



Executive Board Minutes 21/86-2

September 1, 2021–11:50 a.m.

Brunei Darussalam—2021 Article IV Consultation

Documents: SM/21/144, and Cor.1, and Sup.1

Staff: Furceri, APD; Rother, SPR

Length: 39 minutes

ISSUED: January 19, 2023

APPROVAL: January 26, 2023

CEDA OGADA
Secretary

TABLE OF CONTENTS¹

The Acting Chair’s Summing Up	3
Executive Board Attendance	4
Discussion Record	6
Annex	18
○ Staff’s Statement	
○ Gray Statements	
○ Staff Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the strong, timely, and multi-pronged policy response to the COVID-19 pandemic and associated decline in oil and gas prices. Noting the still very uncertain outlook, with risks skewed to the downside, Directors stressed the need to maintain supportive policies until the recovery is on a firm path. They also underscored the importance of continued reforms to support economic transformation, strengthen resilience, and foster green, digital, and inclusive growth.

Directors welcomed the authorities' continuous efforts to strengthen the fiscal position. In this regard, they were encouraged by several recent initiatives, including the establishment of a credible medium-term budget framework, measures to increase efficiency of public spending, rationalization of public employment, and steps to reform subsidies. Directors saw scope for further efforts in these areas over the medium term to reduce vulnerabilities and support intergenerational equity.

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.

Directors noted the resilience of the banking sector. They commended the authorities' initiatives to enhance risk-based supervision through an early warning exercise, introduce the Basel III framework, and develop a holistic macroprudential framework. Directors also welcomed the recent legislative changes aimed at strengthening the AML/CFT regulatory and supervisory framework.

Directors encouraged the authorities to continue to build on their efforts to diversify the economy, further attract FDI, and enhance human capital and improve private employment. They welcomed the policy priorities of the recently released Economic Blueprint, and highlighted the importance of accelerating digital and green growth to foster job creation and enhance resilience.

Directors welcomed the steps taken to address data gaps and the authorities' commitment to further improve data compilation and reporting. They noted the authorities' plan to request further capacity development support from the IMF to improve data collection and dissemination.

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

EXECUTIVE BOARD ATTENDANCE²

M. Furusawa, Acting Chair

Executive Directors

A. Buisse (FF)
J. Stephan (GR)

A. Alzamel (SA)
R. Lim (ST)

Alternate Executive Directors

O. Odonye (AE)
M. Sidi Bouna (AF), Temporary
I. Bustillo (AG), Temporary
A. Grant (AP)
R. Velloso (BR), Temporary
Z. Zhang (CC)
J. Romero (CE)
B. Rankin (CO), Temporary
H. Azal (EC)

S. Dash (IN), Temporary
A. Ribeiro Mateus (IT), Temporary
M. Kashima (JA)
S. Ahmed (MD), Temporary
M. Merhi (MI), Temporary
T. Manchev (NE), Temporary
J. Sigurgeirsson (NO)
L. Palei (RU)

M. Zhunusbekova (SZ), Temporary
A. Clark (UK), Temporary
B. Commaroto-Roverini (US), Temporary

S. Bhatia, Acting Secretary
S. Maxwell, Summing Up Officer
D. Alcantara, Board Operations Officer
M. Eddy, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: O. Brekk, K. Chahande, J. Flinner, D. Furceri, S. Lee, A. Tan.
Communications Department: P. Sherpa. Legal Department: J. Swanepoel. Strategy, Policy,
and Review Department: B. Rother, H. Ward. Executive Director: A. Andrianarivelo (AF),

² For countries in each constituency, please see the Constituency Codes in the annex.

M. Mahmoud (MI), P. Moreno (CE). Alternate Executive Director: B. Alhomaly (SA), A. Alhosani (MI), A. Guerra (CE), C. Just (EC), F. Mochtar (ST), R. N'Sonde (AF), F. O'Brolchain (CO), D. Ronicle (UK), F. Sylla (AF). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), X.Bai (CC), E. Cartagena (CE), M. Choueiri (MI), P. Harvan (EC), M. Ismail (AE), H. Koh (GR), B. Lischinsky (AG), Z.Mahyuddin (ST), J. Rojas (CE), S. Senich (US). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), D. Fadhel (MI), J. Gallardo Zavala (BR), D. Hamzah (MI), H. Koh (GR), V. Lankester Campos (CE), R. Moral Betere (CE), A. Olhaye (AF), D. Shestakov (RU), S. Spurga (NO), J. Yoo (AP), F. Lopez (CE), E. Comolet (FF).

DISCUSSION RECORD³

The Acting Chair (Mr. Furusawa):

This year's consultation took place amid unprecedented challenges, as the Brunei economy has been hit by the health crisis and a pandemic-induced oil and gas price shock. While economic activity is projected to strengthen in 2021 and 2022, the rapid increase in COVID-19 cases since August 7 is increasing downside risks. The authorities have responded quickly by implementing containment measures, expanding testing, vaccination capacity, and adopting policies to support the economy based on their experiences to cope with the first wave in March 2020.

In the gray statements, Directors welcomed the authorities' decisive and comprehensive response to mitigate the impact of the crisis, including a swift public health response and measures to protect the most vulnerable and support the private sector.

Beyond addressing immediate needs stemming from the crisis, you underline the importance of strengthening economic diversification and private-sector development. Fiscal reforms, including measures to promote intergenerational equity and policies to develop human capital and attract quality foreign direct investment (FDI) will be critical to foster a digital, greener, and inclusive recovery.

Ms. Lim:

On behalf of the authorities of Brunei Darussalam, I would like to thank the Mission Chief, led by Mr. Furceri, for the balanced report and also Executive Directors for acknowledging the authorities' efforts in managing the pandemic and strengthening the economy's fundamentals and resilience.

Directors' comments and views from the gray statements are positively noted and provides a good basis for the consideration to further enhance and recalibrate some of the policies and initiatives that have been implemented.

In this regard, I would like to share some updates and points for further emphasis. Vaccination is still the key to economic recovery. In later steps, as of August 31st, 51.1 percent of the population has received at least one dose

³ Edited for clarity.

of the COVID-19 vaccine, and 21.2 percent of the population completed a vaccination program. The authorities have ramped up their efforts to reach the target of vaccinating more than 70 percent of the population before the end of the year for herd immunity. Such efforts include mobilization of resources, opening-up new vaccination facilities.

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 infrastructure.

Taking this opportunity, they would like to convey their appreciation to the international community for their support in Brunei Darussalam's COVID-19 management and vaccination efforts.

In these challenging times, Brunei Darussalam's policy mix remains flexible while maintaining prudent fiscal policy management. The authorities are committed to prioritize expenditures that can promote and sustain strengthened growth as well as enhance efficiency gains. They aim to make further progress in their fiscal consolidation programs while being mindful of current developments of the domestic economy and strengthen fiscal management through a whole of nation approach.

The authorities will continue to provide quality and accessible infrastructure critical to supporting economic activities, increasing productivity, and ensuring the well-being of the people and which place the population and businesses well to capture opportunities in the future.

The authorities are also working closely with the private sector in the betterment of the infrastructure in the country, in particular, through Public Private Partnership (PPP) collaboration.

On human capital development, the authorities have long emphasized the provision of a quality education through numerous initiatives and policies. Skilled, adaptable, and an innovative population, coupled with a conducive environment, encourages entrepreneurship, and will collectively build resilience in human capital to drive growth amidst an evolving global economic landscape. The authorities are committed to achieving the right balance for the purpose of economic growth while being mindful of environmental preservation.

The natural environment is a valuable and irreplaceable commodity and central to ensuring a high quality of life for current and future generations.

By venturing in sustainable development, i.e., green and blue economy, the aim to conserve Brunei Darussalam's status as the green gem in the heart of Borneo and reduce carbon footprint. Advocating environmentally friendly and sustainable practices in businesses for investing in green technology will ensure that economic growth can be achieved without compromising the environment. Through a whole of nation approach, the authorities reaffirm their commitment to low carbon and climate resilient policies for a sustainable nation with 2035 as the target year.

Finally, the authorities are pleased to inform the Board that they agreed to the publication of the Brunei Darussalam Article IV staff report 2021.

