



BRUNEI DARUSSALAM

REPORT ON EXTERNAL SECTOR STATISTICS MISSION (REMOTE) (JULY 26–29, 2020)

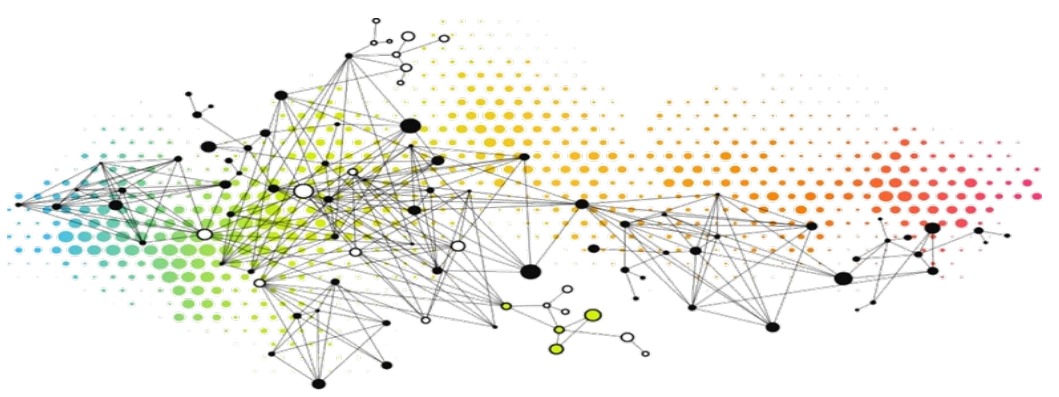
April 2022

This paper on Brunei Darussalam was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on April 2021.

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International Monetary Fund
Washington, D.C.



BRUNEI DARUSSALAM

APRIL 2021

REPORT ON EXTERNAL SECTOR STATISTICS MISSION (JULY 26–29, 2020)

**Prepared by Antonio Galicia-Escotto, Evrim Bese-Goksu, and
Fadhila Alfaraj**

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CONTENTS

Glossary	3
SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS	4
DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS	6
A. Action Plan	6
B. Introduction	6
C. Balance of Payments Statistics	6
D. Goods	8
E. Services	10
F. Primary Income	11
G. Secondary Income	12
H. Direct Investment	12
I. Portfolio Investment	15
J. Financial Derivatives	15
K. Other Investment	16
L. Reserve Assets	16
M. Officials Met During the Mission	16
FIGURES	
1. Oil Trade Flows	9
2. Inward and Outward DI Derived from CDIS Mirror Data Position	14
TABLES	
1. Priority Recommendations	5
2. Direct Investment	13
APPENDICES	
I. High-Value Capital Goods	17
II. Collection of Personal Transfers	19
III. Goods—Merchandising and Re-Exports	22
IV. Financial Derivatives—Collection and Compilation Forms for the Elaboration of ESS	23
V. Example of a Financial Derivative Compilation Applied to Brunei Darussalam	27
VI. Importance and Use of International Investment Position Statistics	29

Glossary

AITI	Authority for Info-communications Technology Industry
AMBD	Autoriti Monetari Brunei Darussalam
BIA	Brunei Investment Agency
BGC	Brunei Gas Carrier
BIBD	Bank Islam Brunei Darussalam
BIS	Bank for International Settlements
BLNG	Brunei Liquid Natural Gas Carrier
BMC	Brunei Methanol Corporation
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
BMT	Brunei Methanol Tanker
BSP	Brunei Shell Petroleum
BST	Brunei Shell Tankers
CIF	Cost, insurance and freight
DOS	Department of Statistics
FDI	Foreign direct investment
Fob	Free on board
GLCs	Government linked companies
HES	Household Expenditure Survey
IIP	International Investment Position
IMF	International Monetary Fund
IMTS	International Merchandise Trade Statistics
JPES	Department of Economic Planning and Statistics
LNG	Liquid Natural Gas
MOFE	Ministry of Finance and Economy
MFA	Ministry of Foreign Affairs
n.i.e.	Not included elsewhere
OECD	Organisation for Economic Cooperation and Development
RCED	Royal Customs and Excise Department
SPV	Special Purpose Vehicle
SDRs	Special Drawing Rights
TAP	Employee Trust Fund

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. An External Sector Statistics (ESS) technical assistance (TA) mission was conducted remotely to Brunei Darussalam, during July 26–29, 2020, aimed at improving the quality of ESS, in line with the authorities' request. This is the most recent TA mission on ESS to Brunei Darussalam following a previous one that took place more than 16 years ago by the IMF's Statistics Department.

2. The mission assisted staff of the Department of Statistics, under the Department of Economic Planning and Statistics (JPES) at the Ministry of Finance and Economy by (a) conducting the first overall assessment of the balance of payments since the country produced 2010-Q1 data under the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*; (b) making recommendations to lower balance of payments' high-level of errors and omissions, and; (c) preparing staff of JPES to disseminate voluntarily the International Investment Position (IIP) statistics.

3. The main challenge faced by staff of JPES in the compilation of ESS is currently the implementation of a holistic approach to collect data from different sources. Most importantly by conducting their own surveys and questionnaires; revamping compilation methods; and becoming the sole keepers of the ESS methodology in Brunei Darussalam. The mission found that (i) the reported data in the balance of payments lacks the granularity recommended by best practices, hindering basic cross-checks to improve validations; and (ii) a few items in the standard presentation of the balance of payments contain a myriad of embedded transactions, making the compilation task prone to imprecisions.

4. While the combination of different compilation methods has been functioning well in recent years, the mission's recommendations focus on stressing greater transparency and improving the granularity by applying the standard presentation of the BPM6, without breaching confidentiality of data reporters. Staff of the JPES are aware of the vulnerabilities due to the inability to cross-check basic data, such as the ratio of income to positions data, and of potential errors derived from concealing multiple transactions into single items in ESS. Thus, in consultation with staff of JPES the mission formulated a work program for the immediate and medium term.

