ASEAN +3 MACROECONOMIC RESEARCH OFFICE

AMRO Annual Consultation Report

Brunei Darussalam - 2020

ASEAN+3 Macroeconomic Research Office (AMRO)

January 2022

Acknowledgments

1. This Annual Consultation Report on Brunei Darussalam has been prepared in accordance with the functions of AMRO to monitor, assess and report its members' macroeconomic status and financial soundness, to identify relevant risks and vulnerabilities, and to assist them in the timely formulation of policy to mitigate such risks (Article 3 (a) and (b) of the AMRO Agreement).
2. This Report is drafted on the basis of the Annual Consultation Visit of AMRO to Brunei Darussalam from July 27 to August 5, 2021 (Article 5 (b) of the AMRO Agreement). The AMRO Mission team was headed by Dr Siu Fung (Matthew) Yiu, Group Head/Lead Economist. Members include Ms Vanne Khut, Temporary Desk Economist; Ms Laura Grace Gabriella, Researcher; Ms Madeleine Vinuya, Research Data Analyst; and Mr Yuthan Chea, Associate. AMRO Director Mr Toshinori Doi and Chief Economist Dr Hoe Ee Khor also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on Brunei Darussalam for 2020 was peer reviewed by Dr Nguyen Thi Kim Cuc, Deputy Group Head, and Dr Ruperto Majuca, Senior Specialist, and approved by Dr Hoe Ee Khor, AMRO Chief Economist.
3. The analysis in this Report is based on information available up to September 10, 2021.
4. By making any designation of or reference to a particular territory or geographical area, or by using the term "member" or "country" in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.
5. No part of this material may be disclosed unless so approved under the AMRO Agreement.
6. On behalf of AMRO, the Mission team wishes to thank the Bruneian authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

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Executive Summary

1. The economy decelerated due to the Covid-19 pandemic but remained in positive growth in 2020, and the recovery in 2021 is expected to be gradual. The slowdown of growth to 1.1 percent in 2020 was largely driven by the contraction in output of the oil and gas sector, but was partially offset by a surge in the non-oil and gas sector on account of a sharp increase in downstream manufacturing activities. Domestic consumption strengthened in 2020 owing to the diversion effects on spending of a ban on outbound travel. The economy is expected to rebound moderately to 2.1 percent in 2021, benefiting from the improvement in global oil prices and demand because of the strong global recovery.

2. The overall balance of payments recorded a deficit in 2020, reflecting capital outflows in the financial account and a narrower current account surplus. In 2020, current account surplus shrank as exports were hit severely by the pandemic. Strong imports, especially linked to large investment projects, also contributed to the shrinking current account surplus. The deficit in the overall balance of payments translated into lower gross international reserves in 2020.

3. The fiscal deficit widened significantly in FY2020 due to a drastic drop in oil revenue, notwithstanding spending cuts. The country recorded a huge budget deficit of 20.1 percent of GDP in FY2020, mainly attributed to the plunge in oil and gas revenue. The fiscal deficit is forecast to narrow to around 7.0 percent in FY2021 on account of a strong rebound in oil revenue reflecting higher global oil prices.

4. Major risks facing the economy revolve around high concentration in the oil and gas sector and the uncertain future path of the pandemic. The country's high dependence on the oil and gas sector makes it vulnerable to both domestic and external shocks in that one sector, affecting not only the external balance and fiscal position but all aspects of the economy, which underscore the need to speed up economic diversification into the non-oil and gas sector. A sustained wave of the pandemic, especially domestically, will also affect the country's near-term outlook, while climate change is a perennial risk that will impact the country's long term economic outlook.

5. To ensure a safe reopening of the economy, it is essential to accelerate the vaccination to achieve herd immunity by securing sufficient supply of COVID-19 vaccines. The recent resurgence of the infections highlights a strong need for the country to secure sufficient vaccine supplies and accelerate its vaccination rate to achieve herd immunity in order to protect the population and contain the current outbreak or any renewed outbreak of the virus.

6. The government's fiscal and financial support until end-2021 has helped to cushion the pandemic impact on the affected sectors. Further short-term fiscal measures, if needed, should be flexible and targeted towards households and businesses most affected by the pandemic, as well as towards enhancing public investments. As for financial policy, temporary regulatory relief measures have been extended to the affected private sector, including the deferment of principal repayment and loan restructuring. Both fiscal and financial support should be closely monitored to ensure smooth unwinding without cliff effects.

7. Accelerating structural reforms and economic diversification is crucial to sustain robust long-term growth. Diversifying the economy and revenue source into the non-oil and gas sector would help strengthen the country's resilience to shocks. Additionally, further upgrading of hard and soft infrastructure and leveraging on digital innovations, could enhance the economy's competitiveness and attract more quality foreign direct investments (FDIs).

8. The country should also remain proactive in managing natural disaster risks by allocating the necessary budget to combat climate change. More investment in sustainable development

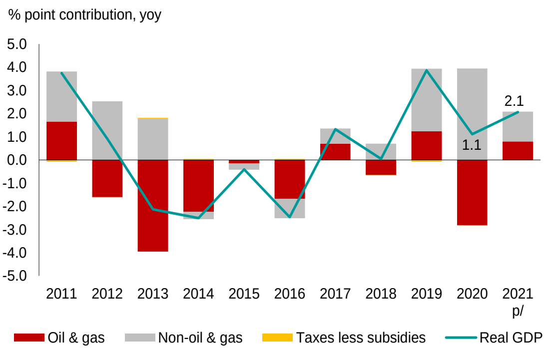
should be encouraged, while climate change mitigation and adaptation strategies should be incorporated into national development policies.

A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

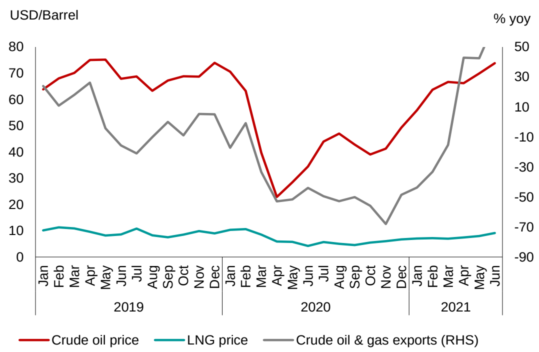
1. Brunei Darussalam's economic growth, which was strong before the pandemic, weakened in 2020 due to the COVID-19 pandemic but remained positive. The economy grew at a slower pace of 1.1 percent in 2020, after expanding robustly by 3.9 percent in 2019 (Figure 1). The slowdown was mainly attributed to the contraction in output of the oil and gas sector by 4.9 percent, driven by the collapse in global oil and gas demand and prices (Figure 2) and turnaround activities in offshore installations for maintenance. The non-oil and gas sector, meanwhile, surged by 8.9 percent largely on the back of a jump in downstream refinery activities, notwithstanding the decline in public administration, transport, finance and education sub-sectors. On the demand side, major growth drivers for 2020 were net exports, mainly from Hengyi Industries, and private consumption. Hengyi Industries has been playing an increasingly important role in the economy since it started operation in late 2019 and has contributed to a sharp increase in value added of the downstream activities (Box A). The positive growth during the pandemic reflects the effectiveness of the government's COVID-19 containment measures and policy stimulus response, together with the successful diversification of the oil and gas sector into downstream refinery activities.

Figure 1. Contribution to Real GDP Growth



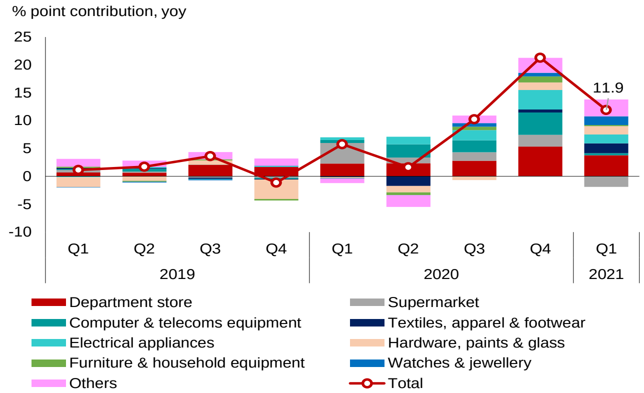
Note: p/ refers to AMRO staff projection. yoy = year-over-year
Source: Department of Economic Planning and Statistics (DEPS); AMRO staff calculations

Figure 2. Oil and Gas: Prices and Exports



Source: DEPS; AMRO staff calculations

Figure 3. Retail Sales

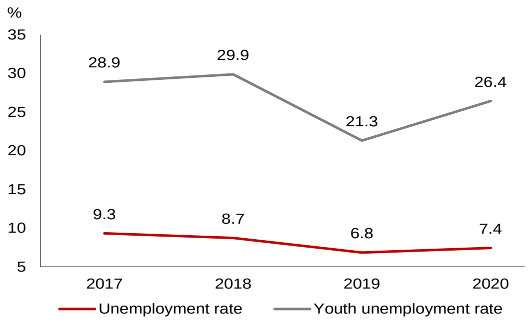


Source: DEPS; AMRO staff calculations

2. Domestic consumption was boosted by the diversion of spending due to outbound travel restriction, and successful pandemic containment measures prior to the recent wave of local infections. After a short period of lockdown in 2020, the restrictions were eased, and the country's domestic activities resumed in phases. Moreover, a ban on outbound travelling, which was imposed on its citizens and residents since March 2020, led to a diversion of spending domestically. As a result, domestic consumption surged, as reflected in the spike in retail sales at 21.3 percent year on year (yoy) in Q4 2020, largely in department store goods, computer and telecommunication equipment, and electrical appliances (Figure 3). Domestic tourism also saw a rapid rise by 34.5 percent in 2020, partially offsetting the drastic decline in foreign visitors.[1] To promote domestic tourism activities, the government has launched several tourism programs, e.g. A Taste of Brunei, Islamic Values in Tourism Services, embracing both cultural and sport activities, such as handicrafts, trekking, cycling and river cruise.

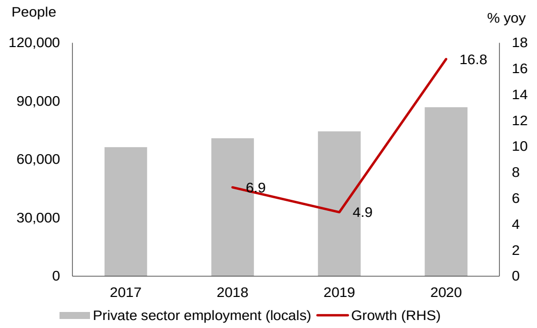
3. Despite the negative impact on the labor market of the containment measures, positive developments were observed in local employment, due to the government's prompt policy response. According to the 2020 labor force survey, the unemployment rate edged up to 7.4 percent in 2020, from 6.8 percent in 2019 (Figure 4). Most job losses were in aviation and tourism industries, while the non-local employment saw a sharp decline, given restrictions on cross-border labor mobility.[2] Nonetheless, the country was able to record an increase in number of local workers in the private sector by 16.8 percent or equivalent to 12,466 persons in 2020 (Figure 5). The government's policy response to support the labor market in 2020 included an extension of i-Ready Apprenticeship Program, job matching, real-time notifications for job matches, salary subsidy for local MSMEs employees, and life-long learning initiatives particularly in upskilling and reskilling the labor force.

Figure 4. Unemployment Rate



Source: DEPS

Figure 5. Private Sector Employment (Locals)



Source: DEPS; AMRO staff calculations

4. The economy is expected to rebound moderately in 2021, benefiting from the improvement in global oil prices because of the strong global recovery. In spite of the contraction in GDP by 0.8 percent in Q1 2021, value added in the oil and gas sector improved driven by the surge in global oil prices. Such positive developments will provide a major boost to government revenue and public consumption. The positive contribution of Hengyi production to the economy will remain in the near term, as evidenced by the continued rise in exports of refined products from downstream activities. However, AMRO staff has reduced the growth forecast to 2.1 percent in 2021, down from the 3.1 percent projected in March, given the delayed commencement of Pulau Muara Besar (PMB) Phase II.[3] The recent resurgence of local infections—resulting in a partial lockdown—could further affect the near-term growth outlook should it become prolonged. The uncertain future path of the current wave

[1] According to the Ministry of Primary Resources and Tourism, the number of international arrivals plunged by 81.3 percent in 2020.
[2] The total number of labor force contracted by 1.6 percent in 2020, driven by the decline in non-local labor force. The number of non-local labor force declined by 18.3 percent mainly in accommodation and food service activities, wholesale and retail trade, and manufacturing. However, the number of locals in the labor force increased by 6.1 percent to 173,417 persons in 2020.
[3] According to the Ministry of Energy, Pulau Muara Besar (PMB) Phase II is expected to start its operation in 2026.

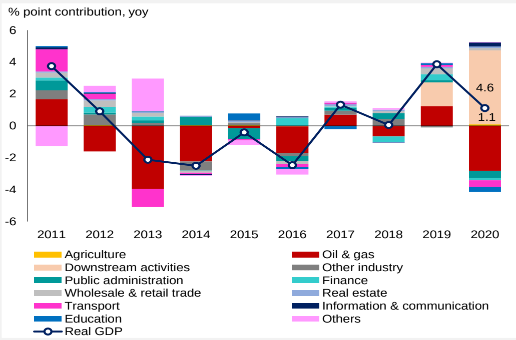
of COVID-19 infections may limit the role of private consumption in driving the economy for the rest of the year (Box B).

Box A. Role of Hengyi Industries (Phase I) in Brunei Darussalam's Economy[4]

Bruneian government's economic diversification efforts have borne fruit as exemplified by the emergence of investments in the downstream segment of the energy sector. Hengyi Industries, for instance, is a result of the diversification in line with the Wawasan Brunei 2035 development plan.[5] A joint-venture between the Bruneian government and a private Chinese enterprise, Hengyi Industries, with an investment value of USD3.45 billion, has become the most sizeable FDI project in Brunei Darussalam. After several years of construction and a few months of active commissioning activities, Hengyi Industries, as a refinery and petrochemical project, has started its operation since November 2019 and made a significant contribution to the economy.[6]

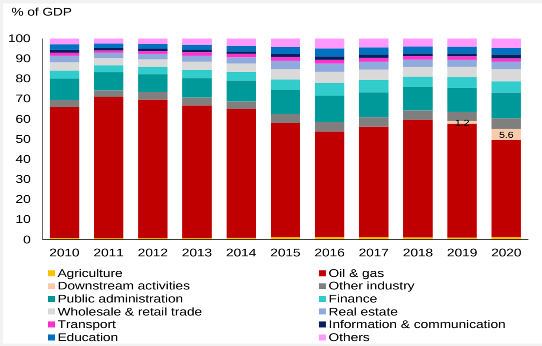
Downstream activities became a major driver of economic growth and job creation in 2020, amid the sharp contraction in the oil and gas sector due to the pandemic. Brunei Darussalam's economy still registered a positive growth of 1.1 percent in 2020, mainly attributed to the surge in production of Hengyi Industries, partially offsetting the decline in the oil and gas sector because of the slump in global oil prices and demand. Growing by a whopping 324.6 percent in 2020, the downstream activities sector contributed 4.6 percentage point to real GDP growth and constituted 5.6 percent of nominal GDP in 2020 (Figures A1, 2). Hengyi Industries employed 1,665 people in 2020, of whom 40 percent are locals, in line with the required localization rate. Moreover, the project also created business opportunities by awarding at least 38 contracts to local and joint venture companies.

Figure A1. Contribution of Downstream Activities Sector to Real GDP Growth



Source: DEPS; AMRO staff calculations

Figure A2. Share of Downstream Activities Sector in Nominal GDP



Source: DEPS; AMRO staff calculations

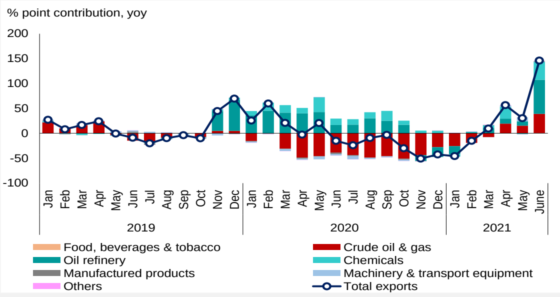
On the external front, exports of refined products from downstream activities remain supportive of overall export growth. Exports of petrochemical products helped buoy overall export growth to a large extent during the plunge in oil prices in 2020, and also continue to be a key driver of export growth going into 2021 (Figure A3). Petrochemical exports reached 46.9 percent of total exports in 2020, while imports of mineral fuels for petrochemical production constitute about 45.6 percent of total imports in 2020 (Figure A4). The majority of petrochemical products go to China, accounting for about 30 percent of total petrochemical exports, followed by Australia at 25.9 percent, and Singapore at 22.4 percent.[7]

Classified as a pioneer industry, the downstream project currently makes a very limited contribution to the fiscal position. Hengyi Industries has been exempted from the corporate income tax obligation under the Investment Incentive Order for 11 years, starting from 2014 to 2025. After the end of the tax holiday, in addition to its current payment for land rental, Hengyi Industries will be required to pay the corporate income tax of 18.5 percent and share its dividend with the

[4] This box was prepared by Vanne Khut.
[5] There are five priority business clusters stipulated in Wawasan Brunei 2035 development plan, such as downstream oil and gas, food, tourism, services and ICT.
[6] Hengyi Industries' current monthly production is at 650,000 tons, of which 61.3 percent are oil products, aromatics 26 percent, gas products 11.6 percent, and other by-products 1.1 percent (Hengyi Industries, 2021).
[7] Source: Hengyi Industries

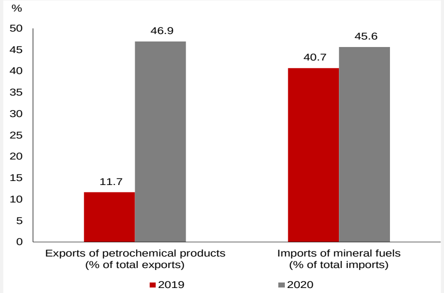
government.[8] In 2020, given weak demand for jet fuel and gasoline, Hengyi Industries was only able to earn USD69.2 million in net profit, down from USD111.5 million earned in just the last two months of 2019.[9] [10] Going forward, with better global economic prospects and the pandemic under control, a significant resumption of global economic activity and travel is expected, benefiting the downstream sector.

