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September 7, 2023

**Statement by Mr. Potapov and Ms. Zubareva on Brunei Darussalam
(Preliminary)
Executive Board Meeting
September 11, 2023**

1. We thank staff for the comprehensive report on Brunei Darussalam and Mr. Anwar and Ms. Abu Bakar for their helpful Buff statement. We broadly agree with staff's appraisal with the following comments.
2. **Scarring effects of the COVID-19 pandemic still negatively impact Brunei's economy.** Oil and gas (O&G) production decline resulted in a sharp growth slowdown in 2022. Real GDP is also projected to decline in 2023 despite non-oil sectors growth. As global prices have stabilized, inflation is expected to ease after reaching record high numbers in 2022. A stable exchange rate also helped avoid inflation acceleration. The decline in fiscal revenues and the increase in expenditure due to the need to support the recovery is expected to result in an expansion of the overall fiscal deficit in FY2023/24. We positively note that Brunei's international reserves remain relatively high, according to the ARA metric. We agree with staff's assessment of the downside risks, which include volatility of oil prices, domestic production disruptions, and global decarbonization pressures, and would encourage the authorities to closely monitor these risks.
3. **Gradual fiscal consolidation supported by revenue mobilization can help promote the recovery and protect the most vulnerable groups.** We commend the authorities for their continued efforts to advance implementation of the Fiscal Consolidation Plan (FCP). We also take positive note of the recent steps taken to improve revenue mobilization, including the introduction of the excise tax on goods with negative health and environmental externalities. Digitalization measures introduced by the authorities will help strengthen revenue administration and ensure transparency of the public finances. The

announced pension reform is rightly focused on providing additional benefits to pensioners and ensuring sustainability of the pension system. We also commend the authorities for incorporating sustainability goals into the National Budget.

4. Monetary policy is appropriate to support Brunei's macroeconomic stability.

The peg to the Singapore dollar has served well in taming inflation and ensuring price stability. Financial policy should be focused on promoting financial sector development. We positively note that the banking sector remains liquid and well capitalized, while additional efforts are needed in advancing financial regulatory frameworks. Given the current global and financial market uncertainty, risk monitoring is crucial for identification and mitigation of those risks. Introduction of the Basel III liquidity standards can help create additional buffers to support banking sector sustainability. We also positively note the measures undertaken by the authorities in developing a secondary market of government sukuks and I-bills, encouraging the issuance of corporate bonds/sukuks, and establishing a stock exchange.

5. Economic diversification is key for reducing dependence on O&G market developments and promoting sustainable growth. We positively note strong growth in the non-O&G sector supported by an expansion of the services sector, in particular finance, air, and other transport services. The authorities are rightly focused on enhancing human capital development, which is reflected in the national Vision, Wawasan Brunei 2035. We agree with staff's advice to improve the education system and address skill mismatches and underemployment, particularly among youth. Given the importance of the O&G sector for Brunei's economy, we would encourage the authorities to take a gradual and well-balanced approach to the energy transition. *Could staff comment on whether there are any unemployment and stranded assets risks for Brunei in the context of the energy transition activities?*

6. With these remarks, we wish the authorities and the people of Brunei Darussalam every success.