5. The mission's recommendations focus on key items of ESS. Staff of the JPES should (a) conduct further analysis of those areas identified by the mission that could be contributing to errors and omissions; (b) dissect data and provide further breakdowns, to improve the classification within main balance of payments accounts and its items; (c) add a section to collect outward direct investment data to the current business survey; and (d) share with the mission detailed cross-border transactions related to oil trade among related enterprises, construction, and travel items, to clarify and improve the current compilation methods

- 6. Compilers should focus on plans to disseminate the IIP.** JPES staff should garner support from the higher authorities to prepare a comprehensive IIP and its dissemination by demonstrating its value for economic analysis. The results of a new IIP should be consistent with transactions, positions, and with the income account of the balance of payments.
- 7. This report includes advice in areas that will support JPES staff in its short-term endeavors such as** (i) on obtaining reliable information directly, and indirectly, from resident financial and nonfinancial entities, deemed essential to compile robust statistics and to support economic analysis; (ii) prepare the BOP with further breakdowns and improve classifications within major accounts; and (iii) continue with the plan aiming at disseminating IIP data.
- 8. The authorities expressed interest in receiving a TA mission during the second semester of 2021 aimed at finalizing the work on the compilation and dissemination of the IIP.** The request is contingent to the containment of the worldwide health emergency and whether a TA mission could be fielded by that time.
- 9. To support progress in the above work areas, the mission recommended a detailed one-year action plan with the following priority recommendations carrying particular weight to make headway in improving ESS completeness.**

Table 1. Brunei Darussalam: Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
December 2021	<i>Dissect the data and provide further breakdowns and improved classifications within major accounts.</i>	JPES
December 2021	<i>Add the section to collect outward direct investment data to the current business survey.</i>	JPES
Continuous Effort	<i>Continue with the current work aiming at disseminating IIP data.</i>	JPES
Continuous Effort	<i>Exploring and strengthening inter-agency collaboration.</i>	JPES

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Action Plan

Priority	Action/Milestone	Target Completion Date
Outcome: Source data are adequate for the compilation of these macroeconomic statistics.		
H	Achieve 12 detailed SITS breakdown	August 2021
M	Explore compilation of financial derivatives	December 2021
L	Explore mechanism to collect data on direct investment abroad	June 2022

B. Introduction

10. The main tasks of the mission were to assist the staff of the JPES in (i) further improving the compilation of the balance of payments by conducting the first overall assessment of the BOP since the country produced 2010-Q1 data under the *BPM6*; (ii) reviewing the sources and methods currently used to produce balance of payments statistics; (iii) making recommendations to lower balance of payments' high-level of errors and omissions; and (iv) preparing staff of JPES to disseminate voluntarily the IIP statistics in the next 18 months.¹

11. The mission held discussions with staff of the JPES in a three-day remote TA mission exercise. The mission did not include assess the progress in the implementation of the recommendations from previous TA missions, since the last mission on ESS conducted by the Statistics Department of the IMF took place more than 16 years back. Main conclusions were presented to the host team of the mission comprising Mr. Bahrum Bin Hj Kadun, Ms. Aqilah Binti Hassan, and Mr. Muhammad Nazri Bin Hj Saman. Feedback to a first draft of the report including mission's recommendations was provided by the host team before the report was finalized.

C. Balance of Payments Statistics

12. Brunei Darussalam is a participant of the Enhanced General Data Dissemination System (e-GDDS). On August 26, 2019, Brunei Darussalam uploaded annual series of balance of payments statistics on its National Summary Data Page (NSDP). This novel dissemination of data included an analytic presentation of the balance of payments and two complementary files with

¹ See Appendix VI.

further breakdowns on services transactions and on the financial account.² The standard presentation of the balance of payments sent to the Statistics Department of the IMF for further dissemination on the International Financial Statistics (IFS), provides slightly more breakdowns than the analytic presentation in national publications.

13. While balance of payments data has been improving constantly, particularly in the context of the transition to the *BPM6* and the new NSDP, there is still ample room to improve transparency through more detailed breakdowns. For example, in the current account, transport and travel data could provide additional details that most likely should be currently available to compilers but not currently used. As for the primary and secondary income accounts, data are reduced to credits and debits on both accounts, precluding the analytical benefits of counting with income by instrument, economic sector, other categories of cross-border investment as well as transfers.

14. The breakdown of the financial account is equally sparse. Data on direct investment (DI) are separately identified by equity and debt instruments on the incoming DI only, (that is only on the net incurrence of liabilities item). The Portfolio Investment account includes data on both (a) equity and investment fund shares, and (b) debt instruments. However, data are not subclassified by economic sector, which is important to identify cross-border risk and vulnerabilities on comprehensive statistical frameworks, such as the Coordinated Portfolio Investment Survey (CPIIS). The other investment account provides an adequate data breakdown.

15. Staff of the JPES provided the mission with a comprehensive document on the Sources and Methods for Balance of Payments and International Investment Position Statistics (Balance of Payments/IIP Sources). The recommendations below are based on the balance of payments/IIP Sources document, complementary material provided, and on the bilateral discussions during the mission.

Recommendation:

- As mentioned in paragraph 2.13 of the *BPM6*, the different accounts within the balance of payments are distinguished according to the nature of the economic resources provided and received. From this general perspective, the production and dissemination of the balance of payments should improve in its coverage and dissemination details. Specific recommendations to achieve this goal in each balance of payments items are included below.

² Brunei Darussalam's NSDP is available at: <http://www.deps.gov.bn/SitePages/National%20Summary%20Data%20Page.aspx>, while its e-GDDS website site is: <http://www.deps.gov.bn/SitePages/National%20Summary%20Data%20Page.aspx> on which BOP metadata are available.

D. Goods

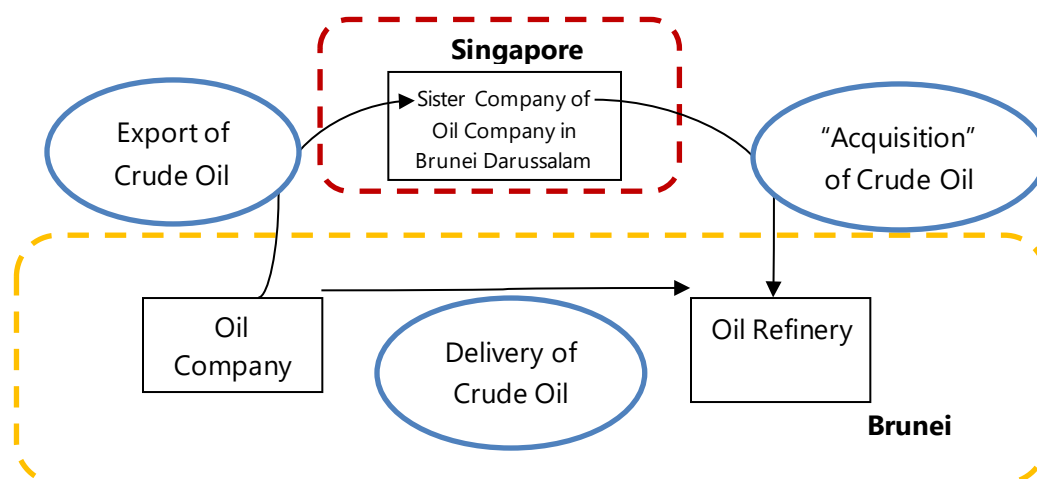
16. Data on goods are provided on a monthly basis by the Royal Customs and Excise Department (RCED) through electronic means. These data are processed to generate International Merchandise Trade Statistics and the annual balance of payments. Imports are valued c.i.f., and exports are on a f.o.b. basis. While JPES staff feels quite comfortable with the compilation of goods data, the mission was informed that there are still some challenges to collect trade on goods data undertaken by some government agencies and by large enterprises. Detailed data on the later would be relevant to record freight and insurance charges need in the services item of the balance of payments.

