

**FOR
AGENDA**

SM/09/72
Correction 1

April 27, 2009

To: Members of the Executive Board

From: The Acting Secretary

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

The attached corrections to SM/09/72 (3/19/00) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 5, para. 5, bullet 2, line 2: for “BND 5¼ billion” read “BND 5½ billion”.

Page 18, Table 2: revised

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

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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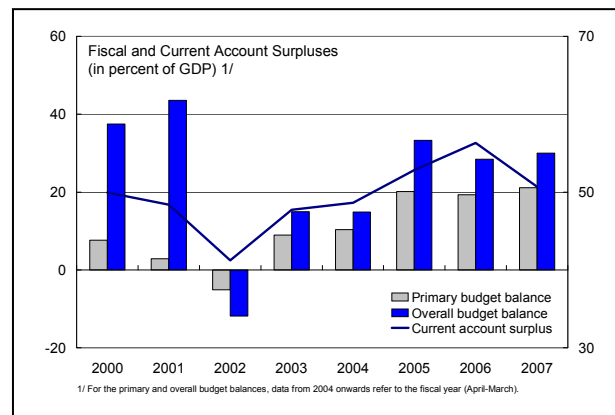
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private non-oil sector growth. On the demand side, growth was driven by domestic spending, particularly government consumption and investment. For 2008, real GDP growth is estimated to be negative ($-1\frac{1}{2}$ percent), with a contraction of 4 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 $\frac{1}{4}$ percent in 2007. It rose to $2\frac{3}{4}$ 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 BND $\frac{1}{2}$ 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 BND $5\frac{3}{4}$ billion (30 percent of GDP).
- The 2008/09 budget envisages total spending of BND $5\frac{1}{2}$ billion. Based on budget execution in the first three quarters of the fiscal year (expenditure was about BND $3\frac{1}{2}$ 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 ($2\frac{1}{4}$ 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.



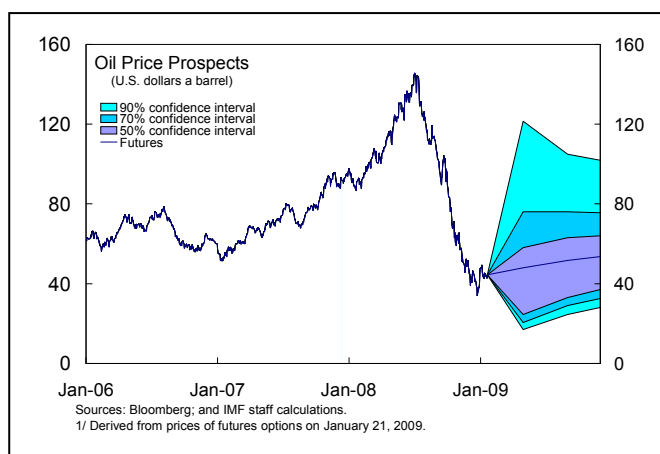
¹ The budget was formulated with US\$45/bbl for oil; the average price in 2007/08 was almost US\$88/bbl.

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.

I. 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 $\frac{1}{4}$ 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.



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 $1\frac{3}{4}$ 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.

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
Energy 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, 2004–07/08 1/

	2003	2004/05	2005/06	2006/07	2007/08		2008/09	
					Budget	Outturn	Budget	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	5,455	5,764
Total expenditure excluding royalties	3,491	4,074	4,340	4,823	4,990	5,028	5,155	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	1,548	1,044
Of which: Development expenditure	263	355	488	671	900	608	1,050	720
Primary budget balance	1,020	1,449	3,311	3,541	467	4,022	147	5,908
Primary balance excluding royalties	965	1,681	3,311	3,546	-123	4,021	-160	5,908
Nonenergy primary balance	-2,869	-3,472	-3,610	-4,114	-4,390	-3,828	-4,451	-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	26.9	28.4
Total expenditure excluding royalties	30.6	29.2	26.4	26.4	26.2	26.4	25.4	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	7.6	5.1
Of which: Development expenditure	2.3	2.5	3.0	3.7	4.7	3.2	5.2	3.5
Primary budget balance	8.9	10.4	20.1	19.4	2.5	21.1	0.7	29.1
Nonenergy primary balance	-25.1	-24.9	-21.9	-22.5	-23.1	-20.1	-21.9	-19.9
In percent of non-energy GDP	-58.6	-67.6	-66.5	-70.3	-70.4	-61.4	-69.7	-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 (% of GDP) 4/	6.0	4.5	13.1	9.0	...	8.8	...	6.3
Balance including investment income (% 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 estima

1/ Fiscal year changed from a calendar year to April–March in 2004; excludes interests and invest

2/ Include energy sector royalties and dividends.

3/ Includes disbursements of royalties.

4/ Staff estimate.

5/ Includes Fund staff estimates of investment income.