INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/302

BRUNEI DARUSSALAM

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

September 2022

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 2022 Article IV consultation with Brunei Darussalam, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis following discussions that ended on June 8, 2022, 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 21, 2022.
- An **Informational Annex** prepared by the IMF staff.

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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IMF Executive Board Concludes 2022 Article IV Consultation with Brunei Darussalam

FOR IMMEDIATE RELEASE

Washington, DC – September 16, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] with Brunei Darussalam on a lapse-of-time basis.[2]

After successfully weathering the pandemic in 2020, Brunei was hit by new waves of COVID-19, with case numbers going up significantly and new lockdown measures imposed in H2 2021. Reduced activities in mining and LNG manufacturing, combined with the negative impact of new pandemic variants on domestic services, led to a slowdown in the economy. GDP contracted by 1.6 percent in 2021, led by slowdowns in O&G mining, LNG manufacturing, and downstream activities. Agriculture and some non-O&G manufacturing sectors saw encouraging growth, though the shares of these sectors in total GDP remain small.

For 2022, growth is projected to rebound to 1.2 percent, on the back of easing of mobility constraints and a positive terms of trade shock due to surges in O&G prices. Inflation, while remaining relatively low at 2.2 percent at end 2021, has increased in 2022 and pressures are expected to remain elevated in the short term, owing to supply disruptions and higher food and fuel prices. The economy continues to diversify, with double-digit growth of the food/agriculture sector and a new fertilizer sector commencing production. The risks to the outlook are tilted to the downside, due to potential new COVID-19 variants, increased global uncertainty associated with an escalation of the war in Ukraine, monetary tightening from the US and a larger-than-expected growth slowdown in China. On the upside, higher energy prices would further improve the terms of trade and restore fiscal positions in the short term, while partially contributing to build the buffers needed to ensure stronger intergenerational equity.

Policies should continue to support the recovery in the short term, while promoting economic diversification in the longer term. Targeted fiscal support—leveraging Brunei's ample fiscal reserves with virtually no public debt—remains critical to alleviate the effect of the pandemic on vulnerable businesses and households. At the same time, reforms to improve fiscal sustainability and intergenerational equity should be advanced. Pandemic relief measures to the financial sector should be removed, while monetary policy should be mindful of inflation risks. Measures to foster financial deepening are key to spur private sector development. Economic diversification, beyond oil and gas, should be ramped up through expanding export

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

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

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portfolio and attracting quality FDIs. Policies to develop human capital and MSMEs would help lay the foundation for higher potential growth. Supporting digital and green growth would help to strengthen resilience in the long term.

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, such as the fiscal consolidation program aimed at reducing wasteful spending in the medium term, a containment in public employment, and the introduction of new pension scheme to increase employer's contribution rate. The authorities have accelerated their efforts to diversify the economy, including through attracting large FDIs in the oil refinery sector and increasing investments in strategic industries such as agriculture and O&G downstream sectors. Continued efforts in participating in regional economic integration, including the Regional Comprehensive Economic Partnership (RCEP) agreement that came into force this year and the new Indo-Pacific Economic Framework, have been made to provide new market access and investment opportunities for entrepreneurs and industries in Brunei. The authorities are introducing various programs, such as the i-Ready apprenticeship program and SkillsPlus program, to upskill and reskill the workforce and to adapt to the evolving demand of private sector employers. Also, they are implementing various policies to support the development of productive MSMEs, such as facilitating access to financial resources and improving entrepreneurship skill training.

Executive Board Assessment

Executive Directors commended the authorities for adopting policies to cushion the impact of the pandemic as well as for the impressive vaccination rollout. Directors observed that a strong economic recovery is underway, on the back of further lifting of COVID-19 restrictions, investment in large petrochemicals projects, and higher oil and gas prices. Noting that risks to the outlook are tilted to the downside, Directors stressed the need to maintain supportive policies until a private sector led recovery is on a firm path. They also stressed the need for continuous reform efforts to promote economic transformation, foster resilience, and accelerate green, digital, and inclusive growth.

Directors underscored the need to maintain targeted fiscal support for vulnerable businesses and households in the near term, while stepping up fiscal reforms to improve fiscal sustainability and intergenerational equity in the longer term. Directors welcomed the authorities' continuous efforts to strengthen the fiscal position. They noted several initiatives to improve the efficiency of public spending, streamline untargeted subsidy and social spending, rationalize public employment, and mobilize revenue. They also noted that the full implementation of the medium-term fiscal framework would help to stabilize public finances.

Directors noted that monetary liquidity operations should be mindful of inflation risks. Directors welcomed the resilience of the banking sector and authorities' recent efforts to strengthen the AML/CFT regulatory and supervisory framework as well as implement the Basel III framework and upgrade stress testing for improved financial sector stability. Directors concurred that fostering financial deepening is key to spur private sector development.

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. They stressed the importance of ongoing diversification to improve fundamentals and ensure a balanced external position over the medium term. They encouraged the authorities to continue to expand the export portfolio, attract quality FDI, improve business environment, invest in human capital, and develop micro, small and medium size enterprises. Directors also highlighted that fostering digital and green growth would create new businesses and job opportunities and enhance economic resilience.

Directors noted the measures taken to improve data management and encouraged the authorities to further improve data compilation and dissemination. They also welcomed the recent close cooperation in Capacity Development (CD) with the IMF, including the authorities' plan to request further CD.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2017–27

Area: 5,765 sq. kilometers

Population (2021): 429,999

Nominal GDP per capita (2021): US$32,573.3

Main export destinations (2020): Japan (25.6 percent), Singapore (21.3), China (17.7), Malaysia (7.7), and India (5.3 percent)

Unemployment rate (2020): 7.4%

Labor force participation rate (2020): total 65.2%; male 74.0%; female 55.2%

	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Output and Prices											
Nominal GDP (millions of Brunei dollars)	16,748	18,301	18,375	16,564	18,822	25,355	24,699	24,783	25,060	25,400	26,092
Nominal non-oil and gas GDP (millions of Brunei dollars)	7,901	8,047	8,268	8,868	9,790	12,158	12,977	13,671	14,301	14,938	15,589
Real GDP (percentage change) 1/	1.3	0.1	3.9	1.1	-1.6	1.3	3.3	3.2	3.2	2.5	3.4
Oil and gas sector GDP	1.1	-1.5	3.9	-4.9	-4.8	-2.9	1.9	2.6	2.7	1.4	3.4
Non-oil and gas sector GDP	1.6	2.1	3.9	8.9	2.0	5.5	4.6	3.7	3.5	3.4	3.3
Oil production ('000 barrels/day)	113	112	121	110	106	104	103	109	114	120	124
Natural gas output (millions BTUs/day)	1,430	1,372	1,402	1,359	1,234	1,184	1,222	1,234	1,259	1,247	1,296
Average Brunei oil price (U.S. dollars per barrel)	55.9	73.2	68.6	43.1	72.7	86.0	83.6	71.6	68.3	63.8	62.2
Average Brunei gas price (U.S. dollars per million BTU)	8.3	10.5	9.1	6.7	9.1	12.3	10.4	10.4	10.4	10.4	10.4
Consumer prices (period average, percentage change)	-1.3	1.0	-0.4	1.9	1.7	2.5	2.0	1.5	1.0	1.0	1.0
Public Finances: Budgetary Central Government											
Total revenue	22.7	32.7	26.4	12.6	23.2	23.7	21.6	20.8	20.3	19.7	19.6
Oil and gas	17.5	26.4	19.8	7.7	19.6	20.2	17.9	17.0	16.3	15.6	15.4
Other	5.3	6.3	6.5	5.0	3.6	3.5	3.7	3.9	4.0	4.1	4.2
Total Expenditure	35.6	32.5	31.9	32.6	27.8	22.7	23.2	23.3	23.3	23.1	22.7
Current	30.4	29.8	29.5	31.3	26.8	21.9	22.3	22.3	22.2	22.0	21.7
Capital	5.2	2.7	2.4	1.3	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Overall balance 2/	-12.9	0.2	-5.6	-19.9	-4.6	1.0	-1.6	-2.5	-2.9	-3.4	-3.1
Non-oil and Gas Balance	-60.0	-53.5	-49.5	-46.0	-42.4	-34.6	-32.9	-31.5	-30.2	-29.0	-27.8
Money and Banking											
Private Sector Credit	-5.3	-3.1	2.0	0.2	-5.0	3.5	1.5	1.5	1.4	1.3	1.3
Narrow money	-5.7	-3.0	6.6	20.8	2.0	4.5	2.4	1.9	1.9	1.0	1.0
Broad money	-0.4	2.8	4.3	-4.0	3.7	3.2	2.8	1.8	1.8	1.7	1.7
Balance of Payments											
Goods	2,404	2,358	2,212	1,365	-261	2,464	1,030	1,824	2,390	2,867	3,306
Exports	5,475	6,448	7,213	6,541	7,908	14,078	11,285	11,662	12,011	12,365	12,846
Of which: oil and gas	5,021	2,691	3,244	2,943	4,446	8,329	4,512	4,734	4,916	4,946	5,036
Imports	3,072	4,089	5,001	5,176	8,169	11,615	10,255	9,839	9,621	9,498	9,540
Services (net)	-698	-1,007	-1,188	-855	-867	-883	-896	-911	-925	-938	-949
Primary Income (net)	721	87	362	360	538	928	2,021	1,573	1,271	941	702
Secondary Income (net)	-442	-506	-490	-350	-448	-429	-409	-429	-422	-420	-424
Current Account Balance	1,984	937	895	514	644	2,080	1,747	2,056	2,314	2,450	2,635
Current Account Balance (in percent of GDP)	16.4	6.9	6.6	4.3	4.6	11.1	10.2	12.0	13.3	14.0	14.6
Gross Official Reserves 3/	3,300	3,221	4,052	3,721	4,242	4,952	5,562	5,674	5,786	5,898	6,010
In months of next year's imports of goods and services	7.0	5.7	7.6	4.7	4.0	5.1	6.0	6.2	6.4	6.5	6.6
Brunei dollars per U.S. dollar (period average)	1.38	1.35	1.36	1.38	1.34	…	…	…	…	…	…
Brunei dollar per U.S. dollar (end of period)	1.34	1.37	1.35	1.34	1.36	…	…	…	…	…	…

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 2022 ARTICLE IV CONSULTATION

July 21, 2022

KEY ISSUES

Context. After successfully weathering the pandemic in 2020, Brunei was hit by new waves of COVID-19, with case numbers going up significantly and new lockdown measures imposed in H2 2021. Reduced activities in mining and LNG manufacturing, combined with the negative impact of new pandemic variants on domestic services, led to a slowdown in the economy. Real GDP contracted by 1.6 percent in 2021. For 2022, growth is projected to rebound to 1.2 percent, on the back of easing of mobility constraints and a positive terms of trade shock due to surges in O&G prices. Inflation, while remaining relatively low at 2.2 percent at end 2021, has increased in 2022 and pressures are expected to remain elevated in the short term, owing to supply disruptions and higher food and fuel prices. The economy continues to diversify, with double-digit growth of the food/agriculture sector and a new fertilizer sector commencing production. The risks to the outlook are tilted to the downside, due to potential new COVID-19 variants, increased global uncertainty associated with an escalation of the war in Ukraine, monetary tightening from the US and a larger-than-expected growth slowdown in China. On the upside, higher energy prices would further improve the terms of trade and restore fiscal positions in the short term, while partially contributing to build the buffers needed to ensure stronger intergenerational equity. Strong policy actions are needed to boost medium-term growth and foster resilience.

Main policy recommendations. Policies should continue to support the recovery in the short term, while promoting economic diversification in the longer term.

- Targeted fiscal support—leveraging Brunei's ample fiscal reserves with virtually no public debt—remains critical to alleviate the effect of the pandemic on vulnerable businesses and households. At the same time, reforms to improve fiscal sustainability and intergenerational equity should be advanced.
- Pandemic relief measures to the financial sector should be removed, while monetary liquidity operations should be mindful of inflation risks. Measures to foster financial deepening are key to spur private sector development.
- Economic diversification, beyond oil and gas, should be ramped up through expanding export portfolio and attracting quality FDIs. Policies to develop human capital and MSMEs would help lay the foundation for higher potential growth. Supporting digital and green growth would help to strengthen resilience in the long term.

Approved By
Krishna Srinivasan and Eugenio Cerutti

Mission meetings were held virtually during May 25 – June 8, 2022. The mission team comprised: Davide Furceri (Head), Natasha Che, Sang Mok Lee, and Kaustubh Chahande (all APD). Nadiah Abu Bakar (OED) joined the mission. Rosemary Lim (Executive Director) joined the concluding meeting. Data used in this report for staff analyses are as of June 8, 2022, unless otherwise noted.

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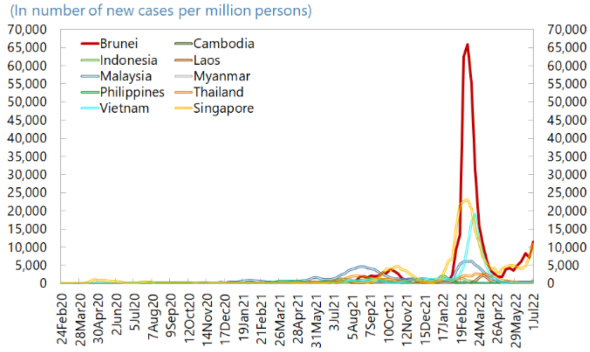
CONTEXT AND RECENT DEVELOPMENTS

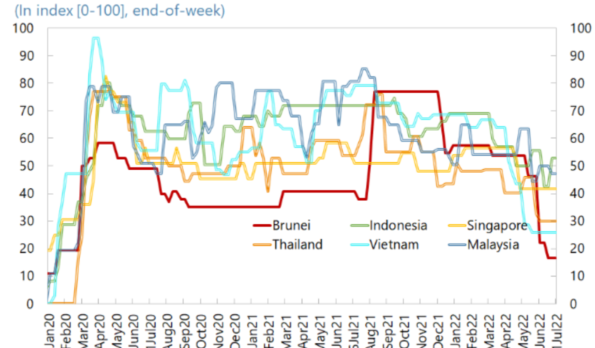
1. **New COVID-19 waves significantly affected the Brunei economy.** The country was hit by the Delta variant in August 2021 and then by the Omicron variant in 2022, with new COVID cases increasing substantially in February 2022. New cases have declined since March, to 535 cases per million people as of end-May 2022 (see Annex 1). The authorities reintroduced partial lockdowns in August 2021, which negatively affected wholesale and retail trade activity in 2021Q3 (-4.3 percent decline y/y). The removal of many restrictions from mid-November and strong progress in vaccination have contributed to stronger activity in the contact-intensive sectors in Q4 (the service sector grew 2.1 percent y/y) and improved business sentiment. Brunei's Business Sentiment Index remained above 50 (the threshold indicating economic expansion) in April 2022.

Weekly New COVID-19 Cases in ASEAN
(In number of new cases per million persons)



Sources: CSSE Johns Hopkins University; CEIC Data; IMF, *World Economic Outlook*; & IMF staff calculations.

COVID-19 Stringency Index
(In index [0-100], end-of-week)



Sources: Oxford Univ. COVID-19 Govt. Response Tracker; and CEIC Data.

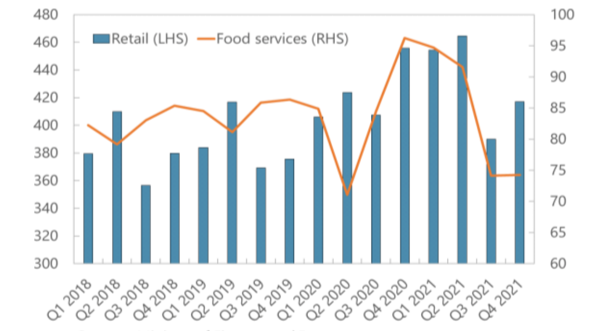
2. **Reduced activities in mining and (liquified natural gas) LNG manufacturing have affected economic performance.** Oil and gas (O&G) mining sector production continued its downtrend since 2020—as work stoppage occurred due to maintenance and COVID-19 restrictions—declining by 3 percent y/y in 2021. Similarly, LNG manufacturing declined by 10.6 percent y/y, largely due to the diversion of gas supply to other downstream activities. Meanwhile, activity in the downstream non-O&G sector declined slightly in 2021, following the exceptional growth (324 percent y/y) recorded in 2020.

Contributions to Real GDP Growth
(In y-o-y percentage points)

	2020	2021				
	Year	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
GDP	1.1	-1.3	-1.9	-1.8	-1.4	-1.6
Agriculture	0.1	0.2	0.1	0.2	0.1	0.1
Industry	1.8	-2.6	-3.0	-2.8	-2.3	-2.7
O&G mining	-2.1	-1.3	-1.8	-1.5	-0.4	-1.2
LNG & methanol manufacturing	4.0	-1.2	-1.7	-1.3	-2.0	-1.5
Others	0.0	-0.1	0.5	0.0	0.0	0.1
Services	-0.8	1.1	1.0	0.7	0.8	0.9

3. **Agriculture and non-O&G manufacturing rebounded strongly in 2021.** On the back of diversification efforts, the agricultural, forestry and fishery sector activity increased by 16.9 percent y/y in 2021, due to the strong expansion of the livestock subsector and subsectors under fisheries. After the sharp contraction in 2020, some non-O&G manufacturing sectors, such as textile, saw strong rebound. Despite the encouraging diversification trend in recent years, the share of agriculture and

non-O&G manufacturing (excluding downstream activities) in total GDP remains small at around 2 percent. As a result, GDP contracted by 1.6 percent in 2021.



4. The resurgence of COVID-19 and weaker demand have negatively affected the labor market. While hires of local residents have declined by 4.4 percent in 2021—based on administrative data—the authorities have strengthened measures to support job matching (through the JobCentre Brunei) and job training (through the I-Ready Apprenticeship program). The decline in recruitment has been stronger for vulnerable workers—such as young and less educated—and in sectors such as wholesale and retail trade and professional and technical activities.

5. Inflation has increased since the pandemic due to higher food and fuel prices. The new COVID-19 waves coincided with renewed increases in inflation, after subsiding in early 2021. The CPI inflation reached 3.8 percent by March 2022. The increase is mainly driven by higher food prices (3.8 percent growth y/y), as well as higher transport costs associated with higher airfares and supply chain disruptions (6 percent growth y/y).

6. The fiscal deficit has declined to 4.6 percent of GDP in FY2021/22 from 19.9 percent in FY2020/21. Revenue in FY2021/22 has significantly increased to BND4.7 billion from BND2.1 billion in FY2020/21, owing to the sharp rise of oil and LNG prices. While the expenditure-to-GDP ratio has declined following the sharp increase in O&G prices and nominal GDP, the level of expenditure has been expanded by about 7 percent (from BND5.3 billion in FY2020/21 to BND5.7 billion in FY2021/22) in response to COVID-19 developments (see Annex I). In particular, about BND182 million (0.9 percent of the GDP) has been used for containment measures such as testing laboratories, vaccines, isolation facilities, food supplies for people under quarantine and allowances for frontliners. The remaining spending increase was partly due to expenditure targeted to hard-hit households and businesses, including through discounts on corporate income tax, rents and utilities, deferment of pension contributions, payroll subsidies to affected micro, small and medium size enterprises (MSMEs) and financial assistance to local employees and self-employed whose employment and/or income was affected.

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

	2017/18	2018/19	2019/20	2020/21	2021/22
	(Percent of GDP)				
Revenue	22.7	32.7	26.4	12.6	23.2
Oil & Gas	17.5	26.4	19.8	7.7	19.6
Non-Oil & Gas	5.3	6.3	6.5	5.0	3.6
Expenditure	35.6	32.5	31.9	32.6	27.8
Current	30.4	29.8	29.5	31.3	26.8
Capital	5.2	2.7	2.4	1.3	1.0
Overall Balance 2/	-12.9	0.2	-5.6	-19.9	-4.6
Non-O&G Balance (% of Non-O&G GDP)	-60.0	-53.5	-49.5	-46.0	-42.4
	(millions of BND)				
Nominal GDP	17,048	18,453	18,385	16,241	20,455
Nominal non-O&G GDP	7,938	8,103	8,418	9,098	10,382

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.

7. The current account surplus remained stable in 2021. The current account surplus is estimated to have increased slightly from 4.5 percent of GDP in 2020 to 4.6 percent in 2021, owing to a pickup in exports in H2 2021. Non-O&G exports, including refinery and petrochemical products, exceeded O&G exports for the first time in 2021 to 54.9 percent of total exports, indicating encouraging progress in export diversification. Preliminary estimates for 2021 suggest the external position is substantially weaker than suggested by fundamentals and desirable policies (Appendix II).

8. The banking system appears to remain sound. The capital ratio is high, at over 20 percent of risk-weighted assets by the end of 2021. NPL ratio has declined from 4.7 percent in 2020 to 3.6 percent in 2021. Private sector credit growth picked up in the second half of 2020, likely reflecting increased economic activities post-Pandemic, but has dropped again in H2 2021 as the new COVID-19 variants affected the economy.

