

**EXECUTIVE
BOARD
MEETING**

SM/21/144

Correction 1

August 31, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Brunei Darussalam—Staff Report for the 2021 Article IV Consultation**

Board Action: The attached corrections to SM/21/144 (7/28/21) have been provided by the staff:

Evident Ambiguity **Pages 6, 14 (para. 32, line 4), 21, 35**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Pages 1, 4, 5, 9, 10, 11, 14 (para. 32, line 9 and para. 34), 16, 23, 27, 28, 30, 31, 33, 55, 57**

Typographical Errors **Page 15**

Questions: Mr. Furceri, APD (ext. 35854)



BRUNEI DARUSSALAM

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 27, 2021

KEY ISSUES

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

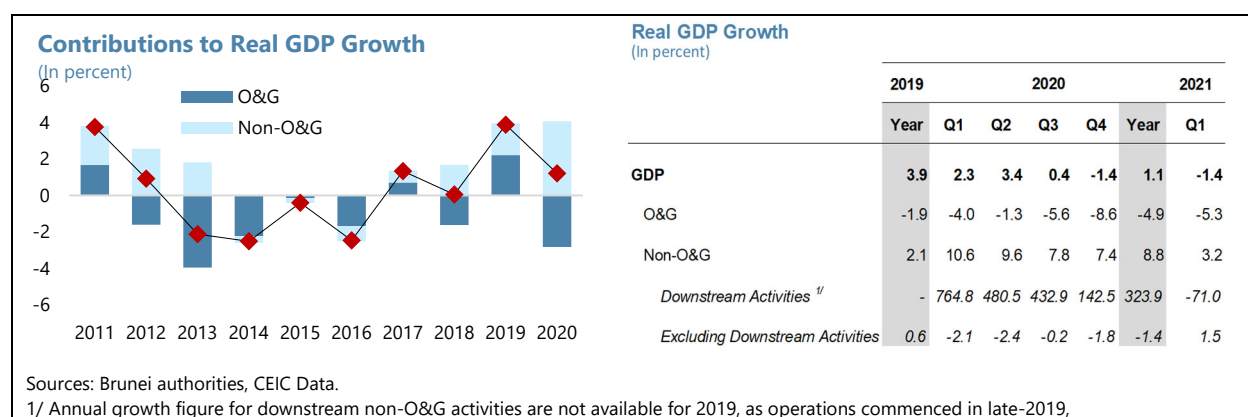
Main policy recommendations. Policies should continue to support the recovery, limit scarring, and promote further economic transformation to foster resilience.

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

CONTEXT AND RECENT DEVELOPMENTS

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

2. Economic performance has varied across sectors. The oil and gas sector saw a significant output contraction in 2020—the largest since the oil price shock in mid-2014. Despite the pickup in global oil prices since October last year, Brunei's O&G production sector in Q4 2020 has remained in large contraction (-8.6 percent yoy) due to the unscheduled shutdown and maintenance of some offshore O&G facilities. In the non-O&G sector, growth performance was more heterogenous. Stringent containment measures implemented in the early stages of the pandemic negatively affected contact-intensive sectors (such as hotels, restaurants and air transport) which contracted by 1.64 percent. In contrast, growth in the downstream non-O&G sector, led by manufacture of petroleum and chemical products, was exceptionally strong (+324 percent yoy) contributing 4.6 percentage points to real GDP growth in 2020.¹



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

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

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

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

5. The fiscal deficit increased from 5.65.7 percent of GDP in FY2019/20 to 19.718.2 percent in FY2020/21. The widening of the deficit largely reflected lower energy prices and oil production and exports, which reduced O&G revenue from 19.820.3 percent of GDP in FY2019/20 to 7.77.4 percent in FY2020/21. The decline in revenue has been partly offset by a trend decline in expenditure, reflecting authorities' efforts to improve fiscal sustainability. The government allocated BND15 million in FY2020/21 to meet the immediate needs of the health sector. The government also rolled out a sizeable economic relief package to support the households and firms most affected by the pandemic, including the deferment of payments on Employee Trust Fund and Supplemental Contributory Pensions contributions, discounts on corporate income taxes, rents and utilities, deferment on principal payments of financing to all sectors, and 25 percent payroll subsidies to affected micro, small and medium enterprises (MSMEs) with less than 100 employees (Appendix I). The stimulus package amounted to BND450 million—about 2.7 percent of GDP.