The staff representative from the Asia and Pacific Department (Mr. Furceri):

As many Directors emphasized in their gray statements, prior reform efforts in the authorities' effective policy response were instrumental to withstand the impact of the pandemic and the associated decline in oil and gas prices.

As we noted in the staff statement, economic activity is projected to strengthen in 2021 and 2022, but there are significant downside risks to the outlook, most notably because of the recent resurgence of the pandemic. While it is too early to assess the economic impact of the new outbreak, the pace of the recovery is expected to soften, especially in social sectors.

However, the ability of the economy to live with the pandemic has improved since last year, including through progress in digitalization. The strong policy response should add to sustained activity. Moreover, stronger vaccine rollout and energy price could continue to add surprise to the upside.

As Directors stressed in their grays, this recent development called for the need to maintain supportive policies until the recovery is on a firm path. At the same time, the macroeconomic policy mix should aim to strengthen resilience and promote economic transformation in the longer term.

First, fiscal reform should aim to improve fiscal position to achieve sustainable, long-term expenditure and improve intergenerational equity. Second, financial sector regulation and supervision should continue to remain vigilant while continuing to ensure access by private sectors to financing.

Finally, but not least, structural policies should be accelerated to build human capital, attract higher value-added FDI, foster digital and green growth.

As the Directors recognized in their gray statements, the authorities made efforts in this area already. Here, I would like to focus on two of these areas, and this will allow us also to answer some of the thoughtful Directors' technical questions.

First, the important policy area is which policies can foster private sector development. Here, I would like to note that the authorities in the course of the past years have implemented several active labor market policies to promote private sector jobs, address the structural unemployment, especially among the youth. These policies are broad based and include, for example, the job center for Brunei, to increase job matching. They have developed several programs for job training and not least many programs for upskilling and reskilling, including the ability for FDI to create additional jobs.

As a result of this effort, the labor market condition in Brunei has still improved. Just to give us an idea, before the pandemic, private sector employment has grown by about 50 percent from 101,000 people in 2014 to about 147,000. Similarly, the youth unemployment rate declined notably by 4 percentage points from 25.3 in 2014 to 21.3 in 2019. As we discussed in the technical answers, it is clear that the pandemic is taking a toll on unemployment, is increasing unemployment in the short term, but staff believes that these policies are the right policies to address labor market issues and encourage the authorities to continue to pursue them.

On other important areas of policy regards the diversification of the economy and their ability to attract high-quality FDI. As Ms. Lim mentioned in her buff statement, the authorities are currently focusing on developing several industry classes to diversify the economy. The first was the downstream. Indeed, this was one important step to promote economic activity in 2020. The downstream sector contributed to significant growth and added to foster positive growth for 2020, expanding to other sectors, just like food, ICT, service, and tourism. In this regard, the authorities also met the significant effort to facilitate FDI and improve business regulation. Indeed, many indicators for business climate have improved, and the authorities have recently launched three important initiatives to foster digital, inclusive, and greener economies, the Economic Blueprint, and the Brunei Darussalam National Climate Change Policy.

Staff welcomes the authorities' efforts and encourage the authorities to push ahead.

Let me conclude by thanking the authorities for a very constructive and fruitful consultation this year despite the challenge due to the pandemic and the virtual Article IV consultations. The discussion was extremely pleasant, fruitful, and very thorough.

We look forward to continuing our engagement with the authorities as a part of the Article IV Consultation as continued surveillance.

Mr. Velloso:

We issued a comprehensive gray statement, agreeing with the thrust of the staff appraisal. Thus, I will make only a couple of comments for emphasis.

First, let me commend the authorities on their swift response to the COVID-19 pandemic which has protected lives and livelihoods. Given ample fiscal buffers, fiscal support should be maintained in the near-term until the recovery is firmly underway. Over time, the fiscal position should be strengthened, as at least part of the country's natural resource wealth should be saved for future generations. In this regard, priority should be given to better targeting subsidies, which would not only provide fiscal savings but also improve the allocation of resources in the economy.

Second, we take positive note that Brunei Darussalam's strategy to reduce its reliance on the oil and gas sector continues to bear positive results. Last year, the non-oil and gas sector was able to offset gross domestic product (GDP) losses stemming from oil and gas. Brunei's successful diversification stands as an example to other energy-dependent producers and exporters that diversification requires careful long-term planning and steadfast execution.

Mr. Odonye:

We commend the authorities' decisive response to the pandemic and strong diversification strategy that sustained activity with positive growth in 2020.

Having broadly agreed with the staff appraisal and policy recommendations, we provide the following comments for emphasis. First, given uncertainty around the path of the pandemic, policy support should

continue until the incipient recovery firms up, held by the country's ample fiscal space.

The authorities would need to resume fiscal consolidation in the future with the crisis abating to enhance fiscal sustainability and preserve resources well for intergenerational benefit.

Prioritizing fiscal reforms to expand savings and improve resource allocations in the economy is also encouraging. To this end, we welcome the recent positive steps to reform the subsidies, including by launching premium fuel without subsidy and introducing smart meter for water, as highlighted in the authorities' buff statement.

Second, we note that the currency peg has served the country well, providing a nominal anchor for macroeconomic and financial stability. Relatedly, the banking sector has remained sound and well-capitalized, supported by prudent fiscal regulations.

Nonetheless, the authorities should closely monitor financial risk in banks given the continued volatility in global oil prices. We welcome the progress towards introducing the Basel III framework, developing a holistic macroprudential framework, and improving private sector financing, and urge the authorities to increase efforts to implement the anti-money laundering/combating the financing of terrorism (AML/CFT) regulatory and supervisory framework.

Finally, and like other Directors, we encourage the authorities to continue structural reforms to promote sustainable and inclusive growth and facilitate green and digital economic transformation.

Mr. Commaroto-Roverini:

We broadly agree with the thrust of staff's report. The authorities' robust policy response cushioned the effects of the pandemic and supported economic growth under challenging circumstances. We concur with staff that a flexible and growth-supportive fiscal stance will remain appropriate in the near-term to help accelerate the recovery.

We agree with staff's recommendations to strengthen fiscal consolidation once the economy is well-rooted. We encourage the authorities to scale back on productive subsidies, especially fuel subsidies, rather than curtail public expenditure on infrastructure, which risks undermining potential

growth. In this regard, we welcome the initial steps that the authorities have taken to reform subsidies, as outlined in the buff statement.

Like others, we note with concern that a small number of mega projects accounts for the majority of foreign direct investment and contributions to economic growth. Advancing structural policies to build human capacity and digitalization would support diversification, expand development of the non-oil and gas sector, and help tackle climate change.

We would welcome staff's comments on an expected reduction in emissions from Brunei Darussalam National Climate Change policy and the potential scope for a more ambitious nationally-determined contribution target.

Brunei Darussalam has virtually no public debt and held substantial reserves prior to the special drawing right (SDR) general allocation. We encourage the authorities, therefore, to consider using the SDR allocation in a manner that helps address urgent health and economic needs. We would appreciate staff's views on how the recent spike in COVID-19 cases have impacted the economic outlook.

Finally, we welcome the authorities' request for additional technical assistance (TA) and support staff's recommendation for the authorities to utilize an IMF public investment management assessment. We look forward to the sustained engagement to build capacity and strengthen sustainable growth.

Mr. Azal:

Brunei Darussalam has weathered the pandemic and the oil price shock relatively well, benefiting from the authorities' efforts to diversify the economy and successful containment of the COVID-19 spread.

We did not issue a gray statement, but noting the downside risks, we broadly concur with the staff assessment. Therefore, I will be very brief and would like to stress the following points. We underscore the importance of the fiscal structural reform agenda, in particular, by further strengthening the medium-term fiscal framework, increasing efficiency of investment and subsidies, and reducing the wage bill and dependence of prevalence on oil and gas to ensure long-term sustainability in light of the spending gap identified by staff.

We welcome the discussion on developing a holistic macroprudential framework and stress the need to continue monitoring financial risks.

Finally, we positively note the efforts in economic diversification, supporting private sector growth that are bearing fruit, and encourage staff to assess in the next Article IV report the climate change mitigation strategy to reach the emission reduction commitments.

