

August 27, 2021

**Statement by Ms. Lim and Mr. Mahyuddin on Brunei Darussalam
Executive Board Meeting
September 1, 2021**

1. INTRODUCTION

- 1.1. On behalf of Brunei Darussalam's authorities, we would like to thank the Article IV Mission team for a constructive and fruitful consultation this year. Despite the challenges brought about by the pandemic, the virtual consultation went smoothly, and discussions were insightful.
- 1.2. The authorities appreciate Staff's acknowledgment of their efforts and initiatives in managing the pandemic as well as strengthening the economy's fundamentals and resilience. Overall, they find the contents of the report balanced.
- 1.3. The authorities appreciate the appendixes provided together with the Staff Report. It provides a clear representation of Brunei Darussalam's efforts and achievements in strengthening and diversifying the economy. The authorities positively note the recommended priority areas and, where appropriate, will consider them as part of their strategic policy directions.

2. CURRENT COVID-19 SITUATION

- 2.1. As of August 15, 2021, 36.3 percent (216,322 people) of the population has been vaccinated with at least one dose of vaccine. Brunei Darussalam aims to achieve a 70 percent vaccination rate by the end of the year to ensure herd immunity. Vaccinations are administered free of charge for all citizens and resident in Brunei Darussalam. The administration of vaccines has been rolled out in three phases. The first phase focused on front liners, senior citizens (60 years and over) and student studying abroad. The second phase focused on child care center staff, adults with comorbidities, and teachers. The third phase, started on July 5, 2021, is for the

general public. Besides enhancing the population vaccination rate, the authorities aim to keep population informed of COVID-19 developments by leveraging on technology, i.e. the Bruhealth App, which among others features epidemic updates, monitors personal health and tracks risk exposure of residents.

- 2.2. After more than a year with no domestic COVID-19 cases, Brunei Darussalam began to witness emerging cases of local transmissions. Measures are currently being put in place to contain the spread of the pandemic, including extensive contact tracing, restrictions on mass gatherings, online learning for students and flexible work-from-home arrangements. The authorities will continue to implement comprehensive measures to ensure the well-being, health and safety of the nation including upgrading of the country's health system and infrastructure.
- 2.3. The authorities recently announced fiscal and monetary measures to help businesses manage the economic impact of COVID-19 effective August 1 until December 31 this year. These include:
 - Deferment of social security contributions for local workers earning B\$1,500 and below: The six-month deferment of Employees Trust Fund (TAP) and Supplementary Contributory Pension (SCP) contributions applies to micro, small and medium enterprises (MSME) in all sectors. The Government will also contribute to the SCP fund of self-employed workers for the mentioned period to ensure they will continue to have survivorship fund protection.
 - The Government will cover 25 percent of the wages of MSMEs local employees earning B\$1,500 and below. The wage subsidy will alleviate the financial burden of MSMEs and is aimed at protecting local employees' jobs.
 - A minimum of 30 percent discount on rentals of government buildings by MSMEs in affected business sectors.
 - 20 percent discount on water and electricity bills for affected businesses.
 - 50 percent tax discount on corporate earnings for assessment year 2022 for affected business sectors.
 - Waiver of customs and excise duties on personal hygiene products.
 - Continued provision of various programs to assist MSMEs such as Buy Local Produce campaign; e-commerce platforms; and life-long learning particularly for upskilling and reskilling programs. The iReady apprenticeship contracts will be extended until December 31, 2021.

- Deferment on principal repayments on business and personal financing/loans for those affected across all sectors— deferment on principal repayments on personal financing/loans and vehicle financing/loans (or restructuring of loans/repayments with a period of not exceeding 10 years).
- Deferment on principal repayments on personal financing/loans related to land (ownership or investment purposes).
- Waiver of trade and payment transaction fees for companies in tourism, restaurant, air transport, food and medicine sectors.
- Waiver of all charges and bank payments for interbank transfers (except third party charges) applicable only to local banks.

3. RECENT ECONOMIC DEVELOPMENT

- 3.1. The authorities have successfully rolled-out a sizeable economic relief package, as detailed in Appendix I of the Staff report. The prompt and strong policy responses by the authorities have helped sustain the economic performance. Economic activities in Brunei Darussalam are operating to near normal circumstances. With travel restrictions in place to curb the spread of the pandemic, domestic demand has increased which has boosted local businesses and employment.
- 3.2. In Q1 2021, the Non-Oil & Gas Sector recorded an increase of 3.1 percent due to strong performance of the Manufacturing Subsector, reflecting an increase in the production of petroleum and chemical products; wearing apparel and textiles; and food and beverage products. However, a decline in the Oil & Gas Sector by 5.3 percent, due to a reduction in crude oil and natural gas production caused by unscheduled shutdowns in the offshore platform, resulted in a GDP contraction of 1.4 percent year-on-year (y-o-y).
- 3.3. Inflation remains manageable. The overall Consumer Price Index in May 2021 has increased by 1.1 percent y-o-y. Both Food and Non-Alcoholic Beverages and Non-Food index have recorded an increase of 0.9 percent and 1.2 percent, respectively. Meanwhile, the Goods as well as Services index have increased by 1.5 percent and 0.6 percent, respectively.
- 3.4. For the month of April 2021, total trade recorded was B\$2,193.1 million, comprising exports valued at B\$1,138.6 million and imports amounting to B\$1,054.5 million. This represented an increase of 91.8 percent y-o-y from B\$1,143.7 million in April 2020.