Text Table. Brunei Darussalam: Fiscal Development^{1/}

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

Source: Brunei authorities, IMF staff estimates
 1/ Fiscal year: April-March
 2/ In absence of government debt and interest payments, this is also primary balance.

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

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

Authorities' Views

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

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

OUTLOOK AND RISKS

9. Growth is projected to improve in 2021-22. The O&G sector is projected to recover marginally in 2021 (+0.5 percent yoy) amid ongoing rejuvenation program and scheduled major maintenance of offshore facilities, with the outlook gradually strengthening over the medium term. In the non-O&G sector, downstream activities are expected to remain strong, driven by the commencement of new FDI projects, particularly Brunei Fertilizer Industries, which are expected to come onstream towards H2 2021. The contact-intensive non-O&G sector is also expected to pick up in 2021³ as domestic containment measures are phased out and vaccination is progressing (as of mid-July 2021, one-quarter of the population had received at least one dose—Appendix I). For 2021-22, growth is projected to accelerate to 2-3 percent, before slowing to around 2 percent over the medium term.⁴ With continued diversification, the share of non-O&G is projected to rise further to 52 percent of GDP by 2026.

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

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

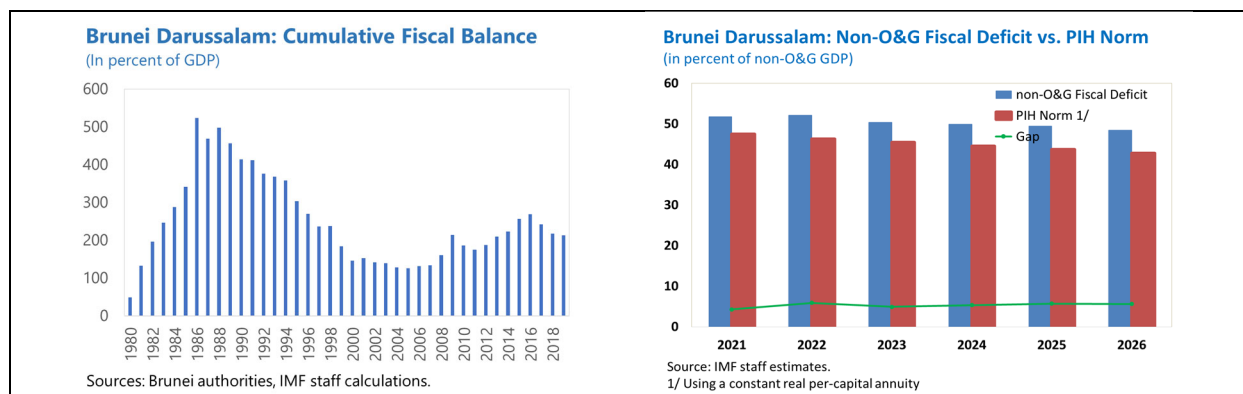
12. The fiscal balance is expected to improve in 2021 as energy prices and economic activity pick up. However, absent strong consolidation measures aimed at reducing spending, the fiscal deficit is projected to fluctuate at 9-11 percent of GDP during FY2021/22-2026/27. Revenues are projected at about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

² ‘Whole-of-government’ refers to unified inter-government agency coordination and implementation of government policies.