OUTLOOK AND RISKS

9. The recovery is projected to strengthen in 2022-23 on the back of further lifting of COVID-19 restrictions, investment in large petrochemicals projects, and higher oil and gas prices. Economic activity in the non-tradable services sector is expected to strengthen in 2022, as domestic containment measures are further phased out, amid high vaccination rates (almost all the population is fully vaccinated with two doses and more than 60 percent has received a booster). The downstream activities in the non-O&G sector are expected to pick up, driven by the commencement of production of the Brunei Fertilizer Industries, investment in the Pulau Muara Besar (PMB) Phase II refinery and petrochemical complex, and expansion of the Muara Port. In the O&G sector, gas production is expected to remain broadly stable as the rejuvenation program of offshore facilities continue and new upstream projects come into production, but the significant increase in oil and gas prices will provide a positive terms-of-trade shock with positive spillovers to domestic demand through income and wealth effects. For 2022, growth is projected to rebound to 1.2 percent, and reach 3.5 percent over the medium term as new oil production capacities come online.[1] With continued diversification, the share of non-O&G is projected to rise further to 54 percent of GDP by 2027.

10. The labor market is expected to pick up in 2022 as the economy recovers and travel restrictions are lifted. Businesses intend to hire more employees, as suggested by the May reading of the employment sub-indicator of the Business Sentiment Index. Easing border control will help boost employment of the non-local labor force. However, structural problems including shortage of high-skilled workers and frequent turnovers of local employees may continue to persist in the short term.

11. Inflationary pressure is expected to persist. Global supply chain disruptions due to the pandemic have proven persistent so far and are expected to continue throughout 2022. The war in

[1] Despite a projected growth recovery in 2022, staff assesses the current cyclical position of the economy to be on the weak side, with the negative output gaps recorded in 2020 and 2021 expected to be gradually closed by 2024. Medium-term output losses due to the pandemic and the decline in O&G activity—defined as revisions to projected 2025 GDP levels between the January 2020 and current forecasts—are estimated to be around 4.1 percent compared to 7.5 percent for Asia.

Ukraine further adds to supply pressures in key commodities, which will likely result in higher import prices, especially food. The COVID lockdown measures increased consumer spending in domestic markets, which also contributed to higher inflation. For 2022, headline inflation is projected at 2.5 percent. In the short term, domestic subsidies may alleviate the impact of higher prices on lower income populations and consumer demand. Over the medium term, inflation pressure associated with higher import prices is expected to subside as supply chain bottlenecks are resolved overtime.

12. Higher energy prices are expected to lead to a fiscal surplus of 1.0 percent of GDP in FY2022/23. The expenditure-to-GDP ratio, after declining in FY2022/23 because of higher nominal GDP, is expected to stay at about 23 percent. Despite the increase in O&G production, revenues from FY2023/24 are projected to decline in tandem with falling energy prices. As a result, the fiscal balance is projected to return into deficit in FY2023/24. In the absence of substantial fiscal consolidation measures, the fiscal deficit is expected to increase to 3.1 percent of GDP in FY2027/28.

13. The current account surplus is projected to increase in 2022-23. Strong growth in O&G prices is expected to boost exports in the near term despite negative growth in oil production volume, while FDI-related import growth is projected to decline. On the other hand, higher global prices and increased domestic demand due to economic recovery would sustain import growth. Overall, the terms-of-trade growth is expected to be positive in 2022-23, leading to higher current account surplus (about 11 percent of GDP), before stabilizing to about 15 percent of GDP in 2027. Taking into account the SDR allocation of about US$650 billion in 2021 (of which Brunei's allocation was US$412 million), Brunei's reserves (excluding gold) stood at around 210 percent of the Fund's assessing reserves adequacy (ARA) composite metric in 2021. The entire SDR allocation is currently saved as reserves.

14. Risks are tilted to the downside. Outbreak of lethal and highly contagious COVID variants may disrupt the recovery through extended supply chain disruption and a reassessment of growth prospects. Persistently higher worldwide inflation may hurt global demand, including for energy. Monetary tightening from the US and major central banks could result in a tightening of global financial conditions. Abrupt growth slowdown in China could further weigh on global demand and reduce commodity prices. An escalation of the war in Ukraine could add to global uncertainty. Unexpected changes in energy production and delays in large-scale FDI are additional risks. On the upside, persistently higher energy prices would further improve the terms of trade with positive income and wealth effects on domestic demand (see Annex III).

Authorities' Views

15. The authorities agree with the challenges to the near-term outlook. They expect the economy to grow by 0.4-0.8 percent in 2022, mostly driven by the growth in agriculture and the rebound in services. They prefer staying conservative in projecting the positive impact of the terms of trade shock, as the high oil prices may not last. In addition, they see the income/wealth effect from commodity price increases to be limited. In their view, the near-term growth outlook is also constrained by the ongoing maintenance activities in the O&G sector and the potential production delay in the new fertilizer sector. Though they see it as a positive upside risk if the rejuvenation program can be rescheduled to increase O&G production in the short term. Regarding inflation, they concur with the assessment that inflation from higher food prices and supply-chain bottlenecks may persist longer than expected, and are actively working towards ensuring food security, including by supporting the expansion of domestic food production. The authorities' outlook for the medium term remains positive, as they expect the various diversification efforts and continued investments in the O&G downstream sectors to bear fruits over time and improve the sustainability of growth.

ECONOMIC POLICIES

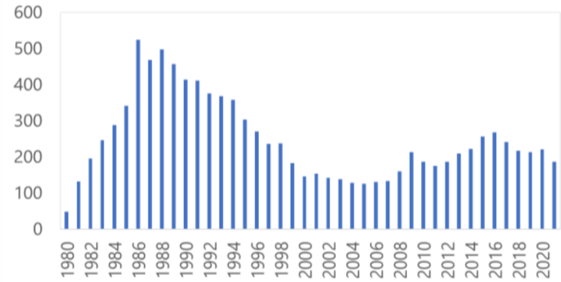
The high uncertainty about the path of the pandemic and the global economic outlook poses major headwinds for Brunei. While higher energy prices are providing a short-term boost to economic activity, structurally-low productivity in the non-O&G sector is weighing on medium-term potential growth and job creation. The macroeconomic policy mix should continue to support the economy until the output gap is closed and the recovery is entrenched, while strengthening resilience and promoting economic diversification in the longer term. In the short term, Brunei's ample fiscal reserves with virtually no public debt should be leveraged to sustain the recovery in private demand. In the medium term, fiscal policy should normalize, and high energy prices are an opportunity to restore fiscal space and advance the implementation of measures to strengthen fiscal sustainability, rebalance external position and improve intergenerational equity . A reform push to foster export diversification and attract higher value-added FDI would boost medium-term growth. Accelerating digital and green growth will be critical to foster resilience.

A. Protecting Long-Term Fiscal Sustainability While Enhancing Economic Recovery

16. While targeted fiscal support is needed to support the recovery until there is economic slack, exit plans to foster resilience should be prepared. Fiscal support remains critical in the near term to alleviate households and firms affected by the pandemic and containment measures. Targeted fiscal support is also key to mitigate the impact of the recent rise in international food prices on those most vulnerable. Looking ahead, fiscal policy should normalize, and support be geared towards achieving reallocation of resources to new dynamic (green and digital) sectors.

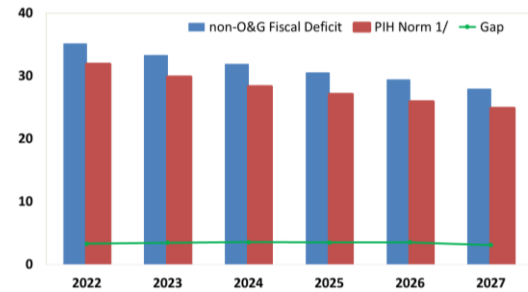
17. High energy prices are an opportunity to restore fiscal space and advance the implementation of measures to improve fiscal sustainability and intergenerational equity in the longer term. The government had made good progress in fiscal consolidation before the COVID-19 pandemic. But the unprecedented fiscal measures deployed to address the health crisis and prevent scarring have resulted in a deterioration of the fiscal balance. The current high energy prices provide an opportunity to restore fiscal positions and enable the government to adjust public finance, limiting the negative growth impact. The gap between baseline expenditure and sustainable long-term expenditure—under the permanent income hypothesis (PIH) used for oil-exporting countries frequently—is projected at about 3.1 percent of non-O&G GDP (1.8 percent of GDP) in 2027 and requires sustained medium-term fiscal consolidation including through cutting inefficient spending and expanding revenue base delinked from the O&G sector.

Cumulative Fiscal Balance 1/
(In percent of GDP)



1/ Cumulative sum of fiscal balances (as percent of GDP) since 1980.
Sources: Brunei authorities, IMF staff calculations.

Non-O&G Fiscal Deficit vs. PIH Norm
(In percent of non O&G GDP)



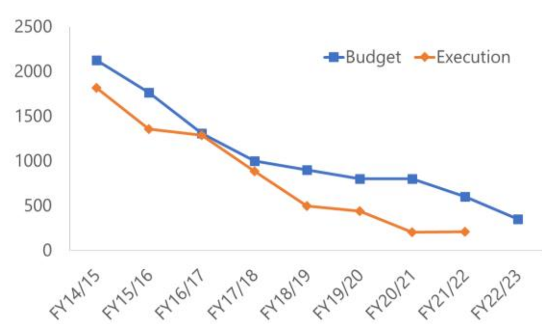
Source: IMF staff estimates.
1/ Using a constant real per-capital annuity

Fiscal Consolidation

18. Fiscal consolidation efforts have been intensified in the FY2022/23 budget. According to the FY2022/23 budget, the authorities have reduced expenditure by 2.7 percent (from BND5.86 billion to BND5.70 billion) mostly on the account of significant capital spending cuts—about 41.7 percent (from BND0.60 billion to BND0.35 billion). In this regard, while the reduction in expenditure is consistent with fiscal consolidation efforts, it would be important to preserve and expand capital spending going forward to foster physical and human capital accumulation and facilitate diversification. Furthermore, capital expenditure in the budget should be executed without delay. A performance assessment of the 3-years consolidation program launched in FY2020/21 would help identify areas of improvements.

19. Containing employment and wages in the public sector would help improve fiscal positions and develop the private sector. The authorities have made substantial progress to curb public employment by tightening temporary public jobs. However, public wages have been much higher than the average income and have exceeded 30 percent of the government expenditure since FY2015/16.[2] Policies to improve public sector productivity and service quality remain a priority.

Capital Expenditure
(BRN million)



Source: Brunei authorities.

Public Wages
(Percent of total expenditure)

Source: Brunei authorities.

[2] Wage budget per public employee in FY2020/21 is BND29,646 but average annual income is BND20,928 in 2020.

20. Untargeted subsidies and social spending need to be reformed to improve equity and long-term sustainability. The authorities have provided strong social safety nets and a variety of services such as pension, health care, education, housing, and subsidies (on fuel, electricity, water, etc.) to the entire population. A comprehensive reform of the social expenditure system would improve efficiency, equity and sustainability. First, policy effect should be maximized under limited fiscal resources by targeting assistance to the most vulnerable, streamlining redundant assistances and bolstering coordination among fragmented agencies. The authorities' recent initiatives, such as the digitalized National Welfare System and the MoFE's incorporation of subsidies data across line ministries, are important steps to improve cost-effectiveness. Second, the level of assistance should be appropriate to prevent over-consumption in energy and reduce inefficient resource allocations. Third, some non-essential social spending services could be transformed into contributory schemes. A new pension scheme to increase employer's contribution rate will be implemented in 2023 and is a good step to expand pension benefits and stabilize future pension payments.

21. Revenue mobilization would reduce dependence on O&G sector and volatility of public finance. The authorities plan to expand excise taxes on goods with negative health and environmental externalities. The tax system should be broadened in line with non-O&G sector development, including through a recalibration of property tax and the adoption of goods and services taxes (GSTs) and a carbon tax. Active assets management on government lands and buildings would also increase fiscal revenue.

22. Active implementation of privatization and Public-Private-Partnership (PPP) and better performances in Government-Linked Companies (GLCs) would improve the fiscal position and promote economic growth. The authorities have promoted corporatization and PPP to improve fiscal management and develop the private sector, while identifying new projects especially in utilities and transportations. Darussalam Assets—a private-limited company owned by the government since 2012—and Strategic Development Capital (SDC) Fund —a governmental investment fund for economic development—have managed 52 GLCs.[3] However, information on financial performances and dividends in Darussalam Assets, SDC Fund and GLCs is not publicly available. Improved performances of GLCs would increase investment returns and fiscal revenues. Furthermore, privatization of some GLCs would help reduce barriers to entry, develop the private sector, and provide additional fiscal revenues.

23. Sustained fiscal consolidation would contribute to build buffers needed to ensure stronger intergenerational equity. Substantial reforms of fuel subsidies, public wages and wide-scale revenue mobilization would lead to fiscal saving of about 5.5 percent of GDP in the medium term (the adjustment scenario). Such an improvement in the fiscal balance would help bridge the gap between currently projected expenditure and sustainable long-term expenditure. The remaining gap could be closed by accelerating reforms on social spending and other subsidies on housing, electricity, water, and food, streamlining inefficient spending, and promoting corporatization and privatization. Sustained fiscal consolidation will also help rebalance the external position.

[3] GLCs cover a wide range of businesses including downstream, aviation, telecommunications, power utilities, logistics, agribusiness, food and beverage, leisure and tourism, medical care, education, hospitality, and real estate.

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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	cumulative
	(Fiscal year basis, percent of GDP)						2022/23-2027/28
Fiscal balance under:							
Baseline scenario	1.0	-1.6	-2.5	-2.9	-3.4	-3.1	-12.5
Policy adjustments 1/	1.0	-0.9	-1.6	-1.8	-2.1	-1.6	-7.0

Source: IMF Staff calculations

1/ Policy adjustments relative to the baseline: wage containment (0.2 percent of GDP), revenue mobilization (0.1 percent of GDP), and fuel subsidy reform (1.2 percent of GDP) gradually from 2023/24 to 2027/28.

Public Finance Management

24. **The full implementation of the Medium-Term Fiscal Framework (MTFF) and a contingency plan for energy price disruptions would help stabilize public finances.** While medium-term economic projections have been used for annual budgeting purposes, the implementation of the MTFF remains still in the early stage and more progress is needed to better prioritize expenditure in the medium term. The preparation process of the 12th national development plan (2023–2027) could be a valuable opportunity to incorporate the national strategy into the MTFF. The adoption of a fiscal rule—such as a non-hydrocarbon primary balance-to non-hydrocarbon GDP target—and contingency plans identifying revenue and expenditure measures that could be taken in the event of a sharp drop in energy prices would help reduce fiscal procyclicality.

25. **Advanced fiscal management in public investment and digitalization would improve efficiency.** Improving public investment management including through implementing the Public Investment Management Assessment framework (PIMA) and installing digitalized tools such as the application of Treasury Single Account and Enterprise Resource Planning and extension of One Common Billing System would contribute to fiscal savings and public-sector productivity. The authorities have launched the One Common Portal to manage business obligations including registration and corporate tax filing at once. The "Financial Regulations" introduced in 2022 is expected to improve revenue collection and procurement in the government.[4] In addition, the establishment of integrated public financial management system including a central government, extra budgetary funds, SOEs and a sovereign fund would improve fiscal efficiency, transparency and accountability.

Authorities' Views

26. **The authorities broadly agreed with the fiscal policy recommendations and emphasized their efforts in making public finance more efficient, while helping to develop the private sector.** Fiscal support has played a significant role to help COVID-affected households and firms. The authorities plan to implement the fiscal consolidation program continuously, making the most of recent high energy prices for strengthening fiscal sustainability. The authorities expressed their commitment to containing subsidies even in the face of higher oil and food prices and abundant oil

[4] The "Financial Regulations" define procedures on revenue collection, procurement and expenditure payment in the government and roles of related public officials.

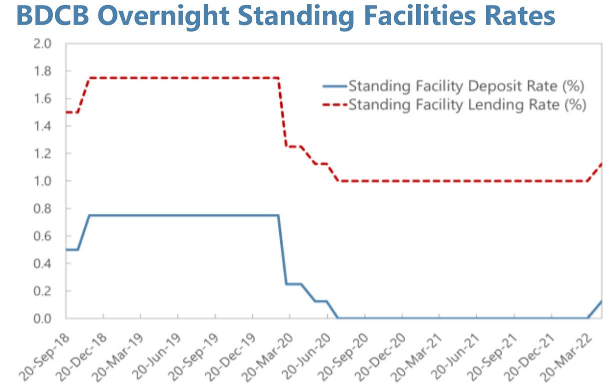
and gas revenues. It has been discussed among related agencies to adjust tariffs of electricity and water and consolidate subsidies data across the line-ministries through the Treasury Accounting and Financial Information System 2.0. The new national pension scheme will be implemented in 2023 and is expected to encourage local labor participation by safeguarding more pension benefits. The authorities have converted temporary public employees meeting specific requirements into permanent positions and abolished temporary positions, which would reduce personnel expenses in the public sector in the long term despite budget rise in FY2022/23. The launch of excise taxes on goods harmful to environment and health would help secure more fiscal resources. They expect that corporatization of government services, including in the electricity service sector, and improved management of government linked companies would support private sector development. The authorities have made progress in digitalization of public finance management by launching the One Common Portal and expanding services in One Common Billing System.

B. Safeguarding Financial Stability and Promoting Financial Deepening

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. This framework has been beneficial for macroeconomic stability and keeping inflation low. Additionally, the currency peg allows financial institutions in Brunei to benefit from Singapore's deep financial markets given that excess liquidity in Brunei is largely re-invested in Singapore dollar assets. The peg also serves to bolster diversification efforts by helping to attract FDI.

28. Monetary policy has been appropriately accommodative. The BDCB set up overnight standing facilities in 2018. Although the room for monetary policy actions is limited by the currency board arrangement, these facilities aim to improve liquidities in the inter-bank market. After the pandemic hit, the BDCB lowered its overnight liquidity provision rate three times from 1.75 to 1 percent. In addition, the BDCB allowed temporary flexibility on loan/financing classification for specific and targeted loan/financing facilities and waived fees and charges for online local interbank transfers to alleviate the pandemic impact. These regulatory notices are set to expire by end-June 2022. Persistent inflation pressures, tightening global financial conditions and higher short-term liquidity in the banking system due to positive export price shocks in the O&G sector calls for a gradual normalization of the monetary stance, while still providing adequate support to the recovering domestic economy. In recent months the standing facilities rates have appropriately increased, in response to higher inflation outlook and monetary tightening measures by the Monetary Authority of Singapore.

BDCB Overnight Standing Facilities Rates



Sources: BDCB

29. The financial sector remains sound. After slight uptick at the end of 2020, likely due to the impact of initial pandemic shock, NPL ratio has dropped and stays low. Capital adequacy ratio, at around 20 percent, is well above the statuary requirement of 10 percent. Banking sector balance sheets have continued to expand throughout the pandemic period, increasing by 5.8 percent y/y in 2021, with the growth of bank assets largely placed in offshore investments. Bank credit grew 4.6 percent in 2021, with corporate loans leading the growth. Bank liquidity ratios remain high, but have dropped significantly, from close to 140 percent of short-term liabilities a decade ago to 80 percent at end-2021, indicating a gradual shift towards loans in banks' asset composition, as well as increases in deposits.

30. Private sector credit remains low relative to peers. Credit to the private sector, at around 40 percent of GDP, is low by regional standard and compared to other O&G intensive economies such as the Gulf Cooperation Council (GCC) countries. This is in line with the relatively low level of economic diversification in the private sector activities. Holistic approaches to support non-O&G private sector development, including through strengthening the credit provision to Micro, Small and Medium size Enterprises (MSMEs), could help enhance the country's long-term growth potential.

31. Meaningful progress is being made to foster financial sector development and safeguard financial integrity. As part of its effort to leverage digital technology in banking, The BDCB has added a licensing module to its Centralized Statistical System (CSS), which enables the automation of both new applications and renewal of licenses to be issued by the BDCB. The BDCB has also refined the existing public disclosure requirements of banks by issuing a regulatory notice on Pillar 3—Public Disclosure Requirements, with the goal to improve banking sector transparency. The authorities have continued to strengthen the AML/CFT legal and regulatory framework. The amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations are expected to be completed in 2022, while the Counter Proliferation Financing Order is also being finalized. The BDCB is also in the process of issuing guidelines on E-KYC to facilitate non-face-to-face customer onboarding and due diligence. Effective implementation of the AML/CFT framework, including AML/CFT risk-based supervision, will be critical to ensure an effective AML/CFT regime. Brunei's Mutual Evaluation process by the Asia Pacific Group on Money Laundering (APG) has commenced, pending the rescheduling of the on-site visit which has been postponed due to COVID-19.