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

4. FISCAL POLICIES

- 4.1. Targeted fiscal policy has played an important role to address the pandemic and support the hardest-hit households and businesses. The authorities remain committed to prioritize expenditures that can promote and strengthen growth, as well as enhance efficiency gains. At the same time, the authorities continue to practice prudent fiscal policy management as well as to further deepen fiscal consolidation efforts towards strengthening Brunei Darussalam's long term fiscal sustainability.
- 4.2. Launched in 2019, the Fiscal Consolidation Program (FCP) which includes corporatization and privatization; public-private partnership; policy review and update; and improving regulations as well as processes in order to achieve productivity gains, cost saving and revenue generation, aims to generate savings of B\$500 million and revenue generation of B\$300 million over the next 5 years. To date, a total of 117 initiatives and program of reforms have been identified where 18 initiatives are complete; 77 initiatives in implementation phase, and 22 initiatives in planning stage.
- 4.3. In this regard, the authorities welcome the recommendation by Staff to utilize the IMF's Public Investment Management Assessment (PIMA) as a framework to ensure efficient public investment. This is an area that authorities consider positively and hope to work with the IMF to assess the feasibility of PIMA in the context of Brunei Darussalam's domestic framework.
- 4.4. The theme of Brunei Darussalam's National Budget for this year is 'Towards Resilient Socio-Economic Development', that is designed to further strengthen the country's efforts in achieving the three goals of her national Vision, Wawasan Brunei 2035, namely Educated, Highly Skilled and Successful People; High Quality of Life of the People; and a Dynamic and Sustainable Economy. A continuation of the previous financial year's budget theme, 'Investing in Our Future', this year's budget focuses on three priorities, namely:
- Implementing activities that will increase the country's productivity such as enhancing public service through the use of technology; and continue with initiatives to strengthen the Government fiscal position in particular ones that are under the Fiscal Consolidation Program;

- Promoting sustainable and resilient facilities and infrastructure for the public's welfare and economic development This includes upgrading connectivity; improving utilities efficiency; and strengthening health and education facilities; and
 - Building competent and employable human resources through various capacity and match making programs in the area of ICT; Digital Sciences and AI.
- 4.5. In addition to ensuring strengthened fiscal resilience to protect from future shocks, the authorities will continue to strengthen socio-economic resilience through this year's budget focus. This includes safeguarding food security and necessities by enhancing the supply chain through trade relations with major trading partners to stimulate economic growth and ensure the well-being of the people. Additionally, there is also emphasis to provide support to public welfare and trade, economic and investment activities, including ICT infrastructure that will serve as a catalyst to promote transition to a digitalized economy.
- 4.6. The authorities appreciate Staff's assessment on the substantial savings, of about 1.4 percent of GDP annually in the medium term, that can be gained by having a more targeted subsidy structure/framework. The authorities plan to include Staff's assessments in their comprehensive assessments of the matter. The authorities agree on Staff's emphasis that any comprehensive subsidy reforms must consider possible support to the vulnerable and marginalized groups including possible compensatory measures.
- 4.7. The authorities have taken steps to reform subsidies such as through the launch of premium fuel without subsidy, smart meter for water and power as well as exploratory discussions on power tariff improvements. The establishment of the National Welfare System is also aimed to ensure support to those most in need and enables the authorities to conduct assessments in more targeted and systematic manner. The authorities are also in the process of consolidating subsidy data across the line-ministries through the ongoing Treasury Accounting and Financial Information System 2.0 project.

5. MONETARY POLICIES

- 5.1. In response to the pandemic, targeted financial assistance as part of broader policy actions has helped to alleviate financial distress of affected household and businesses. Meanwhile, the banking sector remained sound and well capitalized.

Bank Capital Ratio remains adequate and well above regulatory requirements, while gross performing loans ratio remains stable due to adequate policy support.