Figure A3. Exports by Product



Note: Petrochecmical products refer to refined oil and chemical products.
Source: DEPS; AMRO staff calculations

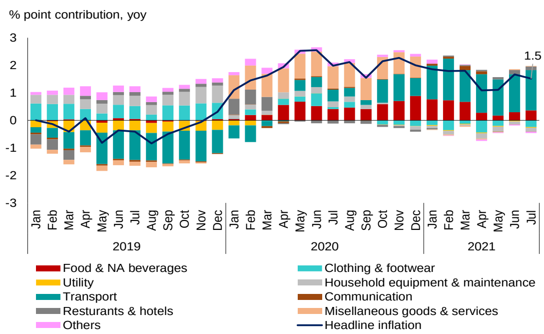
Figure A4. Share of Downstream Products in Trade



Note: Exports of petrochemical products are AMRO staff estimates given data unavailability.
Source: DEPS; AMRO staff calculations

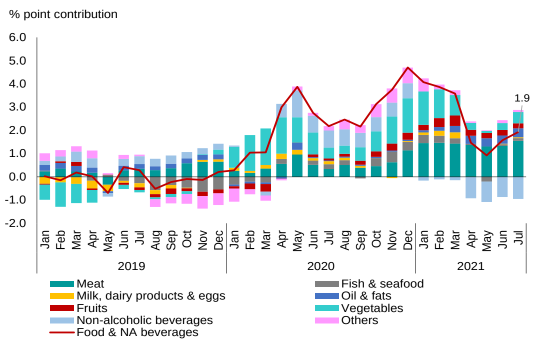
5. Inflation ticked up in 2020 due to pandemic-induced supply chain disruptions but is expected to moderate slightly in 2021. Headline inflation increased to 1.9 percent in 2020, up from -0.4 percent in 2019, mainly on account of supply chain disruptions induced by the COVID-19 pandemic, resulting in higher prices of imported food-related items and household products (Figure 7). In July 2021, inflation stood at 1.5 percent (yoy), slightly down from 1.7 percent in June, driven by the decline in prices of clothing and footwear but offset by the increased prices of both food and non-alcoholic beverages and transport (Figures 6, 7, 8). In 2021, inflation is projected at 1.6 percent, up from March forecast of 1.2 percent, taking into account the reappearance of the local infections.

Figure 6. Headline Inflation



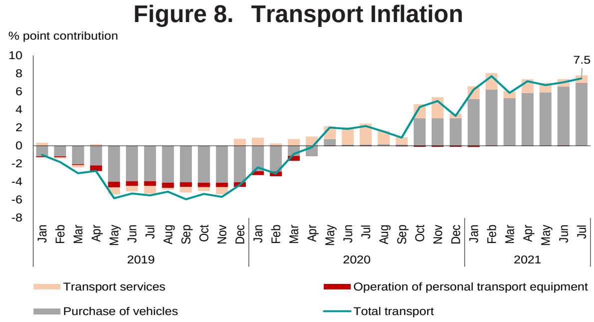
Source: DEPS; AMRO staff calculations

Figure 7. Food Inflation



Source: DEPS; AMRO staff calculations

Figure 8. Transport Inflation



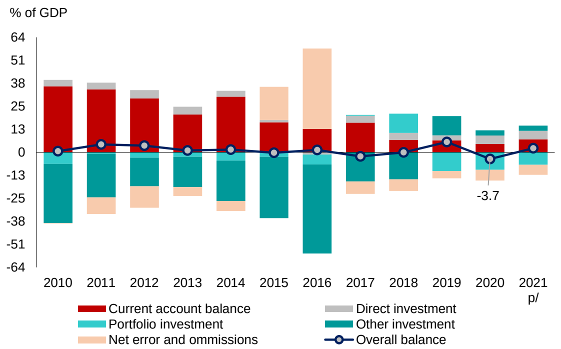
Source: DEPS; AMRO staff calculations

[8] With the government's 30-percent stake, Hengyi Industries is considered a government-linked company.
[9] Source: Hengyi Group's annual reports (2019 and 2020)
[10] Hengyi Industries has managed to adjust its production structure timely to survive the pandemic by reducing the production of jet fuel and diesel amid low demand and raising the production of other high value-added products, such as chemicals.

A.2 External Sector and the Balance of Payments

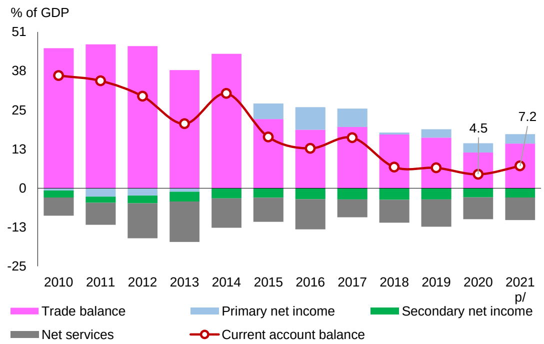
6. The overall balance of payments registered a deficit in 2020, reflecting capital outflows in the financial account and a narrower current account surplus. In spite of strong direct investment inflows in 2020, the overall balance of payments recorded a deficit of 3.7 percent of GDP in 2020 (Figure 9), largely because of the outflows of portfolio investment, a sharp reduction in inflows of other investment, and a decline in the current account surplus. The 2020 current account surplus continued to narrow to 4.5 percent of GDP, down from 6.6 percent in 2019, as total exports were severely hit by the collapse in oil prices, but partially offset by a decrease in imports of services (Figure 10). Strong imports, especially linked to large investment projects, also contributed to the shrinking current account surplus. The deficit in the overall balance of payments in 2020 translated into lower gross international reserves, valued at USD4.0 billion or 7.5 months of imports of goods and services as of December 2020, down from USD4.3 billion in 2019.

Figure 9. Balance of Payments



Note: p/ refers to AMRO staff projection.
Source: DEPS; AMRO staff calculations

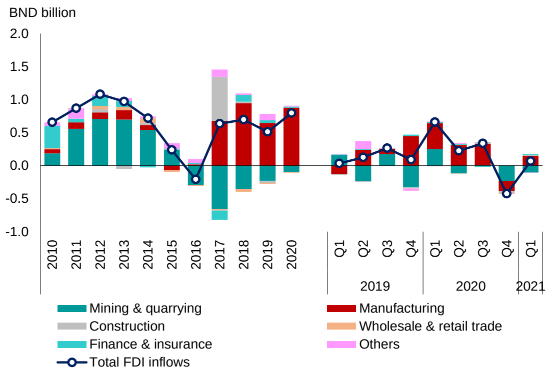
Figure 10. Current Account Balance



Note: p/ refers to AMRO staff projection.
Source: DEPS; AMRO staff calculations

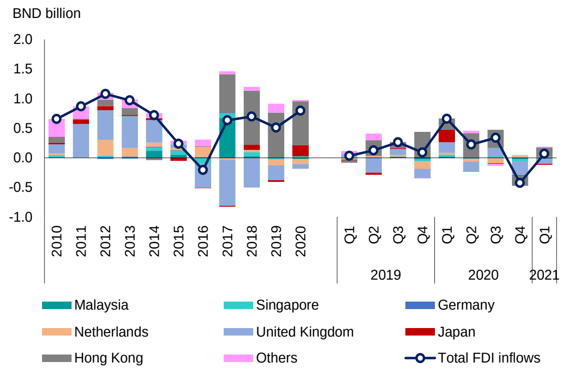
7. FDI inflows could help put the overall balance of payments in a better position in the near-term. Robust FDI inflows in 2020 partially offset the reduced current account surplus, and therefore lessened the adverse impact on the overall balance of payments. FDI inflows grew by 55.9 percent (yoy) to BND797 million in 2020, largely concentrated in the manufacturing sector, and Hong Kong, China has been the biggest source of FDI over the past several years (Figures 11, 12). Along with steady FDI inflows, an increase in the current account surplus—forecasted at 7.2 percent of GDP in 2021 due to the sharp recovery in oil demand and prices—would contribute to a better performance of the overall balance of payments in 2021.

Figure 11. FDI Inflows by Sector



Source: DEPS; AMRO staff calculations

Figure 12. FDI Inflows by Country

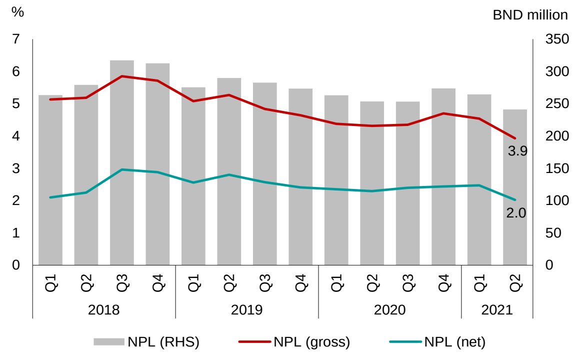


Source: DEPS; AMRO staff calculations

A.3 Monetary Condition and Financial Sector

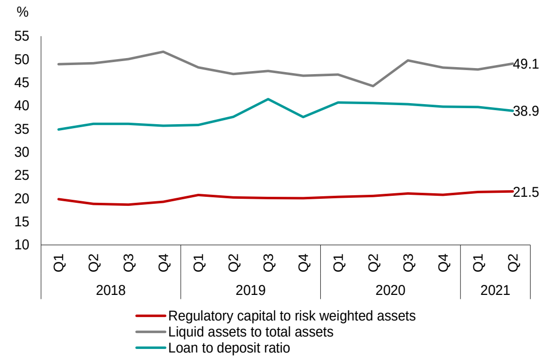
8. The financial sector remains sound as banks continue to be well-capitalized with ample liquidity and reasonable profitability. In terms of asset quality, the non-performing loan (NPL) ratio further declined to 3.9 percent in Q2 2021, from 4.5 percent in Q1, which could be due to a better performance of NPL in personal loan segment (Figure 13). Capital adequacy ratio, meanwhile, remained high at 21.5 percent as of Q2 2021, well above the minimum regulatory requirement of 10 percent (Figure 14). In addition, the ratio of liquid assets to total assets increased to 49.1 percent in Q2, suggesting that banks' liquidity remained ample. As for profitability, banks still maintained a reasonable return on equity (ROE), with the ratio staying at around 8.2 percent in Q2. It is worth noting that the country's financial sector remains dominated by Islamic and conventional banks, which together accounted for 81.5 percent of financial system assets as of Q2.

Figure 13. Non-Performing Loan



Source: BDCB; AMRO staff calculations

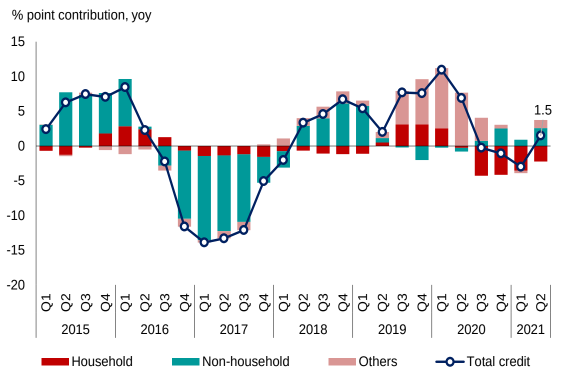
Figure 14. Capital Adequacy, Loan to Deposit, and Assets



Source: BDCB; AMRO staff calculations

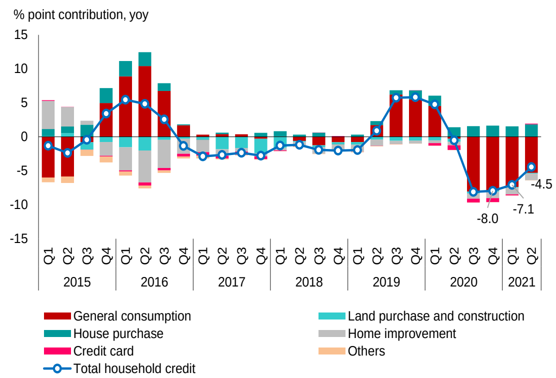
9. Bank credit growth turned positive for the first time in three quarters, driven by a rebound in credit to household and non-household sectors. Bank credit rose by 1.5 percent (yoy) in Q2 2021, up from -3.0 percent in Q4 2020 (Figure 15).[11] Non-household credit surged by 6.6 percent in Q2, up from 2.4 percent in Q1, mainly due to the spike in credit to commercial construction and manufacturing. Household credit, meanwhile, contracted by less in Q2, with credit to general consumption being the biggest contributor (Figure 16). The gradual recovery in bank credit suggests that the domestic demand for credit has started to recover amid stronger economic activity.

Figure 15. Credit by Sector



Source: BDCB; AMRO staff calculations

Figure 16. Credit to Household Sector



Source: BDCB; AMRO staff calculations

[11] Credit to GDP and credit to deposit ratios remained low at 36.0 percent and 39.7 percent, respectively, as of Q1 2021.

10. The BDCB has introduced temporary regulatory relief measures to help alleviate financial burdens of affected businesses and individuals amid the pandemic. An "Economic Relief Package" estimated at BND250 million or equivalent to 1.5 percent of GDP was announced in March 2020,[12] covering the regulatory relief measures, such as deferment of principal repayment of financing or loan to all sectors, loan restructuring, conversion of credit card outstanding balance to a fixed-term loan, and waiver of bank fees and charges related to the facilities, except for third party charges (Appendix 6). These regulatory forbearance measures have already been extended until end-2021 to help cushion the economic impact of the pandemic on the private sector. Before the recent resurgence of community infections in August, the number of applications for each facility had decreased due to shrinking demand from the private sector as business conditions improved (Table 1). Moving forward, if the current wave of infections were to be prolonged, a further extension of the measures may be needed to avoid financial distress in the private sector, especially MSMEs.

Table 1. Temporary Regulatory Relief Measures (As of June 2021)

Application Period	First Phase		Second Phase	
	April – December 2020		April – September 2021	
Measures	No. of approved application	Outstanding balance (Million BND)	No. of approved application	Outstanding balance (Million BND)
Total	2,014	557.1	436	58.3
Deferment	1,964	556.6	432	58.3
Loan restructuring	13	0.3	3	0.04
Conversion of credit card outstanding to term loan	37	0.2	1	0.001

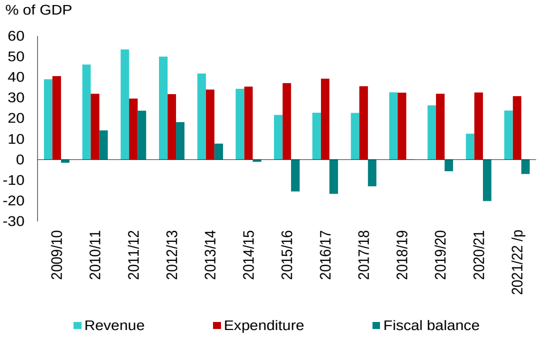
Note: The third phase of temporary regulatory measures is being from September to December 2021, however, data on the approved application and outstanding balance are not yet available.
Source: BDCB

A.4 Fiscal Sector

11. Notwithstanding the spending cuts, the economy registered a record budget deficit in FY2020, largely due to the sharp loss in oil and gas revenue. Given the very large drop in oil revenue, fiscal deficit widened to 20.1 percent of GDP in FY2020, up from 5.6 percent in 2019, which was financed by a drawdown of the ample fiscal reserves (Figure 17).[13] The oil and gas revenue plunged by 65.9 percent to BDN1.24 billion in FY2020 (Figure 18), because of the collapse in global oil and gas prices, and the reduction in oil production[14] due to increased turnaround activities in offshore installations for maintenance. At the same time, government's expenditure declined by 9.9 percent in FY2020, mainly owing to the cut in capital expenditure by 53.1 percent and charged expenditure by 16.9 percent. The fiscal deficit is projected to narrow to around 7.0 percent in FY2021 on the back of higher global oil demand and prices.

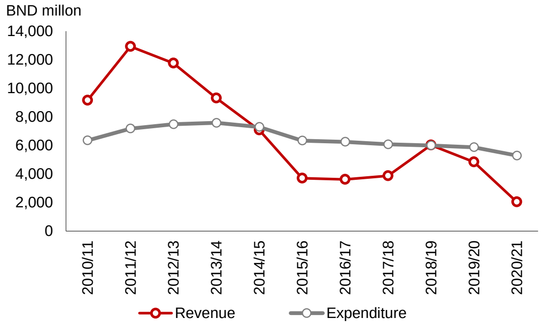
[12] The Ministry of Finance and Economy, on behalf of Brunei Darussalam Central Bank and Brunei Association of Banks, announced the Economic Relief package of BND250 million on March 30, 2020, which came into effect on April 1. This package is in addition to the BND200 million fiscal measures, bringing the total economic support package to BND450 million.
[13] As of end-2020, Brunei Darussalam's fiscal reserves were estimated at BND39 billion (CSPS, 2021).
[14] Oil production decreased to 110 kbbl per day in 2020, down from 121.3 kbbl per day in 2019. Gas production stood at 9.1 million metric million British thermal units (MMbtu) per day in 2020, down from 9.7 million MMbtu per day in 2019.

Figure 17. Fiscal Balance



Note: p/ refers to AMRO staff projection.
Source: DEPS; AMRO staff calculations

Figure 18. Revenue and Expenditure



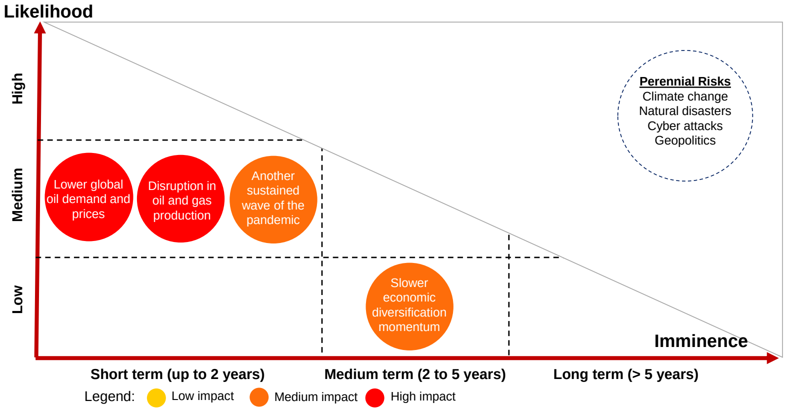
Source: DEPS; AMRO staff calculations

12. The government's economic support during the pandemic has made a significant contribution to maintaining businesses' operational viability and securing jobs for the locals. An economic support package—valued at BND450 million or 2.7 percent of GDP—was introduced in March 2020 to support affected businesses and individuals, of which BND200 million are classified as fiscal measures, and BND250 million are "Economic Relief Package" (Appendices 5, 6). The fiscal measures include deferment on contributions for Employees Trust Fund (TAP) and Supplementary Contributory Pension (SCP), salary subsidy for MSMEs employees, discount on rental of government buildings, tax discount on corporate income tax, discount on utility, temporary exemption of customs and excise duties on hygiene products, and so forth (Appendix 5). The government has recently extended some of the fiscal measures until end-2021 in response to the current spike in local infections.[15]

[15] During the first week of lockdown, 19 companies requested the financial relief, of which 12 applied for wage subsidy and 9 for the deferment of TAP and SCP contributions (The Scoop, August 21, 2021).

