AMRO Country Report
ACR/24-07

AMRO Annual Consultation Report

Brunei Darussalam - 2023

ASEAN+3 Macroeconomic Research Office (AMRO)

May 2024

Acknowledgments

1. This Annual Consultation Report on Brunei Darussalam has been prepared in accordance with the functions of AMRO to monitor and assess the macroeconomic status and financial soundness of its members; identify relevant risks and vulnerabilities; report these to member authorities; and if requested, assist them in mitigating these risks through the timely formulation of policy recommendations. This is being done in accordance with 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 November 21 to 28, 2023 (Article 5 (b) of AMRO Agreement). The AMRO mission team was headed by Mr Anthony Tan, Deputy Group Head/Senior Economist. Members include Ms Vanne Khut, Desk Economist; Dr Heung Chun (Andrew) Tsang, Economist; Dr Sungtaek Kwon, Senior Economist; Ms Laura Grace Gabriella, Associate Economist. AMRO Director Dr Kouqing Li 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 2023 was peer-reviewed by a group of economists from AMRO's Country Surveillance, Financial Surveillance, and Fiscal Surveillance teams; endorsed by the Policy and Review Group; and approved by Dr Hoe Ee Khor, AMRO Chief Economist.

3. The analysis in this Report is based on information available up to 29 February 2024.

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. 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. Brunei's economy recovered strongly in 2023. Real GDP expanded by 1.4 percent in 2023, mainly driven by the services sector. The non-oil and gas sector continued to be the bright spot, growing strongly by 4.5 percent mainly led by the finance and transport subsectors. In contrast, activities in the oil and gas (O&G) sector remained weak although the pace of decline appears to have bottomed-out as compared to the previous year. The robust activities in the non-O&G sector, particularly agri-food, finance, transportation, and tourism subsectors helped to offset the contraction in the O&G sector. The economy is expected to grow at 2.7 percent in 2024, benefiting from the expected improvement in O&G production and continued expansion of the non-O&G sector.

2. Headline consumer price inflation has decelerated sharply, thanks to lower commodity prices and normalization of pandemic-induced supply chain disruptions. In 2023, headline inflation moderated to 0.4 percent, down sharply from 3.7 percent recorded last year, driven mainly by lower prices for food and non-alcoholic beverages, transport, as well as miscellaneous goods and services. Headline inflation is projected to increase to 1.4 percent in 2024. The risk to inflation is tilted to the upside, after taking into account the effects of El Niño on food production in the region, which, depending on the severity, could amplify food inflation concerns, given that Brunei is a net food importer.

3. The external position remains strong. The overall balance of payments registered a surplus of 0.5 percent of GDP in 2022, as the surge in the current account surplus (19.6 percent of GDP), helped to offset outflows in the financial account. In 2023, the current account is expected to narrow to 16.0 percent of GDP, reflecting the softer outlook in both upstream O&G production and downstream refining sectors. Gross international reserves are estimated at around the USD5 billion in 2023.

4. Brunei's banking sector continues to be well capitalized with improving asset quality. The banking system remains well buffered, with the capital adequacy ratio staying above the regulatory requirements. The non-performing loan ratio continues to improve, declining to 2.6 percent in 2023. Meanwhile, credit growth has recovered, driven mainly by robust loan demand by the corporate sector, as well as an expansion in overseas lending.

5. The fiscal position improved in FY2022, benefiting from higher O&G export receipts amid favourable global energy prices. The fiscal balance registered a better-than-expected surplus of 1.3 percent in FY2022, as the spike in energy prices helped to offset lower O&G production and exports. However, going into FY2023, revenue collection is estimated to underperform, on account of lower O&G prices and production. As a result, the fiscal balance is projected to reverse to a deficit of 9.8 percent of GDP.

6. The risks to the growth outlook are tilted to the downside. A sharp decline in global energy prices and a recession in Brunei's major trading partners—deemed as tail risks—could derail Brunei's growth prospects, strain the external balance and worsen the fiscal position. Domestic idiosyncratic risk includes an extended period of weakness in O&G production, stemming from unplanned disruptions due to ongoing challenges in O&G rejuvenation. In the medium-term, the challenge is to sustain the pace of economic diversification, while keeping a close tab on the progress of reforms, particularly amid a less friendly global environment. Over the longer term, the challenge is to accelerate the transformation of the economy towards one that is less carbon-intensive, while nurturing new and emerging growth areas to safeguard future economic prosperity.

7. Although the country has benefited considerably from favorable global energy prices, the government has remained prudent in expenditure management. Despite the financial windfall from recent high global energy prices, total government expenditure remains largely stable at around BND6 billion—a level that has been maintained since 2015. Even though the size of the budgeted expenditure in FY2023 is slightly larger than the previous year's budget, it is still assessed to be relatively prudent.

8. The government is committed to strengthening revenue collection while keeping a close tab on spending efficiency. The authorities continue to take incremental steps to bolster revenue collection, given that the discussion on the appropriate design and implementation of major reforms is still ongoing.

9. To anchor long-term fiscal sustainability, AMRO staff recommends the authorities to undertake a proper sequence of policy priorities while enhancing implementation capacity. The development of a strong public financial management (PFM) system and practices should be prioritized, while enhancing transparency. Once an adequate PFM system has been established, the authorities can consider adopting fiscal rules—one that takes into account Brunei's unique characteristics.

10. Notwithstanding the sharp increase in global interest rates, monetary conditions in Brunei remains relatively accommodative given ample liquidity. Unlike in Singapore, the transmission to retail bank lending and deposit rates has been largely muted in Brunei, reflecting the ample liquidity in the banking system. As a result, monetary conditions in Brunei are assessed to be relatively accommodative, which helps to support economic activities. Careful consideration should be taken to further strengthen the alignment of policy rates vis-à-vis Singapore's interest rates. This would help to ensure optimal pricing of risks, while minimizing arbitrage opportunities.

11. Given continuing uncertainty in the global economy, it would be prudent for the authorities to strengthen their surveillance, risk monitoring, as well as regulatory frameworks. Large holdings of debt securities could subject banks to potential risks from changes in bond yields due to marked-to-market losses, exposing the balance sheets to valuation losses. In Brunei, the banking sector's exposure to interest rate risks is assessed to be relatively low, as a large proportion of debt securities are held to maturity under the banking book. It would be prudent for regulators to keep a close tab on banks' management of market risks, given continuing global uncertainties. On the regulatory front, the proactive steps undertaken by the authorities to enhance the regulatory framework (such as the introduction of liquidity risk management guidelines and liquidity coverage ratio framework) are welcomed.

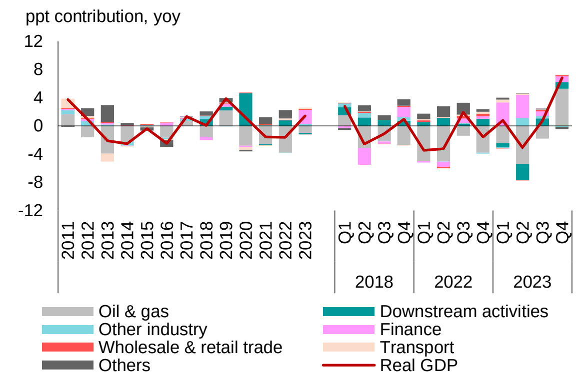
12. On structural policy, it is crucial to address the potential scarring effects of the COVID-19 pandemic to ensure that progress to foster new domestic growth engines is not impeded. The pace of economic diversification has been uneven, with sectors such as downstream oil & gas, food and ICT, seeing rapid progress. In other priority sectors such as tourism, the disruptions due to the COVID-19 pandemic may have had a lasting impact, particularly in some segments of the labor market. The authorities are encouraged to address potential scarring effects caused by the pandemic (such as prioritizing human capital development and digitalization) to ensure that the progress to foster new growth engines is not impeded.

A. Recent Developments and Outlook

Real Sector Developments and Outlook

1. **Brunei's economy recovered strongly in 2023.** After two successive years negative growth, real GDP expanded by 1.4 percent in 2023. The recovery, however, remained uneven. The non-oil and gas (O&G) sector continued to strengthen by 4.5 percent in 2023, driven mainly by the services sector (Figure 1, Table 1). In the finance subsector, growth surged to 37.4 percent, on the back of increased income receipts from banking activities. A larger volume of passenger and cargo traffic also contributed to an improvement in the transport subsector, which expanded by 10.8 percent. In contrast, activities in the upstream O&G sector remained weak in 2023 (–2.0 percent), albeit improving from 7.3-percent contraction in the preceding year. Meanwhile, the downstream O&G activities declined by 2.8 percent, primarily due to scheduled maintenance of a petrochemical refining plant.[1]

Figure 1. Real GDP (Production Side)



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

Table 1. Contribution to Real GDP Growth

ppt contribution, yoy	2021	2022	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2023 Total	2023 Share of GDP
Real GDP	**-1.6**	**-1.6**	**0.8**	**-3.1**	**0.7**	**6.8**	**1.4**	**100.0**
Oil & gas sector	**-2.6**	**-3.8**	**-2.4**	**-5.4**	**-1.8**	**5.3**	**-1.0**	**47.2**
Oil & gas mining	*-1.2*	*-2.4*	*-1.9*	*-3.9*	*-0.2*	*4.1*	*-0.4*	*37.4*
Manufacture of LNG	*-1.4*	*-1.4*	*-0.6*	*-1.4*	*-1.6*	*1.2*	*-0.6*	*9.9*
Non-oil and gas sector	**1.0**	**2.1**	**3.3**	**2.2**	**2.5**	**1.7**	**2.4**	**54.7**
Downstream activities	*-0.2*	*0.8*	*-0.6*	*-2.3*	*1.1*	*1.0*	*-0.2*	*6.5*
Other non-oil and gas	*1.1*	*1.4*	*3.9*	*4.5*	*1.4*	*0.7*	*2.6*	*48.1*

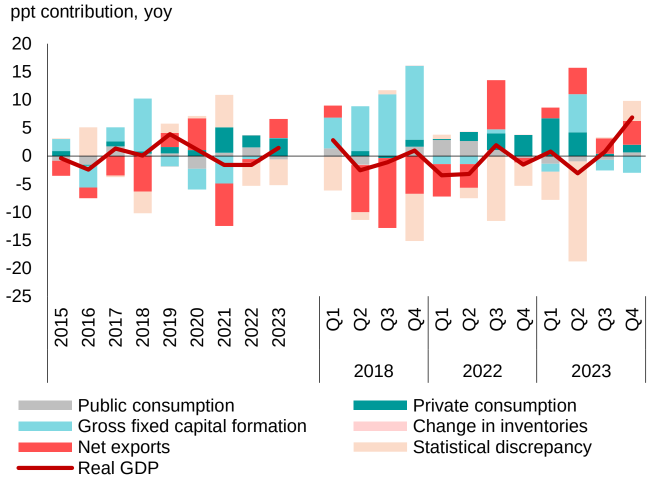
Source: DEPS; AMRO staff calculations
Note: Tax less subsidies is a residual and not shown in the table.

2. **Private consumption showed remarkable resilience, staying above trend growth.** Since the pandemic, private consumption has continued to strengthen despite headline inflation reaching a multi-year high of 3.7 percent in 2022 (Figure 2). In 2023, private consumption grew strongly by 11.1 percent, partly reflecting the low base effects. The robust growth reflects some degree of revenge spending amid the release of pent-up demand, as evident from the double-digit expansion in food/beverage services (eating out). A recovery in household loan demand further supported private consumption activities.

3. **The growth outlook in 2024 is expected to remain positive, with the non-O&G sector leading the way.** Despite continuing headwinds in the upstream O&G sector, the drag on growth from several deferments in rejuvenation, exploration and development activities are expected to ease gradually, with a recovery in production projected towards the end of 2024. The non-O&G sector is expected to lead the recovery in the near term, as prospects in the agri-food, transport, and tourism subsectors remain positive. The planned expansion of activities in the downstream sector into new products (such as petrochemical intermediates and derivatives) will help support growth. The economy is expected to strengthen by 2.7 percent in 2024.

[1] The scheduled maintenance was completed by the end of March 2023.

Figure 2. Real GDP (Expenditure Side)



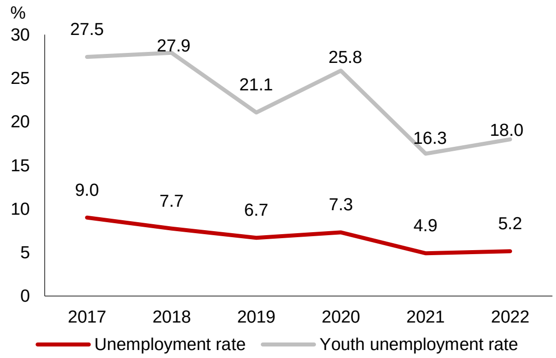
Source: DEPS; AMRO staff calculations

4. While the labor market is generally stable, some sectors are facing tight labor market conditions. As of end-2022, the number of migrant workers remained 18 percent below the 2019 pre-pandemic levels, while the corresponding local employment surged by 4 percent as local workers filled some of the positions vacated by migrant workers. In some sectors such as accommodation/food services, wholesale/retail trade, and construction,[2] labor market conditions remain tight, given the dependency on migrant workers. Encouragingly, the number of returning migrant workers continued to improve as reflected in the increased number of foreign worker license applications for clearance letters (Figure 3).[3] Latest data in 2022 showed that the unemployment rate remained stable (at around 5 percent), while youth unemployment rate continued to stay high at below 20 percent (Figure 4). This development reflects mainly the lower level of total employment post-pandemic, particularly in the government sector, manufacturing, and household activities.[4] The one-month ahead reading of the employment sub-index in October 2023 suggests that businesses will continue to hire workers to support their business operations. However, ongoing challenges in re-hiring migrant workers and the high turnover of local employees continue to affect businesses in Brunei, especially those looking to expand their projects.

Figure 3. Foreign Worker License (Applications for Clearance Letter)

Source: Manpower Planning and Employment Council (MPEC)

Figure 4. Unemployment Rates



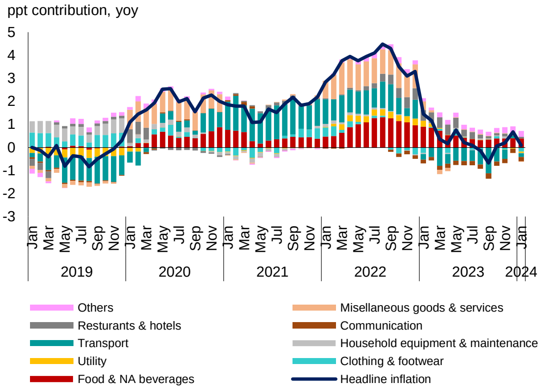
Source: DEPS

5. Headline consumer price inflation has decelerated sharply since early 2023, thanks to lower commodity prices and the normalization of pandemic-induced supply chain

[2] Non-local labor force for accommodation and food services; wholesale and retail trade; and construction sectors declined by 57 percent; 5.2 percent, and 5.1 percent, respectively, in 2022 if compared with 2019 (Source: DEPS; AMRO staff calculations).
[3] The number of clearance letters increased to 171,197 in 2022, representing a growth of 323.4 percent (yoy).
[4] This refers to activities of households as employers of domestic personnel.

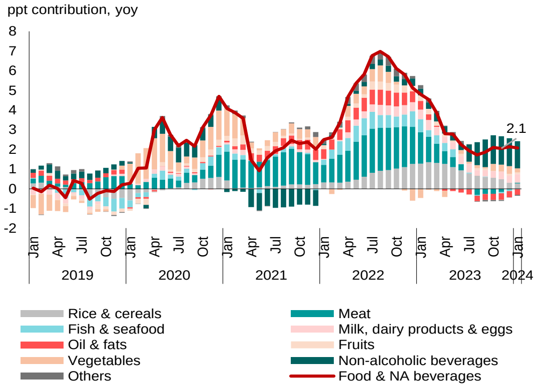
disruptions. Headline inflation decelerated to 0.4 percent in 2023 from 3.7 percent in 2022, reflecting lower prices of food and non-alcoholic beverages, transport, as well as miscellaneous goods and services. However, the subdued headline inflation masked significant sectoral differences in price developments. Food prices, in particular, remained elevated as compared to pre-pandemic levels, driven largely by higher prices of cereals, meat and dairy produce. This has had a direct knock-on effect on prices of feedstocks, translating to sustained cost pressures, especially for businesses in the agriculture, livestock and fisheries sector. Headline inflation is expected to pick up to 1.4 percent in 2024. The risk to inflation is tilted to the upside, after taking into account the effects of the El Niño on food production in the region, which, depending on the severity, could amplify food inflation concerns, given that Brunei is a net food importer.

Figure 5. Consumer Price Inflation



Source: DEPS; AMRO staff calculations
Note: NA = non-alcoholic

Figure 6. Food Inflation



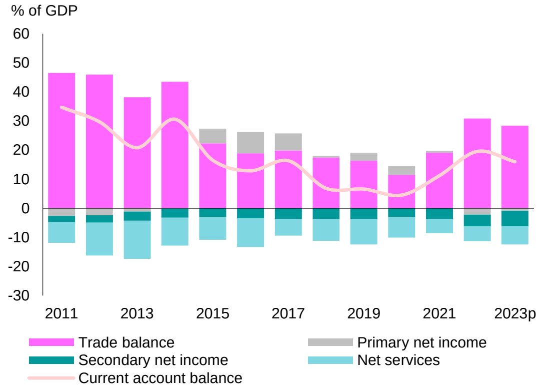
Source: DEPS; AMRO staff calculations
Note: NA = non-alcoholic

External Sector and the Balance of Payments

6. The external position remains strong. The overall balance of payments registered a surplus of 0.5 percent of GDP in 2022, as the surge in the current account surplus (19.6 percent of GDP) helped offset the outflows in the financial account. In 2022, robust external demand and high oil prices helped boost the trade surplus to 30.4 percent of GDP (or USD5.2 billion) – the highest since 2015. The services balance posted a deficit of 5.0 percent of GDP (or USD0.8 billion) on higher demand for imports of transport, travel, and other business services (Figure 7). Notwithstanding the surge in the current account surplus, there were sizable (net) capital outflows amounting to USD2.4 billion (Figure 8). The large capital outflows reflect (i) the reversal of portfolio investment due to the increase in holdings of debt securities by Brunei residents; and (ii) the more than doubling of other investment net outflows (relative to 2021) due to an increase in residents' placement of deposits abroad, as well as larger net payments of loans by residents to non-resident creditors. As a result, gross international reserves increased, albeit slightly to USD5.0 billion in 2022 (equivalent to 6.0 months of imports).

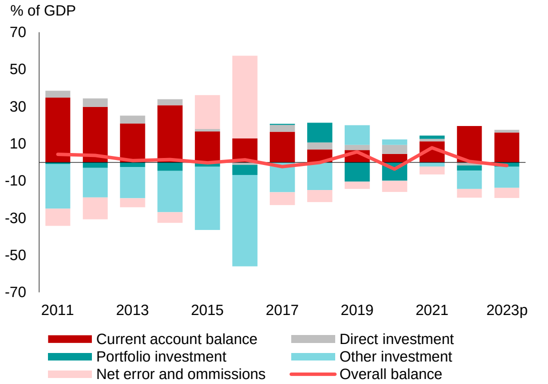
7. The current account surplus is estimated to narrow in 2023, mainly due to the softer outlook in both upstream O&G production and downstream refining sectors. In 2023, exports dropped by 23.1 percent, partly reflecting weaker external demand and disruptions in the upstream O&G production and downstream refinery activities. Imports contracted as well, but to a lesser extent. Accordingly, the trade surplus narrowed to USD3.8 billion in 2023, representing a 27.5-percent decrease from the preceding year. The current account balance is estimated to remain in surplus, albeit narrowing to 16 percent of GDP in 2023. In terms of reserves adequacy, gross international reserves are estimated at around USD5 billion in December 2023, which is equivalent to 5.9 months of imports, or 446 percent of base money.

Figure 7. Current Account Balance



Source: DEPS; AMRO staff calculations
Note: p = AMRO staff projections.

Figure 8. Balance of Payments

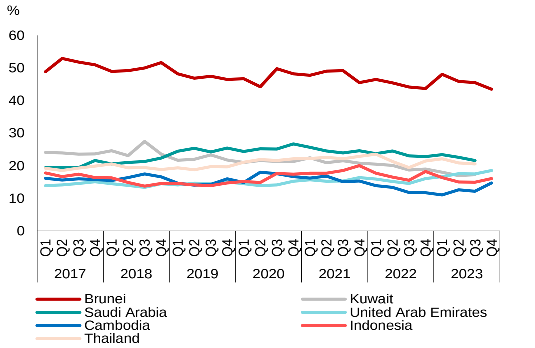


Source: DEPS; AMRO staff calculations
Note: Brunei's BOP follows BPM6. The sign of financial account for the chart is reversed, so the negative value represents net outflow.
p = AMRO staff projections.

Monetary Condition and Financial Sector

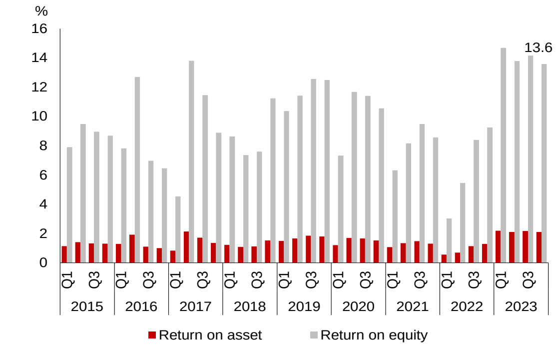
8. The banking sector remains financially sound. Banking institutions remain highly capitalized, with aggregate capital adequacy ratio staying well above minimum regulatory requirements (20.1 percent in 2023). Similarly, liquidity indicators are robust, surpassing those of regional peers,[5] underscoring the continuing excess liquidity of the banking system in Brunei (Figure 9). Despite weaker asset quality trends in the commercial real estate and tourism sectors,[6] overall asset quality has generally improved, with the non-performing loan ratio falling further to 2.6 percent in 2023, which is lower than pre-pandemic levels. Profitability wise, the banking sector has benefited from higher interest income, thanks to the rising interest rate environment (Figure 10).

Figure 9. Liquid Assets to Total Assets (Selected Economies)



Source: Brunei Darussalam Central Bank (BDCB); International Monetary Fund (IMF)

Figure 10. Banking Sector Profitability



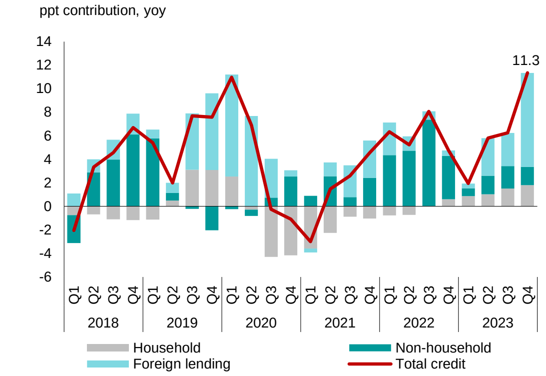
Source: BDCB

9. Credit growth remains robust, supported by both domestic and cross-border financing activities. Total outstanding bank credit expanded by 11.3 percent in 2023 from 4.7 percent in 2022, reflecting the expansion of both domestic and overseas lending activities (Figure 11). Robust growth in the non-O&G sector has buoyed financing demand in the manufacturing, services, and infrastructure sectors (Figure 12). Cross-border bank lending activities have also firmed, mainly in the finance and commercial property sectors.[7] In the

[5] Regional peers refer to ASEAN-5 economies (Indonesia, Malaysia, Philippines, Thailand, and Singapore).
[6] The overall corporate sector recorded the NPL ratio of 3.5 percent in Q3 2023, primarily due to weakness in asset quality in the commercial real estate, agriculture, and tourism sectors. The commercial real estate sector (which includes commercial building and construction) recorded an NPL ratio of 6.4 percent in Q3 2023. Meanwhile, the tourism sector experienced worsening asset quality with NPL of 37.1 percent in Q3 2023, despite some improvements in the previous few quarters.
[7] Cross-border lending/financing by banking institutions accounts for 18.4 percent of total loans in 2023.

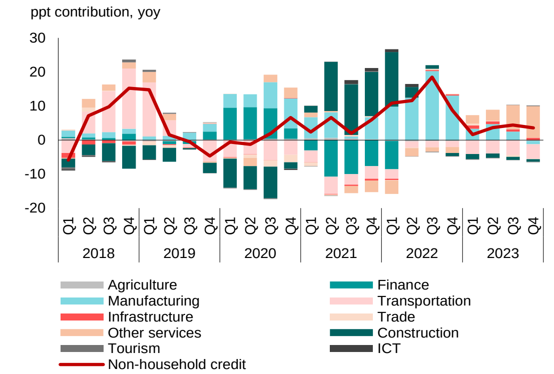
household sector, a gradual recovery is underway, supported by property financing and general consumption loans, both of which account for more than two-thirds of total household loans.

Figure 11. Outstanding Credit Growth



Source: BDCB; AMRO staff calculations

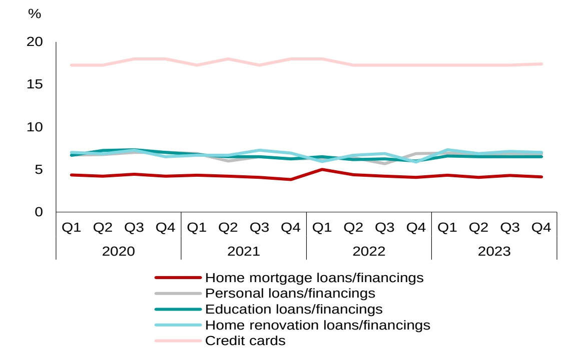
Figure 12. Outstanding Loans to the Corporate Sector



Source: BDCB; AMRO staff calculations

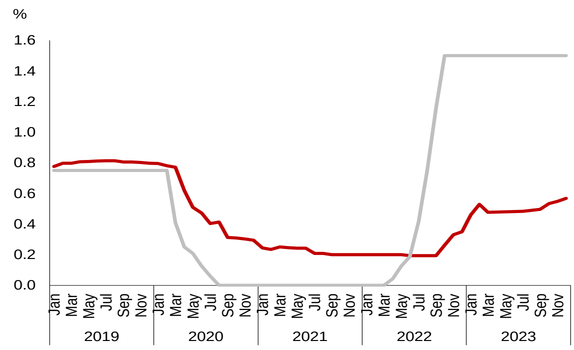
10. Despite the surge in global interest rates, the average bank retail lending and deposit rates have remained largely unchanged. The main source of bank funding is retail deposits, which tend to be stable. So far, despite the surge in global interest rates, the transmission to domestic banks' retail lending and deposit rates has been largely muted, reflecting the ample liquidity (Figures 13, 14). While some financial institutions continue to offer promotional rates to attract and/or maintain deposits, these are limited to certain banks serving institutional clients only.