- 5.2. Despite the challenges brought upon the COVID-19 pandemic, the authorities have taken wide-ranging measures to develop and improve the resilience of the financial sector. The authorities have issued a consultation paper to the industry on Basel III Implementation Roadmap, paving the way for the introduction of the Basel III framework. In addition, the development of a holistic macroprudential framework to safeguard financial stability, including a preliminary assessment of the countercyclical capital buffer is well underway.
- 5.3. The authorities continue to implement measures to enhance access to financing as part of efforts to develop the private sector, especially MSMEs. The authorities concur with Staff that the Credit Bureau will continue to play an important role to promote greater lending transparency, as well as prudent lending and borrowings. As such, the Credit Bureau will be introducing other services, such as the Portfolio Alerts and Monitoring module before the end of the year to strengthen its effectiveness. The new module will allow the banks and finance companies to monitor their existing customers' account portfolio in order to provide behavioral insights that is envisaged to support more informed decision making.
- 5.4. The authorities remain committed to strengthen the AML/CFT regulatory and supervisory framework to safeguard financial integrity. As Staff highlighted in the report, two laws were amended in 2020, namely the Criminal Asset Recovery Order and the Companies Act. Moreover, amendments to the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) regulations are currently being prepared, while the Counter Proliferation Financing Order is nearing conclusion for issuance.
- 5.5. The authorities concur with Staff's observation that financial sector regulation and supervision should remain vigilant and need to develop a holistic Macroprudential framework to safeguard financial stability, whilst ensuring that access to financing remains undeterred. Furthermore, the Currency Interchangeability Agreement with the Republic of Singapore remains an appropriate arrangement for both countries in providing a credible nominal anchor for macroeconomic and financial stability.

6. REFORMS FOR SUSTAINABLE AND RESILIENT ECONOMIC DEVELOPMENT

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

linkages with local MSMEs and providing a spill-over effect to local industrial development.

- 6.2. The authorities would continue to streamline, deliver and enforce more efficient and innovative business processes and regulations in order to remain regionally & globally competitive. The authorities have made significant improvements in making the local business environment conducive. In the World Bank's Doing Business 2020 report, Brunei Darussalam maintains her top rank in 'Getting Credit'. Substantive improvements were also seen in the local regulatory framework for the indicators on 'Enforcing Contracts' and 'Resolving Insolvency'. Overall, Brunei Darussalam's recorded improvement in the Ease of Doing Business score from 69.6 (adjusted) in 2019 to 70.1 in 2020 and is being ranked 66 out of 190 economies. Brunei Darussalam ranks 4th among ASEAN member states.
- 6.3. As an open economy, Brunei Darussalam recognizes the importance of international engagements in ensuring an open, transparent, fair and non-discriminatory multi-trading system. On this note, the authorities have stepped up efforts to facilitate and enhance linkages with the regional and international markets through increased trade cooperation and participation in free trade Agreements such as the Regional Comprehensive Economic Partnership Agreement which was signed in 2020. These are also part of the efforts to expand the market for, and support the internationalization of, local MSMEs.
- 6.4. The authorities have formulated and launched a few frameworks to guide the economy to achieving the Wawasan Brunei 2035, and to ensure an enabling economic environment that, inter alia, leverages on transformative technologies. These are, among others:
 - The Economic Blueprint which will support Brunei Darussalam's journey towards becoming a dynamic and sustainable economy, through providing six (6) well-defined aspirations with more than 30 policy directions. These aspirations include Productive and Vibrant Businesses; Skilled, Adaptive and Innovative People; Open and Globally Connected Economy; Sustainable Environment; High Quality and Competitive Economic Infrastructure; and Good Governance and Public Service Excellence.
 - The Digital Economy Masterplan 2025 that outlines strategies for the country to become a Smart Nation with a digital and future-ready society, vibrant and sustainable economy as well as conducive digital ecosystem.
 - The Brunei Darussalam National Climate Change Policy (BNCCP) that was launched to advance Brunei Darussalam's economic growth in a low-carbon

manner while achieving resilience against the changing climate, by paving the necessary pathways through the 10 key strategies¹ with potential greenhouse gas emissions reduction. This will open up new opportunities for a “low-carbon” or green industry growth in Brunei Darussalam and subsequently unlock multiple potentials such as local business development, local employment and competencies, competency development, digital technologies, Research and Development and FDIs.

- 6.5. Ensuring quality and productive labour force remains to be a key priority for the authorities. The authorities, through the Manpower Planning and Employment Council (MPEC), are fostering cooperation with industries, regulators and training institutions to ensure local manpower supply are marketable and employable. The authorities continuously work with companies to facilitate recruitments and are identifying manpower needs by conducting engagements with companies particularly those in the growth sectors. Online platforms are being utilized to this effect such as conducting virtual sessions to assist jobseekers and companies in using online recruitment as well as the provision of an upgraded portal that features, among others, automatic job matching, real-time notifications for job matches, and providing employers with key information such as the talent profiles and compatibility reports of jobseekers against their job requirements. At the end of 2020, 4,304 vacancies (65 percent of total vacancies) were successfully filled by locals.

7. TECHNICAL ASSISTANCE

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

8. FINAL REMARKS

- 8.1. The authorities have continued to take on board advice from the Fund from previous Article IV Consultations, where appropriate, and have benefitted the Fund’s technical assistance in critical areas. Cooperation in these areas as well as

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

other areas of interest, including training opportunities to address capacity gaps, will be expected to continue.

- 8.2. The authorities would like to once again thank the mission team for their valuable findings, productive discussions and recommendations. The policy dialogue through the Fund's Article IV Consultation process has provided the authorities with valuable advice from an independent and trusted international institution. The authorities also wish to convey their appreciation to the Fund for providing its expertise, constructive policy advice and technical assistance, and look forward to enriching the level of communication and relationship with the Fund in the future.