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

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

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



Fiscal Consolidation

18. Fiscal consolidation strategies should preserve growth-enhancing spending. The government has been implementing the fiscal consolidation program since 2018, requesting ministries to prepare a five-year plan that includes reforms to reduce inefficient spending. Government expenditure has steadily declined from 39.3 percent of GDP in FY2016/17 to 32.229.7 percent in FY2020/21. At the same time, while spending on physical infrastructure has been curtailed substantially, undermining potential growth, limited progress has been made in restraining current spending.

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

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

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

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

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

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

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

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	cumulative 2021/22-2026/27
	(Fiscal year basis, percent of GDP)						
Fiscal balance under:							
Baseline scenario	-9.3	-9.4	-10.5	-10.5	-10.9	-11.1	-61.7
Policy adjustments 1/	-9.3	-8.7	-9.5	-9.1	-9.5	-9.7	-55.7
Source: IMF Staff calculations							
1/ Policy adjustments relative to the baseline: containing wage bill (0.2 percent of GDP) and fuel subsidy reform (1.2 percent of GDP) gradually from 2022/23 to 2024/25, and sustained in the medium term.							

Public Finance Management

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

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

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

¹² Non-O&G tax revenue represents 9.9 percent of total revenue and 2.04-9 percent of GDP on average during FY2018/19-FY2020/21.

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

24. The authorities' efforts on corporatization, privatization, and public-private partnership (PPP) are tangible steps to strengthen public finance management. A

corporatization and PPP special committee was established under the Ministry of Finance and Economy (MoFE) in 2018 and has reviewed a range of sectors (electricity, water, post office, and air transportation) for corporatization.¹³ Further efforts on corporatization, PPP as well as privatization should contribute to fiscal consolidation through increased revenue and private sector development.

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

Authorities' Views

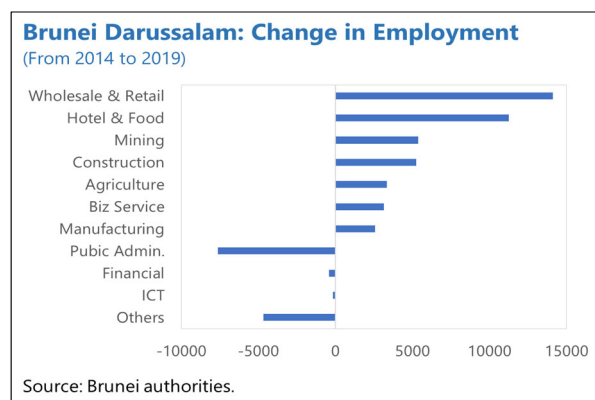
26. The authorities agreed with continuing fiscal reforms, underscoring budgetary investment on diversification and private sector development and cost-effective spending. The authorities have advanced fiscal consolidation, implementing the Fiscal Consolidation Program [since FY2020/21](#) with 117 initiatives [from FY2018/19](#) and reallocating inefficient spending to future investment. The development expenditure execution delayed by COVID-19 is expected to resume in FY2021/22. The authorities have taken steps to reform subsidies in more efficient manner such as through the launch of premium fuel without subsidy, smart meter for water and power as well as exploratory discussions on power tariff improvements. The establishment of the National Welfare System is also aimed to ensure support to those most in need and enables the government to conduct assessments in more targeted and systematic manner. The MoFE is in the process of consolidating subsidies data across the line-ministries through the ongoing Treasury Accounting and Financial Information System 2.0 project. Strengthening the Public Service Department/Commission ensured optimization of manpower through the implementation of manpower auditing. This also avoided duplication of functions and redundancy whilst ensuring equitable and efficient deployment through redeployment and retraining and only resorting to new recruitment only when deemed necessary. Deliberations are being undertaken on possible expansions of excise taxes in the near future, especially on goods harmful to the environment and health, which will serve a dual purpose of achieving socio-economic sustainability and increasing government revenue. The authorities agreed with the need to

