FOR AGENDA

SM/09/72

March 19, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Brunei Darussalam—Staff Report for the 2009 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2009 Article IV consultation with Brunei Darussalam, which is tentatively scheduled for discussion on **Wednesday, April 29, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Brunei Darussalam indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Kalra (ext. 36142) and Ms. Fernandez (ext. 35902) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, March 27, 2009; and to the Islamic Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

BRUNEI DARUSSALAM

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation

Approved by James Gordon and David Marston

March 19, 2009

- The 2009 Article IV discussions were held in Bandar Seri Begawan on January 27−February 4, 2009. The team comprised Messrs. Kalra (head) and Hiki, Ms. Fernandez (all APD), and Ms. Bi (RES). Messrs. Warjiyo (Executive Director) and Haryono (Advisor, ED) joined the mission.
- The mission met with Minister of Finance II Pehin Dato Hj Abd Rahman Ibrahim, Permanent Secretaries Dato Hj Ali Apong and Hj Bahrin Abdullah, senior government officials, and private sector representatives.
- The Fund continues to support the authorities' prudent fiscal policies in recent years. At the same time it has urged them to adopt a formalized medium-term fiscal framework and the authorities have taken steps in this direction. The authorities have also taken steps to upgrade the regulatory and prudential framework to strengthen financial sector supervision, in line with Fund advice. While the Fund and the authorities have agreed on the importance of diversifying Brunei's economy given the projected depletion of natural resources in about one generation, progress has been slow.
- Important improvements in economic and financial data have been achieved, but weaknesses remain and data provision is irregular, hampering effective surveillance.
- Brunei joined the Fund in October 2005. It has accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Brunei has a currency board arrangement, with the Brunei dollar exchanged at par with the Singapore dollar.
- The public information notice has been issued since 2003 and the Statistical Appendix was published for the first time in 2005. Article IV staff reports have not been published.

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EXECUTIVE SUMMARY

Prudent management of oil and gas resources has allowed Brunei to achieve a high standard of living, but challenges remain. These policies have also helped build significant buffers through fiscal and current account surpluses to weather external shocks. However, oil and gas resources are finite and private sector activity remains limited and dependent on the government. Efforts to diversify the economy, critical for employment creation, are yet to yield dividends. Untargeted subsidies, price controls, and generous benefits for public sector employees remain entrenched.

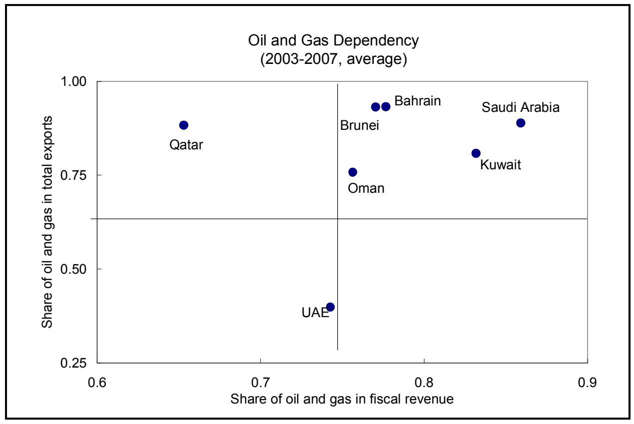
Growth has slowed and is projected to increase gradually over the medium term. Efforts to repair facilities and restore oil and gas sector production are ongoing. Supportive government spending, progress in diversifying the economic base, new hydrocarbon discoveries, and revival of the global economy are important determinants of growth.

Key policy recommendations

- **Continued prudent fiscal management and reforms**. Continued restraint in budget formulation amidst volatile hydrocarbon prices remains an appropriate long-term strategy, but the substantial fiscal buffer can be used for countercyclical policy in 2009/10, with fuller implementation of budget allocations. To secure fiscal sustainability, the medium term fiscal framework (MTFF) needs to be strengthened. This involves situating annual investment spending plans in the context of an MTFF, adopting a long-term fiscal goal, and taking a consolidated view of the fiscal sector which requires the integration of the various government funds into the budget. Broadening the revenue base and phasing out government subsidies would complement these efforts to future-proof the economy. In particular, strong and early consideration is recommended toward elimination of generous government subsidies.
- **The level of the real exchange rate is broadly appropriate**. The current account surpluses are required to prepare for eventual depletion of hydrocarbon reserves. The peg to the Singapore dollar helps discipline macroeconomic policy making.
- **Financial sector reform momentum should be sustained.** Significant progress has been made in establishing the Brunei Darussalam Monetary Authority, strengthening the financial sector legal infrastructure, and enhancing supervision and monitoring of banks. Further progress can be made in improving supervisory capability, measurement and analysis of financial soundness indicators, and reporting requirements. Establishment of a credit registry will help reduce credit risk for banks.
- **Steps are required to accelerate diversification**. These include allowing greater private sector participation in areas currently dominated by the public sector, reducing the large gap between public and private sector compensation packages, and creating an enabling environment for private sector development.
- **Data provision has improved, but more effort is required to enhance the quality and availability of statistics.** Capacity constraints need to be addressed.

I. Introduction

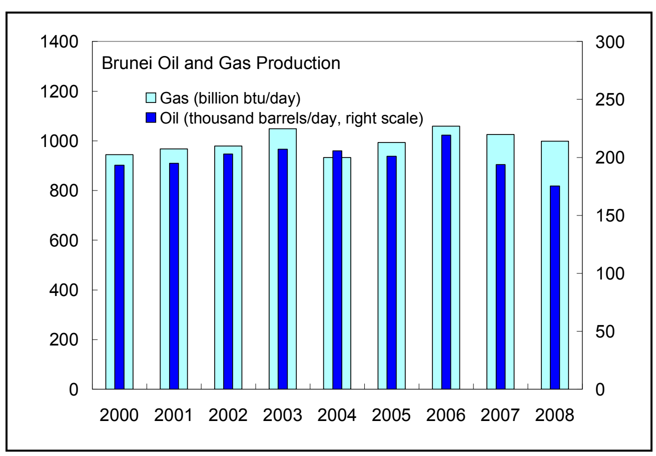
1. **Brunei is a small, high-income, open economy heavily dependent on oil and gas**. Per capita GDP is over US$36,000, among the top 30 globally. Oil and gas production constitutes about 50 percent of GDP, over 95 percent of exports, and almost 90 percent of government revenues. Hydrocarbon receipts support a high standard of living. Favorable external conditions, especially high oil prices in recent years, and prudent policies have allowed Brunei to build significant buffers through large fiscal and current account surpluses. The bulk of these surpluses are saved overseas through the Brunei Investment Agency (BIA), which is a cornerstone of the authorities' efforts to achieve asset diversification and intergenerational sustainability.



2. **However, Brunei's oil and gas resources are finite, the global environment has deteriorated, and the economy's resilience is limited**. Proven oil and gas reserves are expected to last for an estimated 25−40 years, although prospects exist of additional reserves from new exploration activities. On the external front, oil prices are projected to decline further (with higher volatility) and the global financial turmoil has reduced returns on external assets (and increased volatility as least in the short term). Domestically, reforms to remove bottlenecks to private sector growth have been slow. The government has strived to diversify the economy, but progress has been very limited in the last 30 years. Non-energy sector growth has been largely fueled by government spending. In addition, untargeted government subsidies, price controls, and generous benefits for public sector employees remain firmly in place.

II. Recent Economic Developments

3. **Output growth fell in 2007 and 2008 due to a decline in oil and gas production**. Real GDP growth declined to a little over ½ percent in 2007 from 4½ percent in 2006, mainly on account of voluntary cutbacks in oil and gas production to prolong the life of hydrocarbon reserves. The decline in oil and gas production was partially offset by an acceleration in government and

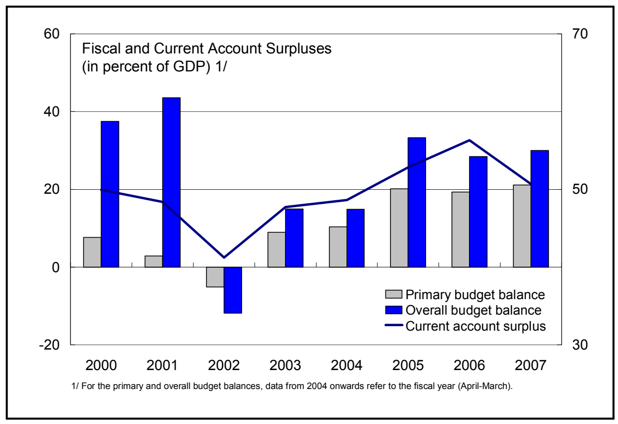


private non-oil sector growth. On the demand side, growth was driven by domestic spending, particularly government consumption and investment. For 2008, real GDP growth is estimated to be negative (−1½ percent), with a contraction of 4 percent in the first half of 2008 (y/y) mainly due to a decline in oil and gas production.