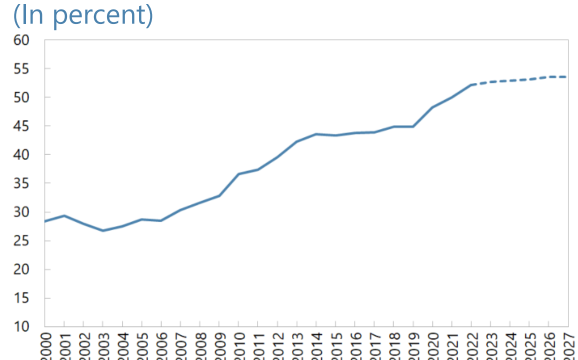
Authorities' Views

32. The authorities concur with the need to retire the COVID relief measures in the financial sector. Currently only 2 percent of bank loans are using the repayment deferment measure. The authorities think the economy is ready for these measures to be removed. They are committed to safeguarding financial sector stability, and plan to implement the liquidity standard of Basel III agreement in 2022. They found the recent Fund capacity development on macro stress testing useful and are in the process of determining the data collection needs for the stress test model. Regarding AML/CFT, they emphasized that the pandemic resulted in the shift of AML/CFT supervision towards offsite examinations. A total of 27 supervisory letters were issued in 2021, which highlighted concerns and deficiencies that were identified through the offsite reviews. As for financial development, they agree with the need to increase credit to the private sector. But they emphasized that there have been long standing efforts to encourage banks to channel credit for the business sectors and in providing the infrastructures. They pointed out that credit to the corporate sector has increased by over 10 percent in 2021, and is now over 50 percent of private sector lending, which is consistent with the initiatives made by the BDCB to encourage banks to diversify its lending activities to productive sectors such as corporates and MSMEs. They expect corporate loans to continue increasing with the development of new downstream industries and financing needs from the government-linked companies. On monetary policy, the authorities are happy with the current progress of issuing BDCB I-bills and having them serve as collaterals for the overnight lending facilities in addition to the Brunei Government Sukuk. They see the overnight facilities as serving a useful role in supporting liquidity and stability of the domestic banking system, and the I-bills as a great complement at the short-end of the yield curve to the government bond issuance.

C. Structural Reforms to Support Post-Pandemic Growth and Diversification

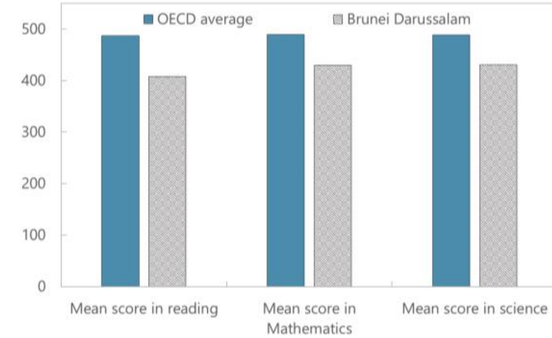
33. A more diversified and balanced export structure would support growth and employment, while reducing macroeconomic volatility. Progress in diversification has been made in recent years with the emergence of refinery and petrochemical and fertilizer sectors and the expansion of agricultural exports. Still, exports in Brunei continue to be highly concentrated in the O&G sector. The number of export products with high revealed comparative advantage (RCA) and the alignment between realized export structure and latent comparative advantages have both lagged those of the Gulf Cooperation Council economies. Staff analysis, based on a machine learning algorithm based on collaborative filtering, identifies chemical products, machineries and food as promising sectors with diversification potential for Brunei (see Annex IV for details). Identifying policies that could facilitate the development of these and other export sectors could be a useful step towards more diversification, and thereby foster growth and macroeconomic stability. Staff estimates suggest that a significant diversification push could increase Brunei medium-term growth by over 1.5 percentage points, while reducing growth volatility by 0.5 percentage point (see Annex IV).

Share of Non-O&G Sector in GDP, Constant Prices
(In percent)



34. Investments in human capital and infrastructure are key for sustainable growth. Brunei's growing and relatively young population compared to other high-income countries provides a good demographic basis for medium-term growth. However, the development of human capital and infrastructure would be crucial for realizing the growth potential. Developing a diversified industrial base and supporting diversification through higher value-added service exports both require relatively high human capital inputs.

PISA Scores
(2018 data)



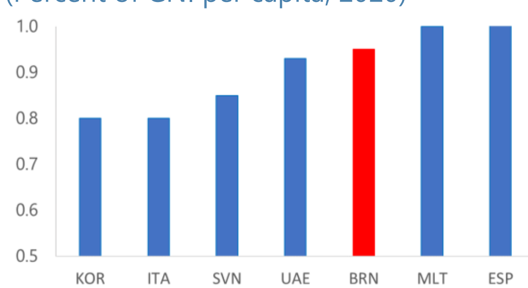
Sources: OECD, PISA 2018 Database

35. **Improvements in business environment should be sustained with the goal of attracting more foreign investments into the non-O&G sectors.** The continued improvement of Brunei's ranking in the Global Competitiveness Index over recent years is encouraging. Further efforts to attract quality FDIs in support of further diversification of the economy are welcome. [5]

36. **Developing MSMEs would contribute to diversifying the economy, boosting productivity and creating job opportunities.** The MoFE and Darussalam Enterprise (DARe)—the national agency for MSME—have implemented diverse initiatives to develop MSMEs including the bootcamps to create 276 start-ups with 825 job opportunities. However, most MSMEs are still in an early stage of development. Comprehensive policy packages to remove distortions for MSMEs to grow, including through facilitating access to financial resources, simplifying and lowering entry costs, supplying capable workforce, expanding market access and promoting innovation and digitalization, with improved government assistance system are essential to make MSMEs a driver for economic growth (see Annex V for details). The authorities' digitalization of business registration and preparation of comprehensive MSME policy would expand MSMEs' access to government assistance.

37. **Digitalization accelerated by the pandemic would enhance productivity in the economy.** The authorities are implementing various digitalization initiatives, including implementing the Digital Economy Masterplan 2025 for construction of digital platforms, launching the new Personal Data Protection Law for the private organizations, and reducing communication costs. Investing in digital infrastructure—given relatively high cost but low speed of data usage—and building digital platforms, such as a digital payment hub, are key for rapid digitalization. Policy supports should also be provided for the digital transition of firms, such as by offering financial benefits and training programs for digital technology adoption, and nurturing tech-savvy workforce.

Data Usage Price Among Countries with Similar Per Capita Income
(Percent of GNI per capita, 2020)



Mobile Data 2GB and Voice 140 Minutes.
Source: ITU ICT Price Baskets.

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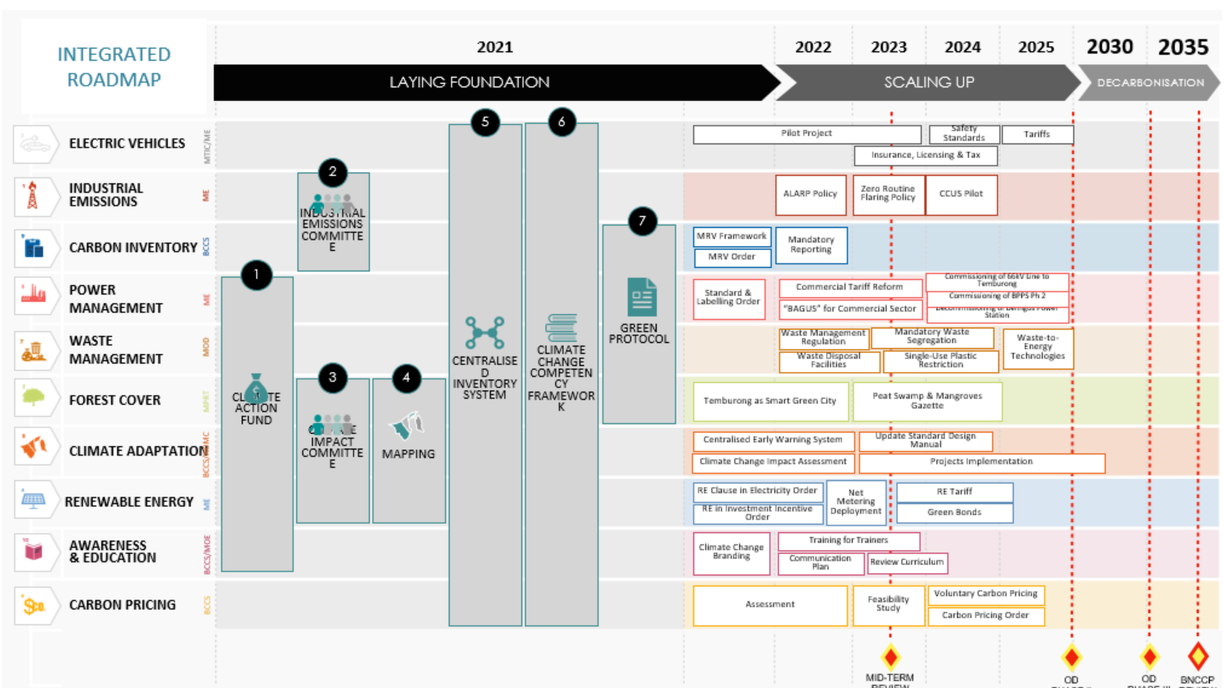
[5] The WEF's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness. Measuring competitiveness through survey responses and a fixed set of indicators may have its limitations.

38. The Brunei Darussalam National Climate Change Policy (BNCCP) should be implemented without delay to meet the Nationally Determined Contribution (NDC) target. The BNCCP with 10 strategies was launched in 2020 with the NDC to reduce the greenhouse gas emission by 20 percent relative to business as usual by 2030. Prompt implementation of the BNCCP is a priority given more volatile climate and agile responses of peers, including by mainstreaming climate-related projects into the fiscal framework explicitly. Significant progress has been made against the 10 strategies of BNCCP and most of the 2021 target set by the authorities have been met. The authorities have taken steps such as introducing a Standards and Labelling Order for energy efficiency, launching a pilot program for electric vehicles and joining global efforts in 2021.[6] Discussion on an institutional framework for carbon trading and carbon pricing and policies on Zero Routine Flaring and As Low As Reasonably Practicable to reduce emissions from industrial sector will be made by end of 2022. Expediting fuel subsidy reform would also help mitigate climate change and relieve fiscal burden. Despite increased natural disaster risks, Brunei has been assessed as "low adaptive capacity" compared to countries with similar income per capita, due to the lack of adequate disaster preparedness, vulnerabilities in the agricultural sector, and low scores on governance and business environment.[7] Developing the National Adaptation Plan and investing in climate resilient projects would yield high returns by reducing the costs associated with natural disasters and helping disaster-recovery. The Climate module of the IMF PIMA is recommended to identify potential improvements in institutions and processes to build low-carbon and climate-proof infrastructure. The shift to a low

Text Table. Brunei Darussalam: Roadmap for Brunei's National Climate Change Policy 1/



1/ The BNCCP will be implemented by 2035 with mid-term reviews and improvements.
Source: Brunei Authorities.

[6] The authorities have participated 'Glasgow Leaders' Declaration on Forests and Land Use' and 'The Global Coal to Clean Power Transition Statement' on UN COP26.
[7] IMF. (2021). Fiscal Policies to Address Climate Change in Asia and the Pacific.

carbon economy would offer green growth and job opportunities through green investment, expansion of renewable energy including solar photovoltaics and construction of climate resilient infrastructure. At the same time, targeted transfers are needed to compensate households, workers, and firms that are affected by higher energy prices.

Authorities' Views

39. The authorities concur with the need for export diversification. They emphasized that much progress has been made in this regard in the last few years, including through attracting large FDIs in the oil refinery sector and increasing investments in strategic industries such as agriculture and O&G downstream sectors. They expect the government-linked companies to play a large role in spearheading investments in strategic sectors. They also point out that their continued efforts in participating in regional economic integration, including the Regional Comprehensive Economic Partnership (RCEP) agreement that came into force this year and the new Indo-Pacific Economic Framework, should help providing new market access and investment opportunities for entrepreneurs and industries in Brunei. The authorities acknowledged the importance of human capital development to support diversification. They are implanting various programs, such as the i-Ready apprenticeship program and SkillsPlus program, to upskill and reskill the workforce and to adapt to the evolving demand of private sector employers. Drive towards developing local talent pools are being implemented where company such as HengYi have collaborated with Universiti Brunei Darussalam (UBD), Politeknik Brunei and the Institute of Brunei Technical Education (IBTE) to conduct several education programs that will be able to provide additional specialized talent pool for the company.

40. The authorities agreed on the importance of MSME development for sustainable and inclusive growth. They are implementing various MSME support policies, such as facilitating access to financial resources and improving entrepreneurship skill training. Digitalization has been a policy priority, with projects such as the national information hub and continued increase in fixed broadband user rate. Initiatives to transition to a low carbon society have made good progress, such as the expansion of solar power capacity from 1.42MW in 2020 to 5.42MW in 2021.

D. Data Issues and Capacity Building

41. Progress in data compilation and dissemination and continued collaboration in capacity development are welcome. Data provision continues to improve and is broadly adequate for surveillance. The Brunei Darussalam Central Bank has been publishing the Business Sentiment Index since November 2021. Staff supports the authorities' continuous efforts to follow international data standards and best practices. However, economic data including national accounts, balance of payment and labor force should be published in more timely manner with better quality. A capacity development mission from the Fund on external sector data compilation was concluded in July 2020. A mission on macro-stress testing took place in April 2022 and the PIMA mission schedule is under discussion.

Authorities' Views

42. The authorities agreed that further progress in data compilation and dissemination is needed. While COVID-19 has impacted the release of statistics, they are committed to focus on the timeliness and strengthen collaborations with data sources agencies. The authorities welcomed the missions on macro-stress testing and PIMA. They called for continuing IMF engagement in recognition of the Fund's expertise in capacity building.

STAFF APPRAISAL

43. After being significantly affected by the new COVID-19 waves and reduced activity in the O&G sector, Brunei economy is poised to recover in 2022. Growth will be supported by high energy prices and reopening of the economy, while investments in downstream O&G sectors and agriculture lead to new export opportunities.

44. Targeted fiscal support measures remain important to sustain the economic recovery, while pandemic relief measures should be discontinued. Targeted fiscal support to the vulnerable should be provided until the recovery is solid and fiscal buffers should be restored under recent high energy prices. Looking beyond the short term, fiscal reforms should be implemented continuously to make public finance efficient and secure intergenerational equity. Staff therefore advocates increased fiscal consolidation to the level of sustainable long-term expenditure. This effort could include: (i) preservation of growth-enhancing spending, (ii) reform of untargeted subsidy and social spending, (iii) reduction in the wage gap between the public and private sectors, (iv) mobilization of revenues from the non-O&G sector, (v) active promotion of corporatization and PPP, and (vii) improvement of GLCs' performances. Accelerated digitalization of fiscal activities should help improving efficiency.

45. Preliminary estimates for 2021 suggest the external position is substantially weaker than suggested by fundamentals and desirable policies. Wage containment measures for the public sector and fiscal consolidation would help rebalance the external position.

46. The recent efforts to diversify the economy are welcome and should continue. Compared to other large O&G exporters in the world, the Brunei economy is significantly less diversified. Expanding the export portfolio and increasing the alignment between the export structure and the country's comparative advantages should help support growth and sustainability. In this regard, recent growth in downstream sectors, as well as in fertilizers and food industries are encouraging. Continued improvement in human capital development and digital infrastructure will facilitate the expansion of diverse industries and private sector led growth.

47. Credit to the private sector should be expanded in conjunction with diversification initiatives. Loan to deposit ratio of the banking sector is low while banks place significant amounts of liquidity overseas. Increasing private sector credit will allow more domestic savings to be deployed to support domestic economic development. In this regard, domestic financing options could be usefully explored to fund the investments in new industries that promote economic diversification, including through financing new projects by government linked companies and foreign investors.

Efforts to strengthen financial sector supervision and stability should continue. Staff welcome the authorities' commitment to implement the Basel III framework and improve stress testing.

48. The authorities have made efforts to improve data management. Continued commitment to improve data compilation and reporting is recommended and closer cooperation in capacity development with the Fund is welcome.

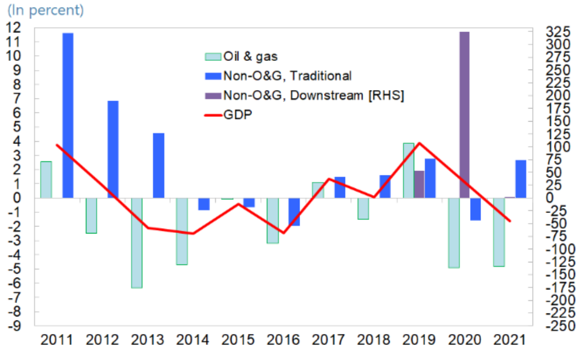
49. It is expected that the next Article IV consultation with Brunei Darussalam will be held on the standard 12-month cycle.

Figure 1. Real and Fiscal Indicators

Real GDP contracted in 2021 as Brunei was hit by new COVID variants…

Growth in Real GDP and Major Components

(In percent)

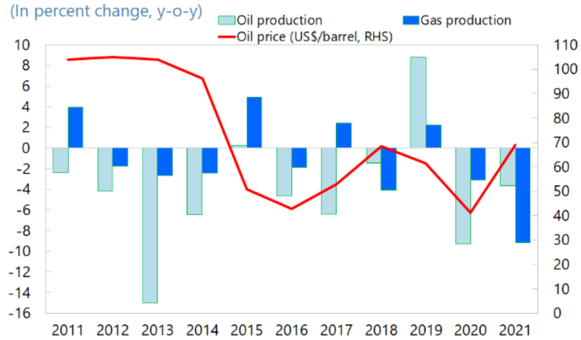


Note: Non-O&G Downstream starts in 2018 and its growth rate start in 2019.
Sources: Brunei authorities; and IMF staff estimates.

… and O&G sector output went down due to maintenance of production facilities.

Energy Sector Production and Oil Price

(In percent change, y-o-y)

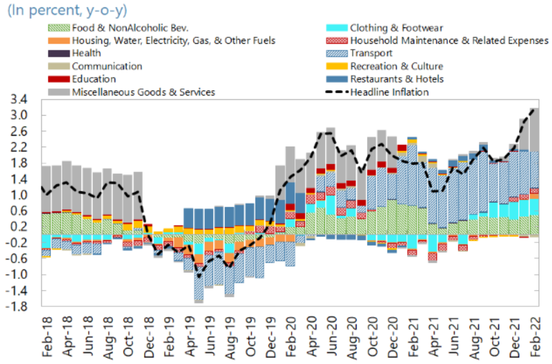


Sources: Brunei authorities; CEIC Data; IMF, *World Economic Outlook*; and IMF staff estimates.

Inflation increased largely due to higher food and transportation costs.

Inflation Decomposition

(In percent, y-o-y)

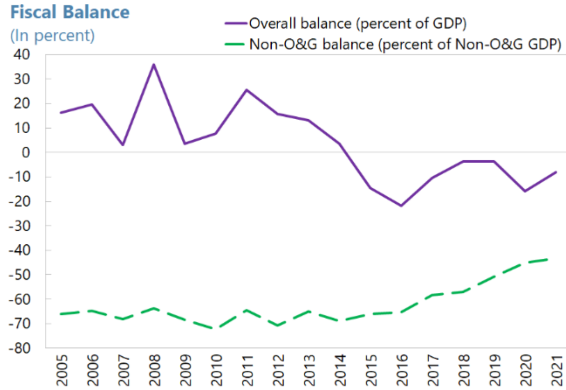


Sources: Brunei Ministry of Finance and Economy; CEIC Data; and IMF staff calculations.

The fiscal deficit narrowed…

Fiscal Balance

(In percent)

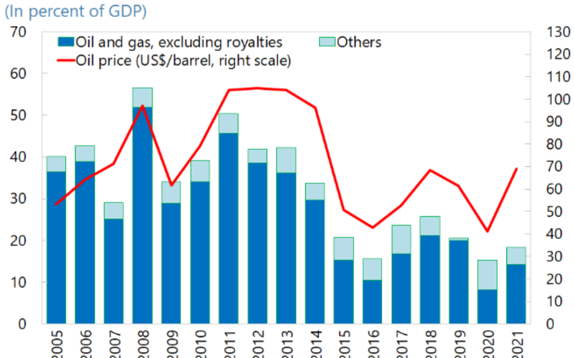


Sources: Brunei authorities; and IMF staff estimates.

…driven by drastic O&G price surge…

Fiscal Revenues

(In percent of GDP)

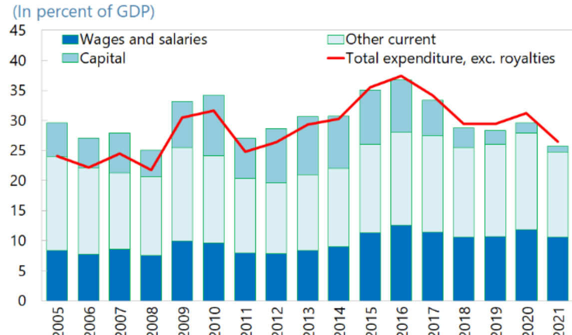


Sources: Brunei authorities; and IMF staff estimates.