Figure 13. Average Retail Lending Rates



Source: BDCB; AMRO staff calculations
Note: The retail lending rate by each sector is the average mode rate of each sector from six financial institutions, such as Baiduri Bank, BIBD, Maybank, RHB, Standard Chartered, and TAIB. TAIB = Perbadanan Tabung Amanah Islam Brunei—the first financial institution to conduct all its activities in accordance with Islamic faith.

Figure 14. Average Deposit Rates



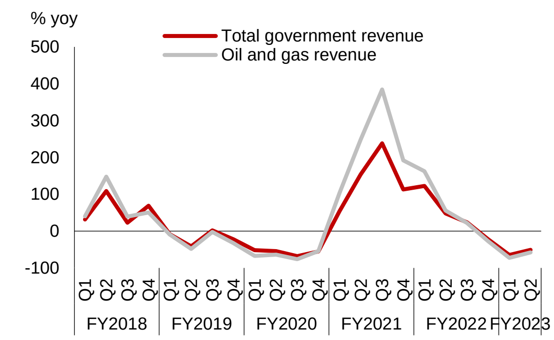
Source: BDCB

Fiscal Sector

11. Fiscal position improved in FY2022, benefiting from higher O&G export receipts amid favorable global energy prices. Brunei registered a better-than-expected fiscal surplus in FY2022, as the spike in energy prices helped offset lower volume of O&G production and exports. Thanks to favorable global energy prices, Brunei recorded a fiscal surplus of 1.3 percent of GDP in FY2022—a reversal from a deficit of 5.2 percent in the preceding fiscal year. The fiscal outturn was better than previously estimated by AMRO staff, as revenue collection surged by 31.6 percent on better receipts from O&G exports. Non-O&G revenue also grew by 6.1 percent, partly reflecting higher tax revenue. Relative to the previous fiscal year, total expenditure grew at a slower pace of 3.4 percent to BND6 billion on lower capital expenditure outlays. This level of (realized) expenditure was 4.9 percent higher as compared to the budgeted expenditure of BND5.7 billion, given the need to undertake additional spending to upkeep/refurbish public facilities that was delayed due to the pandemic.

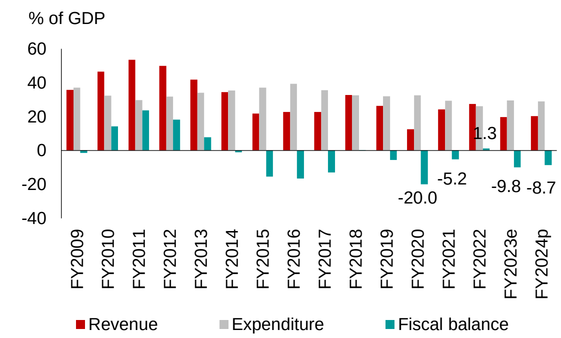
12. Looking ahead, the overall fiscal position in FY2023 is estimated to weaken to a deficit of around 9 percent of GDP, due mainly to lower revenue from O&G export receipts. In the first half of FY2023, fiscal revenue contracted sharply by 58.1 percent (yoy) to BND1.4 billion, as O&G revenue fell by 65.7 percent (yoy) (Figure 15). Given weaker exports from upstream O&G activities, AMRO staff estimate that fiscal revenue is likely to moderate sharply to BND4 billion in FY2023 (or -35.7 percent), while expenditures are estimated to increase slightly to BND6.04 billion due to the expected increase in spending for the remaining projects under the 11th National Development Plan (RKN)—the multiyear national development agenda. As a result, the overall fiscal position is expected to reverse to a deficit of 9.8 percent of GDP in FY2023 (Figure 16). Although remaining ample, Brunei's cumulative fiscal balance[8] has been trending downwards given many years of fiscal deficits since 2013 but has remained relatively stable at around BND20 billion over the past few years.

Figure 15. Revenue Collection



Source: Treasury Department; AMRO staff calculations
Note: p = AMRO staff projections

Figure 16. Fiscal Position



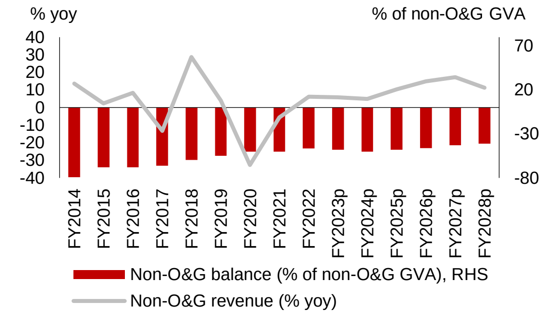
Source: Treasury Department; AMRO staff calculations
Note: e = AMRO staff estimates; p = AMRO staff projections

13. Over the medium term (FY2023-28), non-O&G revenue is projected to improve, stemming from ongoing efforts to diversify revenue sources. While the O&G industry continues to be the biggest contributor to government revenue, the acceleration in the global green energy transition, along with the maturation of the country's O&G fields present key revenue challenges. AMRO staff baseline scenario suggests that the O&G revenue's share of GDP is projected to shrink from 19.7 percent in FY2023 to 18.8 percent in FY2028 (Table 2). In contrast, the non-O&G gas revenue is forecast to grow by 10.8 percent, on average annually, from FY2023 to FY2028, as diversification efforts to reduce the reliance on O&G revenue are accelerated (Figure 17). In particular, from FY2026 onwards, more revenues—in the form of income taxes—are expected from the downstream industry as the tax exemption granted to Hengyi Industries (Phase I) would end in 2025.[9] The authorities have also expanded and/or raised excise taxes for certain goods starting 17 May 2023, which would help to raise non-O&G revenue collection (see Section C). Preliminary estimates by AMRO staff suggest that this would increase the share of non-O&G revenue to non-O&G gross value

[8] Cumulative fiscal balance is AMRO staff estimates by accumulating fiscal balances from FY2003. In FY2013, the cumulative fiscal balance reached a peak of BND32.7 billion.
[9] Classified as a pioneer industry, Hengyi Industries (Phase I) is exempted from the corporate income tax obligation for 11 years from 2014 to 2025. After the end of the tax holiday, Hengyi Industries will be required to pay the corporate income tax of 18.5 percent and share its dividend with the government, which has a 30-percent stake.

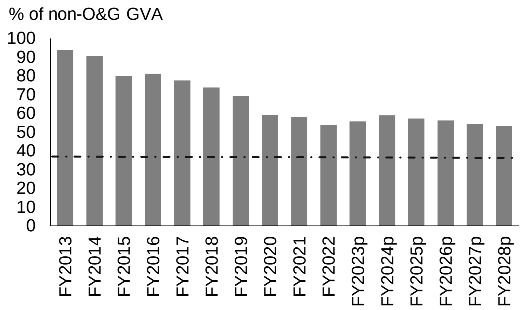
added (GVA) ratio by around four percentage points, i.e., from 7.9 percent in FY2023 to 12.2 percent by the end of FY2028.[10]

Figure 17. Medium-term Outlook for Non-O&G Revenue



Source: Treasury Department; AMRO staff calculations
Note: GVA = gross value added; e = AMRO staff estimate, p = AMRO staff projection

Figure 18. Medium-Term Outlook for Expenditure



Source: Treasury Department; AMRO staff calculations
Note: e = AMRO staff estimate, p = AMRO staff projection

Table 2. Fiscal Position Outlook

	FY2021	FY2022	FY2023e	FY2024p	FY2025p	FY2026p	FY2027p	FY2028p
				(in millions of BND)				
Government revenue	4,768	6,272	4,029	4,273	4,277	4,353	4,473	4,518
O&G revenue	*4,004*	*5,462*	*3,172*	*3,373*	*3,284*	*3,212*	*3,134*	*3,027*
Government expenditure	5,780	5,977	6,039	6,100	6,191	6,284	6,378	6,474
Budget balance	-1,013	295	-2,010	-1,827	-1,914	-1,931	-1,905	-1,956
				(in percent of GDP)				
Government revenue	24.3	27.4	19.7	20.3	19.6	19.4	19.2	18.8
O&G revenue	*20.4*	*23.9*	*15.5*	*16.0*	*15.0*	*14.3*	*13.4*	*12.6*
Government expenditure	29.4	26.1	29.5	29.0	28.3	28.0	27.4	26.9
Budget balance	-5.2	1.3	-9.8	-8.7	-8.8	-8.6	-8.2	-8.1
Memorandum items								
Nominal GDP (in millions of BND)	19,654	22,882	20,468	21,036	21,853	22,470	23,316	24,078
Non-O&G GVA (in millions of BND)	9,990	11,108	10,838	10,339	10,828	11,169	11,723	12,188
Non-O&G balance (% of non-O&G GVA)	-50.2	-46.5	-47.8	-50.3	-48.0	-46.0	-43.0	-40.9

Source: Treasury Department; AMRO staff calculations
Note: Assumptions for oil price: FY2023 (83 USD/barrel), FY2024 and FY2025 average (USD75-80/barrel), FY2026 onwards (≈75). Assumptions for oil production: FY2023 (91 kbpd); FY2024 and FY2025 (99 kbpd); FY2026 onward (≈ 107 kbpd); Assumptions for LNG production: FY2023 (709,636 MMBtu/day); FY2024 and FY2025 (756,421 MMBtu/day); FY2026 onward (≈897,668 MMBtu/day);
e = AMRO staff estimates; p = AMRO staff projection

14. On the expenditure side, the expenditure-to-non-O&G GVA ratio is expected to remain stable over the medium term, reflecting the commitment by the authorities to maintain a prudent expenditure. In the absence of a medium-term budget framework, the authorities remained guided by the fiscal consolidation program (FCP), which amongst others, is aimed at restructuring of public expenditures to achieve cost savings (such as trimming or rationalizing spending), as well as to achieve productivity gains through greater efficiency (such as via corporatization and privatization initiatives).[11] This would help to free up resources to finance priority spending, particularly those identified under the Wawasan Brunei 2035 (or Brunei Vision 2035) and climate change commitments. AMRO staff estimates suggest that the medium-term expenditure is expected to be stable, averaging around 50 percent of non-O&G GDP in FY2023-28 (Figure 18).[12] This reflects the intention by the authorities to contain current expenditures (particularly public sector wages)[13] while maintaining a steady level of

[10] In a resource-rich country such as Brunei, where a significant portion of the economy is driven by O&G revenue, the non-O&G GVA is often used as a denominator for comparative analysis, given its relative stability as compared to headline GDP. It provides a more nuanced understanding of the economic dynamics in resource-rich countries and helps guide policy decisions aimed at achieving long-term sustainable development (Box A).
[11] The FCP also aims to generate revenue, such as through a review of fees and charges, as well as revenue diversification. Some of the recent initiatives which have been implemented are the conveyance loan for government employees, revised water tariff and royalties' rate, as well as One Common Billing System.
[12] Non-O&G GDP is used as the denominator, as this is relatively more stable as compared to total value-added GDP which is affected by wide fluctuations in O&G value-added.
[13] Any request for new posts from line departments are now being vetted by a special committee under the Public Service Department, underscoring the commitment by the authorities to contain the fiscal burden from public wages.

development expenditures crucial for meeting national development objectives (Table 2)—both of which would help to contribute to better predictability of fiscal policy (see Section C).[14] Figure 17 shows that based on the projected revenue and expenditures, the non-O&G fiscal balance is projected to improve to a deficit of 40.9 percent of non-O&G GVA at the end of FY2028 from 47.8 percent in FY2023).

15. Several initiatives have been planned and/or implemented to enhance spending efficiency. To promote the efficiency of resource allocation, the government remains committed to the implementation of projects that support the FCP. Key projects currently in the pipeline include the corporatization of government rice mills, review of government housing rental policy, merging of three municipal boards into a statutory board to increase governance efficiency, and the consolidation of cleaning services under various departments/ ministries.

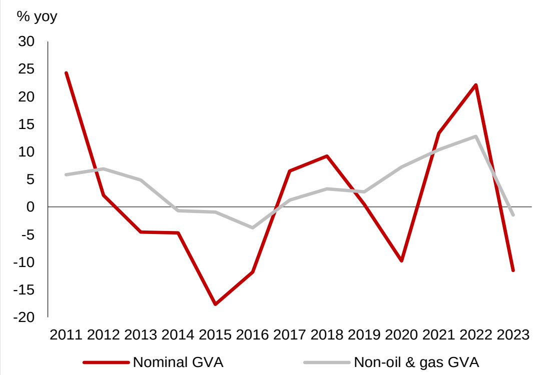
Box A. Understanding Non-O&G Dynamics in Resource-Rich Countries[15]

In resource-rich countries, such as Brunei, where a significant portion of the economy is driven by O&G revenue, it is common to use the non-O&G gross value-added (GVA)[16] as the denominator for various economic indicators, including in the fiscal sector, for a more nuanced understanding of the underlying economic dynamics in the non-O&G sector (IMF, 2023). The concept is used to satisfy several objectives:

- **Diversification Goals**: Resource-rich countries often aim to diversify their economies away from heavy reliance on O&G revenues. Using non-O&G GVA as a denominator provides a clearer picture of the performance of non-O&G sectors relative to the overall economy. This approach also highlights the importance of economic diversification efforts and allows policymakers to track progress in reducing dependence on O&G.
- **Comparative Analysis**: Using non-O&G GVA as a denominator enables policymakers to compare the performance of non-O&G sectors across different time periods or with other countries more effectively. This comparative analysis helps in assessing the competitiveness and growth potential of non-resource sectors relative to the rest of the economy or other economies.
- **Policy Prioritization**: Focusing on non-oil and gas GVA also allows policymakers to prioritize policies and investments aimed at promoting growth and development in non-resource sectors. It helps in directing resources towards sectors such as manufacturing, services, and agriculture, which can contribute to economic diversification, job creation, and sustainable growth.
- **Stability and Resilience**: In fiscal analysis, by measuring non-O&G revenue relative to non-O&G GVA, policymakers can assess the extent to which the economy is becoming less (or more) vulnerable to volatility in commodity markets. This is because the non-O&G GVA—in terms of annual change—tends to be more stable compared to total GVA, which is affected by wide fluctuations in commodity prices (Figure A1). Similarly, the overall fiscal position tends to be distorted as total revenue performance can vary significantly in tandem with commodity price swings.[17] Figure A2 shows that by stripping out the volatile O&G revenue component, the resulting non-O&G fiscal balance showed greater stability. This can serve as essential inputs for fiscal sustainability analysis in the longer term.[18]

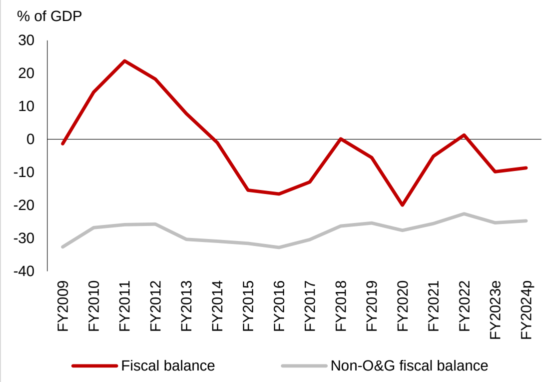
[14] It is assumed that a sum of BND300 million is earmarked for development expenditures annually from FY2023-28.
[15] Prepared by Anthony Tan (Mission Chief) and Vanne Khut (Economist).
[16] Or total gross domestic product.
[17] Source: IMF
[18] Source: IMF

Figure A1. Brunei's Gross Value-Added (GVA): Total GVA vs Non-O&G GVA



Source: DEPS; AMRO staff calculations

Figure A2. Brunei's Fiscal Position: Overall Balance vs Non-O&G Balance



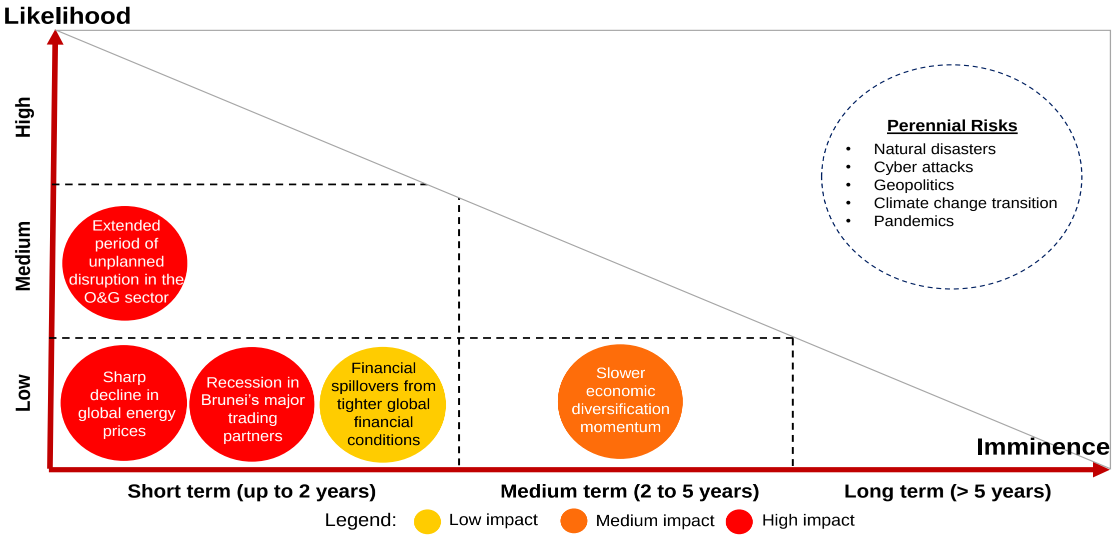
Source: Treasury Department; DEPS; AMRO staff calculations

B. Risks, Vulnerabilities and Challenges

Near-term Risks to the Macro Outlook

16. In the near-term, the risks/challenges confronting Brunei are largely unchanged, which are mainly externally driven (Figure 19)**.** A sharp decline in global energy prices and a recession in Brunei's major trading partners are deemed as tail risks—low probability high impact events- that would derail Brunei's growth prospects, strain the external balance and weaken the fiscal position. Tighter global financial conditions due to higher for longer global interest rates could potentially trigger a credit event and/or heightened risk aversion, with regional spillovers, potentially impacting the financial soundness of domestic financial institutions which have significant exposure to market risks.[19] Domestic idiosyncratic risk includes an extended period of weakness in O&G production, stemming from unplanned disruptions due to ongoing challenges in O&G rejuvenation, posing a drag on growth.

Figure 19. Country Risk Map



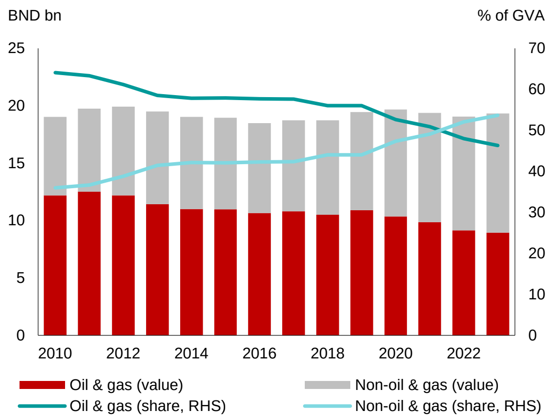
Source: AMRO staff assessment

[19] As of 2022, 52 percent of the banking sector assets were invested abroad in the form of offshore investments or placements with financial institutions abroad.

Medium-term Risks to the Macro Outlook

17. In the medium-term, sustaining the pace of economic diversification is no doubt challenging, particularly amid a less amenable global environment. While the country has invested substantial resources into diversifying the economy, the share of the upstream O&G sector remains sizeable, making up 46.3 percent of GDP in 2023, while the non-O&G (including the downstream oil refining) sector constituted around 53.7 percent (Figure 20). The post-pandemic new normal brings forth new challenges to economic diversification, as sectors that were disproportionately affected by the pandemic may no longer be as dynamic and promising, reflecting the scarring effects. Moreover, supply chain resilience has become a top priority in most FDI projects, calling for the reexamination of diversification strategies.

Figure 20. Share of O&G and Non-O&G in Real GVA



Source: DEPS; AMRO staff calculations

Longer-term Challenges and Vulnerabilities

18. Over the longer term, the challenge is to accelerate the transformation of the Brunei's economy towards one that is less carbon-intensive, while nurturing new and emerging growth areas to safeguard economic prosperity. At present, the O&G sector and hydrocarbon revenues are critical to Brunei's ability to maintain its current high standards of living. However, as the world transitions from hydrocarbon to renewable energy, Brunei is at risk of losing its main source of export revenue, leading to a stepdown in its standard of living, which underscores the urgency to accelerate economic diversification to foster new and emerging industries that are less dependent on fossil fuels. Such urgency is premised on the notion that the demand for fossil fuels is expected to undergo a permanent structural decline reflecting a shift in consumer and business spending towards low-carbon markets and products. As a result, the renewable energy transition and low-carbon investments are bound to accelerate.

C. Policy Discussions and Recommendations

Fiscal Policy

19. Even though Brunei has benefited significantly from favorable global energy prices, the government remains prudent in expenditure management. Despite the revenue windfall from recent high global energy prices, total government expenditure continues to be largely stable at around BND6 billion—a level that has been maintained since 2015. The same trend can be observed in FY2023, when the government tabled a BND5.96 billion budget, which is similar in size to the previous year's realized expenditure of BND5.97 billion. Despite the size of the budgeted expenditure in FY2023 being slightly larger than the previous year's budget, it is still assessed to be relatively prudent (See Table 2).

20. On the revenue side, the authorities continue to take incremental steps to bolster revenue collection, given that discussions on the appropriate design and implementation of major tax reforms are still ongoing. While the government recognizes the need to broaden and diversify sources of revenue, there are no immediate plans to implement major tax reforms considering that the economy has yet to fully recover, and inflation remains a key concern. However, the government has recently made some amendments on the customs import and excise duties of 25 types of imported goods,[20] effective from 17 May 2023. In particular, the excise tax levied on motorcycles[21] has been raised from 20 percent to 30 percent (35 percent for motorcycles with a capacity exceeding 800 cc). While AMRO staff support these initiatives, authorities are encouraged to gradually broaden the tax base and/or diversify revenue sources in order to reduce the economy's dependence on O&G revenue which is not only volatile but appears to be trending down. For example, the broadening of environmental tax (such as waste and landfill taxes) and the introduction of value-added, property and carbon taxes could be viable options. In this context, the government is applauded for having invested its excess fiscal savings abroad through the sovereign wealth fund (Brunei Investment Agency – BIA) which could be a significant source of investment income for the economy as in the case of other oil-rich economies in the Gulf region, when the O&G reserves are depleted.

Authorities' Views

21. ***The amendments to import and excise duties are expected to increase revenue collection during the first two years of implementation but reduce the revenue after the second year of implementation.*** *Amongst the key motivations for the amendments are to improve the well-being of the people; to save energy and to reduce Brunei's carbon footprint; and to reduce prices of some consumer goods.[22] In order to minimize the impact of some products on health and environment, i.e., plastics,[23] e-cigarette liquid or gel, sweetened or flavored beverages, and motorcycles,[24] selective import/excise duties have been raised. However, this will lead to lower imports of such products given due to higher prices, leading to a reduction in revenue collection, particularly from the second year of the implementation.*

22. ***The broadening of environmental tax (such as waste and landfill taxes) and the introduction of value-added, property and appropriate carbon pricing mechanisms are still subject to feasibility study.*** As per the Brunei Darussalam National Climate Change Policy (BNCCP), carbon taxes will be primarily utilized to accelerate the reduction of industrial greenhouse gas (GHG) emissions.

23. ***The government seeks to provide temporary support to the private sector affected by the tax amendments to ensure their smooth transition****. While changes in excise duty*

[20] These include sweetened beverages, e-cigarette liquid or gel, essential oils and resinoids, plastic products, leather and travel goods, textiles articles, motor vehicles, unmanned aircraft, and so forth. The authorities estimate a 30-percent increase in revenue collection from the import of plastic products after the amendment of duties.
[21] These refer to motorcycles (including mopeds) and cycles fitted with an auxiliary motor, completely built up.
[22] Other key objectives are to streamline the tariff structure with 8-digits Harmonized System (HS) code in the ASEAN Harmonized Tariff Nomenclature (AHTN) 2022, to strengthen the competitiveness of domestic business and investment climate, and to fulfill international obligations under free trade agreements (Source: MOFE).
[23] The authorities estimated a 21-percent reduction in the import value of plastics from BND6.1 million in FY2022 to BND4.8 million in FY2023. However, for the first year of the implementation of the tax amendments, revenue collection from plastics imports is estimated to increase 30 percent in FY2023 to BND238,000.
[24] The increase in excise duties for motorcycles—aimed at reducing the carbon footprint—will lead to lower consumption of motorcycles and hence reduce revenue collection.

of plastic products have affected importers, plastic manufacturing industries/businesses, and consumers, the MOFE has also implemented a temporary remit of excise duty from BND5/kg to just 5 percent (effective 17 May 2023) to ease the adjustment process.

24. While preserving public welfare and supporting the economic recovery remains amongst key spending priorities in the short-term, policymakers would also need to address longer-term sustainability challenges. The largest share of the budget allocation continues to be allocated to preserving public welfare, which is appropriate as the economy has just emerged from the pandemic, and growth remains uneven. Over the longer-term however, given the commitment to achieve the Wawasan Brunei 2035, the spending priorities should also address longer-term sustainability challenges. In this context, it is essential for the authorities to invest in processes (such as data and information systems) and/or mechanisms (such as means testing) to allow better targeting of spending, which would in turn facilitate a more systematic assessment of the optimal size of future welfare spending needs.[25] The authorities' ongoing efforts on subsidy data consolidation through Treasury Accounting and Financial Information System 2.0 (TAFIS 2.0), expected to be rolled out in FY2024, are welcomed.