4. **Inflation has increased recently, but remains low**. CPI inflation (period average) was ¼ percent in 2007. It rose to 2¾ percent y/y for the period January-November 2008 reflecting the sharp rise in global prices of imported food items. The impact of the global food prices on inflation was moderated by subsidies and price controls.

5. **High oil prices contributed to substantial fiscal and current account surpluses.**

- During 2007/08 (fiscal year is April-March), oil and gas-based revenues were more than double the budget target, owing mostly to the government's highly conservative budgeting practice.[1] Government expenditure was broadly in line with the budget target, but development spending continued to underperform due to capacity constraints. Compared to the budget target of BND½ billion, the primary budget surplus was around BND4 billion (21 percent of GDP); including staff estimates of investment income (which are not included in the budget), the overall balance was over BND5¾ billion (30 percent of GDP).



- The 2008/09 budget envisages total spending of BND5¼ billion. Based on budget execution in the first three quarters of the fiscal year (expenditure was about BND3½ billion), and despite a seasonal acceleration in development spending in the fourth quarter, it is unlikely that government spending would meet the budget target for the year. As a result, the fiscal surplus will again likely exceed the budget target by a significant margin.

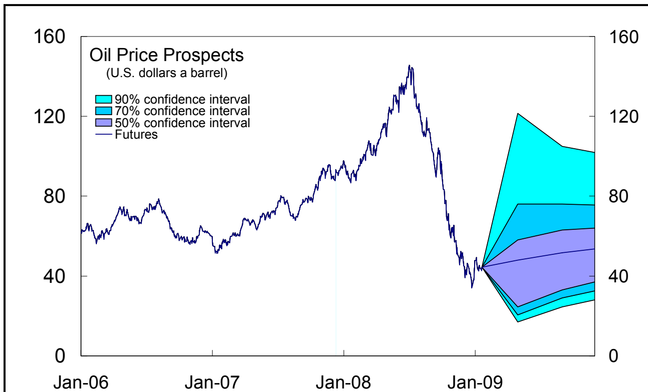
- The trade surplus is estimated to further expand to US$7 billion in 2008. Including staff estimates of surpluses on the income account, the current account surplus is estimated to have averaged around 50 percent of GDP during 2007-08. Estimated official reserves were about US$700 million at end-2008 (2¼ months of imports).[2] The real effective exchange rate has remained broadly stable in recent years, mostly reflecting movements in the Singapore dollar vis-à-vis the US dollar.

[1] The budget was formulated with US$45/bbl for oil; the average price in 2007/08 was almost US$88/bbl.
[2] Excludes external assets of the BIA.

6. **The global financial turmoil has had a limited impact so far on the Bruneian financial system**. Domestic banks are adequately capitalized, and profitable. Banks are also highly liquid, with more than half of total deposits parked abroad, mostly in Singapore. The branches of foreign banks (which have lower capital requirements) were also shielded from the global turmoil by their substantial liquidity positions, low NPLs, prudent loan expansion, and contingent lines with parent banks. Further stability was provided by the government guaranteeing, until end-2010, all Brunei-dollar and foreign currency deposits in October 2008, in line with other regional economies. However, the impact of the decline in mature and regional financial markets on the returns to external assets was likely significant. With the decline across all asset classes, some impairment in the market value of BIA's portfolio was largely inevitable.

III. Outlook and Risks

7. **The near-term outlook is subject to downside risks from possible further declines in energy prices as the global economy slides into a recession.** For 2009, growth is expected to be limited to ¼ percent as hydrocarbons production remains flat. A key source of growth would be the continuation of construction and other activities related to major projects, including the Sungai Liang Industrial Park (SPARK) and the Brunei Methanol Project. With lower projected prices for oil and gas, the fiscal and current account surpluses would fall significantly. In addition, the ongoing financial sector turmoil could lead to further declines in both the value of and return on external assets.



Sources: Bloomberg; and IMF staff calculations.
1/ Derived from prices of futures options on January 21, 2009.

8. **Over the longer term, the growth outlook depends on the expansion of the oil and gas reserves, the recovery in oil prices, and success in fostering non-hydrocarbon sources of growth.** GDP growth is expected to gradually rise to 1¾ percent by 2013. This assumes that energy production will remain conservative, consistent with efforts to prolong the life of hydrocarbon reserves. Supportive government spending and some progress in diversifying the economic base will be necessary to maintain growth. Growth could be higher if new hydrocarbon discoveries are brought on line. The recovery in the global economy over the medium term, and with it oil prices, would also help to boost growth prospects.

IV. POLICY DISCUSSIONS

9. **The discussions focused on two main policy issues**. These were: (i) short-term macroeconomic management; and (ii) maintaining sustainability over the medium and long term. Staff suggested that fiscal policy can be eased in the short run to support growth despite the projected drop in oil receipts, while steps are taken to "future-proof" the economy over the long term. The lower (and volatile) oil prices and returns on external assets potentially require adjustment to the fiscal path and investment strategy for external assets. Over the longer term, fiscal planning and diversification away from hydrocarbons hold the key to sustainability. The authorities' release, in January 2008, of their first long-term development plan entitled *Wawasan Brunei 2035* (Vision Brunei), provided a context for the discussions. The plan aims to place the Sultanate among the top ten nations in terms of GDP per capita. The authorities also released their 9th five-year National Development Plan (2007–12) and Outline of Strategies and Policies for Development (covering a 10-year period).

A. Macroeconomic and Financial Sector Policies

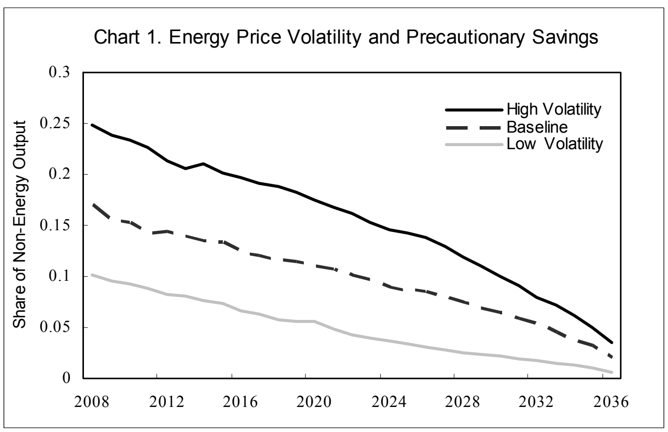
10. **For 2009/10, staff recommended a fiscal stimulus in the budget**. The projected decline in oil prices would likely contribute to moderating the receipts from oil revenues and the budget surplus. Nonetheless, given the impending economic slowdown, there is room for accelerating investment spending to support activity and offset stagnant growth in the energy sector. The fiscal position can accommodate this stimulus, given the large accumulated surpluses and the absence of public debt, provided capacity constraints can be overcome. The authorities indicated that the budget would increase allocations, and also aim to achieve fuller implementation of budgetary spending plans. In this context, they acknowledged that capacity constraints have led to underspending of the development budget, and pointed out that measures have already been taken to accelerate investment spending. These include enhancing the flexibility of line ministries, including through further decentralization in the appointment of project consultants and increasing the allowed limit for project awards, and closer monitoring of project implementation.

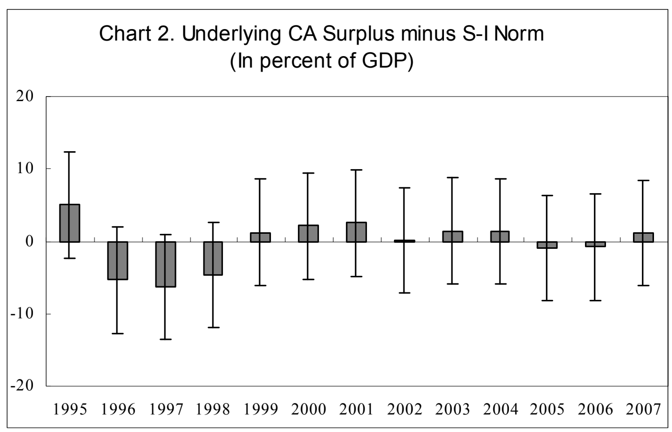
11. **There was broad agreement that the level of the real exchange rate remains appropriate notwithstanding the current account surpluses**. Brunei is dependent on exhaustible natural resources, and needs to run current account surpluses and accumulate foreign assets to prepare for the post-hydrocarbon period. In addition, a cross-country panel—with limited availability of oil and gas reserves as an explanatory variable—suggests that Brunei's projected current account balance over the medium term is within the range suggested by the estimated savings-investment norm (Box 1). The peg to the Singapore dollar and the Currency Interchangeability Arrangement remain appropriate instruments for disciplined macroeconomic policy making.