…and the trend decline in government spending.

Fiscal Expenditure

(In percent of GDP)



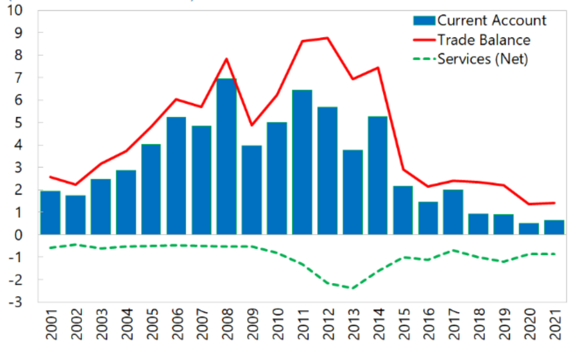
Note: Fiscal deficit is increasing because of lower O&G prices & production, and COVID-19 stimulus enacted by the govt.
Sources: Brunei authorities; and IMF staff estimates.

Figure 2. External and Financial Indicators

The current account surplus remained stable in 2021…

External Balances

(In billions of U.S. dollars)

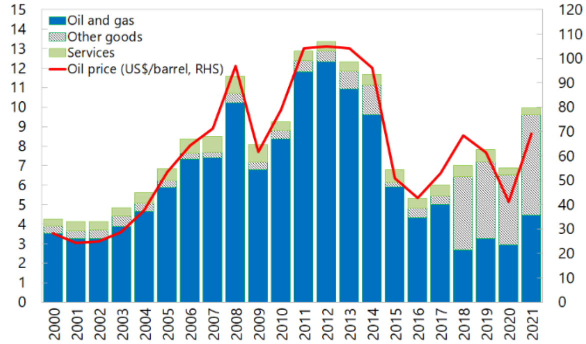


Sources: Brunei authorities; and IMF staff estimates.

…as exports increased moderately…

Export Composition

(In billions of U.S. dollars)

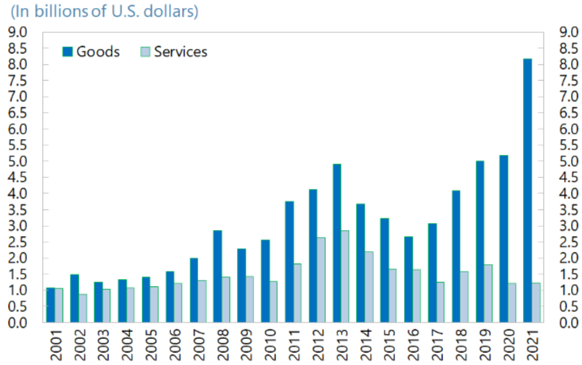


Sources: Brunei authorities; and IMF staff estimates.

…while imports grew much higher due to large imports of materials for the downstream sectors.

Import Composition

(In billions of U.S. dollars)

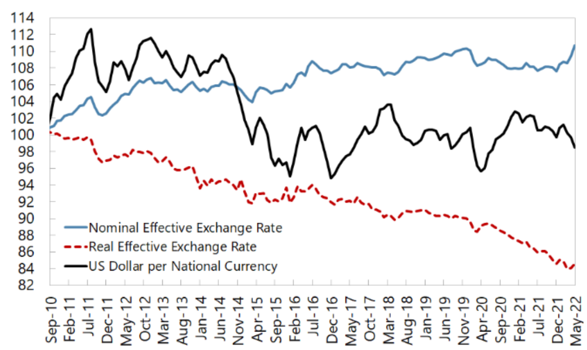


Sources: Brunei authorities; and IMF staff estimates.

The nominal effective exchange rate remained largely stable, while on real terms it is depreciating despite recent higher oil prices.

Exchange Rates

(Index, 2010=100)

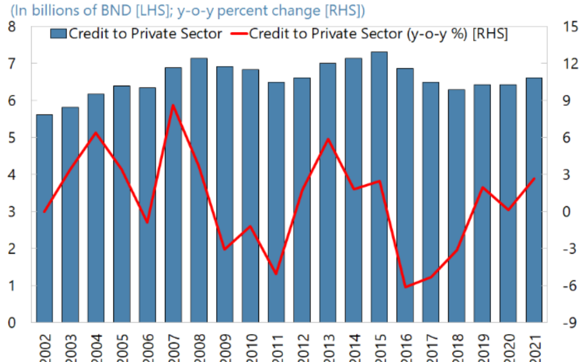


Sources: IMF, *International Financial Statistics.*

Private sector credit growth declined in 2021…

Credit to Private Sector

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

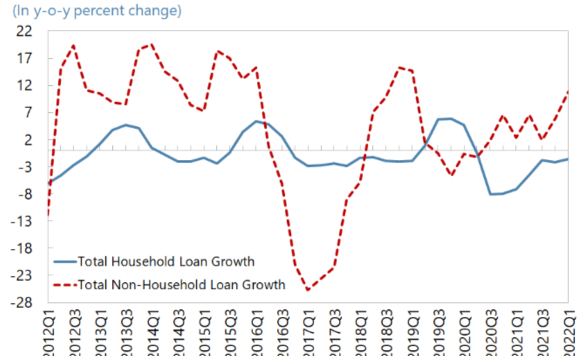


Sources: IMF, *International Financial Statistics.*

… mainly due to declining households loan growth.

Loan Growth

(In y-o-y percent change)

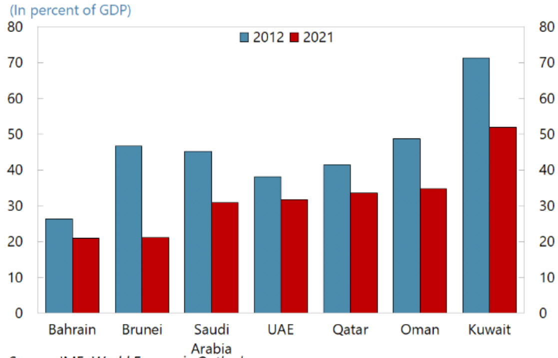


Sources: Brunei Darussalam Central Bank

Figure 3. Fiscal Indicators in Comparison with GCC Countries

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

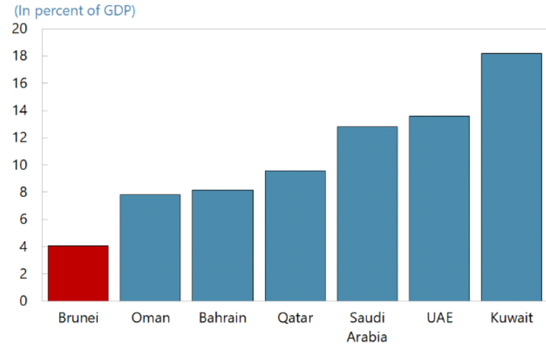
General Government Revenue
(In percent of GDP)



Source: IMF, *World Economic Outlook*.

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

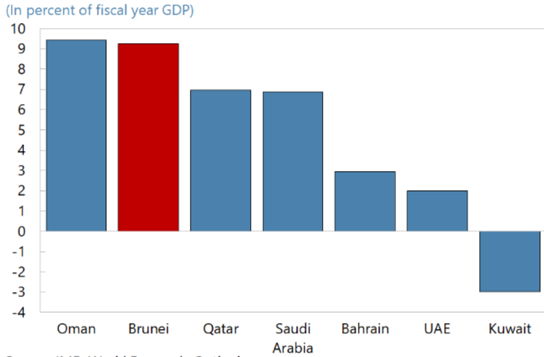
Non-Oil and Gas Revenue, 2021
(In percent of GDP)



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

Fiscal consolidation progress has been made.

Change in General Govt. Fiscal Balance, 2017-21
(In percent of fiscal year GDP)



Source: IMF, *World Economic Outlook*.

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

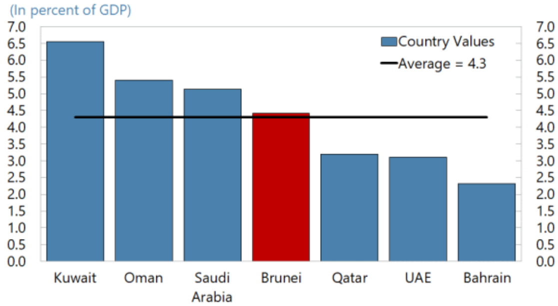
Oil and Gas Production in GCC Countries and Brunei, 2021

	Oil 1/	Natural gas 2/	Population (Millions)
Saudi Arabia	10,954.0	117.3	35.5
United Arab Emirates	3,668.0	57.0	9.6
Kuwait	2,741.0	17.4	4.7
Qatar	1,746.0	177.0	2.6
Oman	971.0	41.8	4.6
Bahrain		17.2	1.5
Brunei Darussalam	106.6	11.2	0.4

Source: BP Statistical Review of World Energy, 2021; IMF, WEO; International Energy Agency.
1/ In thousands of barrels per day. Includes crude oil, shale oil, oil sands and natural gas liquids.
2/ In billion cubic meters.

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

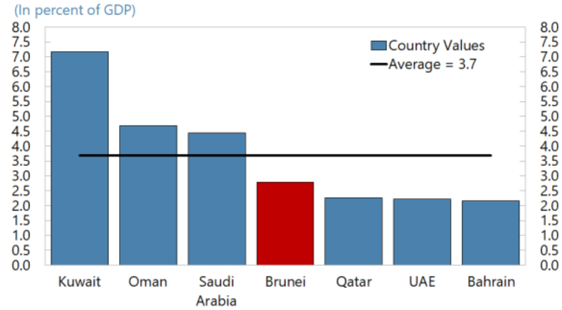
Govt. Expenditure on Education, latest year available
(In percent of GDP)



Note: Data for Kuwait & Qatar as of 2020, Oman & UAE as of 2019, Bahrain as of 2017, Brunei as of 2016, and Saudi Arabia as of 2008.
Sources: World Bank, *World Development Indicators*; UNESCO Institute for Statistics.

...while health expenditure lags somewhat that of peers.

Domestic General Government Health Expenditure, 2021
(In percent of GDP)

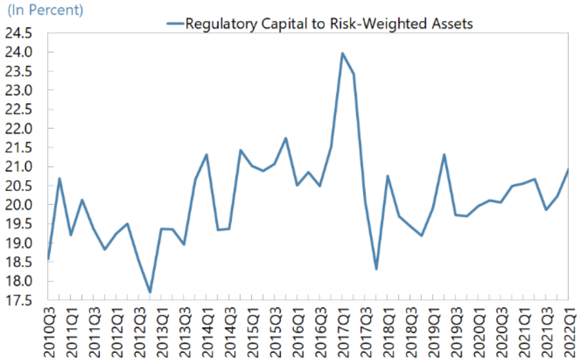


Sources: Global Health Security Index 2021 by Johns Hopkins Center for Health Security, Nuclear Threat Initiative, and the Economist Intelligence Unit; IMF, *World Economic Outlook*; and IMF staff calculations.

Figure 4. Financial Stability Indicators

The banking sector remains well capitalized…

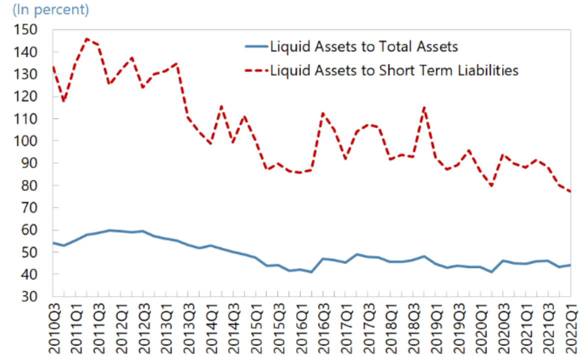
Capital Adequacy
(In Percent)



Source: IMF, *Financial Soundness Indicators.*

…with ample liquidity, even though is declining.

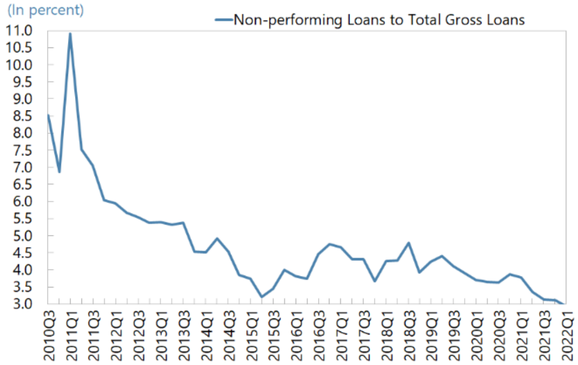
Liquidity
(In percent)



Source: IMF, Financial Soundness Indicators.

NPL ratios have steadily declined…

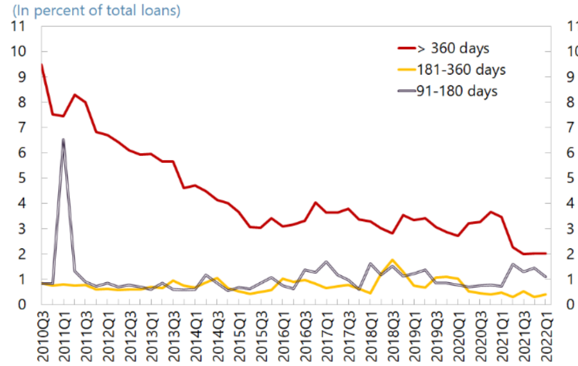
Asset Quality
(In percent)



Source: IMF, *Financial Soundness Indicators.*

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

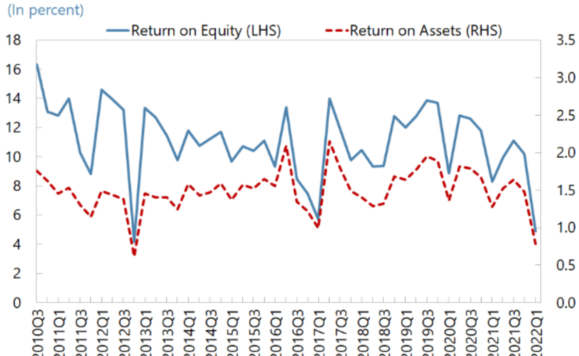
Non-Performing Loans by Duration
(In percent of total loans)



Sources: Brunei Darussalam Central Bank, CEIC Data, & IMF staff calculations.

Banks' profitability is stable, though lower than pre-COVID period….

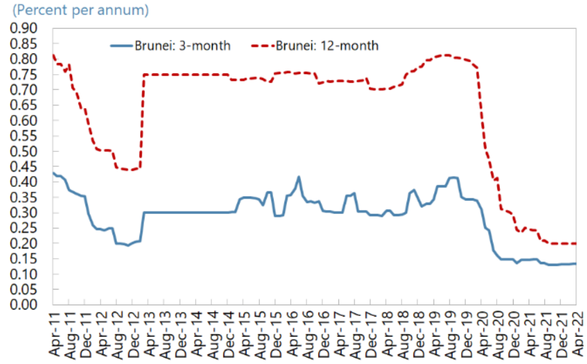
Profitability
(In percent)



Source: IMF, *Financial Soundness Indicators.*

…while deposit rates stay low.

Deposit Rates
(Percent per annum)

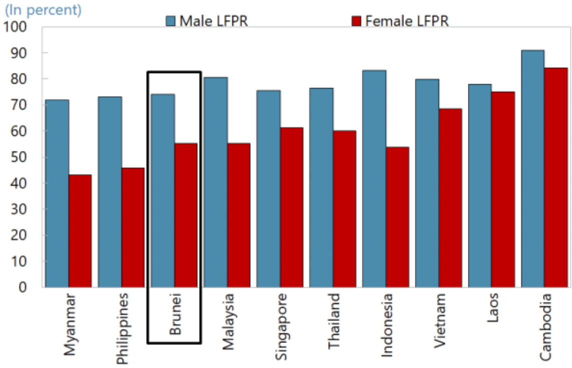


Sources: Brunei Darussalam Central Bank and Haver Analytics.

Figure 5. Labor Market

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

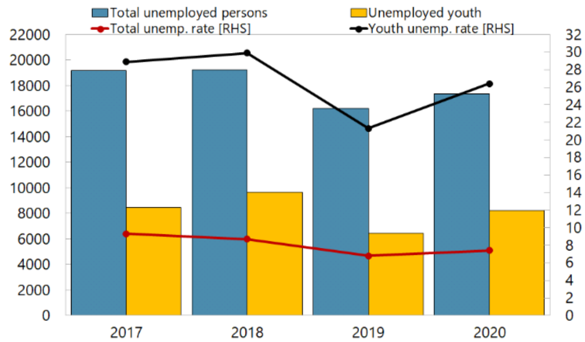
Labor Force Participation Rate (LFPR), 2020
(In percent)



Source: CEIC Data.

COVID-19 has affected the labor market…

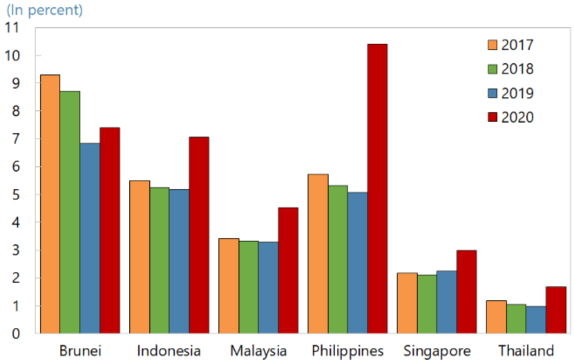
Unemployment
(Employed persons [LHS]; Percent [RHS])



Source: Brunei Dept. of Economic Planning & Statistics.

…and unemployment remains higher than peers.

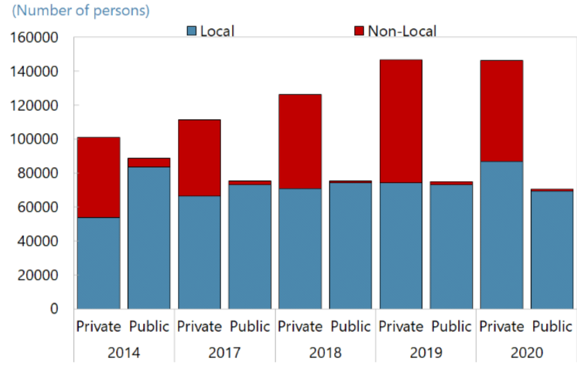
Unemployment Rate
(In percent)



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

Employment in the private sector has steadily increased amid subsisting duality in the labor market…

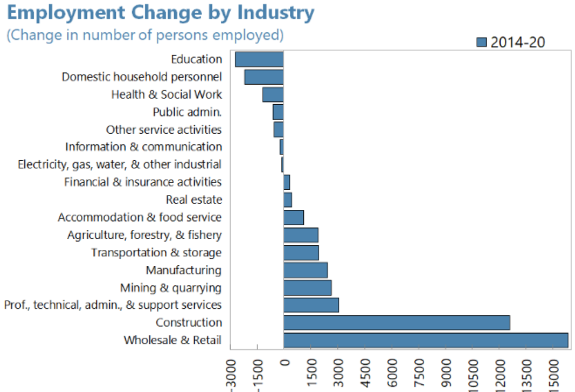
Employment by Sector and Residence
(Number of persons)



Source: Brunei Dept. of Economic Planning & Statistics.

…and the increased employment is concentrated in construction and wholesale and retail services…

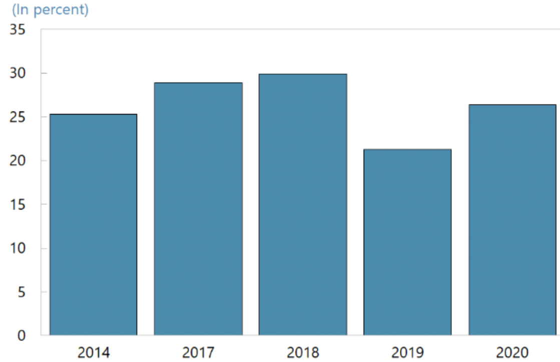
Employment Change by Industry
(Change in number of persons employed)



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

…however, youth unemployment rate remains elevated.