25. To anchor longer-term fiscal sustainability, it is necessary to undertake a proper sequencing of policy priorities, while ensuring that implementation capacities are in place.

- **First, the development of a strong public financial management (PFM) system and best practices should be prioritized, while enhancing transparency**. A well-functioning PFM is a prerequisite for the adoption of strong and credible medium-term fiscal (MTFF) and expenditure frameworks (MTEF). The adoption of such frameworks would not only enhance resource allocation, i.e., aligning longer-term strategic spending plans with the required financing, but also enable the authorities to better track the progress of achieving medium-to longer-term fiscal objectives, while promoting transparency. In this context, AMRO staff commend the authorities' ongoing efforts to develop Charts of Accounts (COA), expected to be finalized by FY2024. The COA[26] will play an important role in fiscal policy planning and management. A prerequisite for the MTFF/MTEF is the ability on the part of the authorities to produce robust and realistic macro-fiscal forecasts, as well as to undertake robust budget execution, accounting, and reporting. This would in turn enhance the monitoring of fiscal risks, which would help foster efficient use of public funds,[27] while building support for prudent fiscal policies. AMRO staff note that the Budget Division has benefited from technical assistance on PFM, which helps pave the way for the implementation of several key reforms to strengthen overall fiscal management.

- **Second, once adequate PFM systems have been established, the authorities can consider adopting fiscal rules—one that takes into account Brunei's unique characteristics**. Fiscal rules, such as some numerical constraints (or targets) on certain spending and/or budget balances will strengthen fiscal discipline through enhanced accountability and transparency. For example, multiyear climate action plans could benefit from greater clarity with respect to near-term resource allocation

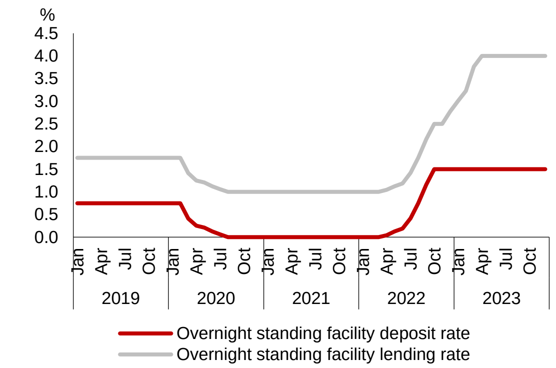
[25] AMRO staff welcomes the reforms to the National Retirement Scheme (SPK), which has been implemented since July 2023.
[26] The COA conforms to the Generally Accepted Accounting Principles and Government Financial Statistics. The COA provides details of line items under revenue and expenditure, thereby allowing for better fiscal analysis and management.
[27] Activities governing fiscal management, including transparent management, clear rules, and strategies to utilize resources from extrabudgetary fund (including the sovereign wealth fund) are encouraged.

(or target spending) as well as sources of funding. This would promote greater predictability when it comes to development spending needs, avoiding expenditures being executed in a "stop-go" manner.[28] Alternatively, establishing a dedicated fund to address part of climate change spending needs could be a plausible option.

Monetary Policy

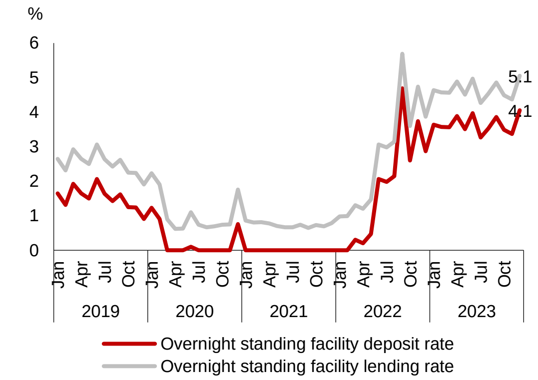
26. Notwithstanding the sharp increase in global interest rates, monetary condition in Brunei remains relatively accommodative given ample liquidity, which helps to support lending and economic activities. The BDCB's standing facility lending rate has been raised from 2.5 percent in September 2022 to 4 percent in December 2023, while the BDCB's standing facility deposit rate has been maintained at 1.5 percent (Figure 21). The prevailing level of interest rates is therefore appropriate, partly reflecting corresponding interest rate developments in Singapore (Figure 22).[29] However, unlike in Singapore, the transmission to retail bank lending and deposit rates has been largely muted in Brunei, reflecting the ample liquidity in the banking system. As a result, monetary conditions in Brunei are assessed to be relatively accommodative, which helps to support economic activities.

Figure 21. Brunei: Overnight Standing Facility Rates



Source: BDCB

Figure 22. Singapore: Overnight Standing Facility Rates



Source: Monetary Authority of Singapore

27. Careful consideration should be taken to further strengthen the alignment of policy rates vis-à-vis Singapore's interest rates. As the fight against inflation is not over yet, it is crucial to keep a close tab on global and regional inflation developments, which underpin the monetary policy settings in major economies. Given the upside risks to global food prices—reflecting geopolitical risks, changing weather pattern (El Niño) and the potential imposition of export restrictions of certain food items in some economies (e.g., restrictions of rice exports))—further aligning domestic policy interest rates, with those of Singapore would help ensure the optimal pricing of risks, while minimizing arbitrage opportunities.

28. The Currency Interchangeability Agreement (CIA) with Singapore along with administered prices and subsidies remain appropriate in fostering price stability. As a small open economy relying mostly on imports, Brunei has benefited from the currency board arrangement and the CIA with Singapore, which have helped to mitigate imported inflation. Together with administrative prices and subsidies, these institutional arrangements have played

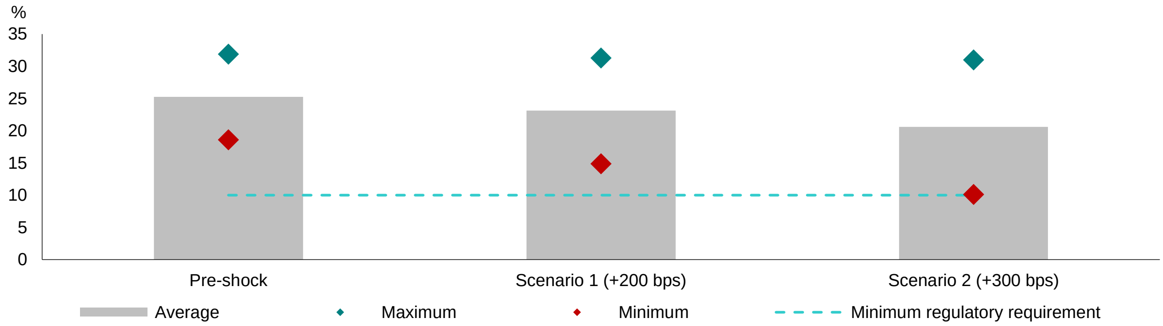
[28] AMRO staff noted that for FY2023, BND500 million has been budgeted for development expenditure, which is 42.9 percent higher than last year's budget, mainly due to the extension of RKN11 projects for another year. Subject to implementation capacity, the ramp-up in development expenditure would help support economic activities, while fostering future growth potential.
[29] The standing facility rates in Brunei do not necessarily respond in a lock step manner with the Singapore's interest rate developments, partly reflecting several developments, including sovereign risk, counterparty risk, views from the BDCB's monetary policy committee.

a key role in containing and anchoring inflation, given more frequent volatility shocks in the external environment.

Financial Policy

29. Given the continuing uncertainties in the global economy, it would be prudent for the authorities to strengthen their surveillance and risk monitoring. Large holdings of debt securities could subject banks to the potential risks from changes in bond yields due to marked-to-market losses, exposing bank balance sheets to valuation losses.[30] In Brunei, the banking sector's exposure to interest rate risks is assessed to be relatively low, as a large proportion of debt securities are held to maturity in banking book. This is corroborated by AMRO's stress test results, which showed that banks would have sufficient capital under stressed scenarios (Figure 23).[31] Similarly, exchange rate and counterparty risks are assessed to be low, given that most banks' placements of excess liquidity abroad are in Singapore dollar with highly rated counterparty. It would be prudent for the regulators to keep a close tab on banks' management of market risks, given elevated global uncertainties.

Figure 23. Stress Testing of Banks' Capital Adequacy Ratios (CAR) under Different Risk Scenarios



Source: Financial statements of Brunei's top four commercial banks; AMRO staff estimates
Note: Results are based on AMRO staff stress test exercise to assess the impact of higher bond yield—from shifts in global interest rates—on the capital position of Brunei's banking sector. The stress test comprises top four banks and considers two adverse scenarios; (Scenario 1): +200 bps, reflecting the upward shift in Singapore's interest rate from January–June 2022; (Scenario 2): +300 bps, reflecting the upward shift in Singapore's interest rate from January—December 2022. Rising interest rates affect only the price of bonds/sukuks in trading and available-for-sale portfolio of banks. The stress test results showed that prior to the shocks, total CAR of banks under this stress test exercise ranged between 18.6 percent and 31.9 percent, compared to the regulatory minimum of 10 percent. However, under stress Scenarios 1 and 2, banks' capital adequacy ratio would fall, with the lowest CAR at 17.3 percent and 10.1 percent, respectively. The results suggest that Brunei banks would continue to remain resilient under both shock scenarios. The latest financial statements used for the estimates are as of 2022.

30. Proactive steps to enhance regulatory frameworks are timely and welcomed. AMRO staff welcome the planned implementation of the liquidity risks management guidelines and the liquidity coverage framework, which will help bolster banking system resilience. To ensure a smooth transition and successful implementation, the following policy recommendations are proposed:

a) **Gradual implementation:** Given the positive response from the industry and the need for banks to adjust their balance sheets and manage potential impacts on the cost of funding, it is recommended that the BDCB proceeds with the planned gradual implementation. The effective date of 1 July 2024 allows ample time for banks to prepare and make necessary adjustments.

[30] When bond yields rise in tandem with changes in global interest rates, the value of debt securities falls. Banks will incur losses on the segment of debt securities holdings that are subject to mark-to-market valuations, namely securities held in the trading and available-for-sale portfolios. If large enough, these mark-to-market losses can have an impact on banks' capital positions.
[31] This is consistent with BDCB's bank stress test result, where even in a scenario where interest rate surged by 200 bps, banks remain resilient and will continue to have adequate capital and liquidity to support their activities.

b) **Proportional application:** Recognizing the diversity in the size and complexity of financial institutions, the BDCB should maintain a proportionate approach[32] to the application of the LRM Guidelines and LCR framework. Tailoring the requirements to the specific characteristics of each institution ensures that smaller banks do not face undue compliance burdens.

c) **Consultation process:** To address the intricacies of the LCR components and facilitate effective industry readiness, the BDCB should continue its multiple rounds of industry consultation. This approach allows for feedback and refinement, ensuring that the framework aligns with the domestic banking industry's unique needs and complexities.

d) **Domestic context:** Considering the potential need for adjustment of the international LCR framework to reflect the domestic banking industry's complexity, the BDCB should actively engage with international regulatory bodies to advocate for necessary adjustments. Ensuring that the framework aligns with the local context is crucial for its effectiveness.

e) **Capacity building:** The BDCB should also invest in capacity building and provide guidance and support to banks during the implementation phase. This may include training programs, workshops, and access to resources that help banks meet the new liquidity risk management requirements effectively.

Structural Policy and Sustainable Development

31. Even though COVID-19 pandemic has receded, it is crucial to address the potential scarring effects of the pandemic to ensure that the progress to foster new domestic growth engines is not impeded. At present, the pace of economic diversification appears to be uneven, with much more notable developments in the downstream activities.[33] While commendable progress has been observed in the food manufacturing as well as in the ICT sector (see Box A),[34] there is room to accelerate the progress in other priority sectors—notably the tourism and services sectors. Annex 1 discusses recent developments of the tourism sector and the challenges ahead, drawing on the experience of GCC countries. The challenges faced by the tourism and services sectors partly reflect the reality of the post-pandemic new normal, where these contact-intensive sectors have been disproportionately affected and will take some time to recover, and Brunei is no exception. In this context, it is crucial to address the potential scarring effects caused by the pandemic, such as in the labor market, to ensure that the development of these growth engines in Brunei would not be impeded by domestic capacity constraints, e.g., the inability of the labor force to respond to the changing needs of the industry.

[32] "Proportional application" refers to the practice of adjusting or tailoring the implementation of guidelines and frameworks based on the size and complexity of financial institutions. The intention is to acknowledge and accommodate the diversity among different institutions and ensure that regulatory requirements are applied in a manner that is proportionate to the characteristics of each institution. This approach aims to prevent smaller banks from facing excessive compliance burdens that might be more appropriately suited for larger and more complex financial institutions.

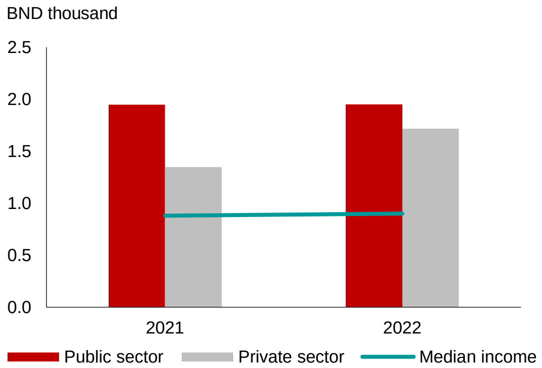
[33] Hengyi Industries (Phase II) remains the country's biggest FDI project to date and is expected to commence operation in 2029, although the scale of expansion is currently scaled down to USD9 billion (from USD13.7 billion initially), in pursuit of environmental sustainability and energy efficiency.

[34] Brunei's first cooking oil has been locally produced since end-July, after the commencement of operation of the country's largest multipurpose processing facility called "Brunei Food Industry Development Multipurpose Processing Facility (BFID)." In the ICT sector, good progress has been made to enable the expansion of economic activities. Key initiatives include the establishment of startups ecosystems and fostering digital innovation; digital skills developments; digital payment and fintech developments; cybersecurity and data protection; as well as digital infrastructure and connectivity developments.

32. In the labor market, the post-pandemic new normal is characterized by greater innovation and more disruptive technology, calling for the workforce to be equipped with the right skills to meet changing industry demand. Rapid technological advancement is having a fundamental impact on the world of work. Technological advancements, particularly in automation and artificial intelligence, are leading to the automation of routine and repetitive tasks. This, in turn, is redefining job roles and the skills required for various professions. It is crucial for Brunei's workforce to be technologically work-ready, by taking advantage of the learning, training, and reskilling opportunities in knowledge-based industries, as these will be the key drivers of competitiveness. AMRO staff welcomes the various new initiatives undertaken by the government to foster a skilled and adaptive workforce.

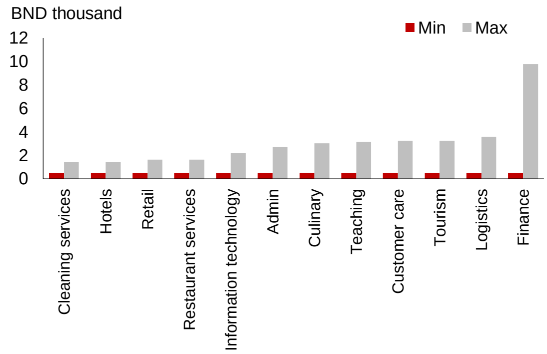
33. While the gap between public and private sector wages has narrowed (Figure 24)**, the public sector[35] remains the most attractive employer, posing challenges for the private sector to compete for labor**. The appeal of well-paying public sector jobs and concerns about career progression in the private sector continue to pose challenges to the private sector in recruiting local workforce. Encouragingly, the introduction of the Salary Guideline[36] for the private sector is a step in the right direction, as the Salary Guideline maps the career pathways by profession, especially for local youths seeking entry into the private sector job market (Figure 25). This will also help to incentivize youth employment. AMRO staff also support the introduction of the Employment (Minimum Wage) Order 2023, implemented in phases, effective 12 July 2023, which will help establish a baseline wage and protect workers against unduly low pay.[37] Another commendable effort is the development of the Manpower Blueprint, with the objective of aligning education, training, and manpower policies with strategic direction to ensure effective manpower planning.

Figure 24. Public and Private Sector Wages



Source: DEPS

Figure 25. Salary Guideline for the Private Sector



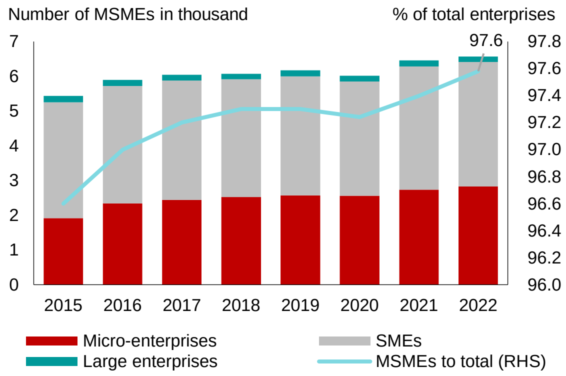
Source: MPEC
Note: The Salary Guideline is being updated to reflect the minimum wage set in the Employment (Minimum Wage) Order 2023, starting from BND500.

34. Further enhancing financial access and capacity building of MSMEs can go a long way to foster private sector developments and enhance productivity gains. As of 2022, MSMEs made up about 97.6 percent of total enterprises in Brunei, and accounting for around 57.2 percent of total employment (Figures 26, 27). These MSMEs can benefit from greater financial support, given their significant contribution to employment and growth. While access to bank financing by MSMEs is a major challenge, partly due MSMEs' low eligibility for bank loans given the lack of financial track record, the authorities can consider further expanding

[35] Or government-linked companies with large public sector presence.
[36] The Salary Guideline for the private sector was introduced on 22 February 2023.
[37] The new minimum wage policy is applied to all industries and being implemented in several phases, where the minimum monthly salary for workers is set at BND500 and BND2.62 per hour for part-time workers, applied to both local and foreign workers. Phase I starts with the banking, finance, and ICT sectors. The minimum wage for other sectors will be announced later.

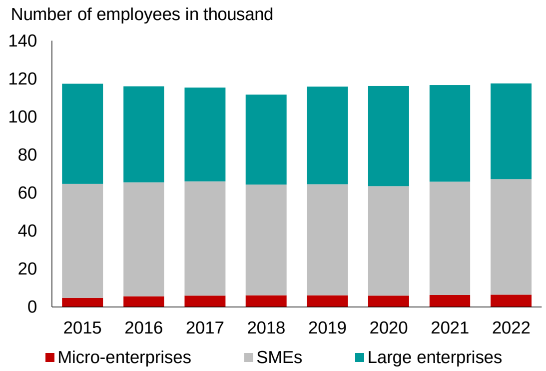
the roles of Bank Usahawan and Darussalam Enterprise (DARe) by stepping up funding availability and technical assistance for viable MSMEs. To incentivize lending to MSMEs by commercial banks, the government can consider establishing a credit guarantee scheme, mirroring developments in other ASEAN peers. Besides funding, efforts to further strengthen capacity building (including technology adoption) of MSMEs through Public–Private Partnerships (PPP) can be another viable strategy in promoting private sector development.[38] PPP projects—led by DARe, such as Brunei Food Industry Development, the Brunei Innovation Lab and the Brunei MSME Festival are steps in the right direction.

Figure 26. Number of MSMEs



Source: DEPS; AMRO staff calculations

Figure 27. Employment by Enterprises



Source: DEPS

35. The ICT sector, which has benefited from supportive government policies, plays a key role in spurring Brunei's transformation into a digital smart nation economy. The ICT sector's current contribution to Brunei's GDP is approximately 2 percent and is targeted to increase to 3.2 percent by 2025. To realize this objective, the government has formulated strategies and provided incentives to attract FDI into the ICT sector, which are closely aligned with the Digital Economy Masterplan 2025. The establishment of the *Digital for All* program, starting in November 2022, will help enhance digital capacity development and increase digital adoption to enhance the country's labor productivity. Other notable initiatives include a pilot project "Coding with Smart Devices" launched in April 2023, and the roll-out of 5G in late June 2023. These policies are timely and would help spur Brunei's transformation to a Smart Nation. Notwithstanding such positive developments, challenges remain, including the slower pace of digital adoption by MSMEs and continuing strong reliance of the ICT sector on government's demand for the provision of e-services (Box B). In this regard, stronger efforts are warranted to strengthen the integration of digital innovation into MSMEs' core operations to reduce costs and to improve their productivity. Active engagement with MSMEs and fostering greater awareness of the promise of digitalization would help to alleviate the anxiety in digital adoption by MSMEs.

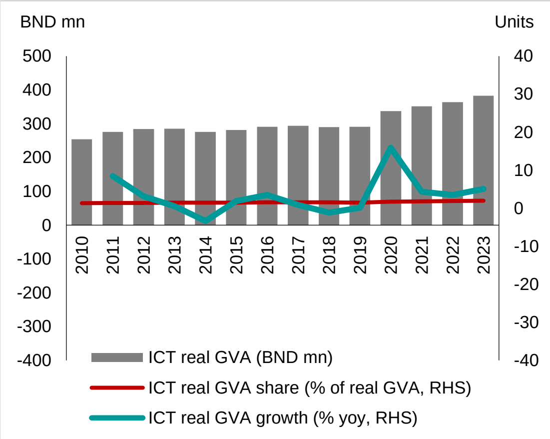
Box B. Harnessing the Promise of Digitalization to Foster a Resilient and Sustainable Economy[39]

The COVID-19 pandemic has accelerated the digital adoption in Brunei. Brunei's ICT sector value-added grew significantly by 15.9 percent (yoy) in 2020, when the first wave of COVID-19 hit the Sultanate. Stringent containment measures, including the closure of schools, public and commercial areas have spurred digital innovation by necessitating a rapid shift toward remote work, online education, and virtual commerce, fostering the adoption of advanced technologies and digital

[38] PPPs are a global public finance phenomenon which gained international prominence in last three decades. As part of 'Wawasan Brunei 2035', the Brunei Economic Development Board (BEDB) expressed the country's commitment to creating PPPs as a means of developing and maintaining world-class facilities in the country.
[39] Prepared by Vanne Khut, Economist.

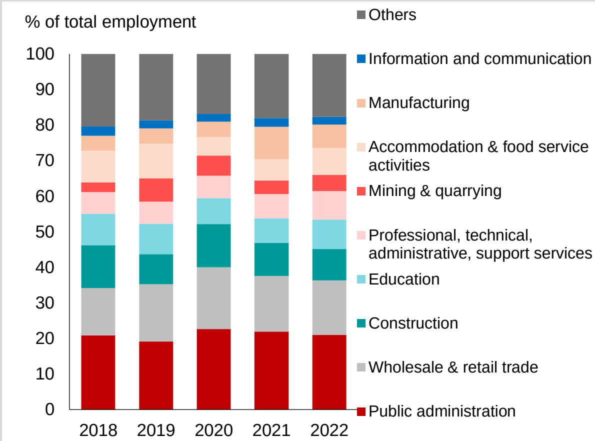
solutions to maintain connectivity, productivity, and essential services during this period. The ICT sector continued to expand in 2021-22, growing by about 4 percent—higher than the 2011-19 pre-pandemic growth of 1.6 percent (Figure B1). While the sector's share in GDP remains small (1.9 percent of GDP in 2022), and accounts for a small share of employment (2.2 percent of total employment in 2022), the outlook is positive with strong potential for growth (Figures B1, B2). This box aims to discuss recent ICT developments in Brunei, focusing on digital payments, e-commerce, and digital connectivity; identify key challenges in the aspiration towards achieving broader digital adoption; followed by a discussion on relevant policies.

Figure B1. ICT Real Gross Value Added



Source: DEPS; AMRO staff calculations
Note: Communication sector in the national account is used as a proxy for the ICT sector, given data unavailability.

Figure B2. Employment in the ICT Sector



Source: DEPS; AMRO staff calculations

Developments in Digital Payments, E-Commerce and Digital Connectivity

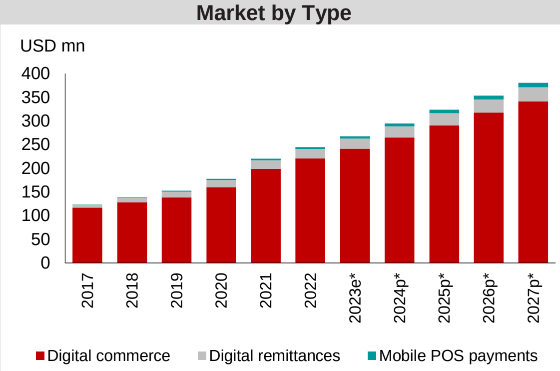
Brunei's digital payments have shown encouraging growth over the past several years, even prior to the COVID-19 pandemic. Latest data suggest that the transaction value in Brunei's digital payments market increased significantly from USD123.7 million in 2017 to an estimate of USD267.8 million in 2023 (Figure B3). In the medium term, the transaction value is expected to continue rising to USD380.6 million by 2027, according to projections by Statista (Figure B3). Such an achievement reflects both the public and private sectors' joint efforts to promote the adoption of digital payment solutions. Through the collaboration between domestic financial institutions and fintech companies, innovative payment solutions, including e-wallets (the likes of BIBD QuickPay, DSTPay, and Beep Digital Solutions) have come to fruition. These initiatives have certainly benefited Brunei during the height of the COVID-19 pandemic, by helping to facilitate contactless mode of payments. Recognizing the potential of digital payments, the government continues to play an enabling role to foster growth in this area, such as through the planned establishment of a fintech association and a fintech innovation center, scheduled to kick off in 2024. The Digital Payment Hub, a flagship project consisting of a National QR Code and an Instant Payment System, is another welcome initiative. Once established, it will allow for immediate and cost-effective fund transfers. There is also the potential for cross-border interoperability, where such feature would only be introduced in phases.[40]

Similarly, Brunei's e-commerce has seen notable development since the onset of the COVID-19 pandemic. The majority of the transactions in Brunei's digital payments market is from digital commerce, constituting about 90 percent of total transactions. According to Statista, from just USD138.6 million in 2019, total e-commerce transaction value is expected to continue edging up to USD341.2 million in 2027, while the average transaction value per user is projected to increase to USD1,630 (Figures B3, B4). In association with DARe, the Authority for Info-communications Technology Industry (AITI) launched a local online directory of various e-commerce platform providers called eKadaiBrunei on 1 April 2020, enabling businesses to expand their market outreach. So far, there have been 12 e-commerce platforms, 12 logistics companies, and six delivery services

[40] The government has laid the groundwork for establishing a consortium of three local banks to build a digital payment hub (Source: AITI).