Box 1. The REER, Current Account Surpluses, Intertemporal Savings, and S-I Norms

Notwithstanding the large current account surpluses, the REER appears to be broadly in line with fundamentals. A quantitative analysis supports this view. The current account surpluses are consistent with:

- **Consumption smoothing and saving for future generations, with limited hydrocarbon resources**. The surpluses are broadly consistent with optimal levels computed from a long-term dynamic model for a stylized economy with Brunei's characteristics, especially exhaustible hydrocarbon resources. The optimal levels are determined from a planner's objective to smooth consumption over a long horizon, with perfect foresight.
- **Precautionary savings under energy price uncertainty and volatility**. More realistically, the planner faces uncertainty, especially with regard to future energy prices. With energy price uncertainty, the need for precautionary savings contributes to larger current account surpluses.[1] Chart 1 provides illustrative scenarios for estimated precautionary savings over the horizon that hydrocarbon reserves are available; precautionary savings (and current account surpluses) increase as the assumed energy price volatility becomes larger.
- **Consistency with appropriate S-I norms for countries with exhaustible oil and gas resources**. Staff estimated a savings-investment (S-I) norm using a panel regression.[2] The explanatory variables in this regression were fundamentals such as fiscal balance, oil balance, demographics, and years of remaining energy reserves. Chart 2 shows the difference between actual current account surpluses and those estimated from the S-I norm (and the standard error band for this difference).





[1] Bems and de Carvalho Filho (2009), IMF Working Paper, forthcoming.

[2] The panel includes Brunei, Kuwait, Qatar, Saudi Arabia, and United Arab Emirates.

12. **The main risks to financial sector stability relate to the still high exposure of banks to personal lending**. In addition, non-performing assets have increased year-on-year by 14 percent as of end-2008, mainly coming from consumer lending. Credit risk may increase further if economic conditions deteriorate significantly, especially in the SME sector. Going forward, net interest margins may be squeezed by the continuing decline in global interest rates, potentially reducing banks' profitability. Staff recommended that the Financial Institutions Department (FID) and banks monitor NPLs closely, and urged speedier resolution of "legacy" NPLs. The authorities shared these concerns, and are in the process of taking steps to better identify and measure NPLs, including through the introduction of a uniform

definition across the banking industry. FID has also been encouraging banks to write off legacy NPLs, although legal concerns have slowed the process.

B. The Fiscal Framework

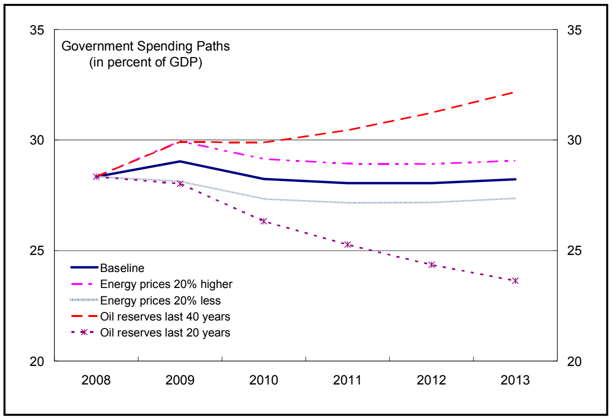
13. **Over the medium term, the authorities intend to maintain a conservative fiscal strategy**. For 2007/08 and 2008/09, this was reflected in the conservative assumptions in budget formulation, even as oil prices rose, thus avoiding pro-cyclical fiscal policy. In addition, budget surpluses have been invested abroad through transfers to the General Reserve Fund. Apart from the BIA, a new framework has been recently established, with World Bank assistance, to allocate fiscal surpluses for strengthening the long term sustainability of budgetary obligations.

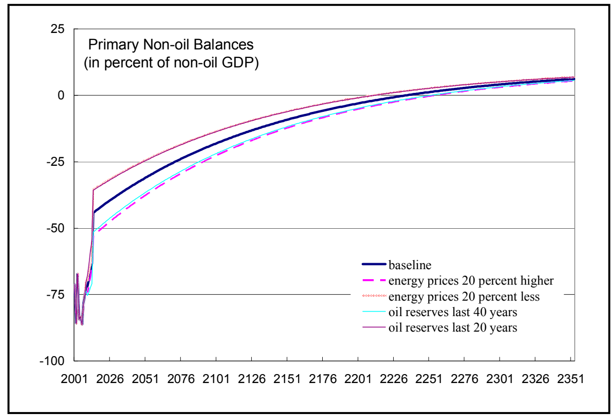
14. **The authorities agreed that the fiscal implications of spending plans in the 9th National Development Plan (RKN) need to be placed in a medium-term fiscal framework (MTFF)**. The overall envelope for development projects in the RKN is BND9½ billion. In this context, the slow implementation during 2007 and 2008 requires acceleration of project implementation in the outer years to support growth. The authorities also expressed interest in IMF technical assistance in the formulation of an MTFF—where progress has been very limited due to capacity constraints—and have initiated bilateral discussions with other countries in the region to examine more closely their budget systems.

15. **The authorities are mindful that planning for eventual depletion of hydrocarbon reserves and managing price volatility are key elements of "future-proofing" the economy**. In this context, staff recommended that:

- **A formal anchor would help long-term fiscal sustainability**. With the objective of smoothing government expenditure (and intergenerational consumption), one option is to target a level of non-oil primary balance. Staff's analysis suggests that the (non oil) primary deficit —under a number of assumptions and subject to a wide range of uncertainty about parameter values—be reduced from over 70 percent of (non-oil) GDP to an average of 55 percent of (non-oil) GDP over the horizon that hydrocarbon reserves are available. Such an analysis can be prepared and updated regularly to take into account changes in oil prices and production prospects, government policies, rate of return on assets, and other relevant assumptions. The authorities expressed interest in the analysis and acknowledged the need to strengthen their own technical capacity to be able to conduct such an exercise.

- **A long-term fiscal planning exercise would be more meaningful if it were to cover the entire consolidated fiscal sector**. The authorities are aware of the need to prepare for the eventual depletion of hydrocarbon reserves, hence the buildup of assets with the BIA. They also noted that various committees have been set up to carefully consider allocations to different funds. Staff acknowledged that management of surpluses had been prudent. Nevertheless, the asset build-up is done on an ad-hoc basis, and formal rules governing transfers between government funds are desirable. In addition, integrating the various government funds into the budget, with greater transparency was highly recommended.





Fiscal Reforms

16. **Staff recommended revenue and expenditure reforms to increase the resilience of the budget and help prepare for the longer term**.

- **Measures to broaden the revenue base**. Given the lead time required for setting up efficient tax systems, consideration could be given to the introduction of an income tax, at a low rate. The authorities agreed with the need to broaden the revenue base and expressed interest in receiving IMF technical assistance to look more closely at different options to achieve this. However, introducing an income tax is not part of their current reform plans, which have been focused mainly on further improvements in corporate tax collection. The Income Tax (Amendment) Order 2008, widened the scope of the withholding tax, and reduced the corporate income tax (CIT) rate for non-energy companies to 27½ percent (from 30 percent). Further reductions in the CIT rate are contemplated with a view to making Brunei competitive in the region. Staff indicated that while the lower tax rate will help to improve cash flow for businesses, improvements in the regulatory and business environment would be more effective in attracting FDI.

- **Rationalization and reform of government subsidies**. Staff noted that these subsidies are high by comparable international standards, and that a review is overdue (Box 2). Subsidy reform could be done in a gradual manner, starting with the adjustment of domestic fuel prices to reflect international price movements and an , improvements in targeting. The authorities acknowledged the need to eventually phase out existing subsidies and replace them with a better-targeted social safety net. They noted that the current global environment presents a timely opportunity, but that the sensitive nature of this issue warrants a careful approach.