Youth Unemployment
(In percent)



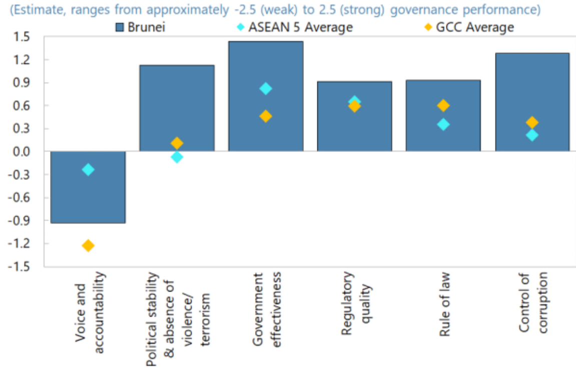
Sources: Brunei Dept. of Planning & Statistics; and Haver Analytics

Figure 6. Governance and Competitiveness

Brunei performs well in governance

Worldwide Governance Indicators, 2020

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

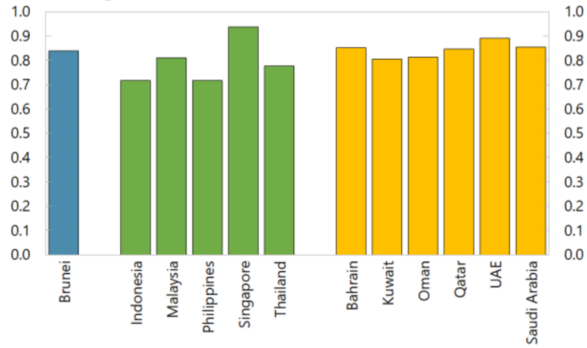


Sources: *Worldwide Governance Indicators* by the World Bank, NRGI, and Brookings.

and human development indicators…

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

(Index; 0-1; higher the better)

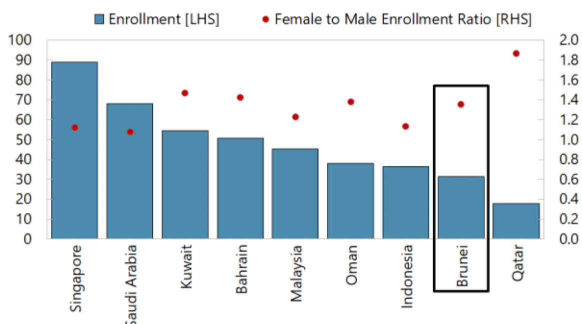


Sources: United Nations Development Programme (UNDP); and Haver Analytics.

… But tertiary education is lagging compared to peers.

Tertiary Education, 2020 or Latest

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

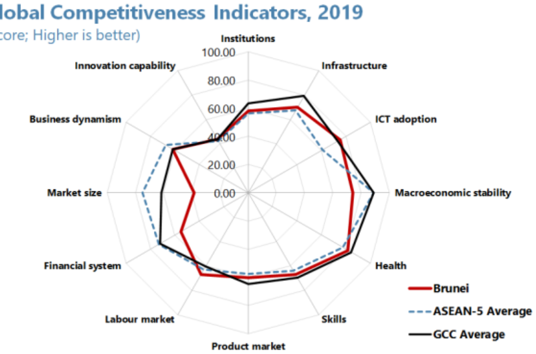


Note: Malaysia and Singapore data as of 2019; Indonesia as of 2018.
Source: World Bank Development Indicators.

Brunei's competitiveness can benefit from ICT adoption and labor market reforms…

Global Competitiveness Indicators, 2019

(Score; Higher is better)

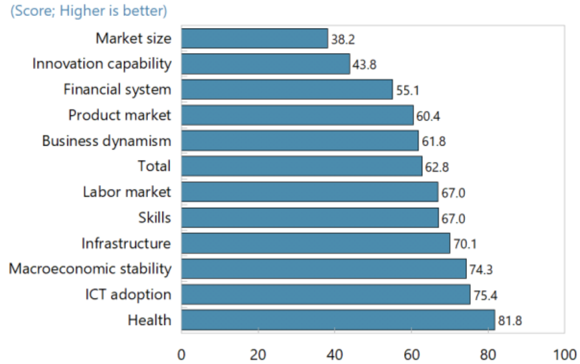


Sources: World Economic Forum, The Global Competitiveness Report 2019, and IMF staff calculations.

…but its small market size poses challenges.

Global Competitiveness Indicators by Category, 2019

(Score; Higher is better)

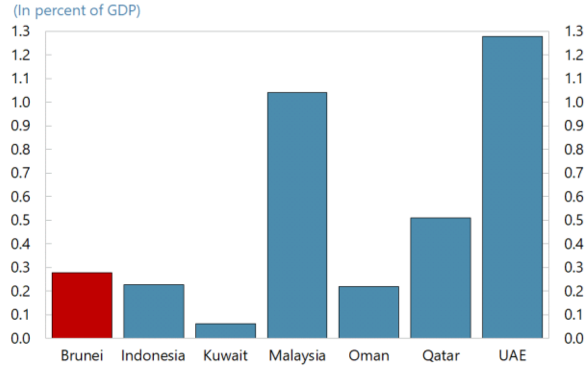


Source: World Economic Forum, *Global Competitiveness Report 2019.*

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

R&D Expenditure, 2018

(In percent of GDP)



Source: UNESCO Institute for Statistics.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2017–27

Area: 5,765 sq. kilometers
Population (2021): 429,999
Nominal GDP per capita (2021): US$32,573.3
Main export destinations (2020): Japan (25.6 percent), Singapore (21.3), China (17.7), Malaysia (7.7), and India (5.3 percent)
Unemployment rate (2020): 7.4%
Labor force participation rate (2020): total 65.2%; male 74.0%; female 55.2%

	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Output and Prices											
Nominal GDP (millions of Brunei dollars)	16,748	18,301	18,375	16,564	18,822	25,355	24,699	24,783	25,060	25,400	26,092
Nominal non-oil and gas GDP (millions of Brunei dollars)	7,901	8,047	8,268	8,868	9,790	12,158	12,977	13,671	14,301	14,938	15,589
Real GDP (percentage change) 1/	1.3	0.1	3.9	1.1	-1.6	1.3	3.3	3.2	3.2	2.5	3.4
Oil and gas sector GDP	1.1	-1.5	3.9	-4.9	-4.8	-2.9	1.9	2.6	2.7	1.4	3.4
Non-oil and gas sector GDP	1.6	2.1	3.9	8.9	2.0	5.5	4.6	3.7	3.5	3.4	3.3
Oil production ('000 barrels/day)	113	112	121	110	106	104	103	109	114	120	124
Natural gas output (millions BTUs/day)	1,430	1,372	1,402	1,359	1,234	1,184	1,222	1,234	1,259	1,247	1,296
Average Brunei oil price (U.S. dollars per barrel)	55.9	73.2	68.6	43.1	72.7	86.0	83.6	71.6	68.3	63.8	62.2
Average Brunei gas price (U.S. dollars per million BTU)	8.3	10.5	9.1	6.7	9.1	12.3	10.4	10.4	10.4	10.4	10.4
Consumer prices (period average, percentage change)	-1.3	1.0	-0.4	1.9	1.7	2.5	2.0	1.5	1.0	1.0	1.0
					(Fiscal Year, In percent of GDP)						
Public Finances: Budgetary Central Government											
Total revenue	22.7	32.7	26.4	12.6	23.2	23.7	21.6	20.8	20.3	19.7	19.6
Oil and gas	17.5	26.4	19.8	7.7	19.6	20.2	17.9	17.0	16.3	15.6	15.4
Other	5.3	6.3	6.5	5.0	3.6	3.5	3.7	3.9	4.0	4.1	4.2
Total Expenditure	35.6	32.5	31.9	32.6	27.8	22.7	23.2	23.3	23.3	23.1	22.7
Current	30.4	29.8	29.5	31.3	26.8	21.9	22.3	22.3	22.2	22.0	21.7
Capital	5.2	2.7	2.4	1.3	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Overall balance 2/	-12.9	0.2	-5.6	-19.9	-4.6	1.0	-1.6	-2.5	-2.9	-3.4	-3.1
Non-oil and Gas Balance	-60.0	-53.5	-49.5	-46.0	-42.4	-34.6	-32.9	-31.5	-30.2	-29.0	-27.8
					(12-month percent change)						
Money and Banking											
Private Sector Credit	-5.3	-3.1	2.0	0.2	-5.0	3.5	1.5	1.5	1.4	1.3	1.3
Narrow money	-5.7	-3.0	6.6	20.8	2.0	4.5	2.4	1.9	1.9	1.0	1.0
Broad money	-0.4	2.8	4.3	-4.0	3.7	3.2	2.8	1.8	1.8	1.7	1.7
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of Payments											
Goods	2,404	2,358	2,212	1,365	-261	2,464	1,030	1,824	2,390	2,867	3,306
Exports	5,475	6,448	7,213	6,541	7,908	14,078	11,285	11,662	12,011	12,365	12,846
Of which: oil and gas	5,021	2,691	3,244	2,943	4,446	8,329	4,512	4,734	4,916	4,946	5,036
Imports	3,072	4,089	5,001	5,176	8,169	11,615	10,255	9,839	9,621	9,498	9,540
Services (net)	-698	-1,007	-1,188	-855	-867	-883	-896	-911	-925	-938	-949
Primary Income (net)	721	87	362	360	538	928	2,021	1,573	1,271	941	702
Secondary Income (net)	-442	-506	-490	-350	-448	-429	-409	-429	-422	-420	-424
Current Account Balance	1,984	937	895	514	644	2,080	1,747	2,056	2,314	2,450	2,635
Current Account Balance (in percent of GDP)	16.4	6.9	6.6	4.3	4.6	11.1	10.2	12.0	13.3	14.0	14.6
Gross Official Reserves 3/	3,300	3,221	4,052	3,721	4,242	4,952	5,562	5,674	5,786	5,898	6,010
In months of next year's imports of goods and services	7.0	5.7	7.6	4.7	4.0	5.1	6.0	6.2	6.4	6.5	6.6
Brunei dollars per U.S. dollar (period average)	1.38	1.35	1.36	1.38	1.34	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.34	1.37	1.35	1.34	1.36	...	...	...	...	...	...

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, 2017/18-2027/28 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
(In millions of Brunei dollars)											
Revenue	3,872	6,027	4,846	2,051	4,749	5,978	5,350	5,181	5,105	5,030	5,116
Tax	1,559	3,352	2,209	883	1,749	2,766	2,397	2,301	2,264	2,207	2,269
Oil and gas	1,253	3,004	1,858	546	1,404	2,372	1,978	1,860	1,802	1,718	1,743
Other	307	348	351	338	345	394	419	441	461	489	526
Nontax revenue	2,313	2,675	2,636	1,167	3,000	3,212	2,953	2,880	2,841	2,823	2,847
Oil and gas	1,723	1,869	1,787	697	2,601	2,727	2,447	2,357	2,303	2,268	2,280
Other	590	806	849	471	400	485	505	523	539	555	567
Expenditure	6,077	5,997	5,873	5,290	5,686	5,730	5,734	5,796	5,847	5,899	5,923
Current	5,190	5,501	5,432	5,084	5,476	5,512	5,504	5,553	5,592	5,631	5,670
Wages and salaries	1,859	1,957	1,966	1,969	1,985	2,029	2,054	2,073	2,087	2,101	2,111
Other	3,331	3,544	3,466	3,115	3,491	3,483	3,449	3,480	3,505	3,531	3,558
Of which: Royalty payment	419	509	506	292	542	572	488	481	478	476	483
Capital	887	496	441	206	211	218	231	243	255	268	253
Of which: Development expenditure	887	496	441	206	211	218	231	243	255	268	253
Overall Balance 2/	-2,205	30	-1,027	-3,239	-937	248	-384	-615	-742	-870	-807
Non-oil and Gas Overall Balance	-4,761	-4,334	-4,167	-4,189	-4,399	-4,279	-4,321	-4,351	-4,369	-4,380	-4,347
(In percent of GDP)											
Revenue	22.7	32.7	26.4	12.6	23.2	23.7	21.6	20.8	20.3	19.7	19.6
Tax	9.1	18.2	12.0	5.4	8.5	11.0	9.7	9.3	9.0	8.6	8.7
Oil and gas	7.3	16.3	10.1	3.4	6.9	9.4	8.0	7.5	7.2	6.7	6.7
Other	1.8	1.9	1.9	2.1	1.7	1.6	1.7	1.8	1.8	1.9	2.0
Nontax revenue	13.6	14.5	14.3	7.2	14.7	12.8	11.9	11.6	11.3	11.0	10.9
Oil and gas	10.1	10.1	9.7	4.3	12.7	10.8	9.9	9.5	9.2	8.9	8.7
Other	3.5	4.4	4.6	2.9	2.0	1.9	2.0	2.1	2.1	2.2	2.2
Expenditure	35.6	32.5	31.9	32.6	27.8	22.7	23.2	23.3	23.3	23.1	22.7
Current	30.4	29.8	29.5	31.3	26.8	21.9	22.3	22.3	22.2	22.0	21.7
Wages and salaries	10.9	10.6	10.7	12.1	9.7	8.1	8.3	8.3	8.3	8.2	8.1
Other	19.5	19.2	18.9	19.2	17.1	13.8	14.0	14.0	13.9	13.8	13.6
Of which: Royalty payment	2.5	2.8	2.8	1.8	2.6	2.3	2.0	1.9	1.9	1.9	1.8
Capital	5.2	2.7	2.4	1.3	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Of which: Development expenditure	5.2	2.7	2.4	1.3	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Overall Balance 2/	-12.9	0.2	-5.6	-19.9	-4.6	1.0	-1.6	-2.5	-2.9	-3.4	-3.1
Non-oil and Gas Overall Balance	-27.9	-23.5	-22.7	-25.8	-21.5	-17.0	-17.5	-17.5	-17.4	-17.1	-16.6
in percent of non-oil and gas GDP	-60.0	-53.5	-49.5	-46.0	-42.4	-34.6	-32.9	-31.5	-30.2	-29.0	-27.8
Memorandum items:											
Nominal GDP (in millions of Brunei dollars)	17,048	18,453	18,385	16,241	20,455	25,191	24,720	24,852	25,145	25,573	26,112
Non-oil and gas GDP (in millions of Brunei dollars)	7,938	8,103	8,418	9,098	10,382	12,363	13,151	13,829	14,460	15,101	15,619

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, 2017-27 1/

	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
	(In millions of U.S. dollars; unless otherwise indicated)										
Current Account	1,984	937	895	514	644	2,080	1,747	2,056	2,314	2,450	2,635
In percent of GDP	16.4	6.9	6.6	4.3	4.6	11.1	10.2	12.0	13.3	14.0	14.6
Goods	2,404	2,358	2,212	1,365	-261	2,464	1,030	1,824	2,390	2,867	3,306
Exports	5,475	6,448	7,213	6,541	7,908	14,078	11,285	11,662	12,011	12,365	12,846
Oil and gas	5,021	2,691	3,244	2,943	4,446	8,329	4,512	4,734	4,916	4,946	5,036
Other 2/	454	3,757	3,969	3,598	3,462	5,750	6,773	6,929	7,095	7,419	7,810
Imports	3,072	4,089	5,001	5,176	8,169	11,615	10,255	9,839	9,621	9,498	9,540
Services	-698	-1,007	-1,188	-855	-867	-883	-896	-911	-925	-938	-949
Receipts	551	568	618	351	366	379	395	409	426	445	465
Payments	1,249	1,576	1,806	1,206	1,233	1,262	1,291	1,321	1,351	1,382	1,414
Primary Income	721	87	362	360	538	928	2,021	1,573	1,271	941	702
Receipts	1,061	999	1,028	919	1,241	2,420	3,421	2,981	2,702	2,397	2,203
Payments	339	912	666	560	703	1,492	1,400	1,408	1,431	1,456	1,501
Secondary Income	-442	-506	-490	-350	-448	-429	-409	-429	-422	-420	-424
Receipts	40	32	46	47	41	45	44	43	44	44	44
Payments	482	538	536	396	489	474	453	472	466	464	467
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 (-)	1,441	52	-405	244	1,304	1,370	1,137	1,944	2,202	2,338	2,523
Net acquisition of financial assets	2,047	717	1,684	632	2,144	2,031	1,936	2,656	2,961	3,080	3,292
Net incurrence of liabilities	606	665	2,090	388	841	661	800	712	759	741	769
Direct Investment											
of which: Direct investment abroad	0	0	0	0	0	0	0	0	0	0	0
of which: Direct investment in Brunei	468	516	373	566	199	257	232	229	231	232	240
Portfolio Investment											
of which: Portfolio investment assets	-60	-1436	1400	1161	1602	1800	1474	1720	1662	2176	2256
Other investment 2/											
of which: Other investment assets	2,107	2,153	284	-528	543	231	463	936	1,299	904	1,036
of which: Other investment liabilities	138	148	1,716	-177	642	404	568	482	528	509	529
Errors and Omissions	-814	399	91	-715	-1,181	0	0	0	0	0	0
Reserve Assets	-270	-10	761	-446	521	710	610	112	112	112	112
Gross Official Reserves 3/	3,300	3,221	4,052	3,721	4,242	4,952	5,562	5,674	5,786	5,898	6,010
In months of next year's imports of goods and services	7.0	5.7	7.6	4.7	4.0	5.1	6.0	6.2	6.4	6.5	6.6
Memorandum Items:											
Exchange rates											
Brunei dollars per U.S. dollar (period average)	1.38	1.35	1.36	1.38	1.34	...	...	...	...	...	...
Nominal GDP (in millions of U.S. dollars)	12,128	13,567	13,469	12,006	14,006	18,464	17,937	18,080	18,366	18,705	19,313

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, 2017–27

	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
	(In millions of Brunei dollars, end of period)										
Central Bank Survey											
External assets (net) 1/	4,028	4,012	4,914	4,518	5,273	6,172	6,871	6,958	7,061	7,174	7,284
Foreign exchange holdings	4,051	3,917	4,998	4,483	4,240	4,240	4,312	4,410	4,545	4,615	4,695
Other assets	36	63	19	-14	23	9	6	13	10	10	11
Currency issued	1,263	1,249	1,228	1,358	1,368	1,368	1,391	1,423	1,466	1,489	1,514
Reserve money excluding currency outside ODCs	1,793	1,705	2,371	1,792	2,237	3,078	3,741	3,811	3,886	3,983	4,078
Other liabilities	1,255	1,235	1,509	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
Depository Corporations Survey											
Foreign assets (net)	13,250	13,600	14,321	13,348	14,928	15,814	16,567	16,681	16,819	16,957	17,037
Net claims on government	-1,953	-1,871	-1,619	-585	14,928	-585	-585	-585	-585	-585	-585
Claims on nonfinancial public sector	175	575	483	411	454	561	595	623	652	681	711
Claims on private sector	6,499	6,296	6,420	6,430	6,108	6,322	6,417	6,513	6,604	6,690	6,777
Claims on other financial corporations	180	72	-97	-96	-44	-98	-84	-79	-91	-89	-90
Capital accounts	3,372	3,416	3,728	3,936	4,456	5,654	6,218	6,726	7,246	7,779	8,329
Other items (net)	-251	-314	-78	-1	-1	-1	-1	-1	-1	-1	-1
Broad money	14,518	14,930	15,567	15,088	15,917	16,901	17,299	17,657	17,941	18,168	18,232
Money	4,408	4,274	4,558	4,751	5,616	5,867	6,005	6,118	6,232	6,294	6,357
Of which: currency outside depository corps	1,091	1,084	1,053	1,069	1,529	1,575	1,606	1,630	1,655	1,671	1,688
Quasi-money	10,110	10,656	11,009	10,337	10,301	11,035	11,293	11,539	11,709	11,874	11,875
	(12-month percent change)										
Depository Corporations Survey											
Foreign assets (net)	-1.2	2.6	5.3	-6.8	11.8	5.9	4.8	0.7	0.8	0.8	0.5
Claims on private sector	-5.3	-3.1	2.0	0.2	-5.0	3.5	1.5	1.5	1.4	1.3	1.3
Memorandum items:											
Central bank net external asset ratio 2/	3.2	3.1	4.1	3.3	3.2	3.1	3.1	3.0	3.0	3.1	3.1
Brunei dollars per U.S. dollar (end of period)	1.34	1.37	1.35	1.34	1.36	...	...	...	...	...	...

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, 2017–27

	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Financial Sector Indicators 1/											
Broad money (M2, percent change, y/y)	-0.4	2.8	4.3	-4.0	3.7	3.2	2.8	1.8	1.8	1.7	1.7
Private sector credit (percent change, y/y)	-5.3	-3.1	2.0	0.2	-5.0	3.5	1.5	1.5	1.4	1.3	1.3
NPL to total loans	3.7	3.9	3.9	3.9	3.1	…	…	…	…	…	…
NPL net of provisions to capital	4.3	4.6	6.4	5.9	5.4	…	…	…	…	…	…
Regulatory capital to risk-weighted assets	18.3	19.2	19.7	20.5	20.2	…	…	…	…	…	…
External Indicators											
Exports of goods and services (percent change, in U.S. dollars)	12.8	16.4	11.6	-12.0	20.1	74.7	-19.2	3.3	3.0	3.0	3.9
Imports of goods and services (percent change, in U.S. dollars)	0.4	31.1	20.2	-6.2	47.3	36.9	-10.3	-3.3	-1.7	-0.8	0.7
Current account balance (in millions of U.S. dollars)	1,985	931	895	519	-1,038	2,080	1,747	2,056	2,314	2,450	2,635
(In percent of GDP)	16.4	6.9	6.6	4.3	4.6	11.1	10.2	12.0	13.3	14.0	14.6
Gross official reserves (in millions of U.S. dollars)	3,300	3,221	4,052	3,721	4,242	4,952	5,562	5,674	5,786	5,898	6,010
(In months of next year's imports of goods and services)	7.0	5.7	7.6	4.7	4.0	5.1	6.0	6.2	6.4	6.5	6.6

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. COVID-19 Pandemic Recent Developments

1. **Early and decisive interventions by the authorities allowed Brunei to successfully navigate the first wave of the pandemic in 2020**. After first cases were detected in March 2020, the authorities took swift actions to contain virus spread. Daily press conference kept the public updated on COVID-19 developments. Border control and travel ban were imposed. A national steering committee was established to oversee containment measures. Hospital bed capacity in the National Isolation Center was increased quickly. Together with enhanced testing and contact tracing, government actions enabled early detection and treatment of cases.