17. The mission was inquired on the proper recording in the balance of payments of uncommon oil transactions involving the new oil refinery in Brunei Darussalam and the current oil company with its sister company abroad. In spite that the current oil company and the new oil refinery in Brunei Darussalam are recipients of foreign direct investment (FDI), the mission stressed that both companies should be considered resident entities for ESS purposes. The new oil refinery, which is located in Brunei Darussalam's territory, initiated operations at the end of 2019. The specific transaction involved the delivery of oil from the resident oil company to the new oil refinery in which the payment to Brunei Darussalam was made by a sister company of Brunei Darussalam's oil company in Singapore.

18. The above transaction should be considered as an oil export from Brunei Darussalam to Singapore, and the "re-export" from Singapore to the Brunei Darussalam's oil refinery as either an actual import in Brunei Darussalam or the provision of manufacturing services abroad (credits). On the first leg of the transaction, the oil company in Brunei Darussalam made an oil export to its sister company in Singapore, which allowed the oil refinery to get the oil directly from the oil company, avoiding an actual shipping through Singapore. However, JPES staff should inquire to the new oil refinery whether the oil received was an actual change of ownership, that in such a case should be recorded as an oil import in Brunei Darussalam, or the oil is to be transformed into gasolines while the ownership of the commodity (oil) remains with the nonresident.

19. It is possible that the new refinery in Brunei Darussalam would be providing manufacturing services on physical inputs owned by others to a nonresident entity (that is oil transformation into gasolines). If this is the case, this second leg of the transaction should not be recorded as an actual oil import of the refinery (debit), but as an export of a manufacturing service (the transformation of oil into gasolines) by the local refinery in Brunei Darussalam. This assumption is valid if the oil "re-entered" the country with no change in ownership, being the original owner is a resident of Singapore. If there is an actual change in ownership and the oil refinery purchases the oil, then it should be recorded as an actual oil import. The source of this information should be staff of the new oil refinery.

Figure 1. Oil Trade Flows



Source: Diagram by JPES Staff.

20. The goods account is adjusted for methodological purposes when the information is not collected from RCED or with the purpose of avoiding miscalculation on coverage.

Key adjustments are:

- Collection of purchases of bunkers abroad from BLNG;
- Purchases of aviation fuel abroad (reported by RBA);
- Military goods transactions (reported by MinDef);
- Adjustments to oil exports as to comply with the methodological criteria of f.o.b. valuation; and
- Recording of imports of high-value capital goods, such as commercial jets.

Recommendation:

- With the starting of operations of the new refinery in Brunei Darussalam, staff of the JPES should collect information on trade in goods and services directly from this enterprise, as to avoid under or over-recording of data in the goods account. As for the recording of high-value capital goods and the possibility of revising historic series, an accounting example is presented in Appendix II of the report. Finally, Merchanting, which is a new item in the *BPM6* under good data merits to be explored as an activity undertaken by residents of Brunei Darussalam. Appendix III includes helpful material to craft some questions in the quarterly and annual surveys to services' businesses, aiming at improving the coverage of the balance of payments and lower its level of errors and omissions.

E. Services

21. The most recent TA on ESS provided to Brunei Darussalam focused on services was in April 2019 by ASEAN.³ Due to the limited time of the remote TA mission, STA staff did not have enough time to discuss in detail the compilation methods of each of the items in the services account, but rather addressed in the paragraphs below the interest of JPES to explore the possibility to compile digital import of services undertaken by households in Brunei Darussalam.

22. With the exception of the item manufacturing services on physical inputs owned by others, the balance of payments of Brunei Darussalam records data on every single item of services, for both credits and debits. Data on services are collected on quarterly and annual surveys as well as from administrative data. Information gather from the Economic Census allows the update of the business directory of service traders. The most recent Economic Census' results indicated that there are around 10,000 companies in Brunei Darussalam.

23. For purposes of collecting trade in services, staff of the JPES sends questionnaires on a quarterly basis to 100 largest companies, and to 200 for the annual survey. The directory of enterprises is updated with five-year updates to the business census. In the mission's view, a sample of 200 largest companies is relatively small if compared with the total number of enterprises. It is recommended to conduct an exploratory survey to at least 500 companies in Brunei Darussalam that conduct cross-border transactions of goods and services with the aim to improve the coverage of the services data and to cross-check transactions in goods reported by the customs office.

24. The JPES staff has made a commendable effort to compile and disseminate a comprehensive list of items on trade in services. Major components of services collected are still transport, travel, and government services although the intention is to start compiling trade on services-debits-by households, mostly digital services. It is recommended that JPES staff consults the recent Version 1 of the *Handbook on Measuring Digital Trade (Handbook)* co-authored by staff of the OECD, WTO, and IMF so as to devise a strategy to initiate the compilation these data for improving the comprehensiveness of Brunei Darussalam's balance of payments statistics.⁴

25. There is available literature, such as a working paper by INDEC, Argentina, on the estimation of imports of digital services by households.⁵ The paper presents the available sources to collect household data, and details the methodology for calculating digital services

³ Report on Technical Assistance Mission on Statistics of International Trade in Services (SITS), Brunei Darussalam, by Mr. Simon Humphries, ARISE Plus Senior Expert on SITS, April 13–18, 2019.

⁴ Available online at: <https://www.oecd.org/sdd/its/handbook-on-measuring-digital-trade.htm>

⁵ *Estimación de la importación de servicios digitales en la balanza de pagos de la Argentina*, by the Instituto Nacional de Estadística y Censos - INDEC, 2019, available at: https://www.indec.gob.ar/ftp/cuadros/publicaciones/servicios_digitales_bdp.pdf

imports. It describes the process followed to identify nonresident service providers, the country of residence, and items of the balance of payments to which the different services should be recorded. Finally, the estimation process to review historic series is explained as well as its limitations. JPES staff may like to review the paper in conjunction with the *Handbook* so as to evaluate whether similar methodology could be applied to the source data available in Brunei Darussalam, with the aim to improve the coverage of services in the balance of payments.

