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September 5, 2023

**Statement by Mr. Anwar and Ms. Abu Bakar on Brunei Darussalam
Executive Board Meeting
September 11, 2023**

1. On behalf of the Brunei Darussalam's authorities, we would like to thank the AIV IMF Mission team for the constructive policy discussions during the 2023 Article IV consultation. The authorities find staff's appraisal balanced and appreciate staff's acknowledgement of the authorities' efforts and initiatives in strengthening and diversifying the economy. Overall, the authorities are in broad agreement with the main thrust of staff's appraisal including the constructive recommendations going forward.

Recent Economic Developments and Outlook

2. Brunei Darussalam's economy grew by 0.8 percent y-o-y in the first quarter of 2023. This is driven by strong growth in the non-oil and gas (O&G) sector, which grew by 6.2 percent y-o-y following an expansion of the services sector, notably air transport (285.1 percent), finance (71.7 percent) and other transport services (33.1 percent). The strong growth of the non-O&G sector offset the 5 percent decline of the O&G sector, which is still experiencing the knock-on effect from the COVID-19 pandemic that caused several deferments in rejuvenation, exploration and development activities. The assets rejuvenation activities are expected to continue over the next couple of years, with a positive recovery of overall production expected starting in 2024.
3. Inflation rose to 3.7 percent in 2022 from 1.7 percent in 2021, mainly due to increased food prices, supply chain disruptions and higher transport cost attributed to higher airfares. Inflation has since moderated and continues to be manageable, with CPI inflation in the first five months of 2023 declining to 0.8% compared to the same period in 2022. This was mainly due to a moderation in food price increases as disruptions to supply chains eased.

4. The key risks to the economy remain largely unchanged, reflecting the continued importance of the oil and gas sector to the economy. The authorities take note of staff's risk assessment and reiterate their strong commitment to expedite economic diversification, which have borne fruit in recent years.

Fiscal Policy

5. The theme of Brunei Darussalam's National Budget for this year is 'Building a Prosperous Future Together', that is designed to further strengthen the country's efforts in achieving the three national Vision, Wawasan Brunei 2035, goals, namely Educated, Highly Skilled and Successful People; High Quality of Life of the People; and a Dynamic and Sustainable Economy. Building on the previous financial year's budget theme, 'Towards Resilient Socio-Economic Development', this year's budget focuses on three priorities, namely:-
 - Implementing activities that will increase the country's productivity to support an inclusive and sustainable growth.
 - Preserving public welfare through resilient facilities and infrastructure. This includes upgrading connectivity; improving utilities efficiency; and strengthening health and education facilities; and
 - Development of dynamic, proactive and innovative human capital.
6. Fiscal prudence continues to underpin the authorities' fiscal policy and public finance management. The authorities remain committed to deepen implementation of the Fiscal Consolidation Plan (FCP). Launched in 2019, the FCP aims to achieve productivity gains, cost savings and revenue generation to durably reduce the medium-term fiscal deficit and strengthen fiscal sustainability. Initiatives under the FCP include corporatization and privatization, public-private partnership (PPP), a review of fees and charges, revenue diversification and mobilization as well as consolidation of the government's asset management systems.
7. The authorities take note of staff's assessment on the need for further fiscal consolidation of a cumulative 10 percent of non-O&G GDP by FY2028/29 to ensure long-term fiscal sustainability and inter-generational equity. The authorities will carefully consider staff's fiscal policy advice and recommendations to achieve this, particularly to ensure that essential development spending and the vulnerable and marginalized groups are protected.
8. The authorities have taken steps to improve revenue mobilization in recent years. One of the key initiatives has been to expand the excise tax on goods with negative health

