil 1/	Natural gas 2/	Population (Millions)
Saudi Arabia	11,832.0	113.6	34.1
United Arab Emirates	3,998.0	62.5	10.7
Kuwait	3,049.0	18.4	4.8
Qatar	1,883.0	178.1	2.8
Oman	971.0	36.3	4.6
Bahrain		16.9	1.5
Brunei Darussalam	121.0	13.0	0.5

Source: BP Statistical Review of World Energy, 2020; 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.

Brunei's public education expenditures are in line with its peers…

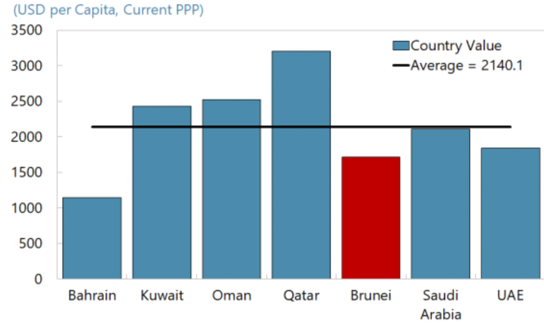
Govt. Expenditure on Education, latest year available
(In percent of GDP)



Note: Data for Brunei as of 2016, Bahrain & Qatar as of 2017, Oman as of 2013, Saudia Arabia as of 2008, and Kuwait as of 2006.
Sources: World Bank, *World Development Indicators;* UNESCO Institute for Statistics.

…while health expenditure lags somewhat that of peers.

Domestic General Government Health Expenditure, 2019
(USD per Capita, Current PPP)

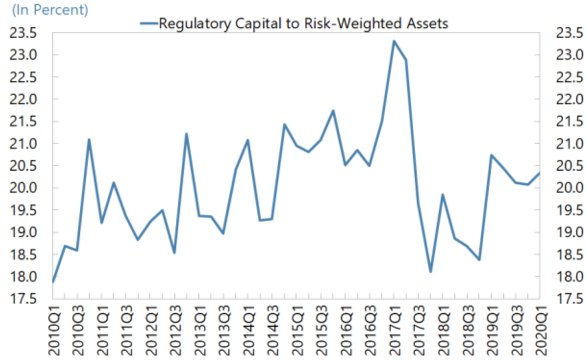


Source: *Global Health Security Index 2019* by Johns Hopkins Center for Health Security, Nuclear Threat Initiative, and the Economist Intelligence Unit

Figure 4. Brunei Darussalam: Financial Stability Indicators

The banking sector remains well capitalized…

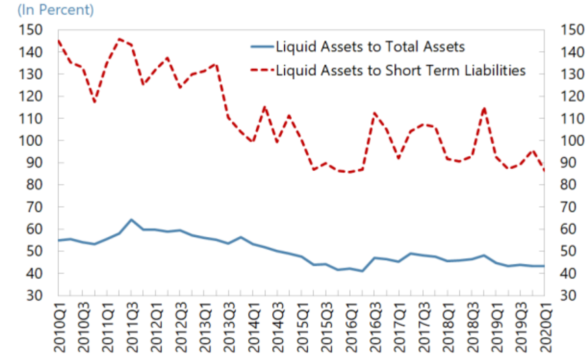
Capital Adequacy
(In Percent)



Source: IMF, *Financial Soundness Indicators.*

…with ample, albeit declining, liquidity.

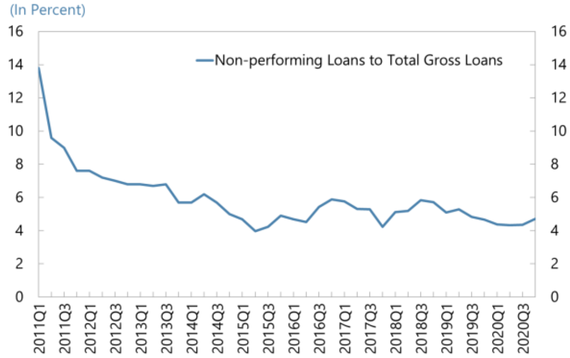
Liquidity
(In Percent)



Source: IMF, Financial Soundness Indicators.

While NPL ratios remained largely stable in 2020…

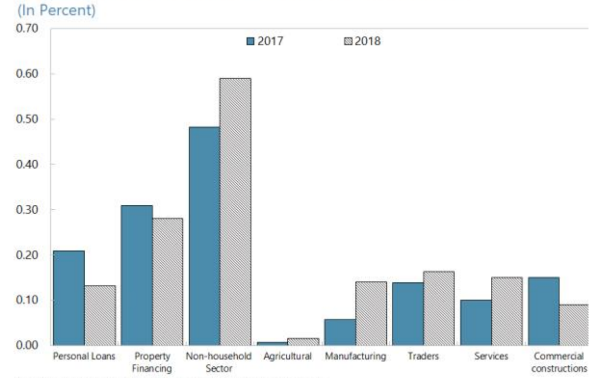
Asset Quality
(In Percent)



Source: IMF, *Financial Soundness Indicators.*

…mostly in terms of personal loans.

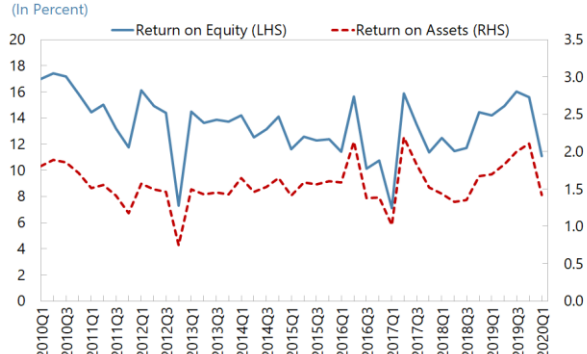
Sectoral Non Performing Loans Contributions
(In Percent)



Sources: Brunei authorities; and IMF staff estimates.

Banks' profitability declined in 2020 due to the crisis….

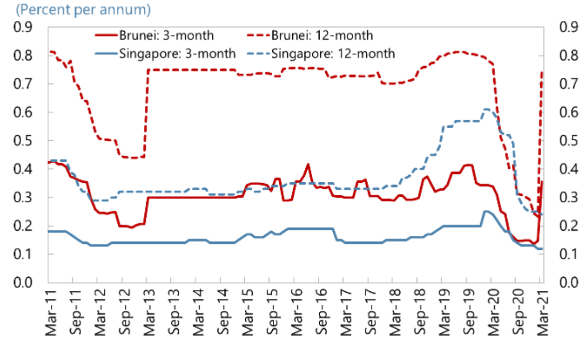
Profitability
(In Percent)



Source: IMF, *Financial Soundness Indicators.*

…while deposit rates have fallen

Deposit Rates
(Percent per annum)



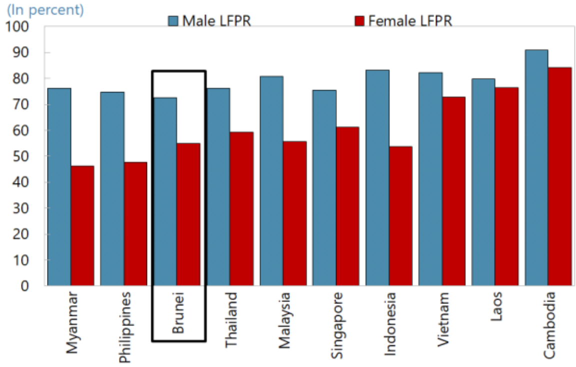
Sources: Brunei Darussalam Central Bank; Monetary Authority of Singapore; and Haver Analytics.

Figure 5. Brunei Darussalam: Labor Market

Brunei's labor force participation is low both for male and female compared to regional peers.

Labor Force Participation Rate (LFPR), 2019

(In percent)

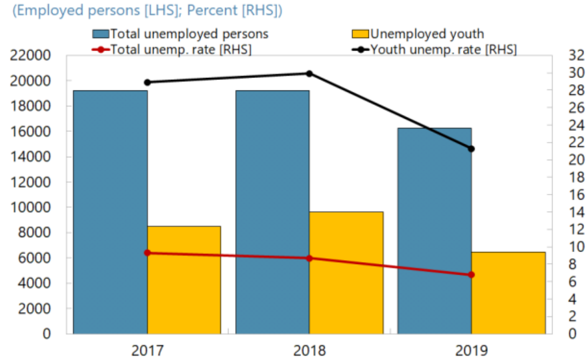


Source: CEIC Data.

Unemployment has improved…

Unemployment

(Employed persons [LHS]; Percent [RHS])

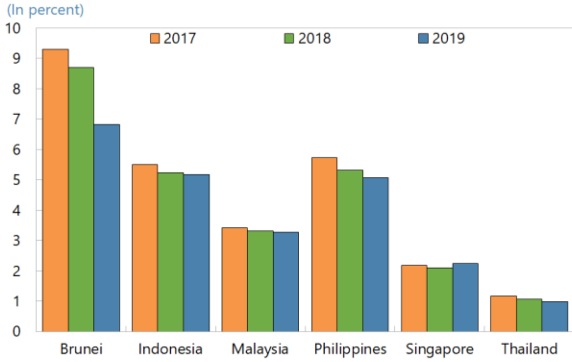


Source: Brunei Dept. of Economic Planning & Statistics.

…but remains considerably higher than in peers.

Unemployment Rate: Brunei & ASEAN-5 countries

(In percent)

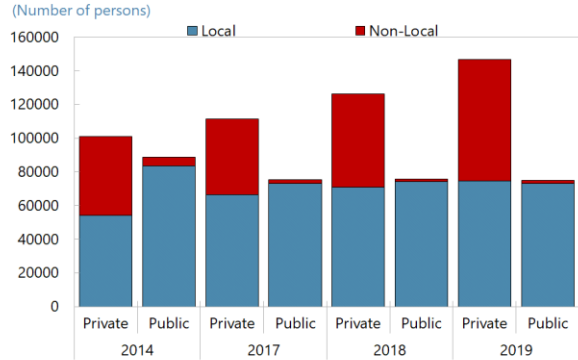


Sources: Brunei Dept. of Planning & Statistics; and CEIC Data.

Employment in the private sector has increased since 2014…

Employment by Sector and Residence

(Number of persons)

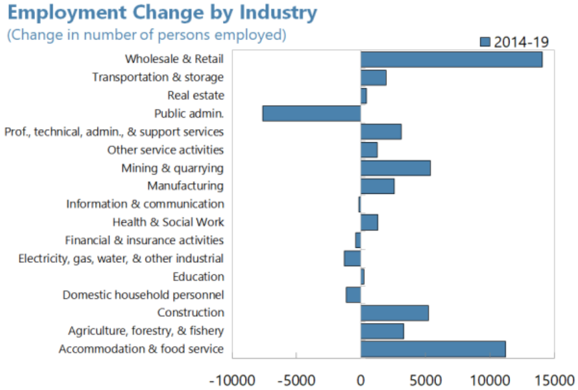


Source: Brunei Dept. of Economic Planning & Statistics.

…but the increased employment is concentrated in service industries…

Employment Change by Industry

(Change in number of persons employed)

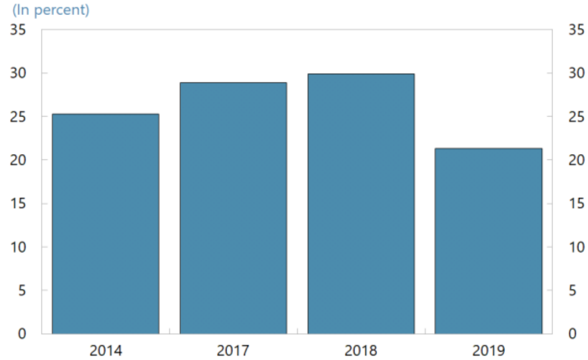


Sources: Brunei Dept. of Economic Planning & Statistics; and Haver Analytics.

…however, the youth unemployment rate remains elevated.

Youth Unemployment

(In percent)



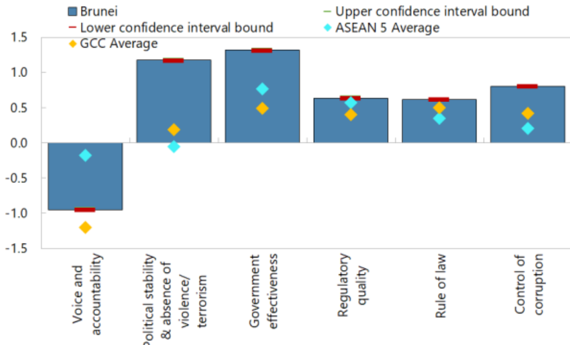
Sources: Brunei Dept. of Planning & Statistics; and Haver Analytics

Figure 6. Brunei Darussalam: Governance and Competitiveness

Brunei performs well in many governance areas ...

Worldwide Governance Indicators, 2019

(Estimate, ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

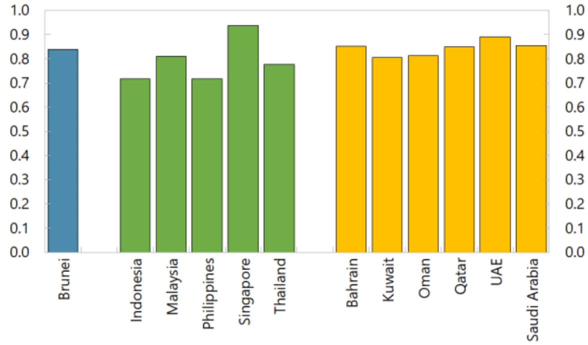


Sources: *Worldwide Governance Indicators* by the World Bank, NRGI, and Brookings.

... and on human development indicators...

HDI 2019: Brunei, ASEAN-5, & GCC Countries

(Index; 0-1; higher the better)

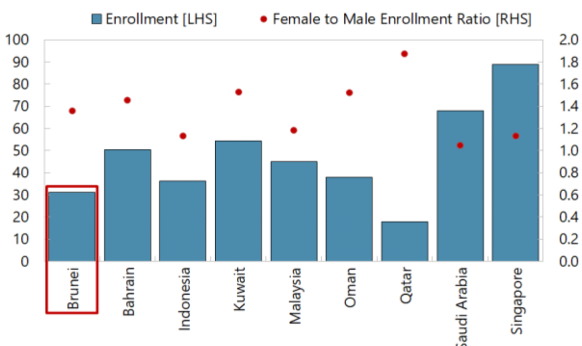


Sources: United Nations Development Programme (UNDP); and Haver Analytics.

... but tertiary education is lagging compared to peers.

Tertiary Education 2018

(In percent [LHS]; Ratio [RHS])

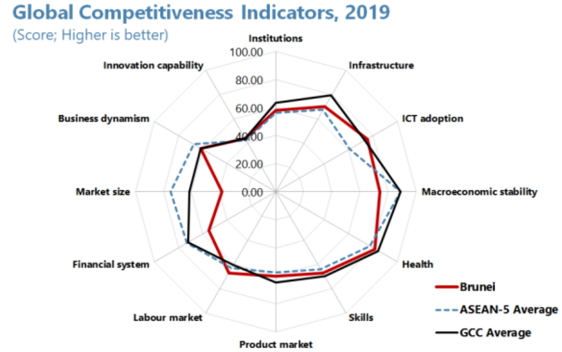


Source: World Bank Development Indicators.