Recommendation:

- The mission endorses ASEAN's TA recommendations on services as follows: (a) separate collection of insurance and financial services; (b) update travel credits and debits estimates based on more recent observations, and (c) update insurance and freight goods trade ratios to improve the services account since the ratios are based on extemporaneous information derived from the 2010 economic census. As for the collection of digital trade in services by households in Brunei Darussalam, JPES staff may want to evaluate the possibility of implementing the available methodology from the *Handbook* and the working paper suggested above.

F. Primary Income

26. The balance of payments' primary income account reported to STA and the one disseminated on Brunei Darussalam's new e-GDDS website includes consolidated credits and debits only. Data disseminated does not show the separate identification of items such as remuneration of employees, and income on direct, portfolio, and other investment as well as reserves' income. The document on Sources and Methods of balance of payments and IIP Statistics of the JPES staff mentions that the key sources of the primary income account are the income from the Brunei Investment Agency (BIA), official reserves of the Autoriti Monetari Brunei Darussalam (AMBD), and income from the Sustainability Fund, banks, and nonfinancial corporations; possibly including households.

27. As for debits, mainly FDI dividends are captured through the Quarterly Survey of International Investment and International Services. There is no information on income debits for local issuance of portfolio instruments and no data for loans from abroad. Data are supplemented with information from an annual survey and a small estimate is made for smaller enterprises not surveyed quarterly or annually based on information from the Economic Census. No income data are collected on loans from foreign direct investors or from other foreign related companies. Staff of the JPES may be assuming that in general loans and other advances related to FDI participation are interest free. Although this may not be the case for borrowing from/lending to unrelated entities.

28. At the time of the remote mission, its members expressed concern on the lack of transparency of the income account and the single consolidation of data by credits and debits only. Both functional and sector classification should be recorded on disseminated data as to avoid potential errors and to pave the way for improvements on each item of the primary

income account. As a starting point for comparison, the mission suggested to analyze mirror data from the Coordinated Direct Investment Survey (CDIS) and the CPIS, as well as from the BIS.

29. Position data from the statistical frameworks mentioned above (CPIS, CDIS, and BIS data) could be useful to corroborate whether debit income currently reported in the balance of payments is within the ballpark of income to positions ratio. Overall primary income data are derived from administrative sources in many reporting economies. In this regard, staff of JPES should make an extra effort to collect observed data rather than through estimates, if needed through the use of additional surveys. Collection of bank's data should be the first in line with the support of the banking regulatory agency in Brunei Darussalam.

Recommendation:

- Proceed with the breakdown of the primary income account by sector and by functional category with current data not yet disseminated. Make comparison between mirror position data and income debits in the balance of payments so if necessary, revamp the questionnaires to collect observed data aiming at improving the coverage and avoid potential errors and omission in the balance of payments.

G. Secondary Income

30. Similar to the Primary Income Account, the Secondary Income account does not show the breakdown among two its major components: current transfers and personal transfers. This reporting precludes the recognition of areas in which there is not good coverage or the potential to under or over report data. Excluding personal transfers, which compilation suggestions are described below, data on current transfers should be collected from administrative sources. This implies a renewed effort by the JPES staff to engage the main governmental agencies to gather the government's own-account grants to international organizations and scholarship grants.

31. Personal transfers, which in previous publications referred to workers remittances, is very important item in the balance of payments raised by the last STA mission and in the document sources and methods of the balance of payments and IIP. The sources and methods document mentions that, very recently, personal transfers are sourced from the AMBD, which administers a monthly survey of remittances companies who report data on remittances.

H. Direct Investment

32. The agency that facilitates FDI in Brunei Darussalam is the Brunei Economic Development Board (BEDB). This agency acts as the frontline agency to facilitate foreign investment into the country by understanding their business needs. The BEDB assists in providing information on the local investment climate, developmental requirements, laws and regulations, cost of doing business, and project specific information. The BEDB shares the list of companies that have invested in the Brunei Darussalam, which is cross-checked by staff of the JPES staff with

the registry or directory of enterprises for the details of its shareholders, and whether they met the FDI criteria using at least 10 percent foreign shareholders and its residencies.

33. The BEDB produces a list of Direct investors on a quarterly basis, which is used to survey these companies providing transaction data on direct investment in Brunei Darussalam. JPES staff mentioned that there are roughly 300 with FDI in Brunei Darussalam, out of which the largest 100 companies contribute to the 90 percent of the total. The annual survey covers 250 companies, while the quarterly survey covers around 100 largest. Position data are collected. As for investment by Brunei Darussalam residents abroad, there is no information recorded in the balance of payments.

34. The mission consulted the IMF's CDIS and made some comparisons with the information reported in the balance of payments of Brunei Darussalam.⁶ While the information available on the CDIS is on positions only, it allows to identify through "mirror" data, inward and outward DI to and from Brunei Darussalam as reported by CDIS participants. When comparing FDI into Brunei Darussalam, the annual transactions in the balance of payments reported by JPES are considerable higher than the positions reported by CDIS participants. Table 2 below shows the magnitude of transactions and positions with different source data.

Table 2. Brunei Darussalam: Direct Investment
(Millions of US Dollar)

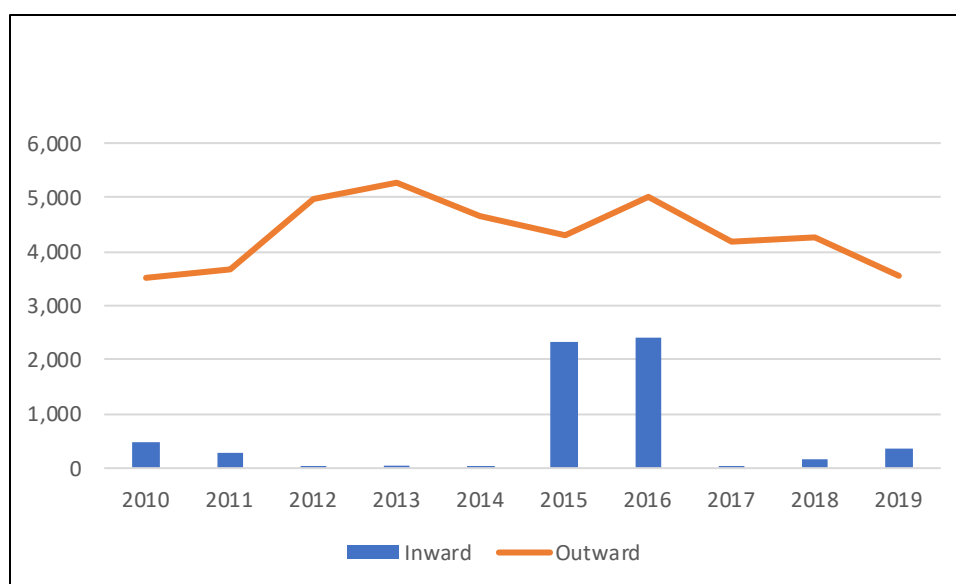
Year	Inward Positions: Mirror CDIS Data	Transactions Balance of Payments National Publications
2012	20	
2013	48	777.6
2014	36	568.2
2015	2,335	173.2
2016	2,395	-149.7
2017	1	460.1
2018	169	515.3
2019	352	374.6