B. Risks, Vulnerabilities and Challenges

Figure 19. Risk Map



Source: AMRO staff

A.5 Near-term Risks to the Macro Outlook

13. Major risks on the horizon facing Brunei Darussalam's economy continue to revolve around the oil and gas sector. The country's high dependence on the sector makes the economy vulnerable to both domestic and external shocks in that one sector, which affect not only its external position and fiscal balance but all aspects of the economy. The domestic risks are further disruptions in oil and gas production in matured fields; coupled with uncertain commercial viability for new field exploration in a volatile-oil-price environment. On the external factors, aside from geopolitical risks, weaker-than-expected global demand and prices of oil and gas will also have negative implications on the economic outlook.

14. Another sustained wave of the pandemic could darken Brunei Darussalam's short-term economic outlook. Amid the current relatively low vaccination rate, a prolonged wave of the pandemic, especially if it is domestic, could have major economic fallout, particularly through lockdowns, travel restrictions, and supply chain disruptions. In particular, domestic consumption and investment could be dampened, leading to slower growth and higher unemployment rate. The containment measures will also take a larger toll on MSMEs,[16] which could potentially lead to financial distress. The supply chain disruptions could lead to shortages, causing higher inflation. The country is now battling against the second wave of COVID-19 infection, and has remained under partial lockdown since early August to curb the rapid spread of the virus (Box B). The lockdown, if continued for much longer, would have negative impact on the country's near-term outlook.

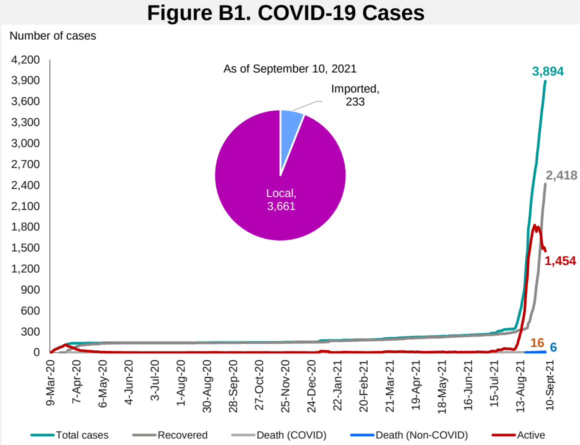
Box B. A Resurgence of Community Infections in 2021[17]

Brunei Darussalam has recently seen a sharp resurgence in local COVID-19 cases, amid slow vaccination progress. The effective containment measures implemented since 2020 had allowed the country to report zero local infections for 457 straight days from early May 2020, and hence the domestic economy had been reopened for an extended period of time. However, starting from August 7, 2021, the local infections have started to spike up (Figure B1), resulting in a partial lockdown immediately, effective from August 7 to October 3. To curb the rapid rise in infections,

[16] Brunei Darussalam's MSMEs accounted for 97.2 percent of total number of enterprises and generated employment of about 57.3 percent of total employment in 2017 (ADB Asia SME Monitor, 2020).
[17] This box was prepared by Vanne Khut.

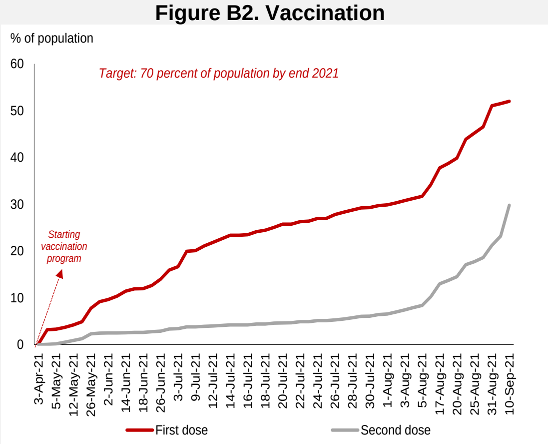
largely driven by the Delta variant,[18] the government has been ramping up its vaccination rate through the establishment of a new vaccination center[19] and the extension of operating hour at all vaccination centers. While the vaccination drive is picking up speed (Figure B2), the country is experiencing a shortage of vaccines for the first dose and limited supply for the second dose,[20] raising concerns over its ability to meet the target of fully inoculating at least 70 percent of the population by end-2021.

Figure B1. COVID-19 Cases



Source: Ministry of Health; various media; AMRO staff calculations

Figure B2. Vaccination



Source: Ministry of Health; various media; Haver Analytics; AMRO staff calculations

The rapid surge in COVID-19 cases has been putting a strain on the healthcare system. The country has a small number of hospitals and health workers (Table B1), suggesting that the healthcare system is now overstretched after the continuous surge in infections to above 3,000 cases (Figure B1). The government has recently built several more isolation centers, in addition to the National Isolation Center (NIC), as the NIC has already reached its full capacity of 296 beds.[21] Given the limited number of healthcare workers, some officials from other institutions have been deployed to provide necessary support, specifically for swab tests and vaccine deliveries.[22]

Table B1. Key Health Statistics

	2016	2017	2018	2019
No of hospitals	6	6	6	7
No of health centre	15	15	15	15
No of health clinics	14	12	17	17
No of hospital beds	1,324	1,447	1,497	1,622
No of hospital beds (Per 1,000 population)	3.17	3.37	3.38	3.53
No of registered physicians	664	683	787	828
No of registered nurses	2,742	2,713	2,797	2,507
No of registered midwives	165	289	94	330
No of registered pharmacists	73	78	81	81

Source: DEPS; AMRO staff calculations

The partial lockdown and spike in infections, if protracted, could put the economy at risk. A prolonged lockdown would weaken economic activity as mobility is restricted. Economic activity across the board, including wholesale and retail trade, restaurants, oil and gas mining, downstream activities, would be affected due to the implementation of social distancing measures. Therefore, it is of high importance to exercise continued vigilance and stringent implementation of COVID-19 containment measures while securing sufficient supply of COVID-19 vaccines to accelerate the

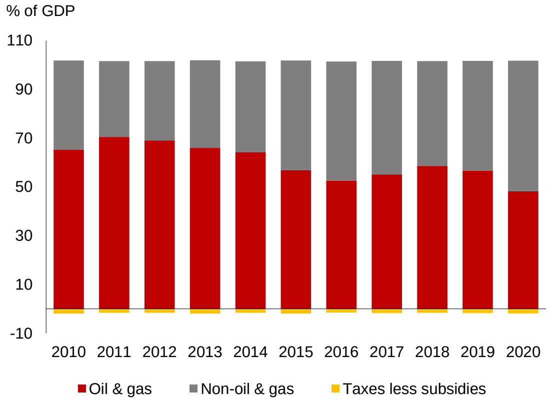
[18] According to the Ministry of Health, the serial interval of the infection is now 2.6 days, compared to 5.6 days in 2020.
[19] This new vaccination center is located in the Universiti Brunei Darussalam and is expected to increase the daily vaccination rate to 10,000 people.
[20] According to the Ministry of Health, starting from September 1, all vaccination centres nationwide are not able to offer COVID-19 vaccination to individuals having booked the first dose. Nonetheless, the first dose of the COVID-19 vaccine will still and only be provided to the elderly, differently-abled, and pregnant women where they can get the first dose injections from any vaccination centres on a walk-in basis. Nevertheless, it should be noted that the supply of vaccines for this group is also limited.
[21] A newly built makeshift facility named National Service Programme (PKBN) Training Camp has bed capacity in between 600 – 700 beds. Other isolation centres include Mahad Islam Brunei college, Lumut Camp, and Belait Sixth Form Centre.
[22] Source: Borneo Bulletin (September 3, 2021)

vaccination rate to achieve herd immunity so that the country will be able to gradually reopen the economy safely.

A.6 Longer-term Challenges and Vulnerabilities

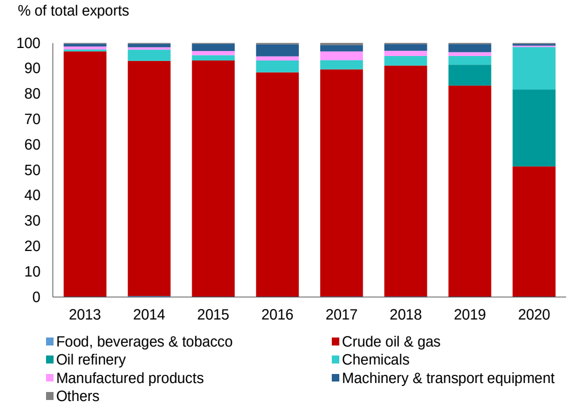
15. Slow progress in economic diversification is associated with continued high vulnerability to domestic and external shocks, which could hamper the country's growth prospects in the medium- to long-term. Although there has been progress of economic diversification, such as the Hengyi refinery project, the economy remains largely dominated by the oil and gas industry, which is vulnerable to shifts in global demand and volatility in oil and gas prices. The oil and gas sector accounted for 48.3 percent of GDP in 2020, down from 56.7 percent in 2019, because of the slump in oil prices owing to the pandemic, and the increase in share of the non-oil and gas sector after the operation of the Hengyi Industries (Figure 20). Exports of oil and gas related products also constitute the biggest fraction in exports, accounting for over 80 percent of total exports in 2020 (Figure 21). That said, continuing diversification into other sectors could help minimize economic risks and improve the resilience of the economy.

Figure 20. Oil and Gas Sector Share in GDP



Note: GDP in current prices
Source: DEPS; AMRO staff calculations

Figure 21. Share of Exports of Oil and Gas



Note: Exports of oil refinery are AMRO staff estimates given data unavailability.
Source: DEPS; AMRO staff calculations

A.7 Perennial Risk: Climate Change

16. Climate change is a key perennial risk, which could severely impact the country's long term economic potential. The transmission channels of climate change through natural disasters to the real economy can be immediate and direct, causing a damage to agriculture, industrial production and infrastructure, which can in turn affect the fiscal position and pose systemic risk to the financial sector. The country has been vulnerable to floods, forest fires, strong winds, and landslides. The continuous rise in temperature and increasing frequency of forest fire[23] has prompted the government to introduce its very first climate change policy "Brunei Darussalam National Climate Change Policy"—launched in July 2020—to reduce greenhouse gas emissions, including through mandatory carbon reporting, renewable energy, and forest coverage.

[23] In the next three decades, the country's temperature and rainfall are projected to increase at the rate of 0.4°C per decade and 5.0 mm per year, respectively (Brunei Darussalam National Council on Climate Change, 2020).

B. Policy Discussions and Recommendations

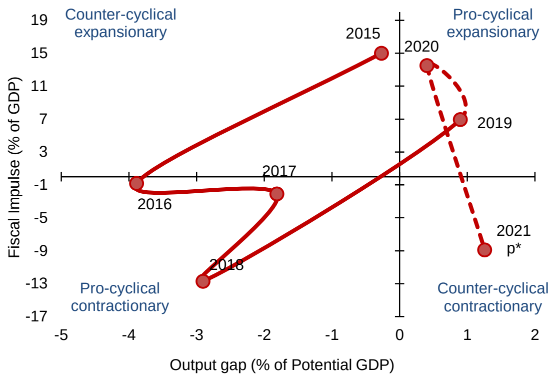
B.1 Pandemic Containment

17. A faster and more effective roll-out of the vaccination and timely delivery of vaccines are highly recommended to achieve herd immunity in order to protect the population from any spike-up in infections. The country has procured over 600 thousand doses of COVID-19 vaccines, on top of donated vaccines.[24] As of September 10, the country has fully vaccinated 29.8 percent of its population, while at least 52.0 percent of the population have received their first dose.[25] The current resurgence of local infections highlights the strong need for the country to ensure timely delivery of vaccines and accelerate its COVID-19 vaccination rate to protect the people from the current infections or any other wave of the pandemic, as well as to enable quicker and safer reopening of the economy.

B.2 Fiscal Policy

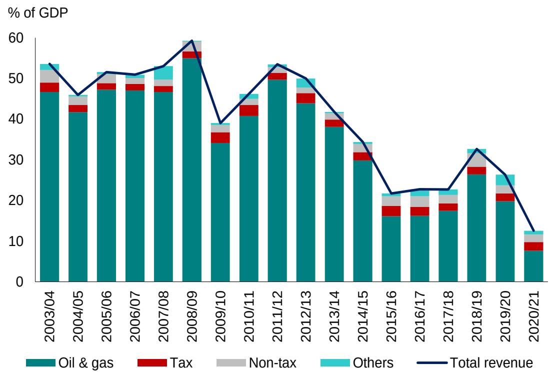
18. The fiscal deficit is expected to narrow sharply in 2021 due to a sharp increase in fiscal revenue on the back of a strong rebound in global oil prices and demand. The authorities have projected a significant improvement in the fiscal deficit to BND1.57 billion or 8.8 percent of GDP in FY2021, driven by the jump in revenue (Appendix 2). Expenditure is forecast to increase moderately by 6.5 percent (yoy) to BND5.6 billion in FY2021, of which BND20 million are allocated to communicable disease responses, including the vaccine procurement. As a result, the fiscal policy stance has become contractionary in 2021 (Figure 22). Amid the current rapid local outbreak, the government's provision of fiscal support to the affected sectors until end-2021 is highly laudable. Beyond 2021, further short-term fiscal support, if needed, should be flexible and targeted towards households and businesses most affected by the pandemic, as well as towards enhancing public investments, e.g. skill upgrading, health and infrastructure, which could help the private sector recover and adapt to the new normal more smoothly. Nonetheless, these policy supports should be closely monitored to ensure smooth unwinding while avoiding potential cliff effects.

Figure 22. Fiscal Policy Stance



Note: Authority's July projection for FY2021 is used to calculate fiscal impulse for 2021 (p*).
Source: MOFE; AMRO staff estimates

Figure 23. Revenue Composition



Source: MOFE; AMRO staff calculations

19. Efforts to reduce the high dependence on the oil and gas revenue should be further strengthened, while enhancing the spending efficiency. Significant progress had been

[24] The country has procured 300 thousand doses of Pfizer vaccine, 200 thousand doses of Moderna vaccine, and 100,800 doses of AstraZeneca. China donated around 52 thousand doses of Sinopharm in February 2021. Population data in 2020 (453,600 people) from the mid-year population estimate is used for the calculation of vaccination rate.
[25] Daily updates on COVID-19 cases and vaccination rate are available on the Ministry of Health's website.

made in reducing budget deficits several years before the pandemic struck. The pandemic has again highlighted the risk of heavy reliance on a single sector as a source of revenue. As a matter of fact, oil and gas revenue has always been the biggest source of fiscal revenue for Brunei Darussalam, making up about 19.8 percent of GDP in the year prior to the pandemic; however, the oil and gas revenue plummeted to just 7.7 percent of GDP in 2020 when the pandemic struck (Figure 23). Therefore, given uncertain prospects of oil and gas revenue in the medium to long term, greater efforts in diversifying revenue sources are strongly recommended. Consideration should be given to introducing broad-based taxes, including Goods and Services Tax (GST) at a low rate, and an environmental tax. In this regard, improving tax culture and compliance, and developing necessary administrative infrastructure are key to the successful implementation of the initiative. Any new taxes should be introduced post-pandemic when the economy has fully recovered. On the expenditure side, the focus should be on further enhancing spending efficiency, mainly through containing current expenditure, reforming subsidies in the low inflationary environment, and prudently rebalancing spending towards capital expenditure, including infrastructure, human capital, technology and innovation, and climate resilience, in order to enhance growth potential, economic diversification, and development in the long-run.

20. The government has undertaken a series of fiscal reforms to improve revenue and spending efficiency through the fiscal consolidation program (FCP). Some key FCP projects include Conveyance Loan for government employees, and One Common Billing System (OCBS)—launched in February 2020—to facilitate the government's revenue collection.[26] Moreover, the revision of water tariff[27] and royalties' rate[28] is also expected to increase the government's revenue and reduce the expenditure.

B.3 Monetary Policy

21. Monetary condition remains supportive of economic recovery amid low inflationary pressures. Due to the Currency Interchangeability Agreement between Brunei Darussalam and Singapore, a close monitoring of the near-term movement of the Singapore dollar is necessary because of its implications for domestic inflation. The government's continued implementation of price administration measures should help lessen the pass-through effects of swings in import prices, and help stabilize inflation, especially to cushion the impact of supply disruptions during the pandemic.[29] However, in the longer term, the government should allow prices to be determined by markets to avoid distortions. Moreover, the continued development of the BDCB I-Bills program[30] is recommended to enhance liquidity management.

B.4 Financial Policy

22. The current accommodative macroprudential policy stance should be maintained. The introduction of temporary regulatory forbearance measures for conventional banks, Islamic banks and finance companies—aimed to support affected individuals and

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[26] The Conveyance Loan refers to a loan provided to government officials based on the criteria set by the MOFE and is only applicable for the purchase of motor vehicles. This program reduced the government's expenditure by BND16.2 million from July 2020 to February 2021. The OCBS is currently made available for homeowners under the National Housing Scheme and will also be rolled out to other government institutions. The public can pay their housing bills via the OCBS portal and internet banking.

[27] The revised water tariff will be implemented after the launch of Unified Metering Solution project. The revenue collection is estimated to increase from BND16.8 million to BND38.4 million per year, while the water subsidy is also expected to decrease from BND67.0 million to BND50.2 million.

[28] This refers to the revision of royalties' rate under Forestry Act Chapter 45, effective on April 1, 2020. The reform contributed to the increase in forestry-related revenue by 16 percent to BND550,919 in FY2020.

[29] Items under the price administration measures include powdered infant milk, cooking oil, sugar, rice, bottled liquefied petroleum gas, diesel, kerosene and motor gasoline.