- and environmental externalities. This includes taxes on tobacco, alcohol, sugary beverages, and plastic containers. The government believes that these taxes will help to discourage consumption of these goods and raise revenue that can be used to fund public health and environmental programs. Another key initiative has been to strengthen revenue administration through digitalization. This includes the introduction of a new electronic tax filing system for businesses and the development of a land tax portal to make it easier for businesses and individuals to pay their taxes and reduce the risk of tax evasion. In addition to the initiatives mentioned above, the government of Brunei is also considering other ways to improve revenue mobilization through a review of its charges and fees as well as other broad-based taxes. The authorities appreciate staff's analysis on carbon pricing, which provides valuable input to policy assessments, which is currently focused on improving the accuracy of emissions data and the necessary framework to pilot a domestic Voluntary Carbon Offset.
9. On expenditure rationalization, the authorities' have taken steps to reform subsidies such as through the launch of premium fuel without subsidy, implementation of smart meter for water and power as well as exploratory discussions on power and water tariff reforms. The digitalization of the National Welfare System is also aimed at ensuring support to those most in need and enabling the authorities to conduct assessments in a 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, which is expected to be rolled out in FY2024/25.
 10. The authorities recently announced some reforms to its pension system (*'Skim Persaraan Kebangsaan'*), to improve the adequacy and sustainability of the pension system. It is also designed with the contributory members in mind to ensure they have secure retirement income. The key reforms include eliminating the earnings cap on employer and employee contributions, extending benefits to informal workers and the self-employed and introducing a lifetime annuity payout option.
 11. The authorities would like to extend its appreciation to staff on the provision of a Public Investment Management Assessment (PIMA) and Climate PIMA in April 2023. The authorities look forward to the TA report and the reform recommendations to enhance planning and execution of its capital investments. With regards to the establishment of a Medium-Term Fiscal Framework (MTFF), the Fiscal Forecasting Unit has been providing medium-term revenue and expenditure forecasts for risk management purposes. The authorities agree with staff's recommendations to

improve MTFFs, establish fiscal rules, and develop revenue mobilization strategies and requests staff's capacity development support in this regard.

Monetary and Financial Sector Policies

12. The existing currency board arrangement with the peg to Singapore dollar remains appropriate and supports stable inflation. This monetary policy framework has been beneficial in preserving macroeconomic stability for Brunei Darussalam. The authorities take note of staff's recommendation to improve monetary operations and transmission, including on policy rates setting against that of the Monetary Authority of Singapore. The recommendation was also discussed in the recent IMF TA on Monetary Operations and Liquidity Management, which the authorities have taken on-board in its workplan.
13. Despite the challenging macroeconomic environment, the banking sector remains liquid and well capitalized. Key financial soundness indicators continue to depict financial strength with aggregate capital adequacy ratio (CAR) of 21.3 percent as of Q1 2023, and gross nonperforming loans (NPL) at 3.2 percent. The CAR is well above the minimum regulatory requirement of 10.0 percent as stipulated in the Banking Order, 2006 and Islamic Banking Order, 2008. Additionally, in line with the increasing interest/profit rate environment, an upward trend was recorded in banking sector profitability.
14. The authorities will continue to guard against financial vulnerabilities and continuously review the adequacy of its regulatory and supervisory frameworks in ensuring a conducive environment for supporting economic activity, the development of the financial services industry as well as to safeguard monetary and financial stability. The authorities plan to implement Basel III liquidity standards between 2023 and 2024 and other elements of the Basel III framework in phases.
15. In line with the Brunei Darussalam Central Bank's (BDCB) commitment to manage and mitigate systemic risks in the financial sector, identified Domestic Systemically Important Banks (D-SIBs) for 2023 have been subjected to additional policy measures, such as Higher Loss Absorbency (HLA) capital requirements to further enhance their resilience.
16. The authorities remain committed to strengthening AML/CFT regulatory and supervisory frameworks to safeguard financial integrity. Two laws were amended in 2022, namely the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations and the Criminal Asset Recovery Order. The BDCB also introduced provisions requiring oversight of virtual assets through amendments to Notice on

Requirements for Payment Systems and issuance of new Guidelines on Offering Trading of Security Tokens, in line with the Financial Action Task Force's (FATF) Recommendation 15, as determined by the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation.