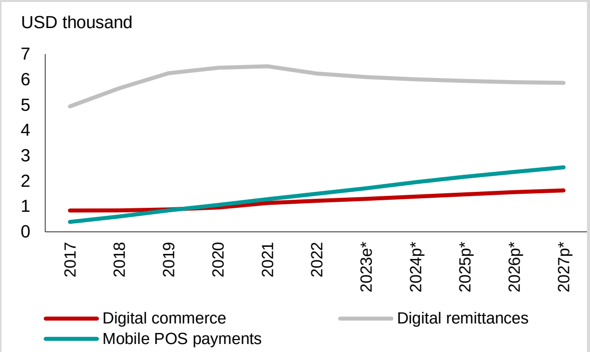
listed on the eKadaiBrunei.[41] Online payments and delivery services are also integrated in some online platforms, which helps give a boost to the development of digital payment and logistics-related businesses. The eKadaiBrunei is also linked to the One Village One Product (1K1P) website, which houses more than 100 domestically made products.[42] This will further bolster overall e-commerce activities in Brunei.

Figure B3. Transaction Value in the Digital Payments Market by Type



Source: Statista (update as of April 2023)
Note: e* = estimate by source; p* = projection by source

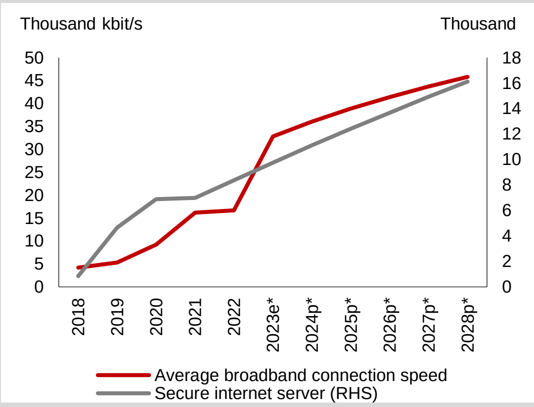
Figure B4. Average Transaction Value Per User



Source: Statista (update as of April 2023)
Note: e* = estimate by source; p* = projection by source

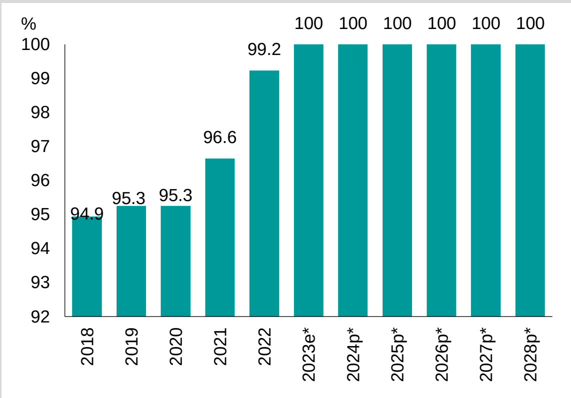
Remarkable progress has also been witnessed in the area of digital connectivity. The country's average broadband connection speed and secure internet server continue to improve, while the 4G network coverage is estimated by Statista to have reached 100 percent in 2023 (Figures B5, B6). Following the establishment of a national 5G taskforce in 2020, Brunei successfully launched its 5G network nationwide in June 2023, marking the start of a new digital era in Brunei while supporting its digital transformation efforts to become a Smart Nation. The government has also prioritized the expansion of fiber-optic networks with extensive coverage across the country.[43] Nevertheless, the digital readiness of businesses in Brunei varies depending on industries, with some sectors, i.e., finance services and O&G, exhibiting higher level of digital readiness.[44]

Figure B5. Average Broadband Connection Speed and Secure Internet Server



Source: Statista (update as of December 2023)
Note: e* = estimate by source; p* = projection by source

Figure B6. 4G Network Coverage



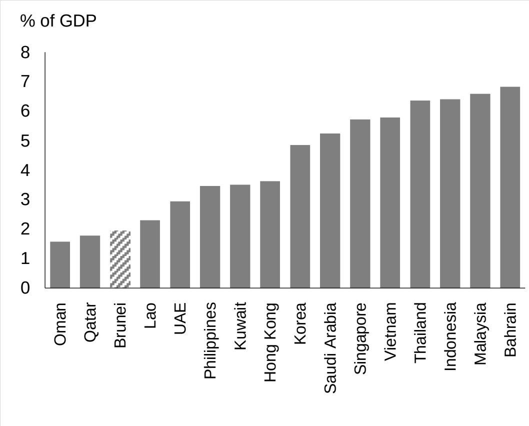
Source: Statista (update as of December 2023)
Note: e* = estimate by source; p* = projection by source

Notwithstanding the remarkable progress, the development of Brunei's ICT sector remains in its infancy stage with vast potential for catch-up. As noted earlier, Brunei's ICT value-added accounts for a relatively small share of GDP. As compared to peers within the region as well as amongst GCC countries, the share remains modest (Figure B7). Literature shows that the ICT sector plays a crucial and central role in fostering innovation across various industries and sectors, a key enabler of digital transformation (Sun, 2021).[45] Despite some improvement, Brunei's ranking (87th

[41] The data is as of April 2020. Source: BizBrunei
[42] Source: BizBrunei
[43] Source: AITI
[44] Source: AITI
[45] Source: (Sun, 2021) on Springer Link

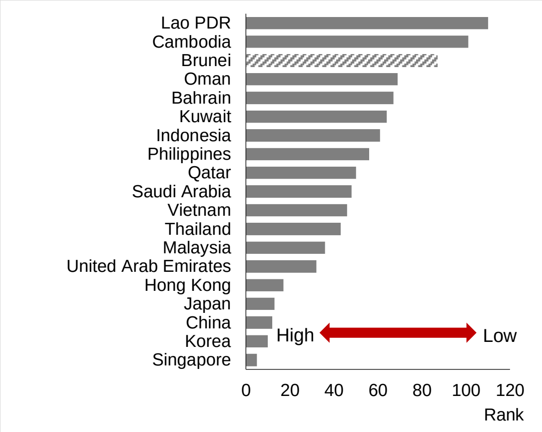
out of 132 economies) in the Global Innovation Index 2023 is lagging behind peers with similar income levels (Figure B8). This could be associated with several key factors, including limited investment in research and development (R&D) and absence of comprehensive ICT infrastructure (e.g., Internet of Things (IoT) connectivity, technology testbeds, advanced software, and data management/storage platforms). According to The World Intellectual Property Organization (WIPO), Brunei's investment in R&D accounted for around 0.3 percent of GDP in 2018, trailing behind other regional economies and GCC countries (Figures B9, B10).

Figure B7. ICT Sector: Share of Real Gross Value Added (Selected Economies), 2022



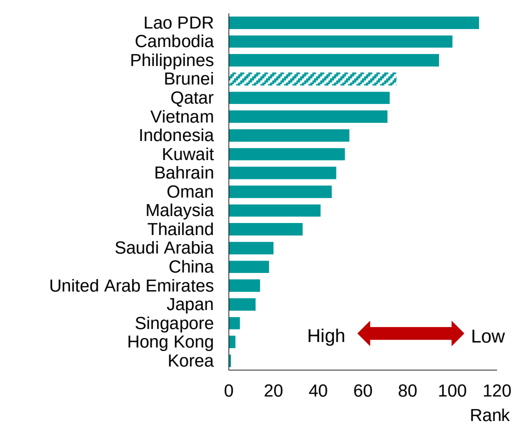
Source: National authorities; AMRO staff calculations
Note: Given data unavailability, communication sector is used as a proxy for Brunei's ICT sector.

Figure B8. Global Innovation Index (GII) Rank (Selected Economies), 2023



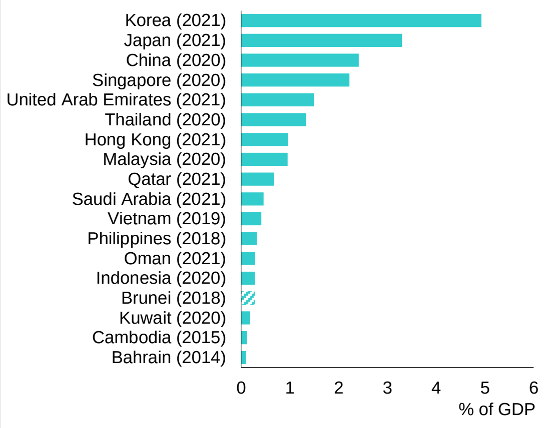
Source: Global Innovation Index Database (2023) by The World Intellectual Property Organization (WIPO)

Figure B9. ICT Infrastructure Rank (Selected Economies), 2023



Source: Global Innovation Index Database (2023) by WIPO

Figure B10. Gross expenditure on R&D (Selected Economies)

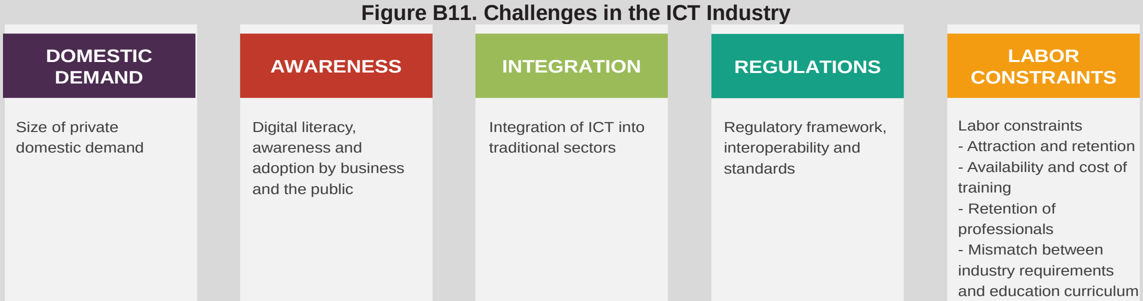


Source: Global Innovation Index Database (2023) by WIPO
Note: Year in the parenthesis refers to the latest available date.

Key Challenges and Policy Priorities

While the ICT sector in Brunei has the potential to drive growth—as envisioned in the Wawasan Brunei 2035 as one of the key priority areas—several challenges need to be addressed to fully realize the potential. First, Brunei's relatively small population may limit the development of private market in ICT products and services offerings. By and large, the industry continues to strongly rely on government's demand for the provision of ICT services (such as in the area of government e-services). Given the small domestic market, private businesses are confronted with challenges on how to scale their operations, in order to justify the adoption of ICT solutions on a sustainable basis. Second, low level of digital literacy (or lack of awareness and adoption) can hinder the uptake of digital technologies. Findings from the ICT Market Study Survey conducted by AITI and CSPS in February 2021 indicated that over 90 percent of MSMEs have been adopting a limited number of digital applications, with roughly one third of them planning to expand their use. Third, it remains challenging to integrate ICT into traditional sectors in Brunei (such as agriculture). Encouraging the adoption of digital technologies in these traditional sectors requires a customized approach. Fourth, the regulatory framework for the ICT industry may need to evolve to support innovation and entrepreneurship, requiring clear and conducive regulations to foster a dynamic business environment. Fifth, the ICT industry also faces several labor market issues, such as difficulties in attracting and retaining skilled ICT personnel, mismatch between industry demand and talent supply, and the availability of specialized trainings that are cost-effective (Figure B11).

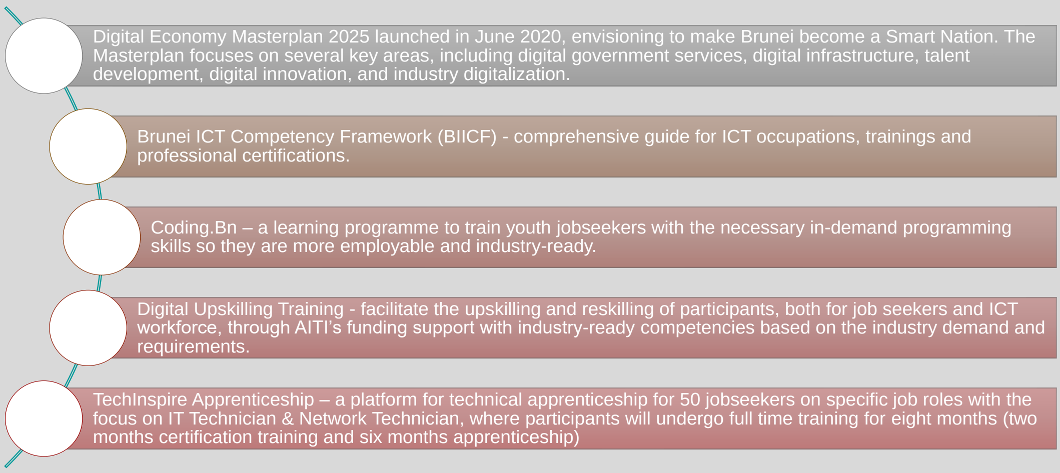
Figure B11. Challenges in the ICT Industry



Source: AITI; AMRO staff illustration

The government has been putting more efforts into bolstering the development of digitalization and the ICT sector—one of the five priority sectors stipulated under the Wawasan Brunei 2035—with the aim to transform the country into a Smart Nation. To achieve the ambitious vision, Brunei has developed the Digital Economy Master Plan 2025—its first five-year masterplan—to drive and strengthen Brunei's socio-economic growth through digitalization. In this regard, many frameworks, strategic plans, and skill training programs have been developed, including ICT competency framework[46] a coding program to train youth jobseekers; digital upskilling training; TechInspire Apprenticeship;[47] among others (Figure A12). The Digital Economy Council has also tasked AITI since 2020 to promote the adoption of digital economy activities and raise awareness of digital transformation across the nation. This has led to the formulation of the AITI Strategic Plan 2020-25, which is aimed at achieving a thriving digital industry, connected nation, and digitally enriched society.

Figure B12. ICT Sector Support Policies



Source: AITI; AMRO staff illustration

36. On the external front, greater global and regional trade integration would help Brunei gain access to overseas markets, attract new FDIs, and foster market diversification. Brunei's integration into various bilateral or multilateral free trade agreements

[46] The Brunei ICT Competency Framework (BIICF) provides a comprehensive guide for ICT occupations, trainings, and professional certifications. It also provides competencies necessary for the labor force to perform various ICT roles, while serving as a reference for curriculum development by local training institutions and the private sector to ensure alignment of skills required by the industry.
[47] It is a platform for technical apprenticeship for 50 jobseekers, focusing on IT technician and network technician. Participants undergo full time training for 8 months, of which 2 months are for certification and 6 months apprenticeship.

(FTAs)[48] has certainly led to an expanded market access while crowding in new FDIs. Having a diversified pool of trading partners also makes Brunei less reliant on certain export markets, helping to reduce its vulnerability to external shocks. Brunei's decision to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in May 2023 is most welcome, offering Brunei many trading opportunities in new markets, including Canada and some countries in Latin America, e.g., Chile, Peru, and Mexico.

37. Given a competitive FDI environment, it is crucial for Brunei to ensure that it continues to offer a good value proposition to investors – one that will further advance the development of new growth areas identified under the Brunei Economic Blueprint. In the previous decade, the country has seen the realization of key FDI projects (notably the Hengyi Industries, phase I), which have contributed significantly to economic diversification, and raised GDP growth from 2019-2022 by 1.5 percentage points. Encouragingly, the authorities are looking to attract FDIs beyond the downstream O&G industry, as identified in the Brunei Economic Blueprint. Commendable progress has been made, as evidenced by the recent FDI announcement for the development of a niche eco-tourism in Ulu Temburong, as well as the further expansion of FDIs in the aquaculture sector (such as for the farming of barramundi and salmon in Tutong and Belait districts). These new FDI projects are clearly aligned with Brunei's comparative advantages, as the country is endowed with rich biodiversity and a pristine natural environment. It is desirable to combine all of this with an investor friendly FDI policy (such as further easing the cost of doing business) in order to further nurture the development of these new growth engines. Annex 2 discusses the possible direction of FDI policy formulation in Brunei.

38. As global decarbonization efforts gain momentum, it is crucial for Brunei to leverage on mitigation technologies to meets its emission targets, while taking advantage of the green technology industry to generate economic spinoffs. Fossil fuels have been a key source of energy in Brunei, an important source of export earnings and fiscal revenue, as well as a main driver of inward FDI. As hydrocarbon resources will remain critical for growth in the next several decades, it is imperative for Brunei to leverage on mitigation technologies, which in turn, may necessitate a change in business processes in order to achieve its emission goals. For example, carbon capture technologies can be deployed in upstream O&G production, with the CO2 being channeled into the production of fertilizer. This would provide a sustainable source of CO2 for use in certain fertilizer manufacturing processes, such as urea. Given the maturing O&G sector and the global shift aways from fossil fuels, Brunei can take advantage of the green technology industry, which is an emerging growth area. This is where Brunei can scale up the deployment of carbon capture, utilization, and storage (CCUS)[49] which enables industrial and power facilities to operate with substantially reduced emissions. The utilization of this green technology can be gradually scaled-up to make the technology more commercially viable in the long-run. The MOU between Shell Eastern Petroleum and Brunei Shell Petroleum (BSP) to explore the feasibility of carbon transport and storage options for Brunei and Singapore is another positive

[48] Thus far, Brunei is signatory to 11 FTAs that are in effect since 1993, and it has one FTA being negotiated since 2021. The FTAs in effect include bilateral FTA with Japan; ASEAN FTAs with other countries and regions (e.g., Australia, New Zealand, India, Japan, China, Korea), and the RCEP.

[49] CCUS is one of the few scalable solutions available for decarbonizing heavy industries. In particular, CCUS can play a critical role in reducing emissions along the supply chain for natural gas. Its deployment could also unlock new economic opportunities associated with low-carbon hydrogen or ammonia production. CCUS involves the capture of CO2 from large point sources, including power generation or industrial facilities. If not being used on-site, the captured CO2 is compressed and transported by pipeline, ship, rail, or truck to be used in a range of applications, or injected into deep geological formations, including depleted oil and gas reservoirs or saline formations, which trap the CO2 for permanent storage.

development capable of generating positive economic spinoffs, given that Brunei has the potential to be part of a CCUS hub in the region.[50]

39. While comprehensive strategies and performance indicators have been identified to achieve climate objectives, it is also crucial to ensure that the multiyear expenditure plans to address climate change are adequately financed. In the area of climate mitigation and adaptation, substantial investment would be needed to achieve the desired climate objectives. For example, significant financial resources would be required to advance Brunei's national solar energy target to 200 megawatts by 2025 and develop infrastructure to withstand extreme weather events, as well as eco-system restoration (such as wetland and mangrove restoration). It is important for government agencies to work closely together and better integrate climate-related investments (or action plans) into the RKN, in order to ensure consistency with the BNCCP. This would not only help to foster better coordination but ensures that the financial resources can be secured through the annual budget cycle.

40. Addressing climate change requires a multifaceted approach, involving private sector participation and international cooperation. It is crucial to engage in a joint partnership with private sectors, as well as to leverage on international cooperation in order to achieve Brunei's ambitious climate objectives. The launching of the "Directive on Mandatory Reporting on Greenhouse Gas" in April 2023[51] is a welcome development. This initiative would help to foster greater private sector participation, particularly those with a high carbon footprint. These enterprises will be incentivized to expand their eco-friendly investments in order to achieve their environmental goals, which in turn helps to catalyze private sector funding. Brunei can also benefit from international cooperation by tapping on existing bilateral and multilateral cooperation mechanisms for climate change, particularly in the areas of finance, technology, and capacity building.[52] Annex 3 discusses Brunei's climate change mitigation strategies and challenges, followed by some suggested policy recommendations.

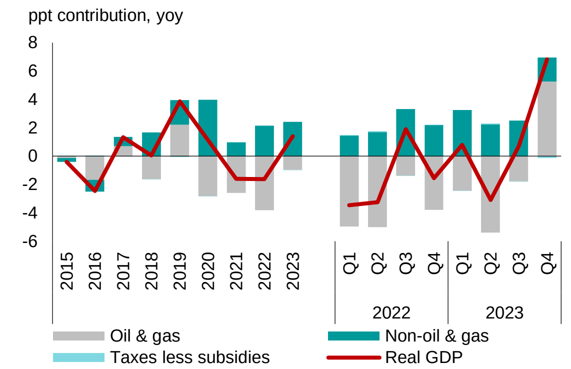
[50] The International Energy Agency (IEA) evaluates Brunei as one of the CCUS hub candidates in the region, along with Indonesia, Malaysia, Thailand, Singapore, and Vietnam.
[51] The Brunei Darussalam National Council on Climate Change (BNCCC) officially launched the Directive on the Mandatory Reporting on Greenhouse Gas on 27 April 2023. According to the Directive, commencing this year, all facilities within the activity chain which emit and/or remove GHG, consisting of government departments and private sector companies, are required to report their greenhouse gas on a quarterly and annual basis.
[52] For example, internationally, under the framework of the UNFCCC, the available financing mechanism includes the Adaptation Fund, Global Environmental Facility Trust Fund (GEF/TF), Least Developed Countries Fund (LDCF), Green Climate Fund (GCF), GEF Small Grants Programme (GEF-SGP), etc. Within the region, the 17th ASEAN Ministerial Meeting on the Environment (AMME) in Vientiane on 23-24 August 2023 welcomed the successful conclusion of the Establishment Agreement (EA) of the ASEAN Centre for Climate Change (ACCC) based in Brunei Darussalam. The ACCC aims to facilitate regional cooperation and coordination on climate change initiatives among Member States with relevant national governments, regional, and international organizations; and provide policy recommendations on addressing climate change to ASEAN Member States.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

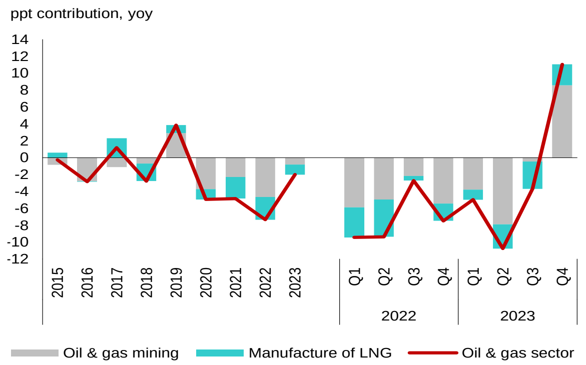
Figure 1.1. Real Sector and Inflation

Brunei's economy saw a strong rebound in 2023, growing by 1.4 percent.



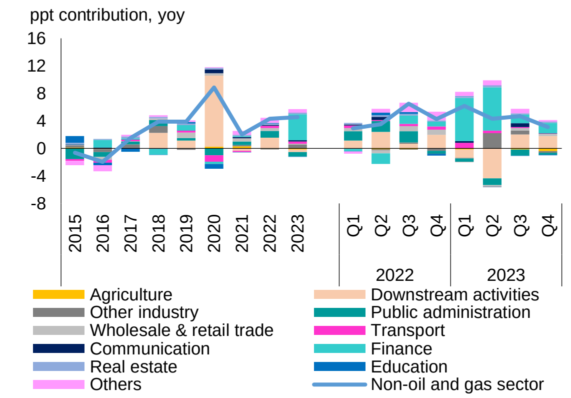
Source: DEPS; AMRO staff calculations

Activities in the upstream O&G sector appear to have bottomed out in the second half of 2023.



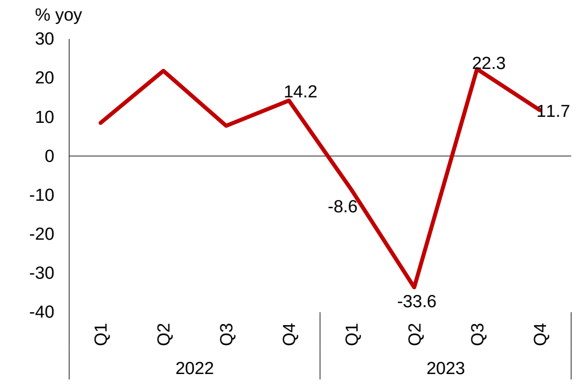
Source: DEPS; AMRO staff calculations

Activities in the non-O&G sector strengthened in 2023, led by downstream activities and services.



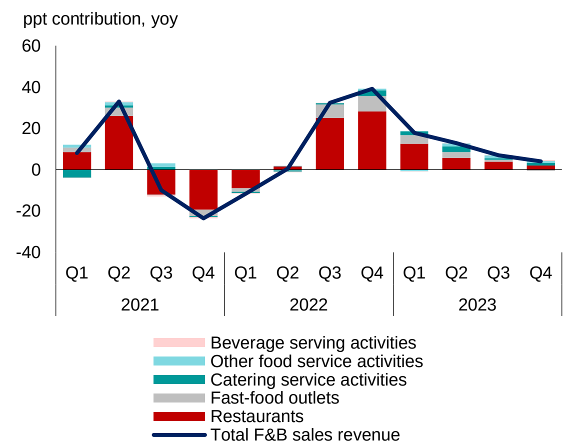
Source: DEPS; AMRO staff calculations

Downstream activities declined by 2.8 percent in 2023, due to scheduled maintenance of a petrochemical refining plant.



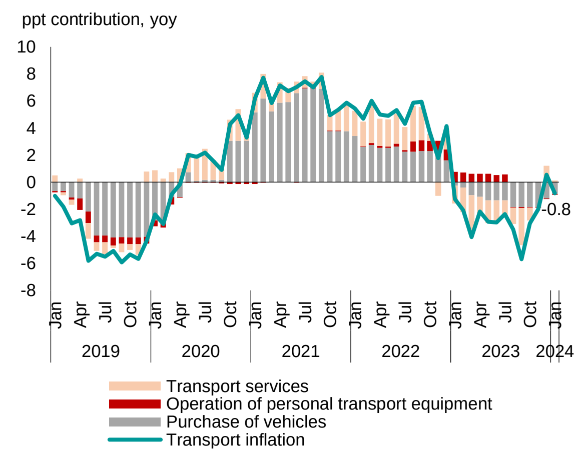
Source: DEPS; AMRO staff calculations

Revenue from sales of food and beverage services held up relatively well in 2023.