Mr. Zhang:

Brunei Darussalam implemented decisive and coordinated policies since the pandemic. The economy performed relatively well last year, and the recovery is steadily underway. We broadly agree with staff's appraisal. Since we have issued a written gray statement, I would like to emphasize only the following three points.

First, on the external front, we agree with staff that Brunei's current account surplus is projected to rebound over the medium term in Brunei's recovery in oil and gas production prices. We also welcome the IMF's technical assistance (TA) to strengthen the authorities' capacity on external sector data compilation.

Second, on the structural front, we are encouraged to see the authorities' efforts increasing private sector employment, upgrading innovative competency and human capital and diversifying FDI, which will accelerate economic diversification and boost growth potential.

We also welcome the authorities' efforts in addressing climate change challenges and reducing carbon emissions, including the National Climate Change Policy launched at the end of last year.

Lastly, we appreciate the authorities' efforts to enhance international cooperation, including cooperation with China, to facilitate the vaccine rollout.

Mr. Sidi Bouna:

We have issued a gray statement and will limit ourselves to three very brief comments.

First, we once again would like to strongly commend the authorities for their robust policies they continue to implement to support the recovery. It

is reassuring to note that their substantial economic relief program will be extended until the end of this year.

The second point, we are also encouraged by the progress they have achieved under their fiscal consolidation with numerous initiatives that either have already been implemented or are about to be launched. We encourage them to make advancements on Public Investment Management with close Fund collaboration, including under the Public Investment Management Assessment (PIMA) framework.

Finally, like other Directors, we call on the authorities to address data gaps and enhance capacity, and in this area as well, the Fund's assistance through timely and effective capacity development (CD) will be crucial.

Mr. Romero:

As we stated in our gray statement, we broadly share staff's appraisal well-stated in Brunei's report. However, I want to make some comments for emphasis. We want to emphasize the importance to continue with the decisive fiscal support to assure recovery of the economy. However, this must be done together with the need for long-term fiscal reforms and the compromise of the authorities to implement them.

Further efforts to achieve fiscal sustainability are required, especially reducing inefficient spending, including the wage gap between the public and private sector and the strategic investment planning, reforming the subsidy scheme and tax exemption framework, and broadening the tax base in non-oil and gas sectors, and improving the tax administration.

Attraction of Foreign Direct Investment (FDI) and investing in human capital building is a very relevant strategy to achieve the transition to a greener economy, less dependent on the oil and gas industry, and to advance in employment diversification, less dependent from public positions, and more inclusive for women and the youth population.

Digitalization is also instrumental to facilitate procedures for entrepreneurs and new business activities. We hope all the success in these endeavors, and it is determinant for a sustainable and equitable development.

Finally, we welcome the Digital Economy Masterplan 2025 and Brunei Darussalam's National Climate Change Policy, which shows the compromise with the climate sustainability goals. We thank the answers of the

staff pointing out some examples of non-oil and gas activity that are growing, such as agriculture and the Halal food industry, agriculture, services, and tourism. This process requires constant effort to succeed.

Designing policies is a good advance, but the right implementation is even more determinant. Thus, it is very important that the staff and this Board can follow up on climate matters in future Article IV reviews.

Mr. Stephan:

Like others, we commend the authorities for their swift crisis response that eased the burden on households, firms, and banks, and we think that supporting the economic recovery until it is firmly entrenched should remain a priority.

At the same time, I agree with Ms. Grant, Ms. Kashima, and Mr. O’Brolchain in their gray statement that once the pandemic abates, the authorities should reinforce fiscal and external sustainability and improve intergenerational equity.

Finally, like Mr. Mahyuddin in his gray statement, while we feel reassured that the financial system is sound, we underscore the need for increased vigilance to emerging issues and improving the monitoring of financial stability risks.

Ms. Merhi:

As we are in broad agreement with staff’s analysis and policy recommendations, we would like to focus on just a few comments.

We commend the authorities for their timely and swift response to the COVID-19 pandemic. We concur with staff that fiscal support should be maintained in the near-term until the recovery is firmly underway.

Once the recovery is firmly established, the authorities should resume their consolidation efforts to strengthen the fiscal position. Priority should be given to tightening subsidies. Here, we encourage the authorities to strengthen Public Financial Management (PFM), and we welcome their interest in the IMF Public Investment Management Assessment (PIMA) to help optimize the public investment.

On the financial stability front, we commend the initiative to enhance overall risk-based supervision and the recent steps to introduce the Basel III framework and their efforts to develop a holistic macroprudential framework, as well as the recent legislative changes aimed at strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) regulatory and supervisory framework. We stress the need to continue to monitor financial risks.

Finally, we welcome the authorities' National Climate Change Policy 2035, their Digital Economy Masterplan 2025, and continuous efforts to make economic diversification an integral part of their long-term reform agenda.

The staff representative from the Asia and Pacific Department (Mr. Furceri):

Let me emphasize two points that many Directors raised. The first, from Mr. Commaroto-Roverini, regarding the impact of the recent outbreak on economic activity, and the second issued raised by many Directors regarding the climate strategy and progress in terms of emissions.

On the first point, it is clearly too early to assess the economic impact. As potential indications, what we have seen last year, at least the contact-intensive sector, which is, of course, the sector that is more prone and affected by the pandemic contracted but not contracted by much. On a year-by-year basis, it contracted by 1.46 percent. Staff believes that this could be sort of an upper bound for two reasons. One is because one of the things that we discovered during the mission is that indeed the resilience of the economy to deal with the pandemic has improved, including through significant digitalization efforts. This would help to cushion the effect. Second, because, as during the first wave, the authorities responded very swiftly, both in terms of health measures but also extending many of the programs that were launched last year to support income loss and consumption.

We believe that the recovery will probably be softer than anticipated before August 7, but probably the effects are likely not to be large, also considering the oil prices have been increasing and the vaccine rollout is proceeding fast.

Second, on climate change policies and progress, 2021 has been sort of a touch point or significant year where the authorities laid the foundations for many strategies. The strategies are very well articulated and complementary because Brunei is an oil producer but also is notably potentially vulnerable to

climate change, given its relatively largest portion of coastal areas for total area. So, the strategy has measures to indeed reduce emissions, including carbon pricing, it has measures to address waste management, but also it has measures to favor climate adaptations. Measures to increase the renewables or increase forestation, increase the land for forest area, will also positively benefit tourism.

So, 2021 has been a significant year where this intense strategy with 10 pillars is laid out in the foundations, and the authorities plan to scale up these measures for 2021. There are already some measures. New electric vehicles have been under consideration. This clearly is the best strategy, which staff will follow up in the context of the next Article IV missions. So, these are important initiatives.

I will conclude here and again really thank again all the Directors for their very useful statements, encouragement for the staff report, and suggestion to follow up on the climate change initiative and engagement with the authorities.

Ms. Lim:

We appreciate the comments by Directors today: very insightful suggestions and remarks, which we will faithfully convey to our authorities. After that, I would also like to thank again Mr. Furceri and his team for their hard work, as well to reiterate our deep appreciation to management, Asia and Pacific Department (APD), and staff from various departments for their support to the authorities through technical assistance and other constructive discussions in several regional and bilateral engagements.

The Acting Chair (Mr. Furusawa) noted that Brunei Darussalam is an Article VIII member, and no decision is proposed.

The Acting Chair (Mr. Furusawa) adjourned the discussion.

ANNEX

- Staff's Statement
- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/21/15*

August 25, 2021

**Statement by the Staff Representative on Brunei Darussalam
Executive Board Meeting
September 1, 2021**

This staff statement provides an update on developments since the staff report was issued. The statement does not alter the thrust of the staff appraisal.

1. After 15 months of zero local transmission, Brunei has since early August been experiencing a new wave of COVID infections. The outbreak is centered on the highly contagious Delta variant. From August 7 to 23, the cumulative number of new cases surged to 1,508. As of August 23, the total number of cases stands at 1,873 of which 1,649 cases (or 88 percent) are local cases, while the remaining 224 (or 12 percent) are imported cases. Of the 1,873 cases, 436 patients have recovered, while there were three fatalities. The remaining are active cases, which comprise those hospitalized and under mandatory quarantine.