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

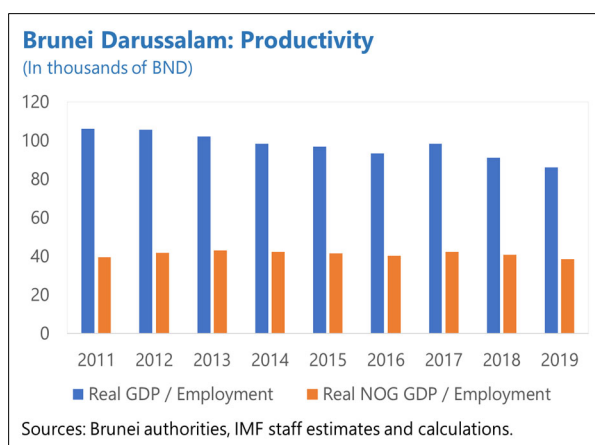
¹⁴ Brunei maintains several extra-budgetary funds for different purposes. The consolidated fund holds the fiscal surpluses and provides capital transfers to other extra-budgetary funds. The sustainability fund for long-term fiscal sustainability has sub-funds designated for pension payment, development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

C. Promoting Private Sector Developments and Fostering Economic Transformation

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



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



34. Digitalization—accelerated by the Digital Economy Masterplan 2025—would contribute to diversification. The Masterplan was initiated for a “smart nation” in line with a national vision of Wawasan Brunei 2035 and lists 2517 projects to be implemented over five years, covering the public transport information system, a national business service platform, school network infrastructure, a halal certification system, as well as three flagship projects of digital ID, digital payment and national information hub as the backbone of the digital ecosystem. Institutions

for personal data protection, cyber security and e-commerce have also been established. To maximize the payoff of the Masterplan, the ICT industry should be further developed, expanding the young and tech-savvy workforce.

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

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

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



Authorities' Views

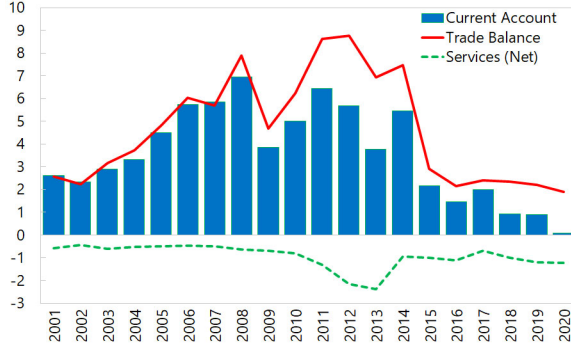
38. The authorities underscored the progress towards diversifying the economy and strengthening spillovers of FDI. The COVID-19 crisis provides an opportunity to foster change and step on diversification, digitalization, private sector development and climate change. In January 2021, the authorities launched the Economic Blueprint, which acts as a guide for stakeholders to build on the country's economic success through well-defined aspirations and policy directions, complementing the efforts to achieve Wawasan Brunei 2035's Goal 3 (Dynamic and Sustainable Economy). To ensure the success towards this goal, the Macroeconomic Development Committee was formed as a platform to discuss the development of the country's macroeconomic outcomes as well as to produce a holistic direction. The authorities emphasized the importance of FDI and agreed on diversifying FDI projects to maximize their spin-off effects. Cross-border trade/investment have been encouraged by expanding FTAs (such as the RCEP signed in 2020). Efforts have been made to secure fair competition in the market. Continuing corporatization, PPP and privatization have also facilitated the private sector growth, with SOEs playing a strategic role to further stimulate market development. The authorities agreed on the need to expand high value-added employment, emphasizing education and training for expert competency. A variety of initiatives such as JobCentre Brunei, I-Ready and SkillsPlus has been proceeded on the close cooperation between ministries and industries. The authorities underlined the importance of improving productivity through investment on education and infrastructure, while looking for policies to improve sectors with weak productivity. They welcomed future engagements with the IMF to enhance its sectoral productivity especially in the five priority clusters. The authorities have accelerated digitalization by launching the Digital Economy Masterplan 2025 with sizable investment of about BND ~~74.616~~ million. The restructuring of the communication industry has contributed to heightening efficiency and lowering consumer burdens

Figure 2. Brunei Darussalam: External and Financial Indicators

The current account surplus narrowed further in 2020...