Brunei's competitiveness would benefit from ICT adoption and labor market reforms...

Global Competitiveness Indicators, 2019

(Score; Higher is better)

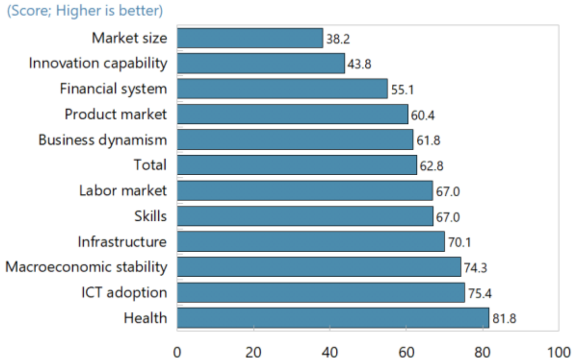


Sources: World Economic Forum, The Global Competitiveness Report 2019, and IMF staff calculations.

... although its small market size pose challenges.

Global Competitiveness Indicators by Category, 2019

(Score; Higher is better)

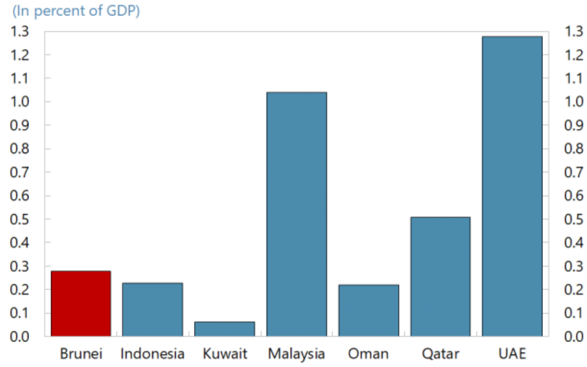


Source: World Economic Forum, *Global Competitiveness Report 2019.*

R&D investment in Brunei is relatively low, compared with its peers.

R&D Expenditure

(In percent of GDP)



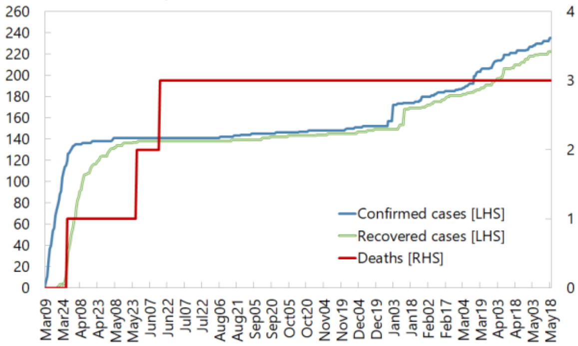
Source: UNESCO Institute for Statistics.

Note: WGI is a perception-based indicator, summarizing views of enterprises, citizens and expert survey respondents on the quality of governance in a country. The WEF's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness.

Figure 7. Brunei Darussalam: COVID-19

Brunei managed to suppress the first wave of the pandemic, with subsequent cases limited to imported ones…

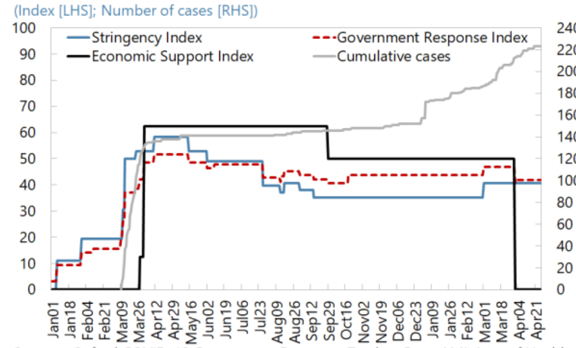
Brunei: COVID-19 Cases
(Cumulative number of persons)



Sources: Brunei Ministry of Health; and CEIC Data.

…thanks for swift public health response time and decisive government interventions.

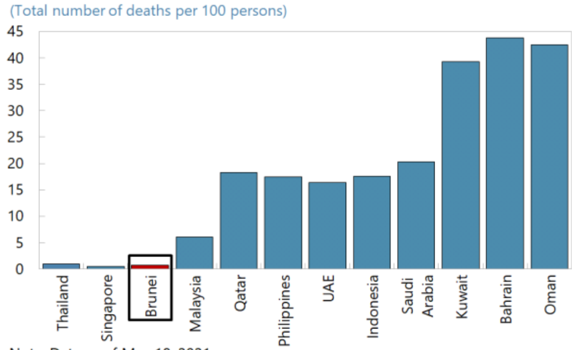
Brunei: COVID-19 Govt. Response, Support, and Stringency
(Index [LHS]; Number of cases [RHS])



Sources: Oxford COVID-19 Government Response Tracker; Brunei Ministry of Health; and CEIC Data.

Brunei stands out amongst regional peers in the success in minimizing the number of COVID-19 fatalities.

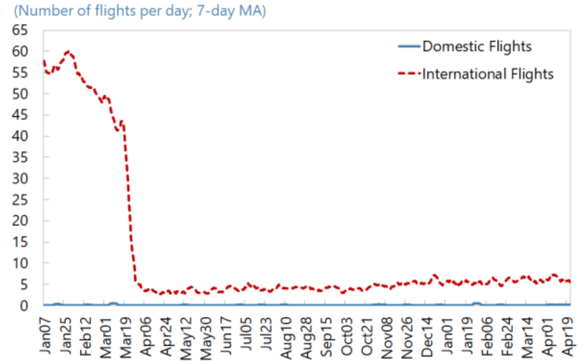
COVID-19 Fatalities: Brunei, GCC, & ASEAN-5 Countries
(Total number of deaths per 100 persons)



Note: Data as of May 18, 2021.
Sources: CSSE Johns Hopkins University; UNDESA Population Forecasts; & CEIC Data.

Swift border closures led to significant reduction in the number of daily flights departing and arriving in Brunei.

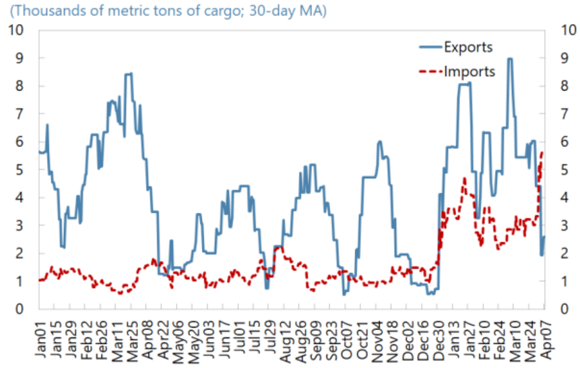
Brunei: Flights per Day, 2020 & onward
(Number of flights per day; 7-day MA)



Sources: Flightradar24 AB; and IMF staff calculations.

The pandemic has led to pullbacks in external trade volumes.

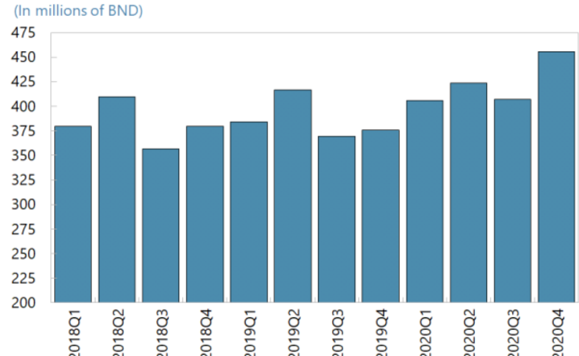
Real Time Seaborne Trade AIS Estimates, 2020 & onward
(Thousands of metric tons of cargo; 30-day MA)



Sources: MarineTraffic; and UN COMTRADE Monitor.

But retail sales remained resilient in 2020, despite stringent containment measures and mobility restrictions.

Brunei: Total Retail Sales
(In millions of BND)



Source: Brunei Department of Economic Planning and Statistics.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2016–26

Area: 5,765 sq. kilometers
Population (2019): 433,285
Nominal GDP per capita (2019): US$31,087
Main export destinations (2019): Japan (34.7), Thailand (10.1), Australia (8.8), Korea (8.6)
Unemployment rate (2019): 6.8%
Labor force participation rate (2019): total 64.3%; male 72.5%; female 54.8%

	2016	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Output and prices											
Nominal GDP (millions of Brunei dollars)	15,748	16,747	18,301	18,375	16,561	20,626	21,086	20,237	20,141	20,192	20,356
Nominal non-oil and gas GDP (millions of Brunei dollars)	7,463	7,514	7,572	7,733	7,642	8,333	8,550	8,705	8,869	9,046	9,233
Real GDP (percentage change) 1/	-2.5	1.3	0.1	3.9	1.1	2.0	2.6	2.4	2.2	2.1	2.1
Oil and gas sector GDP	-2.8	1.2	-2.8	3.9	-4.9	0.5	0.9	1.1	1.4	1.3	1.3
Non-oil and gas sector GDP	-2.0	1.5	3.9	3.9	8.8	3.6	4.4	3.7	3.0	2.8	2.8
Oil production ('000 barrels/day)	121	113	112	121	110	109	108	106	105	102	101
Natural gas output (millions BTUs/day)	1,397	1,430	1,372	1,313	1,077	1,065	1,081	1,094	1,123	1,158	1,192
Average Brunei oil price (U.S. dollars per barrel)	44.6	55.9	73.2	68.6	43.1	62.7	62.9	58.9	57.2	55.7	55.1
Average Brunei gas price (U.S. dollars per million BTU)	7.3	8.3	10.5	9.1	6.7	7.1	8.7	7.3	7.3	7.3	7.3
Consumer prices (period average, percentage change)	-0.4	-1.3	1.1	-0.4	1.9	2.5	1.5	1.0	1.0	1.0	1.0
					(Fiscal Year, In percent of GDP)						
Public finances: budgetary central government											
Total revenue	22.7	22.7	32.7	26.4	12.5	19.1	19.4	18.5	19.1	18.8	18.7
Oil and gas	16.2	17.5	26.4	19.8	7.7	13.6	13.8	12.6	13.1	12.7	12.4
Other	6.5	5.3	6.3	6.5	4.9	5.5	5.6	5.9	6.0	6.1	6.3
Total expenditure	39.3	35.6	32.5	31.9	32.2	28.4	28.8	29.0	29.6	29.7	29.8
Current	31.2	30.4	29.8	29.5	30.9	26.0	26.2	27.1	27.3	27.4	27.3
Capital	8.1	5.2	2.7	2.4	1.3	2.4	2.6	2.0	2.3	2.3	2.4
Overall balance 2/	-16.6	-12.9	0.2	-5.6	-19.7	-9.3	-9.4	-10.5	-10.5	-10.9	-11.1
Non-oil and gas balance	-65.1	-63.2	-56.9	-54.0	-53.0	-52.4	-52.1	-49.8	-49.9	-49.1	-47.1
(In percent of non-oil and gas GDP)											
					(12-month percent change)						
Money and banking											
Private sector credit	-6.1	-5.3	-3.1	2.0	0.2	2.5	1.9	1.5	1.5	1.4	1.3
Narrow money	-0.1	-5.7	-3.0	6.6	20.8	15.1	4.5	2.4	1.9	1.9	1.0
Broad money	1.5	-0.4	2.8	4.3	-0.4	3.7	3.2	2.8	1.8	1.8	1.7
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Goods	2,154	2,403	2,358	2,212	1,385	1,213	862	507	923	1,009	1,388
Exports	4,813	5,475	6,448	7,213	6,541	7,481	7,881	8,375	9,355	9,900	10,789
Of which: oil and gas	4,321	5,021	2,691	3,244	2,943	3,883	4,536	4,051	4,130	4,207	4,205
Imports	2,659	3,072	4,089	5,001	5,156	6,268	7,019	7,868	8,432	8,892	9,401
Services (net)	-1,114	-698	-1,002	-1,189	-854	-869	-891	-914	-938	-961	-985
Primary income (net)	835	721	85	362	362	893	1,344	1,781	1,967	2,094	2,113
Secondary income (net)	-404	-442	-504	-490	-350	-448	-429	-409	-429	-422	-420
Current account balance	1,470	1,985	937	895	542	789	886	965	1,523	1,719	2,096
Current account balance (in percent of GDP)	12.9	16.4	6.9	6.6	4.5	5.1	5.5	6.1	9.7	10.8	13.0
Gross official reserves 3/	3,322	3,300	3,221	4,052	3,721	4,242	4,352	4,462	4,574	4,686	4,798
In months of next year's imports of goods and services	9.2	7.0	5.7	7.6	6.0	6.1	5.7	5.5	5.4	5.2	5.1
Brunei dollars per U.S. dollar (period average)	1.38	1.38	1.35	1.36	1.38	…	…	…	…	…	…
Brunei dollar per U.S. dollar (end of period)	1.44	1.35	1.37	1.36	1.33	…	…	…	…	…	…