2. The authorities promptly introduced containment measures, effective August 7, 2021. The measures have been announced to remain in place until September 4—an extension is likely to be considered if the number of new infections remains high. The measures include the closure of several public facilities (such as mosques, childcare centers, galleries, libraries, museums, playgrounds, senior citizens' activity centers, and sports centers) and restrictions on collective gatherings. On-site activities at educational institutions are also suspended. Food establishments can only serve takeaway and delivery orders. The authorities have also urged businesses to implement telecommuting to the extent possible. Masks are mandatory in all indoor venues and crowded outdoor spaces. Public visits to hospitals are prohibited, with the exception of Intensive Care Unit (ICU) patients who are allowed to receive only one visitor. Temporary suspension for travelling to and from five South Asian countries (India, Nepal, Sri Lanka, Pakistan and Bangladesh) have been extended through end-August. Travel from Indonesia remains suspended indefinitely, as of August 22, 2021. Testing and contact tracing have been ramped up significantly.

3. Vaccine rollout is increasing. As of August 18, a total of 237,729 doses were administered, with first doses reaching 175,545 individuals (38.7 percent of population) and second doses 62,184 (13.7 percent). The daily vaccination rate is expected to hit 10,000 following the opening of a new vaccination center at University Brunei Darussalam on August 19.

4. The authorities have extended measures to support affected households and firms. The measures include the deferment on contribution payment of Employee Trust Fund

*The staff statement has been revised after the Board meeting to correct the percent referenced in paragraph 5.

(TAP) of 5 percent and Supplemental Contributory Pensions (SCP) of 3.5 percent for local workers earning less than BND1,500 per month in the affected sectors under the category of micro, small and medium-size enterprises (MSMEs) with less than 100 employees; 25 percent salary subsidy provision for local workers in MSMEs with less than 100 employees; government funding for SCP Contributions to the self-employed, at least 30 percent discount on rental rates on government buildings for MSMEs in affected sectors; 50 percent tax discount on corporate income tax for the 2022 assessment to affected sectors; 20 percent discount on water and electricity bills for affected companies within affected sectors; and temporary exemption of customs and excise duties for personal hygiene products. These measures took effect on August 1 and will be in place until December 31. Staff estimates, based on the budget execution of these measures during the first wave, suggest that the fiscal impact likely be modest. Furthermore, the Brunei Darussalam Central Bank (BDCB) has announced that the assistance offered by the banking sector to affected businesses and individuals will be extended until December 31—such as the deferment of principal repayments on loans and financing, restructuring of personal loan/financing and hire purchase such as car financing for a period not exceeding 10 years, and waiver of fees and charges for local online interbank transfers.

5. While it is too early to assess the economic impact of the new outbreak, downside risks have increased. The recent resurgence of the pandemic and associated containment measures is expected to slow the recovery, especially in contact-intensive sectors. The impact on growth will depend on the duration of the second wave. As an indication of the potential impact, stringent containment measures implemented in the first wave negatively affected contact-intensive sectors which contracted by 1.6 percent (yoy). However, the ability of the economy to live with the pandemic has improved (including through digitalization), and the strong and timely health, fiscal and regulatory policy responses should help sustain production and household income and consumption. Stronger vaccine rollouts and energy prices could surprise to the upside.

BUFF/ED/21/111

August 27, 2021

**Statement by Ms. Lim and Mr. Mahyuddin on Brunei Darussalam
Executive Board Meeting 21/86
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 was¹ 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 strategies 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

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.

technical assistance in critical areas. Cooperation in these areas as well as 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.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2451

August 30, 2021

**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Gallardo on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the report and Ms. Lim and Mr. Mahyuddin for their helpful statement. We agree with the thrust of the staff appraisal and would like to offer the following comments.

Brunei Darussalam was adversely affected by the COVID-19 global pandemic, although the authorities' past diversification efforts cushioned the economic fallout. In 2020, economic activity was negatively impacted by the measures taken to control the spread of the novel coronavirus, lower international oil and gas (O&G) prices, and the unscheduled shutdown and maintenance of some offshore O&G facilities. However, thanks to the authorities' diversification strategy, this was offset by a strong performance of manufacturing of petroleum and chemical products, leading real GDP to grow slightly.

The authorities' swift actions to protect lives and livelihoods should be maintained until the economy is in a better footing. Given ample fiscal buffers, we agree with staff that fiscal support should be maintained in the near term, until the recovery is firmly under way. Over time, the fiscal position should be strengthened, as at least part of the country's natural resource wealth should be saved for future generations. In this regard, priority should be given to better targeting subsidies, which would not only provide fiscal savings but also improve the allocation of resources in the economy. We welcome the establishment of the National Welfare System to help ensure well-targeted support to those most in need. Also, we encourage the authorities to conclude the consolidation of subsidies data across line-ministries as soon as possible.

We take positive note that the banking system remains resilient. The capital ratio seems adequate, and the quality of the loan portfolio remains stable due to the policy actions taken by the authorities during the pandemic. We welcome the steps taken to put all three pillars of Basel II in place and the start of consultations with the industry to develop a roadmap to

implement Basel III guidelines, including a preliminary assessment of the countercyclical capital buffer. In the meantime, it seems appropriate that the authorities assess the impact that volatility of energy prices can have in the banking system. Like staff, we believe that the Currency-Interchangeability Agreement between Brunei Darussalam and Singapore provides an adequate nominal anchor for monetary and financial stability in Brunei Darussalam

With these remarks we wish the Bruneian authorities success in their future endeavors.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2452

August 30, 2021

**Statement by Mr. Massourakis and Ms. Mateus on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the well-written report and Ms. Lim and Mr. Mahyuddin for the helpful Buff statement. Benefitting until recently from limited local transmission of Covid-19 and robust economic activity in the downstream non-Oil and Gas sectors, the economy of Brunei Darussalam has so far withstood well the pandemic. Moving ahead, the main challenge is diversifying the economy, while providing support in the near-term in response to the constraints imposed by the pandemic. We broadly share staff's appraisal and offer the following additional comments:

- Ø **We agree that fiscal policy should remain supportive until the recovery is entrenched in light of the negative output gap, and even more so now that Brunei Darussalam started registering new Covid-19 cases.** Looking ahead, and only after the impact of the pandemic is well overcome, we agree with staff that the authorities should reform the fiscal framework in tandem with their diversification efforts, aiming at improving intergenerational equity and decreasing the reliance on Oil and Gas revenues. Reforming fuel subsidies, while ensuring that the social safety net can protect the most vulnerable, improving tax administration, modernizing, and broadening the tax system and strengthening public financial management would go a long way to prepare the country towards developing a more diversified and less-carbon intensive economy, while protecting the fiscal situation. We hope the authorities resort to the IMF's Public Investment Management Assessment (PIMA) that can provide useful inputs to their domestic decisions.

- Ø **The authorities should continue to implement measures to foster private sector**

activity. We welcome the past initiatives that led to a steady increase in private sector employment and encourage the authorities to push ahead with initiatives to improve labor market functioning. Enhancing education and workers' upskilling, coupled with measures to facilitate job matching, should complement initiatives to promote private investment. We agree with staff that these efforts should go together with investing in technology, notably digitalization, and research and development, which carry the potential to boost productivity.

Ø **We welcome the development of the Brunei Darussalam National Climate Change Policy (BNCCP).** We invite the authorities to consider this agenda in their overall economic diversification strategy since the transition to a less carbon-intensive economy also offers opportunities both for the development of new activities as well as for tax revenue collection. We expect staff to focus on the BNCCP in future Article IV consultations.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2453

«classCurrent»

August 30, 2021

**Statement by Mr. Alhomaly and Ms. Alzamel on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the well-focused report and Ms. Lim and Mr. Mahyuddin for their helpful Buff statement. We are in broad agreement with staff's analysis and policy recommendations and would like to make the following comments.