Box 2. Government Subsidies

The Brunei government provides a number of subsidies, financed by high oil and gas revenues. The government subsidizes domestic oil and gas consumption, housing, medical services, education, transportation, utilities (electricity, telecommunications, water, drainage), agriculture, rice and sugar, and pensions. In 2006, subsidies for fuel, education, and medical services were about 10 percent of GDP (one-third of total government spending).

Subsidies in Brunei are high by international standards. Among small, high-income countries heavily dependent on the hydrocarbon sector, Brunei had the highest level of government subsidies in 2006 (30 percent of government spending). In particular, subsidies for premium gasoline and diesel contributed to retail prices of gasoline and diesel being about one-half and one-third, respectively, of the average price in oil-exporters. Domestic prices for fuel products have not changed for many years. For example, kerosene prices have remained unchanged since 1979, diesel since 1987, and LPG since 1997. Pump prices for leaded, unleaded, and regular gasoline have not changed since 2003.

A rationalization and reform of government subsidies is desirable. First, this could contribute to fiscal savings over the longer term to sustain consumption levels of future generations when oil and gas reserves eventually run out. Second, it would improve resource utilization. Currently, for example, Brunei ranks second in the region in terms of per capita energy usage, and first in terms of cars per 1,000 population. Third, a reduction in petroleum subsidies would help to lessen smuggling, and thereby reduce cross-border resource leakages. Fourth, subsidies can be made transparent, targeted, and progressive to create room for a better social safety net.

Comparison of Subsidies in Oil-dependent Countries, 2006

	Subsidies and Transfers (% of spending)	Hydrocarbon Revenues (% of revenues)
Qatar	15.9	67.1
Kuwait	26.1	80.8
Bahrain	15.5	77.0
Brunei Darussalam	30.4	92.2

Source: World Development Indicators and staff estimates.

Weighted Average Domestic Retail Prices, End-2007 (US$ per liter)

	Gasoline	Diesel
High income OECD	1.10	1.37
High income non-OECD	0.59	0.82
Upper middle income	0.98	0.95
Lower middle income	0.68	0.59
Low income	0.71	0.23
All countries	1.00	1.08
Importers	1.05	1.15
Exporters	0.75	0.73
Brunei	0.35	0.21

C. Structural Reforms for Sustainability and Growth

Financial Sector Reforms

17. **The authorities reported significant momentum in financial sector reforms**.

- **Establishment of the Brunei Darussalam Monetary Authority (BDMA)**. The structure and functions of the BDMA are already *de facto* in place. Remaining issues which would require revisions in the draft law include: (i) prioritization of BDMA's objectives; (ii) instruments for monetary and other operations; (iii) establishment and oversight of payment system; and (iv) accounting and auditing standards. With the creation of the BDMA, the economy would have an institutional set up for limited monetary management. The mission also welcomed the adoption of IFRS for the BCMB effective 2009. The authorities intend to maintain the currency board arrangement under the BDMA.
- **Legislation to enhance the regulatory framework for banking institutions**. The Islamic Banking Order 2008 and Takaful Order 2008 were issued to enhance the regulatory framework for financial institutions. These orders are harmonized with the conventional banking and insurance Orders to create a level playing field among market participants. In this context, staff recommended that the Brunei Islamic Trust Fund (TAIB)—which conducts the entire range of banking operations—be strongly encouraged to obtain a license under the Islamic Banking Order at an early date.
- **Steps to improve supervisory capability**. With the help of a long-term advisor, the authorities have improved enforcement of existing prudential regulations and bank reporting requirements, conducted onsite inspections, and strengthened offsite analysis. Measurement of financial soundness indicators has improved. Further steps can be taken to: (i) expand the coverage and reliability of prudential macro financial indicators; (ii) strengthen supervisory capacity through training; and (iii) establish formal relationships with home-country supervisors of foreign banks. Staff urged early introduction of a credit registry, publication of core financial indicators quarterly, and upgrading accounting and reporting requirements to international standards. Efforts are also required to strengthen the supervision and regulation of the insurance sector, with improved financial reporting and on-site supervision.
- **Development of liquidity management instruments**. The authorities have continued to issue short-term Islamic T-bills (*Sukuks*) to foster capital market development. The authorities are keen on further development of the domestic securities market and secondary trading, and have sought technical assistance (including from the Asian Development Bank).

Diversification and the Business Environment

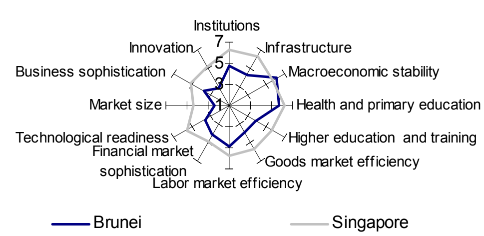
18. **Diversification efforts are ongoing to create employment for a growing population**. The potential for expanding government employment is limited, and diversification has appropriately been high on the authorities' agenda. Elements of their three-pronged strategy are:

- **Promotion of new sectors**. This has been the main focus of diversification efforts. Various sectors are targeted under *Wawasan Brunei 2035* government financing. These include downstream industries of the oil and gas sector, halal food industry, tourism, large government infrastructure projects, transportation, and business and finance services. The authorities noted the difficulty of attracting FDI under the current global environment, and emphasized the need for government investment to help fill the gap by serving as a catalyst for future private sector investment. Efforts are also underway to set up monitoring and evaluation systems to identify key performance indicators to help improve implementation of development projects in these sectors. Staff welcomed these initiatives, and emphasized that greater attention is required to assessing the prospects for translating financing of these projects into self-sustaining productivity enhancements.

- **Creating space for the private sector**. Greater emphasis could be placed on further outsourcing, corporatization, accelerating privatization efforts, and deregulation. This needs to be supported by a coherent privatization strategy and law. Serious efforts are also required to review the civil servant wage and benefits package to increase the relative attractiveness of private sector employment. The authorities are preparing a Privatization Master Plan which would provide strategic direction for the government's privatization agenda. The authorities have also focused on providing support for SME development.

- **Eliminating structural impediments**. During the first five years of *Wawasan Brunei 2035*, the focus is on institutional strengthening and streamlining bureaucratic processes. This could usefully be sharpened to areas where Brunei lags in the World Bank's 2009 Doing Business Index (Brunei's overall rank is 88 out of 181 countries). Specifically, the acquisition of land is cumbersome. Efforts to promote domestic investment and FDI would benefit from removing constraints to registering property, enforcing contracts, and reducing the time for starting a business. In this context, the authorities noted that

Determinants of the Business Environment



steps have already been taken to simplify procedures to start a business such as the online application for business licenses for certain sectors.

D. Data Issues

19. **Steps have been taken to improve provision of statistical information, but incomplete data and slow dissemination hamper effective surveillance**. National accounts data have been improved, including by rebasing to 2000 and introducing expenditure-side numbers. CPI data is currently being rebased based on results of the 2005 household income and expenditure survey. A labor force survey was conducted in 2008. Staff urged the authorities to address existing data deficiencies, provide data to the Fund on a regular and timely basis, and create a central statistics web page for economic and financial data. As in previous years, staff received information on Brunei's International Investment Position (IIP) which was incorporated in the fiscal and balance of payments analyses. The authorities expressed a strong interest in improving statistics, with technical assistance.

V. Staff Appraisal

20. **Prudent management of oil and gas resources has allowed Brunei to achieve a high standard of living, but challenges remain**. These policies have also helped build significant buffers through appropriately large fiscal and current account surpluses to weather shifts in the global environment. However, Brunei's oil and gas resources are finite, the global environment has deteriorated, and the economy's resilience is limited. Private sector activity remains limited and dependent on the government. Efforts to diversify the economy, critical for employment creation, are yet to yield dividends. Untargeted subsidies, price controls, and generous benefits for public sector employees remain entrenched.

21. **Growth is expected to remain low in coming years, and risks are on the downside**. Efforts to repair facilities and restore oil and gas sector production are ongoing. Supportive government spending, progress in diversifying the economic base, new hydrocarbon discoveries, and revival of the global economy would determine growth prospects. The downside risks stem mainly from weak global growth, low oil prices, and slow progress in broadening the base of economic activity beyond the oil sector.