External Balances

(In billions of U.S. dollars)

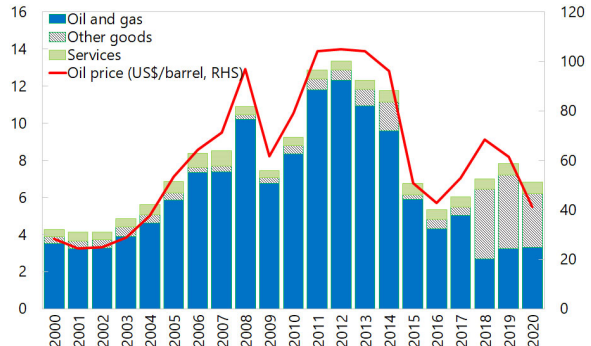


Sources: Brunei authorities; and IMF staff estimates.

...led by falling goods exports.

Export Composition

(In billions of U.S. dollars)

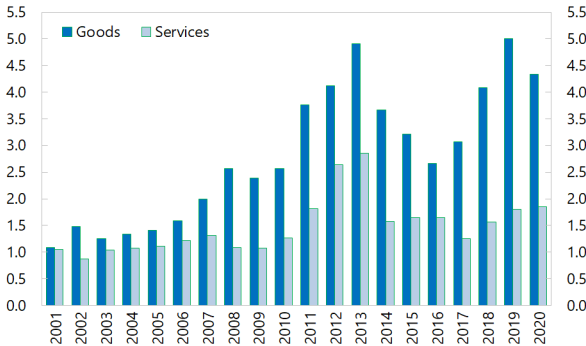


Sources: Brunei authorities; and IMF staff estimates.

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

Import Composition

(In billions of U.S. dollars)

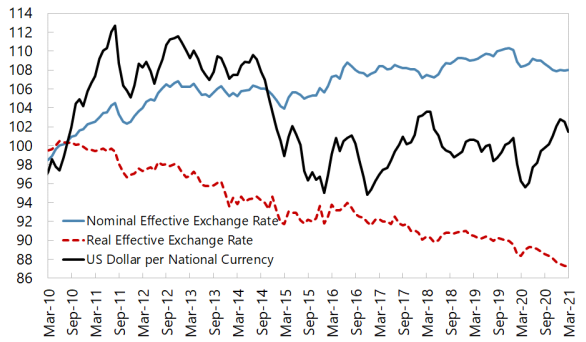


Sources: Brunei authorities; and IMF staff estimates.

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

Exchange Rates

(Index, 2010=100)

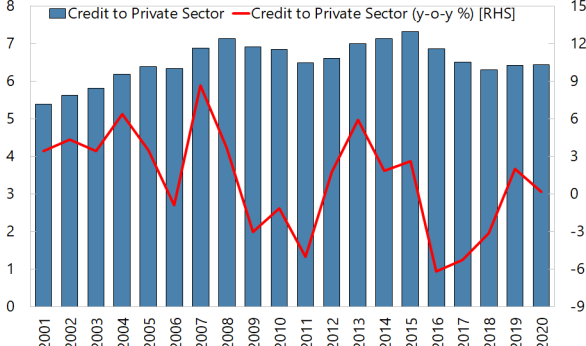


Sources: IMF, International Financial Statistics.

Private sector credit growth declined in 2020...

Credit to Private Sector

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

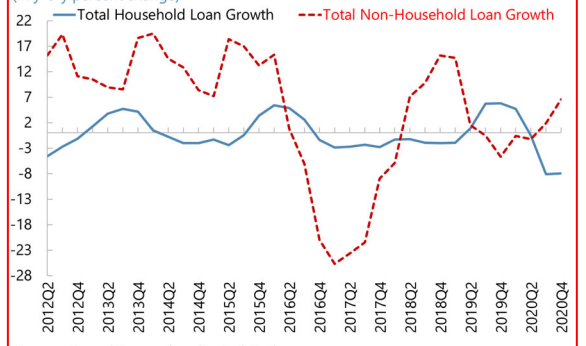


Sources: IMF, International Financial Statistics.