1. Brunei Darussalam entered the pandemic in a strong position bolstered in part by important diversification efforts and reforms. As a result, we are pleased to note that the economy showed relatively strong performance in 2020 and expected to strengthen in 2021-22. We commend the authorities for the firm steps taken to deal with the pandemic and mitigate its impact. In particular, we are comforted to note that the fiscal and monetary policy responses have helped sustain production and cushion income losses and that some policy measures have been extended to support businesses as well as households. Given the ample fiscal buffers and the high uncertainty about the path of the pandemic, we concur with staff that fiscal support should be maintained in the near term, until recovery is firmly under way. Over the longer term, the authorities should resume their consolidation efforts to strengthen the fiscal position and improve intergenerational equity. On the same note, we encourage the authorities to strengthening public finance management (PFM) and welcome their interest in the IMF PIMA to help optimize the public investment. We also welcome the authorities' efforts on corporatization, PPP and privatization that can contribute positively to fiscal consolidation and strengthen PFM.

2. While we are reassured that the financial system is sound, we underscore the need for increased vigilance to emerging issues and improving the monitoring of financial stability risks. In this context, we welcome the authorities' efforts to enhance overall risk-based supervision, introduce the Basel III framework, and develop a holistic macroprudential framework. We are also encouraged that the authorities remain committed to

strengthening the AML/CFT regulatory and supervisory framework to safeguard financial integrity. In addition, we concur with staff that the currency peg to the Singapore dollar continues to serve the economy well and remains an anchor for monetary and financial stability. Looking ahead, further efforts aimed at deepening financial markets and developing market infrastructure are needed.

3. Finally, the authorities should continue to implement reforms aimed at boosting productivity, supporting business environment, and further diversifying the economy and attracting FDI. Here, we join staff in welcoming the launch of Economic Blueprint and are encouraged by the emphasis placed on improving digitalization, guided by the Digital Economy Masterplan 2025.

With these remarks, we wish the authorities every success in their policy endeavors.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2455

August 30, 2021

**Statement by Mr. Lischinsky and Ms. Bustillo on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the informative report and Ms. Lim and Mr. Mahyuddin for their comprehensive Buff statement.

We commend the authorities for the “whole of government approach” response to the COVID-19 pandemic and timely economic measures to address the decline of global oil and gas prices and support the recovery. The economic outlook is positive with growth projected to accelerate in 2021-22 but uncertainties about the path of the pandemic remain. Going forward, continued diversification efforts and a rise of the share of non-oil and gas in the economy will help improve the economy’s resilience to adverse shocks.

Continued fiscal policy should remain in the near term. We encourage the authorities to gradually phase out support measures after the economy strengthens and continue with efforts to promote economic transformation. In this regard, we welcome the theme of this year’s national budget, “Towards Resilient Socio-Economic Development”, and its main priorities, as highlighted by Ms. Lim and Mr. Mahyuddin. In particular, we welcome the steps taken to improve resource allocation, including subsidy reform, which are critical to support growth and strengthen socio-economic resilience.

To improve resource allocation, we encourage the authorities to continue reducing untargeted subsidies and free up resources that can be used to expand infrastructure and design better-targeted social safety nets. In addition, continued efforts to address labor market duality are essential to increase job opportunities in the private sector, particularly micro, small and medium enterprises, and promote diversification. We underscore the importance of strengthening public finance management and welcome the authorities’ interest in the Fund’s Public Investment Management Assessment.

On the monetary and financial sector, we take positive note of the financial assistance during the pandemic to alleviate its effects on households and businesses. We acknowledge the soundness of the banking sector and the authorities’ ongoing commitment to improve the resilience and

inclusiveness of the financial sector. We support efforts towards the introduction of the Basel III framework, developing a holistic macroprudential framework, and enhancing financing to the private sector, as stated in the Buff. Further efforts aimed at implementation of the AML/CFT regulatory and supervisory framework are also key.

Structural reforms to promote sustainable growth. Economic diversification, transformative technologies and quality employment are key to achieving Wawasan Brunei Vision 2035. In this regard, we support the authorities' commitment to accelerate the development of the five-priority industry clusters, and their efforts to support more efficient and innovative business processes to remain more competitive. We are encouraged by the emphasis placed on ensuring a quality and productive labor force. *In this regard, could staff comment on efforts to address youth and structural unemployment and employability in the private sector and any outcomes of these efforts.*

With these remarks, we wish Brunei Darussalam and its people all the best in their future endeavors.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2456

August 30, 2021

**Statement by Mr. Sigurgeirsson and Mr. Spurga on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
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.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2457

August 30, 2021

**Joint Statement by Ms. Grant, Ms. Kashima, and Mr. O'Brolchain on Brunei
Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the insightful report and staff statement, as well as Ms. Lim and Mr. Mahyuddin for their helpful Buff statement. Brunei's strong economic performance has been tested by the COVID-19 pandemic and subsequent decline in global oil and gas prices. We commend the authorities' 'whole-of-government' response to protect lives and livelihoods. Despite Brunei's early success in containing the pandemic, there has recently been a significant surge in COVID-19 cases. Tackling this new wave should be the main priority. Once the pandemic is brought under control, attention should turn to supporting the recovery and limiting scarring, while aiming to increase economic diversification over the longer term. We offer the following comments for emphasis.

Fiscal support should continue until the recovery from COVID-19 is put on a solid footing. With virtually no public debt, Brunei is well placed to leverage its ample fiscal space to manage the pandemic. That said, once the recovery is firmly underway, we encourage the authorities to resume fiscal consolidation efforts to achieve sustainable long-term expenditure and improve intergenerational equity. We echo staff's advice to focus on preserving growth-enhancing spending; reducing fossil fuel and other distorting subsidies; reducing the wage gap between the public and private sector; and broadening the non-oil and gas tax base. Increased privatization and public-private partnerships could also help mitigate fiscal pressures and develop the private sector. *According to staff's projections, the fiscal deficit and current account surplus are forecast to be about 11 percent and 13 percent of GDP over the medium term, respectively. Can staff elaborate on private net savings that are expected to be over 20 percent of GDP given a modest increase in foreign reserves? When do staff expect Brunei's offshore oil and gas facilities to reopen?*

While the financial system appears sound, financial supervision should remain vigilant. Volatility in global oil prices requires careful monitoring of financial risks in the banking sector. In this regard, we encourage further progress to develop a holistic macroprudential

framework and to introduce the Basel III framework. We welcome recent legislative amendments aimed at strengthening the AML/CFT framework and look forward to reviewing Brunei's Asia Pacific Group on Money Laundering (APG) Mutual Evaluation. We agree that Brunei's currency peg continues to provide a useful nominal anchor for macroeconomic and financial stability.

Structural reforms that diversify the economy beyond oil and gas and develop the private sector should remain a priority. As the world shifts towards a low-carbon economy, we stress the importance of increasing reliance on non-oil-based activity. In this regard, we welcome the authorities' plans for a green transition, including carbon pricing, which provides new opportunities for economic growth and resilience. Complementary policies, such as programs for reskilling and upskilling and targeted income transfers could help ease the transition to decarbonization. More broadly, policies to build human capital and attract higher value-added FDI should be strengthened. *Can staff comment on whether the pandemic has exacerbated pre-existing female labor force participation gaps?*

Further progress is needed to address data gaps. While the authorities' commitment to achieve international data standards and best practices is welcome, more could be done. We join staff in encouraging the authorities to publish national accounts and balance of payments data in a timely manner, while ensuring their quality. *Beyond Phase 2 of the STA Mission, what is the CD strategy to help Brunei improve data compilation and dissemination?*

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2458

August 30, 2021

**Statement by Mr. Rashkovan and Mr. Manchev on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the focused report, and Ms. Lim and Mr. Mahyuddin for their helpful Buff statement. We broadly agree with staff's assessment and would like to make the following points for emphasis.