22. **Staff commend the authorities for their continued prudent fiscal management**. Over the long term, continued restraint in budget formulation amidst volatile hydrocarbon prices remains an appropriate strategy. Over the near term, however, there is room to use the budget as a tool for countercyclical policy given the substantial fiscal buffer. In this regard, government investment spending can be accelerated in 2009/10 by addressing implementation and capacity constraints, where recent progress is noteworthy.

23. **Medium and long term fiscal sustainability needs to be ensured, including through fiscal reforms**. This involves situating annual investment spending plans in the

context of a medium-term fiscal framework, adopting a long-term fiscal goal, and taking a consolidated view of the fiscal sector which requires the integration of the various government funds into the budget. A strong effort is required to overcome capacity constraints and institute an MTFF to anchor medium term spending plans. Broadening the revenue base and phasing out government subsidies would complement these efforts to future-proof the economy. In particular, strong and early consideration is recommended toward elimination of generous government subsidies. Staff urges early action to phase out other subsidies, especially in the energy sector by adjusting prices of oil products, along with better targeting of subsidies and creation of a more effective social safety net. The authorities' efforts to raise public awareness of these sensitive issues are welcome.

24. **The level of real exchange rate is broadly appropriate despite the current account surpluses**. These surpluses help Brunei accumulate external assets and prepare for the eventual depletion of hydrocarbon reserves. As regards the exchange rate regime, the peg to the Singapore dollar continues to be a source of macroeconomic stability.

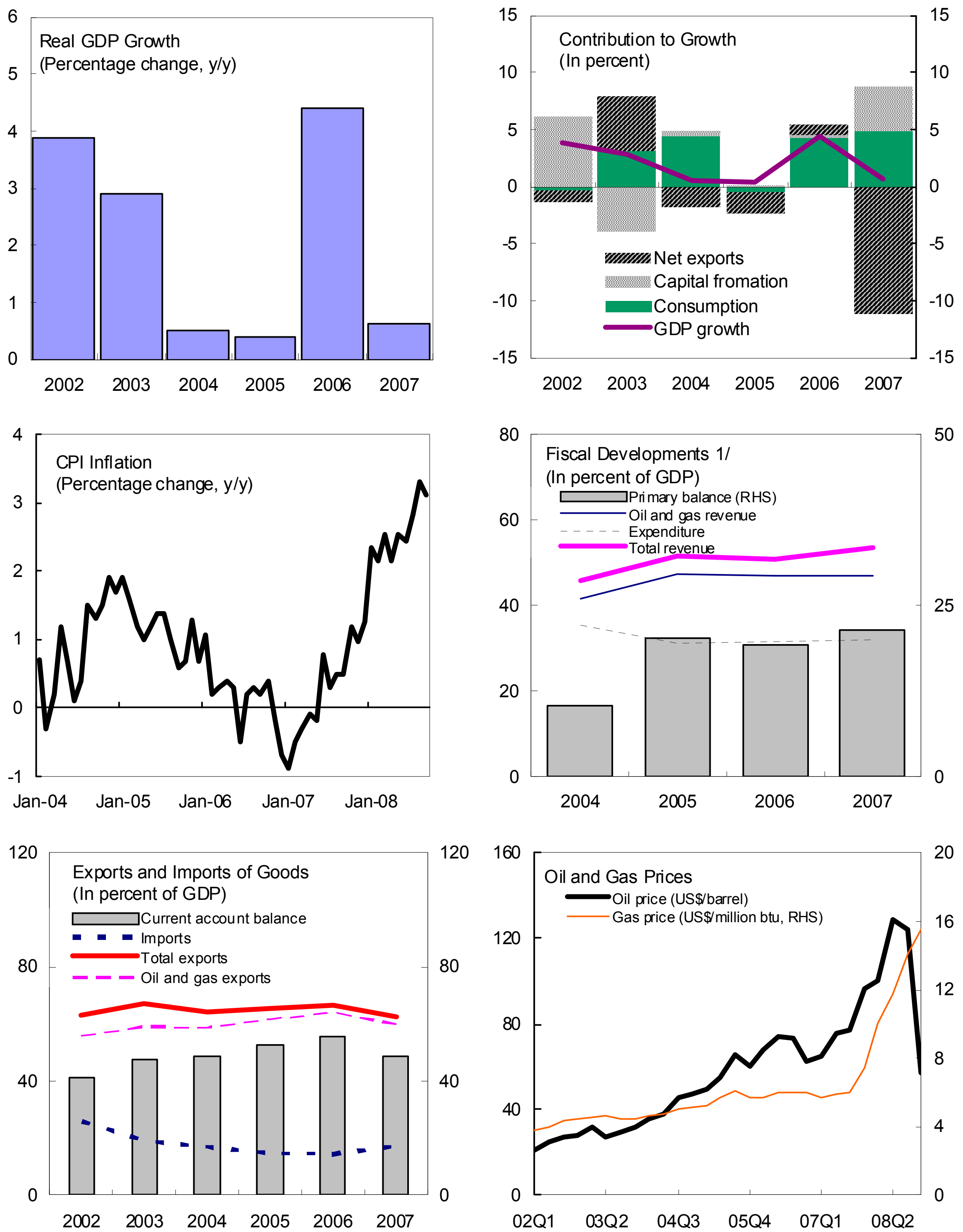
25. **The financial sector reform momentum should be maintained**. Progress in setting up the BDMA, creation of a level regulatory playing field for financial institutions, and more effective financial sector supervision are encouraging. Staff recommend early adoption of the new BDMA Order. Measurement and analysis of financial soundness indicators can be improved and reporting requirements strengthened. The efforts to foster capital market development should be continued. Establishment of a credit registry will help reduce credit risk for banks.

26. **Bold steps are required to accelerate diversification of the economy**. These include allowing greater private sector participation in areas currently dominated by the public sector, reducing the large gap between public and private sector compensation packages, and removing structural impediments to create an enabling environment for private sector development. Progress in these areas is essential for private sector job creation over the long run.

27. **Data quality and availability can be enhanced for effective policy making**. Progress in improving the national accounts and CPI data are welcome. Capacity constraints can be further addressed to improve the quality, timeliness, and availability of statistics, with technical assistance.

28. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle**.

Figure 1. Brunei Darussalam: Macroeconomic Developments



Sources: Country authorities; and CEIC database.
1/ Refers to the fiscal year, April-March.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2002–09

Area	5,765 sq. kilometers
Population (2007)	390,000
GDP per capita (2007)	US$36,170
Quota	SDR 215.2 million

	2002	2003	2004	2005	2006	2007	Est. 2008	Proj. 2009
Output and prices								
Nominal GDP (millions of Brunei dollars) 1/	10,463	11,424	13,306	15,864	18,226	18,513	20,562	19,484
Real GDP (percentage change) 1/	3.9	2.9	0.5	0.4	4.4	0.6	-1.5	0.2
Enegy sector GDP	3.2	4.5	-1.0	-2.6	4.3	-6.9	-5.1	-0.1
Nonenergy GDP	4.8	0.9	2.5	4.1	4.5	9.5	2.1	0.5
Average oil price (U.S. dollars per barrel) 2/	25.0	28.9	37.8	53.4	64.3	71.1	97.0	50.0
Average gas price (U.S. dollars per million BTU) 2/	4.2	4.5	4.9	7.0	8.1	8.2	9.5	11.5
Consumer prices (period average, percentage change)	-2.3	0.3	0.9	1.1	0.2	0.3	2.7	1.2
	(In percent of GDP)							
Public finances 3/								
Total revenue	40.8	43.2	46.2	50.2	50.0	53.3	57.4	44.8
Oil and gas	35.3	37.7	41.6	45.9	46.1	47.4	53.4	40.8
Other	5.5	5.4	4.6	4.3	3.9	5.8	4.0	4.0
Total expenditure	45.9	34.2	36.7	32.2	31.0	32.2	28.3	29.0
Current	36.1	27.5	30.5	25.9	24.2	25.8	23.1	23.4
Capital	9.7	7.8	6.1	6.2	6.6	6.3	5.2	5.7
Of which: Development expenditure	4.2	2.3	2.4	2.9	3.4	3.4	3.4	3.7
Primary budget balance	-5.1	8.9	9.5	18.0	18.9	21.1	29.1	15.7
Primary balance excluding royalties 4/	-0.2	8.4	11.4	18.3	18.9	21.1	29.1	16.0
Nonenergy primary balance	-31.9	-25.1	-25.5	-22.6	-22.1	-21.1	-19.3	-20.9
	(Percentage change)							
Money and banking								
Private sector credit	4.3	3.4	6.4	3.5	-0.9	8.6	…	…
Narrow money	9.8	3.0	9.0	1.3	10.8	-2.8	…	…
Broad money	2.0	3.9	16.1	-4.5	2.1	6.7	…	…
	(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments 5/								
Trade balance	2,193	3,167	3,721	4,836	6,026	5,677	7,072	5,025
Exports	3,702	4,421	5,057	6,249	7,608	7,668	9,494	7,320
Of which: Oil and gas	3,259	3,876	4,624	5,886	7,327	7,373	9,225	7,053
Imports	1,509	1,254	1,336	1,413	1,582	1,991	2,423	2,295
Services (net)	-460	-594	-530	-494	-468	-503	-475	-459
Income (net) 6/	993	845	944	1,067	1,308	1,481	1,212	1,055
Current transfers	-317	-290	-309	-376	-404	-430	-443	-448
Current account balance	2,409	3,129	3,827	5,032	6,462	6,224	7,366	5,173
Current account balance (percent of GDP)	41.2	47.7	48.6	52.8	56.3	50.7	50.6	35.2
Gross official reserves 7/	449	475	489	492	514	667	700	756
Foreign exchange cover of currency issued (in percent) 7/	98.1	100.4	94.2	101.8	95.3	106.2	106.2	106.2
Brunei dollars per U.S. dollar (period average)	1.79	1.74	1.69	1.66	1.59	1.51	1.41	...