... mainly due to declining households loan growth.

Brunei Darussalam: Loan Growth

(In y-o-y percent change)

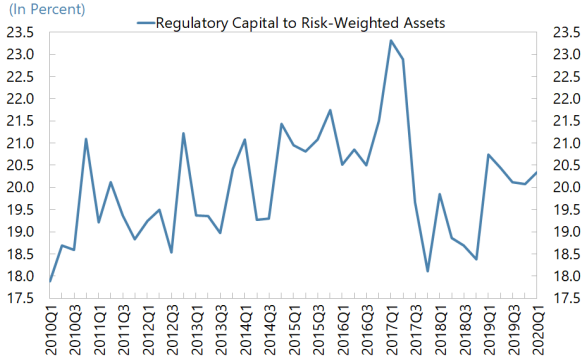


Sources: Brunei Darussalam Central Bank

Figure 4. Brunei Darussalam: Financial Stability Indicators

The banking sector remains well capitalized...

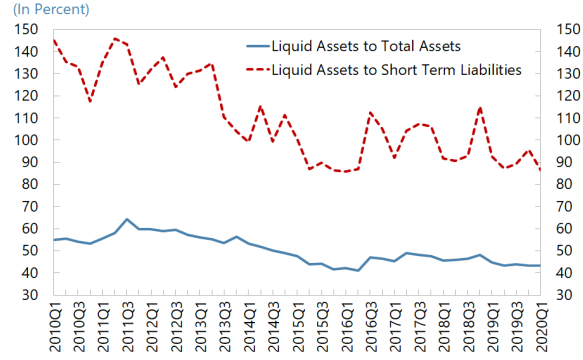
Capital Adequacy



Source: IMF, Financial Soundness Indicators.

...with ample, albeit declining, liquidity.

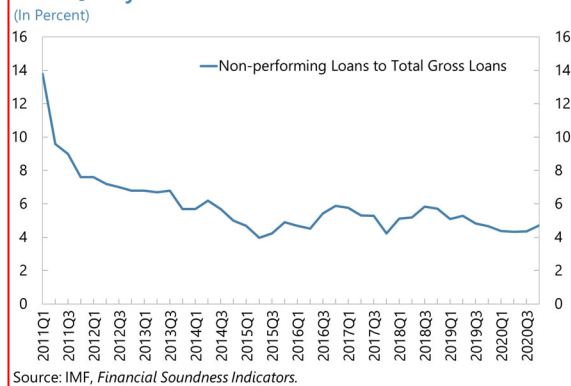
Liquidity



Source: IMF, Financial Soundness Indicators.

While NPL ratios remained largely stable in 2020 have declined...

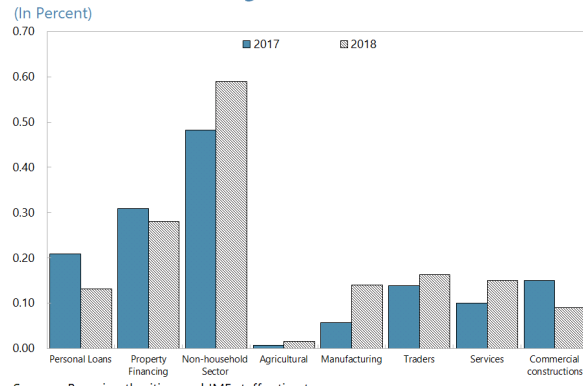
Asset Quality



Source: IMF, Financial Soundness Indicators.

...mostly in terms of personal loans.