We commend the authorities for their timely and swift response to the COVID-19 pandemic, which was further compounded by rapidly declining oil prices. Going forward, adequate vaccine procurement and effective rollout will be key to secure a durable recovery and allow for a gradual lifting of travel restrictions. The crisis underlined the importance of diversifying the economy beyond the reliance on the hydrocarbon sector, both for macroeconomic and fiscal reasons. Thus, **we welcome the authorities' National Climate Change Policy 2035 (BNCCP), The Digital Economy Masterplan 2025, and continuous efforts to make the economic diversification an integral part of their long-term reform agenda.** The key implementation challenges for the Brunei authorities will be to progress with the SOEs reform, further improve the business climate and secure fair competition for private sector development, as well as to attract quality FDIs and diversify them beyond the downstream industry. More work also remains to be done on the labor market reform, especially to remove distortions created by the high benefits of public sector jobs and to increase female labor force participation. *Staff's comments are welcome on the government's plans to strengthen the labor market in the post-pandemic period.*

As growth picks up, the sustained fiscal consolidation should continue, and a stronger fiscal framework is warranted. Given that the fiscal position remains highly dependent on oil price developments, further consolidation is needed to reduce the risks generated by external shocks and to enhance the credibility of public financial management. It will be crucial to increase transparency and efficiency of the public spending, reduce revenue dependence from natural resources, strengthen the oversight on public investment projects and establish an advanced framework for public investment management to encourage private sector participation in public investment. The fuel subsidy and civil service reforms will contribute to the adjustments needed to bring the fiscal position closer to that implied by fundamentals and intergenerational equity considerations. We appreciate

staff's recommendation that the implementation of reforms incorporates compensatory measures aimed at mitigating the impact on the most vulnerable groups.

We welcome the authorities' commitment to financial stability and wide-ranging measures to develop and improve resilience. The Currency Interchangeability Arrangement with Singapore provides a credible nominal anchor for macroeconomic and financial stability and helps deepen trade and investment linkages. While the Brunei's external position in 2020 is assessed to be substantially weaker than that implied by the fundamentals and desirable policies, the ongoing diversification efforts in the downstream non-oil and gas sector should strengthen it in the medium-term. We commend the initiatives to enhance overall risk-based supervision through an early warning exercise, recent steps to introduce the Basel III framework, and efforts to develop a holistic macroprudential framework, as well as the recent legislative changes aimed at strengthening the AML/CFT regulatory and supervisory framework.

Finally, we welcome the authorities' progress in improving the macroeconomic data compilation and dissemination and encourage further provisioning of technical assistance from the Fund.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2459

August 30, 2021

**Statement by Mr. Bhalla and Mr. Dash on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

1. We thank Staff for their insightful report and Ms. Lim and Mr. Mahyuddin for their helpful Buff statement. We commend the authorities for their timely and swift response to the delta variant which has delayed the economic recovery. The on-going vaccination program and a strong fiscal response to the pandemic is expected to steer the economy through the downturn.

2. Brunei Darussalam has consistently maintained strong economic performance over the years backed by a vibrant oil and Gas sector. **The Covid-19 pandemic delivered twin shocks: first, through sharp contraction in oil output and decline in economic activity and second, through the unprecedented collapse in global oil prices.** A robust fiscal and monetary policy response by the authorities helped sustain production and household income and consumption. The performance by the non-oil & gas sectors during the crisis has helped achieve a surprisingly better outcome in 2020, with real GDP posting positive growth. The economy is expected to perform well in 2021 although downside risks remain strong due to oil price volatility globally.

3. **The macroeconomic policy should support the recovery in the short term, while in the long term structural reforms are needed to build resilience through economic diversification.** Policy support should be maintained till economic recovery is rooted firmly so that vulnerable sections of the society and business such as the MSME sectors remain protected. Brunei's ample fiscal reserves, with virtually no public debt, should be leveraged to underpin the recovery. As the economy comes out of the shadows of the pandemic, the long term economic agenda should kick in. As noted by Staff, the critical vulnerability lies in the dependence on the oil and Gas sector. The pace of economic diversification needs to be stepped up. The new national vision policy—the Wawasan 2035 and the economic Blue Print unveiled in 2021 would be helpful. FDI would play a critical role and the authorities must ensure that Brunei improves as a destination for global capital. Efforts to build human capital, accelerating digital and green growth and attracting higher value-added FDI would

ensure sustainable growth.

4. A medium-term fiscal framework would ensure a stable policy matrix supporting sustainable long-term expenditure and guaranteeing intergenerational equity. The fiscal surplus enjoyed by Brunei needs to be deployed to secure a stable economy that provides opportunities for growth to all sections of the society at present and also to future generations. The authorities should adopt a fiscal consolidation program that reduces wasteful spending in the medium term and rationalizes and prioritizes public spending. Containment in Public employment and subsidy reforms in public utility services such as electricity and water and digitization of the National Welfare System would be important steps.

5. Financial sector regulation and supervision shall be key to safeguard financial stability while developing a macroprudential framework would ensure access by productive sectors to financing. We note that the Banking sector remains sound and well capitalized. The authorities have implemented International Financial Reporting Standard and Basel II norms while consultations are going on for Basel III. However, the development of a holistic macroprudential framework needs to be accelerated which would inter alia, provide for the necessary countercyclical capital buffers. We further encourage the authorities to strengthen the AML/CFT framework by incorporating necessary legislations. We agree that 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.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2460

August 30, 2021

**Statement by Mr. Peter and Ms. Zhunusbekova on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

The COVID-19 shock and the ensuing oil price downturn disrupted Brunei Darussalam's economic growth. The authorities' response to the pandemic has been prompt and effective, even following the recent resurgence of cases with the Delta variant. We broadly concur with the thrust of the staff appraisal and offer the following comments for emphasis.

On fiscal policy, efforts should focus on the timely resumption of growth-friendly consolidation (together with subsidies' reduction) once the crisis abates. We take positive note of the government's commitment to strengthening public financial management to improve spending efficiency. We welcome the recently adopted medium-term fiscal framework and the inclusion of medium-term projections for annual budgeting purposes designed to make the fiscal framework more forward-looking. We encourage the authorities to consider the adoption of fiscal rules, including the introduction of a primary balance-to-non-hydrocarbon GDP target and of a contingency plan for the case of an adverse revenue shock. Further efforts on corporatization, PPP development, and privatization would help limit the fiscal risks associated with public organizations and would contribute to greater private sector development. We also agree with staff that reducing the budget execution gap and off-budget measures would be instrumental in enhancing fiscal transparency.

The Currency-Interchangeability Agreement between Brunei and Singapore plays an essential role in preserving monetary and financial stability. We take positive note that the banking system remains sound and well-capitalized, and inflation has been stable and low. We commend the introduction of all three pillars of Basel II and the authorities' work on the Basel III Implementation Roadmap. Against this background, we encourage the authorities to closely monitor developments in the banking sector, including the risks associated with the placement of excess liquidity abroad. *Could staff comment on how the*

liquidity placement situation has evolved in the last months? Further actions to develop the macroprudential framework, as well as to effectively implement the AML/CFT regulatory and supervisory framework are welcome.

Structural reforms should be advanced to promote sustainable and robust economic growth. We welcome the authorities' efforts to boost productivity by upgrading human capital, including through initiatives in education, training, and job matching to improve private sector employment. We welcome the authorities' efforts to diversify the economy, attract FDI, and improve the business environment by developing industrial clusters and supporting MSMEs, enforcing more efficient regulations, and facilitating trade. Altogether, these measures should help to strengthen the weakened external position. Further, we deem it crucial to continue with good governance efforts.

Lastly, we encourage the authorities to consent to the publication of the report.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2461

August 30, 2021

**Statement by Mr. Romero Tarazona and Mr. Rojas Ramirez on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the informative report, and Ms. Lim and Mr. Mahyuddin for their insightful Buff statement. We broadly share staff's appraisal, particularly on the need to continue implementing policy measures to support economic recovery, to limit scarring, to prepare and train the labor force and to promote the transformation of the economy within a more digital and greener environment with a greater participation of the private sector.

We welcome that economic diversification policies are being successful and have contributed to Brunei's economy during 2020 and 2021. While the COVID-19 pandemic has impacted the economy, and the oil and gas sector have experienced a contraction throughout 2020, the non-O&G sector has experienced a good economic performance mitigating the external shock. We acknowledge that the diversified downstream of non-O&G sector, as manufacture of petroleum and chemical products, is the cause of the positive real GDP growth of 1.1 percent in 2020, but such activities are related and dependent of the O&G industry. *We would appreciate if staff could explain the economic activities that are going to boost such diversification in the future under a scenario of a greener and low carbon economy.* We welcome the Brunei Darussalam National Climate Change Policy (BNCCP), and we consider it would be important to include follow up reports in future Article IV's reviews.

