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August 30, 2021

**Statement by Mr. Sigurgeirsson and Mr. Spurga on Brunei Darussalam  
(Preliminary)  
Executive Board Meeting  
September 1, 2021**

We thank staff for the comprehensive report and Ms. Lim and Mr. Mahyuddin for their informative Buff statement. The authorities' response to the pandemic, including the recent wave of infections, has been appropriate, as well as their continued efforts in supporting economic diversification, as outlined in the government's Economic Blueprint and other related initiatives. We broadly agree with staff's appraisal and would like to add the following remarks.

**We note that the economy performed strongly in 2020 in part due to the commencement of operations by a major refinery and petrochemical plant** – a joint venture between China's and Brunei entities, and a major FDI project. Going forward, growth momentum appears to be supported by new FDI projects, particularly the Brunei Fertilizer Industries. Despite these achievements in attracting FDI into downstream sectors, we agree with staff that efforts to diversify FDI across industries could be enhanced to further curtail reliance on the Oil & Gas sector. These efforts should feed into broader diversification strategies to foster private sector activity and private enterprise growth.

**Despite the impressive expansion in downstream activities and Non-Oil & Gas sector GDP growing at 8.8 percent last year, we note that Non-Oil & Gas fiscal revenues are not expected to rebound significantly over the coming years.** *In this regard, could staff elaborate on whether and how the authorities could redesign the tax system to better capture for recent developments in the downstream industry and broaden the tax base (including through environmental taxes)?*

**We note that the trend of decreasing investment on physical infrastructure has continued, with capital investments decreasing from 8.1 percent of GDP in 2016 to 1.2 percent of GDP in 2020.** At the same time, Brunei's quality of infrastructure falls short of that in countries with similar economic structures and income levels. Although medium-term fiscal consolidation efforts are key to ensure intergenerational equity, we agree with staff that productivity-enhancing spending should be preserved. We also encourage the authorities to employ the Public Investment Management Assessment (PIMA) framework of the IMF with the goal to optimize public investment.

**In this context, restraining current spending over the medium term will be key to ensure fiscal sustainability.** We agree with staff that reforming subsidy schemes such as fuel subsidies (while supporting the vulnerable groups), reducing the wage gap between the public and the private sector, and broadening the non-Oil & Gas tax base will be paramount to putting public finances on an efficient and stable basis.