2. **However, Brunei was hit hard by Delta and Omicron variants in late 2021-2022**. Case numbers went up in August 2021, subsided by December, re-surged in February 2022, and slowed down since March. Daily new cases dropped to around 1878 per million people by end of June 2022. Amid high-vaccination rates, fatality rates have been dropping steadily since the beginning of the pandemic, to 0.14 percent by end of June 2022.

3. **Vaccination progressed strongly.** Vaccination efforts began in April 2021. After an initial slow start, vaccine coverage increased quickly. As of end of June 2022, about 97 percent of the population are fully vaccinated and about 68 percent of the population has received a booster.

4. **Social distancing measures have been tightened in response to the surge in cases**. Containment measures were gradually lifted since Q3, 2020 as cases stabilized. But in response to the increase in cases in August 2021, the authorities tightened measures again, closing several public facilities and ordering schools to suspend on-site activities. Food establishments were limited to serve takeaway and delivery orders and public gathering cap was reduced to 30 people. Restrictions started to be gradually lifted since December 2021 as case numbers dropped and vaccination rates reached high levels. The government declared that Brunei would move to the endemic phase according to the National COVID-19 Recovery Framework, starting on December 15, 2022.

5. **The government rolled-out sizeable economic reliefs to support firms and households affected by the pandemic.** These include 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, as well as deferment and restructuring of loans (effective April 1, 2020) for all sectors.[1] To support the labor market and to limit the potential scarring effects from the pandemic, the government has provided free 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 COVID-19 containment measures package amounted to BND182 million (about 0.9 percent of GDP).

[1] These measures were later extended to end-2021.

Table 1. 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).

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.

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.

Table 1. Summary of Policy Responses to COVID-19 Pandemic (concluded)

9. Temporary exemption of customs and excise duties to assist retailers and consumers from the rising demand for hygiene and disinfectant products.
10. Providing 25 percent salary subsidies for Brunei employees in the MSME sector with less than 100 employees.
11. Providing discounts on rental rates of government buildings for MSMEs in tourism, hospitality, restaurants/café, and air/water transportation ("Targeted Sectors").
12. Providing 50 percent tax discount on corporate income tax for the year of assessment 2021 in Targeted Sectors.
13. Providing Co-Matching Grants for e-commerce (e-Kadai) and logistic services.

Supporting Labor Market

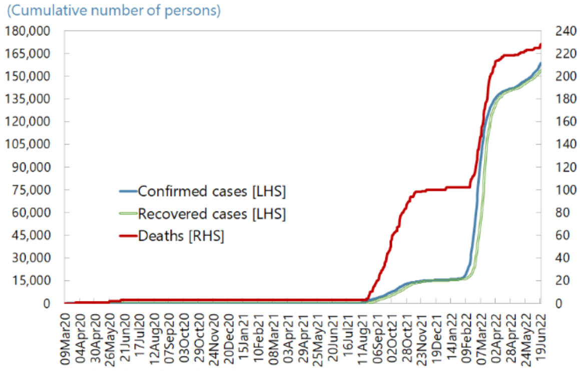
1. Expanding the i-Ready Apprenticeship Program to graduates with Level 5 diploma level based on Brunei Darussalam Qualification Framework Level 5 Diploma (HND or Advanced) or equivalent, and Technical and Vocational Educationand Training (TVET) qualifications for an apprenticeship period of 18 months.
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.

Figure 1. COVID-19

Brunei was hit by the new variants of COVID-19 and cases started going up in August 2021.

COVID-19 Cases

(Cumulative number of persons)

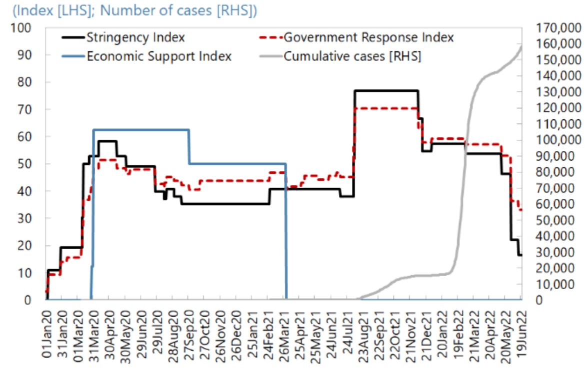


Sources: Brunei Ministry of Health; and CEIC Data.

In response, the government swiftly reinstated lockdown measures.

COVID-19 Govt. Response, Support, and Stringency

(Index [LHS]; Number of cases [RHS])

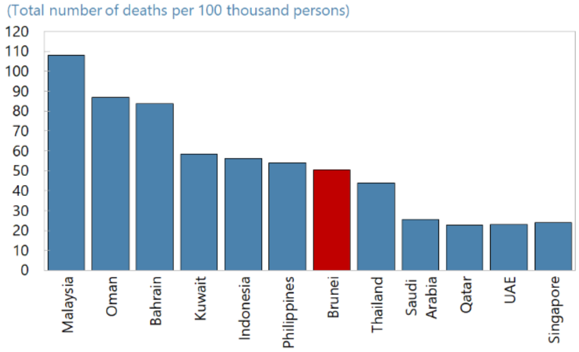


Sources: Oxford COVID-19 Govt Response Tracker; Brunei Ministry of Health; & CEIC Data.

Brunei's COVID-19 fatality rate is close to median among peer countries.

COVID-19 Fatalities in Brunei, GCC, & ASEAN-5 Countries

(Total number of deaths per 100 thousand persons)



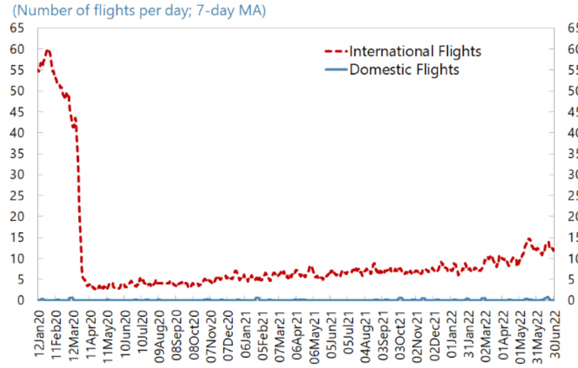
Note: Data as of July 7, 2022.

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.

Flights per Day

(Number of flights per day; 7-day MA)

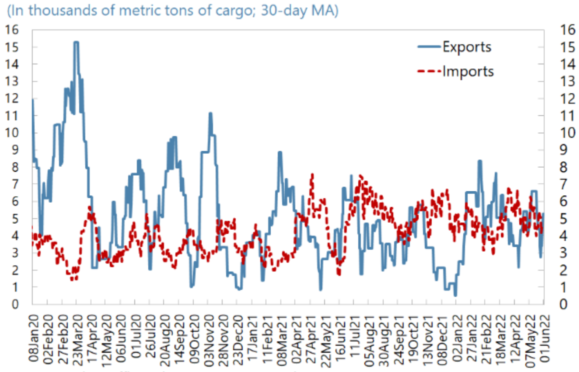


Sources: Flightradar24 AB; and IMF staff calculations.

The pandemic has affected international trade, but exports have started to recover…

Real Time Seaborne Trade AIS Estimates

(In thousands of metric tons of cargo; 30-day MA)

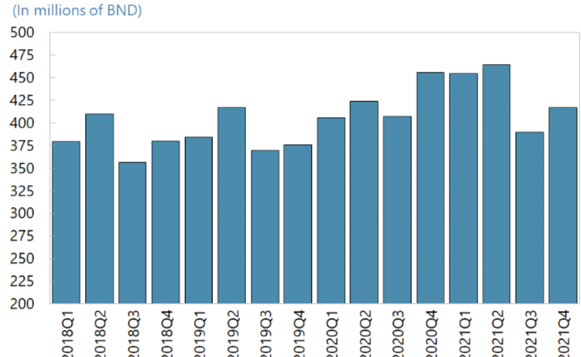


Sources: MarineTraffic; and UN COMTRADE Monitor.

…while domestic retail sales have increased as border restrictions stimulated domestic retail purchases.

Total Retail Sales

(In millions of BND)



Source: Brunei Department of Economic Planning and Statistics.

Appendix II. External Sector Assessment[1]

Brunei's external position in 2021 is assessed to be substantially weaker than the level implied by medium-level fundamentals and desirable policies. The current account surplus narrowed relative to 2020, due to slow growth in exports and robust imports. The current account surplus is projected to increase in 2022 owing to higher energy prices and stabilize over the medium term as downstream activities develop and the country's export portfolio further diversifies. 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. Wage containment measures for the public sector and fiscal consolidation could help rebalance the external position.

1. **The current account surplus remained stable in 2021 and is projected to rebound over the medium term**. Exports of goods declined for the first half of 2021 as maintenance activities interrupted O&G production and exports. But exports started recovering in Q3. Overall goods exports increased by 47 percent y/y in 2021. Imports were strong throughout 2021, increasing by over 58 percent y/y, led by crude material imports used as inputs for the O&G downstream sector. As a result, the current account surplus remained stable at 4.6 percent of GDP in 2021. The current account balance is expected to improve significantly in 2022 due to higher energy prices. Over the medium term, the CA surplus is projected to increase to around 14 percent of GDP on higher export proceeds from new FDI projects and greater export diversification.

2. **The macro balance (EBA-Lite CA) approach suggests that the current account balance in 2021 is below its norm, 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 8.7 percent of GDP in 2021.[2] The estimated current account norm—that is, the level of the current account balance estimated based on underlying fundamentals—is of a surplus of 14.5 percent of GDP. Therefore, the current account gap—the deviation of observed current account from its norm—is -5.3 percent of GDP for 2021. The large current account gap mainly reflects the temporary impact of lower Q&G exports due to maintenance and higher FDI-related material imports. The remaining residual could potentially reflect structural impediments and country-specific factors not included in the model, such as the need to save for future generation. The analysis is subject to considerable uncertainties.

3. **Capital flows into Brunei have been driven primarily by FDI flows, which saw a strong rebound since 2016.** After a period of decline, inward FDI flows picked-up strongly from 2016, 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 market and limited portfolio investment opportunities in Brunei. However, the large placements of domestic banks'

[1] Prepared by Natasha Che.

[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.

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.

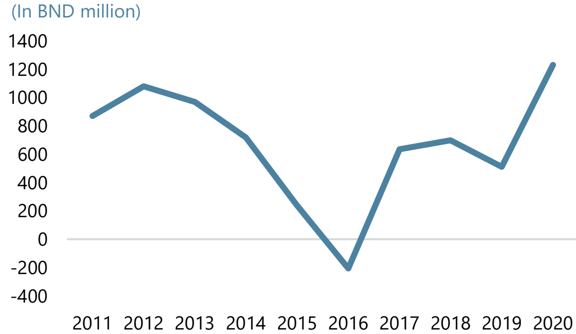
Text Table. Brunei Darussalam: Model Estimates for 2021 (in percent of GDP)

	CA model	REER model
CA-Actual	**4.6**	
Cyclical contributions (from model) (-)	-0.6	
COVID-19 adjustor (+) 1/	4.0	
Adjusted CA	**9.2**	
CA Norm (from model) 2/	**14.5**	
CA Gap	**-5.3**	**-15.2**
o/w Relative policy gap	6.7	
Elasticity	-0.38	
REER Gap (in percent)	**14.1**	**40.5**

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

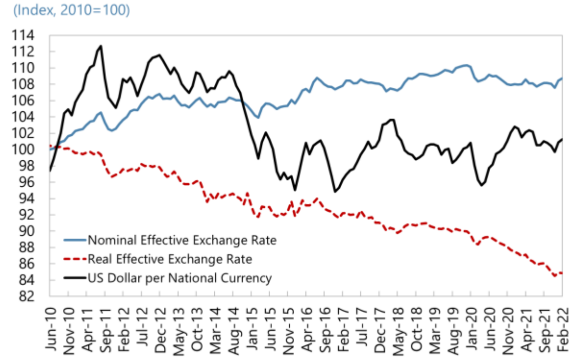
4. **The trade-weighted exchange rates in Brunei remain largely stable.** Recent exchange rate developments showed that the nominal effective exchange rate (NEER) remained largely stable, as the BRN/USD exchange rate. The real effective exchange rate (REER) has been declining since 2014, partly reflecting the negative terms of trade shock, which drives down the price of non-traded goods in the economy. The REER model suggest a large REER gap, estimated at 41 percent in 2021, which is directionally consistent with the results from the EBA-Lite model, which suggests a 14 percent REER gap. Based on results from both models, staff considers the external position to be substantially weaker than suggested by fundamentals.

Inward FDI flows
(In BND million)



Sources: Brunei authorities, Haver Analytics.

Exchange Rates
(Index, 2010=100)



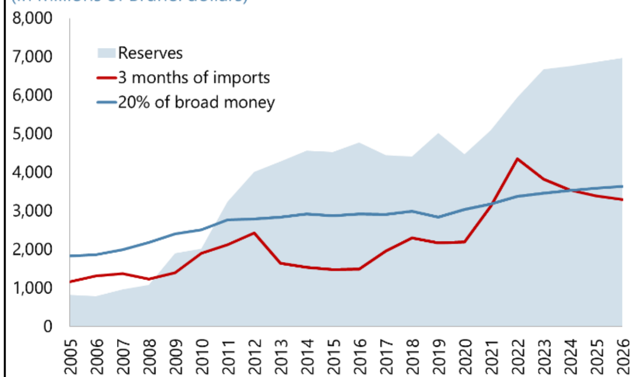
Sources: IMF, *International Financial Statistics*.

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. This allows fund managers in Brunei to benefit from Singapore's deep financial markets given that excess liquidity in Brunei is largely re-invested in Singapore dollar assets. From a policy viewpoint, the peg also helps to preserve low and stable inflation. Beyond price 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 2022 amounted to USD 3.9 billion, or equivalent to 3.5 months of imports. In terms of reserve adequacy, the level of reserves stands at around 214 percent of the Fund's composite metric—which is above the recommended 100–150 percent adequacy range. However, as a major energy exporter, the additional precautionary liquidity is needed to buffer against adverse terms of trade shocks. Cross-country comparisons show that Brunei's level of reserves is in line with GCC peers.

Reserve Adequacy, 2005–2026

(In millions of Brunei dollars)



Sources: Brunei authorities; and IMF staff estimates.

Appendix III. Risk Assessment Matrix[1]

	Risks	Likelihood	Expected Impact	Policy Response
External	**Outbreaks of lethal and highly contagious COVID-19 variants.** Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	**Medium**	**High** A protracted impact of COVID-19 slows down the recovery with delayed consumption and investment. Scarring in the economy is deepened through expanding inequalities, rising distress of firms, eliminating MSMEs and the self-employed, and extending joblessness.	• Strengthen the health system and increase vaccination, • Provide relief to viable businesses and extend fiscal support targeting the affected groups such as MSMEs, the self-employed and unemployed workers in contact-intensive industries, while leveraging ample fiscal reserves.
	De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Medium**	**Medium** Local prices are pushed up since necessities are mostly imported. The global financial tightening accelerates capital movement with rising interest rate. Leveraged economic entities have difficulty in financing. Increased volatility in financial market affects sovereign holding valuations.	• Stabilize prices of indispensable goods, • Monitor and supervise the financial market with timely macroprudential policies, • Supply appropriate liquidity for viable business and indebted households, • Manage sovereign assets cautiously.
	Abrupt growth slowdown in China. A combination of extended COVID-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium**	**Medium** China is the 3rd largest export market in 2020 and the main FDI source. Sluggish growth in China affects domestic growth, external balance, including through lower oil prices, and FDIs.	• Accelerate the diversification of export markets and FDI sources, • Provide financial and fiscal supports to firms on a targeted and temporary base.
	Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	**High**	**High** High energy prices improve fiscal and external balances with positive effects on domestic demand. Surging food prices heighten inflation and put a strain on the vulnerable household.	• Expand fiscal reserves along with continuous fiscal consolidation, • Accelerate food production, stabilize food prices and support needy households.
Domestic	**Unexpected variation in energy production.** Oil and gas production changes by speed of maintenance works and rejuvenation programs, execution of new projects as well as results in exploration and excavation.	**Medium**	**High** Declined (Increased) production lowers (augments) fiscal revenues, and exports.	• Diversify the economy and secure revenue from Non-O&G sector. (Refrain from procyclical fiscal policy and build additional fiscal reserves.)
	Postponement in large FDI projects.	**Medium**	**Medium** Delayed projects hinder growth and diversification.	• Enlarge public investment, • Attract more FDI by improved business environment.

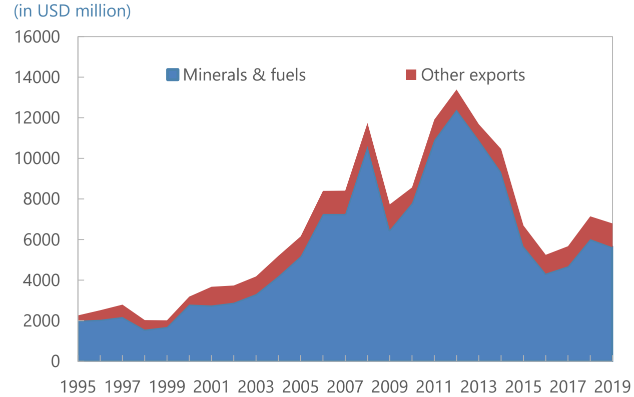
[1] Prepared by Sangmok Lee. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant 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. An Export Diversification Analysis for Brunei[1]

Despite progress in recent years, exports in Brunei continue to be highly concentrated in the O&G sector. The number of export products with high revealed comparative advantage (RCA) and the alignment between realized export structure and latent comparative advantages have both lagged those of peer economies. A machine-learning based export recommendation algorithm identifies chemical products, machineries and food as the promising sectors with diversification potential for Brunei. Identifying policies that could facilitate the development of these export sectors could be a useful step towards more diversification, and thereby foster growth and macroeconomic stability.

1. **Export diversification can foster sustainable growth and economic stability**. Export diversification is a key element in the process of economic development, particularly for emerging markets and developing economies. The relationship between export diversification and countries' economic performance has been extensively studied in the economic literature and numerous studies provide evidence of a positive association between export diversification and economic growth, and macroeconomic stability (e.g., Imbs and Wacziarg, 2003; Klinger and Lederman 2004 and 2011; Cadot et al., 2011), as a wider range of profitable export products makes growth more sustainable and reduces its volatility. In addition, an export structure aligned with an economy's comparative advantages is shown to be positively related to strong and stable growth. Che & Zhang (2022) use a machine learning algorithm—product-based collaborative filtering—to construct lists of recommended export products for over 100 countries based on each economy's latent comparative advantages (see Box 1 for details on the methodology).[2] They show that countries whose export structure is more aligned with the recommended structure achieve higher growth and lower growth volatility.

Export composition
(in USD million)



Sources: Staff calculation

2. **Brunei has made progress in diversifying its exports, though the oil and gas (O&G) sector still dominates the country's export portfolio**. O&G exports constitutes over 80 percent of total exports of the country, though it has come down from over 90 percent a decade earlier, owning to diversifications into service exports and downstream products of the O&G sector. The development of the downstream sector has been a key factor in alleviating the pandemic and oil price shocks that buffeted the economy in 2020.

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[1] By Natasha Che.