17. On capital market development, several measures have been implemented towards developing a secondary market for government sukuk and I-bills, enabling the issuance of corporate bonds/sukuk, and establishing a stock exchange. On the regulatory front, the authorities issued enhancements to its Notice on Licensing Examination and Guideline on Conducting the Regulated Activity of Giving or Offering Investment Advice to provide clarity on requirements relating to the conduct of Islamic investment business activities.

Reforms for Sustainable and Resilient Economic Development

18. The authorities remain committed to accelerate economic diversification to support a resilient and sustainable medium-term economic growth. They emphasized that continuous efforts have been undertaken to enhance the five priority sectors for diversification, namely Downstream O&G; Food; ICT; Tourism and Services. Efforts in these priority sectors have borne fruit with their contribution to GDP increasing from 46.9 percent in 2010 to 55.9 percent in 2022. The authorities expect the diversification momentum to intensify, with additional O&G downstream activities, such as Petrochemical Intermediate & Derivative products (PID) and Hengyi phase 2, to sustain the positive trend in the non-O&G sector.
19. The authorities reiterated their ambition to pursue digital transformation and becoming a Smart Nation, in line with the Digital Economy Masterplan 2025. The Masterplan sets out several goals, including increasing the use of digital technologies in businesses and government, improving the country's digital infrastructure, and building a skilled workforce in digital technologies. A few flagship projects have been identified including the current implementation of the Digital Identity and Digital Payment Hub. The authorities are also investing in infrastructure and initiatives to support this goal, including the expansion of the reach and affordability of broadband internet, developing a 5G network, and building a national data center.
20. The authorities also remain committed in supporting the growth of MSMEs, which play an important role in job creation, economic diversification and poverty reduction. Various initiatives are in place to nurture and support MSME growth and development, including to facilitate digitalization of MSMEs, access to financing and access to the global market.

21. The authorities recently announced a new minimum wage policy, which will be introduced in phases beginning from July 12, 2023, starting with the (i) banking and finance; and (ii) ICT industries. The minimum wage in these sectors will be set at BND500 per month for full-time workers, while part-time workers will earn at least BND2.62 per hour. The authorities will monitor the impact of the minimum wage reforms and adjust as needed, in close collaboration with employers to ensure the reform is implemented smoothly. With the introduction of the minimum wage, the authorities hope to improve the living standards of low-income earners as well as help attract and retain skilled workers in Brunei.

22. Brunei Darussalam remains dedicated to playing its part in addressing climate change and delivering climate goals through the implementation of ten (10) key strategies in the Brunei Darussalam National Climate Change Policy (BNCCP). The Brunei National Climate Change Council provides oversight and support to ensure the delivery of the Nationally Determined Contributions (NDC) commitments and establish a strong foundation to achieve their ambition of moving towards Net Zero by 2050. Brunei Darussalam communicated its NDC in 2020 with a commitment to reduce total national greenhouse gas (GHG) emissions by 20 per cent relative to Business-As-Usual levels by 2030. Brunei Darussalam has also intensified efforts in driving energy transition, forest preservation and facilitation of climate mitigation and adaptation. To ensure transparency in meeting climate change commitments and targets, a Mandatory Reporting Directive was launched in April 2023, with the objective of enhancing transparency of emissions reporting and to substantiate actions to achieve the climate ambitions. Brunei Darussalam also places great importance on adaptation efforts and is in the process of developing a National Climate Change Adaptation Plan to coordinate adaptation efforts for a climate-resilient and adaptive nation. As a display of its commitment to regional progress in climate change, Brunei Darussalam will host the ASEAN Centre for Climate Change (ACCC), which is intended to be a climate research hub and strategic coordinator for climate activities and initiatives for the region.

Final Remarks

23. The authorities would again like to thank the Mission for their insights, 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 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 elevating the level of interaction and relationship with the Fund in the future.