We agree that it is necessary to continue with fiscal support to assure recovery and to welcome the Brunei's authorities compromise to long term fiscal reforms. We welcome the advances in the fiscal consolidation process. Further efforts on (i) reducing inefficient spending, including the wage gap between the public and private sector, (ii) reforming the subsidy scheme, and (iii) broadening the tax base in non-O&G sectors, and improving the tax administration, are very important to achieve fiscal sustainability. We concur with staff on underpinning growth and economic diversification through strengthening the fiscal position. Aligned with the IMF's recommendations shown in the Public Investment Management

Assessment (PIMA), we agree that it is necessary to continue to advance with the implementation of the public investment management system, which allows the authorities to prioritize investment with a better social and economic payback and avoid inefficiencies that result in a budget-execution gap and warranty transparency. We welcome the adoption of the Medium-Term Fiscal Framework (MTFF) and the medium-term projections for annual budgeting. The introduction of a primary balance-to non-hydrocarbon GDP target and a contingency plan, are instrumental to reduce fiscal procyclicality and to anchor medium-term fiscal targets.

We concur that Brunei's monetary stance and peg to the Singapore dollar, has been beneficial and it is still appropriate. The banking and financial system is sound and in good capital standing but remains small and relatively shallow. We deem appropriate the Currency-Interchangeability Agreement between Brunei's and Singapore's dollar for monetary and financial stability and for preserving a strong external balance position. We agree with staff's recommendation on strengthening the risk management policy framework for monitoring and controlling liquidity risk in these moments of instability. We welcome Brunei Darussalam Central Bank's (BDCB) macroprudential policy enhancing the regulatory and supervisory framework for domestic systemically important financial institutions, the Basel II implementation and advances in planning Basel III and the implementation of AML/CFT regulatory and supervisory framework.

We welcome Brunei authorities' commitment to diversifying the economy and attracting FDI. We applaud actions aimed to digitalization, private sector development and climate change. Promoting productivity and private sector employment is crucial. We encourage the authorities on further investment on education, human capital training and infrastructure under public-private associations. We commend the authorities for launching the Economic Blueprint and pushing ahead the Wawasan Brunei 2035's goals for a dynamic and sustainable economy.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2462

August 30, 2021

**Statement by Mr. Andrianarivelo, Mr. Sidi Bouna, and Mr. Olhayé on Brunei
Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for a comprehensive report and Ms. Lim and Mr. Mahyuddin for the informative Buff statement.

The Brunei authorities have effectively addressed the difficulties caused by the COVID-19 pandemic and the associated weaker oil and gas (O&G) prices. We commend the Sultanate's swift, determined, and sustained measures to mitigate dire health effects of the pandemic and to cope with the lower O&G prices. Moreover, earlier diversification efforts and reforms combined with ample fiscal space have helped their efforts to address the crisis. As a result, the economy posted positive strong results in 2020. Regarding monetary policy, we find the peg to the Singaporean dollar remains appropriate. We positively note that growth is projected to improve in 2021/22, with somewhat of a recovery in the O&G prices, progress in rejuvenation of O&G facilities, continued growth in the downstream non-O&G sector, new FDI projects and greater activity in contact-intensive non-O&G sectors. Notwithstanding this positive outlook, projections are subject to significant downside risks, including weaker O&G prices, an upsurge in the virus, and slower structural transformation. Against this backdrop, we broadly agree with the policy recommendations and will focus on a few areas for emphasis.

We welcome the authorities' commitment to maintain fiscal support in the short-run and to focus on improving reform progress in the medium-term. Taking advantage of their ample fiscal space and virtually no debt, it is encouraging to note that they will maintain support through FY2021/22 and will also capitalize on slack afforded by the non-O&G

downstream sector to advance on fiscal policy reforms in the medium-term to reduce vulnerabilities, promote economic diversification and support intergenerational equity. Along these lines, and as part of National Budget with the theme '*Towards Resilient Socio-Economic Development*', we positively note that the authorities' focus will be on strengthening their fiscal positions specifically those within their Fiscal Consolidation Program, as well as provisioning to advance their national vision, as highlighted in Ms. Lim and Mr. Mahyuddin's Buff statement. Continuing to rationalize subsidies is also needed, as well as to bolster spending efficiency for public projects. On the latter, the Fund's PIMA will help strengthen the efficiency of public investment.

While the financial system remains sound, we encourage the authorities to tackle remaining weaknesses. Thus, we find merit in advancing risk-based supervision, particularly Basel III implementation, as well as strengthening the macroprudential framework. On safeguarding financial integrity, we note recent laws that aim to bolster the AML/CFT regulatory and supervision framework, and we urge the authorities to enhance implementation in this area.

We encourage the authorities to build on the positive structural reform momentum for sustainable, equitable and resilient economic development. The frameworks to achieve the authorities' Wawasan Brunei 2035 is welcome, including the Economic Blueprint, the Digital Economy Masterplan 2025, and the Brunei Darussalam National Climate Change Policy. To achieve their homegrown strategy, coordination across line ministers, timely implementation, and close monitoring to advance on these frameworks will be important. In this respect, we urge the Fund and other key development partners to work closely with the authorities. On private sector employment, we encouraged by the initiatives developed by the authorities and welcome the role of their Manpower Planning and Employment Council, to ensure a productive and relevant labor force essential for the Brunei Darussalam's development aspirations.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2463

August 30, 2021

**Statement by Mr. Zhang and Mr. Bai on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for the comprehensive set of reports and Ms. Lim and Mr. Mahyuddin for the helpful Buff statement. Thanks to the authorities' decisive and coordinated policies, the economy performed relatively well in 2020, and recovery is steadily underway in Brunei. Going forward, further vaccine rollout, continued fiscal support, vigilant financial sector supervision, and targeted structural reforms will help support a greener and strong recovery, prevent scarring from the pandemic, and lift productivity, especially in the non-oil and gas sector. We broadly concur with staff's appraisal and would like to limit ourselves to the following points.

On the fiscal front, we commend the authorities' decisive and fast fiscal response to COVID-19, including the public health spending, wage subsidies, support to small and medium enterprises, and targeted support to still-struggling households and business sectors. The authorities have ample fiscal space to respond to potential adverse shocks and downside risks. We agree with staff's advice on aligning the pace of fiscal support with the pace of recovery, and we appreciate the authorities' plan to increase budgetary investment on diversification and private sector development, as well as reallocate inefficient spending.

On the monetary and financial front, we welcome the authorities' measures to develop and improve the resilience of the financial sector. We also concur with the authorities' view that the banking sector remained sound and well capitalized. We welcome the authorities' consultation paper to the industry on Basel III Implementation Roadmap and efforts in developing a holistic macroprudential framework.

On the external front, we agree with staff's assessment that Brunei's current account surplus is projected to rebound over the medium term in line with the recovery in O&G

production and prices. We also welcome the IMF's TA to strengthen the authorities' capacity on external sector data compilation.

On the structural front, we are encouraged to see the authorities' efforts in increasing private sector employment, upgrading innovative competency and human capital, and diversifying FDI, which would accelerate the economic diversification of Brunei. We also welcome the authorities' continued efforts in addressing climate challenges and reducing carbon emissions, including the Brunei Darussalam National Climate Change Policy launched in the end of 2020.

Lastly, we appreciate the authorities' efforts to enhance international cooperation to facilitate vaccine access, distribution, and allocation. With these remarks, we wish the authorities and people all the best in these challenging times.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/2464

August 30, 2021

**Statement by Mr. Buissé, Mr. Roman, and Mr. Comolet on Brunei Darussalam
(Preliminary)
Executive Board Meeting 21/86
September 1, 2021**

We thank staff for a very comprehensive report on Brunei Darussalam, as well as Ms. Lim and Mr. Mahyuddin for their buff statement. We broadly share staff's assessment and recommendations and wish to offer the following comments for emphasis.