35. The above table suggest that the best indicator of FDI in Brunei Darussalam is the data collected by the JPES. This is explained because CDIS positions reported series is erratic and smaller in value for deriving a broad indication of transactions. At the time of constructing the IIP, staff of the JPES should stick to national sources. On the other hand, mirror data on DI to the rest of the world appears to be consistent and relatively high.

⁶ The CDIS website is available at: <https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5>.

36. The same exercise was conducted using CDIS mirror data to estimate DI from Brunei Darussalam to the rest of the world. The average of annual positions for the period 2010–2019 is US\$4.3 billion, while the standard deviation is around US\$600 million. The relevant side of this exercise is that very likely the balance of payments is missing transactions of investment abroad in the hundreds of US dollars each year with implications to the level of errors and omissions. This information will be useful as well to populate the relevant items in the income account of the balance of payments.

Figure 2. Inward and Outward DI Derived from CDIS Mirror Data Position
(Millions of US Dollar)



Recommendations:

- The mission is of the view that data collected from the BEDB are appropriate to compile DI in Brunei Darussalam for balance of payments purposes. The same source should be used at the time of compiling the IIP. As for the DI abroad by residents of Brunei Darussalam, staff of the JPES should collect the data from government entities that may be investing abroad. The DI survey should also emphasize data collection from banks and the nonfinancial private sector. The mission invites the authorities to evaluate the possibility to be a participant of the CDIS. The participation in this statistical framework, facilitates the cooperation among compilers who could provide relevant mirror data that later on can be validated with national sources.
- Although not part of the standard presentation in the *BPM6*, but for the benefit of all users of statistics, improve and expand the current classification of FDI in types of economic activities.

I. Portfolio Investment

37. **The portfolio investment account records in national publications and data sent to STA, the net acquisition of financial assets subclassified in securities and debt instruments.**

There is no recording of net incurrence of liabilities (debt). Data on portfolio holdings abroad come from banks and insurance companies. For these two major groups the information on transactions is derived from changes in stocks and thus include valuation changes. The BIA does not provide information on portfolio holdings abroad.

38. **The mission did not have access to the position data of portfolio holdings abroad, but it should be expected as mentioned above that most of the information come primary from banks, with a huge gap of other relevant sectors.**

As for the net incurrence of liabilities there is no collection of information. However, the mission looked at the mirror data of the CPIS⁷ and identified some issuing of securities, although modest in size. Mirror data on Brunei Darussalam's portfolio liabilities amounted in average during 2010–2019 to only US\$38 million and a standard deviation of US\$24 million reflecting the volatility of the issuing to nonresidents.

Recommendation:

- The mission was unable to corroborate whether the coverage of the Portfolio Investment account is adequate. Based on the information provided, it appears that the coverage could be improved as well as to avoid deriving transactions from the simple difference in positions.

J. Financial Derivatives

39. **At the time of the mission, staff the JPES have not recorded previously financial derivatives in the balance of payments.** These are instruments classified in the financial derivatives account pertaining to contracts linked to another specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in their own right in financial markets. The mission prepared a collection form that banks could easily fill out. These forms which include a set of instructions, not only to collect data, but to produce the set of statistics are included in the self-explanatory Appendix IV.

Recommendation:

- Consider the recording of financial derivatives in the balance of payments at marked-to-market value.

⁷ The Coordinated Portfolio Investment Survey is available at: <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363>

K. Other Investment

40. Data on other investment appears to be well compiled and with a reasonable scope and detail, although missing government assets and liabilities transactions. The main source of information are administrative data collected from the AMBD, banks' balance sheets, some government agencies, and enterprises' reports. Financial transactions are derived from changes in positions, thus mistakenly including valuation changes in the balance of payments. The mission does not anticipate complications in the compilation of other investment in the IIP, but it is relevant to include transactions and positions from government agencies, which otherwise the data gaps are contributing to errors and omission in the balance of payments. These should be separately identified.

Recommendation:

- Greater cooperation with AMBD will be instrumental to improve data collection on the other investment account. More generally to improve data collection across the financial account and reducing errors and omissions.

L. Reserve Assets

41. The mission discussed in general the compilation methods of international reserves with staff of the JPES. An invitation was extended to initiate on a voluntary basis the compilation of the Reserves Data Template. Mission's staff could provide remote assistance to complete the template. This exercise could be beneficial to corroborate the compilation of reserves transactions and positions in line with the *BPM6*, not to mention the consistency check with monetary accounts. The Reserves Data Template allows the authorities to gauge the adequate level of reserves as well as monitor risk and vulnerabilities based on predetermined net drains on reserves.

M. Officials Met During the Mission

Name	Institution
Mr. Bahrum Bin Hj Kadun	Department of Economic Planning and Statistics
Ms. Aqilah Binti Hassan	Department of Economic Planning and Statistics
Mr. Muhammad Nazri Bin Hj Saman	Department of Economic Planning and Statistics