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, 2016/17-2026/27 1/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.
	(In millions of Brunei dollars)										
Revenue	3,616	3,872	6,027	4,846	2,031	3,970	4,051	3,738	3,848	3,804	3,813
Tax	1,934	1,559	3,352	2,209	884	1,869	1,932	1,703	1,825	1,780	1,783
Oil and gas	1,595	1,253	3,004	1,858	546	1,490	1,541	1,305	1,418	1,354	1,315
Other	339	307	348	351	338	379	390	398	406	426	468
Nontax revenue	1,682	2,313	2,675	2,636	1,147	2,102	2,119	2,035	2,024	2,024	2,030
Oil and gas	989	1,723	1,869	1,787	697	1,330	1,338	1,247	1,227	1,219	1,219
Other	693	590	806	849	450	772	781	789	796	805	811
Expenditure	6,250	6,077	5,997	5,873	5,223	5,894	6,006	5,866	5,971	6,014	6,081
Current	4,964	5,190	5,501	5,432	5,016	5,394	5,464	5,469	5,507	5,548	5,581
Wages and salaries	1,977	1,859	1,957	1,966	1,964	1,988	2,006	2,019	2,033	2,046	2,057
Other	2,987	3,331	3,544	3,466	3,052	3,407	3,458	3,449	3,474	3,502	3,525
Of which: Royalty payment	350	419	509	506	292	351	364	326	322	321	321
Capital	1,286	887	496	441	207	500	543	397	465	466	500
Of which: Development expenditure	684	887	496	441	207	500	543	397	465	466	500
Overall balance 2/	-2,634	-2,205	30	-1,027	-3,192	-1,924	-1,955	-2,128	-2,123	-2,210	-2,268
Non-oil and gas overall balance	-4,868	-4,761	-4,334	-4,167	-4,142	-4,393	-4,471	-4,352	-4,447	-4,463	-4,481
	(In percent of GDP)										
Revenue	22.7	22.7	32.7	26.4	12.5	19.1	19.4	18.5	19.1	18.8	18.7
Tax	12.2	9.1	18.2	12.0	5.5	9.0	9.3	8.4	9.1	8.8	8.7
Oil and gas	10.0	7.3	16.3	10.1	3.4	7.2	7.4	6.5	7.0	6.7	6.4
Other	2.1	1.8	1.9	1.9	2.1	1.8	1.9	2.0	2.0	2.1	2.3
Nontax revenue	10.6	13.6	14.5	14.3	7.1	10.1	10.2	10.1	10.0	10.0	9.9
Oil and gas	6.2	10.1	10.1	9.7	4.3	6.4	6.4	6.2	6.1	6.0	6.0
Other	4.4	3.5	4.4	4.6	2.8	3.7	3.7	3.9	4.0	4.0	4.0
Expenditure	39.3	35.6	32.5	31.9	32.2	28.4	28.8	29.0	29.6	29.7	29.8
Current	31.2	30.4	29.8	29.5	30.9	26.0	26.2	27.1	27.3	27.4	27.3
Wages and salaries	12.4	10.9	10.6	10.7	12.1	9.6	9.6	10.0	10.1	10.1	10.1
Other	18.8	19.5	19.2	18.9	18.8	16.4	16.6	17.1	17.2	17.3	17.2
Of which: Royalty payment	2.2	2.5	2.8	2.8	1.8	1.7	1.7	1.6	1.6	1.6	1.6
Capital	8.1	5.2	2.7	2.4	1.3	2.4	2.6	2.0	2.3	2.3	2.4
Of which: Development expenditure	4.3	5.2	2.7	2.4	1.3	2.4	2.6	2.0	2.3	2.3	2.4
Overall balance 2/	-16.6	-12.9	0.2	-5.6	-19.7	-9.3	-9.4	-10.5	-10.5	-10.9	-11.1
Non-oil and gas overall balance	-30.6	-27.9	-23.5	-22.7	-25.5	-21.2	-21.4	-21.5	-22.1	-22.1	-21.9
in percent of non-oil and gas GDP	-65.1	-63.2	-56.9	-54.0	-53.0	-52.4	-52.1	-49.8	-49.9	-49.1	-47.1
Memorandum items:											
Nominal GDP (in millions of Brunei dollars)	15,906	17,048	18,453	18,385	16,213	20,741	20,874	20,213	20,154	20,233	20,435
Non-oil and gas GDP (in millions of Brunei dollars)	7,476	7,529	7,612	7,710	7,815	8,387	8,589	8,746	8,913	9,093	9,509

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 absense of government debt and interest payments, this is also primary balance.

Table 3. Brunei Darussalam: Balance of Payments, 2016-26 1/

	2016	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
	(In millions of U.S. dollars; unless otherwise indicated)										
Current account	1,470	1,985	937	895	542	789	886	965	1,523	1,719	2,096
In percent of GDP	12.9	16.4	6.9	6.6	4.5	5.1	5.5	6.1	9.7	10.8	13.0
Goods	2,154	2,403	2,358	2,212	1,385	1,213	862	507	923	1,009	1,388
Exports	4,813	5,475	6,448	7,213	6,541	7,481	7,881	8,375	9,355	9,900	10,789
Oil and gas	4,321	5,021	2,691	3,244	2,943	3,883	4,536	4,051	4,130	4,207	4,205
Other 2/	492	454	3,757	3,969	3,598	3,599	3,345	4,323	5,225	5,693	6,584
Imports	2,659	3,072	4,089	5,001	5,156	6,268	7,019	7,868	8,432	8,892	9,401
Services	-1,114	-698	-1,002	-1,189	-854	-869	-891	-914	-938	-961	-985
Receipts	530	552	568	618	352	368	376	385	394	404	414
Payments	1,645	1,249	1,570	1,807	1,206	1,237	1,268	1,299	1,332	1,365	1,400
Primary income	835	721	85	362	362	893	1,344	1,781	1,967	2,094	2,113
Receipts	1,077	1,061	995	1,028	919	1,470	1,940	2,359	2,547	2,679	2,704
Payments	243	339	910	667	558	577	595	579	580	585	592
Secondary income	-404	-442	-504	-490	-350	-448	-429	-409	-429	-422	-420
Receipts	53	40	32	46	47	41	45	44	43	44	44
Payments	457	482	536	536	396	489	474	453	472	466	464
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 (-)	6,394	1,441	46	-458	204	6	826	943	1,465	1,678	2,042
Net acquisition of financial assets	6,066	2,047	718	1,684	666	1,698	1,777	2,033	2,469	2,728	3,077
Net incurrence of liabilities	-328	607	671	2,142	462	1,692	951	1,090	1,003	1,051	1,036
Direct investment											
of which: Direct investment abroad	0	0	0	0	0	0	0	0	0	0	0
of which: Direct investment in Brunei	-150	468	521	373	577	537	541	519	517	518	522
Portfolio investment											
of which: Portfolio investment assets	625	-60	-1428	1400	1194	1487	1520	1459	1452	1455	1467
Other investment 2/											
of which: Other investment assets	5,441	2,107	2,146	284	-527	211	257	575	1,017	1,273	1,610
of which: Other investment liabilities	-178	138	150	1,768	-115	1,155	410	571	487	533	513
Errors and omissions	5,065	-814	399	91	722	263	-50	-88	-54	-70	-58
Reserve assets	141	-270	-8	761	-443	521	110	110	112	112	112
Gross official reserves 3/	3,322	3,300	3,221	4,052	3,721	4,242	4,352	4,462	4,574	4,686	4,798
In months of next year's imports of goods and services	9.2	7.0	5.7	7.6	6.0	6.1	5.7	…	…	…	…
Memorandum items:											
Exchange rates											
Brunei dollars per U.S. dollar (period average)	1.38	1.38	1.35	1.36	1.38	…	…	…	…	…	…
Nominal effective exchange rates (2010=100)	107.5	108.2	108.1	109.6	108.7	…	…	…	…	…	…
Real effective exchange rates (2010=100)	92.9	91.8	90.5	90.3	88.7	…	…	…	…	…	…
Nominal GDP (in millions of U.S. dollars)	11,399	12,128	13,568	13,470	12,003	15,565	16,173	15,704	15,772	15,916	16,126

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, 2016–26

	2016	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
				(In millions of Brunei dollars, end of period)							
Central Bank Survey											
External assets (net) 1/	4,354	4,028	4,012	4,918	4,576	5,097	5,209	5,271	5,379	5,483	5,597
Foreign exchange holdings	4,025	4,051	3,917	3,811	4,483	3,788	3,699	3,657	3,616	3,579	3,530
Other assets	112	36	63	74	2	28	16	16	20	17	18
Currency issued	1,381	1,263	1,249	1,157	1,237	1,222	1,193	1,180	1,166	1,155	1,139
Reserve money excluding currency outside ODCs	2,162	1,793	1,705	1,493	1,189	1,424	1,483	1,515	1,606	1,685	1,785
Other liabilities	1,237	1,255	1,235	1,355	2,320	2,320	2,320	2,320	2,320	2,320	2,320
Depository Corporations Survey											
Foreign assets (net)	13,405	13,250	13,600	14,325	13,317	14,925	15,073	15,242	15,428	15,619	15,810
Net claims on government	-1,546	-1,953	-1,871	-1,619	-585	-1,230	-1,230	-1,230	-1,230	-1,230	-1,230
Claims on nonfinancial public sector	194	175	575	483	411	527	541	551	561	572	584
Claims on private sector	6,861	6,499	6,296	6,420	6,430	6,625	6,751	6,852	6,955	7,052	7,144
Claims on other financial corporations	371	180	193	24	24	-44	-81	-75	-68	-76	-75
Capital accounts	3,840	3,372	3,416	3,728	3,936	4,207	4,467	4,768	5,068	5,379	5,700
Other items (net)	-849	-251	-314	-78	-1	-110	-115	-117	-119	-120	-120
Broad money	14,582	14,518	14,930	15,567	15,500	15,770	16,750	17,144	17,500	17,781	18,007
Money	4,675	4,408	4,274	4,558	5,504	5,469	5,715	5,851	5,961	6,072	6,133
Of which: currency outside depository corps	1,135	1,091	1,084	1,053	1,183	1,381	1,423	1,451	1,473	1,495	1,510
Quasi-money	9,907	10,110	10,656	11,009	9,997	10,301	11,035	11,293	11,539	11,709	11,874
				(12-month percent change)							
Depository Corporations Survey											
Foreign assets (net)	19.6	-1.2	2.6	5.3	-7.0	4.6	1.0	1.1	1.2	1.2	1.2
Claims on private sector	-6.1	-5.3	-3.1	2.0	0.2	2.5	1.9	1.5	1.5	1.4	1.3
Memorandum items:											
Central bank net external asset ratio 2/	2.9	3.2	3.1	3.3	3.6	3.2	3.1	3.1	3.0	3.0	3.1
Brunei dollars per U.S. dollar (end of period)	1.4	1.4	1.3	1.3	1.3	…	…	…	…	…	…

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: Indicators of Vulnerability, 2016–26

	2016	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Financial sector indicators 1/											
Broad money (M2, percent change, y/y)	1.5	-0.4	2.8	4.3	-0.4	3.7	3.2	2.8	1.8	1.8	1.7
Private sector credit (percent change, y/y)	-6.1	-5.3	-3.1	2.0	0.2	2.5	1.9	1.5	1.5	1.4	1.3
NPL to total loans	4.7	3.7	4.7	3.9	3.9	…	…	…	…	…	…
NPL net of provisions to total loans	3.3	1.6	2.9	2.4	2.4	…	…	…	…	…	…
NPL net of provisions to capital	7.2	3.8	6.3	5.7	5.4	…	…	…	…	…	…
Regulatory capital to risk-weighted assets	21.5	18.9	19.3	20.9	20.8	…	…	…	…	…	…
External indicators											
Exports of goods and services (percent change, in U.S. dollars)	-21.1	12.8	16.4	11.6	-12.0	13.9	5.2	6.1	11.3	5.7	8.7
Imports of goods and services (percent change, in U.S. dollars)	-11.6	0.4	31.0	20.3	-6.5	18.0	10.4	10.6	6.5	5.0	5.3
Current account balance (in millions of U.S. dollars)	1,470	1,985	937	895	542	789	886	965	1,523	1,719	2,096
(In percent of GDP)	12.9	16.4	6.9	6.6	4.5	5.1	5.5	6.1	9.7	10.8	13.0
Gross official reserves (in millions of U.S. dollars)	3,322	3,300	3,221	4,052	3,721	4,242	4,352	4,462	4,574	4,686	4,798
(In months of next year's imports of goods and services)	9.2	7.0	5.7	7.6	6.0	6.1	5.7	5.5	5.4	5.2	7.8
(In percent of IMF's ARA metric)	217	195	181	221	201	213	209	206	199	197	192
Real effective exchange rate (end of period, 2010=100)	92.9	91.8	90.5	90.3	88.7	…	…	…	…	…	…

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

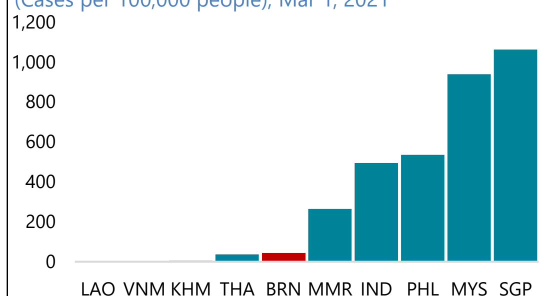
1/ The calculation of Financial Soundness Indicators is based on the IMF's *Financial Soundness Indicators: Compilation Guide*.

Appendix I. The Pandemic: Containment Measures, Policy Responses and Re-Opening of the Economy[1]

Brunei succeeded in suppressing the first wave of COVID-19 infections by putting in place stringent containment measures early and ramping up public health expenditures. The rollout of stimulus measures (BND450 million) helped to mitigate the economic fallout. With the pandemic broadly under control, Brunei started implementing a gradual COVID-19 de-escalation plan on May 16, 2020. Most activities have gradually resumed. Travel restrictions, however, remain largely in place. Adequate vaccine procurement and effective administration will be key to secure a durable recovery.

1. **The first confirmed COVID-19 case in Brunei Darussalam was reported on March 9, 2020.** The number of cases increased rapidly to 100 cases in just 15 days, driven mainly by transmission linked to a religious gathering held in Kuala Lumpur, Malaysia. The first COVID-19 fatality was reported on March 28. Since the virus was first detected in the Sultanate, stringent containment measures were introduced within seven days, including the closure of schools and public areas (such as sporting complexes and places of worship), and commercial areas (such as cinemas). However, with social distancing measures strictly in place, restaurants were able to remain open for takeaway and delivery services. In addition, Business Continuity Plans (BCP) were enforced in both public and private sector. Strict travel restrictions were quickly introduced, and residents were prohibited from leaving Brunei, and foreigners banned from entering. Returning citizens were placed in quarantine centers. With the swift public health response time (PHRT)[2] the number of new infections were suppressed by early May, with the last local case confirmed on May 6. Subsequent new cases were limited to imported infections, bringing the total number of confirmed cases to 250 as of June 15, 2021 (Brunei MOH). This is in stark contrast to other ASEAN peers, who have to deal with multiple waves of new infections, necessitating states of emergency to be declared and fresh new lockdowns to be reinstated.

COVID-19 Confirmed Cases in ASEAN
(Cases per 100,000 people), Mar 1, 2021



Sources: JH Coronavirus Resource Center, and IMF staff calculations.

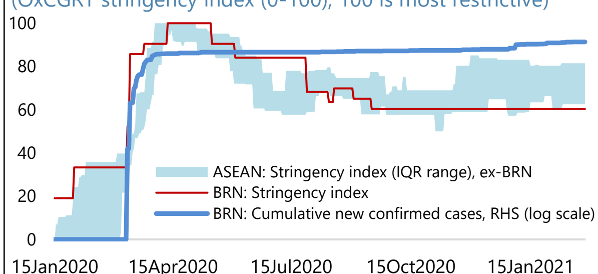
2. **Early and decisive interventions by the authorities were key to Brunei's success in suppressing the first wave of the virus.** The authorities have acted strongly and quickly, including through providing daily press conferences and regular updates via social media. Together with public support and understanding, the spread of the virus was quickly stabilized compared to several ASEAN peers. Assessed against several parameters including a slowing trajectory since the 100th confirmed case, limited local transmission, and the absence of cases with no known epidemiological links, Brunei has been successful in containing the first wave of the virus and preventing new waves so far. Effective institutional leadership was demonstrated, when key ministries collaborated effectively, within weeks, to pool resources to convert a sports complex into a 24-hour

[1] Prepared by Anthony CK Tan.

[2] In epidemiology, PHRT refers to the number of days it takes for a country to implement containment measures after a significant outbreak (defined as 100 confirmed cases).