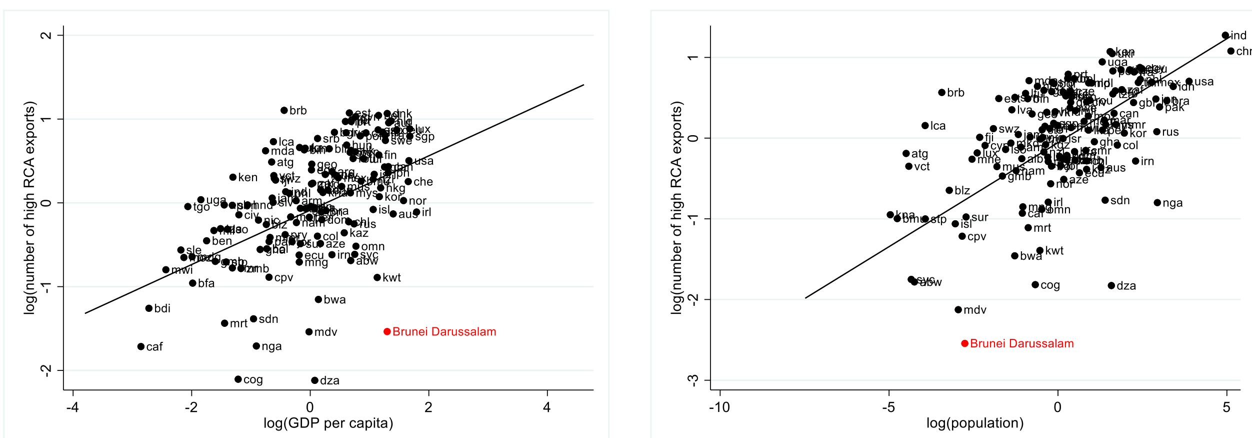
[2] The paper identifies countries' latent comparative advantages by looking at export structures of other countries with similar export portfolios and products related to the ones that the underlining county already demonstrates a strong revealed comparative advantage in.

3. The number of export products with a high "revealed comparative advantage" (RCA) is smaller than what Brunei's size and development level would imply. The RCA score, first introduced by Balassa & Noland (1965), is a popular measure in the economic literature for calculating the relative importance of a product in an economy's export basket. Formally, the RCA score of economy *i* in product *j* can be expressed as:

$$RCA_{pc} = \frac{E_{pc}/E_c}{E_p/\sum_{p' \in P} E_{p'}}$$

where E_{pc} is the export value of product p from economy c, E_c is the total export values of economy c, E_p is the total exports of product p from all economies around the world, and $\sum_{p' \in P} E_{p'}$ is the total world exports. A high-RCA export product for economy c is defined as a product with $RCA_{pc} > 1$**.** This is the case when a product's share in the economy's total exports is greater than the share of the same product in world exports, indicating that the economy has a *comparative advantage* in the product relative to the rest of the world. Empirical estimates show that the number of high-RCA exports is strongly correlated with economies' size and development level—more populous and richer economies generally have a larger number of high-RCA exports. As Figure 1 shows, the number of high-RCA exports Brunei has (10 in 2018) is smaller than the level predicted by its economic size and GDP per capita level.[3]

Figure 1. Number of High-RCA Exports vs Population Size and GDP Per Capita, 2018[4]



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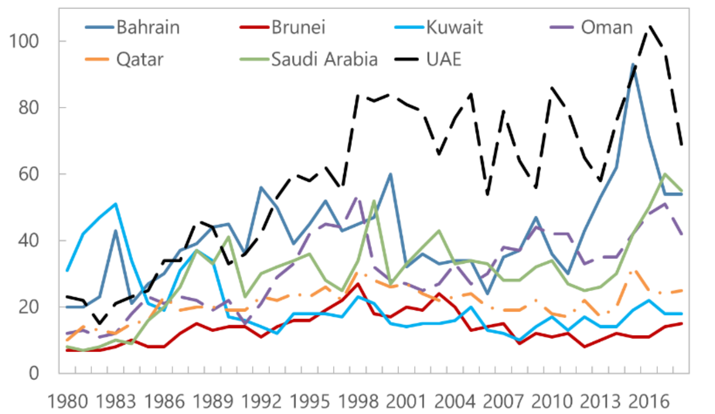
[3] Note that due to lags in data, the current analysis does not take into account more recent progress in export diversification in Brunei, including, for example, the establishment of Hengyi oil refinery complex.

[4] Partial regression plots.

4. The number of high-RCA export products has grown, but less compared to peers. Commodity exporting countries tend to be characterized by a more concentrated export portfolio than the world average, but even compared to some of the Gulf Cooperation Council (GCC) countries—Saudi Arabia, UAE, Oman, Bahrain, Qatar, Brunei has made less progress in export diversification. In particular, the number of Brunei's high-RCA export products has declined since the early 2000s, while it has increased in some GCC countries—UAE, Saudi Arabia and Bahrain.

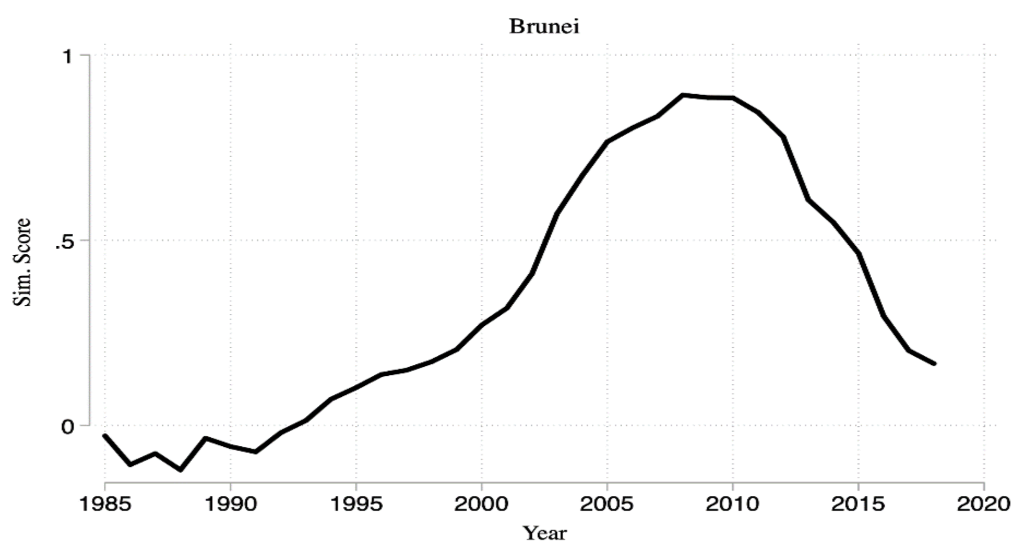
Number of high RCA exports: Brunei vs GCC countries
(in SITC 4-digit export classification)



Sources: Atlas of Economic Complexity

5. The alignment of Brunei's export structure with the country's latent comparative advantages has room to improve. Following Che & Zhang (2022), we computed the list of recommended export products that are potentially aligned with Brunei's latent comparative advantages for each historical year, using a machine learning model based on a collaborative filtering algorithm, and calculated similarity scores between the recommended export structure and the actual export structure of Brunei at the SITC 1-digit product classification level. The results show that after major improvements during the 1990s and 2000s, partly owing to the growth of textile and jewelry manufacturing exports, the similarity score has been declining since 2010, indicating a reduced alignment with the country's export structure and comparative advantage fundamentals.

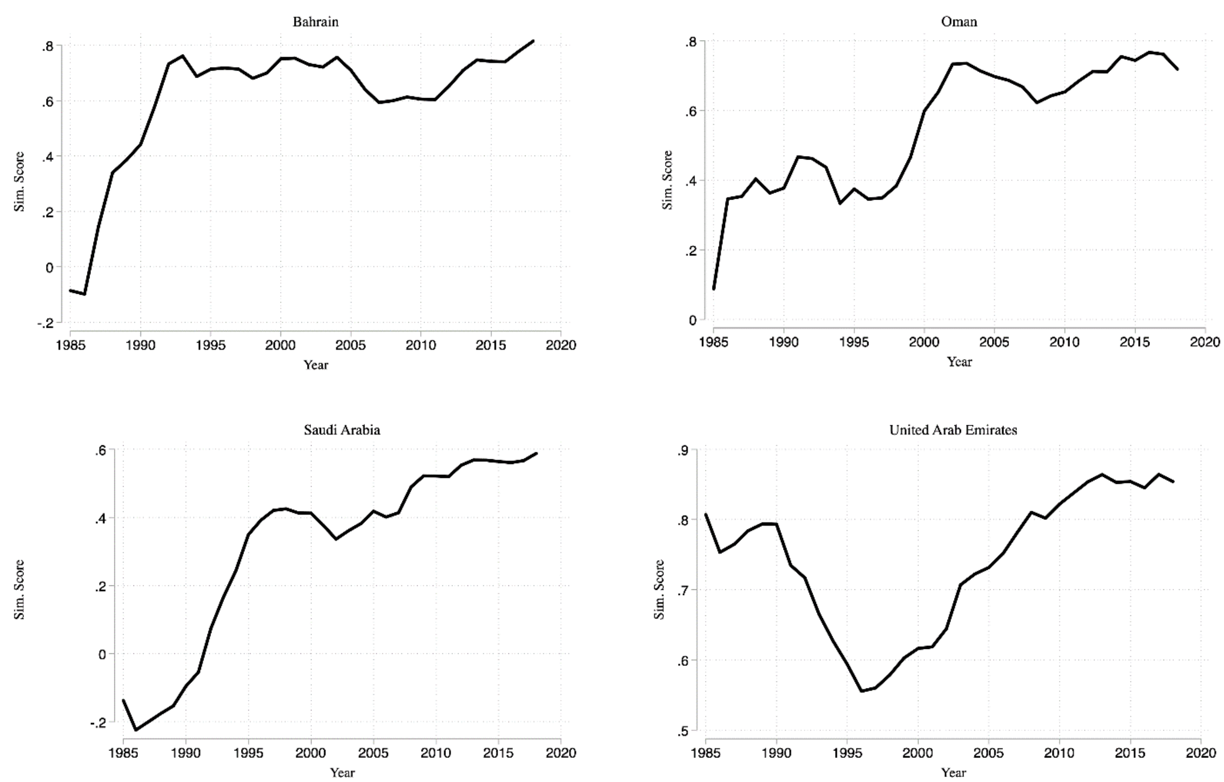
Figure 2. Similarity Score Between Brunei's Actual Export Structure and Recommended Export Structure
(Higher = More aligned)



6. In most of the GCC economies the alignment scores have either remained stable or improved over time. Even though the alignment scores of GCC countries, except UAE, are still below the world average, the similarity score between actual and recommended export structure has improved since the 1990s for Bahrain, Oman, Saudi Arabia and UAE (Figure 3). The improvement is largely achieved by diversifying away from O&G exports and towards other viable sectors given the countries' economic fundamentals. Saudi Arabia, for example, has reduced the share of O&G exports in total exports from 83 percent in 1995 to 67 percent in 2018, while the share of chemical and related products increased from 6 percent to 16 percent, and the share of service exports (e.g., travel and tourism) doubled. In the United Arab Emirates, the shares of metals, non-fuel minerals, electronics and machineries in total exports have increased over time, while the share of O&G exports has declined.

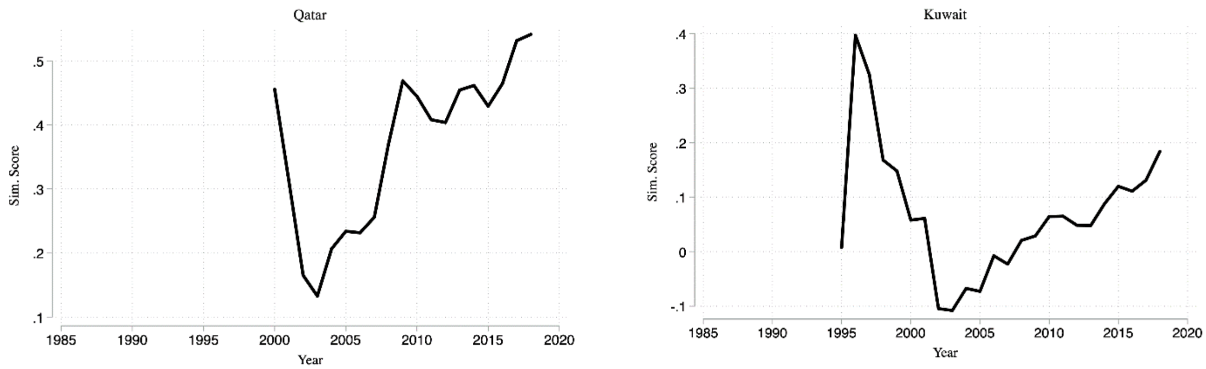
Figure 3. Similarity Scores Between Actual Export Structure and Recommended Export Structure, GCC Countries[5]

(higher = more aligned)



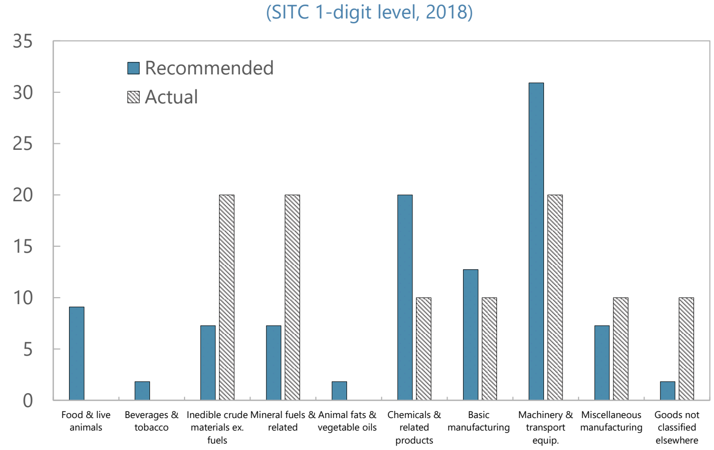
[5] See Box 1 for the definition of the similarity score and how it is calculated.

Figure 3. Similarity Scores Between Actual Export Structure and Recommended Export Structure, GCC Countries (concluded)
(higher = more aligned)



7. The algorithm-generated export product list for Brunei recommends expanding exports in the categories of chemical products, food and machineries. The collaborative filtering algorithm generated a list of 55 export products for Brunei with the highest recommendation coefficients at the SITC 4-digit level. Figure 4 presents the grouping of the recommendations at SITC 1-digit sector level and compares it to the actual sectoral distribution of Brunei's high-RCA exports. As the chart shows, most of the products in the recommended list comes from the sectors of food, chemical and related products, and machinery and transport equipment. Table 1 presents the full list of algorithm-recommended top export products for Brunei at the SITC 4-digit level, along with their RCA scores in the country's actual export portfolio. The rows shaded in gray are products that are existing high-RCA products of Brunei, while the rest are products that do not yet have a significant share in the actual export portfolio.

Figure 4. Actual vs Recommended Export Structure
(SITC 1-digit level, 2018)



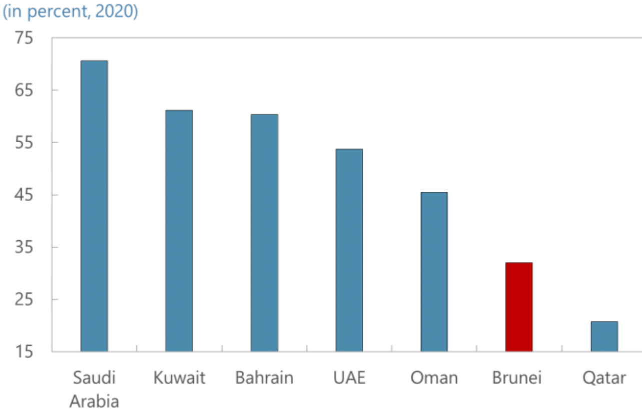
Sources: Staff Calculation

Table 1. Algorithm-Recommended Export Product List for Brunei

Product Name	Product Code	Recommendation ranking	Actual RCA
Non-Gold Coin	9610	1	84.16
Liquified Petroleum Gases	3413	2	43.41
Miscellaneous Machinery	7239	3	0.68
Acyclic Alcohols	5121	4	13.59
Miscellaneous Articles of Glass	6658	5	0.04
Miscellaneous Combustion Engines	7138	6	0.00
Sugar Syrups	0619	7	0.01
Electronic Microcircuits	7764	8	0.00
Miscellaneous Electronic Circuit Parts	7768	9	0.00
Fruit Preserved by Sugar	0582	10	0.00
Artwork	8960	11	0.01
Internal Combustion Engines for Aircraft	7131	12	9.47
Sawn Wood Less Than 5mm Thick	6341	13	0.00
Air Conditioners	7415	14	0.03
Miscellaneous Parts of Lifting Machinery	7449	15	0.17
Optical Lenses	8841	16	0.01
Miscellaneous Printed Matter	8928	17	0.05
Inorganic Bases	5225	18	0.00
Crude Petroleum	3330	19	6.51
Iron and Steel Powders	6713	20	0.00
Gauze and Netting	6935	21	0.00
Miscellaneous Furniture	8219	22	0.01
Analog Navigation Devices	8741	23	0.36
Automotive Electrical Equipment	7783	24	0.12
Miscellaneous Live Animals	9410	25	0.05
Video and Sound Recorders	7638	26	0.01
Musical Instrument Parts	8989	27	0.08
Newspapers and Journals	8922	28	0.03
Nitrogenous Fertilizers	5621	29	0.00
Typewriters	7511	30	0.00
Halogenated Hydrocarbons	5113	31	0.00
Miscellaneous Fruit	0579	32	0.01
TV and Radio Transmitters	7643	33	0.01
Plastic Lamps	8935	34	0.00
Analog Instruments for Physical Analysis	8744	35	0.04
Miscellaneous Centrifuge and Filtering Machinery	7439	36	0.01
Polypropylene	5832	37	0.00
Frozen Fish	0342	38	0.20
Miscellaneous Power Machinery	7712	39	0.01
Miscellaneous Hand Tools	6953	40	0.11

Table 1. Algorithm-Recommended Export Product List for Brunei (concluded)			
Aircraft Tires	6253	41	2.61
Transmission Belts	6282	42	0.00
Trucks and Vans	7821	43	0.00
Audio Amplifiers	7642	44	0.01
Iron Tubes	6785	45	0.19
Lighting Fixtures	8124	46	0.01
Interchangeable Tool Parts	6954	47	0.14
Miscellaneous Pumps	7428	48	0.17
Ships and Boats	7932	49	0.01
Footwear	8510	50	0.01
Miscellaneous Liquid Pump Parts	7429	51	0.06
Acyclic Hydrocarbons	5111	52	0.00
Unclassified Transactions	9310	53	0.05
Wheelchairs	7853	54	0.00
Miscellaneous Food-Processing Machinery	7272	55	0.00

Tertiary education enrollment ratio
(in percent, 2020)



Sources: UNESCO Institute for Statistics

8. **Identifying policies that could facilitate the organic emergence of non-O&G export sectors recommended by the algorithm could be an important step towards more diversification**. In this context, the experience of other O&G exporting countries that have progressed in diversifying their economies more is useful. For example, beginning in the 1980s, the UAE promoted industrial development by establishing firms in resource-based manufacturing industries associated with oil and gas, including refineries, fertilizer plants and aluminum smelters. In addition, industrial development departments were established to support industrial activity. Manufacturing companies were exempt from customs duties on imports of machinery, equipment, spare parts and raw materials. These firms were also exempt from export duties and taxes. Procedures were simplified to allow foreign talents to work in targeted industries in the UAE. Furthermore, specialized industrial zones were established for different types of industries, ranging from metal products to machinery and mechanical equipment. Other programs include the standardization and modification of investment procedures for the industrial sector and simplifying the approval of industrial licenses and mergers to appeal to investors. Investing in human capital and digital infrastructure would be key for. developing a more modern and sustainable export structure. Several GCC countries have identified the development of knowledge-based industries, including knowledge-intensive manufacturing and high value-added services, as a means towards more diversification. Diversifying

in this direction requires the availability of high-quality human capitals and robust infrastructure. Brunei has room to improve on both fronts.

9. Improving Brunei's similarity score between actual and recommended export structures could potentially boost growth and macroeconomic stability. According to the cross-country estimation of Che & Zhang (2022), if Brunei's similarity score were to improve to the level of United Arab Emirates, annual GDP per capita growth could increase by 1.6 percentage points annually, while the 5-year standard deviation of annual growth decline by 0.5 percentage point.

Box 1. The Collaborative Filtering Algorithm for Export Recommendations

The K-nearest neighbor (KNN) algorithm is one of the most frequently used methods in solving classification and pattern recognition problems and is a popular approach in constructing recommender systems. The basic idea of KNN is learning by analogy- classifying the test sample by comparing it to the set of training samples most similar to it. Different KNN implementations vary in terms of their choices of how the similarity between input vectors is calculated. In our setting, the cosine similarity score is used as the similarity measure.

The intuition behind the product-based KNN used for the export recommendation system is simple. First, it looks at what products a country already has a revealed comparative advantage in, and then recommends other products that are similar to those products. To explain the approach in more details, let's first rewrite the RCA score matrix R as:

$$R = [\boldsymbol{p}_1, \boldsymbol{p}_2, \dots, \boldsymbol{p}_n]$$

where $\boldsymbol{p}_j$ is a vector of length m that represents the RCA scores of product j for all the m countries in the sample:

$$\boldsymbol{p}_j = \begin{bmatrix} r_{1j} \\ r_{2j} \\ \cdot \\ \cdot \\ r_{mj} \end{bmatrix}$$

In machine learning terminology, each product in the sample has *m* features. The cosine similarity between products i and j is equal to $(\boldsymbol{p}_i \cdot \boldsymbol{p}_l)/(\|\boldsymbol{p}_j\|\|\boldsymbol{p}_l\|)$, which ranges from -1, when the two vectors are the exact opposite, to 1, when the two are exactly the same. The intuition behind this is that by comparing the two sets of countries that export i and j, and how important the products are in the countries' export baskets, information can be inferred regarding how closely related the two products are.