Appendix I. High-Value Capital Goods

1. This appendix and the following accounting example provide additional details on what is discussed in the report. The recording in the balance of payments of high-value capital goods imported that require recurrent pre-payments (or progress payments) until the final goods are delivered to the country. The treatment in the balance of payments should be similar to the production of high-value capital goods such as ships, heavy machinery, and other equipment that takes several months or years to complete.
2. As with other goods, the transaction should be recorded at the time that economic ownership is conveyed from the seller to the buyer. The time of ownership change is as arranged between the parties; for example, it could be a progressive change in line with stage payments, or in full on delivery. The timing in data sources may or may not coincide with the change of ownership; for example, payments data are on the basis of stage payments, whereas customs data are on the basis of the time that the completed item crosses the customs frontier. It is important to note, if change of ownership differs from time of payment, accounts receivable/payable will arise.
3. As stated in the *BPM6*, transactions in goods should be recorded as of the time that the change of economic ownership takes place. Goods are considered to change economic ownership when the parties enter the goods in their books and make a corresponding change to their financial assets and liabilities. For high-value capital goods such as ships, heavy machinery, and other equipment, ownership changes are recorded at the time agreed between the parties as to when ownership changes. For example, when a contract for a building and other construction is agreed in advance, progressive change of ownership occurs for the work-in-progress, which may take several months or years to complete. When the contract calls for stage payments (progress payments), the transaction values may often be approximated by the value of stage payments made each period. As mentioned above, difference in timing between the change of ownership and payments may give rise to trade credit and advances.
4. Indeed, trade credit and advances arise when payment for goods is not made at the same time as the change in ownership of a good or provision of a service. If a payment is made before the change of ownership, there is an advance. For example, down payments or holding deposits (where ownership of the funds changes hands) are included in trade advances. Changes of ownership for high-value capital goods may give rise to trade credit and advances, only if there is a difference in timing between the change of ownership and progress payments.

High-Value Capital Goods—Accounting Examples

- Transactions to be recorded at the time economic ownership are conveyed from seller to buyer. (Entries indicate recording in the balance of payments of the purchasing economy.)
 - Progressive change in ownership
 - At full delivery
- Timing of data may or may not coincide with change of ownership.

Example 1. Change of ownership with corresponding payment (e.g., quarterly):

Imports	50
Other Investment	
Currency and Deposits	50 (Net acquisition of financial assets (-))

Example 2. No change of ownership but prepayments (e.g., quarterly):

Imports	No recording (Nil)
Other Investment	50 (Net acquisition of financial assets (-))
Currency and Deposits	
Advances (Trade Credit)	50 (Net incurrence of liabilities (creation of accounts receivable) (-))

At delivery:

Imports	50
Other investment	
Advances / Trade Credits	50 (Net acquisition of financial assets (cancelation of accounts receivable) (-))

Example 3. Loan from a third party. Change of ownership, prepayments (e.g., quarterly):

Imports	50
Other Investment	0 ((Cash from loan- payment) (+50-50))
Currency and Deposits	
Loan	50 (Net incurrence of liabilities)

Appendix II. Collection of Personal Transfers

1. The *BPM6* concept of personal transfers replaced the item “workers remittances” from the previous *BPM5* methodology. Personal transfers’ transactions in Brunei Darussalam’s balance of payments are relevant. During the period 2015–2018, credits have averaged US\$XX million per year, while debits in the same period have recorded an average of US\$XX million per year. The credits represent in average of the last X years around XX percent of GDP. With remittances being an important source of foreign exchange inflows (or outflows)—personal transfers amounted to around xx percent of goods exports (or imports) in 2019—better source data to enhance this item would strengthen the reliability of the current account.
2. The mission is of the view that in spite that AMBD compiles personal transfers it may be useful to share with banks and Money Transfer Operators (MTOs) potential improvements to templates for collecting data, (Tables 3 and 4 below).

Appendix II Table 1. Brunei Darussalam: Example of Transfer by Transfer Collection Template

	Transfers into Brunei Darussalam									
	First Threshold		Second Threshold		Third Threshold		Fourth Threshold		Currency of Denomination	Country of Origin
	Total Value of Transfers to Brunei BND	Transfer Value Between 1-500 BND	Total Number of Transfers	Transfer Value Between 501-1600 BND	Total Number of Transfers	Transfer Value Between 1601-2500 BND	Total Number of Transfers	Transfer Value Above 2500 BND		
Total										

Appendix II Table 2. Brunei Darussalam: Alternative Form of Reporting by Country of Origin

Country A in Currency 1

Country	Currency	Transfers	Value in BND	Number of Transfers
Example (Malaysia)	Ringgit	Transfer Value Between 1-500 BND		
		Transfer Value Between 501-1600 BND		
		Transfer Value Between 1601-2500 BND		
		Transfer Value Between 1601-2500 BND		
		Total		

3. The mission recommends the compilation of personal transfers based on transfers that are sent through banks and MTOs.¹ This work should be consistent for credits and debits. Staff of the JPES should include, eventually, an estimate of pocket remittances. This amount of pocket remittances should be identified in conjunction with other governmental agencies in Brunei Darussalam that could survey border posts. Current donations should be compiled only from banks' reporting.

Recommendations:

- Data on personal transfers should be recorded with observed values mainly produced by banks and MTOs, which is fundamental to implementing the data collection plan discussed ahead.
- In the first stage, the compilation of personal transfers should be based on transfers that are sent through banks and MTOs only.
- After the work is well advanced, estimates should include pocket remittances.

Plan to Collect Personal Transfers

4. The JPES staff should apply a comprehensive approach to compile personal transfers. The approach recommended in this report relies primary on data from MTOs since banks may not undertake large transactions on personal transfers that could be misclassified with other items in the balance of payments. However, banks should be part of the compilation process with twofold objectives: (a) complement with own data transfers undertaken through the banking system, and (b) avoid double counting of MTOs settlement accounts in banks.

5. The set of collection templates for MTOs should populated electronically an Excel format. The procedures needed to implement them are described in Box 1 below.

¹ It is recommended to focus on the residency criteria rather on nationality. Resident for more than one year in Brunei Darussalam regardless their nationality should be considered residents.