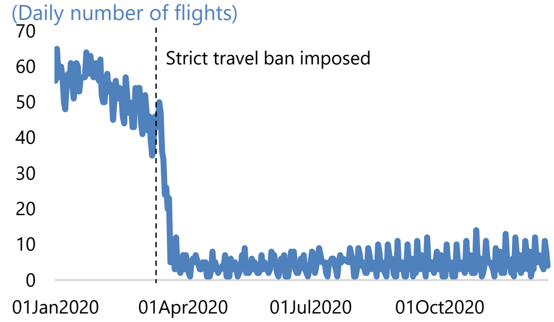
testing facility, and to build a new auxiliary virology laboratory capable of increasing the country's testing capacity by 10 fold. Hospital bed capacity in the National Isolation Center was increased by 7-folds within a short period of time to alleviate concerns of an overstretched healthcare system. In addition, the government swiftly dedicated a budget allocation of BND15 million (about 0.1 percent of GDP) to respond to both natural disasters and communicable diseases. Together with enhanced testing and contact tracing, it has enabled early isolation and treatment for those who may have been exposed, limiting the extent of community transmission. The small and suburban population further helped to trace and map the spread of the virus.

Stringency of Containment Measures
(OxCGRT stringency index (0-100), 100 is most restrictive)



Sources: Based on OxCGRT COVID-19 Government Response Tracker.
Notes: The blue-shaded range represents the interquartile range (IQR) of ASEAN (excluding BRN)'s stringency index.

Passenger Air Traffic in Brunei
(Daily number of flights)



Sources: FlightRadars.

3. **The government rolled-out a sizeable economic relief package to support the hardest-hit households and firms affected by the pandemic.** The authorities announced temporary fiscal measures (effective April 1, 2020) to support micro, small and medium-sized enterprises (MSMEs) and self-employed groups in sectors such as tourism, hospitality, transport and restaurants, who have been adversely affected by collapse in demand. These measures include: the deferment of payments on Employee Trust Fund and Supplemental Contributory Pensions contributions, discounts on corporate income taxes, rents and utilities. To ease the financial hardships, the authorities announced additional measures (effective April 1, 2020), in the form of deferment on principal payments of financing to all sectors and provides for the restructuring or deferment on principal repayment of personal loans and hire purchase.[3] To support the labor market and to limit the potential scarring effects from the pandemic, the government has provided free-of-charge online training through Coursera and encouraging life-long learning through the Manpower Planning and Employment Council (see summary table for a comprehensive list of measures). The size of the stimulus package amounted to BND450 million (about 2.7 percent of GDP).

4. **With the pandemic broadly under control, Brunei started implementing a gradual COVID-19 de-escalation plan on May 16, 2020.** As large-scale containment measures are pulled back, the availability of fast and reliable testing and tracing is a pre-condition for re-opening of the economy, and to minimize the risks of a 'second wave'. In Brunei, the wide adoption of the contact tracing app, *BruHealth*, has been encouraging. At the time of writing, most economic activities have resumed, with social distancing continuing being observed. However, travel restrictions remain largely in place, except for specific essential travelers that are facilitated with appropriate health

[3] These measures have been extended to end-September 2021.

protocols. Reciprocal travel arrangements have also been established to further facilitate short-term essential business and official travel between countries.[4] Subject to conditions at that time, Brunei remains committed to working with other governments in the region to maintain necessary regional interconnectedness by facilitating essential business and official travel through effective COVID-19 prevention and control measures. This includes the ASEAN Comprehensive Recovery Framework (ACRF) and the ASEAN Travel Corridor Arrangement Framework.

5. **Adequate vaccine procurement and effective rollout will be key to securing a durable recovery and allow for a gradual lift up of travel restrictions.** Brunei officially rolled-out COVID-19 vaccination program on April 3, 2021. Prior to this, a vaccine technical committee was established in August 2020 to evaluate and provide advice on suitable vaccine candidates to be procured. In early February this year, the Sultanate received 52,000 doses of Sinopharm vaccine from China. To increase opportunities and to receive appropriate technical assistance, Brunei joined the COVAX facility in 2020 to secure 100,800 doses of AstraZeneca vaccines, of which 24,000 doses have been shipped in April.[5] The government also established bilateral arrangement with individual drug manufacturers to procure additional supplies. Under these bilateral arrangements, the government is expecting delivery of the Pfizer (300,000 doses) and Moderna (200,000 doses) vaccines later this year. The government is targeting to vaccinate at least 70 percent of the population—a level which is needed to achieve herd immunity.

Brunei Darussalam: Summary of Policy Responses to COVID-19 Pandemic

Maintaining Public Well-Being

Healthcare and Communication

1. Establishing a National Steering Committee for border control, a new national isolation center for treating and monitoring COVID-19 patients, and an auxiliary virology laboratory for COVID-19 testing.
2. Providing daily press conference to keep the public updated on the latest information on COVID-19.
3. Launching of an official mobile application (Telegram for GOV.BN) for the dissemination of official government information, and Health Advice Line to provide further information on COVID-19.
4. Setting up a Self-Assessment Tool (via healthinfor.gov.bn) to help individuals assess COVID-19 symptoms and rolling out of BruHealth application to facilitate contact tracing and vaccination appointment booking.

Travel and Social Distancing

5. Imposing travel ban out of Brunei for all citizens and permanent residents, while all foreign nationals/visitors are barred from entering Brunei.
6. Facilitating cross-border movements of transport operators and business owners[6] to maintain economic development needs whilst ensuring necessary safeguards.
7. Establishing reciprocal travel arrangements, such as the Reciprocal Green Lane (RGL) which Brunei has with Singapore, is one initiative to further ensure interconnectivity among economies.
8. Temporary closure of all public places (e.g. worship halls, cinemas, food premises sport complex, museums, library).

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[4] For example, Singapore and Brunei have agreed to allow short-term cross-border travel for residents who hold long-term immigration passes for business/official purposes through a Reciprocal Green Lane, starting from September 1, 2020.

[5] The first shipment of 24,000 doses out of 100,800 doses of AstraZeneca COVID-19 vaccine under COVAX facility has been received on 2 April 2021. The next shipment of AstraZeneca COVID-19 vaccine will be provided in batches in May and June 2021.

[6] Business travelers for the purpose of the management of offshore companies attending to offshore business operations that present significant in-country value to Brunei.

Brunei Darussalam: Summary of Policy Responses to COVID-19 Pandemic (Concluded)

Consumer Affairs

9. Monitoring of essential product prices (rice, sugar, sanitizers, surgical masks).
10. Enhancing telecommunication services (e.g. postal services between Malaysia and Brunei).
11. Providing alternative platforms for service delivery (e.g. drive-thru pension service payments).

Front-liners and Volunteers

12. Providing special monthly allowance of BND400 to front-liners until the eradication of COVID-19 in Brunei.
13. Setting up COVID-19 Relief Fund to enable the public to make financial contributions to tackle the pandemic.
14. Establishment of Youth Volunteer Ad-Hoc Committee to bring together volunteers to assist in the pandemic.

Online Learning

15. Providing online learning platform for teachers and students, including via televised education program at home.
16. Encouraging the public to donate new or used computers, laptop and tablets.

Supporting Businesses/Individuals

1. Deferment on payments of Employee Trust Fund (TAP) of 5 percent, and Supplemental Contributory Pensions (SCP) contributions of 3.5 percent for local employees earning less than $1,500 per month in all sectors under the micro, small and medium-size enterprises (MSMEs) with less than 100 employees. Government provides full SCP contributions to the registered self-employed.
2. Deferment on principal repayments on business and personal financing/loans for those affected across all sectors—deferment on principal repayments on personal financing/loans and vehicle financing/loans (or restructuring of loans/repayments with a period of not exceeding 10 years).
3. Deferment on principal repayments on personal financing/loans related to land (ownership or investment purposes).
4. Waiver of trade and payment transaction fees for companies in tourism, restaurants, air transport, food and medicine sectors.
5. Conversion of outstanding balances on credit cards into a term loan for a period not exceeding three years for affected individuals in the private sector only (including the self-employed).
6. Waiver of all charges and bank payments for interbank transfers (except third party charges)—only applicable to local banks.
7. Temporary suspension of rental charges for markets and stores operating under the Ministry of Home Affairs.
8. Temporary exemption of customs and excise duties to assist retailers and consumers from the rising demand for hygiene and disinfectant products.
9. Providing 25 percent salary subsidies for Brunei employees in the MSME sector with less than 100 employees.
10. Providing discounts on rental rates of government buildings for MSMEs in tourism, hospitality, restaurants/café, and air/water transportation ("Targeted Sectors").
11. Providing 50 percent tax discount on corporate income tax for the year of assessment 2021 in Targeted Sectors.
12. Providing Co-Matching Grants for e-commerce (e-Kadai) and logistic services.

Supporting Labor Market

1. Expanding the i-Ready Apprenticeship Program to graduates with Level 5 diploma level based on Brunei Darussalam Qualification Framework Level 5 Diploma (HND or Advanced) or equivalent, and Technical and Vocational Education and Training (TVET) qualifications for an apprenticeship period of 18 months.
2. Revamping the JobCentre Brunei (JCB) portal to improve talent sourcing and to facilitate job matching between companies and jobseekers, such as including new functions for automated job matching, pushed notifications and application status updates
3. Increasing the provision of Darussalam Enterprise's fully sponsored Industry Business Academy online training, through Coursera which also complements the life-long learning initiatives under the Manpower Planning and Employment Council.
4. Providing 25 percent payroll subsidy to local workers in MSMEs with 100 employees and below for a pre-determined period of time.

Appendix II. External Sector Assessment[1]

Brunei's external position in 2020 is assessed to be substantially weaker than the level implied by medium-level fundamentals and desirable policies. The current account surplus narrowed relative to 2019, due to falling exports and the pandemic-induced decline in oil prices. The current account surplus is projected to rebound over the medium term, as O&G production and prices recover. The commencement of several large downstream activities is also expected to drive export growth. Ample international and fiscal reserves provide strong buffers against external shocks, while the peg to the Singapore dollar remains appropriate, serving as a credible nominal anchor.

1. **The current account surplus narrowed in 2020 but is projected to rebound over the medium term**. Exports of goods declined (-9.3 percent yoy), with the COVID-19 shock driving the pullbacks in O&G production to 110 thousand barrels per day in 2020 (2019: 121 thousand barrels per day) and exports. In contrast, imports have held up, led by robust demand from downstream non-O&G activities, which account for 30 percent share of total goods imports. As a result, the current account surplus narrowed further to 4.5 percent of GDP in 2020 (2019: 6.6 percent of GDP). Over the medium term, the surplus is projected to rebound on higher export proceeds from new FDI projects. However, unlike the large surpluses seen over the past decades, the current account surplus is expected to be smaller on the back of further economic diversification.

2. **The macrobalance (EBA-Lite CA) approach suggests that the current account balance is below its norm, primarily due to the large temporary decline in exports.** The EBA-Lite methodology for Brunei suggests that, after taking into account cyclical contributions and one-off COVID-19 pandemic adjustor, the adjusted current account is an estimated surplus of 11.5 percent of GDP in 2020. [2] The estimated current account norm—levels of the current account estimated based on underlying fundamentals—is of a surplus of 18.9 percent of GDP. Therefore, the current account gap—deviations of observed values from norms—is -7.3 percent of GDP for 2020. After taking into account the policy gap (+3.2 percent of GDP), the current account gap of -4.1 percent of GDP mainly reflects the temporary impact of lower hydrocarbon prices, as well as other remaining residuals from structural impediments and country-specific factors not included in the model (such as the need to save for future generation). Policy priorities, such as the promotion of public investment in healthcare, physical infrastructure and human capital, would help keep current account imbalances moderate over the medium term by lowering net public saving.

3. **Capital flows into Brunei have been driven primarily by FDI flows, which saw a strong rebound since 2016.** Inward FDI flows picked-up strongly from 2016, reaching about BND800 million in 2020 in tandem with the rollout of comprehensive reforms to bolster trade and investment. The robust activities in the downstream non-O&G sector are expected to support continuing expansion in this sector. Portfolio capital flows remains modest, given the small domestic capital

[1] Prepared by Anthony CK Tan.

[2] 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 features of commodity exporters such as Brunei.

market and limited portfolio investment opportunities in Brunei. However, the large placements of domestic banks' holdings of excess liquidity abroad is a vulnerability, although a large portion of the asset holdings are re-invested in Singapore dollar assets, partly mitigating the risk.

Brunei Darussalam: Model Estimates for 2020 (in percent of GDP)

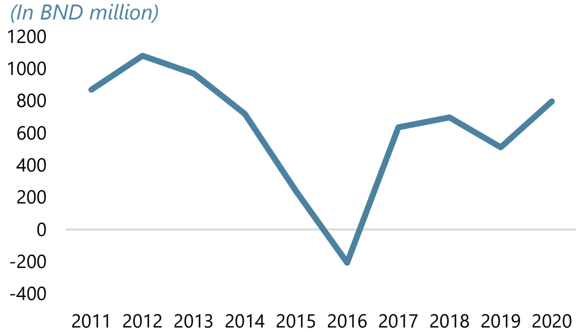
	CA model	REER model
CA-Estimates	**4.5**	
Cyclical contributions (from model) (-)	-1.7	
COVID-19 adjustor (+) 1/	5.3	
Adjusted CA	**11.5**	
CA Norm (from model) 2/	**18.9**	
CA Gap	**-7.3**	**-13.8**
o/w Relative policy gap	3.2	
Elasticity	-0.37	
REER Gap (in percent)	**19.6**	**36.9**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on trade balance.
2/ Cyclically adjusted, including multilateral consistency adjustments.

4. **The trade-weighted exchange rates in Brunei remain largely stable.** Recent exchange rate developments showed that the nominal effective exchange rate (NEER) remained largely stable, despite a more volatile bilateral USD/BRN exchange rate, suggesting that major trading partners' exchange rate against the US dollar have also moved in tandem with one another. However, the real effective exchange rate (REER) has been declining since 2014, partly reflecting the negative terms of trade shock, which drives down the price of non-traded goods in the economy. The CA model suggests a large REER gap, estimated at 20 percent in 2020, which is broadly consistent with the results from the REER model (37 percent).

Inward FDI flows

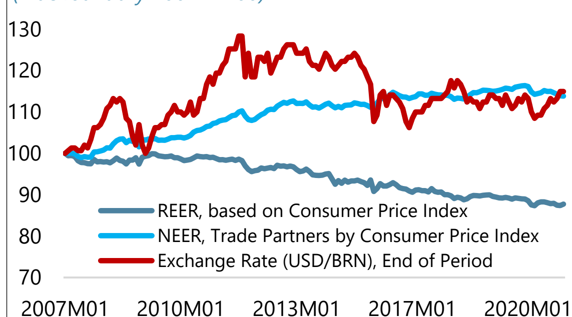
(In BND million)



Sources: Brunei authorities, Haver Analytics.