Recent developments

Brunei's recent economic performances have been resilient, with positive GDP growth in 2020 despite the turmoil in oil markets. The authorities' fiscal support has been warranted in the wake of the covid induced crisis, leveraging Brunei's strong public sector balance sheet. We agree with staff that fiscal support should be maintained in the near term, until the private sector recovery is entrenched. In light of their importance for the economy, we very much welcome the box on the implications of Oil and Gas Price Developments for the Outlook. We also note that the development of foreign investment projects has also supported growth. *In this regard, staff comments on the impact of FDI projects on job creation and their spillovers on the domestic economy would be useful.*

Fiscal policy

The volatility of fiscal revenue has been sizeable and the declining trend in oil and gas revenues is affecting Brunei's fiscal position. For instance, in fiscal year 2020/21 nominal oil and gas revenues were less than one third those of the previous fiscal year. The overall balance was adjusted quickly in the past, coming to surplus after double digit deficit recently. Nonetheless, we support staff's recommendation regarding fiscal reforms, in particular subsidies reform (notably utilities), limiting current expenditures and prioritizing spending in order to contain the public deficit in the short and medium term. Reducing inefficient spending remains a work in progress, and improving the budget execution and reducing the use of off budget are both needed. An adequate leveraging of the private sector in certain areas could be useful, and we would welcome a Public Investment Management Assessment (PIMA) to help in this regard.

Financial and external sectors

We thank staff for its external sector assessment. We take note of staff's views that the external position in 2020 is weaker than implied by medium term fundamentals, though the current account surplus should rebound. We also believe that the peg on the Singapore dollar remains appropriate, as it provides a useful nominal anchor, with Brunei having sufficient reserves. The improvement of the AML-CFT regulatory and supervisory framework is also necessary as is the monitoring of the placement of liquidity in non-Singapore dollar currencies.

Long term prospects

Diversifying the economy and promoting private sector non-oil sector remain critical as highlighted by the Economic Blueprint. With the decline in oil and gas production, and the implementation of the Brunei Darussalam National Climate Change Policy, *could staff elaborate on the pathways for the decarbonation of the Brunei economy with its current assets?*

Brunei Darussalam

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/21/86—September 1, 2021

Staff's responses to technical questions are below. Broader policy questions in the areas of policies to foster private sector employment, diversification of the economy, and attractiveness of FDI will be addressed in staff's intervention at the Board meeting.

Outlook (Oil & Gas)

1. When do staff expect Brunei's offshore oil and gas facilities to re-open?

- Brunei's offshore O&G rejuvenation program is a constant endeavor as O&G fields mature and require routine maintenance. The rejuvenation of some of the offshore O&G facilities, which started last year, is still ongoing. We expect the re-opening of the offshore O&G facilities to be done in stages, after this summer.

Fiscal Revenue

2. 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)?

- The authorities are reviewing the current tax policy and structure, and the feasibility to further broaden the current tax base. Tax revenue from downstream industries is expected to increase when tax exemption—one of the incentives for FDI—ends. For instance, corporate income tax and customs duty for Hengyi Industries (the 1st phase) will be exempted by FY2025/26 and staff indicates that Non-Oil and Gas tax revenue will increase by 0.2 percent of GDP in FY2026/27. The expansion of excise taxes especially on goods harmful to environment and health—including those in the National Climate Change Policy—is under discussion.

Employment

3. Could staff comment on efforts to address youth and structural unemployment and employability in the private sector and any outcomes of these efforts?

- Staff will respond to this question during the Board meeting.

4. Staff's comments are welcome on the government's plans to strengthen the labor market in the post-pandemic period.

- The pandemic has negatively affected the labor market, with the unemployment rate increasing from 6.8 percent in 2019 to 7.4 percent in 2020. The Manpower Planning and Employment Council (MPEC) is developing the plans to strengthen the labor market on

cooperation with the Manpower Industry Steering Committee (MISC)—a collaborative platform of enterprises. The authorities will also strengthen existing active labor market policies, such as the JobCenter Brunei for job matching, the Politeknik Brunei and the I-Ready Apprenticeship program for job training, and the Lifelong Learning Center and the SkillsPlus Program for upskilling and reskilling. Continued efforts are also in train to reduce the wage gap between the public and the private sector and increase female and youth employment.

5. Can staff comment on whether the pandemic has exacerbated pre-existing female labor force participation gaps?

- Although the labor force participation rate has increased for both males (from 72.5 percent in 2019 to 74.0 percent in 2020) and females (from 54.8 percent to 55.2 percent), the labor force participation gaps have widened. Female employment has declined from 85,899 in 2019 to 83,888 in 2020, particularly in the COVID-affected service sector such as accommodation and food, education, and housekeeping.
- The authorities recognize the importance of female labor force participation and made efforts to achieve a more gender equitable labor market, including by fostering female education and strengthen female participation in the public sector. As a result, the share of female workers in public sector is about of 46 percent and tertiary enrolment for females is 1.4 times bigger than for males.

FDI

6. We also note that the development of foreign investment projects has also supported growth. In this regard, staff comments on the impact of FDI projects on job creation and their spillovers on the domestic economy would be useful.

- The authorities have underscored FDI attraction for economic diversification, job creation as well spillovers on the domestic economy. For example, the pickup in downstream industries activity from FDI projects—such as Hengyi industries—contributed 4.6 percentage points to real GDP growth in 2020.
- However, room for expansion of job opportunities and development of related domestic industries from FDI still remains. As local workers will replace foreign workers who take a substantial part in the initial stage of FDI according to the plan agreed with investors, the authorities have put in place active labor market policies (such as the JobCenter Brunei for job matching and the Politeknik Brunei and the I-Ready Apprenticeship program for job training) to facilitate the transition of local workers to FDI-related jobs. They have also made efforts (such as a joint training program between Hengyi industries and the Institute of Brunei Technical Education for local workers) to foster advanced technology spillovers to local firms and workers and are planning to develop an industrial complex for FDI-related industry to enhance the trickle-down effect to domestic economy and attract more related FDI projects.

Diversification

7. We would appreciate if staff could explain the economic activities that are going to boost such diversification in the future under a scenario of a greener and low carbon economy.

- Staff will respond to this question during the Board meeting.
- Brunei's economic growth and diversification strategy is guided by the Economic Blueprint, the Digital Economy Masterplan and the Brunei Darussalam National Climate Change Policy (BNCCP). The BNCCP in particular, was launched to advance the nation's growth towards a greener and low carbon economy. For example, Brunei is making headway in developing its aquaculture industry, where Brunei is set to be the largest producer of blue shrimps, with the majority of exports to Australia and China. This will open up opportunities for local business, employment and competency developments. Brunei is also actively developing its halal food industry, for exports to neighboring ASEAN countries. These activities are gaining traction and is expected to promote further diversification through its positive spillover effects to other industries (e.g., horticulture).

8. With the decline in oil and gas production, and the implementation of the Brunei Darussalam National Climate Change Policy, could staff elaborate on the pathways for the decarbonation of the Brunei economy with its current assets?

- Brunei is making a gradual shift towards clean energy adoption, and away from hydrocarbon resources. Together with the National Climate Change Policy, one of the pathways for decarbonization is the ongoing financial investment in the area of solar energy power generation, which currently is at the early stage of development. Other diversification pathways that have been identified are ICT, food, services and tourism, which are priority areas under the Economic Blueprint and resources have been devoted for development.

Savings and Reserves

9. According to staff's projections, the fiscal deficit and current account surplus are forecast to be about 11 percent and 13 percent of GDP over the medium term, respectively. Can staff elaborate on private net savings that are expected to be over 20 percent of GDP given a modest increase in foreign reserves?

- Brunei's savings rate is amongst the highest in the world (45 percent of GDP in 2020). We expect the ratio of private investment to GDP to moderate over the medium term—reflecting the completion of major investment projects (including Hengyi Phase 2 extension). As a result, private net savings can be expected to be large in the medium-term. On foreign reserves, one reason for the modest increase is that part of the private saving (e.g., those of major exporters) is placed in Singapore in Brunei Dollars, reflecting the Currency-Interchangeability Arrangement.

Banks' Liquidity

10. Could staff comment on how the liquidity placement situation has evolved in the last months?

- Banks' liquidity placement abroad remains manageable. Although 51 percent of offshore placements are denominated in US dollar, 45 percent is denominated in Singapore dollar, which eliminates currency risks and help mitigate liquidity risks.

Capacity Development

11. Beyond Phase 2 of the STA Mission, what is the CD strategy to help Brunei improve data compilation and dissemination?

- The authorities have benefited from past CD/TA missions and have continued to express strong interest to engage with the Fund on CD matters. On improving data compilation and dissemination, the approach is to leverage on resources offered by the IMF regional training institute.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States