[30] The BDCB I-Bills has a maturity of 14 days and 0.11-percent interest rate. As of September 2, 2021, total holdings of the BDCB I-Bills outstanding stood at BND69 million. So far, the BDCB has issued BND966 million worth of BDCB I-Bills since the offering on October 22, 2020.

businesses—has so far helped banks avoid a deterioration in their loan books, ease firms' financial constraints, and sustain their production. These temporary regulatory relief measures include the deferment on principal repayment, loan restructuring, and conversion of credit card outstanding balance to a fixed-term loan. Since the start of the second wave of infections, the government has further extended the relief measures until end-2021 to help the private sector stay afloat during the crisis. Going forward, if needed, such policy measures should be extended further, but should be targeted at specific sectors, which remain severely affected by the pandemic. Also, in the recovery period, the withdrawal of the relief measures should be gradual to avoid a cliff effect**.**

23. The financial sector remains shallow and highly concentrated in banking, which means that there is room to develop deeper financial markets and more financial products. Developing new financial products could increase investment opportunities and support financial market development, for example, by issuing government securities to finance important infrastructure/climate related projects, and developing a secondary market. To maintain the stability of the financial sector, the central bank has recently developed the Domestically Systemically Important Banks (D-SIB) framework to identify and contain systemic risk.[31] In addition, the digital banking framework, currently being developed, is a welcome initiative to foster the development of a diversified and dynamic financial sector in the Bruneian economy.

24. AMRO supports the central bank's continued endeavors in the area of Fintech development. The pandemic has caused a big surge in the use of digital platforms for both commerce and financial services, while Fintech helps expand people's access to financial services across the country (Box C). The establishment of the Fintech Regulatory Sandbox since February 2017 has enabled qualified Fintech companies, including independent start-ups, to trial their products and innovations in a flexible regulatory environment for a limited period of time and within set boundaries. The recently launched digital platform, such as DSTPay,[32] for instance, is another welcome development to enhance the country's payment system and promote digitalization within the banking industry. Despite such positive developments, concerns remain around high costs of transactions and efficiency in executing certain types of services, such as money transfers. Moving forward, to strengthen the role of digital platforms in delivering financial services more efficiently, more support is needed to reduce costs and improve the efficiency of transactions across the platforms.

Box C. Fintech Development in Brunei Darussalam[33]

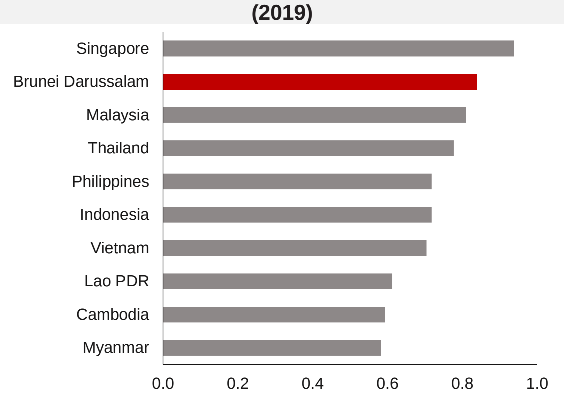
Brunei Darussalam's fintech ecosystem has expanded steadily in line with the increasing demand for digital financial services and government policy toward a digital economy. Social distancing measures and waivers of bank fees and charges for online interbank fund transfers during the COVID-19 pandemic have accelerated the use of digital payment and e-commerce platforms as businesses and consumers tend to go digital. Despite having a small financial market, the country presents some favorable conditions for financial institutions and fintech startups to introduce innovative financial solutions. Among ASEAN members, Brunei Darussalam has the second highest human development index and the third highest digital adoption index (Figures C1, C2), indicating high quality of life and financial literacy in the economy. At the same time, the young and digitally

[31] The main objective of the D-SIB framework is to identify and manage risk posed by systemically important banks which may cause significant damage and negative spillovers to the whole financial system.
[32] Datastream Digital Sdb Bhd (DST) and international payment brand UnionPay have collaborated to launch the DSTPay digital mobile wallet for customers in Brunei (The Star, July 7, 2021).
[33] This box was prepared by Yuthan Chea.

savvy population, with high rates of mobile phone and internet subscriptions,[34] can attract financial institutions and fintech firms to introduce innovative digital financial solutions to the market, such as e-wallet, insurtech, and crowdfunding platforms. Meanwhile, fintech service providers can leverage the digital capabilities of a government initiative on the national digital identity (e-Darussalam Account) to facilitate the electronic Know-Your-Customer (e-KYC) process. Moreover, the large share of foreign workers accounting for more than 20 percent of the total population,[35] also provides a potential market opportunity for affordable digital remittance services.

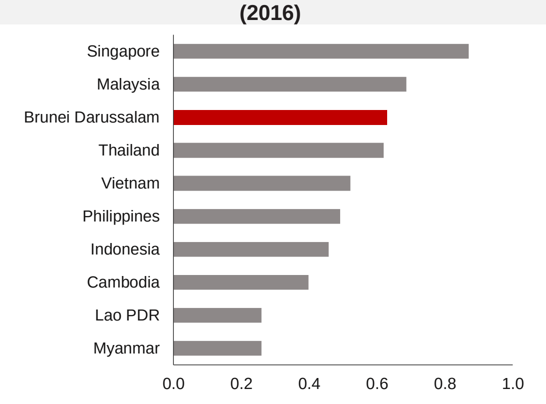
Both private and public sectors have embraced technological innovation in the financial system. Financial institutions and fintech companies have developed and introduced new digital financial products to meet rising demand for convenient and low-cost services, particularly in the areas of digital payment, insurance and remittance, such as BIBD QuickPay, Progressif PAY, DSTPay, Beep Digital Solutions, Takaful Brunei Mobile and MoneyMatch. The BDCB has also recognized fintech as one of the key drivers to raise the financial sector's contribution to GDP to 8 percent by 2035.[36] To support innovation in fintech products, the BDCB has established a Fintech Office to suport interested parties with fintech-related issues. Moreover, a Fintech Regulatory Sandbox launched in 2017 has enabled qualified firms to test their new fintech products and services with relaxed regulatory requirements within time and boundary limits. Currently, two sandbox entities are operating under the regulatory sandbox framework to experiment with digital remittance and cross-border payment services using blockchain technology developed by MMB Transfer Sdn Bhd and a Syariah-based peer-to-peer crowdfunding platform for MSMEs operated by Jana Kapital.

Figure C1. Human Development Index in ASEAN (2019)



Source: United Nations Development Program (UNDP)

Figure C2. Digital Adoption Index in ASEAN (2016)



Source: World Bank

Going forward, more efforts are needed to enhance the security, efficiency and prosperity of fintech development. Promoting cybersecurity and improving supervisory capacity are essential to ensure data and consumer protection, as well as to maintain public trust and financial stability. At the same time, authorities' initiatives to develop innovative and integrated infrastructures would be necessary to establish an inclusive and competitive fintech ecosystem that will promote interoperability as well as reduce costs for fund transfers across different platforms and for cross-border transactions. Furthermore, Brunei Darussalam can enhance expertise in niche financial services that comply with Islamic principles, so that these services can be expanded to regional and international markets with Muslim clients. Fintech startups can experiment with their innovative financial solutions that follow the Syariah law in this small market environment, particularly within the regulatory sandbox framework.

B.5 Structural Reforms

25. More efforts to accelerate economic diversification is recommended to strengthen the country's resilience to shocks and sustain robust long-term growth. Considerable

[34] The Authority for Info-communications Technology Industry (AITI) showed that mobile cellular service and mobile broadband penetration rates were around 120 percent of population in Q2 2021 and 4G mobile network covered 95 percent of total population in 2020 (Authority for Info-communications Technology Industry of Brunei Darussalam, 2021).
[35] The BDCB highlighted in The State of FinTech in Brunei Darussalam that the number of migrant workers in Brunei is among the highest in South East Asia at around 100,000 foreign workers, accounting to about 23 percent of the total population.
[36] Brunei Darussalam Financial Sector Blueprint (2016-2025)

progress in economic diversification has been achieved, as evidenced by the implementation of large investment projects, including Hengyi Industry and Brunei Fertilizer Industry. Nevertheless, the concentration in the oil and gas sector remains high, suggesting the need to further diversify into the non-oil and gas sector. Also, the government should continue its policy efforts to foster the private sector's role in the economy, especially the development of MSMEs and their access to global market through e-commerce. The Economic Blueprint for Brunei Darussalam introduced in early January 2021 reflects the country's strong commitment in accelerating its economic diversification and achieving a dynamic and sustainable economy. Along with such an important initiative, a strategic industrial development policy should also be adopted to create positive spillovers of industrial activities to the economy, especially through promoting linkages between key industry players and domestic supporting industries (Annex 2).

26. **Brunei Darussalam's overall Doing Business performance weakened somewhat in 2020, reflecting the need for further reforms.** While the country has made notable progress in strengthening its competitiveness, it is important to keep up the reform momentum with other countries which are also improving their doing business performance. Brunei Darussalam's overall doing business ranking kept improving during 2015 – 2019 but declined to 66th in 2020, from 55th in 2019 (Table 2), mainly caused by rising competitiveness of other countries as well as some methodological adjustments. In this regard, more reforms are necessary to improve the country's weakest areas of doing business, particularly registering property, trading across borders, and protecting minority investors (Annex 1).

Table 2. ASEAN+3: Doing Business Ranking

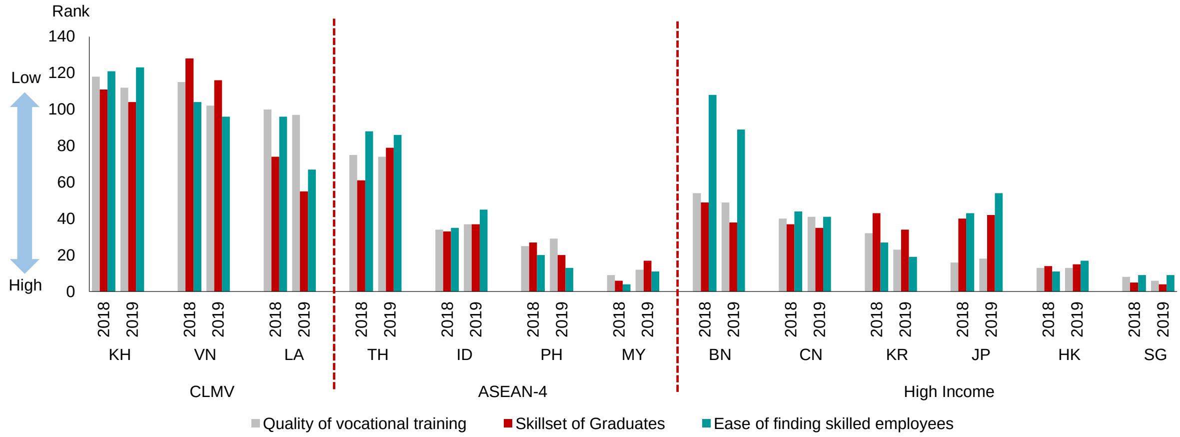
Country	2016	2017	2018	2019	2020
Singapore	1	2	2	2	2
Hong Kong	5	4	5	4	3
Korea	4	5	4	5	5
Malaysia	18	23	24	15	12
Thailand	49	46	26	27	21
Japan	34	34	34	39	29
China	84	78	78	46	31
Brunei Darussalam	84	72	56	55	66
Vietnam	90	82	68	69	70
Indonesia	109	91	72	73	73
Philippines	103	99	113	124	95
Cambodia	127	131	135	138	144
Lao PDR	134	139	141	154	154
Myanmar	167	170	171	171	165

Source: World Bank

27. **Further upgrading of both hard and soft infrastructure, leveraging on digital innovations, could strengthen Brunei Darussalam's competitiveness and hence attract more quality FDIs going forward.** Cross-country comparisons suggest that Brunei Darussalam is still lagging behind some of its regional peers in quality of vocational training, skillset of graduates, and ease of finding skilled employees (Figure 24). Thus, in addition to leveraging on its natural resources, skill development deserves special attention for the country to tap into digitalization to boost productivity and reduce costs. Skill development will allow the country to enhance its competitiveness and attract more quality FDIs, which could create positive spillovers to the economy, including generating new jobs for the locals. AMRO commends the authorities for implementing various initiatives, including JobCentre Brunei, i-Ready, SkillsPlus as well as setting up the Manpower Industry Steering Committee to address structural challenges in the labor market. Initiatives to further address structural issues, including skill mismatches, strong preference of the locals to work in government and

the oil and gas industry, will play an essential role in further diversifying the economy and lowering youth unemployment.

Figure 24. ASEAN+3: Ranking of Vocational Training Quality, Skillset of Graduates, and Ease of Finding Skilled Employees



Note: Myanmar data are not available. BN = Brunei Darussalam; CN = China; HK = Hong Kong, China; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; PH = The Philippines; SG = Singapore; TH = Thailand; VN = Vietnam
Source: World Economic Forum

B.6 Sustainable Development

28. The economy should remain proactive in managing natural disaster risks by allocating the necessary budget to combat climate change through mitigation and adaptation measures. The government's recent climate change policy is an important initiative, which requires close monitoring and proper budgeting to ensure the successful implementation of the policy. Fiscal resources, including the issuance of green bonds, can be used to upgrade infrastructure quality to reduce the impact of natural disasters and to cushion the unexpected higher spending for climate change incidents.[37] At the same time, more investments in sustainable development should be encouraged, while climate change mitigation and adaptation strategies should be incorporated into national development policies. Environmental sustainability, for instance, should be an important criterion in industrial strategies. Meanwhile, more renewable energy alternatives, such as solar panels, should also be considered to reduce greenhouse gas emission.

[37] According to the MOFE, in FY2021, the government has allocated BND15 million for natural disaster relief, including for flood and landslides.

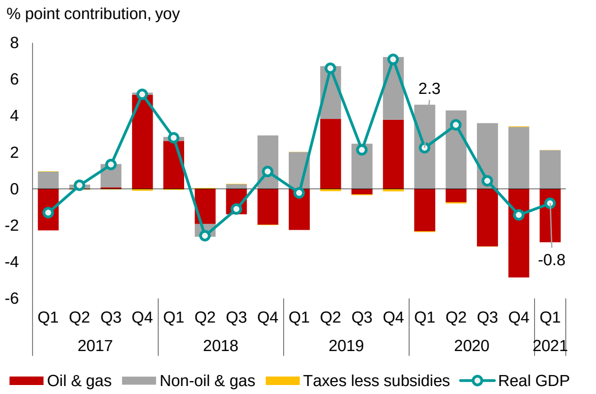
Appendices

Appendix 1. Selected Figures for Major Economic Indicators

Figure 1.1. Real Sector

Brunei Darussalam's economy continued to contract in Q1 2021, driven by a decline in the oil and gas sector and a sharp slowdown in non-oil and gas sector.

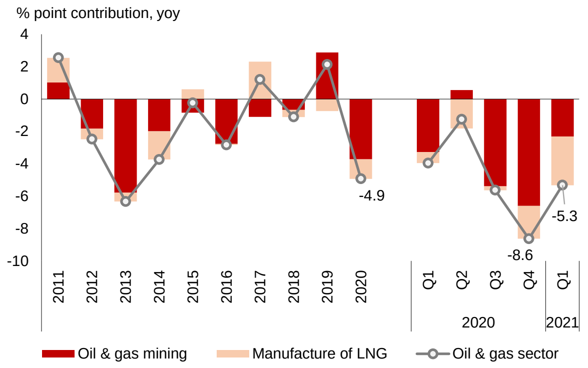
Real GDP by Sector



Source: Department of Economic Planning and Statistics (DEPS); AMRO staff calculations

Although remaining negative, the oil and gas sector registered a better performance in Q1 2021, on the back of the increased global oil demand and prices.

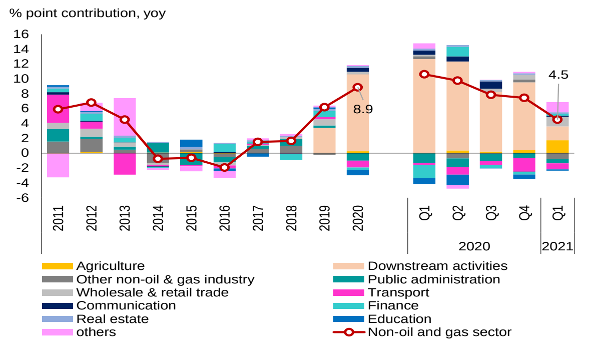
Oil and Gas Sector



Source: DEPS; AMRO staff calculations

The non-oil and gas sector slowed due to the softening downstream activities, mainly driven by the base effect.

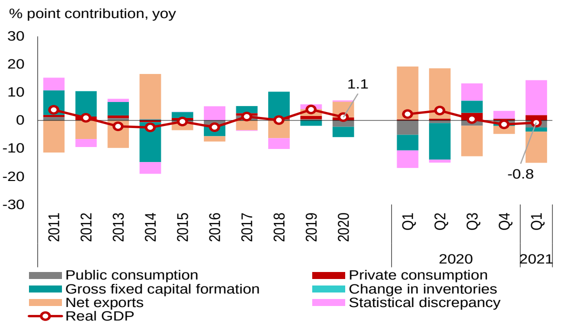
Non-Oil and Gas Sector



Source: DEPS; AMRO staff calculations

On the demand side, major drivers of growth in 2020 were net exports chiefly from Hengyi Industries, and private consumption.

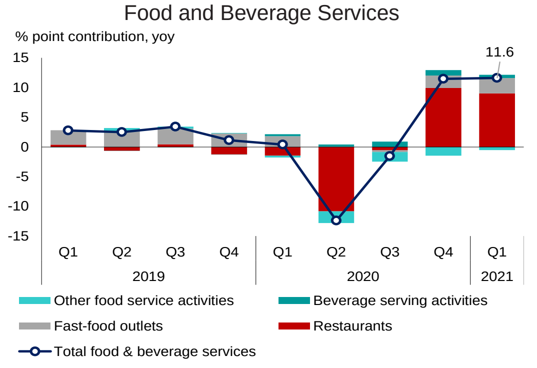
Real GDP (Expenditure Side)



Source: DEPS; AMRO staff calculations

A robust growth of the food and beverage services—mainly in restaurants and fast-food outlets—has been observed since the lift of lockdown in 2020.