Brunei Darussalam: Exchange Rates

(Index January 2007 = 100)



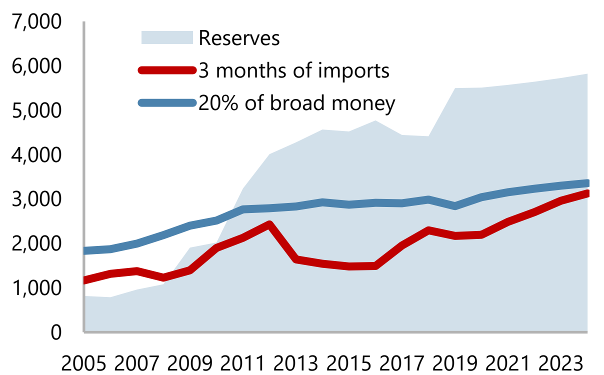
Sources: IMF

5. **The peg to the Singapore dollar remains appropriate, providing a credible nominal anchor and financial system stability.** The establishment of the Currency-Interchangeability Agreement between Brunei and Singapore in 1967 has been instrumental in promoting monetary cooperation between the two countries. The Agreement has contributed to preserve and deepen the existing economic and financial linkages between the two countries. As Singapore is a major hub for

FX, the Agreement allows fund managers in Brunei to benefit from Singapore's deep financial markets, while facilitating the convertibility of the Brunei dollar into other currencies. The Agreement effectively eliminates foreign exchange (FX) risks between the two currencies, given that some portion of banks' excess liquidity in Brunei is placed in foreign assets abroad (e.g. in Singapore dollar) Beyond the viewpoint of price and financial stability, the peg serves to bolster diversification efforts by helping to attract FDI.

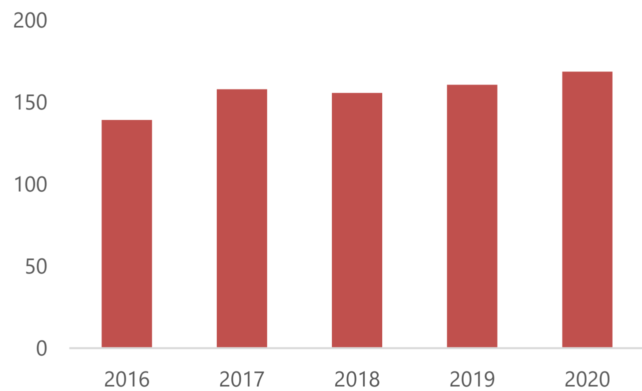
6. **Official reserves remain above the adequacy benchmarks.** Brunei's international reserves (excluding gold) in 2020 amounted to USD 3.7 billion (equivalent to 6 months of imports, or 30 percent of broad money), which covers around 170 percent of the monetary base in 2020. As a major energy exporter, additional precautionary liquidity is needed to buffer against adverse terms of trade shocks. Comparison shows that in terms of Fund' assessing reserves adequacy (ARA) Brunei is in line with GCC peers.

Brunei Darussalam: Reserve Adequacy, 2005–2026
(In millions of Brunei dollars)



Sources: Brunei authorities; and IMF staff estimates.

Brunei Darussalam: Reserves to Monetary Base (2016-20)
(In percent)



Sources: Brunei authorities, and IMF staff calculations

Appendix III. Risk Assessment Matrix[1]

	Risks	Likelihood	Expected Impact	Policy Response
External	**Global resurgence of the Covid-19 pandemic.** Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	**Medium**	**High** Recovery proceeds slowly, exacerbating pre-existing inequalities and scarring the economy deeply through rising distress of firms, fallout of MSMEs and the self-employed, and extended joblessness.	• Leverage ample fiscal reserves to address the health crisis, protect the vulnerable and prevent scarring. • Provide relief to viable businesses and extend a lifeline to the vulnerable such as MSMEs, the self-employed and unemployed workers.
	Disorderly transformations. Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	**Medium**	**High** Structural reforms for economic diversification and private sector development are sluggish. The recovery of potential growth would be delayed.	• Accelerate the structural reforms by utilizing the large fiscal space, • Implement active labor market policies including job matching and training, • Restructure unviable firms, • Improve integration into adjusted global value chain.
	De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia. A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	**Medium**	**Medium** Financial market is destabilized and deleveraging lowers investment and growth. Leveraged firms and households have difficulty in financing. Volatility in financial market causes valuation changes on sovereign holdings.	• Strengthen monitoring and supervision of financial market with appropriate macroprudential policies, • Provide financial support for viable business and indebted households, • Manage sovereign assets prudently.
	Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	**Medium**	**High** While higher energy prices improve fiscal and external balances, rising prices in other commodities such as crops pick up inflation and affect the vulnerable people negatively.	• Build fiscal buffers from higher O&G revenue in line with continuous fiscal consolidation, • Monitor and stabilize prices of necessities and maintain a support to people in need.
Domestic	**Unexpected fluctuation in energy production.** While oil and gas fields aged faster than expectation disrupt the production, effective rejuvenation programs create more supply.	**Medium**	**High** *Decreased production* lowers the fiscal revenues and exports.	• Enhance efforts to rejuvenate current fields and explore new sites.
			High *Increased production* secures greater revenues and exports.	• Reduce fiscal procyclicality, especially in good times.
	Delays in large-scale FDI projects.	**Medium**	**Medium** Delays slow diversification, and limit growth and employment.	• Upgrade business climate for smooth project execution, • Expand public investment.

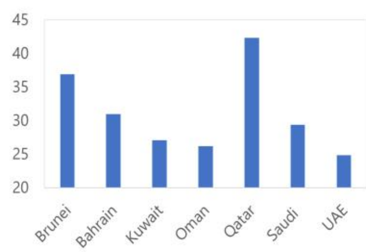
[1] Prepared by Sangmok Lee. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Appendix IV. Improving Public Investment Efficiency[1]

Public investment is needed to address insufficient infrastructure, but fiscal space has narrowed. Furthermore, infrastructure quality has been assessed inferior to peer countries and the establishment of efficient public investment management is key to improve the quality and returns on physical capital.

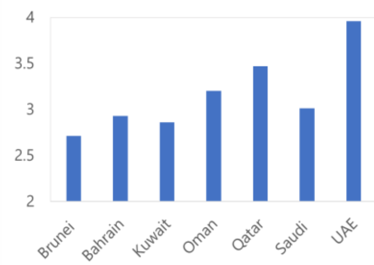
1. **Brunei needs additional public investment, but persistent fiscal deficits have reduced fiscal space.** Though fixed capital formation including public investment has accounted for 37 percent of the GDP in 2015-19, additional public investment is needed to foster infrastructure development and urbanization. Public investment can play a prominent role in boosting growth and long-term development particularly in the non-oil sector (IMF, 2014; Annex V). But persistent fiscal deficits have reduced sovereign wealth resources and public capital expenditure (4.7 percent of GDP in 2017 to 1.7 percent in 2020) has steadily decreased, eroding the potential for future growth.

Gross Capital Formation
(In percent of GDP, average 2015-19)



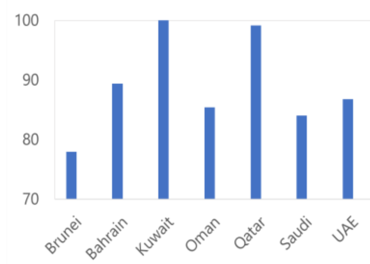
Sources: World Bank World Development Indicators, IMF staff calculations.

Logistics Performance Index
(1=low to 5=high, 2018)



Source: World Bank World Development indicators.

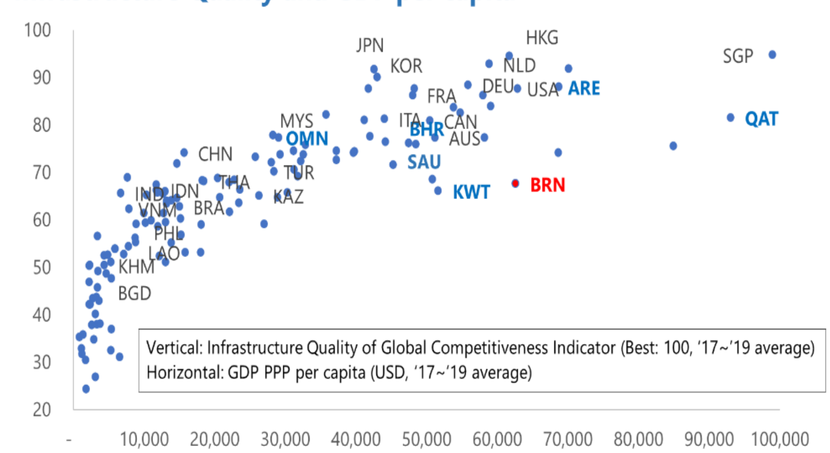
Urban Population
(percent of total population, 2019)



Source: World Bank World Development Indicators.

2. **Increasing public investment efficiency is a priority.** It allows to improve the quality of physical infrastructure and the return on public capital, without deteriorating the fiscal position. However, according to new staff analysis, Brunei has a relatively low level of public investment efficiency. Policies to strengthen public investment efficiency include better project appraisal and selection that identifies and targets infrastructure bottlenecks, including through centralized independent reviews, rigorous cost-benefit analysis, risk costing, and zero-based budgeting principles, and improved project execution:

Infrastructure Quality and GDP per capita



Sources: World Economic Forum Global Competitiveness Indicator, IMF World Economic Outlook database, IMF staff calculations.

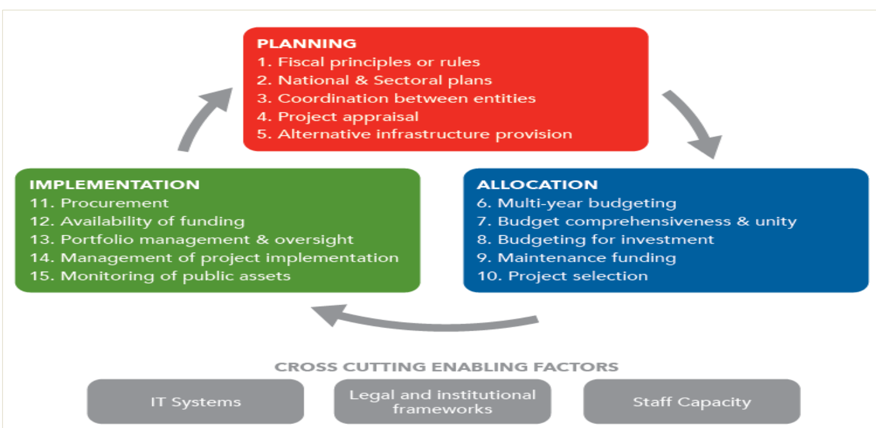
[1] Prepared by Sangmok Lee.

- **Further improve evaluation process.** The MoFE is responsible for planning and evaluating the ministries' applications for projects under the National Development Plan (NDP) at the working level. Applied projects are thereafter reviewed by the NDP Working Committee (JKK) and approved subsequently by the NDP Executive Committee (JKTR).[2, 3] As the secretariat to the JKK and JKTR, the MoFE monitors progress and outcome of the NDP projects in collaboration with the responsible ministries and agencies. Respective ministries are in charge of processes for the procurement (including detailed specifications, evaluation and recommendation), the implementation, and the outcome (including Key Performance Indicators) of their projects in terms of quality and timescale of projects. In particular, the State Tender Board, the MoFE or the Mini Tender Board at respective ministries review and approve the procurement according to their thresholds. While all public infrastructure projects are subject to a similar procedure, there exists assessment that evaluation process is used on ad hoc basis (OECD/ADB, 2019).

- **Strengthen the oversight on public investment projects.** An in-depth and independent diagnosis of the current public investment management system is recommended. In this regard, the Public Investment Management Assessment (PIMA) of the IMF would provide opportunities to develop the management rapidly by analyzing current institutions, evaluating effectiveness, and distinguishing reform priorities.

Public Investment Management Assessment Framework

The IMF's PIMA program has helped improve frameworks for public investment in various countries. The PIMA is a comprehensive framework to assess public investment efficiency by evaluating the procedures, tools, decision making, and monitoring in infrastructure project governance and identify reform priorities and practical steps for improved management. The PIMA framework reviews institutional design and effectiveness of 15 key practices according to the three stages of the public investment cycle and three cross-cutting enabling factors to support infrastructure governance.



Source: IMF (2019)

[2] The JKTR committee chaired by the senior minister in the Prime Minister's Office approves budget and projects and consists of the ministers in related ministries.

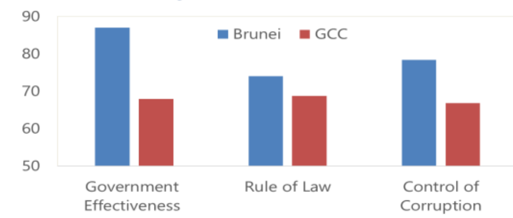
[3] The JKK committee chaired by the deputy minister in the Prime Minister's Office reaffirms, oversees, and provides recommendations on the MoFE preparations and is composed of secretaries in the related ministries.

- **Establish an advanced framework for public investment management.** A clear, well-supported methodology for appraisal and well-defined project criteria and processes for selection are critical for good management (Schwartz et al., 2020). Integrating medium and long-term infrastructure plans into fiscal framework would secure stable investment implementation. Finally, an independent and centralized agency for public investment management could play a useful role in the ex-ante strategic planning and precise appraisal and ex-post evaluation of infrastructure projects.[4]

- **Encourage private sector participation in public investment.** Public and private cooperation would harness innovation and efficiency for the government and develop competence of the private firms by accumulating experiences and know-hows, while improving quality and hedging risks of projects.

- **Reduce revenue dependence from natural resources.** Less reliance on oil and gas sector would improve the quality of public investment by diminishing revenue volatility and strengthening incentives to prioritize and appraise projects cautiously (IMF, 2014). Strong institutional quality—as in the case of Brunei—could further contribute to improving the efficiency of public investment.

Institutional Quality
(Percentile rank among all countries (Best: 100, Worst: 0))



Sources: Worldwide Governance Indicators, IMF staff calculations.

[4] Korean government established the Public and Private Infrastructure Investment Management Center (PIMAC) in the Korea Development Institute (research institute) as an independent gatekeeper of public investment. It enhances efficiency and transparency of public and private investment management and provides various consulting services and research to improve related policies and analytical tools.

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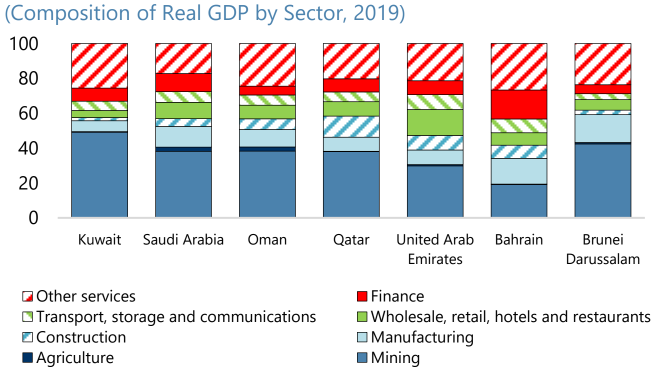
Appendix V. Economic Diversification: Progress and Priorities Ahead[1]

International experience shows that diversification away from hydrocarbon is not an easy task, but it is not impossible given consistent policies and incentives, and strong leadership for structural transformation. Since the very beginning, Brunei has made diversification an integral part of its economic development agenda. While the success of past reforms is paying off, there is an urgent need for wide ranging reform efforts given the headwinds from an increasingly uncertain external environment.