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

1/ GDP numbers were recently revised to reflect both a new methodology and a new base in 2000.
2/ Based on WEO projections as of December 2008.
3/ On a calendar year basis; excludes interest and investment income.
4/ Excludes collection and disbursement of royalties.
5/ Balance of payments data for 2001 onwards were revised after the 2004 Article IV consultation.
6/ Fund staff estimates.
7/ Includes SDR holdings and reserve position in the Fund.

Table 2. Brunei Darussalam: Fiscal Developments, 2003–08/09 1/

	2003	2004/05	2005/06	2006/07	2007/08 Budget	2007/08 Outturn	2008/09 Budget	2008/09 IMF Proj.
	(In millions of Brunei dollars)							
Total revenue	4,930	6,403	8,484	9,311	5,767	10,042	5,602	11,673
Tax	2,600	3,685	5,241	5,575	3,005	6,345	3,274	7,368
Oil and gas	2,393	3,439	4,980	5,300	2,765	6,029	2,987	7,064
Other	207	246	261	275	240	316	287	304
Nontax revenue	2,330	2,718	3,243	3,736	2,762	3,696	2,327	4,305
Oil and gas 2/	1,916	2,376	2,795	3,302	2,402	2,812	1,911	3,924
Other	414	342	448	434	360	884	416	380
Total expenditure	3,910	4,954	5,173	5,770	5,300	6,020	5,305	5,764
Total expenditure excluding royalties	3,491	4,074	4,340	4,823	4,990	5,028	5,005	4,727
Current	3,145	4,048	4,126	4,497	3,813	4,878	3,907	4,721
Wages and salaries	1,340	1,440	1,496	1,606	1,738	1,683	1,771	1,771
Other 3/	1,805	2,608	2,630	2,891	2,075	3,195	2,136	2,950
Capital	887	889	1,026	1,273	1,487	1,142	1,398	1,044
Of which: Development expenditure	263	355	488	671	900	608	900	720
Primary budget balance	1,020	1,449	3,311	3,541	467	4,022	297	5,908
Primary balance excluding royalties	965	1,681	3,311	3,546	-123	4,021	-10	5,908
Nonenergy primary balance	-2,869	-3,472	-3,610	-4,114	-4,390	-3,828	-4,301	-4,042
Investment income 4/	684	631	2,163	1,650	...	1,681	…	1,282
Balance including investment income 5/	1,704	2,080	5,474	5,191	...	5,702	…	7,190
	(In percent of GDP)							
Total revenue	43.2	45.9	51.6	50.9	30.3	52.8	27.6	57.5
Tax	22.8	26.4	31.9	30.5	15.8	33.4	16.1	36.3
Oil and gas	20.9	24.7	30.3	29.0	14.5	31.7	14.7	34.8
Other	1.8	1.8	1.6	1.5	1.3	1.7	1.4	1.5
Nontax revenue	20.4	19.5	19.7	20.4	14.5	19.4	11.5	21.2
Oil and gas 2/	16.8	17.0	17.0	18.0	12.6	14.8	9.4	19.3
Other	3.6	2.5	2.7	2.4	1.9	4.6	2.1	1.9
Total expenditure	34.2	35.5	31.4	31.5	27.9	31.6	26.1	28.4
Total expenditure excluding royalties	30.6	29.2	26.4	26.4	26.2	26.4	24.7	23.3
Current	27.5	29.0	25.1	24.6	20.0	25.6	19.3	23.3
Wages and salaries	11.7	10.3	9.1	8.8	9.1	8.8	8.7	8.7
Other 3/	15.8	18.7	16.0	15.8	10.9	16.8	10.5	14.5
Capital	7.8	6.4	6.2	7.0	7.8	6.0	6.9	5.1
Of which: Development expenditure	2.3	2.5	3.0	3.7	4.7	3.2	4.4	3.5
Primary budget balance	8.9	10.4	20.1	19.4	2.5	21.1	1.5	29.1
Nonenergy primary balance	-25.1	-24.9	-21.9	-22.5	-23.1	-20.1	-21.2	-19.9
In percent of non-energy GDP	-58.6	-67.6	-66.5	-70.3	-70.4	-61.4	-67.3	-63.3
Memorandum items:								
Nominal GDP (in millions of Brunei dollars)	11,424	13,945	16,454	18,297	19,025	19,025	20,293	20,293
Nonenergy GDP (in millions of Brunei dollars)	4,894	5,133	5,426	5,849	6,235	6,235	6,389	6,389
Investment income (percent of GDP) 4/	6.0	4.5	13.1	9.0	…	8.8	…	6.3
Balance including investment income (percent of GDP) 5/	14.9	14.9	33.3	28.4	…	30.0	…	35.4

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

1/ Fiscal year changed from a calendar year to April–March in 2004; excludes interest and investment income.
2/ Includes energy sector royalties and dividends.
3/ Includes disbursements of royalties.
4/ Staff estimate.
5/ Includes Fund staff estimates of investment income.

Table 3. Brunei Darussalam: Balance of Payments, 2005–13 1/

	2005	2006	2007	Est. 2008	Projections 2009	2010	2011	2012	2013
	(In millions of U.S. dollars, unless otherwise indicated)								
Current account balance	5,032	6,462	6,224	7,366	5,173	5,781	6,194	6,328	6,465
In percent of GDP	52.8	56.3	50.7	50.6	35.2	36.8	37.8	38.0	38.2
Trade balance	4,836	6,026	5,677	7,072	5,025	5,470	5,701	5,655	5,627
Exports	6,249	7,608	7,668	9,494	7,320	7,898	8,213	8,177	8,166
Oil and gas	5,886	7,327	7,373	9,225	7,053	7,618	7,916	7,859	7,825
Other 2/	363	281	295	269	267	279	297	318	342
Imports	1,413	1,582	1,991	2,423	2,295	2,428	2,512	2,522	2,539
Services (net)	-494	-468	-503	-475	-459	-443	-424	-402	-377
Receipts	617	742	813	879	912	955	1,019	1,098	1,183
Payments	1,111	1,210	1,316	1,354	1,371	1,398	1,443	1,500	1,560
Income (net)	1,067	1,308	1,481	1,212	1,055	1,211	1,388	1,566	1,725
Receipts 3/	1,257	1,490	1,686	1,424	1,270	1,429	1,614	1,800	1,969
Payments	190	182	206	212	214	218	226	234	244
Current transfers (net)	-376	-404	-430	-443	-448	-457	-472	-490	-510
Receipts	0	0	0	0	0	0	0	0	0
Payments	376	404	430	443	448	457	472	490	510
Capital and financial account balance	-1,668	-1,616	-2,037	-1,823	-5,117	-5,759	-6,160	-6,288	-6,422
In percent of GDP	-17.5	-14.1	-16.6	-12.5	-34.8	-36.7	-37.6	-37.8	-38.0
Capital account balance (net)	-11.5	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0
Financial account balance	-1,657	-1,609	-2,030	-1,816	-5,110	-5,752	-6,153	-6,281	-6,415
Direct investment (net)	167	433	237	279	316	277	291	295	288
Assets	0	0	0	0	0	0	0	0	0
Liabilities	167	433	237	279	316	277	291	295	288
Portfolio investment (net)	21	50	22	12	26	27	22	22	24
Assets	21	50	22	12	26	27	22	22	24
Liabilities	0	0	0	0	0	0	0	0	0
Other investment (net) 3/ 4/	-1,845	-2,092	-2,288	-2,107	-5,453	-6,057	-6,466	-6,598	-6,727
Assets	-1,975	-2,370	-2,571	-2,421	-5,750	-6,371	-6,791	-6,924	-7,055
Liabilities	130	278	282	314	297	314	325	326	329
Errors and omissions 5/	-3,361	-4,825	-4,033	-5,510	0	0	0	0	0
Overall balance	3	22	154	33	55	22	33	41	43
Gross official reserves 6/	492	514	667	700	756	778	812	852	895
In months of next year's imports of goods and servic	2.1	1.9	2.1	2.3	2.4	2.4	2.4	2.5	2.5
Memorandum items:									
Exchange rates									
Brunei dollars per U.S. dollar (period average)	1.66	1.59	1.51	1.41	…	…	…	…	…
Brunei dollars per U.S. dollar (end of period)	1.66	1.53	1.44	1.44	…	…	…	…	…
Nominal effective exchange rates (2000=100)	97.2	100.0	101.1	105.7	…	…	…	…	…
Real effective exchange rates (2000=100)	89.3	89.8	88.8	90.0	…	…	…	…	…
Nominal GDP (in millions of U.S. dollars)	9,531	11,470	12,284	14,553	14,695	15,698	16,402	16,632	16,917