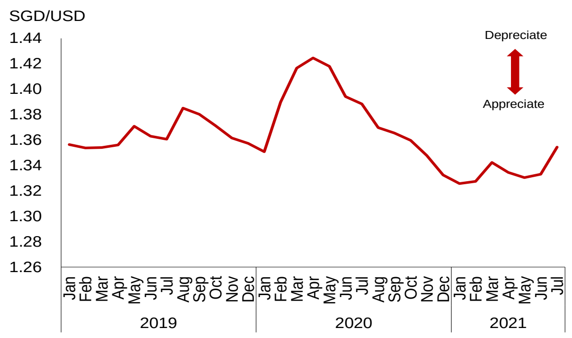
Food and Beverage Services



Source: DEPS; AMRO staff calculations

Close monitoring of the near-term movements of the Singapore dollar is essential because of its implications for domestic inflation.

Singapore Exchange Rate

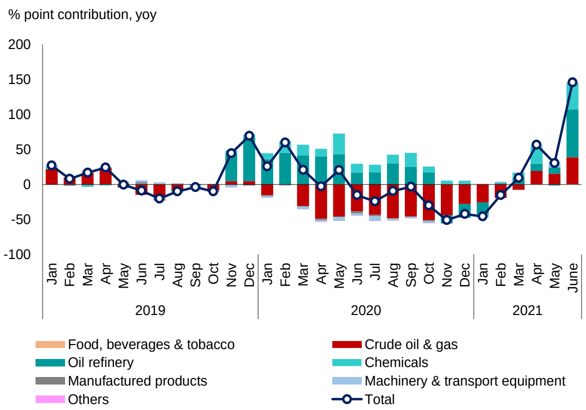


Source: Monetary Authority of Singapore

Figure 1.2. External Sector

Exports skyrocketed in June, largely driven by an upsurge in exports of oil and gas and petrochemical exports.

Exports by Product



Source: DEPS; AMRO staff calculations

Australia became the biggest market for Brunei Darussalam's crude oil exports in June, while Japan was the largest LNG importer from Brunei.

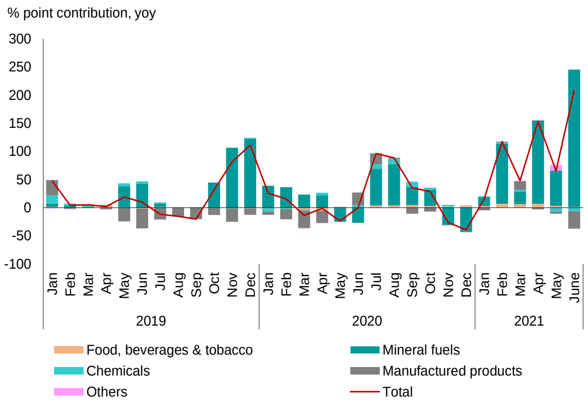
Exports of Oil and Gas

Trading Partners	Value (BND Million)			Change (%)	
	Jun-20	May-21	Jun-21	yoy	mom
Total	**311.5**	**440.6**	**517.7**	**66.2**	**17.5**
Crude Oil	***112.4***	***194.0***	***229.4***	***104.1***	***18.2***
Australia	24.1	-	112.6	367.2	100.0
India	-	109.9	-	-	-100.0
Malaysia	30.8	-	-	-100.0	-
Philippines	-	-	56.3	100.0	100.0
Singapore	31.1	28.0	-	-100.0	-100.0
Thailand	26.4	56.10	60.5	129.2	7.8
LNG	***199.1***	***246.6***	***288.3***	***44.8***	***16.9***
Japan	176.0	129.9	235.4	33.8	57.0
Republic of Korea	-	31.5	-	-	-100.0
People's Republic of China	10.7	30.8	17.4	62.6	-43.5
Malaysia	12.3	34.4	35.5	188.6	3.2

Note: mom = month-on-month
Source: DEPS; AMRO staff calculations

Imports surged in June, due to a sharp increase in imports of mineral fuels, mostly used as inputs for petrochemical production.

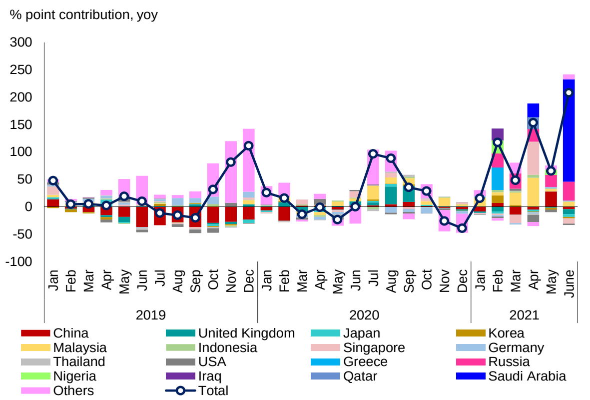
Imports by Product



Source: DEPS; AMRO staff calculations

The bulk of imports was from Saudi Arabia in June, followed by Russia, mainly in mineral fuels.

Imports by Country



Source: DEPS; AMRO staff calculations

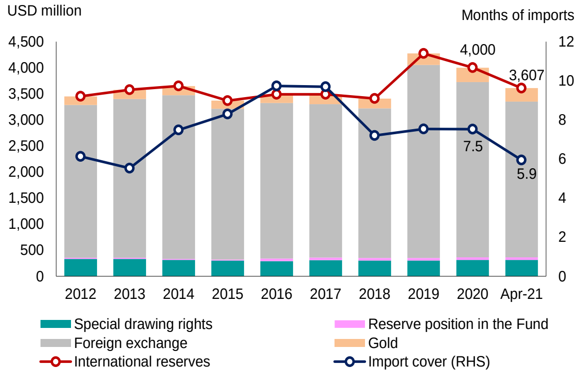
Given a sharper increase in imports relative to exports, the trade balance recorded a deficit in June.

Trade Balance

Source: DEPS; AMRO staff calculations

The deficit in overall balance of payments in 2020 translated into lower gross international reserves.

Gross International Reserves

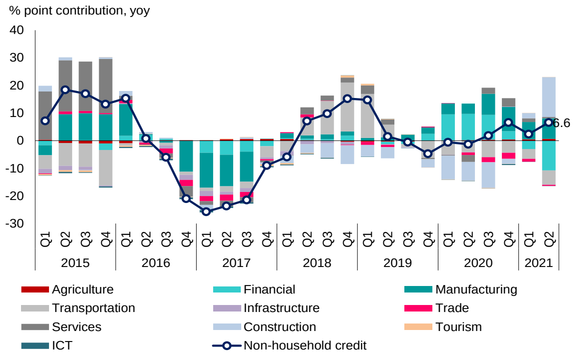


Source: BDCB; DEPS; AMRO staff calculations

Figure 1.3. Monetary and Financial Sector

Non-household credit surged in Q2, mainly due to the spike in credit to commercial construction and manufacturing.

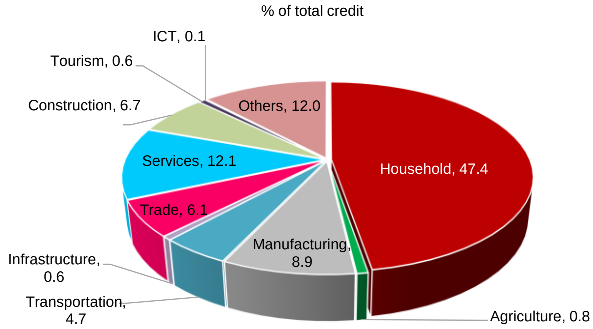
Non-household Credit by Sector



Note: Credit to construction refers to credit to commercial (property development) and other construction.
Source: BDCB; AMRO staff calculations

The household sector still constituted the largest fraction of total credit, followed by services and manufacturing.

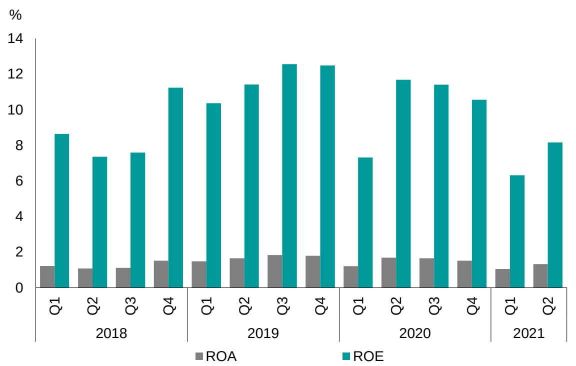
Share of Total Credit by Sector, As of Q2 2021



Source: BDCB; AMRO staff calculations

Banks remained profitable, with only a slight increase in ROE in Q2.

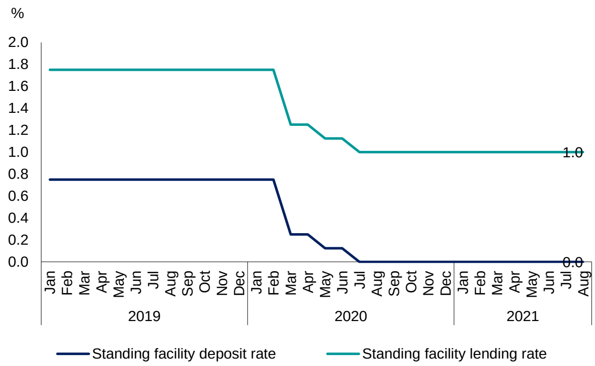
Return on Asset and Return on Equity



Note: Low interest rate globally was the biggest contributor to the fall in ROE in Q1 2021. The drop in Q1 of previous years were due to the banks experiencing an unamortized loss from trading/ investment securities. ROA = return on asset; ROE = return on equity
Source: BDCB

Overnight standing facility rates have been reduced since 2020 to mirror the developments of Singapore interest rates.

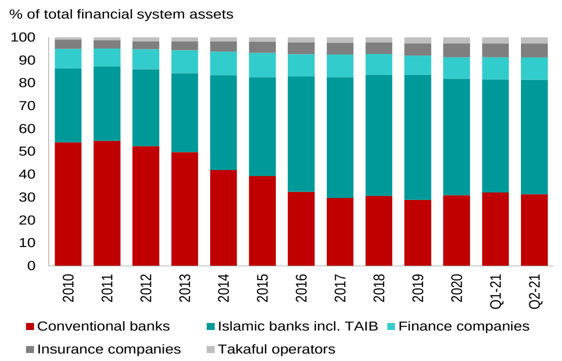
BDCB Overnight Standing Facilities Rates



Source: BDCB

Bruneian financial system remains dominated by conventional and Islamic banks, together accounting for over 80 percent of total financial system assets.

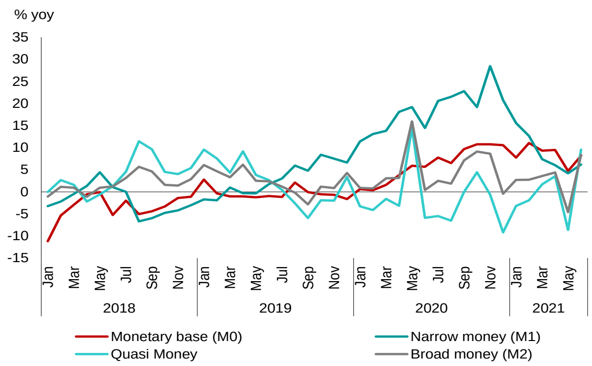
Structure of Financial System Assets



Source: BDCB; AMRO staff calculations

Volume of money improved as reflected in the surge in broad money (M2) in May.

Monetary Conditions

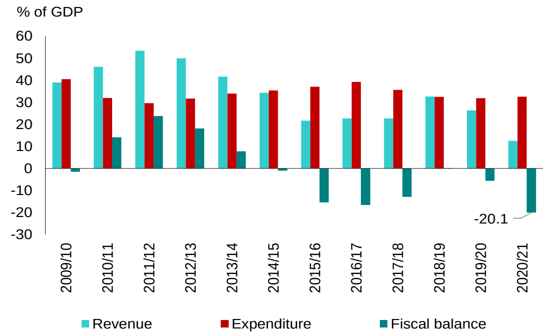


Source: BDCB

Figure 1.4. Fiscal Sector

The fiscal deficit widened significantly, largely attributed to the sharp decline in oil and gas revenue.

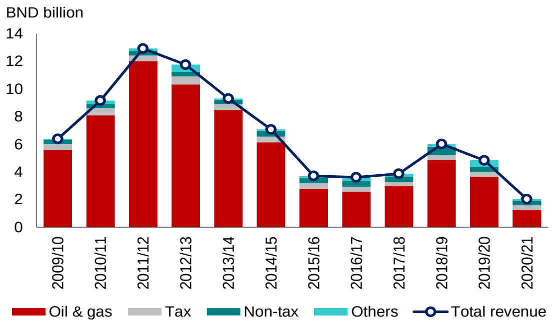
Fiscal Position



Source: DEPS; AMRO staff calculations

Oil and gas revenue fell dramatically in FY2020 due to weak global demand and low oil prices.

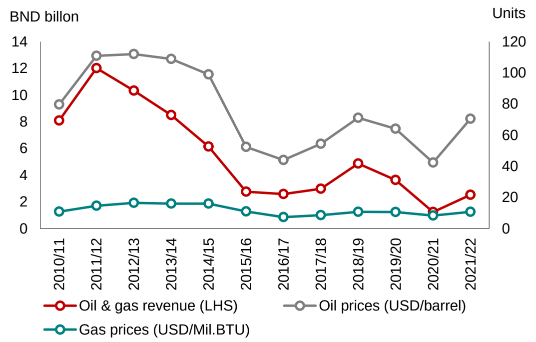
Revenue



Source: DEPS; AMRO staff calculations

Oil and gas revenue moves in line with prices, which sharply declined in 2020 due to the pandemic.

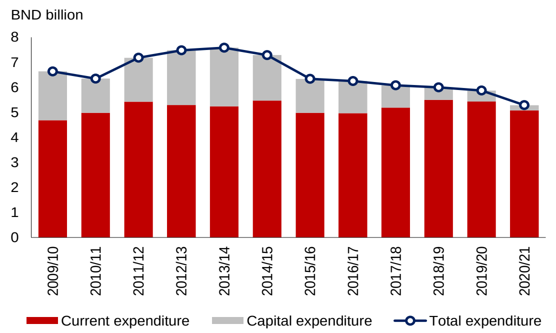
Oil and Gas: Prices Vs Revenue



Note: Oil and gas prices for this chart are from the World Bank due to the need for long-time series.
Source: DEPS; AMRO staff calculations

Overall expenditure has decreased over the last few years, especially in capital spending.

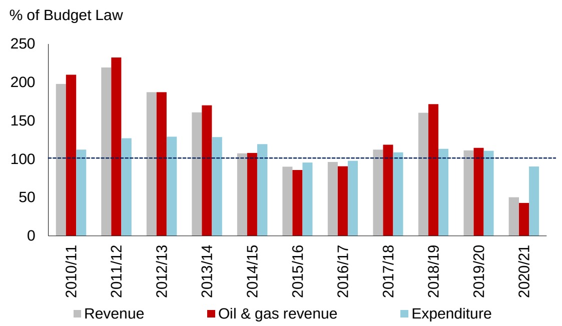
Expenditure



Source: DEPS; AMRO staff calculations

Both revenue and expenditure fell below the target stipulated in the budget law in FY2020.

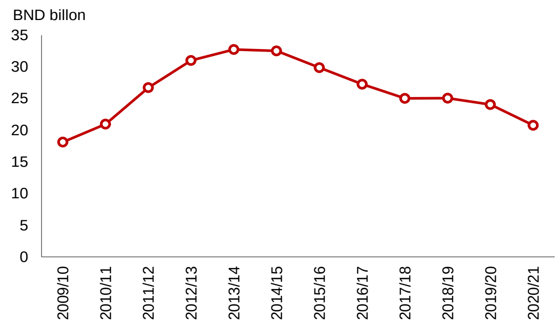
Budget Realization



Source: DEPS; AMRO staff calculations

Fiscal buffer remains ample but keeps declining amid continuous fiscal deficits.