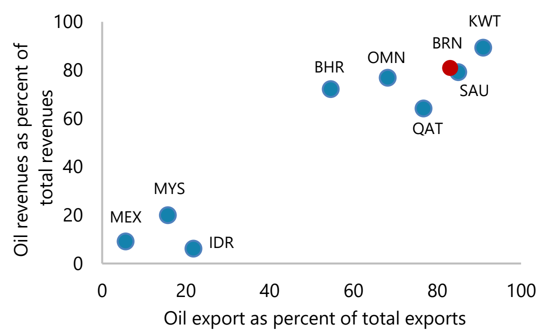
1. **The government of Brunei Darussalam has out economic diversification at the center of its economic agenda in order to decrease the heavy dependence on hydrocarbon resources**. While the O&G industry has contributed significantly to the country's economic prosperity, the large exposure to global oil market volatility is a continuing vulnerability. Recognizing Brunei's susceptibility to global oil price shocks, the government has made economic diversification a prime economic objective in its various 5-year national development plans (NDP). The plan to pursue broader economic transformation was set in motion in 2008, with the launch of a new national vision policy—the Wawasan 2035. International experience has shown that achieving a successful diversification is not an easy task (Callen and others, 2014). There are also many challenges at the present, including the inherent economic volatility induced by the reliance on hydrocarbon revenue, which tend to exacerbate boom-bust cycles. Countries like Indonesia, Malaysia and Mexico offer the best examples of success stories.

Economic Structure: GCC Countries and Brunei
(Composition of Real GDP by Sector, 2019)



Sources: Haver Analytics, and IMF staff calculations.

Hydrocarbon Dependence:
Selected Economies (2019, or latest)



Source: Haver Analytics, and IMF staff calculations.

2. **The issues of economic diversification and the role of structural reforms have gained renewed sense of urgency, as the collapse in global demand pushed oil prices to a record low in early 2020.** Over the past decades, Brunei has made strides in diversifying its economic structure, with the share of non-O&G increasing from less than 20 percent in 2000 to over 40 percent of GDP in 2020. Notwithstanding the progress, the O&G sector continues to remain a prominent sector, with much of other non-O&G economic activities (such as construction and manufacturing), directly related to the O&G sector. The government fiscal revenue is also tightly linked to hydrocarbon

[1] Prepared by Anthony CK Tan.

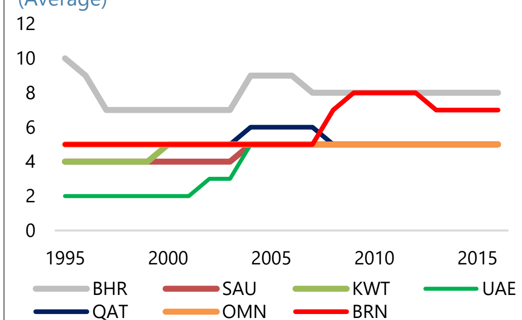
resources, accounting for the bulk of total revenue. Although Brunei (and other major oil-exporting countries) had to contend with lower oil prices since mid-2014, the pandemic-induced oil price shock was unprecedented. At the height of the great lockdown recession in early 2020, Brent crude plummeted to below USD20/barrel—a record low, surpassing earlier declines in 2014-16.

3. **While there is no single recipe for any one country, there are several necessary policy actions for success—which Brunei has adopted for its diversification strategy.** Literature shows that fostering an enabling environment is not only critical, but a necessary condition. key enablers are: (i) improving business climate, (ii) investing in infrastructure (physical connectivity and digital platforms), (iii) incentivizing private sector developments, and (iv) strengthening trade and investment (Sommer and others, 2016; Callen and others, 2014). While the importance of these enablers has been generally well argued in the literature, there is no one-size-fits-all approach in the design and implementation of specific measures. The experience of other oil-exporting countries in dealing with these challenges offers important lessons for Brunei. In January 2021, the Brunei government unveiled the Brunei Economic Blueprint which is timely, outlining the broad policy directions and aspirations in achieving a dynamic and sustainable economy.[2]

- ***Improving Business Climate.*** In any economy, the government plays an important enabling role in promoting a business-friendly environment. International experience shows that reforms to streamline legal and regulatory environment, including start-up and licensing procedures for businesses are crucial in nurturing new economic activities and attracting foreign businesses. Developing countries—oil and non-oil exporters alike, have come to recognize its importance, all aiming to be competitive destinations for investment. On this front, Brunei has made good progress, as evident from the recent improvement in business dynamism ranking in the World Economic Forum (WEF)'s Global Competitiveness Report 2019.[3] Through consistent reforms, Brunei has also made strides in improving the business climate. Notable achievements are the creation of several new agencies and statutory bodies, which are primarily aimed at facilitating and streamlining business and investment process (Kumpoh, Asiyah Ahmad, 2017).[4]

- ***Strengthening Trade and Investment.*** Literature shows that expanding trade and investment (FDI) will be central in facilitating growth through structural transformation, which tends to be associated with lower volatility and higher growth (Papageorgiou and others 2015). Higher foreign trade and FDI can play a large role in boosting diversification, helping to trigger technology spillovers and productivity enhancement. In Brunei

Non-Tariff Restrictions (Brunei and GCC Countires)
(Average)



Source: Estefania Flores, Furceri, Hannan, Ostry and Rose (2021).
An higher level means more restrictions.

[2] The six aspirations are (1) productive and vibrant businesses, (2) skilled, adaptive and innovative people, (3) open and globally connected economy, (4) sustainable environment, (5) high quality and competitive economic infrastructure. and (6) good governance and public service excellence.

[3] Business dynamism comprise administrative requirements (cost of starting a business, time to start a business, insolvency recovery rate and insolvency regulatory framework) and entrepreneurial culture (WEF)

[4] These are Darussalam Enterprise (DARe), Foreign Direct Investment Action and Downstream Industry Committee, and the Foreign Direct Investment Action and Support Center (FAST).

and GCC countries, while embracing trade openness has been a key strategy, a number of barriers to trade (such as restrictions on foreign ownership of businesses and real estate), as well as non-tariff trade restrictions (such as restrictive licensing, permitting, and other requirements applied at the border, including technical barriers to trade and sanitary and phytosanitary measures) continue to persist, impeding trade and investment. In contrast, lower restrictions have been associated with better FDI outcomes (Stepanyan and other, 2018). Learning from the experience of neighboring ASEAN peers, Brunei overhauled its investment laws with a clear commitment to liberalizing the investment environment, as well as the participation in free trade agreements (FTAs) including the Regional Comprehensive Economic Partnership Agreement (RCEP). The approach has been successful, as Brunei recorded almost a doubling of FDI stock from 2012 to 2020, the two largest being Hengyi Industries and Brunei Fertilizer Industries with the capacity of generating close to 2,000 new jobs. However, there is for further easing of non-tariff restrictions.

- ***Incentivizing Private Sector Development.*** Sustainable development in oil-exporting countries would require a vibrant private sector capable of generating quality and reasonably high paying jobs. This would help to narrow the public-private wage gap and reduce the incentive for nationals to seek higher paying public sector jobs. Given that micro, small and medium-sized enterprises (MSMEs) are the backbone of an economy, supporting the development of the MSMEs sector (such as facilitating entrepreneurship and their access to financing, and providing training support) is crucial. In GCC countries, initiatives supporting young entrepreneurs and providing them with training and counseling have spread across the Gulf. In Oman for instance, vocational training centers and technical colleges have been introduced to support private sector activities. Education reforms have also been introduced, aimed at better aligning graduates' skills with market needs (Kabbani and Mimoune, 2021). Similarly, in Brunei, with the establishment of the Darussalam Enterprise (*DARe*), interest in entrepreneurship and private sector employment has risen. Through its Industry Business Academy, *DARe* trains business owners or employees to learn and acquire new business skills such as finance, human resource management, marketing and other business disciplines. To support the labor market, initiatives such as the I-Ready Apprenticeship program, the Lifelong Learning Center and the SkillsPlus Program for workers upskilling and reskilling have been introduced in Brunei. The Manpower Planning and Employment Council (MPEC) continue to play active role in integrating and coordinating the efforts by the government and the private sector to meet the industry's talent demand.

- ***Investment in Infrastructure.*** Infrastructure, both physical (such as roads and bridges) and digital connectivity are not just growth enhancing, but critical enablers in fostering a successful diversification. For example, when Malaysia embarked on its diversification strategy in the 1960-70, major investment was made in infrastructure to support the economic transformation. Physical infrastructure and well-equipped transportation hubs were built to enable the efficient movement of people and goods. Technology parks were also established to support the development of digital and multimedia technology. It is encouraging that Brunei has also been ramping up its infrastructure investment in recent years. For instance, the construction of several bridges linking the western shore to the mainland, and a mega *Temburong* bridge—linking western Brunei with the *Temburong* district in the east. The *Pulau Muara Besar* bridge is part of the road infrastructure serving the petrochemical refinery plant and the country's first free trade zone in the Brunei-Muara district.

4. **The pandemic highlighted the salience of economic diversification, and the importance of wide-ranging structural reforms to foster resilience and intergenerational equity.** The progress towards achieving economic diversification in Brunei has been commendable. However, reforms would need to be sustained in order to preserve longer term economic prosperity. While the success of past reforms (such as investment reforms) are paying off, there is an urgent need for wide ranging reform efforts given the headwinds from an increasingly uncertain external environment. Key reform priorities are:

- ***Further Improvement in Regulatory Framework.*** Notwithstanding the achievements made in improving the business climate, further reforms in the regulatory framework would be welcomed, such as making the framework more consultative, transparent and predictable (e.g. foreign ownership of real estate). This would help engender confidence and certainty in the business environment.

- ***Strengthening Human Capital Development and Private Sector Employment.*** While various mechanisms have been put in place to foster job opportunities and increase job matching, labor market reforms should be deepened and aimed at eliminating structural rigidities (such as further civil service reforms). Reforms should continue to support MSME developments by incentivizing human capital investment in specific skills (such as the five priority business clusters—downstream O&G, food, tourism, services and ICT).

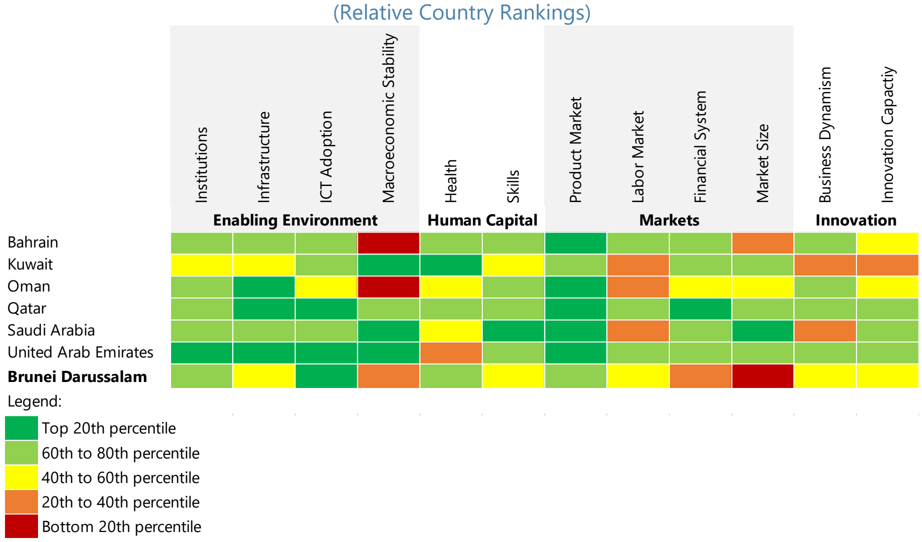
- ***Advancing Digitalization.*** Digitalization brings innovation and new business opportunities, creating new jobs, particularly for the young and tech-savvy population. In order to better harness the benefits of digitalization in the economic transformation, investment in digital connectivity and soft infrastructure will need to be sustained. The COVID-19 pandemic has accelerated the process of digital transformation, underscoring the need for industry and society to be well-equipped with the skills and knowledge that are in line with shifts in digital technology. It is encouraging to note that the authorities are pushing ahead with this priority by establishing the Digital Economy Masterplan 2025 with the aim of achieving a Smart Nation. Amongst others, the strategic thrusts of the masterplan focuses on driving the adoption of technology through training on key technology solutions and collaboration with key industry players, implementing a digital identity ecosystem and framework for data protection and sharing, and enhancing capabilities of the workforce equipped with the right skills to adapt to the rapid changes in technology.

Policy Themes for Successful Diversification

Source: IMF

Structural Reform Priorities (GCC Countries and Brunei Darussalam)

(Relative Country Rankings)



Sources: World Economic Forum, and IMF staff calculations

Note: Areas shaded in red suggest priority reform areas (where feasible), while areas shaded from orange→yellow→light green suggest descending order of priority.

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Appendix VI. Foreign Direct Investment[1]

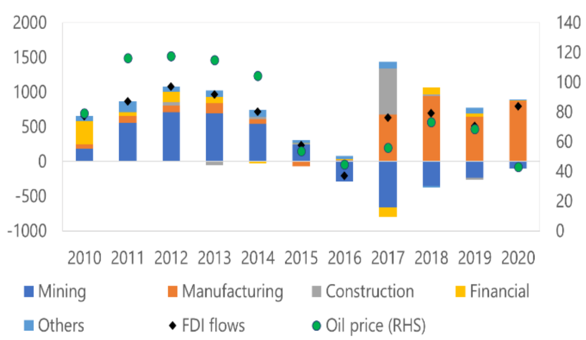
Brunei has underscored the role of FDI in promoting economic growth and diversification. Public agencies to facilitate FDI processes and incentives to attract investment have been set up. FDI projects have contributed to developing non-O&G sector and mitigating the negative impact from COVID-19. However, more attraction and positive spillovers of quality FDI are required for sustainable growth.

1. **Brunei has attracted FDI projects for economic growth and diversification.** Quality FDI would heighten economic growth and employment by expanding investments, diversify the economy by launching new industries, and boost productivity by adopting advanced business skills and state-of-art technology. The authorities have underscored FDI attraction in the five priority clusters of downstream O&G, business service, food, tourism, and info-communication technology. As downstream industry developed by FDI has accelerated recent growth of non-O&G sector and mitigated the negative impact of COVID-19, FDI has played a significant role in the economy. However, development of related domestic industries and expansion of job opportunities from FDI remain limited.

2. **FDI have been concentrated in O&G and downstream sectors.** FDI attraction in Brunei is similar to Gulf Cooperation Council (GCC) countries but lags neighboring Association of Southeast Asian Nations (ASEAN) countries. Significant FDI has occurred in the O&G sector during the hike of oil price. Since then, FDI has been concentrated in downstream industries, including the big projects of Hengyi industries (USD3.4 billion, 2017-20) and Brunei Fertilizer Industries (USD1.3 billion, 2017-21). FDI in other priority industries have been numerous but significantly smaller.