Appendix II Box 1. Plan to Collect Personal Transfers

- a) The files in Excel include three tabs with collection tables for inward and outward transfers (origin and destination of transfers to facilitate the understanding of reporters (MTOs)). The "origin" section includes two tabs, thus, the staff of the JPES could choose the best arrangement by cells to get the data.
- b) The files also present two options to capture inward and outward data. The variables are (i) thresholds, (ii) number of transfers per threshold, (iii) country of origin and destination, and (iv) the total amount of transfers.
- c) The main objective of the tables *is to collect data for all transfers* that go through each MTO, allowing the JPES to identify according to the information collected, which portion of the total transfers is actually classified as personal transfer considering assumptions mentioned above, and which other transfers do not pertain to remittances.
- d) The objective is to *collect all data that go through MTOs first*. This explains why the use of thresholds is critical to define which portion of the total transfers by agent is to be classified as personal transfer.
- e) The rest of the amounts transferred that do not fall into the remittance criteria, should be analyzed so it can be decided if the difference is to be classified in the balance of payments since this information may not be captured by other data source; contributing to the lowering errors and omissions. The above amount not concluded to be part of a remittance, (that is, the difference between personal transfers according to thresholds and the total remitted) is a by-product of this collection method. The JPES should not be rushed at the beginning of the exercise to try to allocate this portion of the balance of payments until a proper analysis of the data is made.
- f) After a series of iterations with MTOs it should be decided which *thresholds* suit best JPES needs. Initially it is recommended that the collection form should have four thresholds. That is, data below 1,600 Brunei Dollar (BND) should be considered personal transfer. However, this decision should not be taken until JPES analyzes the data of at least six months after start receiving the information, or earlier if MTOs are able to provide monthly historic series.
- g) Before compiling a sensible mass of information from MTOs, staff of the JPES should meet with banks to guide them that any account with MTOs should be excluded from the information on personal transfers that banks provide to the AMBD. The reason to meet with banks is because many MTOs have accounts with resident banks that are used for settlements. Thus, staff of the JPES should avoid potential double counting in the financial accounts within Brunei Darussalam's balance of payments.
- h) During the meetings with MTOs, it should be conveyed the message that in spite of having few correspondents abroad that consolidate transfers to Brunei Darussalam, it is a universal rule that MTOs identify the country of origin and not the country where the correspondent bank is located.² MTOs in Brunei Darussalam should clearly identify the code of the country from which the transfer is originated.
- i) The mission is of the view that this endeavor will take some time to bear results, requiring a solid foundation, aiming at collecting high quality data. These are the initial steps because, after the exercise is on track, the JPES will need to evaluate the results and move forward with changes if needed.

² The mission is aware that in some cases the correspondent center for transfers may mistakenly be labeled as the actual origin of the transfer.

Appendix III. Goods—Merchanting and Re-Exports

Goods Under Merchanting

- Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the goods to another nonresident without the goods being present in the compiling country.
- The acquisition of goods by merchants is shown under goods as a negative export of the economy of the merchant.
- The sale of the good is shown under merchanting as a positive export of the economy of the merchant.
- The difference between sales over purchases of goods for merchanting is shown as the item “net exports” of goods under merchanting. This item includes merchants’ margins, holding gains/losses, and changes in inventories of goods under merchanting.
- As a result of losses or increases in inventories, net exports of goods under merchanting may be negative in some cases.
- Merchanting entries are valued at transaction prices, not FOB.

Re-Exports

- Re-exports are subset of exports, in which goods produced in other economies are exported with no substantial transformation from the state in which they were previously imported.
- The price of re-exported good may differ from its price at the time it was originally imported due to such factors as transport costs, dealer’s margins, and holding gain/losses.
- Re-imports are domestic goods imported in the same state as previously exported, without any substantial transformation occurring to the goods while they were outside the territory.
- Where significant, re-exports and re-imports may be shown as a supplementary item.

Appendix IV. Financial Derivatives—Collection and Compilation Forms for the Elaboration of ESS

Appendix IV Table 1. Brunei Darussalam: Reporting Template

Type of Contract	Country	Economic Sector	Underlying Asset	Initial Position of the Reporting Period at Market Value	Net Transactions	Revaluations		End Position of the Reporting Period at Market Value
						Change in Prices	Change in Exchange Rate	
Forwards								
Futures								
FX Swaps								
Other Similar Contracts								

Details

The example shows how to compile the data using the template, the explanation of the registration in the template and the recording of results in the balance of payments and IIP of Brunei Darussalam in BND.

In quarter $t = 0$, company A in Brunei Darussalam signs a contract to import goods for US\$1,000 during the second quarter $t = 2$ (two quarters later) of Country B. To avoid foreign exchange risks, the Bruneian company A enters into a forward contract with company B, resident of Country B, for which it agrees to buy US\$1,000 in the second quarter $t = 2$ for BND 1,200; that is, at an exchange rate of BND 1.2 = US\$1 (cash exchange rate in the quarter $t = 0$).

In quarter $t = 1$, the exchange rate is BND 1.3 = US\$1.0, and in the quarter $t = 2$, BND 1.4 = US\$1.0. The term contract will be settled at net value. The relevant interest rate is 6 percent for both currencies in each period.

Reporting of the Template in Quarter $t = 0$

No transactions are recorded in the balance of payments and the IIP. The value of the contract at the beginning is zero, thus in the IIP, the position in financial derivatives is zero at the beginning of the period.

In the first quarter $t = 0$, the form must be reported by the Bruneian resident as follows (Recording in (BND)):

Type of Contract	Country	Economic Sector	Underlying Asset	Initial Position of the Reporting Period at Market Value	Net Transactions	Revaluations		End Position of the Reporting Period at Market Value ($t=0$)
						Change in Prices	Change in Exchange Rate	
Forward	Malaysia	Non-Financial Private Sector	Goods (imports)	0.0	0.0	0.0	0.0	0.0

Reporting of the Template in Quarter $t = 1$

It is evident that in the quarter $t = 1$ there were no transactions of the term contract. However, the entity that reports in Brunei Darussalam must report for the first time, the value of the position of the financial derivative in Quarter 1.

Type of Contract	Country	Economic Sector	Underlying Asset	Initial Position of the Reporting Period at Market Value	Net Transactions	Revaluations		End Position of the Reporting Period at Market Value ($t=1$)
						Change in Prices	Change in Exchange Rate	
Forward	Malaysia	Non-Financial Private Sector	Goods (imports)	0.0	0.0	0.0	94.3	94.3

The value of the financial derivative at the end of the period is BND 94.3 It is calculated as follows: The company resident in Brunei Darussalam is aware that at the end of quarter $t = 2$, it

will buy \$1,000 at an exchange rate of BND 1,200. However, to complete the report form for the quarter $t = 1$ and considering that at the end of this quarter the exchange rate is BND 1.3 = US\$1.0, the Bruneian company will have to estimate how much would be paid if the contract had expired in quarter $t = 1$ and not until quarter $t = 2$. For this, it is necessary to estimate how much would have to pay at $t = 2$ using the exchange rate of BND 1,300 per \$1,000 which is the one in force at the end of quarter $t = 2$. The contract, therefore, has a positive value of BND 100 (that is the change in exchange rate value from the initial payment of BND 1200 to BND 1300) if it is settled at $t = 2$ at the exchange rate BND 1.3 = US\$1.0, because a payment of BND 1,200 is stipulated in the contract.

The current value of BND 100 applying an interest of 6.0 percent for both currencies is $100/1.06 = \text{BND } 94.3$

A) Recording in the Balance of Payments:

There are no transactions in quarter $t=1$, thus there is no recording in the balance of payments.

B) Recording in the IIP:

In quarter $t=1$, the current positive value (BND 94.3) is recorded in the IIP as an increase in assets within the item "financial derivatives" assets amounting BND 94.3 due to valuation changes.