Source: DEPS; AMRO staff calculations

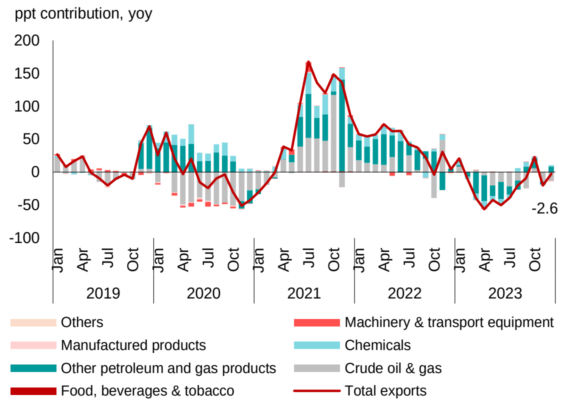
Transport inflation turned negative in January 2024, mainly driven by purchase of vehicles and transport services.



Source: DEPS; AMRO staff calculations

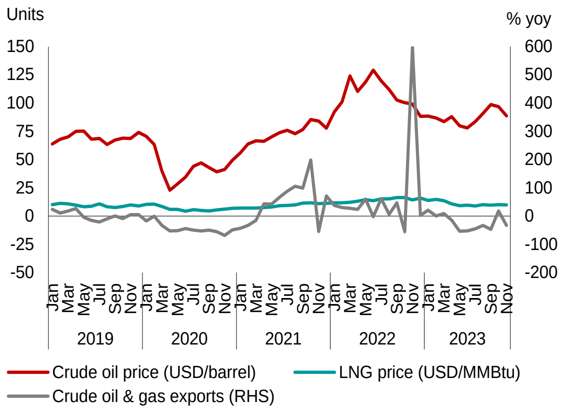
Figure 1.2. External Sector

Export growth remained sluggish throughout most of 2023, due to weaker O&G activities



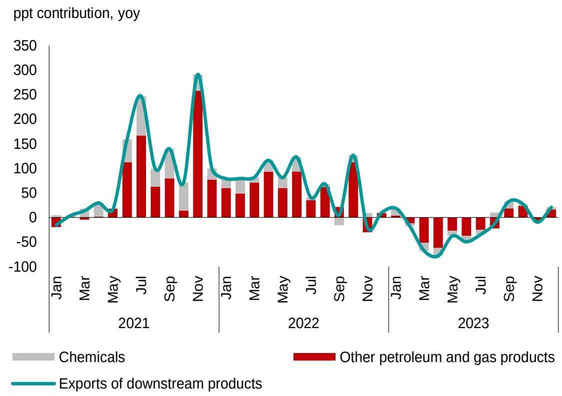
Source: DEPS; AMRO staff calculations

O&G exports improved towards the end of 2023, led by the recovery in crude oil exports.



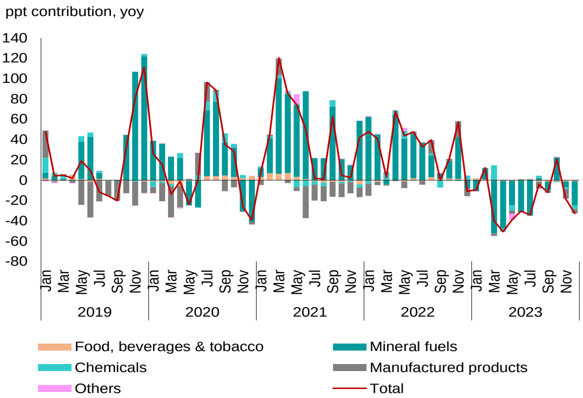
Source: DEPS; AMRO staff calculations

Exports of downstream products have steadily improved since early 2023.



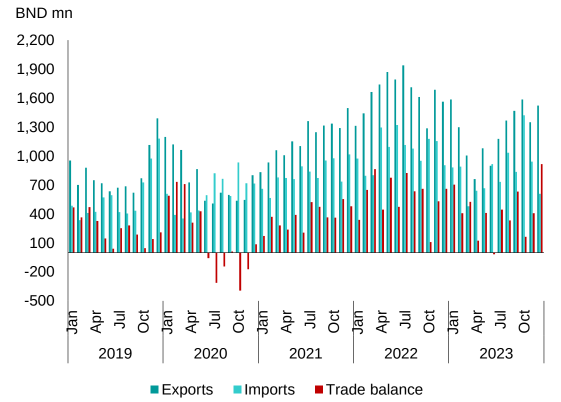
Source: DEPS; AMRO staff calculations

Similarly, imports recovered towards the end of 2023, led by imports of mineral fuels.



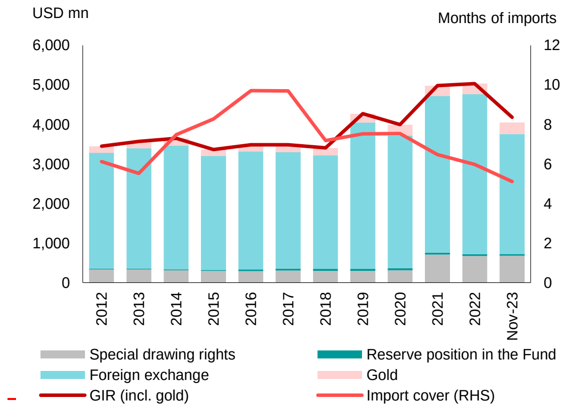
Source: DEPS; AMRO staff calculations

Trade surplus was sustained in 2023, albeit narrowing from the preceding year.



Source: DEPS; AMRO staff calculations

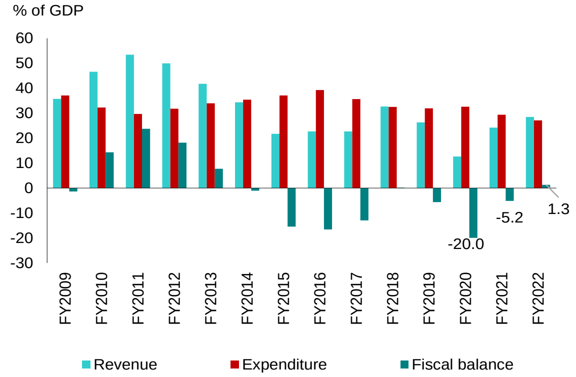
Reserves increased to USD5.04 billion in 2022 but moderated to USD4.2 billion in November 2023.



Source: BDCB; AMRO staff calculations

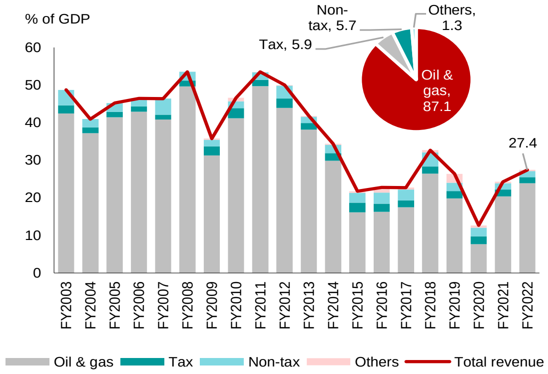
Figure 1.3. Fiscal Sector

After 3 consecutive years, the fiscal balance shifts to a surplus of 1.3 percent of GDP in FY2022…



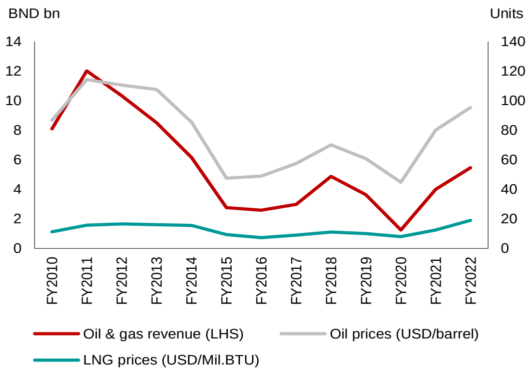
Source: Treasury Department; AMRO staff calculations

…largely attributed to the strong rebound in O&G revenue receipts.



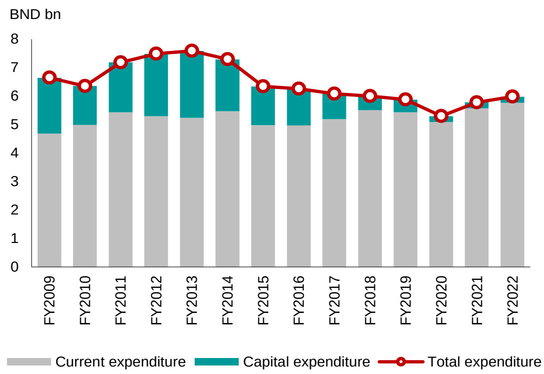
Source: Treasury Department; AMRO staff calculations
Note: Fiscal year starts from Apr to Mar. The unit for pie chart is percent of total revenue for FY2022.

O&G revenue tends to move in line with prices.



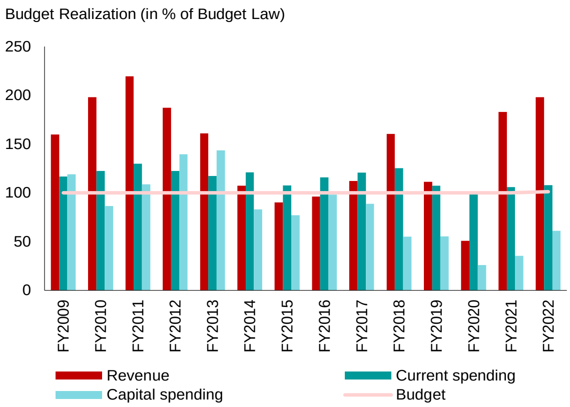
Source: Treasury Department; The World Bank

Expenditure increased over the last two years given the revenue outperformance, albeit to a lesser extent.



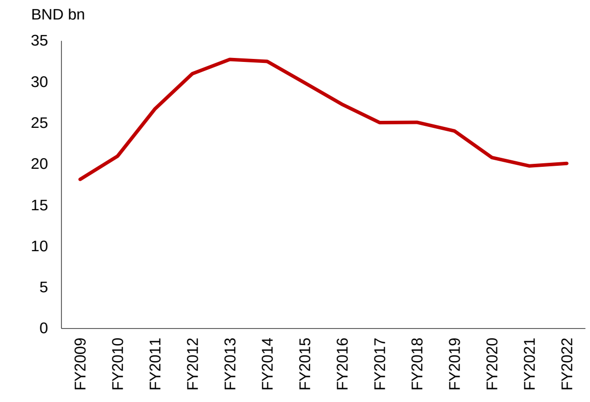
Source: Treasury Department; AMRO staff calculations

Both revenue and expenditure expanded sharply to above the target stipulated in the FY2022 budget.



Source: Treasury Department; AMRO staff calculations

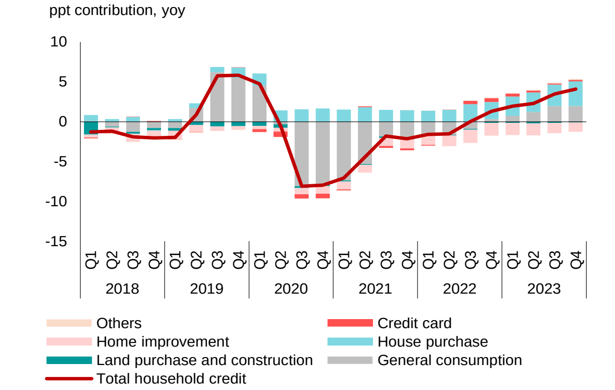
Fiscal buffer remains ample and started to increase slightly over the past year.



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

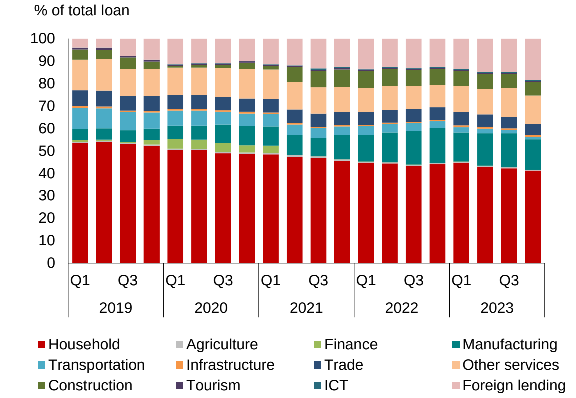
Figure 1.4. Monetary and Financial Sector

Growth in outstanding household credit strengthened in 2023, in tandem with robust private consumption.



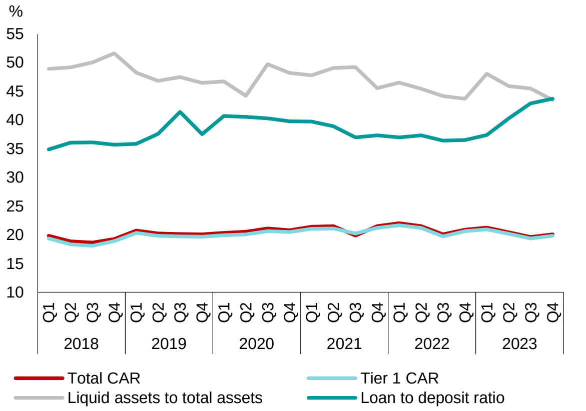
Source: BDCB; AMRO staff calculations

The household sector accounts for the bulk of the share of credit outstanding.



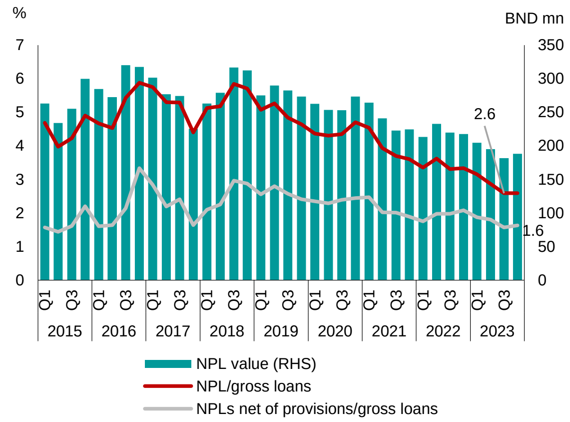
Source: BDCB; AMRO staff calculations

Brunei's financial sector remains sound, as banks are well-capitalized with ample liquidity.



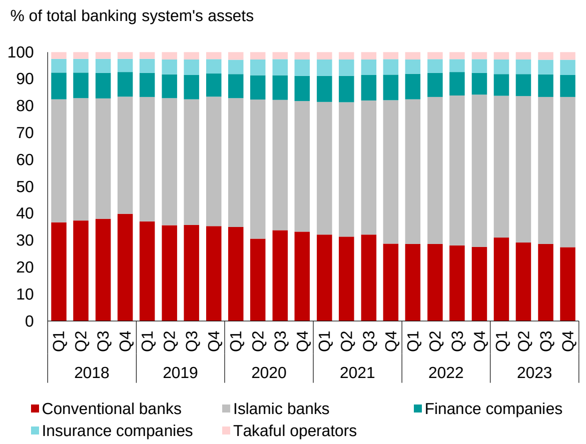
Source: BDCB

Asset quality in the banking system has progressively improved in 2023.



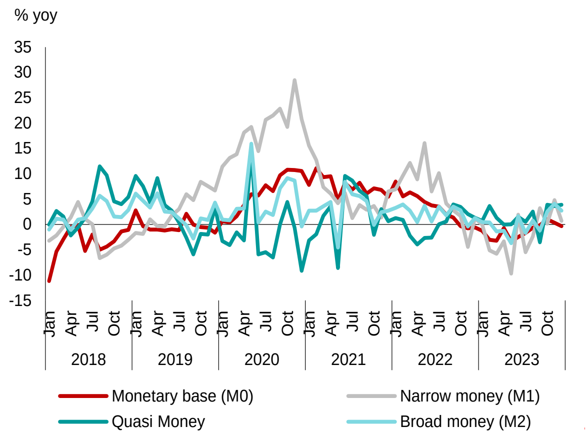
Source: BDCB

Brunei's financial system is largely dominated by banks, accounting for a large majority of total assets.



Source: BDCB; AMRO staff calculations

Growth in monetary aggregates have improved, as economic recovery gains traction.



Source: BDCB; AMRO staff calculations

Appendix 2. Selected Economic Indicators for Brunei Darussalam

	2018	2019	2020	2021	2022	2023e	2024p
Real Sector and Prices	(in annual percentage change)						
Real GDP	0.1	3.9	1.1	-1.6	-1.6	1.4	2.7
CPI inflation (average)	1.0	-0.4	1.9	1.7	3.7	0.4	1.4
External Sector	(In millions of USD, unless otherwise specified)						
Current account balance	930	890	543	1,570	3,265	2,424	2,690
(In percent of GDP)	6.9	6.6	4.5	11.2	19.6	16.0	17.4
Trade balance	2,360	2,208	1,385	2,679	5,153	4,303	4,655
Exports	6,474	7,208	6,543	11,002	14,132	12,822	13,935
Imports	4,114	5,000	5,158	8,323	8,978	8,519	9,279
Services, net	-1,008	-1,189	-854	-697	-848	-952	-1,137
Primary income, net	84	361	362	90	-370	-134	78
Secondary income, net	-506	-490	-350	-502	-671	-792	-906
Financial account balance	70	-405	264	-119	2,387	1,871	1,607
Direct investment	-517	-375	-578	-205	292	-220	-262
Portfolio investment	-1,439	1,399	1,194	-237	456	375	373
Other Investment	2,026	-1,429	-353	323	1,638	1,716	1,497
Net errors and omissions	-874	-539	-722	-594	-800	-822	-818
Overall balance	-14	757	-443	1,096	77	-269	266
Gross international reserves (incl. gold)	3,407	4,273	3,997	4,982	5,059	4,791	5,057
(In months of imports of goods and services)	7.2	7.5	7.5	6.5	6.0	5.9	5.6
Fiscal Sector	(in percent of GDP)						
Revenue	32.7	26.4	12.6	24.3	27.4	19.7	20.3
Oil and gas revenue	26.4	19.8	7.7	20.4	23.9	15.5	16.0
Non-oil and gas revenue	6.3	6.5	5.0	3.9	3.5	4.2	4.3
Expenditure	32.5	31.9	32.6	29.4	26.1	29.5	29.0
Current expenditure	29.8	29.5	31.3	28.3	25.2	27.8	27.6
Capital expenditure	2.7	2.4	1.3	1.1	0.9	1.8	1.4
Overall fiscal balance	0.1	-5.6	-20.0	-5.2	1.3	-9.8	-8.7
Monetary and Financial Sectors	(in annual percentage change, end-period)						
Broad money	2.8	4.3	-0.4	2.7	1.3	2.7	2.4
Domestic Credit	5.9	2.2	18.3	-19.6	-15.6	51.7	-1.7
Credit to private sector	-3.1	2.0	0.2	2.7	6.0	3.9	2.0
Memorandum Items							
Nominal GDP (in millions of USD) (Calendar year)	13,564	13,472	12,008	14,008	16,684	15,131	15,461
Nominal GDP (in millions of BND) (Calendar year)	18,301	18,375	16,564	18,822	23,003	20,319	20,872
Nominal GDP (in millions of BND) (Fiscal year)	18,453	18,385	16,241	19,654	22,882	20,468	21,036
Exchange rate (BND/USD) (period average) (Calendar year)	1.35	1.36	1.38	1.34	1.38	1.34	1.35
Exchange rate end of period (BND/USD) (Calendar year)	1.36	1.35	1.32	1.35	1.34	1.32	1.35

Source: Brunei Darussalam's authorities; AMRO staff calculations, estimates and projections
Note: Data in dark grey shade are AMRO staff estimates/ projections. Figures may not add up due to rounding. Fiscal data are in fiscal year, starting from April to March. Brunei's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Data in dark grey shade are AMRO staff estimates/ projections.

Appendix 3. Balance of Payments

	2018	2019	2020	2021	2022
	(In millions of USD, unless otherwise specified)				
Current account balance	930	890	543	1,570	3,265
Trade balance	2,360	2,208	1,385	2,679	5,153
Exports	6,474	7,208	6,543	11,002	14,132
Imports	4,114	5,000	5,158	8,323	8,978
Services	-1,008	-1,189	-854	-697	-848
Receipts	571	618	352	200	282
Payments	1,578	1,807	1,207	897	1,130
Primary Income	84	361	362	90	-370
Secondary Income	-506	-490	-350	-502	-671
Capital account	-	-	-	-	-
Financial account	70	-405	264	-119	2,387
Direct Investment	-517	-375	-578	-205	292
Portfolio Investment	-1,439	1,399	1,194	-237	456
Other Investment	2,026	-1,429	-353	323	1,638
Error and omission	-874	-539	-722	-594	-800
Overall balance	-14	757	-443	1,096	77
Reserve Assets	-14	757	-443	1,096	77
Memorandum items:					
Current account balance (in percent of GDP)	6.9	6.6	4.5	11.2	19.6
Gross international reserves (in millions of USD)	3,407	4,273	3,997	4,982	5,059
(in months of imports of goods and services)	7.2	7.5	7.5	6.5	6.0
Changes in gross international reserves (in millions of USD)	-81	866	-275	985	77
Nominal GDP (in millions of USD)	13,564	13,472	12,008	14,008	16,684

Source: National authorities; AMRO staff calculations
Note: Brunei's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow).

Appendix 4. Statement of General Government Operations

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023b
General Government	(In millions of BND, unless otherwise specified)						
Revenue and grants	3,872	6,027	4,846	2,051	4,768	6,272	2,987
Oil and gas revenue	2,976	4,873	3,646	1,243	4,004	5,462	2,035
Non-oil and gas revenue	809	1,043	760	706	686	729	952
Taxes	309	348	355	340	349	371	336
Fees, Charges and Rent	358	610	364	312	319	332	323
Others	142	85	41	54	19	27	17
Returns from Investments and Savings	87	111	440	102	61	40	236
Excess revenue (statutory bodies)					17	41	40
Government Expenditure	6,079	6,000	5,873	5,293	5,780	5,977	5,960
Current spending	5,193	5,504	5,432	5,086	5,569	5,763	5,460
Charged expenditure	1,120	1,213	1,276	1,062	1,303	1,497	1,060
Personal emoluments	1,860	1,958	1,965	1,969	1,993	2,051	2,187
Other charges annually recurrent	2,213	2,333	2,191	2,055	2,273	2,216	2,213
Capital spending	887	496	441	207	211	213	500
Budget balance	-2,207	27	-1,027	-3,242	-1,013	295	-2,973
Memorandum items:							
Budget balance (in percent of GDP)	-12.9	0.1	-5.6	-20.0	-5.2	1.3	-14.2
Government revenue (in percent of GDP)	22.7	32.7	26.4	12.6	24.3	27.4	14.3
Government expenditure (in percent of GDP)	35.7	32.5	31.9	32.6	29.4	26.1	28.5
Nominal GDP (in millions of BND) (Fiscal year)	17,048	18,453	18,385	16,241	19,654	22,882	20,890

Sources: National authorities; AMRO staff calculations
Note: Brunei's fiscal year starts from April to March. Nominal GDP for FY2023 is AMRO staff estimates. b = budget

Appendix 5. 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.	Back series data are available from 1974 upon request.	
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	Annual BOP data is published on the DEPS's website. However, quarterly data are not publicly available. Import and export data are published on the DEPS's website. Import and export data breakdown by both product and market are not available.	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 of GDP 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 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.

Source: AMRO staff compilations. This preliminary assessment will form the "Supplementary Data Adequacy Assessment" in the EPRD Matrix.
Note:
(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 relative 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.

