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September 7, 2023

Statement by Mr. Betancur Mora and Mr. Rojas Ramirez on Brunei Darussalam
(Preliminary)
Executive Board Meeting
September 11, 2023

We thank the staff for the informative report and Mr. Anwar and Ms. Abu Bakar for their insightful Buff statement. Overall, we share staff's view that policies should continue to support economic recovery while facilitating diversification in the near term. In the medium and long term, priorities should focus on building resilience against global developments and climate risks, which may require some structural recalibrations of the development model. **We concur with the authorities that global perspectives call for doubling efforts towards a more diversified productive structure**.

While output is expected to remain below potential in 2024, with oil maintenance projects weighing on the outlook, there are fiscal, external sector, and inflationary constraints that narrow the room for maneuver. We agree that fiscal stimulus is justified in the near term. We note that the higher fiscal deficit projected for FY2023/24 will be financed by the Fiscal Stabilization Reserve Fund (FSRF). *Can staff elaborate on the size of the FSRF, its evolution through time, and the conditions under which the authorities have drawn from it?*

On a more structural basis, there is a pressing need for growth-friendly, inclusive, and sustained fiscal consolidation. Fiscal space is limited from a Permanent Income Hypothesis perspective. Non-oil and gas revenues have been declining in recent years and barely represent 15% of current spending. At the same time, public investment implementation, which is important for economic diversification, has been low in recent years. Climate change imposes substantial risks and calls for a substantial increase in stable resources over the medium term. We support staff's recommendation to adopt a credible medium-term fiscal

framework where public spending must be linked to relatively stable revenues and where the benchmark for fiscal targets is the size of the non-oil and gas GDP. Mobilizing more permanent revenues, improving the efficiency of the tax basis, and rationalizing some of the very sizable untargeted subsidies are all warranted. We also agree that fiscal and external sector risk assessments should be better integrated into macroeconomic planning. *How would staff assess the Consolidated Fund's governance, accumulation, and decumulation rules?* Given its size, it is an important feature of the macroeconomic and development frameworks.

Developing a domestic interbank market would facilitate monetary policy transmission and financial deepening. We encourage the authorities to use the Fund's TA recommendations to improve liquidity management. Further alignment of policy rates with the Monetary Authority of Singapore could be beneficial too.

Accelerating a sustainable productive transformation will require a multipronged approach, where a strengthened private sector would bring cross-cutting benefits. Further steps towards more stable and fair risk-sharing regulatory frameworks are key to boosting private sector participation in economic activity, including through the expansion of Public-Private Partnerships. The shortages of skilled workers in some specialized sectors, the low quality of education compared to peers, and the high unemployment among the youth call for prioritizing investment in human capital and training for work programs. Combining those efforts with the Digital Economy Masterplan 2025 could multiply the benefits.