The implementation of the product-based KNN recommender for country *i* involves the following steps:

- Represent each product in the SITC 4-digit product space as a vector of RCA scores, $\boldsymbol{p}_j$.
- Select the set of K products in which country i has a revealed comparative advantage, i.e. $r_{ij} > 1$. Let's call it the high-RCA product set of country i.
- For each $j \in [1, n]$, calculate the predicted value of r_{ij} as the weighted average RCA score of the high-RCA product set, weighted by the cosine similarity between product j and the products in the country's high-RCA set.
- The recommended products for country i are the N products with the highest predicted r_{ij} values.

We then calculate the similarity score between recommended and actual export structure for each of the sample years. We define the export structure of a country's actual exports as the number of high RCA exports (at SITC 4-digit level) that belong to each SITC 1-digit sector, as a share of total number of high RCA exports. Similarly, we define the recommended export as the vector for the number of recommended products that belong to each SITC 1-digit sector as a share of the total number of recommended export products. The similarity score between the actual and the recommended export portfolios then calculated as the distance between the two vectors of actual and recommended structures.

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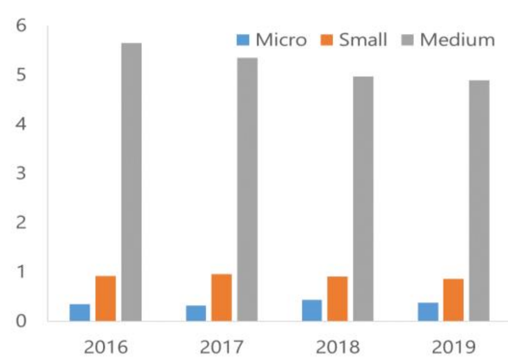
Appendix V. Micro-, Small- and Medium-Size Enterprises[1,2]

The authorities have initiated policy interventions to develop Micro, Small and Medium size Enterprises (MSMEs), recognizing that competitive and innovative MSMEs would play a significant role in boosting productivity and creating job opportunities as well as diversifying the economy. However, most MSMEs are still in an early stage of development. More comprehensive policy actions—in the area of finance, human capital development, innovation and digitalization—are needed to further develop MSMEs and improve their productivity.

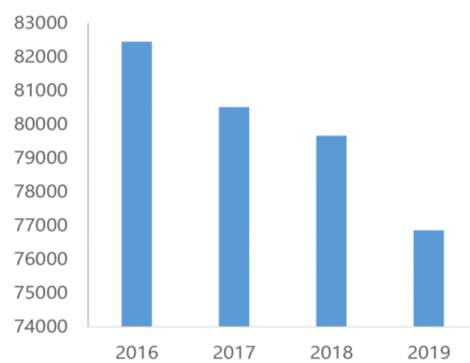
1. **MSMEs represent the majority of firms in the economy, but their performance has deteriorated in recent years.** MSMEs accounted for 97.3 percent of enterprises in 2019, contributing to 43.9 percent of private sector employment (55.7 percent of enterprise employment) and 27.0 percent of GDP.[3] Most MSMEs are in the service sector (75.3 percent), in particular wholesale and retail trade (30.9 percent). However, the operating revenue has fallen from BND8.3 billion in 2016 to BND7.5 billion in 2019, despite of an increased number of MSMEs from 5,721 in 2016 to 6,001 in 2019.[4] As a result, their contribution to GDP has declined from 34.3 percent in 2016 to 27.0 percent in 2019. Lagging MSMEs would hinder boosting growth, diversification and productivity in the economy.

Operating Revenue per Enterprise
(BND million)



Source: Brunei Authorities.

MSMEs' GDP Contribution per Worker
(BND)



Source: Brunei Authorities.

2. **To address the declining performance, the authorities have introduced several policies to facilitate MSMEs growth before the pandemic.** The Economic Blueprint—a national strategy to achieve dynamic and sustainable economy—has underlined the importance of re-invigorating MSMEs to foster entrepreneurship, facilitate export orientation and seize larger benefits from FDI

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[1] Prepared by Sangmok Lee.

[2] MSMEs in Brunei are classified by the number of people engaged: a micro enterprise under four people, a small enterprise with 5–19 people, and a medium-sized enterprise with 20–99 people.

[3] Annual Census of Enterprises 2019, Department of Economic Planning and Statistics, Ministry of Finance and Economy. Asia Small and Medium-Sized Enterprise Monitor 2021, Asian Development Bank.

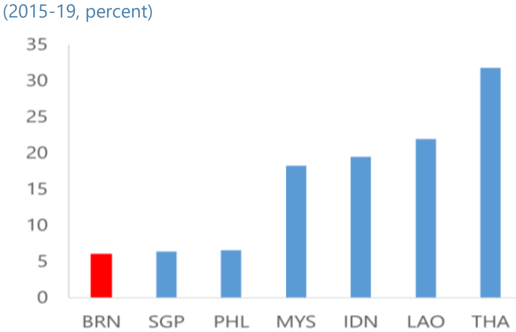
[4] Underdeveloped MSMEs in Brunei are much smaller than large companies. For instance, operating revenues of micro, small and medium-size enterprises are only 0.4, 0.9, 4.7 percent of that of large company respectively.

and Government-Linked Company (GLC). The Ministry of Finance and Economy (MoFE)—mainly through Darussalam enterprise (DARe), an implementing agency—has promoted several initiatives to enhance financing, capacity building, work and production facilities, market access and digitalization. The details of these measures are reported in the Handbook 2019–Youth Entrepreneurship Ecosystem for bolstering MSMEs' access to assistance programs (see Table 1).

3. **Well-targeted and timely support is needed to develop MSMEs in the post-pandemic transformation period.** Even before the beginning of the COVID-19 pandemic, MSMEs have been in a relatively disadvantageous environment, including limited access to financial credit, shortage of capable entrepreneurs, workers and sale markets, and lagged innovation and digitalization. To accelerate the recovery of MSMEs from the pandemic, strengthen their resilience and remove distortions for MSMEs to grow, the authorities should prepare a comprehensive strategy and implement policies in a "whole of government approach" to address these bottlenecks. This would contribute to further diversify the economy, boost productivity and foster sustainable and inclusive growth. Policies priorities include:

- **Facilitate access to finance by ensuring adequate funding and developing new channels to provide financial sources to MSMEs.** While government funding through SME Bank and DARe has unmet MSMEs' demand, access to bank credit has been more restricted than ASEAN peers and alternative financial markets have not been established.[5,6] The authorities should scale up SME bank credit and DARe funding and improve institutional factors including good governance and financial supervisory capacity, and better credit information availability in the banking sector. DARe's capacity building program for entrepreneurs to build bankable business would promote funding for MSMEs. Developing financial markets, including by creating a national stock exchange, credit guarantee schemes and factoring companies, would help supply operational fund and increase capital for viable MSMEs. Safe access to Fintech would also help, including by strengthening competition among credit providers and expanding credit information.

MSMEs' Bank Loans to Total Loans in ASEAN Peers
(2015-19, percent)



Source: Asia Small and Medium-Sized Enterprise Monitor 2021, ADB.

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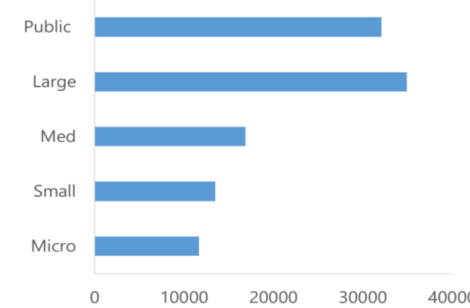
[5] Bank Usahawan—SME bank—was established by the government in 2017. While its loan was only 0.15 percent of total loan in the banking sector in 2019, it has provided cash flow-based loans, differently from collateral-based loans in the commercial banks.

[6] While no aggregate MSME credit data have reported in bank credit statistics, 6 percent of total loans and 14 percent of total business lending belong to MSME credit according to BDCB internal research (Asia Small and Medium-Sized Enterprise Monitor 2020, Asian Development Bank).

- **Improve human capital through attracting competent workers and targeting assistances to MSMEs.** The authorities have tried to foster human capital development through sizeable investment on education (13.5 percent of total expenditure in FY2021/22), active labor market policies (ALMPs) and initiatives such as the I-Ready Apprenticeship.[7] However, labor shortages stemming from the small population, the wide wage gap between larger companies and MSMEs, and higher risks and job insecurity associated with MSMEs, have been a barrier to attract capable workers in MSMEs.[8] While MSMEs' wages should rise in line with productivity, providing financial gains exclusively for MSME workers—such as a launch of deposit account with preferential interests in SME bank—would contribute to attract young and competent workers to MSMEs. Targeted and well-designed ALMPs could also help. Finally, fostering education and training of entrepreneurs would help creating more companies and re-invigorate the market.

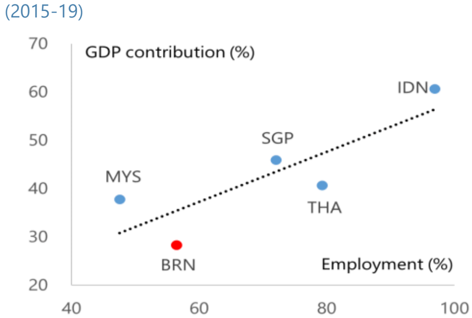
Annual Payment per Employee
(2015-19, percent)



Source: Brunei Authorities, IMF staff calculations on public salaries based on government budget in FY19/20.

- **Expand pathways to domestic and global markets through cooperative efforts among leading companies and MSMEs.** MSMEs' domestic market is limited and lacks large businesses to which to provide products and services. Furthermore, only a small portion of MSME activities have had access to global markets. The authorities should promote initiatives to strengthen collaboration among large firms, GLCs and MSMEs, such as active participation of MSMEs in downstream complex created by FDI. Ensuring a level playing field and reducing the dominance of the public sector in the market would also create more opportunities for development. Enhanced participation in public projects and procurement, including by preferential treatment on innovative products and services from MSMEs, would help accumulate experiences and *know-how*. Finally, strengthening supports for international access, such as the establishment of an Export Credit Agency, acquisition of standards and certifications, and effective expansion and utilization of FTAs, would encourage MSMEs exposure to overseas markets.

MSMEs' GDP Contribution and Employment in ASEAN Peers
(2015-19)



Source: Asia Small and Medium-Sized Enterprise Monitor 2021, ADB.

[7] The program links unemployed graduates to industries and offers opportunities for unemployed graduates to gain work experience and on-the-job-skills and for companies to scale up manpower with less financial burden by providing a monthly allowance to participating graduates for 18 months.

[8] Payment per employee is only 30.7 percent in micro enterprises, 38.1 percent in small enterprises and 47.4 percent in medium-size enterprises, relative to that in large companies.

- **Boost productivity and competitiveness through innovation and digitalization.** The contribution of MSMEs to GDP and employment in Brunei is lower than ASEAN peers. Key factors beyond this gap are the limited progress in innovation and digitalization and the concentration of MSMEs in traditional businesses such as trade, accommodation and restaurants. The authorities should encourage MSMEs to extend their operation in innovative and digitalized industries such as professional services, information and computer technology, and e-business. Financial support and tax benefits for capital investment—specially on intangibles—would accelerate this transformation.[9] In addition, fostering cooperation with universities and research institutes would strengthen the innovative capability of MSMEs. Finally, building reliable and efficient digital infrastructure, such as broadband, would speed up digitalization and reduce costs.

- **Upgrade government assistance in a strategic and coordinated way, customizing policies for MSME needs.** Despite incessant efforts for MSME developments, there is room to improve. The government assistances have been disorganized and fragmented without a national strategy and a coordination scheme dedicated to MSME initiatives. The absence of policy consideration exclusively for MSMEs might cause unfavorable impact to MSMEs—such as applying foreign labor quota and financial regulations on all companies despite critical needs of MSMEs. A national MSME strategy should be established, building a MSME-friendly environment by robust legal, regulatory and taxation frameworks. Strong collaboration with the business community including the National Chamber of Commerce and Industry and the Young Entrepreneur Association Brunei would help enhance effectiveness of policies. Establishing an inter-ministerial body for MSMEs and strengthening MSME-related governmental agency would also contribute to promote better coordinated policy initiatives.[10]

[9] While a ten percent rise in intangible capital investment—such as digital technologies—increases labor productivity by 4.5 percent, the same increase in tangible capital—such as buildings and machinery—improves productivity by 3.5 percent (IMF, 2021).

[10] For example, the Korean government has heightened a MSME agency of the vice-ministerial level into the formal ministry in 2017 and the number of venture enterprises—MSMEs with technology recognition—has increased from 33,289 in 2016 to 39,101 in 2020.

Table 1. Summary of the Main Assistances to MSMEs

Objective	Program	Activity	Agency[1]
Financing	Bank Usahawan	Supplies exclusive loan for MSMEs.	MoFE
	Co-Matching Scheme	Provides a co-matching funding (70 percent from DARe, 30 percent from MSME) for selected MSMEs.	DARe
	Entrepreneurship Financial Assistance Program	Provides micro grants for eligible youths and vulnerable groups.	MCYS
Capacity Building	Bootcamp	Offers training to start and scale up business for MSME entrepreneurs.	DARe
	Energy Business Academy	Develops venture business in the oil & gas industry through training and coaching by experts.	BSP
	Elevate	Grows business by developing a five-year strategic roadmap with periodic monitoring and support.	DARe
	Industry Business Academy	Provides MSMEs with knowledge to start and grow business and export product and service.	DARe
	Digital Upskilling Program for ICT Workforce	Provides subsidized ICT training to the local workforce including MSMEs.	AITI
	Youth Development Center Lights on	Equips young entrepreneurs with skills and practical experience on how to run business.	MCYS
Facilities	i-Centre	Is a technology-based incubation center, providing co-working space and office premises.	DARe
	K-Hub	Is a platform for the development of creative and multimedia industry.	DARe
	Ready Built Factories	Offers working space in a building for business to expand its production at affordable rates.	DARe
Market Access	Inbound Market Access	Provides business matching services and networking sessions with overseas companies for local firms.	DARe
	outbound Market Access	Offers opportunities to participate in overseas expos, trade fairs and workshops with business matching session.	DARe
	Export Market Facilitation	Helps agricultural and aquaculture business to export and access to new market by meeting requirements of importing countries.	MPRT
	Standards Consultancy	Encourages business to adopt international standards through training and consultancy services.	DARe
Digital-ization	eKadaiBrunei	Is an online directory portal that provides links to e-commerce platform and logistics service providers.	AITI
	DARe Links	Is a B2B platform to facilitate business linkages between clients and local businesses including MSMEs.	DARe
	Joint Funding for Digital Adoption	Assists MSMEs in adapting digital technology with funding up to 70 percent of the cost of digital solutions.	AITI

[1] (BSP) Brunei Shell Petroleum, (MCYS) Ministry of Culture, Youth and Sports, (MPRT) Ministry of Primary Resources and Tourism, (AITI) Authority for Info-communications Technology Industry.

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Appendix VI. Status of Staff Advice in 2021 Article IV Consultation

Staff Advice	Policy Actions
Fiscal Policy	
Continue fiscal support in the near term and resume consolidation for the longer term by preserving growth-enhancing spending, reforming subsidies, containing public wages, and broadening tax base, while improving public finance management.	The authorities have expanded expenditure in FY2021/22 for containing COVID-19 and relieving vulnerable households and firms. A variety of steps for fiscal consolidation and public finance management reforms have been taken, such as (i) implementing the Fiscal Consolidation Program, (ii) reducing subsidies by sales of subsidy-free fuel and smart metering on electricity and water, (iii) launching new scheme of pensions, (iv) abolishing temporary positions in the government, (v) planning excise taxes on goods harmful to the environment and health, (vi) adopting new financial regulation, and (vii) promoting the Public Investment Management Assessment. However, there is room to improve in capital expenditure in the preparation process of new national develop plan.
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. TA on banks macro stress testing mission is planned to take place in April. 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 have continued to strengthen the AML/CFT legal and regulatory framework. The amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations are expected to be completed in 2022, while the Counter Proliferation Financing Order is also being finalized. The BDCB is also in the process of issuing guidelines on E-KYC to facilitate non-face-to-face customer onboarding and due diligence. Brunei's Mutual Evaluation process by the Asia Pacific Group on Money Laundering (APG) has commenced, pending the rescheduling of the on-site visit which has been postponed due to COVID-19.
Structural Policies	
Diversify the economy and develop the private sector by FDI attraction, business environment improvement, human capital enhancement, and active labor market policies, while accelerating digitalization and climate change responses.	Fast-growing downstream industry including Brunei Fertilizer Industries' commencement of production in January 2022 has deepened economic diversification. Quality FDI attraction and better business climate have been pursued under close cooperation among the FDI Action and Support Center, the Brunei Economic Council Board and the Darussalam Enterprise. Job matching and training have been fostered through the JobCentre Brunei and the Manpower Planning and Employment Council, and measures to protect jobs and provide support for individuals have been enacted during the pandemic. The authorities have promoted digitalization and climate change responses systematically by the Digital Economy Masterplan 2025 and Brunei Darussalam National Climate Change Policy.
Data Issues	
Improve data compilation and reporting.	The authorities have committed to publishing the National Summary Data Page (NSDP) continuously. The Brunei Darussalam Central Bank has started to release the Business Sentiment Index in November 2021.

INTERNATIONAL MONETARY FUND

BRUNEI DARUSSALAM

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 21, 2022

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of June 30, 2022)

Membership Status: Joined October 10, 1995; Article VIII

General Resources Account

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

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	492.29	100.00
Holdings	506.41	102.87

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 2021 Article IV consultation on September 1, 2021.

FSAP Participation: Not applicable

Technical Assistance

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

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

FAD: Fuel Subsidy Reform (April 2016)

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

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

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

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

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

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

STA: Enhanced General Data Dissemination System (June 2019)

STA: External Sector Statistics (July 2020)

MCM: Review of Macro Stress Testing (April 2022)

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance
General: Data provision continues to improve and is broadly adequate for surveillance , with some 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. In 2015, GDP estimates were rebased to 2010 . The 2010 rebased series incorporated data from the most recent benchmark censuses and surveys, such as the 2010/11 Household Expenditure Survey, the 2011 Population and Housing Census, and the 2011 Economic Census. These source data need to be updated to better reflect the current economic realities. GDP too needs to be rebased from 2010 base year to a more recent year. The coverage of the government sector was extended to include statutory bodies. GDP by Income Approach as well as Gross National Income and Savings are also released. **Price statistics**: Monthly CPI is available with a one-period lag. The CPI weights were derived using the 2015/16 Household Expenditure Survey, and should ideally be updated to reflect more recent expenditure patterns in the country. The compilation of producer and construction material price indices is planned. 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.
External sector statistics: Quarterly balance of payments statistics have been reported to STA in BPM6 format since the end of 2015. The main compilation challenges are that (i) the reported data in the balance of payments lack the granularity recommended by best practices, hindering basic cross-checks to improve validations; and (ii) a few items in the standard presentation of the balance of payments contain a very large number of embedded transactions, making the compilation task prone to imprecisions. Compilation of international investment position on BPM6 basis has finished but has not been released. In 2021, the Ministry of Finance and Economy reported data to the Coordinated Direct Investment Survey for the first time, covering inward direct investment for 2016-2020.
Data Standards and Quality
Participant in the Enhanced General Data Dissemination System (e-GDDS), Brunei Darussalam launched the National Summary Data Page in August 2019.

Brunei Darussalam: Table of Common Indicators Required for Surveillance

(As of July 5, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange rates	06/2022	07/2022	M	M	M
International reserve assets and reserve liabilities of the Monetary Authorities[1]	03/2022	05/2022	M	M	M
Reserve/base money	03/2022	06/2022	M	M	M
Broad money	04/2022	06/2022	M	M	M
Central bank balance sheet	03/2022	05/2022	M	M	M
Consolidated balance sheet of the banking system	03/2022	05/2022	M	M	M
Interest rates[2]	04/2022	06/2022	M	M	M
Consumer price index	02/2022	06/2022	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/FY2021/22	05/2022	Q	I	A
Stocks of central government and central government-guaranteed debt[5]	Q4/FY2021/22	05/2022	M	M	M
External current account balance	2020Q4	11/2021	Q	Q	Q
Exports and imports of goods	01/2022	05/2022	M	M	M
GDP/GNP	Q4/2021	05/2022	Q	Q	Q
Gross external debt[6]	NA	NA	NA	NA	NA
International investment position[7]	2018	06/2019	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).