Appendix 7. Climate Change Policy Fact Sheet for Brunei[53]

<table>
<tr><th>Item</th><th>Sub-item</th><th colspan="5">Note</th></tr>
<tr><td rowspan="9">Nationally Determined Contribution (NDC)</td><td>Submission</td><td colspan="5">• First NDC (October 2020)</td></tr>
<tr><td rowspan="4">GHG Emission reduction targets by 2030</td><td colspan="5">• Total GHG emissions in the Base year 2015 amounted to 11.6 MtCO2eq.
• Brunei’s contribution to the global GHG emissions in 2018 was at around 0.025 percent.
• Time frame: 1 January 2021 – 31 December 2030 (10-year period), Single-year target.
• The government provides two scenarios to analyze the projection of GHG emissions: Business-As-Usual (BAU) and 2030 NDC target for the period of 2021-2030.
• The BAU scenario was developed based on the assumption of economic growth in the absence of climate change response policies: total emissions of GHG in 2030 is estimated to be 29.5 MtCO2eq.
• The economy-wide 2030 NDC target aims to reduce 20 percent of total GHG emissions by 2030 compared to BAU.
• However, limitations resulted from the COVID-19 pandemic, have posed challenges in the preparation of this NDC, which may be updated in due course should there be new findings from further assessments.</td></tr>
<tr><td colspan="2">(Unit: MtCO2eq)</td><td>2015 (Base)</td><td>2030 (Target)</td><td>Increase</td></tr>
<tr><td colspan="2">Business-As-Usual (BAU)</td><td rowspan="2">11.6</td><td>29.5</td><td>+17.9</td></tr>
<tr><td colspan="2">2030 NDC target: 20 percent reduction</td><td>23.6</td><td>+12.0</td></tr>
<tr><td rowspan="2">Mitigation</td><td>Sectors by Intergovernmental Panel on Climate Change (IPCC) Guidelines</td><td colspan="4">• GHG covered: Carbon dioxide (CO2), Methane (CH4) and Nitrous oxide (N2O).
• Key sectors covered: Energy, Industrial Processes and Product Use, Agriculture, Forestry and Other Land Use, and Waste.</td></tr>
<tr><td>Brunei Darussalam National Climate Change Policy (BNCCP)</td><td colspan="4">(6 Mitigation Strategies)
• Industrial Emissions - Reduce overall emissions in the Industrial Sector, as defined by the World Bank standard.
• Forest Cover - Increase carbon sink through afforestation and reforestation with a target of planting 500,000 new trees.
• Electric Vehicles - Increase total share of electric vehicles (EV) to 60 percent of the total annual vehicle sales by 2035.
• Renewable Energy - Increase total share of renewable energy to at least 30 percent of total capacity in the power generation mix by 2035.
• Power Management - Reduce GHG emissions by at least 10 percent through better supply and demand management of electricity consumption by 2035.
• Waste Management - Reduce municipal waste to landfills to 1kg/person/day by 2035.
(3 Enabling Strategies)
• Carbon Pricing - Impose price on carbon emissions for industrial sector.
• Carbon Inventory - Mandatory monthly and annual reporting of carbon inventory.
• Awareness and Education
(1 Adaptation and Resilience Strategy)</td></tr>
<tr><td>Adaptation and Resilience Action</td><td colspan="5">• BNCCP Strategy 8 on Climate Resilience and Adaptation: enhancing and integrating climate science findings into policies, conducting climate impact assessments and consideration of nature-based solutions as an option to increase resilience.</td></tr>
</table>

[53] Prepared by Sungtaek Kwon, Senior Economist

		• Climate Impacts Mitigation Projects as a part of the National Development Plan (RKN) projects, the Public Works Department through the Department of Drainage and Sewerage of the Ministry of Development has implemented a series of flood mitigation works along the 56km coastal area. • Climate Change Adaptation (CCA) and Disaster Risk Reduction (DRR): The National Disaster Management Centre organizes community-based activities that aim to (i) strengthen institutional capacity and policy frameworks for effective implementation for CCA and DRR; (ii) Establish an ASEAN youth leadership in CCA and DRR; (iii) Increase replicable programs and models of building community resilience; and (iv) Strengthen awareness-building programs on a disaster resilient and climate change adaptive ASEAN Community.
Climate Finance	Resources	• Voluntary cooperation under Article 6 of the Paris Agreement • Market mechanisms: Brunei Darussalam envisages to achieve the intended GHG emissions reductions under this NDC through domestic actions and financing. However, the Government of Brunei Darussalam will explore possible bilateral, regional and international mechanisms in meeting the NDC target.
	Multilateral climate finance	United Nations Framework Convention on Climate Change (UNFCCC) funds • Adaptation fund: Financing of adaptation projects. • Global Environmental Facility (GEF): Financing of mitigation projects. • Least Developed Countries Fund (LDCF): Financing of adaptation projects. • Green Climate Fund (GEF) Non-UNFCCC funds • UN: UN-REDD program focuses on reducing emissions from deforestation and forest degradation (REDD) in developing countries. • World Bank: Green Climate Fund USD86.3 million to spur energy efficiency investments. Transformative Carbon Asset Facility (TCAF), Scaling Climate Action by Lowering Emissions (SCALE), Climate Investment Funds (CIFs), Forest Investment Program (FIP), Forest Carbon Partnership Facility (FCPF), Partnership for Market Implementation (PMI) • ADB: Green Climate Fund, Urban Climate Change Resilience Trust Fund, Clean Technology Fund • NDC partnership funds: Global Climate Partnership Fund, Low Carbon Transition in the EE sector, Green Climate Fund (GCF), Capacity Building Initiative for Transparency (CBIT) Trust Fund, Clean Technology Fund (CTF) of Climate Investment Fund, etc.
	Bilateral climate finance	• US (USAID): Innovation Challenge Fund to support innovative energy solutions, Renewable Energy Data Explorer tool. • EU: Global Climate Change Alliance Plus (GCCA+) • UK: International Climate Fund (UK-ICF) • Japan: Actions for Cool Earth 2.0 (ACE 2.0), Japan's Fast Start Finance (J-FSF) • Germany: International Climate Initiative (IKI) provides grants to mitigation and biodiversity conservation projects. • Glasgow Financial Alliance for Net Zero and The Institutional • Investors Group on Climate Change

Source: Brunei Darussalam NDC 2020; UN; World Bank; USAID; GCCA+; Climate Policy Initiative

Annexes: Selected Issues

Annex 1. Tourism Sector Developments and Challenges in Brunei [54]

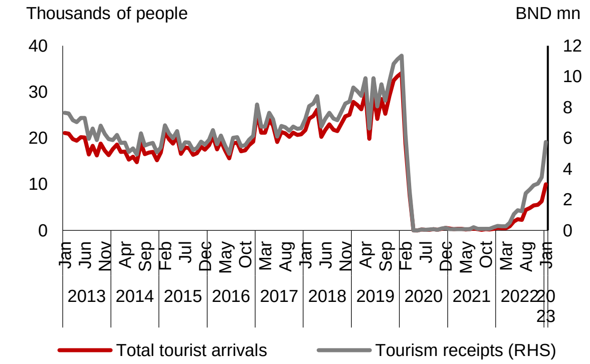
Introduction

1. **Brunei's tourism sector holds promise not only in drawing a greater number of foreign visitors, but also fostering the development of related industries, job creation, while showcasing the country's rich cultural and natural heritage.** The industry has been stipulated as one of the five priority sectors under the Wawasan Brunei 2035—the national development plan that aims to reduce the reliance on the O&G sector. This Selected Issue discusses the recent developments in Brunei's tourism sector, offers some cross-country comparisons, identifies the key challenges, and provides some policy suggestions.

Recent Developments

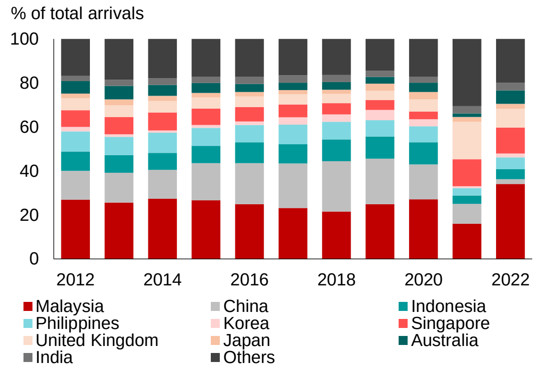
2. **Brunei's tourist arrivals achieved record highs leading up to the COVID-19 pandemic.** In 2019, total international arrivals peaked at 333,244, representing a growth of nearly 20 percent (Figure A1.1). Most arrivals were from Malaysia, accounting for 24.9 percent of total arrivals, followed by China (20.7 percent), and Indonesia (10.1 percent) (Figure A1.2). In tandem, tourism receipts rose by around 20 percent to BND111 million in 2019 (Figure A1.1). Key factors contributing to the jump in 2019 tourist arrivals were an improvement in air connectivity from Far East markets (i.e., China, Hong Kong, Korea, Japan), and rising travel demand from ASEAN, Europe and Far East markets (Ministry of Primary Resources and Tourism, 2019).

Figure A1.1. Tourist Arrivals and Tourism Receipts



Source: Ministry of Primary Resources and Tourism (MPRT)

Figure A1.2. Share of Tourist Arrivals to by Country



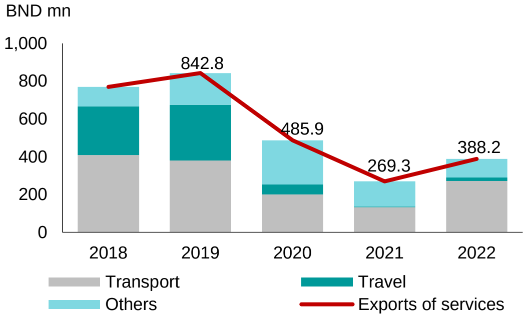
Source: MPRT; AMRO staff calculations

3. **With the onset of the COVID-19 pandemic, Brunei's tourism sector was disproportionately affected, as widespread travel restrictions and border closures disrupted hospitality services.** The country closed its borders due to the first wave of COVID-19 in March 2020 and only fully reopened its economy in August 2022. While borders were closed, Brunei's exports of services fell sharply, as travel and transport services receipts fell to BND252.3 million in 2020 and BND135.9 million in 2021, from BND674.6 million in 2019 (Figure A1.3). The collapse in the travel and tourism industry resulted in high job losses, with sectoral employment contracting by 22.1 percent (yoy) in 2020, while the sector's value-added also declined markedly by 43.8 percent during the same period (Figure A1.4). The headwinds

[54] Prepared by Vanne Khut, Economist.

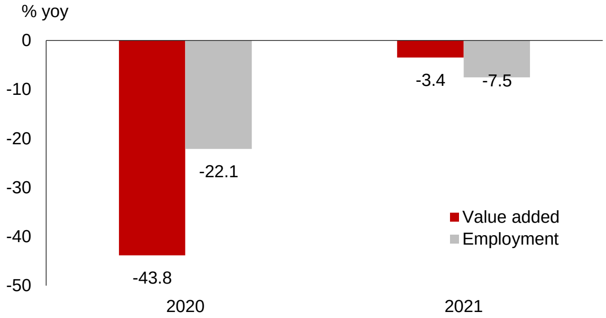
continued in 2021 amid a second wave of infections, driven by the Delta variant, resulting in a partial lockdown from 7 August to 3 October 2021 (Figure A1.4).

Figure A1.3. Exports of Services



Source: DEPS; AMRO staff calculations

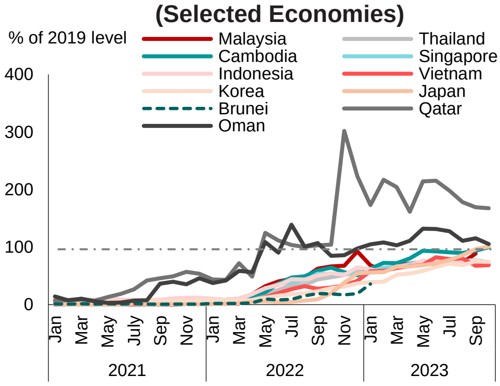
Figure A1.4. Changes in Value-added and Employment in the Travel and Tourism Industry



Source: World Travel and Tourism Council (WTTC); AMRO staff calculations
Note: The data are compiled from 2023 WTTC report for Brunei.

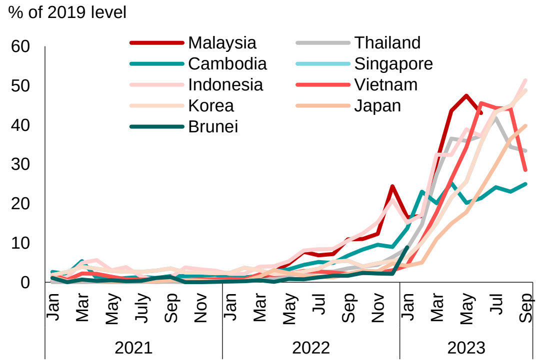
4. While the latest rebound in the number of foreign visitors to the Sultanate is encouraging, the recovery of the tourism industry appears to be lagging behind that of other regional peers. According to the MPRT's estimates/targets, the number of tourist arrivals are likely to reach 53,850 in 2023 and 362,596 in 2024—slightly higher than the pre-pandemic level (333,244 in 2019). However, the latest data indicate that the country's tourist arrivals reached 35.9 percent of the pre-pandemic level, lagging far behind other peer countries (Figure A1.5). A notable development is the absence of a strong recovery in Chinese visitors—an important market for most regional economies, including Brunei (Figure A1.6). In 2019, Chinese visitors ranked second in the total arrivals in Brunei. However, on 1 July 2023, Brunei welcomed the first Chinese tourist group of 110 visitors in three years since the pandemic.[55]

Figure A1.5. Monthly Tourist Arrivals (Selected Economies)



Source: National authorities; AMRO staff calculations

Figure A1.6. Chinese Tourists to Select ASEAN+3 Destinations



Source: National authorities; AMRO staff calculations

Key Structural Challenges

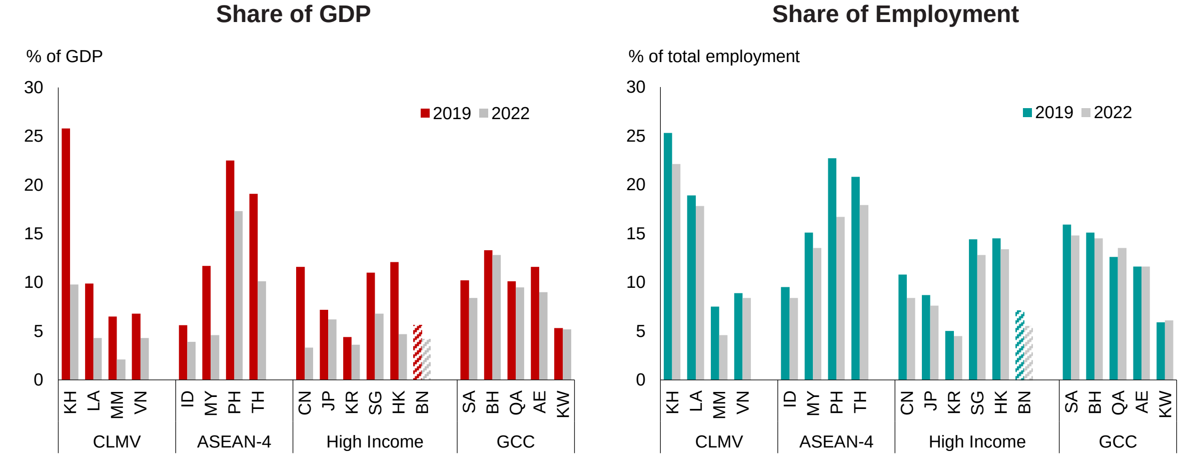
Domestic Challenges

5. Until recently, the dominance of the hydrocarbon sector has led to limited diversification into other industries, including tourism. Brunei's O&G value added accounted for nearly half of the country's GDP in 2022. Moreover, revenue from the energy sector, making up 87.1 percent of government revenue in FY2022, has traditionally played a dominant role in national income, potentially leading to less emphasis on developing

[55] Source: Xinhua

alternative sectors like tourism, until recently. As a result, the country's travel and tourism industry continues to make a small contribution to GDP and employment. According to the World Travel and Tourism Council, the tourism and travel sector constituted 5.6 percent and 7.1 percent of Brunei's total value-added and employment, respectively, in 2019 (Figure A1.7). When compared to many countries in the ASEAN+3 and GCC regions, the share of Brunei's travel and tourism industry remains relatively modest.

Figure A1.7. Travel and Tourism: Share of GDP and Employment (Selected Economies)



Source: WTTC
Note: The data were manually keyed in from 2023 WTTC report of each individual country, in which the data are only available in 2019 and 2022. Long time series data are available on the TCdata360 database by World Bank, but with some discrepancies relative to those in the latest published reports and are therefore not used. AE = United Arab Emirates; BH = Bahrain; BN = Brunei Darussalam; CN = China; HK = Hong Kong, China; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; KW = Kuwait; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = The Philippines; QA = Qatar; SA = Saudi Arabia; SG = Singapore; TH = Thailand; VN = Vietnam

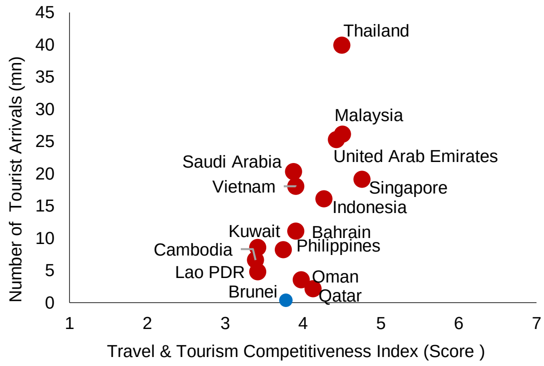
6. Limited tourism infrastructure continues to constrain the development of Brunei's tourism sector. The importance of both hard and soft tourism infrastructure for fostering growth in the tourism sector has been well-documented in both academic literature and industry reports, which is a key contributor to the sector's competitiveness (Yan and others, 2022; Chan and others, 2022; Seetanah and Khadaroo, 2023). According to the Travel and Tourism Competitiveness Index 2019, Brunei scores 3.8 (out of 7.0; 7.0 being the highest), or ranks 72nd out of 136 economies, in terms of its overall level of travel and tourism competitiveness. At this level of competitiveness, Brunei trails behind most of its ASEAN peers, as well as those GCC countries with similar income levels, which have managed to attract a relatively higher number of tourist arrivals (Figure A1.8). The insufficiency of hard infrastructure (for example, air transport connectivity, ground infrastructure (such as a public transportation network), and tourist service infrastructure (such as accommodation and car rentals)) is reflected in the lower comparative ranking of Brunei (Figure A1.9).[56] Regarding soft infrastructure, Brunei is also trailing behind regional peers in terms of human resources and labor market conditions, reflecting challenges in attracting and retaining talents in the sector (Figure A1.10).

7. While Brunei places an emphasis on preserving its cultural/religious and environmental heritage, which is generally positive, there may be challenges or drawbacks for the development of the tourism sector. Brunei's cautious approach to tourism development mitigates the negative impact on the country's cultural heritage, religious values, and natural environment. However, it could potentially limit the scale of tourism

[56] The number of registered taxis and public buses in Brunei remains extremely low, having reached only 223 and 143 in 2022, respectively, as the country's most preferred mode of transport is private cars. These may not be sufficient to meet foreign visitors' transport demand. As for port infrastructure, Brunei's port facilities are mainly to cater to industrial activities, which are therefore less suitable for cruise ships (Oxford Business Group, 2015).

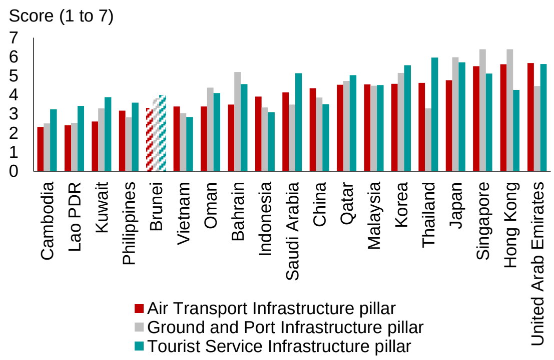
activities.[57] Showcasing Brunei's rich cultural/religious heritage would appeal to certain niche markets, but the availability of guided tours and interpretive materials remain a challenge and ought to be addressed (Sim & Abdullah, 2023).

Figure A1.8. Travel and Tourism Competitiveness Index (TTCI) vs. Number of Tourist Arrivals (Selected Economies)



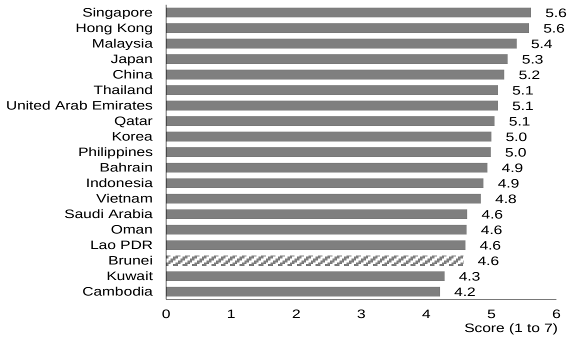
Source: World Economic Forum (WEF) via TCdata360
Note: The travel and tourism competitiveness score is from 1 to 7; 7 being the highest. The latest TTCI is 2019. The TTCI comprises 14 pillars,[58] calculated using data derived from the Executive Opinion Survey and quantitative data from other sources. Seven is the best score. Brunei data are not available in the Travel and Tourism Development Index (2021), and therefore the TTCI 2019 is used for the analysis and cross-country comparison. To avoid distortion, the data point used for the number of arrivals is 2019.

Figure A1.9. Infrastructure Subindex of the TTCI by Type (Selected Economies)



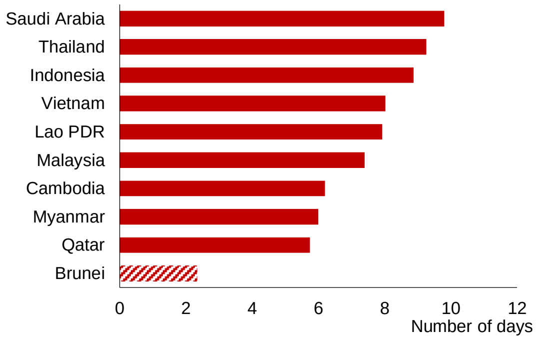
Source: WEF via TCdata360
Note: The infrastructure subindex score is from 1 to 7; 7 being the highest. The latest TTCI is 2019. Seven is the best score. Brunei data are not available in the Travel and Tourism Development Index (2021), and therefore the TTCI 2019 is used for the analysis and cross-country comparison. To avoid distortion, the data point used for the number of arrivals is 2019.

Figure A1.10. Human Resources and Labor Market Pillar under TTCI (Selected Economies)



Source: WEF via TCdata360
Note: The latest TTCI is 2019. Brunei data are not available in the Travel and Tourism Development Index (2021), and therefore the TTCI 2019 is used for the analysis and cross-country comparison.

Figure A1.11. Tourist Arrivals' Average Length of Stay (Selected Economies)



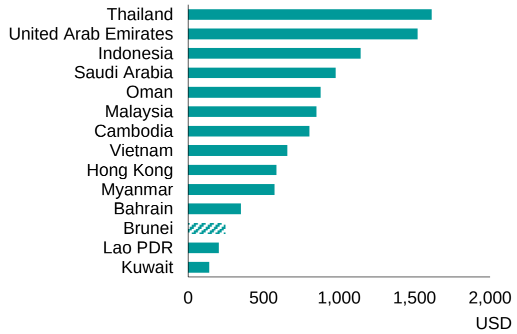
Source: National authorities
Note: Average length of stay for Qatar is the simple average of length of stay in hotels, hotel apartments and standard apartments.

8. **Inadequate tourism products, marketing, and promotion also present hurdles for the sector's growth.** As compared to ASEAN peers, Brunei has a limited number of tourist attractions including entertainment establishments (such as amusement parks, sporting arena). This, combined with limited tourism marketing efforts (Sim & Abdullah, 2023), makes

[57] For instance, the public consumption of alcohols, including in restaurants, is strictly prohibited in Brunei (Source: Blue Lotus Immigration Consulting Inc.). However, in some other Gulf cities, the restrictions on alcohol consumption are less stringent. Dubai, in particular, has allowed the alcohol consumption for non-Muslim residents and foreign tourists in designated areas, including licensed hotels, restaurants, and bars (Source: Exploring Emirates), while also having removed the 30-percent municipality tax on alcohol sales as well as fees for personal alcohol licenses for consumption at home, in an effort to further attract foreign visitors and achieve its goal as the world's most popular tourist destination (Collingridge, 2023) (Akinyi, 2023). In Qatar, alcoholic beverages can also be served at licensed bars, clubs, and restaurants inside hotels for non-Muslim residents and tourists, while non-Muslim residents are allowed to purchase alcohols for private consumption from a state-controlled distributor through a permit system (Doha Guides, 2023).
[58] The 14 pillars are 1) Business environment; 2) safety and security; 3) health and hygiene; 4) human resources and labor market; 5) ICT readiness; 6) prioritization of travel and tourism; 7) international openness; 8) price competitiveness; 9) environmental sustainability; 10) air transport infrastructure; 11) ground and port infrastructure; 12) tourist service infrastructure; 13) natural resources; and 14) cultural resources and business travel.

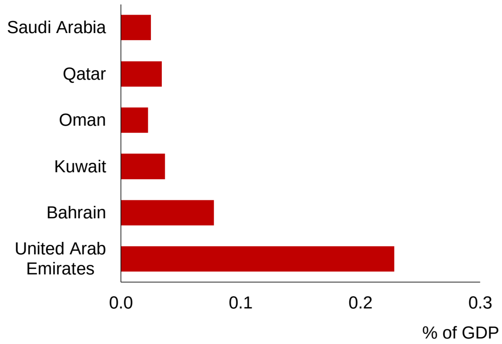
it more challenging for tourist attraction and retention. As a result, visitors have a short stay in Brunei of around two days on average and hence spend less, much lower compared to other countries in the region (Figures A1.11, A1.12). To develop the tourism sector, the Brunei government has budgeted around BND580,000 (equivalent to 0.003 percent of GDP) for FY2023.[59] Other countries with similar income levels, however, have spent more on the travel and tourism service, according to statistics from the World Travel and Tourism Council (WTTC) (Figure A1.13).

Figure A1.12. Tourism Receipts Per Tourist (Selected Economies, 2019)



Source: National authorities; The World Bank; AMRO staff calculations

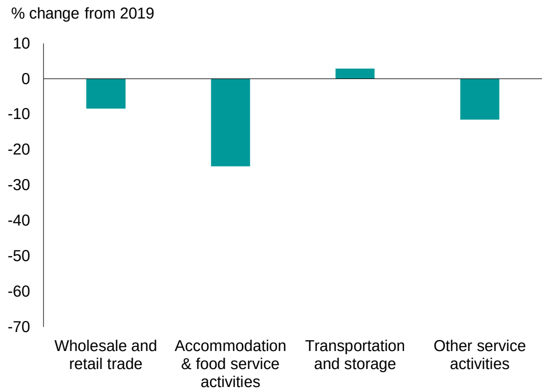
Figure A1.13. Government Spending on Travel and Tourism Service (Gulf Cooperation Council (GCC) Countries, 2022)



Source: WTTC; IMF; AMRO staff calculations
Note: This WTTC data were extracted from the TCdata360 database by World Bank.

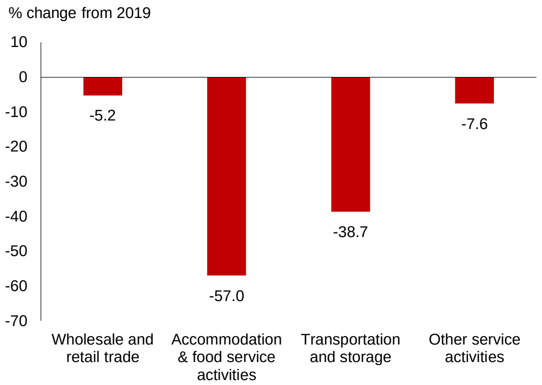
9. The pandemic further contributed to the shrinkage of the sector's share in GDP and employment in 2022, underscoring the potential scarring effects from the COVID-19 pandemic. According to the WTTC, Brunei's travel and tourism sector's share to GDP and employment decreased to 4.2 percent and 5.5 percent, respectively (Figure A1.7). Even after the full reopening of borders of other countries, Brunei's tourist arrivals have yet to reach pre-pandemic levels. Existing challenges in the industry, especially on the labor market front, could be amongst major contributors to this sluggish recovery. Across many regional economies, the full return of migrant workers has been slow to materialize, impeding the recovery of contact-intensive industries, such as tourism. The latest data suggest that non-local employment in tourism-related industries has yet to return to pre-pandemic levels (Figures 14, 15). However, it is encouraging to note that the authorities have been putting more efforts into facilitating the return of migrant workers.