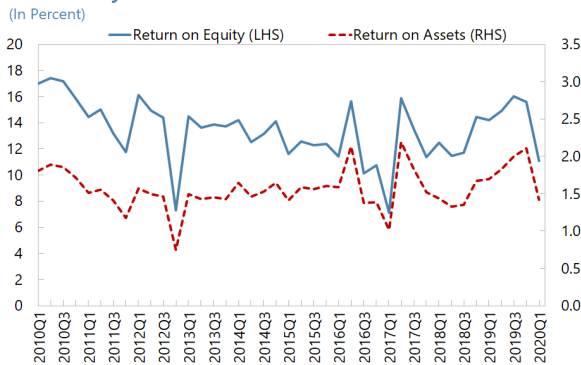
Sectoral Non Performing Loans Contributions



Sources: Brunei authorities; and IMF staff estimates.

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

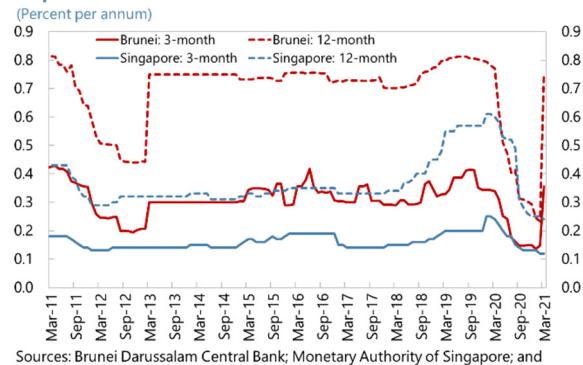
Profitability



Source: IMF, Financial Soundness Indicators.

...while deposit rates have fallen

Deposit Rates



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

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

Area: 5,765 sq. kilometers

Population (2019): 433,285

Nominal GDP per capita (2019): US\$31,087

Main export destinations (2019): Japan (34.7), Thailand (10.1), Australia (8.8), Korea (8.6)

Unemployment rate (2019): 6.8%

Labor force participation rate (2019): total 64.3%; male 72.5%; female 54.8%

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

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

1/ Non-oil and gas GDP includes the downstream sector.

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

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.

Table 2. Brunei Darussalam: Budgetary Central Government Developments, 2016/17-2026/27 1/

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

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

1/ GFSM 1986 Presentation (cash-based); fiscal year ends March 31.

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

Table 4. Brunei Darussalam: Monetary Developments, 2016–26

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

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

1/ Comprises central bank's foreign exchange assets, SDR holdings, and reserve position in the Fund.

2/ Ratio of foreign exchange holding to currency.

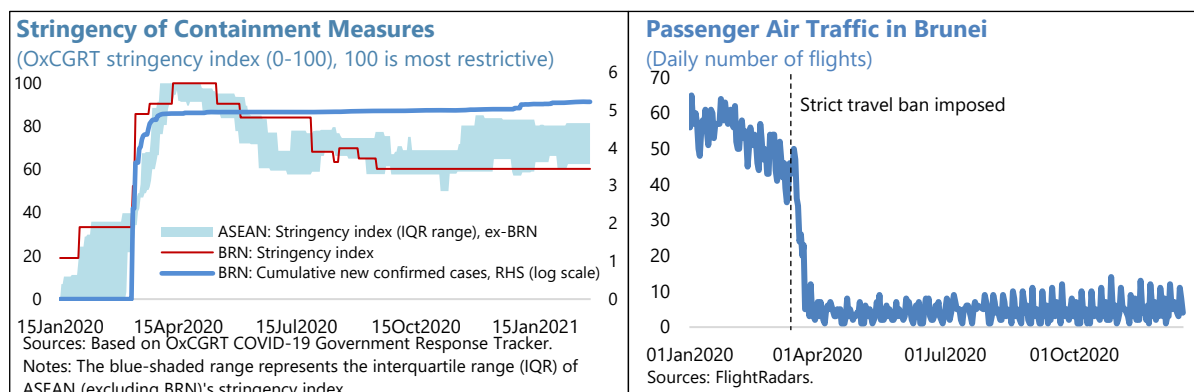
Table 5. Brunei Darussalam: Indicators of Vulnerability, 2016–26