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

1/ Balance of payments data for 2001 onwards were revised after the 2004 Article IV consultation.
2/ From 2004, excludes reexports.
3/ Based on Fund staff estimates.
4/ Includes changes in banks' net foreign assets.
5/ The large scale of errors and omissions reflects the lack of comprehensive balance of payments data.
6/ Includes Brunei Currency and Monetary Board's foreign exchange assets, SDR holdings, and reserve position in the Fund.

Table 4. Brunei Darussalam: Monetary Developments, 2002–08 1/

	2002	2003	2004	2005	2006	2007				2008		
						March	June	Sept.	Dec.	March	June	Sept.
	(In millions of Brunei dollars; end of period)											
Brunei Currency and Monetary Board (BCMB)												
External assets (net) 2/	747	816	794	830	744	745	832	839	963	974	945	986
Foreign exchange holdings	641	654	628	718	705	722	812	819	901	917	889	…
Other assets	648	693	814	802	876	756	655	712	711	653	675	625
Currency issued	655	651	667	705	740	763	759	795	849	801	803	…
Reserve money excluding currency outside banks	528	594	687	776	753	639	618	657	761	733	718	752
Other liabilities	346	401	390	429	363	383	393	401	396	404	406	438
Banking Survey												
Foreign assets (net)	5112	6125	7890	8,623	7,630	6674	7131	7221	8142	8179	8340	10082
Net claims on government	-1676	-2493	-3530	-4,816	-3,418	-2791	-2945	-3153	-3577	-3273	-3030	…
Claims on nonfinancial public sector	6	47	82	71	60	145	142	132	123	109	105	97
Claims on private sector	5616	5808	6179	6,392	6,335	6514	6745	6884	6882	6932	7003	7235
Capital accounts	882	956	968	1,096	1,219	1259	1497	1494	1660	1729	1765	1801
Other items (net)	218	248	59	12	31	129	46	-78	-74	-244	-249	-117
Broad money	7956	8264	9591	9,159	9,355	9154	9528	9667	9983	10461	10901	11105
Money	3145	3249	3531	3,576	3,963	3826	3703	3683	3851	4077	3868	3847
Of which: Currency outside banks	575	564	576	601	641	655	658	675	697	674	683	608
Quasi-money	4811	5028	6060	5,584	5,392	5328	5825	5984	6132	6384	7033	7257
	(Annual percentage change)											
Banking Survey												
Foreign assets (net)	-6.7	19.6	29.0	9.3	-11.5	-22.8	-23.2	-14.3	6.7	22.5	17.0	39.6
Claims on private sector	4.3	3.4	6.4	3.5	-0.9	3.6	6.9	9.1	8.6	6.4	3.8	5.1
Broad money	2.0	3.9	16.1	-4.5	2.1	0.9	-0.7	11.1	6.7	14.3	14.4	14.9
Money	9.8	3.0	9.0	1.3	10.8	5.9	-3.8	2.5	-2.8	6.6	4.4	4.4
Of which: Currency outside banks	0.4	-3.6	4.0	4.4	6.8	7.9	8.9	10.4	8.7	2.9	3.8	-10.0
Quasi-money	-2.6	4.4	20.6	-7.9	-3.4	-2.4	1.4	17.2	13.7	19.8	20.7	21.3
Memorandum items:												
BCMB net external asset ratio 3/	0.98	1.00	0.94	1.02	0.95	0.95	1.07	1.03	1.06	1.15	1.11	…
Prime lending rate (end of period)	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	…
Brunei dollars per U.S. dollar (end of period)	1.74	1.70	1.63	1.66	1.53	1.52	1.53	1.49	1.44	1.38	1.36	1.43

Source: International Financial Statistics, IMF.

1/ Data on monetary aggregates have been subject to significant revisions in the past.
2/ Includes reserve position in the Fund and SDR holdings.
3/ Ratio of foreign exchange holdings to currency.

Table 5. Brunei Darussalam: Medium-Term Scenario, 2006–13

			Est.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013
Output and prices								
Nominal GDP (millions of Brunei dollars) 1/	18,226	18,513	20,562	19,484	20,608	21,319	21,405	21,555
Real GDP (percentage change) 1/	4.4	0.6	-1.5	0.2	0.6	1.3	1.6	1.7
Energy sector GDP 1/	4.3	-6.9	-5.1	-0.1	0.0	0.0	0.0	0.0
Nonenergy GDP 1/	4.5	9.5	2.1	0.5	1.1	2.4	3.1	3.1
Oil production ('000 barrels/day)	219	194	175	175	175	175	175	175
Natural gas output (mln. cu. ft./day)	1239	1210	1178	1178	1178	1178	1178	1178
Average oil price (U.S. dollars per barrel) 2/	64.3	71.1	97.0	50.0	60.0	64.8	67.0	68.8
Average gas price (U.S. dollars per million BTU) 2/	8.1	8.2	9.5	11.5	11.4	11.4	10.9	10.5
Consumer prices (percentage change, period average)	0.2	0.3	2.7	1.2	1.2	1.2	1.2	1.2
	(In percent of GDP)							
Public finances 3/								
Total revenue	50.0	53.3	57.4	44.8	46.1	46.0	44.7	43.5
Oil and gas	46.1	47.4	53.4	40.8	42.1	41.9	40.7	39.5
Non-oil and gas	3.9	5.8	4.0	4.0	4.0	4.0	4.0	4.0
Total expenditure	31.0	32.2	28.3	29.0	28.2	28.0	28.0	28.2
Current	24.2	25.8	23.1	23.4	22.4	21.8	21.8	21.6
Capital	6.6	6.3	5.2	5.7	5.8	6.2	6.3	6.6
Primary budget balance	18.9	21.1	29.1	15.7	17.8	17.9	16.7	15.3
Primary balance excluding royalties	18.9	21.1	29.1	16.0	18.1	18.2	16.9	15.5
Nonenergy primary balance	-22.1	-21.1	-19.3	-20.9	-20.1	-20.0	-20.1	-20.4
In percent of nonenergy GDP	-70.2	-63.0	-62.4	-63.2	-63.1	-62.8	-60.9	-59.8
	(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments								
Trade balance	6,026	5,677	7,072	5,025	5,470	5,701	5,655	5,627
Exports	7,608	7,668	9,494	7,320	7,898	8,213	8,177	8,166
Of which: Oil and gas	7,327	7,373	9,225	7,053	7,618	7,916	7,859	7,825
Imports	1,582	1,991	2,423	2,295	2,428	2,512	2,522	2,539
Services (net)	-468	-503	-475	-459	-443	-424	-402	-377
Income (net) 4/	1,308	1,481	1,212	1,055	1,211	1,388	1,566	1,725
Current transfers (net)	-404	-430	-443	-448	-457	-472	-490	-510
Current account balance	6,462	6,224	7,366	5,173	5,781	6,194	6,328	6,465
Current account balance (percent of GDP)	56.3	50.7	50.6	35.2	36.8	37.8	38.0	38.2
Gross official reserves								
In millions of U.S. dollars	514	667	700	756	778	812	852	895
In months of next year's imports of goods and services	1.9	2.1	2.3	2.4	2.4	2.4	2.4	2.4
Foreign exchange cover of currency issued (in percent)	95.3	106.2	106.2	106.2	106.2	106.2	106.2	106.2

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

1/ GDP numbers were recently revised to reflect both a new methodology and a new base in 2000.
2/ Based on WEO projections as of December 2008.
3/ On a calendar year basis.
4/ Fund staff estimates.