Accumulated Fiscal Surplus



Note: This data is estimated by AMRO staff. The accumulation of fiscal surplus starts from FY2003.
Source: DEPS; AMRO staff estimates

Appendix 2. Selected Economic Indicators for Brunei Darussalam

	2017	2018	2019	2020	Projections 2021	Projections 2022
Real Sector and Prices	(In annual percentage change)					
Real GDP	1.3	0.1	3.9	1.1	2.1	3.2
CPI inflation (average)	-1.3	1.0	-0.4	1.9	1.6	1.0
External Sector	(In millions of USD, unless otherwise specified)					
Trade balance	2,403	2,361	2,208	1,385	1,991	2,271
Exports	5,472	6,475	7,206	6,542	7,853	8,826
Imports	3,068	4,115	4,999	5,157	5,862	6,555
Current account balance	1,985	930	890	542	994	1,081
(In percent of GDP)	16.4	6.9	6.6	4.5	7.2	7.5
Overall balance	-280	-14	756	-442	307	655
(In percent of GDP)	-2.3	-0.1	5.6	-3.7	2.2	4.5
Gross international reserves	3,488	3,407	4,273	4,000	4,307	4,962
(In months of imports)	9.7	7.2	7.5	7.5	7.1	7.2
Fiscal Sector	(In percent of GDP)					
Revenue and grants	22.7	32.7	26.4	12.6	23.9	24.3
Oil and gas revenue	17.5	26.4	19.8	7.7	19.1	18.9
Non-oil and gas revenue	5.3	6.3	6.5	4.9	4.7	5.5
Expenditure	35.7	32.5	31.9	32.6	30.9	31.6
Current expenditure	30.5	29.8	29.5	31.3	29.1	29.6
Capital expenditure	5.2	2.7	2.4	1.3	1.8	2.0
Overall fiscal balance	-12.9	0.1	-5.6	-20.1	-7.0	-7.2
Monetary and Financial Sector	(In annual percentage change, end-period)					
Domestic Credit	-16.7	5.9	2.2	18.3	2.1	2.4
Credit to private sector	-5.3	-3.1	2.0	0.2	2.3	3.1
Broad money	-0.4	2.8	4.3	-0.4	3.2	4.4
Memorandum Items						
World oil price (USD per barrel)	56	73	69	44	70	68
Nominal GDP (in millions of USD)	12,128	13,567	13,469	12,006	13,805	14,424
Nominal GDP (in millions of BND) (Calendar year)	16,748	18,301	18,375	16,564	18,498	19,328
Nominal GDP (in millions of BND) (Fiscal year)	17,048	18,453	18,385	16,217	18,305	18,856
Exchange rate (BND/USD) (Period average)	1.38	1.35	1.36	1.38	1.34	1.34
Exchange rate (BND/USD) (End of period)	1.34	1.37	1.35	1.34	1.33	1.33

Note: GDP data for 2021-22 are AMRO staff projections. Figures may not add up due to rounding. Fiscal data are in fiscal year, which is from April to March.
Source: National authorities; AMRO staff calculations/ estimates

Appendix 3. Balance of Payments

	2017	2018	2019	2020
	(In millions of USD unless otherwise specified)			
Current account balance (I)	1,985	930	890	542
Trade balance	2,403	2,361	2,208	1,385
Exports	5,472	6,475	7,206	6,542
Imports	3,068	4,115	4,999	5,157
Services, net	-697	-1,008	-1,189	-854
Receipts	551	571	618	352
Payments	1,248	1,579	1,807	1,206
Primary Income, net	720	84	361	362
Secondary Income, net	-442	-506	-490	-350
Capital account (II)	-	-	-	-
Financial account (III) (+indicates net outflows)	1,436	70	-405	263
Direct Investment (net)	-460	-517	-375	-577
Portfolio Investment (net)	-64	-1,439	1,399	1,193
Other Investment (net)	1,961	2,027	-1,429	-353
Error and omission (IV)	-829	-874	-539	-722
Overall balance (I + II - III + IV)	-280	-14	756	-442
Reserve Assets (+indicates increase)	-280	-14	756	-442
Memorandum items:				
Current account balance (in percent of GDP)	16.4	6.9	6.6	4.5
Gross International Reserves (in millions of USD)	3,488	3,407	4,273	4,000
(in months of imports of goods and services)	9.7	7.2	7.5	7.5
Changes in gross reserves (in millions of USD)	-1	-81	866	-273
Nominal GDP (in millions of USD)	12,128	13,567	13,469	12,006

Source: National authorities; AMRO staff calculations

Appendix 4. Statement of General Government Operations

	FY2017	FY2018	FY2019	FY2020	FY2021 BL	FY2021 p*
General Government	(In millions of BND, unless otherwise specified)					
Revenue and grants	3,872	6,027	4,846	2,037	2,607	4,059
Oil and gas revenue	2,976	4,873	3,646	1,243	1,518	3,058
Non-oil and gas revenue	809	1,043	760	694	661	1,002
Taxes	309	348	355	340	317	-
Fees, Charges and Rent	358	610	364	311	324	-
Others	142	85	41	43	19	-
Returns from Investments and Savings	87	111	440	100	428	-
Government Expenditure	6,079	6,000	5,873	5,289	5,860	5,630
Current spending	5,193	5,504	5,432	5,082	5,260	5,350
Charged expenditure	1,120	1,213	1,276	1,060	1,060	1,955
Personal emoluments	1,860	1,958	1,965	1,969	2,016	2,190
Other charges annually recurrent	2,213	2,333	2,191	2,053	2,184	1,206
Capital spending	887	496	441	207	600	280
Budget balance	-2,207	27	-1,027	-3,252	-3,253	-1,571
Memorandum items:						
Budget balance (in percent of GDP)	-12.9	0.1	-5.6	-20.1	-18.3	-8.8
Government revenue (in percent of GDP)	22.7	32.7	26.4	12.6	14.7	22.9
Government expenditure (in percent of GDP)	35.7	32.5	31.9	32.6	33.0	31.7
Nominal GDP (in millions of BND, fiscal year)	17,048	18,453	18,385	16,217	17,755	17,755

Note: Brunei Darussalam's fiscal year starts from April to March. FY2021 p* is authority's latest projection retrieved in July 2021. Nominal GDP for FY2021 is authority's latest projection. Nominal GDP in budget law is not available, so the authority's projected GDP is used. BL = Budget Law; p* = authority's projection
Source: National authorities; AMRO staff calculations

Appendix 5. Selected Fiscal Measures

Measure	Description	Phase I	Phase II
Tax relief and exemption	Providing 50-percent tax discount on corporate income tax for the year of assessment (YOA) 2021 to the affected sectors (Phase I) and for YOA 2022 (Phase II)	YOA 2021	YOA 2022
	Providing a temporary exemption of customs duty and excise duty for personal hygiene products	Apr – Oct 2020	Aug – Dec 2021
Supporting and assisting businesses	Allowing the deferment on contributions towards Employees Trust Fund (5 percent) and Supplementary Contributory Pension (3.5 percent) for local employees earning less than 1,500 per month in the affected sectors under MSMEs with less than 100 employees	Apr – Oct 2020	Aug – Dec 2021
	Providing 25-percent salary subsidies to Bruneian employees in the MSMEs with less than 100 employees	Apr – Oct 2020	Aug – Dec 2021
	Providing 30-percent discount on rental rates of government buildings for MSMEs according to the affected sectors	Apr – Oct 2020	Aug – Dec 2021
	Providing 20-percent discount on water and electricity bills within the affected sectors	Apr – Oct 2020	Aug – Dec 2021
Protecting jobs and providing support to individuals	Providing the full SCP contribution for self-employed individuals	Apr – Oct 2020	Aug – Dec 2021
	Providing online training free of charge through Coursera, an online learning platform that has over 300 courses related to business matters	Apr 2020 – Present	
	Lifelong Learning - Companies are encouraged to conduct upskilling and reskilling trainings for their local staff, as provided by Manpower Planning and Employment Council (MPEC)	Apr 2020 – Present	
	Expanding the i-Ready Apprenticeship Program to Level 5 Diploma HND or Advanced Diploma) and Technical and Vocational Education Training	Apr 2020 – Present	
	Revamping of Job Centre Brunei: JCB Website Job Matching, real time notifications for job matches, and companies would also be able to get talent profiles and compatibility reports based on the criteria of the jobs	Apr 2020 – Present	
	JCB continues to work with private companies, where a larger workforce is needed, by providing services such as sending SMS to local jobseekers and providing pool talent for the companies' reference and conducting interviews through its virtual platform	Apr 2020 – Present	
Maintaining the well-being of the public	Providing Monitoring Centres to foreigners, citizens and residents of Brunei Darussalam that have entered into Brunei Darussalam from abroad to undergo self-isolation	Apr 2020 – Present	
	Running BruHealth application to help individuals self-assess possible COVID-19 symptoms and assist Government's initiative to provide real-time Government dashboard.	Apr 2020 – Present	
	Providing monthly special allowance of BND400, specifically for doctors, nurses, paramedics, ambulance drivers, volunteers, hospitals cleaners, security guards and all staff under the Ministry of Health, especially those working at the RIPAS Hospital, National Isolation Centre in Tutong and quarantine centres as allocated by the government.	March 2020 until the eradication of COVID-19 in Brunei Darussalam	
	Providing Monitoring Centres to foreigners, citizens and residents of Brunei Darussalam that have entered into Brunei Darussalam from abroad to undergo self-isolation	Apr 2020 – Present	

Note: The value of the recently extended measures (Phase II) is not available.
Source: MOFE

Appendix 6. Economic Relief Package

Measure	Description	Phase I	Phase II	Phase III
Financial policies to reduce businesses' financial burdens	Deferring loan repayment	Apr – Dec 2020	Apr – Sept 2021	Aug – Dec 2021
	Restructuring personal loans and hire-purchase agreements such as car financing for a period not exceeding 10 years	Apr – Dec 2020	Apr – Sept 2021	Aug – Dec 2021
	Converting credit card debt into a short-term loan for a period no longer than three years for affected individuals, including the self-employed	Apr – Dec 2020	Apr – Sept 2021	Aug – Dec 2021
	Waiving fees and charges for financing facilities, as well as interbank transfers	Apr – Dec 2020	Apr – Sept 2021	Aug – Dec 2021
	Waiver of all bank and fee charges for financing facilities, as well as interbank transfers, except third party charges	Apr – Dec 2020	Apr – Sept 2021	Aug – Dec 2021

Note: The value of the recently extended measures (Phase III) is not available.
Source: BDCB

Appendix 7. Data Adequacy for Surveillance Purposes: A Preliminary Assessment

Criteria/ Key Indicators for Surveillance	Availability(i)	Reporting Frequency/ Timeliness(ii)	Data Quality(iii)	Consistency(iv)	Others, if any(v)
National Accounts and Labor Market	GDP on the production and expenditure side (both quarterly and yearly) have been made available on DEPS's website. Unemployment and labor market data are based on annual labor force survey and made available on DEPS's website.	Quarterly GDP has a time lag of 3–5 months. Data on the labor market has a time lag of more than one year.	In certain cases, statistical discrepancy remains relatively high. For example, in 2019, statistical discrepancy accounted for 8.4 percent of nominal GDP.	Historical GDP data using the new base of 2010 have not been made available, making comparisons over time difficult.	
CPI Inflation	CPI inflation is available on DEPS's website on a monthly basis.	CPI data is released regularly with a time lag of 1-2 months.	Data quality is good and detailed. However, the detailed CPI items are available only from 2018. The CPI detailed items in 2018 are not consistent with those from 2019 onward (please refer to Annex 3 published on DEPS's website.).	CPI base year has been changed from 2010 to 2015 since 2019, while historical data before 2016 is not yet available. Historical data still uses two different base years.	
Balance of Payments (BOP) and External Position	BOP data is published on the DEPS's website. Import and export data are published on the DEPS's website. Import and export data breakdown by both product and market is not available. Exports of petrochemical products should be disclosed for better analysis of the downstream activities sector.	BOP data is released on a yearly basis with a time lag of over 1 year. Trade data is released on a monthly basis with a time lag of around 1-2 month.	Net error and omission value is fluctuated and huge in some years. Net error and omission value was 44.4 percent in 2016 and -5.9 percent of GDP in 2020. Trade data quality should be improved given errors and inconsistency. For example, export markets keep changing every month. These should be consistent, and if more countries are added, none of the existing countries should be excluded.		-
State Budget and Government/ External Debt	Budget implementation data are not available publicly. Annual budget data is available yearly in government publications such as the Brunei Darussalam Statistical Yearbook. The quarterly fiscal data are only available upon request.	Annual fiscal data are released with a time lag of more than one year.	Data quality is good.		-
Money Supply and Credit Growth	These data are available on BDCB's website.	Monthly data are released with a time lag of 2 months.	Data quality is fairly good and quite detailed.	-	
Financial Sector Soundness Indicators	These data are available on BDCB's website. NPL by sector is only available upon request.	The data is released with a time lag of 3 months.	Data quality is good but more details are needed, such as NPL by each sector.	-	The availability of more comprehensive and more frequent data, including a detailed breakdown of assets and liabilities, would help the analysis of financial-sector soundness.

Notes:
(i) Data availability refers to whether the official data are available for public access by any means.
(ii) Reporting frequency refers to the time interval between each publication of available data. Timeliness refers to how up-to-date the published data are relatively to the publication date.
(iii) Data quality refers to the accuracy and reliability of the available data, taking into account the data methodologies.
(iv) Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either the same or different categories.
(v) Other criteria might also apply, if relevant. Examples include but are not limited to potential areas of improvement for data adequacy.
Source: AMRO staff compilations. This preliminary assessment will form the "Supplementary Data Adequacy Assessment" in the EPRD Matrix.

Annexes: Selected Issues

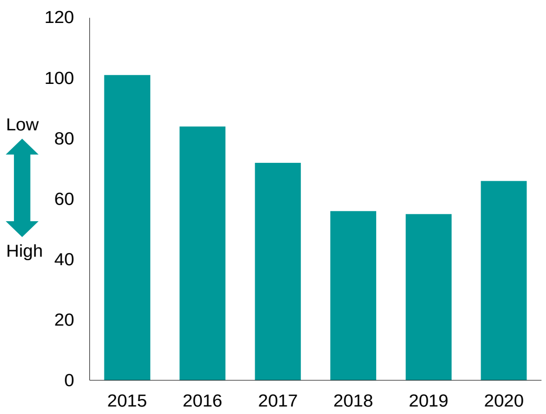
1. Doing Business in Brunei Darussalam: A Closer Look at Weak Areas[38]

> *"The main advantage of showing a single rank: it is easily understood by politicians, journalists, and development experts and therefore created pressure to reform. As in sports, once you start keeping score, everyone wants to win."*
>
> *World Bank Staff Report, 2005*[39]

1. **Brunei Darussalam has been undertaking a series of structural reforms to improve its business environment to attract quality FDI and diversify into the non-oil and gas industry.** Such reforms have contributed to an improvement in its Doing Business (DB) score in recent years. Serving as an important tool to measure and rank regulatory environment across countries, the DB ranking has a significant influence on business regulations and reforms in Brunei Darussalam. This selected issue mainly focuses on the country's overall DB situation, its weak DB indicators, followed by policy discussions.

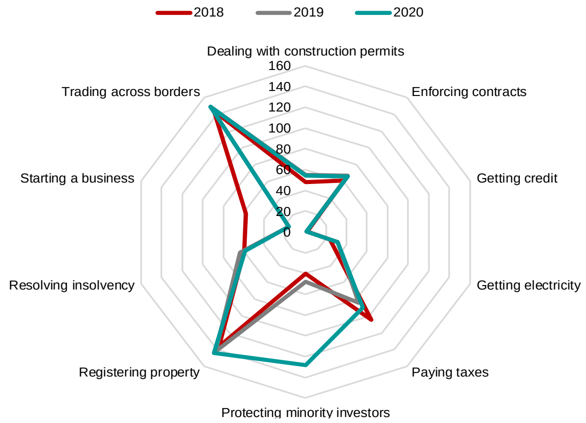
2. **The country's overall DB ranking weakened in 2020, reflecting the need for further structural reforms.** The country's overall DB ranking kept improving during 2016 – 2019, contributing to the increase in quality FDI projects. However, in 2020, the ranking worsened to 66th, from 55th in 2019, attributable to rising competitiveness and some changes in methodology (Figure A1.1). In DB 2020, several indicators, such as protecting minority investors, registering property and trading across borders weakened and remained lagging far behind the other indicators, being ranked at 128th, 144th and 149th, respectively (Figure A1.2). Two indicators—enforcing contracts and resolving insolvency—recorded a better performance, on account of the government's efforts in publishing performance measurement reports, and an increasing participation of creditors in insolvency proceedings (World Bank, 2020). Some indicators have maintained their position relative to 2019, such as starting a business, getting electricity, and trading across borders, while the country continued to maintain its top rank in getting credit.

Figure A1.1. Brunei Darussalam: DB Ranking



Source: World Bank

Figure A1.2. Brunei Darussalam: DB Index by Indicator

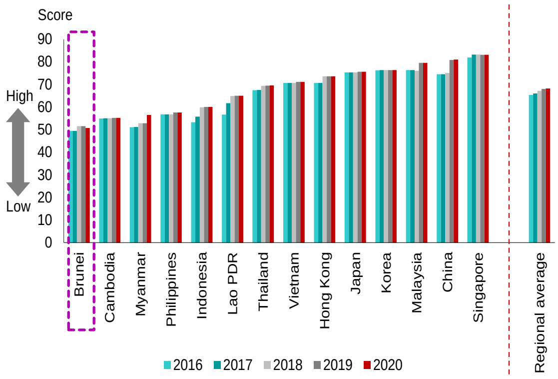


Note: There are changes in methodology and scope of assessment in DB 2020, not accounted for in the previous years.
Source: World Bank

[38] This selected issue was prepared by Vanne Khut.
[39] Cited in The Power of Ranking: The Ease of Doing Business Indicator and Global Regulatory Behavior by Rush Doshi, Jdith G. Kelly, and Beth A. Simmons.

3. ***Registering property* experienced a slip in ranking mainly due to the country's limited quality of land administration, especially lengthy procedures.** This indicator's ranking slightly worsened from 142nd in 2019 to 144th in 2020, scoring just 50.7, the lowest in the region (Figure A1.3). Rising competitiveness and speed of reforms of other participating countries have also contributed to the fall in ranking of this indicator. In Brunei Darussalam, property registration takes 298.5 days, relative to the regional average of 46.1 days (Table A1.1), which could be attributable to lengthy procedures. Local companies can register long-term lease interests over plots of land for a maximum duration of 60 years, which involves several processes. Out of the seven procedures, the overall Ministry of Development process for the submission of application via Lands Department to acquire approval from the Memorandum of Transfer by His Majesty in Council alone takes 280 days, followed by a 15-day registration of property lease at the Land Office (Figure A1.4).[40]

Figure A1.3. ASEAN+3: Registering Property Score



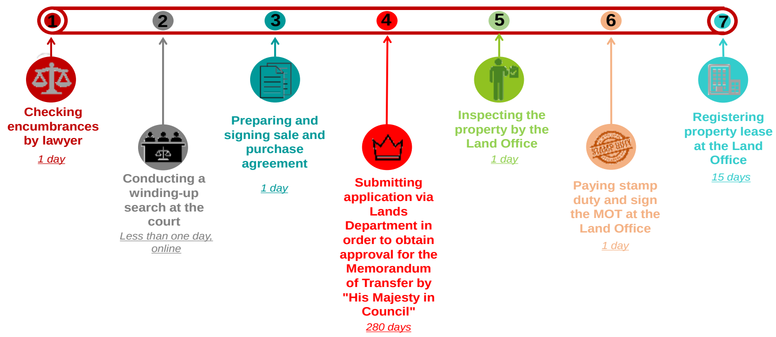
Source: World Bank; AMRO staff calculations

Table A1.1. Brunei Darussalam: Registering Property Component (DB 2020)

Country	Procedures (number)	Time (days)	Cost (% of property value)	Quality of the land administration index (0-30)
BN	7	298.5	0.6	17
KH	7	55	4.3	7.5
CN	4	9	4.6	24
HK	5	27.5	7.7	27.5
ID	6	31	8.3	15.5
JP	6	13	5.3	25.5
KR	7	5.5	5.1	27.5
LA	6	28	3.1	10.5
MY	6	16.5	3.5	26.5
MM	6	65	4.3	8
PH	9	35	4.3	12.5
SG	6	4.5	2.9	28.5
TH	5	9	7.2	19
VN	5	53.5	0.6	14
Regional Average	**6.1**	**46.5**	**4.4**	**18.8**

Source: World Bank; AMRO staff calculations

Figure A1.4. Seven Procedures of Registering Property in Brunei Darussalam



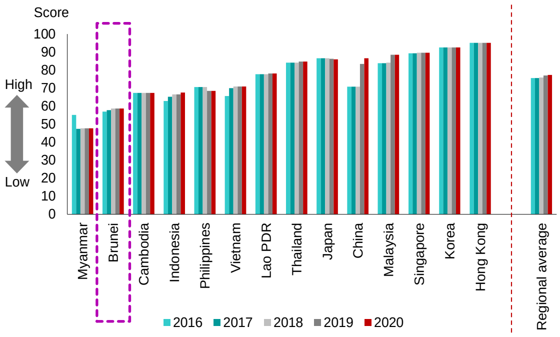
Source: World Bank

4. **Albeit maintaining its position in DB 2020, Brunei Darussalam's *trading across border* indicator continues to lag behind that of most of regional members, mainly due to long time to export and import.** Relative to other countries in the region, Brunei scores very low in trading across border, coming in second to last (Figure A1.5). To export, the country spends between 117 – 155 hours for border and documentary compliance, much longer than the regional average, while costs to export and import remain high if compared to other high income economies in the region (Table A1.2). In response to these issues, the government has been stepping up its efforts in improving trade facilitation to ensure efficiency and cost effectiveness. The government's efforts over the past several

[40] According to the authorities, an internal performance measure has been introduced to improve the efficiency and overall time for the application of private land lease for commercial use. The Ministry of Development has also been working to further streamline the process of approving land transfers from 298 days to 112 days, while trying to ensure more transparent procedures related to land issues.