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

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

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

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



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

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

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

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

Consumer Affairs

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

Front-liners and Volunteers

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

Online Learning

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

Supporting Businesses/Individuals

1. Deferment on payments of Employee Trust Fund (TAP) of 5 percent, and Supplemental Contributory Pensions (SCP) contributions of 3.5 percent for local employees earning less than \$1,500 per month in all sectors under the micro, small and medium-size enterprises (MSMEs) with less than 100 employees. Government provides full SCP contributions to the registered self-employed.
2. Deferment on principal repayments on business and personal financing/loans for those affected across all sectors—deferment on principal repayments on personal financing/loans and vehicle financing/loans (or restructuring of loans/repayments with a period of not exceeding 10 years).
3. Deferment on principal repayments on personal financing/loans related to land (ownership or investment purposes).
4. Waiver of trade and payment transaction fees for companies in tourism, restaurants, air transport, food and medicine sectors.
5. Conversion of outstanding balances on credit cards into a term loan for a period not exceeding three years for affected individuals in the private sector only (including the self-employed).
6. Waiver of all charges and bank payments for interbank transfers (except third party charges)—only applicable to local banks.
7. Temporary suspension of rental charges for markets and stores operating under the Ministry of Home Affairs.
8. Temporary exemption of customs and excise duties to assist retailers and consumers from the rising demand for hygiene and disinfectant products.
9. Providing 25 percent salary subsidies for Brunei employees in the MSME sector with less than 100 employees.
10. Providing ~~30 percent~~ discounts on rental rates of government buildings for MSMEs in tourism, hospitality, restaurants/café, and air/water transportation (“Targeted Sectors”).
11. Providing 50 percent tax discount on corporate income tax for the year of assessment 2021 in Targeted Sectors.
12. Providing Co-Matching Grants for e-commerce (e-Kadai) and logistic services.

Supporting Labor Market

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



Appendix VIII. Draft Press Release

IMF Executive Board Concludes 2021 Article IV Consultation with Brunei Darussalam

FOR IMMEDIATE RELEASE

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

Brunei's economic performance—which was strong before the COVID-19 pandemic—has been buffeted by the health crisis and a pandemic-induced oil and gas (O&G) price shock. The authorities responded fast and decisively. The number of new infections was quickly suppressed, thanks to a swift public health response, effective health measures and non-pharmaceutical interventions. The O&G sector saw a significant output contraction in 2020—the largest since the oil price shock in mid-2014. In the non-O&G sector, growth performance was more heterogenous. Stringent containment measures implemented in the early stages of the pandemic negatively affected contact-intensive sectors (such as hotels, restaurants and air transport) which contracted by 1.4 percent in 2020. In contrast, growth in the downstream non-O&G sector, led by manufacture of petroleum and chemical products, was exceptionally strong, contributing 4.6 percentage points to real GDP growth in 2020. Strong fiscal and monetary policy responses helped sustain production and household income and consumption. As a result, the economy performed strongly in 2020, with real GDP posting positive growth of 1.1 percent—a rare outcome amidst negative growth in the region.

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

Real GDP growth is projected at around 2 percent over the medium term and, reflecting important diversification efforts, the share of non-O&G is projected to rise further to around 52 percent of GDP by 2026. Employment is expected to increase as the recovery strengthens. Headline inflation is

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.

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

Area: 5,765 sq. kilometers

Population (2019): 433,285

Nominal GDP per capita (2019): US\$31,087

Main export destinations (2019): Japan (34.7), Thailand (10.1), Australia (8.8), Korea (8.6)

Unemployment rate (2019): 6.8%

Labor force participation rate (2019): total 64.3%; male 72.5%; female 54.8%

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

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

1/ Non-oil and gas GDP includes the downstream sector.

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

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.