Table 6. Brunei Darussalam: Indicators of Vulnerability, 2002–08

	2002	2003	2004	2005	2006	2007	2008
Financial Sector Indicators							
Broad money (M3, percent change, y/y)	2.0	3.9	16.1	-4.5	2.1	6.7	14.9 3/
Private sector credit (percent change, y/y)	4.3	3.4	6.4	3.5	-0.9	8.6	5.1 3/
NPL ratio (percent) 1/	14.7	8.6	11.4	10.9	10.7	9.5	…
Net of provision	7.5	2.2	4.7	0.8	1.4	0.9	…
Capital adequacy ratio of local banks (percent) 2/	21.9	20.0	18.4	21.7	18.2	19.5	…
External indicators							
Current account balance (US$ billion)	2,409	3,129	3,827	5,032	6,462	6,224	…
(in percent of GDP)	41.2	47.7	48.6	52.8	56.3	50.7	…
Gross official reserves (US$ billion)	449	475	489	492	514	667	700 4/
(in months of next year's imports of goods and services)	2.4	2.4	2.3	2.1	1.9	2.1	2.3 4/
Real effective exchange rate (end of period, 2000=100)	96.8	93.2	90.4	89.3	89.8	88.8	90.0

Sources: Data provided by the Brunei authorities and IFS.

1/ 2007 data is as of end-September.
2/ 2007 data is as of end-June.
3/ as of end-September 2008.
4/ as of end-July 2008.

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APPENDIX II. IMF Executive Board Concludes 2009 Article IV Consultation with Brunei Darussalam

On [April 29], 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Brunei Darussalam.[3]

Background

Brunei is a small, high-income, open economy heavily dependent on finite oil and gas reserves. Per capita GDP is over US$36,000. Oil and gas production constitutes a substantial proportion of GDP, exports, and government revenues. Hydrocarbon receipts support a high standard of living. High oil prices in the past few years and prudent policies have contributed to significant fiscal and current account surpluses, the bulk of which are saved overseas through the Brunei Investment Agency (BIA). For 2008/09, the fiscal surplus is estimated at close to 30 percent of GDP and the current account surplus for 2008 at about 51 percent of GDP.

Output growth fell in 2007 and 2008 due to a decline in oil and gas production. This was partially offset by an acceleration in government and private non-oil sector growth. On the demand side, growth was driven mainly by government spending. For 2008, real GDP growth is estimated to be negative (−1½ percent). Inflation has increased recently, but remains low. CPI inflation rose to 2¾ percent y/y for the period January-November 2008 reflecting high global prices of imported food items.

[3] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The domestic financial system has been resilient to the deterioration in global financial markets so far. Domestic banks remain well-capitalized, profitable, and liquid, with more than half of total deposits parked abroad. Foreign banks also showed resilience given their substantial liquidity positions, low NPLs, prudent loan expansion, and contingent lines with parent banks. In addition, the government guaranteed until end-2010 all bank deposits, in line with other regional economies. However, the sharp fall in prices across all asset classes globally likely led to a decline in the market value of BIA's investment holdings abroad.

Output growth is projected to remain weak in the near term, recovering only gradually over the medium term. Major government projects and a pick up in non-energy sector activity would be key sources of growth. Downside risks stem from possible further declines in energy prices as the global economy slides into a recession. Given much lower hydrocarbon prices in 2009, the fiscal and current account surpluses would fall significantly. In addition, the global financial turmoil could further reduce the value of external assets. Over the longer term, growth would depend on hydrocarbon reserves expansion, the recovery of the global economy and oil prices, and success in diversifying the economic base. GDP growth is expected to rise to 1¾ percent by 2013, assuming that energy production will remain conservative.

Executive Board Assessment

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2002–09

Area	5,765 sq. kilometers
Population (2007)	390,000
GDP per capita (2007)	US$36,170
Quota	SDR 215.2 million

	2002	2003	2004	2005	2006	2007	Est. 2008	Proj. 2009
Output and prices								
Nominal GDP (millions of Brunei dollars) 1/	10,463	11,424	13,306	15,864	18,226	18,513	20,562	19,484
Real GDP (percentage change) 1/	3.9	2.9	0.5	0.4	4.4	0.6	-1.5	0.2
Enegy sector GDP	3.2	4.5	-1.0	-2.6	4.3	-6.9	-5.1	-0.1
Nonenergy GDP	4.8	0.9	2.5	4.1	4.5	9.5	2.1	0.5
Average oil price (U.S. dollars per barrel) 2/	25.0	28.9	37.8	53.4	64.3	71.1	97.0	50.0
Average gas price (U.S. dollars per million BTU) 2/	4.2	4.5	4.9	7.0	8.1	8.2	9.5	11.5
Consumer prices (period average, percentage change)	-2.3	0.3	0.9	1.1	0.2	0.3	2.7	1.2
	(In percent of GDP)							
Public finances 3/								
Total revenue	40.8	43.2	46.2	50.2	50.0	53.3	57.4	44.8
Oil and gas	35.3	37.7	41.6	45.9	46.1	47.4	53.4	40.8
Other	5.5	5.4	4.6	4.3	3.9	5.8	4.0	4.0
Total expenditure	45.9	34.2	36.7	32.2	31.0	32.2	28.3	29.0
Current	36.1	27.5	30.5	25.9	24.2	25.8	23.1	23.4
Capital	9.7	7.8	6.1	6.2	6.6	6.3	5.2	5.7
Of which: Development expenditure	4.2	2.3	2.4	2.9	3.4	3.4	3.4	3.7
Primary budget balance	-5.1	8.9	9.5	18.0	18.9	21.1	29.1	15.7
Primary balance excluding royalties 4/	-0.2	8.4	11.4	18.3	18.9	21.1	29.1	16.0
Nonenergy primary balance	-31.9	-25.1	-25.5	-22.6	-22.1	-21.1	-19.3	-20.9
	(Percentage change)							
Money and banking								
Private sector credit	4.3	3.4	6.4	3.5	-0.9	8.6	…	…
Narrow money	9.8	3.0	9.0	1.3	10.8	-2.8	…	…
Broad money	2.0	3.9	16.1	-4.5	2.1	6.7	…	…
	(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments 5/								
Trade balance	2,193	3,167	3,721	4,836	6,026	5,677	7,072	5,025
Exports	3,702	4,421	5,057	6,249	7,608	7,668	9,494	7,320
Of which: Oil and gas	3,259	3,876	4,624	5,886	7,327	7,373	9,225	7,053
Imports	1,509	1,254	1,336	1,413	1,582	1,991	2,423	2,295
Services (net)	-460	-594	-530	-494	-468	-503	-475	-459
Income (net) 6/	993	845	944	1,067	1,308	1,481	1,212	1,055
Current transfers	-317	-290	-309	-376	-404	-430	-443	-448
Current account balance	2,409	3,129	3,827	5,032	6,462	6,224	7,366	5,173
Current account balance (percent of GDP)	41.2	47.7	48.6	52.8	56.3	50.7	50.6	35.2
Gross official reserves 7/	449	475	489	492	514	667	700	756
Foreign exchange cover of currency issued (in percent) 7/	98.1	100.4	94.2	101.8	95.3	106.2	106.2	106.2
Brunei dollars per U.S. dollar (period average)	1.79	1.74	1.69	1.66	1.59	1.51	1.41	...

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

1/ GDP numbers were recently revised to reflect both a new methodology and a new base in 2000.
2/ Based on WEO projections as of December 2008.
3/ On a calendar year basis; excludes interest and investment income.
4/ Excludes collection and disbursement of royalties.
5/ Balance of payments data for 2001 onwards were revised after the 2004 Article IV consultation.
6/ Fund staff estimates.
7/ Includes SDR holdings and reserve position in the Fund.