Brunei Darussalam: FDI Inflow

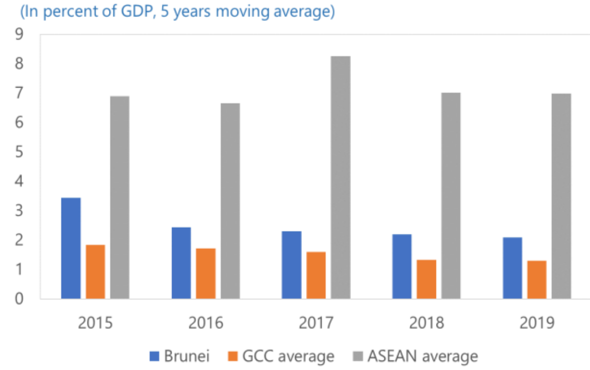
(BND million)



Source: Brunei authorities.

Net Inflow of FDI

(In percent of GDP, 5 years moving average)



Sources: World Bank World Development Indicators, IMF staff calculations.

3. **The authorities have encouraged FDI through well-prepared institutions and incentives.** The FDI Action and Support Centre (FAST), the Brunei Economic Development Board (BEDB) and the Darussalam Enterprise (DARe) under the MoFE have facilitated FDI attractions, while cooperating to

[1] Prepared by Sangmok Lee.

smooth the process of obtaining permits, approvals, and licenses for FDI projects.[2] Also, customized incentives including tax and financing are arranged for foreign investors. For instance, incoming foreign companies are able to apply for the 'pioneer status', exempted from paying corporate income tax and import duties on raw materials, equipment and machinery for a period of up to 5 years. Investment from the government's investment arm, Strategic Development Capital Fund can be offered to FDI project according to the evaluation.[3]

4. **Business environment has improved substantially for foreign investors**. The time and procedures for starting business have reduced to 5 days and 3 procedures in 2020, compared to 14 days and 7 procedures in 2016.[4] Obtaining credit has been enhanced robustly thanks to the development of a credit bureau and a credit registry listing most of adult population. Also, the authorities created the first Free Trade Zone in Terunjing Industrial Park near Brunei International Airport and Muara Port in 2017.

5. **Additional efforts are needed to attract more quality FDI**:

- **Step up efforts to improve the business climate.** While business environment in Brunei has been upgraded noticeably, remnant obstacles in property registering and border trading need to be overcome. Transactions of real estate should be streamlined. While transfer of land ownership in Brunei requires an approval of governmental council, this process tends to be lengthy and untransparent. Some transaction applications are rejected from the government agency without explanation. Foreign ownership of land is restricted, and foreigners and permanent residents can only hold properties under long-term leases. The government is currently reviewing and making efforts to improve related policies, which needs to be accelerated. Enhancement of government's land lease to investors could be opportunities to make the most of limited land. In addition, time to export and import takes longer than peers. Expanded public investment on infrastructure and developed administration in customs and border are required.

- **Secure fair competition and reform State-Owned Enterprises (SOEs) for private sector development.** While SOEs in Brunei have played a strategic role to spur on-going development of the private sector, excessive dominance of SOEs could crowd out competition in the market and hinder development of the private sector. SOEs, managed by the Darussalam Assets under the MoFE, take a principal part in key sectors—such as oil and gas, tele-communications, transport, etc.[5]. While ICT industry structuring to consolidate the infrastructure of three communication companies to a SOE, Unified National Networks in 2019 can obtain benefits from economies of scale, dominance of a SOE would be strengthened and sound competition in the market could be restricted in the long term, though private companies can participate in the market. The authorities should guarantee and encourage vibrant competition in the market. Privatization of SOEs on areas operated by private firms in other countries such as

[2] The FAST under BEDB provides complete facilitation services to investors in meeting their project requirements. This board is responsible for evaluating investment proposals, liaising with other agencies, and obtaining project approval from the Foreign Direct Investment and Downstream Industry Committee. The DARe oversees and manages industrial parks, working with other agencies to implement investors' projects.

[3] Incentives refer to investor's guidebook FAQ, prepared by the FAST and the BEDB.

[4] Centre for Strategic and Policy Studies, 2021, Brunei Economic Outlook.

[5] Brunei National Petroleum (oil and gas), Unified National Networks (communication), Royal Brunei Airlines (transportation).

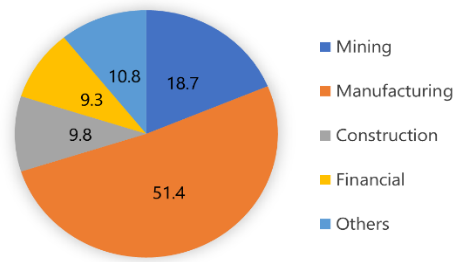
communication and tourism could be considered to boost efficiency by advanced management, gain investment resources for SOEs, and obtain fiscal revenue for the government.

- **Upgrade incentives for FDI.** Incentives should be customized for projects under strong competition in FDI among countries. Intensified benefits to FDI on priority clusters would contribute to economic diversification.

6. **Extending FDI attraction to various industries and boosting spillover to the local economy would maximize payoffs.**

- **Diversify FDI projects beyond downstream industry.** While manufacturing, mostly downstream O&G and mining account for 70 percent of total FDI since 2010, concentration of FDI on O&G related industries might not reduce volatility from energy price and diversify the economy due to its tight linkage to O&G sector. Policy efforts should focus on attracting FDI in other industries to hedge risks from unexpected O&G price change. Also, small size of FDI in the other priority clusters should be nurtured into sizable business with competitiveness in global market.

Brunei Darussalam: Accumulated FDI by Economic Sector
(In percent of total FDI, 2010-20)



Sources: Brunei authorities, IMF staff calculations.

- **Strengthen the trickle-down effect from FDI to the domestic economy.** Palpable changes in local industries, technology and employment initiated by FDI have not been noticed yet. The authorities should consider a ripple effect of FDI in attracting and evaluating FDI projects. The positive spillovers from FDI would be accompanied with development of related domestic industries and spread of advanced technologies by proactive participation of local firms and workers. Some projects can create a virtuous cycle among FDIs. For instance, development in the business service of transportation would contribute to facilitating tourism and logistics of downstream O&G and food. Also, an industrial complex built from a mega-project like Hengyi industries could be utilized to attract more related FDI projects.

Appendix VII. Status of Staff Advice in 2019 Article IV Consultation

Staff Advice	Policy Actions
Fiscal Policy	
Continuing fiscal consolidation to ensure long-term expenditure sustainability and intergenerational equity, by enhancing the revenue and expenditure strategy, reforming subsidies, and continuing public finance management reforms.	The authorities have been taking a variety of steps for fiscal consolidation and public finance management reforms, such as (i) implementing the Fiscal Consolidation Program with 117 initiatives, (ii) corporatizing public services such as transformation of government printing department to Print Plus, (iii) reducing subsidies by the launch of subsidy-free fuel, smart meter for power and water supply and the National Welfare System, (iv) containing the number of government employee, (v) discussing excise tax expansion in the near time, and (vi) applying medium-term projection in the MTFF to annual budgeting.
Financial Sector Policies	
Further development of the financial sector while strengthening regulatory, supervision and macroprudential framework to safeguard financial stability.	The authorities have taken measures to further develop the financial sector while putting in place regulatory safeguards to preserve financial stability and integrity. The authorities have implemented International Financial Reporting Standard 9 by financial institutions and taken steps to put all the three pillars of Basel II in place. The development of a holistic macroprudential framework remains in progress, including a preliminary assessment of the countercyclical capital buffer. The development of a Domestic Systemically Important Banks framework has been put in place. Plans to establish a secondary bond market and stock exchange remain work-in-progress.
Strengthening AML/CFT framework to safeguard financial system integrity.	The authorities remain committed to strengthening AML/FCT framework, which saw two legislations being amended in 2020 (the Criminal Asset Recovery Order, and the Companies Act). Amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing). Regulations are currently being prepared and the Counter Proliferation Financing Order is being finalized. Additionally, the authorities plan to issue a Notice on Measures for Non-Face-to-Face Customer Onboarding and Ongoing Customer Due Diligence (CDD). This will outline the minimum required standards for CDD measures for financial institutions when establishing a new business relationship or maintaining an ongoing business relationship through the use of E-KYC, and it is scheduled to be issued in the second half of 2021.
Structural Policies	
Stepping up structural reforms to encourage private sector-led growth, by continuing to improve the business climate, enhance human capital, attract FDI, and boost integration with the global economy, while leveraging the latest technological innovations.	Business environment has been improved, especially in starting a business and accessing to credit together with development of the Darussalam Enterprise and the Credit Bureau. Job opportunities and matching has been fostered through JobCentre Brunei, I-Ready, Politeknik Brunei and the Institute of Brunei Technical Education under a coordinating role of the Manpower Planning and Employment Council. Sizable FDI has been attracted under organized efforts of the FDI Action and Support Center and the Brunei Economic Council Board. Brunei has proactively participated in free trade agreements, including the CPTPP and the RCEP and accelerated digitalization by preparation of the Digital Economy Masterplan 2025.

Data Issues	
Making further progress in data compilation and dissemination.	The authorities have committed to publishing the National Summary Data Page (NSDP), following the recent IMF technical assistance (TA) on eGDDS. An external sector statistics (ESS) TA mission was conducted remotely during July 26-29, 2020 aimed at improving the quality of balance of payments (BOP) data. Work on finalizing the compilation and dissemination of international investment position (IIP) will commence in the second half of 2021. The authorities have also begun publishing the annual financial stability report since 2019.

INTERNATIONAL MONETARY FUND

BRUNEI DARUSSALAM

July 27, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As June 30, 2021)

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	203.50	100.00
Holdings	217.59	106.92

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 2019 Article IV consultation on September 10, 2019.

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)

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance
General: Data provision continues to improve and is broadly adequate for surveillance (Category B), with some minor shortcomings due to timeliness issues. However, 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/. 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. New GDP estimates rebased to 2010 were released in 2015. The new series incorporate 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. 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 with a one-period lag. The CPI weights were derived using the 2015/16 Household Expenditure Survey. The compilation of producer and construction material price indices remains in the plans. The feasibility of compiling import and export price indices is being assessed. **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. Brunei Darussalam 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.
Balance of payments: Quarterly balance of payments statistics has been reported to STA in BPM6 format since the end of 2015, with both quarterly and annual data available from 2010. There is a break in the data series due to changes in compilation techniques and methodology. Coverage of other investment has been significantly improved by making use of data from monetary statistics. However, net errors and omissions remain large. Imports of goods coverage has shortcomings. Counterpart data on imports of goods showed large discrepancies. Work is underway to improve services data. The direct investment (DI) survey assisted in better capturing the liabilities of direct investment enterprises, but data on DI assets are not captured. Compilation of international investment position on BPM6 basis has finished but has not been released.
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 8, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange rates	6/2021	7/2021	M	M	M
International reserve assets and reserve liabilities of the Monetary Authorities[1]	03/2021	06/2021	M	M	M
Reserve/base money	03/2021	06/2021	M	M	M
Broad money	03/2021	06/2021	M	M	M
Central bank balance sheet	03/2021	06/2021	M	M	M
Consolidated balance sheet of the banking system	03/2021	06/2021	M	M	M
Interest rates[2]	03/2021	06/2021	M	M	M
Consumer price index	4/21	6/21	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing[3] – budgetary central government	Q4/FY2020/21	06/2021	Q	I	A
Stocks of central government and central government-guaranteed debt[5]	Q4/FY2020/21	06/2021	M	M	M
External current account balance	Q4/2020	6/21	Q	Q	A
Exports and imports of goods	4/21	6/21	M	M	M
GDP/GNP	Q4/2020	3/21	Q	Q	Q
Gross external debt[6]	NA	NA	NA	NA	NA
International investment position[7]	2018	6/19	A	I	NA

[1] Any reserve assets that are pledged of 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.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing. Central government data are on FY basis.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] No reported external debt.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annually (S), Annually (A), Irregular (I); Not Available (NA).

Statement by the Staff Representative on Brunei Darussalam
September 1, 2021

This staff statement provides an update on developments since the staff report was issued. The statement does not alter the thrust of the staff appraisal.

1. **After 15 months of zero local transmission, Brunei has since early August been experiencing a new wave of COVID infections.** The outbreak is centered on the highly contagious Delta variant. From August 7 to 23, the cumulative number of new cases surged to 1,508. As of August 23, the total number of cases stands at 1,873 of which 1,649 cases (or 88 percent) are local cases, while the remaining 224 (or 12 percent) are imported cases. Of the 1,873 cases, 436 patients have recovered, while there were three fatalities. The remaining are active cases, which comprise those hospitalized and under mandatory quarantine.

2. **The authorities promptly introduced containment measures, effective August 7, 2021.** The measures have been announced to remain in place until September 4—an extension is likely to be considered if the number of new infections remains high. The measures include the closure of several public facilities (such as mosques, childcare centers, galleries, libraries, museums, playgrounds, senior citizens' activity centers, and sports centers) and restrictions on collective gatherings. On-site activities at educational institutions are also suspended. Food establishments can only serve takeaway and delivery orders. The authorities have also urged businesses to implement telecommuting to the extent possible. Masks are mandatory in all indoor venues and crowded outdoor spaces. Public visits to hospitals are prohibited, with the exception of Intensive Care Unit (ICU) patients who are allowed to receive only one visitor. Temporary suspension for travelling to and from five South Asian countries (India, Nepal, Sri Lanka, Pakistan and Bangladesh) have been extended through end-August. Travel from Indonesia remains suspended indefinitely, as of August 22, 2021. Testing and contact tracing have been ramped up significantly.

3. **Vaccine rollout is increasing**. As of August 18, a total of 237,729 doses were administered, with first doses reaching 175,545 individuals (38.7 percent of population) and second doses 62,184 (13.7 percent). The daily vaccination rate is expected to hit 10,000 following the opening of a new vaccination center at University Brunei Darussalam on August 19.

4. **The authorities have extended measures to support affected households and firms.** The measures include the deferment on contribution payment of Employee Trust Fund (TAP) of 5 percent and Supplemental Contributory Pensions (SCP) of 3.5 percent for local workers earning less than BND1,500 per month in the affected sectors under the category of micro, small and medium-size enterprises (MSMEs) with less than 100 employees; 25

percent salary subsidy provision for local workers in MSMEs with less than 100 employees; government funding for SCP Contributions to the self-employed, at least 30 percent discount on rental rates on government buildings for MSMEs in affected sectors; 50 percent tax discount on corporate income tax for the 2022 assessment to affected sectors; 20 percent discount on water and electricity bills for affected companies within affected sectors; and temporary exemption of customs and excise duties for personal hygiene products. These measures took effect on August 1 and will be in place until December 31. Staff estimates, based on the budget execution of these measures during the first wave, suggest that the fiscal impact likely be modest. Furthermore, the Brunei Darussalam Central Bank (BDCB) has announced that the assistance offered by the banking sector to affected businesses and individuals will be extended until December 31—such as the deferment of principal repayments on loans and financing, restructuring of personal loan/financing and hire purchase such as car financing for a period not exceeding 10 years, and waiver of fees and charges for local online interbank transfers.