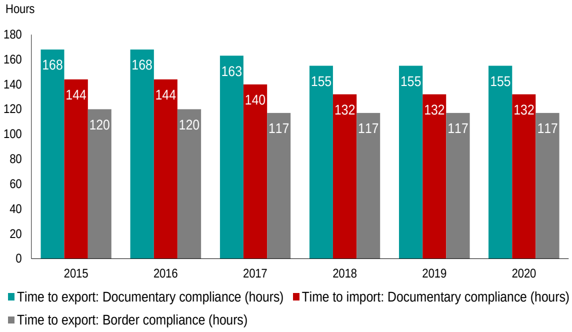
years have resulted in a slight improvement in time to export and import, especially concerning documentary compliance (Figure A1.6).[41]

Figure A1.5. ASEAN+3: Trading Across Border Score



Source: World Bank, and AMRO staff calculations

Figure A1.6. Brunei Darussalam: Time to Exports and Imports



Source: World Bank

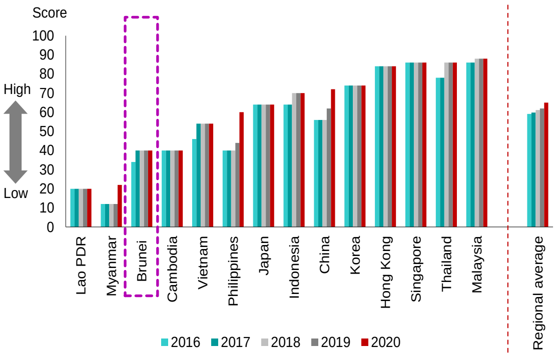
Table A1.2. ASEAN+3: Trading Across Borders by Component, DB 2020

Country	Time to export: Border compliance (hours)	Cost to export: Border compliance (USD)	Time to export: Documentary compliance (hours)	Cost to export: Documentary compliance (USD)	Time to import: Border compliance (hours)	Cost to import: Border compliance (USD)	Time to import: Documentary compliance (hours)	Cost to import: Documentary compliance (USD)
BN	117	340	155	90	48	395	132	50
KH	48	375	132	100	8	240	132	120
CN	21	256	9	74	36	241	13	77
HK	1	0	1	12	19	266	1	57
ID	56	211	61	139	99	383	106	164
JP	27	272	2	54	40	315	3	107
KR	13	185	1	11	6	315	1	27
LA	9	140	60	235	11	224	60	115
MY	28	213	10	35	36	213	7	60
MM	142	432	144	140	230	457	48	210
PH	42	456	36	53	120	690	96	68
SG	10	335	2	37	33	220	3	40
TH	44	223	11	97	50	233	4	43
VN	55	290	50	139	56	373	76	183
Regional Average	**44**	**266**	**48**	**87**	**57**	**326**	**49**	**94**

Source: World Bank, and AMRO staff calculations

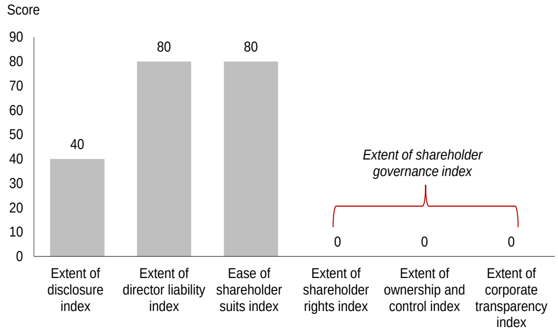
5. ***Protecting minority investors*** **indicator worsened in 2020 due to the increasing competitiveness and rate of reforms implemented by other participating economies, as well as methodological adjustments.** Despite maintaining the same score at 40 (Figure A1.7), protecting minority investors was ranked 128th in 2020, down from 48th in 2019, mainly because of methodology adjustment. In the absence of an active stock exchange with at least ten non-state-owned listings, no points are awarded to several sub-indices, such as the extent of shareholder rights index, ownership and control index, and corporate transparency index (Figure A1.8).

Figure A1.7. ASEAN+3: Protecting Minority Investors Score



Source: World Bank, and AMRO staff calculations

Figure A1.8. Brunei Darussalam: Protecting Minority Investors Score by Component

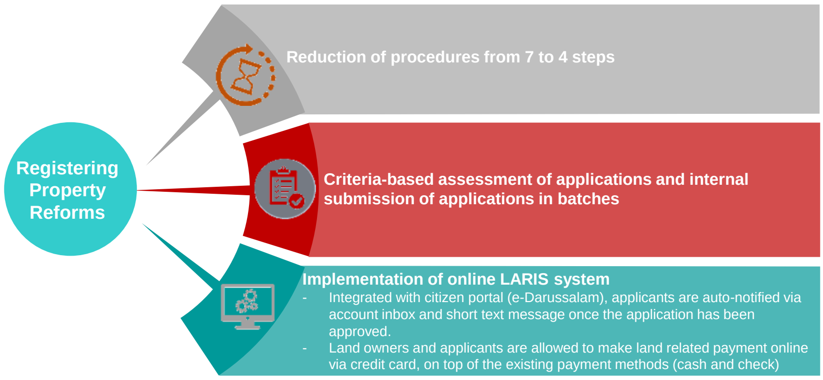


Source: World Bank

[41] According to the authorities, a different methodology adopted by the World Bank has led to the low ranking of Brunei Darussalam's trading across borders. The Industry and Business Ecosystem Division has been discussing with the World Bank's DB working group to understand other reasons behind the lengthy documentation process and has proposed to the World Bank to consider different case studies specifically for Brunei Darussalam.

6. **Improving transparency of the country's land administration system and its dispute resolution mechanisms would help make "registering property" easier and faster.** The country's endeavor to strengthen registering property through streamlining of process and introduction of Land Application and Registration Information System (LARIS) is commendable (Figure A1.9).[42] Under this system, land records, fee schedules and service standards are fully digitalized, accessible online and transparent. Besides, services and information concerning the mapping of land plots can be accessed through GeoPortal,[43] and all privately held land plots throughout the country are formally registered and mapped. While such a notable progress has been made, the country should also further enhance the transparency of the land administration system, for instance through publishing relevant statistics and information.[44]

Figure A1.9. Brunei Darussalam: Registering Property Reforms



Source: MOFE (2016)

7. **Coordinated efforts in removing excessive procedures at all entry points is recommended to improve trading across borders.** Thus far, a series of reforms in the area of trade facilitation has been carried out by the government, including enhancement of the Brunei Darussalam National Single Window (BDNSW), various importation processes, technological capabilities, transparency in shipping and forwarding business, among others (MOFE, 2017a). Implemented since 2013, the BDNSW has helped promote the flow of information, increase transparency, while heightening the efficiency of daily trade processes. Through this system, export and import customs declarations as well as permit applications are allowed to be submitted and processed online for approval through just five simple steps to ensure smooth and hassle-free import and export of goods (Figure A1.10). Given the increase in overseas businesses by local companies, further efforts to enhance efficiency through customs and remove excessive procedures at all entry points are encouraged to reduce time to export and import, which could in turn help facilitate trade across borders.

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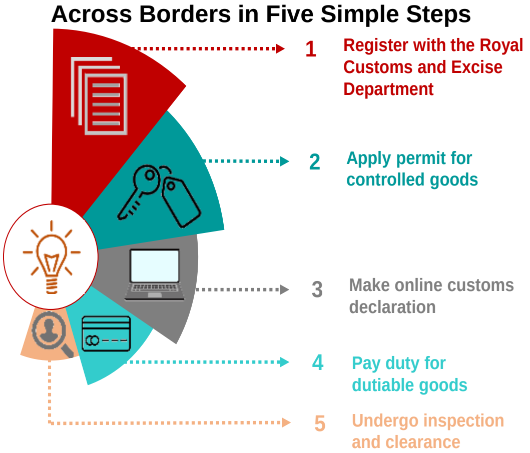
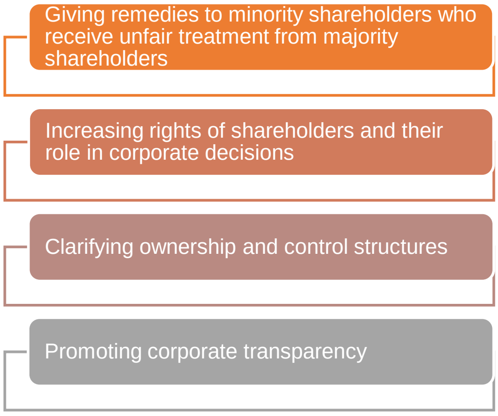
[42] Made available to the public for online submission and tracking of land applications since February 2016, LARIS is currently undergoing further enhancements to its functions, including the SMS Notification module and the implementation of online payment for processes relating to land matters under the purview of the Ministry of Development.
[43] A computerized system owned by the Survey Department
[44] According to DB 2020, Brunei Darussalam does not have publicly available statistics on the number of land disputes at the economy level in the first instance court.

Figure A1.10. Brunei Darussalam: Trading Across Borders in Five Simple Steps



Source: MOFE (2017b)

Figure A1.11. Brunei Darussalam: Protect Minority Investors: Selected Polices



Source: MOFE (2017c)

8. **Past efforts to improve minority investor protections should be continued, while the ongoing efforts to establish a national stock exchange is commendable.** Thus far, the government has been accelerating its efforts in protecting minority investors through various policies, including giving remedies to minority shareholders who receive unfair treatment from majority shareholders; and increasing rights of shareholders and their roles in corporate decisions (Figure A1.11). Furthermore, to improve the ranking and score of this indicator, the authorities have been putting more efforts into setting up a national stock exchange. However, given the small size of the economy, innovative strategies may be needed to ensure the sustainability of the stock exchange, which could, in turn, promote investment and serve as a key platform to facilitate domestic companies' capital raising.

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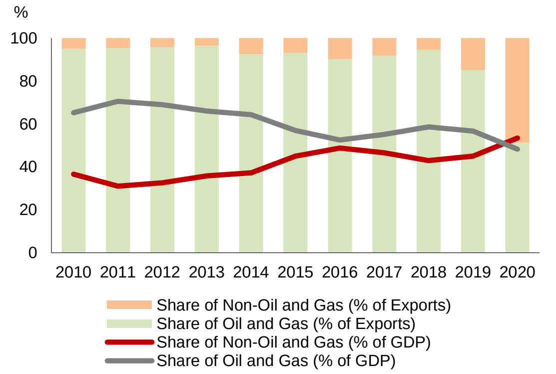
2. Economic diversification in Brunei: comparison with Gulf Cooperating Countries (GCCs) and other successful diversifiers[45]

1. **Brunei Darussalam has made progress in economic diversification in recent years but remains less diversified than other resource-rich economies.** Like other resource-rich economies, the Bruneian authorities recognize the need to diversify and plan to expand the main economic drivers to non-resource sectors. Diversification efforts were first mentioned in the 7th National Development Plan for 1994-2000, continued to be pursued in successive plans including the latest 11th National Development Plan for 2018-2023 (RKN11), and adopted in Wawasan Brunei 2035 vision in 2006. This selected issue assesses the results of the country's economic diversification efforts and outlines policy proposals based on a comparison with the experiences of successful diversifiers.

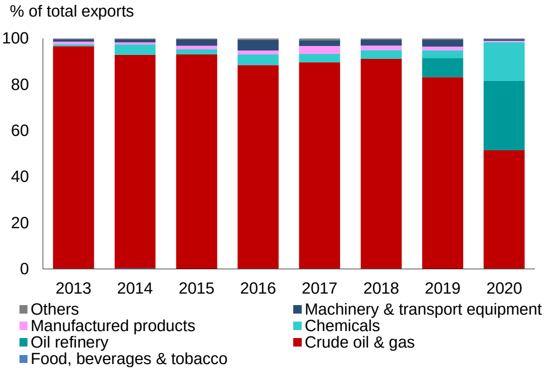
2. **Brunei Darussalam achieved a major milestone in economic diversification in 2020 with establishment of Hengyi Industries and the commencement of its petrochemical exports.** Because of Hengyi Industries Phase I operations and sharp drop in global oil prices, in 2020 the non-oil and gas sector made up more than 50 percent of nominal GDP for the first time (Figure A2.1). The share of non-oil and gas exports also increased significantly from 14.8 percent in 2019 to 48.6 percent in 2020.[46] In particular, the exports of petrochemical product allowed the economy to move away from mainly upstream production to both upstream and downstream production. Nevertheless, crude oil and gas is still the largest component of Brunei Darussalam's exports (Figure A2.2). Moreover, it should be noted that the non-oil and gas sector covers Hengyi's petrochemical products, which are still related to the oil and gas industry, albeit in the downstream segment. Since the Bruneian economy continues to be highly dependent on the oil and gas industry, the whole economy remains vulnerable to fluctuations in global energy prices and the steady depletion of oil reserves since 2010.[47] Further diversification of the economy should definitely be made.

Figure A2.1. Oil and Gas Sector Share in GDP and Total Exports



Note: GDP in current prices
Source: DEPS; AMRO staff calculations

Figure A2.2. Brunei Darussalam: Exports



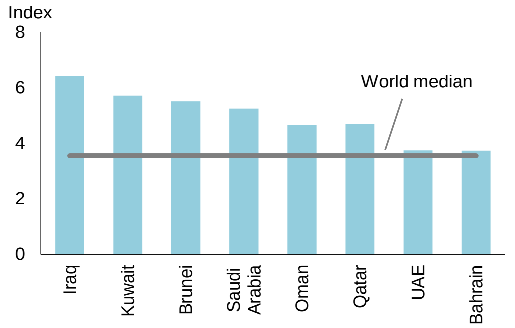
Note: Exports of oil refinery are AMRO staff estimates given data unavailability.
Source: DEPS; AMRO staff calculations

3. **Other than petrochemical exports, the progress of export diversification is still limited.**[48] According to the International Monetary Fund's (IMF) latest Export Diversification

[45] This selected issue and box were prepared by Andrew Tsang (Economist) and Madeleine D. Vinuya (Research Data Analyst).
[46] Hengyi Industries started in operation in November 2019, and the share of non-oil and gas exports was below 10 percent before 2019.
[47] Brunei Darussalam's daily oil production dropped by 36 percent from 172,000 barrels in 2010 to 110,000 barrels in 2020.
[48] Before the operations of Hengyi Industries in late 2019, Brunei Darussalam's exports of chemicals had been increasing since 2010, partly attributed to the country's entrance into the ASEAN Trade in Goods Agreement (ATIGA). The agreement helped Brunei to improve its access to other ASEAN countries, made possible by the removal of 99 tariff lines in the region.

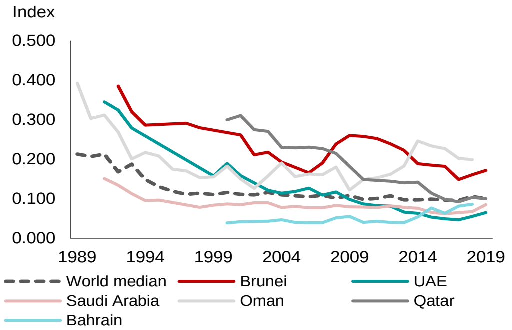
Index, Brunei Darussalam had a lower degree of export product diversification than the world median and most of GCC economies—major oil and gas exporters—from 2010 to 2014. Bruneian manufacturing exports mainly consist of production of petrochemicals and machinery (including transportation equipment). The country's manufacturing export base is relatively narrow compared to other small GCC economies such as Oman, Qatar and Bahrain. In addition, Brunei Darussalam depends on only a few export markets. According to the World Bank's Hirschman-Herfindahl Market Concentration Index, Brunei Darussalam's diversification in export markets continues to lag behind the world median although the country has made progress in expanding its markets.

Figure A2.3. Export Diversification Index (Average 2010-2014)



Note: IMF's Export Diversification Index provides an overall measure of export product diversification using Theil index based on Cadot et al. (2011). The higher the value, the lower the diversification. The index was constructed using the six-digit HS product level data on the exports of each country. UAE = United Arab Emirates
Source: IMF; AMRO staff calculations

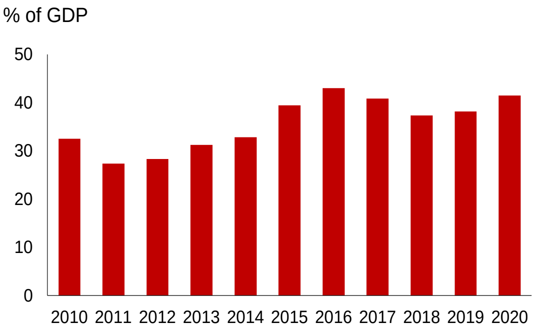
Figure A2.4. Hirschman-Herfindahl Market Concentration Index



Note: World Bank's Hirschman-Herfindahl Market Concentration Index measures the dispersion of trade value across an exporter's partners. An index value close to 1 indicates a country with exports concentrated in a very few markets, while a country with a perfectly diversified trade portfolio will have an index close to zero.
Source: World Bank; AMRO staff calculations

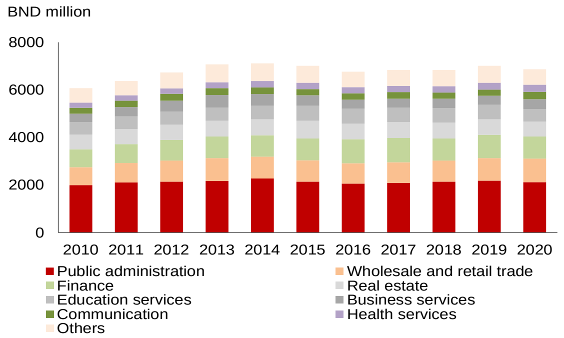
4. **Although the services sector has been expanding, it is still smaller than that of advanced economies.** In terms of GDP, Brunei Darussalam's services sector increased from 32.5 percent in 2010 to 41.5 percent in 2020 (Figure A2.5). The main components were public administration (30.9 percent of the services sector), wholesale and retail trade (14.4 percent), and finance (13.5 percent) (Figure A2.6). Similar to GCC economies, the Bruneian services sector employs mostly local labor.[49] Further expansion in the services sector could help reduce local unemployment.