Recording of the Template in Quarter $t = 2$

The company resident in Brunei Darussalam undertakes the transaction pertaining to imports of merchandise for US\$1,000 with resources derived from the loss or gain of the financial derivative and the rest with resources from the "other Investment," that is with its own resources. The financial derivative must be reported in the template as follows.

Type of Contract	Country	Economic Sector	Underlying Asset	Initial Position of the Reporting Period at Market Value	Net Transactions	Revaluations		End Position of the Reporting Period at Market Value ($t=2$)
						Change in Prices	Change in Exchange Rate	
Forward	Malaysia	Non-Financial Private Sector	Goods (imports)	94.3	-200.00	0.0	105.7	0.0

At $t = 2$, Brunei Darussalam imports goods for \$1,000. At the current exchange rate, this payment is equivalent to BND 1,400, and appears as an increase in currency and deposits/liabilities vis-à-vis nonresidents (assuming that the funds are paid to the account of company B in Brunei Darussalam).

Under the terms of the contract, Brunei Darussalam agreed to change BND 1,200 for \$1,000. That is, at the current exchange rate (last quarter $t = 2$), the value of BND 1,400 equals \$1,000. Therefore, the net value of the financial derivative is BND 200 (BND 1,200 is paid and \$1,000 is received that is equivalent to BND 1,400). It is not necessary to discount the net value of the contract since it will be settled at the same time.

Recording at Settlement ($t = 2$)

A) Recording in the balance of payments:

The settlement of the financial derivative contract is recorded in the balance of payments as net negative accumulation of financial assets in the financial derivatives account for an amount of (BND 200).¹ The counterpart entries are in the goods account (imports) and in the other investment account (cash payment). See accounting below.

B) Recording in the IIP:

In the IIP, the opening position in quarter $t = 2$ of financial derivatives / assets of BND 94.3 and the transaction (settlement of the contract to BND 200) are offset by a valuation adjustment of BND 105.7, so that the closing position of the quarter $t = 2$ is zero.

C) Overall recording in the balance of payments and IIP:

Accounting in BND	Balance of Payments		IIP		Net Result in the Balance of Payments
	Credit	Debit	Assets	Liabilities	
Current Account					
Goods		1,400 1/			-1,400
Financial Account	Net Acquisition of Financial Assets	Net Incurrence of Liabilities			
Currency and Deposits	-1,200 2/		Deduct 1,200 from position 2/		-1,200
Financial Derivatives	-200 3/		Deduct 200 from position 3/		-200

1/ Data from the goods account.

2/ Imbedded within the financial and monetary accounts

3/ Recording by the compiler.

¹ In the template a transaction that implies a decrease in the assets of the resident company to compensate (settle) the operation according to the contract is recorded with a negative sign.

Transactions and Positions

(1)

Period	Type of Contract	Country	Economic Sector	Underlying Asset	Initial Position of the Reporting Period at Market Value	Net Transactions	Revaluations		End Position of the Reporting Period at Market Value	Actual Exchange Rate at End-Period (hypothetical)
							Change in Prices	Change in Exchange Rate		
Q2 May-June	FX Swaps				0.00	0.00		1,901.14	1,901.14	0.71288
Q3 July-Sept	FX Swaps				1,901.14	0.00		-950.58	950.56	0.71289
Q4 Oct-Nov Maturity	FX Swaps				950.56	-491.91		-458.65	0.00	0.712895

(2)

Method		SELL USD (D)	Contract rate (E)	Amount BND= at maturity	Amount in BND= D/O at end-period	Difference	Net present value of difference	NPV= Market value
Q2								
Q3		50,000,000.00	0.7129	70,136,063.96	70,137,047.79	983.83	950.56	950.56

(3)

Method		BUY USD (D)	Exchange rate at Maturity= 0.71290	Amount BND= at Maturity	Amount in BND= D/O at end-period (hypothetical)	Difference	Net present value of difference	NPV= Market value
Q4								

(4)

Transactions and Positions in ESS						
At Q2	Accounting in BND	Balance of Payments		IIP		Net Result in the Balance of Payments
	Current Account	Credit	Debit	Assets	Liabilities	
	Financial Account	Net Acquisition of Financial Assets	Net Incurrence of Liabilities			
	Currency and Deposits	70,139,015.53		Add cell E25 to previous position		
	Reserves	-70,139,015.53		Deduct cell E26 from previous position		
	Financial Derivatives	491.00		1901.14		

(5)

At Q4	Accounting in BND	Balance of Payments		IIP		Net Result in the Balance of Payments
	Current Account	Credit	Debit	Assets	Liabilities	
	Financial Account	Net Acquisition of Financial Assets	Net Incurrence of Liabilities			
	Currency and Deposits	-70,136,063.96		Deduct Cell E35 from previous position		
	Reserves	70,136,555.87		Add cell E36 to previous position		
	Financial Derivatives	-491.91		0.00		

Appendix VI. Importance and Use of International Investment Position Statistics

Information on Financial Structure of an Economy from IIP Data Include:

- An assessment of economic relations with the rest of the world, such as ability to attract foreign direct investment.
- A measure of the degree of financial openness, such as the gross assets and liabilities vis-à-vis GDP.
- An indication of financial structure and its changes over time, such as the size of foreign loans and deposits of the banking sector.
- An indicator of future interest and dividend flows.

The Types of Exposures and Vulnerabilities That Can be Explored Using IIP Data Include:

- An indicator of financial stability: the calculation of ratios such as external debt to GDP, and short-term debt to reserves.
- An indication of the exposure to valuation changes in assets, such as through the type of instrument owned.
- The capital structure: Whether there is a reliance on debt or equity financing.
- An indicator of external debt sustainability.

Balance Sheet Approach (BSA):

- The BSA focuses on the examination of stock variables in an economy's sectoral balance sheets and pays particular attention to:
 - The balance sheets of key sectors of the economy, and
 - The maturity, currency, and instrument attribution of assets and liabilities.
 - In essence, the BSA analysis recognizes that some of the potential sources of vulnerability such as currency and maturity mismatches can create conditions that make an economy vulnerable to an external crisis.
 - Further, with the IIP, the BSA can be used to study the transmission of shocks across countries.

Partner Country Data:

- There is growing interest by users in IIP by partner economy.
- This type of analysis is the to whom-from-whom approach.
- The IMF has been developing and promoting these datasets through its coordinated exercises.
- The CPIS and the CDIS.
- With the BIS' International Banking Statistics (IBS), a comprehensive picture of bilateral positions in direct, portfolio, and deposit and loan data are available.