Figure A1.14. Total Employment (Tourism-related Industries, 2022)



Source: DEPS; AMRO staff calculations

Figure A1.15. Non-local Employment (Tourism-related Industries, 2022)



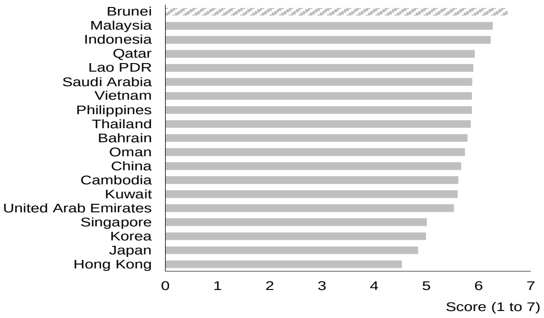
Source: DEPS; AMRO staff calculations

[59] Source: The Scoop

External Challenges

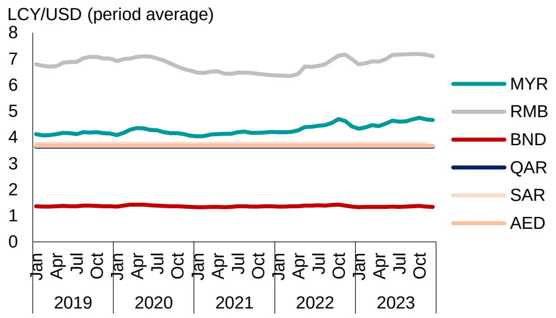
10. Global competition and the strength of the local currency can influence tourists' decision to visit the country. Brunei faces strong competition from neighboring countries that have aggressively developed their tourism sector, presenting a formidable challenge. This heightened competition is reflected in more varied and integrated tourism products and services, as well as more competitive pricing and packages to appeal to international visitors (Box A1.1). In terms of pricing, it is encouraging to note that Brunei remains competitive with respect to taxes on airfares, airport charges, hotel rates, and fuel prices, as reflected in its high score of the price competitiveness pillar under the TTCI 2019 (Figure A1.16). Moreover, the strength of Brunei's currency (vis-a-vis regional peers) can make the country more expensive for foreign tourists, weaken travel demand, and encourage more outbound than inbound travel (Figure A1.17).

Figure A1.16. Price Competitiveness Pillar under TTCI 2019



Source: TTCI 2019 Database by WEF
Note: The price competitiveness score is from 1 to 7; 7 being the highest. Components of price competitiveness pillar are ticket taxes, airport charges, hotel price, purchasing power parity, fuel price, and short-term rental price (WEF, 2022).

Figure A1.17. Local Currencies Against U.S. Dollar (Selected Economies)



Source: National authorities
Note: MYR = Malaysian Ringgit, RMB = Chinese Yuan, BND = Brunei Dollar, QAR = Qatari Riyal, SAR = Saudi Arabian Riyal, AED = United Arab Emirates Dirham

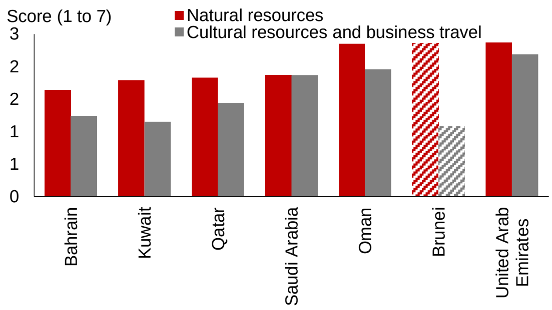
Policy Suggestions

11. Further investment to improve hard and soft infrastructure is desirable to foster an enabling environment for the travel and tourism industry to grow. The government's recent initiative to conduct a survey to understand public transport needs is a step in the right direction.[60] With a good and reliable public transport system, tourists may find it easier to access tourist attractions across the country. The government is encouraged to improve its air connectivity, especially through establishing more direct and long-haul flights to attract tourists, especially from Europe and the US, who are generally perceived to be high value-added tourists with strong preference for eco-tourism and community-based tourism (CBT). The planned establishment of a new Brunei-based airline is a welcome initiative. The new airline is expected to help enhance Brunei's connectivity with several cities in China and the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) region through direct flights[61] and could potentially increase tourists from the region to Brunei in the near term. The upgrading of soft infrastructures such as equipping hotels and resorts with better facilities and internet connection would be desirable. Brunei can benefit from drawing lessons/experiences from the Gulf countries, which have developed their own valuable and unique tourism products; destination branding; and innovative tourism services to attract foreign visitors (Box A1.1).

[60] The authorities launched a series of surveys—open to the public from 20 December 2023 to 12 January 2024—to understand the need of public transportation to improve the current bus system (Source: Borneo Bulletin).
[61] Source: The Scoop

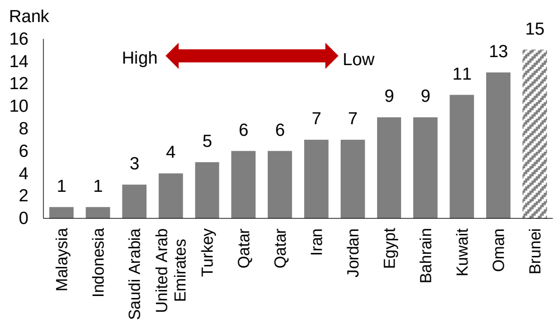
12. Given the competitive nature of global and regional mass tourism, and the tendency for the domestic currency to appreciate over time, establishing a key niche market for its tourism sector is key for sustainable tourism development in Brunei. The country can leverage its rich culture and biodiversity to develop potential niche areas for tourism activities (such as eco-tourism, CBT, and Islamic tourism). By focusing on these niche areas, Brunei can offer higher value-added product offerings, instead of competing with other regional peers in the mass tourism segment (Figure A1.18). The Sultanate has an abundance of pristine rainforest, covering roughly 70 percent of the country's land area[62] and is home to several dozen species which can only be found within its boundary.[63] Brunei can therefore capitalize on these natural endowments (such as Jerudong Park, Ulu Temburong National Park, and Mangrove Resort).[64] In addition, with plenty of non-urban communities, Brunei can enhance the development of its CBT. At present, there are over 30 CBT establishments in the country, operating as lodges, cultural centers, and homestays throughout the country (Noorashid & Chin, 2021). This, combined with eco-tourism, has the potential to attract more foreign visitors to the country, allowing local communities to benefit directly from such tourism activities.

Figure A1.18. Natural and Cultural Resources Travel Pillars under TCCI (Selected Economies)



Source: TTCI 2019 Database by WEF
Note: The natural and cultural resources travel score is from 1 to 7; 7 being the highest.

Figure A1.19. Global Muslim Travel Index (GMTI) (Selected Economies, 2023)



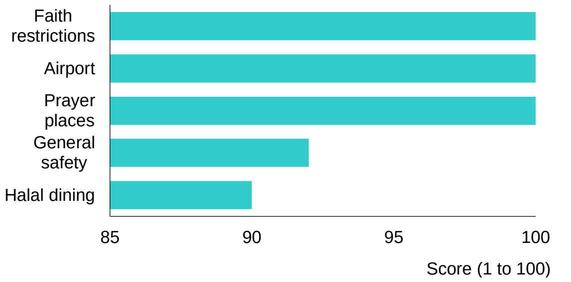
Source: GMTI 2023 by Crescent Rating

13. Another viable option to support growth in the travel and tourism industry is to enhance Brunei's destination as the premier hub for Islamic tourism. Brunei fares well in the Global Muslim Travel Index (GMTI) 2023 by Crescent Rating, coming in 15th place out of 138 economies, but lags behind the GCC countries (Figure A1.19). Brunei has the potential to further develop its Islamic tourism, considering its strengths in key areas, including faith restrictions and prayer places—securing full mark, and Halal dining scoring around 90, according to the GMTI 2023 (Figure A1.20). At the same time, more efforts should be put into improving its weak areas indicated in the GMTI 2023 (Figure A1.21). Strengthening the Muslim-Friendly Tourism destination in Brunei could be done through further developing its Halal food industry, building more Muslim-friendly hotels and resorts, organizing more Muslim related events, among others, in response to the rapid growth of global Islamic tourism. This is reflected in the rapid growth of Muslim visitors globally, reaching 110 million in 2022, or equivalent to around 12 percent of all international arrivals (Crescent Rating, 2023). Muslim travelers are projected to rise to 140 million in 2023 and 230 million in 2028 with an estimated

[62] Source: CNN
[63] Source: Living National Treasures
[64] Brunei has been cooperating with Sundaland Resorts Pte Ltd (registered in Brunei as Mandai Global Pte Ltd)[64] to establish a luxury resort at Ulu Temburong National Park, to be managed by an international hotel chain (Source: Borneo Bulletin). A separate PPP contract to build a luxury restaurant—estimated at BND45 million on a 48-acre area in Bukit Patoi Recreational Park, has been signed by the MPRT. A groundbreaking ceremony of the restaurant took place on 23 July 2022 (Source: BruDirect).

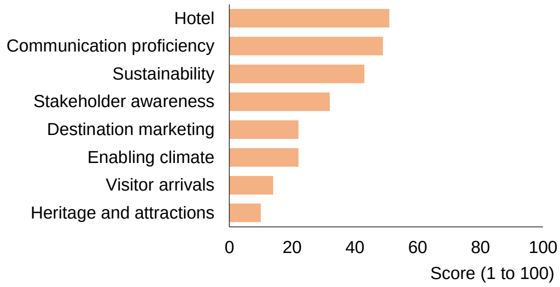
expenditure of roughly USD225 billion, offering the window of opportunity for Brunei to expand its Islamic tourism market.

Figure A1.20. Brunei: Strong Areas in GMTI (2023)



Source: GMTI 2023 by Crescent Rating
Note: 100 is the best score.

Figure A1.21. Brunei: Weak Areas in GMTI (2023)

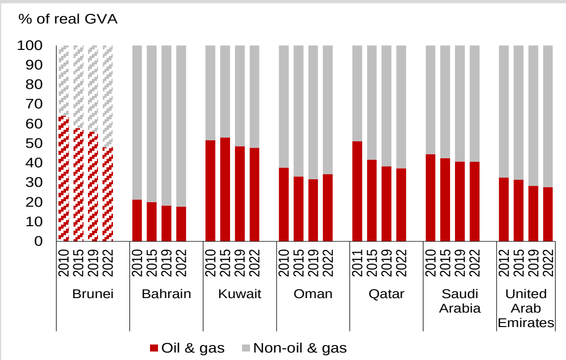


Source: GMTI 2023 by Crescent Rating
Note: 100 is the best score.

Box A1.1. Tourism Development Strategy: The Case of GCC Countries

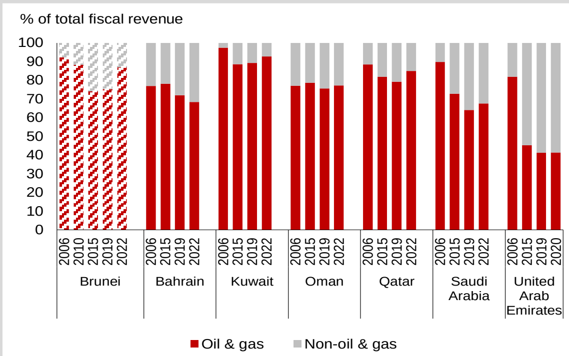
Economic diversification has been a priority in the Gulf countries' economic agenda to reduce their heavy reliance on the volatile hydrocarbon sector. Thus far, the region's economic diversification efforts have been paying off, as evidenced by the gradual reduction in the share of O&G output in both GDP and fiscal revenue (Figures A1.1.1, A1.1.2). Tourism is among key priority sectors[65] into which the Gulf countries have been trying to diversify, in order to transform its economic structure. According to WTTC report, the travel and tourism industry accounted for roughly 10 percent of the region's GDP, having generated around 3.46 million jobs or 13 percent of total in the year prior to the pandemic. This box looks at tourism development strategies implemented by select GCC countries, which could be beneficial for Brunei as a new entrant to the market.

Figure A1.1.1. Brunei vs. GCC Countries: Real Gross Value Added



Source: National authorities; AMRO staff calculations

Figure A1.1.2. Brunei vs. GCC Countries: Fiscal Revenue



Source: National authorities; AMRO staff calculations

United Arab Emirates (UAE)

As the most successful country in the Gulf region, the UAE has formulated its tourism development strategy focusing on the improvement of hard and soft infrastructure; entertainment and attractions; and hospitality. The UAE outperformed its regional peers—having attracted the highest number of arrivals (25.3 million in 2019), with Dubai ranked as the fourth most visited city in the world with approximately 15.93 million visitors in 2019 (Travelness, 2023) (Figure A1.6).[66] Part of the success is owing to the country's endeavors to build entertainment and tourist attractions, including iconic buildings; luxury hotels[67] and shopping malls; theme/ amusement parks;

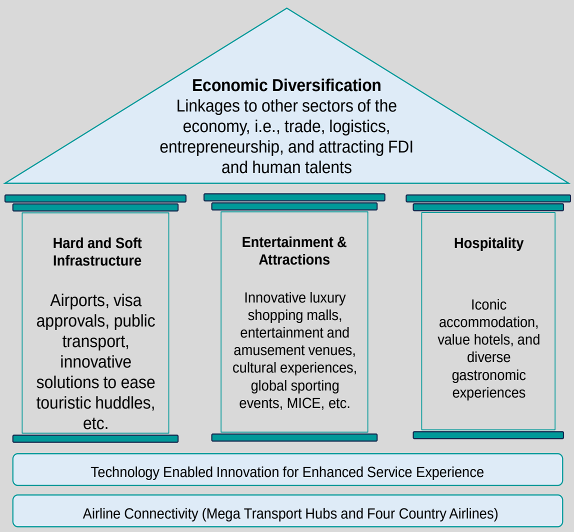
[65] Key priority sectors include tourism, transport, financial services, petrochemicals, manufacturing, food, construction, and real estate sectors (Kasem & Alawin, 2019) (S&P Global Commodity Insights, 2021).
[66] Based on Euromonitor's Top 100 City Destinations Index 2023, Dubai is ranked second among the top 20 cities (Source: CNN).
[67] According to the Global Five Start Index 2022, UAE's Abu Dhabi ranks 3rd with five-star hotels accounting for 28.43 percent of total hotels. (Source: LUXURYHOTEL)

international sports events; among others (Figure A1.1.5). In terms of hard infrastructure, the government has been investing considerably in developing modern and highly efficient international airports, while owning many international and budget airlines which offer extensive global access, convenient for tourists to visit the country (Mahate & Parahoo, 2023). The 900-km Etihad Railway—the country's national rail network completed in March 2023—connects all seven emirates and helps facilitate domestic travels.[68] Facilitating entry visa and deploying innovative services to strengthen tourists' experiences are commendable strategies to attract foreign tourists.[69] To turn the country into a leading tourism hub, the UAE launched multiple-entry tourist visas with 5-year validity in May 2021 for all nationalities to stay up to 90 days on each visit.[70] In November 2022, the UAE also launched its Tourism Strategy 2031, which includes 25 initiatives and policies to support its tourism sector development, with the aim of raising the sector's GDP contribution to AED450 billion.[71]

Saudi Arabia

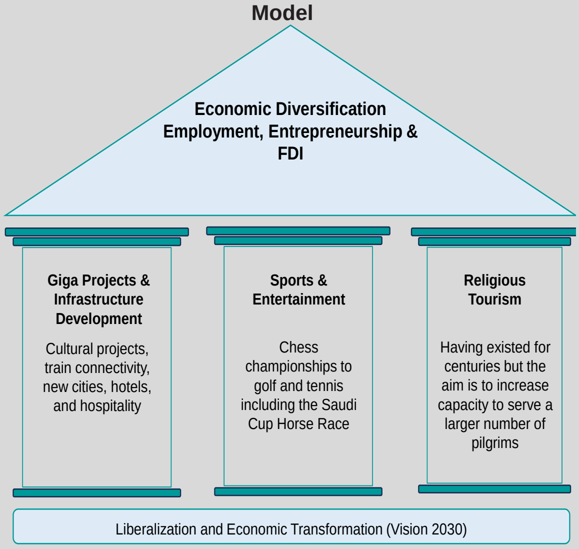
Despite being a late entrant in the GCC tourism scene, Saudi Arabia has a great ambition to transform its tourism sector. The Kingdom aims to attract 100 million tourists per annum. The main focuses of Saudi Arabia's tourism development model involve hosting of sporting events; large investment in entertainment venues and tourist attractions; coupled with huge Giga[72] development projects (Figure A1.1.6). The country's massive sovereign wealth fund allows it to heavily invest in its key development projects.[73] At the same time, Saudi Arabia continues to strengthen its religious tourism, by maintaining its mandatory requirement for all Muslims to perform *haj* or pilgrimage, while providing the option of the non-mandatory lesser pilgrimage so called *umrah* (Mahate & Parahoo, 2023). The number of haj and Umrah pilgrims stood at 2.5 million and 19.1 million, respectively, in 2019 (General Authority for Statistics, 2019). Overall, the Kingdom plans to invest around USD800 billion in the tourism industry, aimed at raising the sector's contribution to GDP to 10 percent by 2030 (Vasseux, 2023).

Figure A1.1.5. UAE: Tourism Development Model



Source: (Mahate & Parahoo, 2023); AMRO staff illustration

Figure A1.1.6. Saudi Arabia: Tourism Development Model



Source: (Mahate & Parahoo, 2023); AMRO staff illustration

[68] Source: Etihad Railways
[69] The UAE has built a system of visa-free or on-entry visas for the bulk of tourists, and electronic visas for the rest (Mahate & Parahoo, 2023).
[70] Source: United Arab Emirates Ministry of Economy
[71] Source: Emirates News Agency-WAM
[72] Giga projects consist of five mega projects, such as (1) Neom (a community for entrepreneurship and innovation and a mega-city of the future, to be powered by 100-percent renewable energy); (2) Red Sea (building a luxury tourism destination along the west coast of the country); (3) Qiddiya (A Capital of Entertainment, Sports and the Arts); (4) ROSHN (project that changes the urban landscape by building quality homes, green spaces, pedestrian-friendly streets, attractive public areas, etc.); and (5) Diriyah (building unique cultural, historical and tourism landmarks and making the country the world's greatest gathering place) (Source: Public Investment Fund).
[73] According to the Los Angeles Times, Saudi Arabia's sovereign Public Investment Fund is worth around USD600 billion.

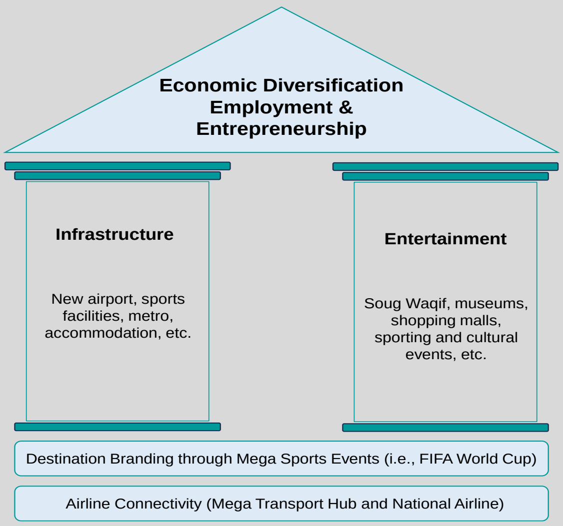
Qatar

Qatar's tourism development strategy is more sports-based than that of its regional peers. The country has made sports a core enabler to attract visitors by organizing mega global sports events, i.e., FIFA World Cup 2022. Qatar also strives to develop its infrastructure ranging from international airlines and metro stations to accommodation (Figure A1.1.7). As for entertainment, the country has been developing its cultural sites, i.e., Souq Waqif, so that tourists can get insights into Arab culture, museums, shopping malls, among others. Introduced in 2014 by Qatar Tourism Authority, the Qatar National Tourism Sector Strategy 2030 envisions the country as a world class tourism hub with deep cultural roots. The strategy has outlined comprehensive plans, KPIs, and estimated budget for all eight priority areas, such as culture, urban, MICE (meetings, incentives, conferences and exhibitions), sports, sun & beach, health & wellness, nature, and education—together requiring an investment of around USD11.5 billion, of which 49.6 percent is for the development of multicultural events and markets.[74] Overall, according to the authority's estimate, the total investment in Qatar's tourism from 2013 to 2030 amounts to USD40-45 billion.

Bahrain and Oman

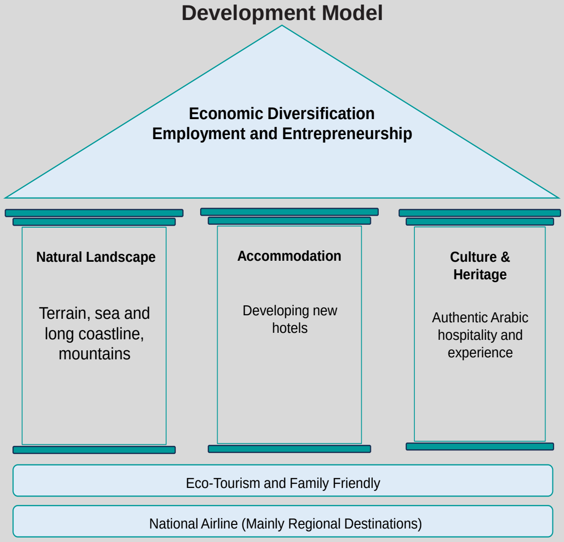
In Bahrain and Oman, eco-tourism has come to the fore in their tourism development strategy. Both countries have been pursuing tourism development mainly in areas, such as eco-tourism (baches, resorts, archaeological sites), authentic Arabic culture/ history, and accommodation, rather than focusing on iconic buildings, international events, entertainment establishments, as prioritized by other GCC countries (Figure A1.1.8). Oman, in particular, has developed clusters of tourist attractions outside the capital city (Mahate & Parahoo, 2023). In Bahrain, the world's largest underwater theme park called Dive Bahrain[75] has been open to diving enthusiasts since 2019, making the country become a global leader in eco-tourism and marine wildlife preservation.[76] Nonetheless, Bahrain and Oman, continue to focus on attracting regional tourists, partly attributed to their airline connectivity that is limited to regional destinations (Mahate & Parahoo, 2023).

Figure A1.1.7. Qatar: Tourism Development Model



Source: (Mahate & Parahoo, 2023); AMRO staff illustration

Figure A1.1.8. Bahrain and Oman: Tourism Development Model



Source: (Mahate & Parahoo, 2023); AMRO staff illustration

[74] Source: Qatar National Tourism Sector Strategy 2030
[75] The theme park spans an area of 100,000 square meters, showcasing a sunken Boeing 747, artificial coral reefs, a replica of a traditional Bahraini pearl merchant's house, while providing information on marine ecologies and raising awareness on marine life preservation. (Source: Gulf News)
[76] Source: Bahrainweek

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Annex 2. Enhancing Economic Diversification in Brunei Darussalam – The Role of Inward Foreign Direct Investment (FDI)[77]

Introduction

1. **Brunei Darussalam's economic structure is inextricably linked to the O&G sector, underscoring the importance of economic diversification to reduce its high dependence on a single sector.** Over the past decade, the economy has been beset by multiple shocks, stemming from fluctuations in global energy prices and domestic production disruptions. The O&G fields are also maturing, as they have been in operation for a significant period. The shift to renewable energy is also presenting a threat to the fossil fuel industry. In order to address such vulnerabilities, it is imperative for Brunei to press ahead with the diversification of its economy to mitigate the risks associated with over-reliance on a single sector for growth. Economic diversification is therefore crucial for sustaining long-term growth and fostering resilience,[78] while helping to increase employment opportunities. Recognizing the importance of further economic diversification, the Brunei authorities have, since the 7th National Development Plan for 1994-2000 (RKN7), been actively integrating economic diversification efforts in its national economic plans, including in the *Wawasan Brunei 2035*.

2. **Amongst the key strategies, well-directed inward FDI has the potential to significantly enhance Brunei's economic diversification efforts.** It has been well documented in the literature that FDI is a key catalyst for economic expansion and diversification (Klasa, 2019; Bekmurodova, 2020; Haini *et al*., 2023). Specifically, FDI inflows that are well-directed towards strategic sectors for economic diversification can play a transformative role, steering the country toward a more balanced economic structure, while bringing in needed capital and facilitating technology diffusion. This can, in turn, foster a more resilient and dynamic economy. For policymakers, the challenge lies in identifying and attracting suitable FDI projects that align with Brunei's diversification goals. This selected issue reviews how FDI inflows have contributed toward Brunei's economic growth and progress in diversification in the last decade, reviews the relevant literature on FDI strategy formulations in other oil-exporting countries, and discusses some policy considerations.

Role of FDI in Promoting Economic Growth and Diversification in Brunei

3. **FDI has played a pivotal role in fostering economic growth in Brunei over the past decade.** A discernible positive correlation can be observed between (net) FDI inflows and the country's total value-added (or real GDP) over 2010-2022 (Figure A2.1). During this period, the country saw the initiation of several new FDI projects (such as the Hengyi Project Phase I),[79] which augmented economic activities in the country. The realization of these FDI projects has contributed substantially to economic activities, helping to raise GDP growth by 1.5 percentage points from 2019-22 (Figure A2.2).

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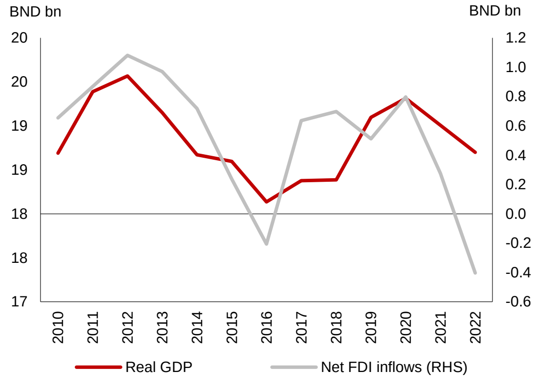
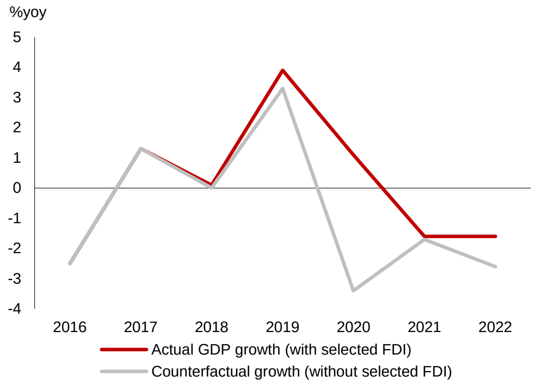
[77] This selected issue was prepared by Andrew Tsang, Economist.
[78] In addition, according to the empirical results of Haini *et al*. (2023), Brunei's diversification has a positive and significant association with export upgrading (towards more sophisticated export structures) in the long run.
[79] Hengyi Industries is a joint venture on a refinery and petrochemical project between the Brunei government and a private Chinese enterprise. With an investment value of USD3.45 billion, it has become the most sizeable FDI project in Brunei. Hengyi Project Phase I started operations in November 2019 and has made a significant contribution to the economy already.