Figure A2.5. Brunei Darussalam: Share of Service Sector



Note: GDP in current prices
Source: DEPS; AMRO staff calculations

Figure A2.6. Brunei Darussalam: Breakdown of Services Sector



Source: DEPS

[49] In the case of Brunei, construction, accommodation and food services, and the employment of household help are filled up mostly by foreign workers, while the rest of the services sector, especially public administration, hires locals. From 2014 to 2020, foreign workers mainly increased in the following areas: construction (11,505 workers), mining and quarrying (2,002 workers) and wholesale and retail trade (1,411 workers). Local workers increased the most in the wholesale and retail trade (14,425 workers), professional, technical, administrative and support services (3,577 workers), and manufacturing (2,800 workers).

5. **Brunei Darussalam, like other GCC economies, is in a development trap due to an interlinked incentive structure governing labor, MSMEs and exports, which inhibits the diversification progress.** High local unemployment persists because local workers have few incentives to work in the private sector, given the large public-private sector wage gap. The public sector still dominates the local labor market. As of 2020, it accounts for 44.4 percent of local employment although this is already a decline from 60.7 percent in 2014. As a result, the private sector is reliant on foreign workers. The private sector, particularly MSMEs, is less competitive due to structural issues, such as a lack of access to capital, and sufficient infrastructure. Without a competitive private sector, which is necessary to bring down the cost of exporting, the development in the export sector will be weakened.

Box A2. Key Strategies That Enabled Indonesia, United Arab Emirates and Malaysia to Achieve Gains in Economic Diversification

We examine the diversification in 17 resource-rich economies, including Brunei and the GCCs, and assess their long-term diversification development and recent changes in selected economic variables (Table A2.1). In the past three decades, export diversification improved among selected countries. The Hirschman-Herfindhal Index (HHI) in most of the countries, 12 of them, decreased over the decades, indicating the progress in export market diversification. In general, the successful diversifiers have been expanding their services sector and achieved faster growth in manufacturing exports and commercial service exports in the last decade compared with other countries. Based on longer-term improvement in HHI and recent economic developments, we review the diversification experiences of three successful diversifiers, namely the United Arab Emirates (UAE), Indonesia and Malaysia.[50]

Table A2.1. Achievements in Diversification (GCC Economies and Selected Resource-Rich Countries)

		Hirschman-Herfindahl Market Concentration Index (HHI)		Selected economic indicators 2010-2019			
Classification[1]	Country	Difference of the first and last three year averages 1990-2019[2]	Rank	Changes in share of manufacturing in GDP (percentage points)[3]	Changes in share of services in GDP (percentage points)[4]	Average Annual Growth in Manufacturing Exports (%)	Average Annual Growth in Commercial Services Exports (%)
Extremely resource-rich countries, (resource share of exports > 85%)	United Arab Emirates	-0.26	1	0.77	6.40	10.74	26.16
	Qatar	-0.20	2	-4.73	18.17	2.19	23.09
	Brunei	-0.19	4	-1.73	5.67	4.31	2.93
	Nigeria	-0.12	6	-3.74	-1.06	-0.05	6.16
	Oman	-0.06	8	-0.20	10.26	11.30	11.97
	Saudi Arabia	-0.06	9	1.53	11.22	4.85	9.55
	Kuwait	-0.02	12	1.19	7.68	3.51	-1.32
	Bahrain	0.04	15	3.22	1.38	11.82	12.04
	Suriname	0.13	17	NA	7.57	-4.41	-3.37
Highly resource-rich countries (resource share of exports 51%-85%)	Indonesia	-0.20	3	-1.30	3.56	3.05	7.35
	Peru	0.01	13	-3.55	5.43	1.52	8.55
	Chile	0.02	14	-0.63	6.00	0.63	-1.74
	Laos	0.06	16	-2.33	-1.23	17.38	10.26
Moderately resource-rich countries (resource share of exports 25%-50%)	Tunisia	-0.14	5	-0.19	5.02	-0.26	-2.98
	Malaysia	-0.08	7	4.97	5.74	2.54	1.88
	Norway	-0.04	10	-1.99	5.32	-1.78	0.55
	Egypt	-0.04	11	-0.88	4.24	2.61	0.30

Note: 1) The classification of countries can be found in Lashitew et al. (2021), in which the calculations use the data from 1980 to 2014. Brunei was not included in Lashitew et al. (2021), and it is classified as an extremely resource-rich countries because the oil and gas exports were over 90 percent of total exports before 2019.
2) A lower HHI means more diversification in export markets. The ranking is based on decreases in the index over the sample period. Data for Bahrain, Kuwait, Qatar, Suriname, Nigeria and Egypt start from 2000, while Lao PDR's data start from 2010.
3) Data for Suriname are not available.
4) Data for Qatar start from 2011.
Source: World Bank; Harvard's Growth Lab; World Trade Organization; AMRO staff calculations

[50] These three countries are the top successful diversifiers in three different groups of resource-rich economies, according to the resource share of exports (Lashitew et al., 2021). For the group of moderately resource-rich countries (resource share of exports between 25 percent and 50 percent), Malaysia is selected, instead of Tunisia, because the export growth of Malaysia was better than that of Tunisia over the recent decade.

Cases of successful diversifiers[51]

United Arab Emirates

To achieve diversification, the UAE developed a strategic development plan and eventually became the most successful diversifier among GCCs. It started to implement diversification strategy in the 1980s by promoting downstream activities, such as those related to refineries and fertilizers, and also aluminum smelting aside from oil and gas. Recently, the UAE's exports of transport equipment, including aerospace, ship repairs and other products, have been gradually increasing, making the country one of the world's largest transport equipment exporters.

Capitalizing on geographical advantages has proven important in developing the strategic development plan. Take Dubai, a member of the UAE, as an example. It bypassed the industrialization stage and focused on services and connectivity, and developed itself as an air transport hub for long-haul routes between Europe and Asia. Dubai also localized targeted industries, including aerospace manufacturing and support for Emirates Airlines, and leveraged its operation of Jebel Ali Port and other ports to develop maritime sub-industries manufacturing.

Policy support was essential in attracting investors and advancing export diversification. The UAE government set up industrial development departments to develop and implement the industrialization strategy. In addition, the UAE exempted the enterprises in the target industries from customs duties and taxes that would have been payable in the imports of supplies for production. Furthermore, the UAE also simplified and standardized investment procedures and relaxed the hiring of foreign talent to work in its target sectors.

Indonesia

In promoting economic diversification, Indonesia set up its own strategic development plan to match with its own comparative advantages. During the 1980s, Indonesia shifted the industrialization strategy from capital-intensive import substitution to labor-intensive export-oriented strategy. In summary, its diversification success was driven by the development of light manufacturing and agribusiness, rather than by elaborately transformed manufactured goods as in other countries in the region. Indonesia's strategy matched with its comparative advantage of abundant cheap labor.

Indonesia's successful diversification has benefited from its implementation of broad-based institutional reforms. The reforms included eliminating trade barriers (reduction of import tariffs and removal of non-tariff trade barriers); outsourcing the inefficient customs office; and introducing banking sector reform (removal of entry barriers and credit subsidies). These reforms boosted the growth in manufacturing exports and improved the productivity of manufacturing sector.

The country also invested in infrastructure to promote economic development and diversification. In the last few decades, the major obstacle of Indonesian economic development was the poor infrastructure. Indonesia has addressed this problem with massive investments through state-owned enterprises and public investments that built roads, integrated transport network and improved its electricity generating capacity. These efforts have helped Indonesia boost export growth and become a successful diversifier among resource-rich countries.

Malaysia

Malaysia developed a strategic development plan to promote diversification and industrialization. Malaysia focused on capacity building by accumulating technology, and having an active governmental role in supporting target industries, such as electronics, palm oil, and petrochemicals. To diversify the economy, revenues from the oil and gas sector were not only invested offshore but also allocated to the budget for investment in development projects, subsidies, and support for priority sectors. The country has a law requiring resource revenues to

[51] The main references of case studies include Zen (2011), Hvidt (2013), Yusof (2013), Seric and Tong (2019) and Lashitew et al. (2021).

be reinvested domestically and abroad, and across supply chains related to the oil and gas sector. This allows Malaysia to eventually participate in each stage of the production process, from extraction to marketing

Fiscal policy was used as a strategy toward diversification, in tandem with careful macroeconomic management. Tax incentives for petroleum companies and their suppliers were in place to promote the industrial linkage and knowledge transfers in the 1980s. Export taxes on crude oil were imposed in the early 1990s to stimulate the refining of crude oil. Investment tax allowances were given in favored economic activities, including petrochemicals. For the palm oil and rubber industries, policies related to barter arrangements in exchange for infrastructure, research and development (R&D) financing, and FDI tax incentives were likewise explored.

Policies related to local human capital accumulation were also adopted to encourage local content in the economy. Malaysian legislation discourages foreign workforce and allows spending on R&D, such as in the establishment of the Petronas Vendor Development Program (VDP) in the early 1990s. Furthermore, Malaysia planned to develop a highly educated and skilled workforce that involved investing in science, technology, and innovation. It also promoted strategic partnerships between the academia, government, and the private sector, and collaborated with Indonesia, France, Italy, and Saudi Arabia through programs.

6. **Bruneian authorities have recognized the importance of diversification in the country's economic development over the medium to long term.** "Increased Non-Oil and Gas Sector Output as Catalyst for Economic Growth" is the main theme of the national development plan, RKN11. Among the six proposed economic development strategies of RKN11, the major focus is on broadening the non-oil and gas sector by developing five key industries (Figures A2.7, A2.8).[52] Similar to GCC's diversification strategies, Brunei Darussalam's development plans also include FDI liberalization, business environment improvement, and quality human capital enhancement. However, like the approach of some successful GCC diversifiers, Brunei Darussalam needs to enhance its policies to deepen the diversification blueprint, which includes creating a strategic development plan, developing a competitive logistics industry, strengthening human capital, and supporting MSMEs (Table A2.2).

Figure A2.7. Eleventh National Development Plan Key Thrusts (RKN11)

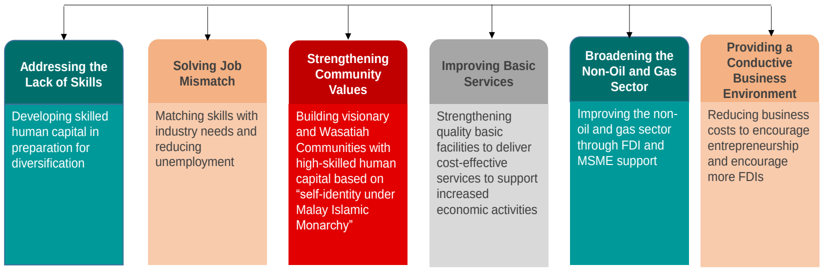
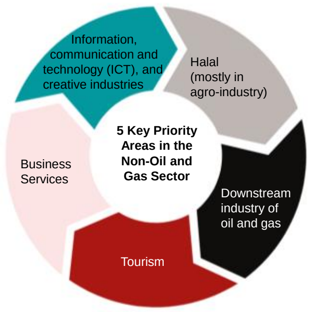


Figure A2.8. Five key industries in the non-oil and gas sector



Source: DEPS (2020)

[52] These five industries are also the five priority industries stated in the MOFE publication "Brunei Darussalam's Economic Blueprint: Towards a Dynamic and Sustainable Economy", released in January 2021. The blueprint is a guide to align policies, strategies and initiatives adopted by the government and the private sector.

Table A2.2. Taxonomy of diversification plans of Brunei and GCC economies

Policy Areas	Brunei Darussalam	GCCs
FDI Promotion	▪ Hengyi oil refinery and petrochemical plant ▪ The Brunei Fertilizer Industries (BFI) project ▪ Bio-Innovation Corridor (BIC) industrial park on food processing ▪ Brunei-Guangxi Economic Corridor (BGEC), including China-Brunei Agricultural and Industrial Park, Guangxi Yulin Chinese Pharmaceuticals and Guangxi Hechi Healthcare Industry	
Exports diversification	▪ Export Refinancing Scheme (ERS) ▪ Tax exemptions and incentives for machinery and heavy vehicles	▪ Harmonize and reduce customs administration and procedures ▪ Set up export promotion agencies, and insurance and credit facilities for exporters ▪ Create free trade zones
Business environment improvement	▪ Construction of Temburong Bridge (construction started in 2014, and the bridge opened in 2020) ▪ Establish the Brunei stock exchange ▪ Provide government e-services for business registration	▪ Create offshore financial sectors ▪ Expand transport networks ▪ Improve access to ICT and finance
Human capital development	▪ Improve quality education by using 21st Century National Education System (SPN21) ▪ Improve teaching through Brunei Darussalam Teacher's Academy (BDTA) ▪ Address skills mismatch through fostering close collaboration with industry players, regulators and academic/training institutions to meet private-sector needs via several initiatives such as the Manpower Industry Steering Committee (MISC)	▪ Create education cities ▪ Tie up with foreign universities
MSMEs development	▪ Set up Darussalam Enterprise (DARe) to provide promotion and administrative support for MSMEs in 2016 ▪ Set up Bank Usahawan in 2017 to support MSMEs ▪ Launched i-Usahawan, a youth entrepreneurship development program, in 2018	▪ Develop key sectors such as finance, airlines and logistics, downstream petrochemicals, mining, and SMEs, (different from country to country)
Others	▪ Develop cultural mindset of "self-reliance" through the Visionary Wasatiah Communities concept	▪ Strengthen legal and regulatory systems ▪ Spend more on research and development ▪ Create economic cities to support oil and mining

Source: Callen et al. (2014); DEPS (2020); Invest Brunei Darussalam; OECD (2018)

7. **A policy toolkit is needed for creating a strategic development plan.** Similar to the GCC economies, Brunei Darussalam should position itself as a high-income economy with diversification focused on high value-added sectors. In the RKN11, the authorities are emphasizing the development of five key industries, which include selected high value-added industries.[53] In order to create a strategic development plan, the country should also formulate policy in terms of coordinating cross-cutting measures. For example, fiscal policy could prioritize providing a strategic expenditure program to develop certain high value-added industries. On tax policy, appropriate tax incentives could be deployed to encourage investments, particularly FDI, in high value-added industries. To attract FDI, Bruneian

[53] In "Brunei Darussalam's Economic Blueprint: Towards a Dynamic and Sustainable Economy", policy directions have already been set to shift Brunei from a highly dependent oil and gas economy to a dynamic and sustainable economy, which will provide more meaningful and high-value employment opportunities and harnessing the latest technology in line with the Fourth Industrial Revolution (4IR).

authorities introduced the "Investment Incentives Order" in 2001.[54] The authorities can integrate the existing incentive scheme with a strategic development plan to further broaden economic diversification.

8. **Developing a competitive logistics industry is key to having a vibrant export sector and, by extension, economic diversification.** As a small and open economy, Brunei crucially needs a strong export sector for successful economic diversification. However, the current export activities are concentrated in oil and gas exports while non-oil and gas exports are hampered by the lack of a competitive logistics infrastructure and logistics service providers (2PL and 3PL)[55] to aid exporters that are new entrants. Providing adequate facilities, such as cold storage through strategic joint ventures for infrastructure projects, should be accelerated. Solutions are also needed to improve customs clearance to avoid logistics delays, which are mentioned in Bruneian government efforts to improve customs administration (Commonwealth Secretariat, 2019).

9. **Brunei Darussalam needs to continue to invest in human capital.** Human capital is essential in promoting high value-added industries and the services sector. The Bruneian government is on the right track with the RKN11 emphasizing the development of human capital by defining strategic objectives in the areas of ensuring adequate investment in human capital, strengthening its community values, and ensuring skill matching at the industry level. Furthermore, the authorities should continue to improve the matching of skills with the needs of high value-added industries and the services sector to further promote economic diversification. For example, education courses should be refined and tied to targeted high value-added industries and the services sector. This is possible by consistently monitoring the Labor Management Information System (LMIS) and closely assisting higher educational institutions in providing new and appropriate courses to meet industry needs.

10. **Policies supporting MSMEs should be more targeted.** In recent years, the country has set up Darussalam Enterprise (DARe), Bank Usahawan and i-Usahawan, and introduced various financing schemes to promote MSME development.[56] The development of MSMEs is generally far from satisfactory although government efforts have been on the right track. Moreover, a strategic focus is lacking in the support for MSMEs. The authorities should create a unified approach toward MSME development in the target sectors in the strategic development plan discussed in Paragraph 7, particularly in high value-added industries. For example, Bank Usahawan could, in its financial support, prioritize loans for MSMEs in high value-added sectors. Taxation policy can, in coordination with the strategic development plan, be more targeted to reduce the business costs of MSMEs in high value-added industries.

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[54] The order includes a number of tax incentives for eligible companies, such as corporate income tax exemption, import duties exemption for raw materials, import duties exemption for equipment & machinery, and carry forward of loss and allowance.
[55] 3PLs refer to third-party logistics that provide services for certain functions in the logistical process, while 2PLs are second-party logistics that provide services for the entire logistical process or for end-to-end services.
[56] The examples of the financing scheme include Export Refinancing Scheme (ERS) targets agriculture and fisheries, and the Microcredit Financing Scheme (MFS) targets all individual entrepreneurs.

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