5. While it is too early to assess the economic impact of the new outbreak, downside risks have increased. The recent resurgence of the pandemic and associated containment measures is expected to slow the recovery, especially in contact-intensive sectors. The impact on growth will depend on the duration of the second wave. As an indication of the potential impact, stringent containment measures implemented in the first wave negatively affected contact-intensive sectors which contracted by 1.6 percent (yoy). However, the ability of the economy to live with the pandemic has improved (including through digitalization), and the strong and timely health, fiscal and regulatory policy responses should help sustain production and household income and consumption. Stronger vaccine rollouts and energy prices could surprise to the upside.

Statement by Rosemary Lim, Executive Director for Brunei Darussalam and Zaidi Mahyuddin, Senior Advisor to the Executive Director
September 1, 2021

1. INTRODUCTION

On behalf of Brunei Darussalam's authorities, we would like to thank the Article IVMission team for a constructive and fruitful consultation this year. Despite the challenges brought about by the pandemic, the virtual consultation went smoothly, and discussions were insightful.

The authorities appreciate Staff's acknowledgment of their efforts and initiatives in managing the pandemic as well as strengthening the economy's fundamentals and resilience. Overall, they find the contents of the report balanced.

The authorities appreciate the appendixes provided together with the Staff Report. Itprovides a clear representation of Brunei Darussalam's efforts and achievements in strengthening and diversifying the economy. The authorities positively note the recommended priority areas and, where appropriate, will consider them as part of their strategic policy directions.

2. CURRENT COVID-19 SITUATION

As of August 15, 2021, 36.3 percent (216,322 people) of the population has been vaccinated with at least one dose of vaccine. Brunei Darussalam aims to achieve a 70 percent vaccination rate by the end of the year to ensure herd immunity. Vaccinations are administered free of charge for all citizens and resident in Brunei Darussalam. The administration of vaccines has been rolled out in three phases. The first phase focused on front liners, senior citizens (60 years and over) and student studying abroad. The second phase focused on child care center staff, adults with comorbidities, and teachers. The third phase, started on July 5, 2021, is for the general public. Besides enhancing the population vaccination rate, the authorities aim to keep population informed of COVID-19 developments by leveraging on technology, i.e. the Bruhealth App, which among others features epidemic updates, monitors personal health and tracks risk exposure of residents.

After more than a year with no domestic COVID-19 cases, Brunei Darussalam began to witness emerging cases of local transmissions. Measures are currently being put in place to contain the spread of the pandemic, including extensivecontact tracing, restrictions on mass gatherings, online learning for students and flexible work-from-home arrangements. The authorities will continue to implement comprehensive measures to ensure the well-being, health and safety of the nation including upgrading of the country's health system and infrastructure.

The authorities recently announced fiscal and monetary measures to help businessesmanage the economic impact of COVID-19 effective August 1 until December 31 this year. These include:

- Deferment of social security contributions for local workers earning B$1,500 and below: The six-month deferment of Employees Trust Fund (TAP) and Supplementary

Contributory Pension (SCP) contributions applies to micro, small and medium enterprises (MSME) in all sectors. The Government will also contribute to the SCP fund of self-employed workers for the mentioned period to ensure they will continue to have survivorship fund protection.

- The Government will cover 25 percent of the wages of MSMEs local employees earning B$1,500 and below. The wage subsidy will alleviate the financial burden of MSMEs and is aimed at protecting local employees' jobs.

- A minimum of 30 percent discount on rentals of government buildings by MSMEs in affected business sectors.

- 20 percent discount on water and electricity bills for affected businesses.

- 50 percent tax discount on corporate earnings for assessment year 2022 for affected business sectors.

- Waiver of customs and excise duties on personal hygiene products.

- Continued provision of various programs to assist MSMEs such as Buy Local Produce campaign; e-commerce platforms; and life-long learning particularly for upskilling and reskilling programs. The iReady apprenticeship contracts will be extended until December 31, 2021.
- Deferment on principal repayments on business and personal financing/loans for those affected across all sectors— deferment on principal repayments on personal financing/loans and vehicle financing/loans (or restructuring of loans/repayments with a period of not exceeding 10 years).

- Deferment on principal repayments on personal financing/loans related to land (ownership or investment purposes).

- Waiver of trade and payment transaction fees for companies in tourism, restaurant, air transport, food and medicine sectors.

- Waiver of all charges and bank payments for interbank transfers (except third party charges) applicable only to local banks.

3. RECENT ECONOMIC DEVELOPMENT

The authorities have successfully rolled-out a sizeable economic relief package, as detailed in Appendix I of the Staff report. The prompt and strong policy responses by the authorities have helped sustain the economic performance. Economic activities in Brunei Darussalam are operating to near normal circumstances. With travel restrictions in place to curb the spread of the pandemic, domestic demand hasincreased which has boosted local businesses and employment.

In Q1 2021, the Non-Oil & Gas Sector recorded an increase of 3.1 percent due to strong performance of the Manufacturing Subsector, reflecting an increase in the production of petroleum and chemical products; wearing apparel and textiles; and food and beverage products. However, a decline in the Oil & Gas Sector by 5.3 percent, due to a reduction in crude oil and natural gas production caused byunscheduled shutdowns in the offshore platform, resulted in a GDP contraction of 1.4 percent year-on-year (y-o-y).

Inflation remains manageable. The overall Consumer Price Index in May 2021 has increased by 1.1 percent y-o-y. Both Food and Non-Alcoholic Beverages and Non- Food index have recorded an increase of 0.9 percent and 1.2 percent, respectively. Meanwhile, the Goods as well as Services index have increased by 1.5 percent and 0.6 percent, respectively.

For the month of April 2021, total trade recorded was B$2,193.1 million, comprising exports valued at B$1,138.6 million and imports amounting to B$1,054.5 million. This represented an increase of 91.8 percent y-o-y from B$1,143.7 million in April 2020.

With the expected positive outcomes of on-going mega diversification projects and gradual improvements in the global economy in particular the oil and gas market, the domestic GDP growth forecast for 2021 is between 0.8 to 1.6 percent.

4. FISCAL POLICIES

Targeted fiscal policy has played an important role to address the pandemic and support the hardest-hit households and businesses. The authorities remain committed to prioritize expenditures that can promote and strengthen growth, as well as enhance efficiency gains. At the same time, the authorities continue to practice prudent fiscal policy management as well as to further deepen fiscal consolidation efforts towards strengthening Brunei Darussalam's long term fiscal sustainability.

Launched in 2019, the Fiscal Consolidation Program (FCP) which includes corporatization and privatization; public-private partnership; policy review and update; and improving regulations as well as processes in order to achieve productivity gains, cost saving and revenue generation, aims to generate savings of B$500 million and revenue generation of B$300 million over the next 5 years. To date, a total of 117 initiatives and program of reforms have been identified where 18initiatives are complete; 77 initiatives in implementation phase, and 22 initiatives in planning stage.

In this regard, the authorities welcome the recommendation by Staff to utilize the IMF's Public Investment Management Assessment (PIMA) as a framework toensure efficient public investment. This is an area that authorities consider positively and hope to work with the IMF to assess the feasibility of PIMA in the context of Brunei Darussalam's domestic framework.

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

- Implementing activities that will increase the country's productivity such as enhancing public service through the use of technology; and continue with initiatives to strengthen the Government fiscal position in particular ones that are under the Fiscal Consolidation Program;
- Promoting sustainable and resilient facilities and infrastructure for the public'swelfare and economic development This includes upgrading connectivity;improving utilities efficiency; and strengthening health and educationfacilities; and
- Building competent and employable human resources through various capacity and match making programs in the area of ICT; Digital Sciences and AI.

In addition to ensuring strengthened fiscal resilience to protect from future shocks, the authorities will continue to strengthen socio-economic resilience through this year's budget focus. This includes safeguarding food security and necessities by enhancing the supply chain through trade relations with major trading partners to stimulate economic growth and ensure the well-being of the people. Additionally, there is also emphasis to provide support to public welfare and trade, economic and investment activities, including ICT infrastructure that will serve as a catalyst to promote transition to a digitalized economy.

The authorities appreciate Staff's assessment on the substantial savings, of about 1.4 percent of GDP annually in the medium term, that can be gained by having a more targeted subsidy structure/framework. The authorities plan to include Staff's assessments in their comprehensive assessments of the matter. The authorities agreeon Staff's emphasis that any comprehensive subsidy reforms must consider possiblesupport to the vulnerable and marginalized groups including possible compensatorymeasures.

The authorities have taken steps to reform subsidies such as through the launch of premium fuel without subsidy, smart meter for water and power as well as exploratory discussions on power tariff improvements. The establishment of the National Welfare System is also aimed to ensure support to those most in need and enables the authorities to conduct assessments in 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.

5. MONETARY POLICIES

In response to the pandemic, targeted financial assistance as part of broader policy actions has helped to alleviate financial distress of affected household and businesses. Meanwhile, the banking sector remained sound and well capitalized. Bank Capital Ratio remains adequate and well above regulatory requirements, whilegross performing loans ratio remains stable due to adequate policy support.

Despite the challenges brought upon the COVID-19 pandemic, the authorities have taken wide-ranging measures to develop and improve the resilience of the financial sector. The authorities have issued a consultation paper to the industry on Basel III Implementation Roadmap, paving the way for the introduction of the Basel III framework. In addition, the development of a holistic macroprudential frameworkto safeguard financial stability, including a preliminary assessment of the countercyclical capital buffer is well underway.

The authorities continue to implement measures to enhance access to financing as part of efforts to develop the private sector, especially MSMEs. The authorities concur with Staff that that the Credit Bureau will continue to play an important role to promote greater lending transparency, as well as prudent lending and borrowings.As such, the Credit Bureau will be introducing other services, such as the Portfolio Alerts and Monitoring module before the end of the year to strengthen its effectiveness. The new module will allow the banks and finance companies to monitor their existing customers' account portfolio in order to provide behavioral insights that is envisaged to support more informed decision making.

The authorities remain committed to strengthen the AML/CFT regulatory and supervisory framework to safeguard financial integrity. As Staff highlighted in the report, two laws were amended in 2020, namely the Criminal Asset Recovery Orderand the Companies Act. Moreover, amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) regulations are currently being prepared, whilethe Counter Proliferation Financing Order is nearing conclusion for issuance.

The authorities concur with Staff's observation that financial sector regulation and supervision should remain vigilant and need to develop a holistic Macroprudential framework to safeguard financial stability, whilst ensuring that access to financing remains undeterred. Furthermore, the Currency Interchangeability Agreement with the Republic of Singapore remains an appropriate arrangement for both countries inproviding a credible nominal anchor for macroeconomic and financial stability.

6. REFORMS FOR SUSTAINABLE AND RESILIENT ECONOMIC DEVELOPMENT

The authorities remain committed to accelerate the development of the five-priority industry clusters, namely Downstream, Food, ICT, Services and Tourism. Theauthorities agree with Staff's emphasis on the importance of attracting quality FDI which will add value by positively impacting upon employment, productivity,linkages with local MSMEs and providing a spill-over effect to local industrialdevelopment.

The authorities would continue to streamline, deliver and enforce more efficient andinnovative business processes and regulations in order to remain regionally &globally competitive. The authorities have made significant improvements in making the local business environment conducive. In the World Bank's Doing Business 2020 report, Brunei Darussalam maintains her top rank in 'Getting Credit'. Substantive improvements were also seen in the local regulatory frameworkfor the indicators on 'Enforcing Contracts' and 'Resolving Insolvency'. Overall, Brunei Darussalam's recorded improvement in the Ease of Doing Business score from 69.6 (adjusted) in 2019 to 70.1 in 2020 and is being ranked 66 out of 190 economies. Brunei Darussalam ranks 4th among ASEAN member states.

As an open economy, Brunei Darussalam recognizes the importance of internationalengagements in ensuring an open, transparent, fair and non-discriminatory multi- trading system. On this note, the authorities have stepped up efforts to facilitate and enhance linkages with the regional and international markets through increasedtrade cooperation and participation in free trade Agreements such as the Regional Comprehensive Economic Partnership Agreement which was signed in 2020. Theseare also part of the efforts to expand the market for, and support the internationalization of, local MSMEs.

The authorities have formulated and launched a few frameworks to guide theeconomy to achieving the Wawasan Brunei 2035, and to ensure an enabling economic environment that, inter alia, leverages on transformative technologies. These are, among others:

- The Economic Blueprint which will support Brunei Darussalam's journey towards becoming a dynamic and sustainable economy, through providing six (6) well-defined aspirations with more than 30 policy directions. These aspirations include Productive and Vibrant Businesses; Skilled, Adaptive and Innovative People; Open and Globally Connected Economy; Sustainable Environment; High Quality and Competitive Economic Infrastructure; and Good Governance and Public Service Excellence.

- The Digital Economy Masterplan 2025 that outlines strategies for the country to become a Smart Nation with a digital and future-ready society, vibrant and sustainable economy as well as conducive digital ecosystem.

- The Brunei Darussalam National Climate Change Policy (BNCCP) that was launched to advance Brunei Darussalam's economic growth in a low-carbon manner while achieving resilience against the changing climate, by paving thenecessary pathways through the 10 key strategies[1] with potential greenhouse gas emissions reduction. This will open up new opportunities for a "low- carbon" or green industry growth in Brunei Darussalam and subsequently unlock multiple potentials such as local business development, localemployment and competencies, competency development, digital technologies, Research and Development and FDIs.

Ensuring quality and productive labour force remains to be a key priority for the authorities. The authorities, through the Manpower Planning and Employment Council (MPEC), are fostering cooperation with industries, regulators and training institutions to ensure local manpower supply are marketable and employable. The authorities continuously work with companies to facilitate recruitments and are identifying manpower needs by conducting engagements with companies particularly those in the growth sectors. Online platforms are being utilized to this effect such as

[1] The BNCCP intends to reduce Green House Gas emissions through reducing industrial emissions including zero-flaring, forest cover, electric vehicles, renewable energy, power management, carbon pricing and waste management.

conducting virtual sessions to assist jobseekers and companies in using online recruitment as well as the provision of an upgraded portal that features,among others, automatic job matching, real-time notifications for job matches, and providing employers with key information such as the talent profiles and compatibility reports of jobseekers against their job requirements. At the end of 2020, 4,304 vacancies (65 percent of total vacancies) were successfully filled by locals.

7. TECHNICAL ASSISTANCE

The authorities welcome the potential Technical Assistance that Staff have mentioned in the report particularly on strengthen capacity on data quality and accuracy; medium term fiscal framework; establishment of fiscal rules; fiscal and economic forecasting; and PIMA, among others. In this regard, the authorities look forward to discussions with Staff as well as relevant Departments of the IMF to bring this recommendation forward.

8. FINAL REMARKS

The authorities have continued to take on board advice from the Fund from previous Article IV Consultations, where appropriate, and have benefitted the Fund's technical assistance in critical areas. Cooperation in these areas as well as other areas of interest, including training opportunities to address capacity gaps, will be expected to continue.

The authorities would like to once again thank the mission team for their valuable findings, productive discussions and recommendations. The policy dialogue through the Fund's Article IV Consultation process has provided the authoritieswith valuable advice from an independent and trusted international 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 enriching the level of communication and relationship with the Fund in the future.