Figure A2.1. Net FDI Inflows and GDP



Source: DEPS; AMRO staff calculations

Figure A2.2. Contribution of FDI to GDP growth

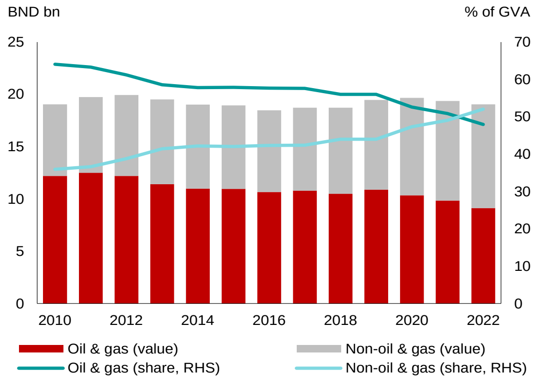


Source: DEPS

Note: The contribution of selected FDI to GDP is determined by calculating the estimated value-added of selected FDI companies. The counterfactual growth refers to the growth rate of the counterfactual GDP, where the latter is derived by subtracting the contribution of the selected FDI to the GDP from the actual GDP.

4. **Significant efforts have also been made to diversify Brunei's economy, which has also benefited from the realization of FDI projects in recent years.** The country has put considerable effort into diversifying the economy away from the upstream O&G sector. The non-O&G sector, including downstream refinery, accounted for 52 percent of the real gross value added in 2022, from 43 percent in 2018 (Figure A2.3). As a result, Brunei has seen a marked increase in the share of non-O&G exports, comprising mainly petrochemical exports (such as methanol, propylene, benzene, etc.) since 2020 (Figure A2.4). Encouragingly, since 2023, Brunei has also started to export fertilizers, thanks to the realization of another key FDI project – Brunei Fertilizer Industries (BFI). This has enabled the economy to transition from being a predominantly upstream O&G producer to having a more balanced upstream and downstream mix. By directing FDI into such downstream activities, Brunei has benefited immensely from this strategy, at a time when its economy is facing strong headwinds in the upstream O&G sector. Despite these positive trends, the upstream O&G sector has remained an important pillar supporting the economy.

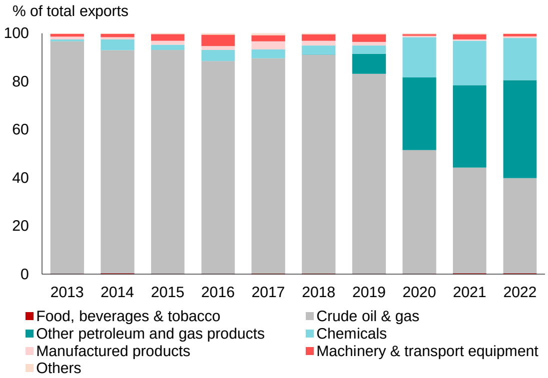
Figure A2.3. Share O&G and non-O&G sectors in Gross Value Added (GVA)



Source: DEPS; AMRO staff calculations

Note: GVA in constant 2010 prices.

Figure A2.4. Exports by Key Products



Source: DEPS; AMRO staff calculations

Note: Exports of oil refineries are AMRO staff estimates given data unavailability.

Experiences of Other Oil-exporting Countries

5. Cross-country experiences suggest that formulating strategic FDI policies is essential, involving the careful selection of suitable projects that align with the objectives of economic diversification. It is imperative to engage in strategic planning and to carefully select suitable FDI projects that contribute to more balanced and sustainable economic portfolio (Callen *et al*., 2014; Bekmurodova, 2020; Eissa and Elgammal, 2020). Cross-country experiences suggest that the criteria for selecting FDI projects in the context of a successful economic diversification strategy should come with the following considerations:

- **The country should prioritize FDI projects that leverage on its comparative advantages.** Notably, diversification strategies should be centered around optimizing the utilization of the country's resources, including natural resources, workforce, and abundant capital (Haini *et al*., 2023). For example, Bahrain and Dubai in the UAE actively develop their financial services sector, capitalizing on their comparative advantages in Islamic finance, although Dubai also created a financial zone (Dubai International Financial Centre) where Shariah laws do not apply. Meanwhile, owing to their strategic locations, Dubai, Oman, and Qatar focus on attracting FDI in the logistics and trade industries. Drawing inspiration from this experience, Brunei could better formulate its FDI policy to entice projects that align with its comparative advantages.

- **The establishment of new FDI projects should align with the country's sustainable development strategy.** It is essential to diversify the economy into sectors that offer country-specific advantages, fostering local employment. Furthermore, the introduction of new FDI projects should be in harmony with the imperative of ensuring a sustainable environment (Bekmurodova, 2020). In general, FDI policies in GCC countries focus on attracting new projects that align with their sustainable development strategies. Saudi Arabia requires new FDI projects that contribute to increased local employment, boost SME contributions to GDP, and enhance women's workforce participation. Likewise, Kuwait and Oman prioritize private sector engagement in national economic activities. In the longer term, GCC countries seek to build a knowledge-based economy—one that is aligned with environmental sustainability. This entails attracting FDI that focuses on technology, innovation, and environmentally friendly projects. In similar vein, Brunei can draw upon such cross-country experience in charting its FDI policy strategies, consistent with its sustainable development strategy.

6. The formulation of well-defined policies is imperative to effectively achieve the objective of economic diversification through well-targeted FDI. Figure A2.5 summarizes the significant determinants for identifying well-targeted FDI in literature. Crafting policies that strategically leverage on these determinants is integral in realizing the goal of economic diversification through increased FDI.[80] Figure A2.6 lists the policies to enhance FDI inflows for economic diversification and the latest developments in Brunei. In general, Brunei has been proactive in enhancing its FDI policies to promote economic diversification. Fostering a knowledge-based economy and the continuing upskilling of the workforce would be essential to unlock future diversification potential. Moreover, drawing from other oil-exporting countries' experience, policymakers are encouraged to strengthen Brunei's FDI inflows by making further enhancements to its FDI policy to be more conducive to businesses. Box A2

[80] Theoretically, heightened FDI inflows can result from a country's well-functioning institutional framework (as per institutional theory) or the distinctive advantages it offers (according to internalization theory). These advantages encompass ownership benefits, location features, and internalization opportunities (Dimitrova *et al*., 2020).

summarizes the experience of formulating and implementing FDI policies to promote economic diversification in the GCC countries.

Figure A2.5. Significant Country-specific Factors Determining FDI Inflows

Natural resource endowment	• Availability of O&G resources • Availability of other resources
Macroeconomic and financial factors	• Trade openness • Domestic market size • Infrastructure quality • Global and domestic economic performance • Debt level, fiscal policy and monetary policy
Institutional and regulatory factors	• Institutional quality • Political stability • Ease of doing business • Trade Agreement
Socio-cultural factors	• Human capital (Education) • Cutural distance

Source: Dimitrova *et al*. (2020); Bekmurodova (2020); Eissa and Elgammal (2020); Lashitew *et al.* (2021)

Figure A2.6. Policies to Enhance FDI Inflows for Economic Diversification

Policy (Literature)	Findings on the Latest Developments in Brunei
Institutional improvement (Babayev, 2019; Arman *et al*., 2022; Haini *et al*., 2023)	Brunei possesses a robust institutional framework and physical infrastructure.
Infrastructure enhancement (Mosteanu and Alghaddaf, 2019; Dimitrova *et al*., 2020)	Brunei's physical infrastructure is well developed.
Development of knowledge economy (Babayev, 2019; Jeong, 2020; Arman *et al*., 2022)	It would be essential for Brunei to foster a knowledge-based economy, while undertaking further upgrading of its economic standing (e.g., in the area of education and skills developments).
Human capital enhancement (Arman *et al*., 2022; Shittu *et al*., 2022; Haini *et al*., 2023)	It would be essential for Brunei to enhance the skills of its workforce to meet the requirements of a knowledge-based economy.
Investment policy (Mosteanu and Alghaddaf, 2019; Arman *et al*., 2022; Haini *et al*., 2023)	Brunei has taken a proactive step by establishing the FDI Action & Support Centre (FAST), and has implemented attractive investment incentives, exemplified by tax breaks.
Trade policy (Babayev, 2019; Haini *et al*., 2023)	Brunei has demonstrated proactive involvement in FTAs, leveraging its membership of ASEAN and fostering bilateral agreements with countries in Asia-Pacific region.

Source: AMRO staff compilations

Policy Considerations

7. **The strategic attraction of FDI to sectors beyond downstream activities—that are aligned with the *Wawasan Brunei 2035* and Brunei's comparative advantages—becomes imperative for a sustained pace of economic diversification.** While commendable diversification progress has been made in recent years, particularly in the downstream sector (such as the Hengyi Industries and BFI), a similar strategic approach in attracting FDI in other priority sectors (such as food (including halal and agrifood business), tourism and info-communication technology (ICT)) is imperative to ensure a sustained pace of economic diversification. For example, in the area of food, Brunei can take advantage of its natural endowment, i.e., its rich biodiversity, by harnessing its marine resources in advancing the developments of the aquaculture industry. By amalgamating its traditional labor-intensive aquaculture industry with high-tech digital technology, Brunei can potentially attract more FDI into these emerging industries. Encouragingly, tangible progress has been seen in recent FDI announcements in Brunei, such as the expanded investments in the aquaculture sector, encompassing barramundi and salmon farming in Tutong and Belait districts. These FDI projects are well-aligned with Brunei's comparative advantages, which would help sustain the pace of economic diversification.

8. Brunei's FDI policies should actively address and/or alleviate the potential scarring effects caused by the COVID-19 pandemic, which may have caused some setbacks to the progress of economic diversification. The extended period of border closures and mobility restrictions during the pandemic have notably affected sectors such as tourism, causing significant disruptions to activities with a negative impact on employment. Although the COVID-19 pandemic has ebbed, the tourism sector may take a while to stage a full recovery, underscoring the potential scarring effects from the COVID-19 pandemic. For example, scarring in the labor market is most evident, as sectoral employment, particularly in contact-intensive segments of the hospitality service, has yet to recover to pre-pandemic levels. In this context, country authorities are encouraged to re-examine FDI projects that place greater emphasis on local job creation, including human capital development and digitalization priorities. This approach underscores the commitment to not only mitigate the scarring effects of the COVID-19 pandemic, but also to ensure that FDI projects actively contribute to the overall positive welfare of the country.

9. Fostering the development of the knowledge-based economy and ensuring that the workforce is up to the challenge would unlock the promise of future diversification potential. Brunei benefited from the robust institutional framework and physical infrastructure that are attractive to FDI. Looking ahead, the development of a knowledge-based economy—one that reflects a higher level of sophistication in the economy—would unleash future FDI potential. The upgrading of economic growth potentials, particularly in the area of human capital development (education and skills), would be critical particularly in priority sectors such as ICT. Drawing on the experience of GCC countries, Brunei can strategically incorporate innovation and knowledge-driven projects into its long-term development plans. Policymakers could consider providing incentives, such as tax exemptions, to target and attract FDIs notably in the R&D and technology space. Recognizing the pivotal role of skilled labor in the establishment of a knowledge-based economy, prioritizing upskilling of the domestic workforce would be encouraged. This can be achieved through initiatives like providing quality education at the tertiary level and facilitating on-the-job training to ensure a competent and adaptable workforce that aligns with the demand for a knowledge-centric economic landscape.

Box A2.1. GCC Countries: Key Thrusts of FDI Policies

The FDI policies of GCC countries have been formulated to attract foreign investment to help diversify their economies. The FDI policies in GCC countries are accompanied by high-level economic visions, government initiatives, engagement with investment promotion agencies, and the creation of specific regulatory frameworks. These policies are designed to attract foreign investment. The details of key FDI policies in different GCC countries are summarized in Table A2.1.1.

Table A2.1.1. Key FDI Policies in GCC Countries

Country	Key FDI Policies
Bahrain	The advantages for foreign investors include zero taxation for private companies, few indirect taxes for private enterprises and individuals, and free movement of capital – 100 percent foreign ownership of business assets and real estate in most sectors.
Kuwait	The advantages for foreign investors include the right to transfer abroad the profits, capital, or proceeds resulting from the disposal of their shares or participation in the Investment Entity or the compensation (according to the laws), exemption from income tax or any other taxes for a period not exceeding 10 years from the date of the actual commencement of operations of the licensed investment entity, as well as exemption from customs duties of certain imports.
Oman	The advantages for foreign investors include competitive services' prices, tax exemption for five years or longer under certain conditions, no income tax for individuals, freedom of transferring capital and profits and freedom of exchanging foreign currency with a fixed exchange rate. Investors can form more than

	one legal entity to organize their business (e.g., public joint stock companies, public closed cooperation, limited liabilities companies, and holding companies).
Qatar	The advantages for foreign investors include part-ownership in Qatar shareholding companies, exemption from income tax for 10 years and no quantitative quotas on imports, no restrictions on money exchange and transfer of profits abroad, no export duties or taxes on corporate profits for pre-determined periods, and flexible regulations and procedures to import skilled and unskilled workforce.
Saudi Arabia	Bilaterally, Saudi Arabia has signed treaties for the avoidance of double taxation of income and capital (DTAs) with 29 countries as well as agreements aimed at promoting and protecting the investments of the enterprises of one contracting party in the territory of the other with 23 countries, including some of the European Union (EU) member states. Corporate income tax, applicable on foreign ownership of Saudi-based companies, with a statutory corporate rate, is set at 20 percent, the lowest in the G20.
UAE	UAE allows foreign investors to own up to 100 percent of the business. In addition, incentives include investment protection guarantees, financial transfer facilities, and the possibility of modifying the partnership, merger, acquisition, and transfer of ownership under the investor's interest.

Source: EU-GCC Dialogue on Economic Diversification Project, European External Action Service (EEAS), EU
Note: The content is extracted from various country economic profiles published by EEAS, EU.

FDI policies in GCC countries are crafted to attract investments in specific sectors identified for diversification. In general, the GCC countries have undertaken diversification of their economies away from the O&G sector by targeting the services sector (ranging from technology and tourism), as well as manufacturing and logistics. These are well-aligned with longer-term strategic objectives of economic development in the respective economies (Table A2.1.2), which are aimed at fostering a more resilient and diverse economic landscape. However, the success of economic diversification efforts hinges on the effectiveness of FDI policies in attracting foreign investments that align with the countries' strategic goals. The following is a summary of the relationship between FDI policies and economic diversification in the GCC by country:

Bahrain

- Bahrain's FDI policies are aligned with its goal of economic diversification. Efforts are made to attract investments in sectors beyond oil, such as in financial services, manufacturing, and technology.
- FDI policies in Bahrain often include incentives for non-oil industries, encouraging foreign investors to contribute to the diversification of the economy.

Kuwait

- FDI policies in Kuwait are part of the New Kuwait 2035 vision, emphasizing economic diversification. The focus includes attracting foreign investors to contribute to the development of non-oil sectors.
- FDI policies support privatization efforts and investments in infrastructure, aligning with Kuwait's broader goal of diversifying the economy.

Oman

- Oman's FDI law is designed to attract foreign investments that contribute to economic diversification. The law specifies sectors for FDI, including logistics, tourism, and manufacturing.
- Special Economic Zones (SEZs) with favorable FDI policies have been established to attract investments in targeted industries, fostering diversification.

Qatar

- Qatar's FDI policies play a role in opening up specific sectors to foreign investors, contributing to diversification efforts beyond hydrocarbon-related industries.
- FDI policies support investments in infrastructure and tourism, aligning with Qatar's goals of economic diversification and reducing reliance on traditional revenue sources.

Saudi Arabia

- Saudi Arabia's Vision 2030 serves as a blueprint for both FDI policies and economic diversification. The FDI framework focuses on opening up new sectors, reducing reliance on oil, and attracting foreign capital to non-oil industries.
- FDI policies in Saudi Arabia actively support diversification initiatives, including privatization efforts, development of the entertainment sector, and investment in renewable energy.

The UAE

- The UAE has a clear strategic vision for economic diversification and aims to reduce its historical dependence on oil revenue. FDI policies are formulated with the broader goal of diversifying the economy by attracting investments in non-oil sectors such as technology, tourism, renewable energy, and healthcare.
- UAE's policies are designed to incentivize and attract foreign investors to key sectors identified for diversification. This includes offering favorable conditions in free zones, relaxing ownership restrictions, and providing financial incentives to companies operating in strategic areas.
- UAE's FDI policies often emphasize the development of a knowledge-based economy. Investments in technology, research and development, and innovation are actively encouraged to position the UAE as a hub for advanced industries and services.

Table A2.1.2. Economic Diversification Goals in GCC Countries

Country	Economic Development Objectives
Bahrain	• The country's development plan is mapped out in the Economic Vision 2030 document – goal: a sustainable, competitive, and fair economy capable of doubling real household income by 2030. • The roadmap to achieving the Vision is the National Economic Strategy, developed by the ministries under the guidance of the Economic Development Board. • Empower the private sector to drive economic growth by enhancing productivity and skills, focusing on existing high-potential sectors, and capturing emerging opportunities through an environment highly conducive to entrepreneurship and innovation. • Efficient government focusing on developing high-quality policies and reforming the public sector to become more productive, to strengthen investor trust and confidence in Bahrain's free market economy. • Implement energy-efficiency regulations and facilitate direct investments in technologies that reduce carbon emissions, minimize pollution, and promote the sourcing of more sustainable energy.
Kuwait	• The country's development plan is mapped out in the Vision 2035 "New Kuwait" – goal: to transform Kuwait into a financial and trade hub attractive to investors, where the private sector leads the economy, creating competition and promoting production efficiency. • Sustainable, diversified economy: ➢ Develop a prosperous and diversified economy to reduce the country's dependency on oil export revenues. ➢ Increase local productivity and development of non-oil economic sectors. ➢ Engage the private sector in the national economic activity of the country. • Infrastructure development – Develop and modernize the national infrastructure to improve the quality of life for all citizens. • Sustainable living environment – Ensure the availability of living accommodations through environmentally sound resources and tactics, utilize renewable energy, and improve the efficiency of waste management.
Oman	• Oman Vision 2040 focuses on reshaping the roles of and relations between the public, private, and civil sectors to ensure effective economic management, achieve a developed, diversified, and sustainable national economy, ensure fair distribution of development gains among governorates, and protect the nation's natural resources and unique environment. • National economic priorities: ➢ Economic Leadership and Management – solid and effective economic legislative framework, Effective economic leadership with binding powers and a clear mandate to swiftly respond to development needs. ➢ Economic Diversification and Fiscal Sustainability – diversified, sustainable and competitive economy based on knowledge and innovation, one that adapts to the industrial revolutions and achieves fiscal sustainability. ➢ The Private Sector, Investment and International Cooperation – The private sector drives a competitive economy that is integrated with the world economy.
Qatar	• Qatar's National Vision aims that by 2030 Qatar becomes an advanced society capable of sustaining its development and providing a high standard of living for its people. • Sound Economic Management – achieve reasonable and sustained rates of economic growth, financial and economic stability, a stimulating business climate capable of attracting foreign funds and technologies, and encouraging national investments, and open and flexible economic structures capable of competing in a changing world. • Responsible exploitation of oil and gas – establish balance between reserves and production, and between economic diversification and the degree of depletion. • Economic diversification aiming to reduce dependence on hydrocarbon industries. Design and development of economic activities in which Qatar can specialize, including the technical and human requirements of these activities; build a knowledge-based economy characterized by innovation, entrepreneurship, excellence in education, and world-class infrastructure.
Saudi Arabia	• The Kingdom of Saudi Arabia's 'Vision 2030' outlines the Kingdom's goals and objectives that will enable the country to become 'a pioneering and successful global model of excellence, on all fronts. • Job Creation – Lower the unemployment rate, increase SME contribution to GDP, increase women's workforce participation. • Investing for the long-term to develop the national economy – become one of the world's top 15 largest economies, increase localization of oil and gas sectors, increase Public Investment Fund (PIF) assets, increase the competitiveness of renewable energy through the gradual liberalization of the fuels market.

	• Open for Business – Increase FDI, develop sophisticated digital infrastructure that is integral to advanced industrial activities, and increase the contribution of modern retail trade and e-commerce. • Leveraging Unique Position – build out a logistics hub and integrate regionally and internationally.
UAE	• The UAE set out to become 'one of the best countries in the world' and outlined its vision to do so by the Golden Jubilee of the Union, in 2021. • Competitive Knowledge Economy – innovation, research, science, and technology will form the pillars of a knowledge-based, highly productive, and competitive economy. • Sustainable Environment and Infrastructure – ensure sustainable development while preserving the environment. • Besides the UAE Centennial 2071 plan, several programs and initiatives focus on economic growth and diversification: UAE Policy for Advanced Industries, Emirates Blockchain Strategy 2021, Science, Technology and Innovation Policy, National Strategy for Advanced Innovation, National Food Security Strategy 2051, National Advanced Sciences Agenda 2031, UAE Energy Strategy 2050, National Climate Change of the UAE 2017-2050, UAE Water Security Strategy 2036, UAE Strategy for the Fourth Industrial Revolution, UAE Strategy for Artificial Intelligence, and the UAE Centennial 2071.

Source: EU-GCC Dialogue on Economic Diversification Project, EEAS, European Union EU
Note: The content is extracted from various country economic profiles published by EEAS, EU.

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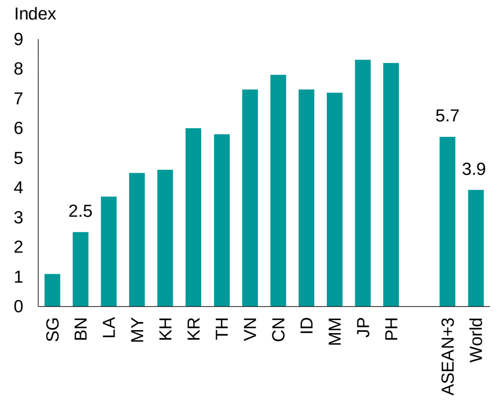
Annex 3. Climate Change Mitigation Challenges in Brunei – An Overview[81]

Background

1. Brunei faces significant climate change challenges, given the continuing dependence on hydrocarbon resources. For the past several decades, fossil fuels have been a key source of energy in Brunei, an important source of export earnings and fiscal revenue for the nation, as well as a main driver of inward FDI. However, the energy sector is also the largest polluting sector in Brunei. Fossil fuels are used for power generation by energy industries, accounting for 54.6 percent of total greenhouse gas (GHG) emissions. This is followed by power generation for public utilities (21.5 percent), transportation (8.9 percent), as well as from fugitive emissions (8.6 percent).[82] While Brunei's natural disaster risk is generally low—ranked the second lowest in the region and far below the world average—the continuing dependence on fossil fuels implies that the risks associated with the global shift towards to a more sustainable, low-carbon economy can be significant for Brunei (Figure A3.1).

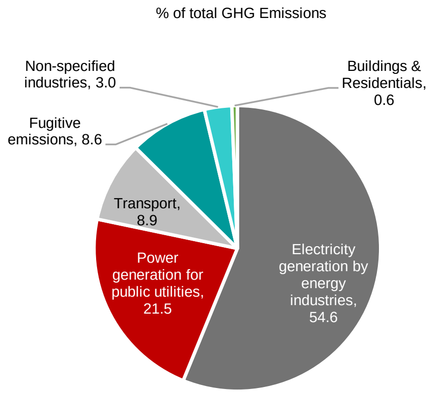
2. Even though Brunei's share of global carbon footprint is relatively small, the country has committed to an ambitious climate action agenda. Recognizing the urgency of addressing climate challenges, Brunei has set forth strategies aimed at reducing GHG emissions while bolstering overall climate-resilience nationwide. The Brunei National Climate Change Policy (BNCCP), launched on 25 July 2020, outlines the principles, values and strategies needed to pave the way for low carbon and climate-resilient pathways for sustainable national development. The strategies cover climate mitigation and adaptation measures, as well as strategies to raise awareness through education.

Figure A3.1 Natural Hazard & Exposure Risk (Selected Economies), 2024



Source: The INFORM Risk Index 2024 by the European Commission; AMRO staff calculations
Note: The INFORM Risk Index identifies countries at high risk of humanitarian crisis that are more likely to require international assistance. The index contains three dimensions of risk: Hazards & Exposures, Vulnerability and Lack of Coping Capacity. ASEAN+3 and World average is simple average of countries in respective groups. BN = Brunei, CN = China, ID = Indonesia, JP = Japan, KH = Cambodia, KR = Korea, LA = Lao PDR, MM = Myanmar, MY = Malaysia, PH = The Philippines, SG = Singapore, TH = Thailand, VN = Vietnam

Figure A3.2 Brunei: GHG Emissions by Source, 2020



Source: IMF Country Report No. 23/347, Brunei Darussalam Selected Issues; IMF/EDGAR/FAO/UNFCCC

[81] Prepared by Sungtaek Kwon, Senior Economist.
[82] Fugitive emissions refer to unintended or accidental releases of gases, vapors, or particulate matter into the atmosphere from industrial activities or processes (such as upstream oil and gas operations, and downstream refining operations). These emissions are often unintended and can occur during the production, transportation, or storage processes.

3. Over the longer term, the challenge is to accelerate the transformation of the economy towards a less hydrocarbon-dependent economy and foster sustainable growth. Such urgency is premised on the notion that the demand for fossil fuels is expected to undergo a structural decline, reflecting the shift in consumer and business behavior towards low-carbon markets and products. As a result, renewable energy transition and low-carbon investments are bound to accelerate. Brunei, where the O&G sector and hydrocarbon revenues almost entirely support the economy, will lose a significant portion of its potential growth, calling for proactive and strategic approaches to economic diversification.[83]

4. This selected issue seeks to provide an overview of Brunei's climate change challenges focusing on recent climate mitigation developments, with some suggestions for policy. The analysis uses international (comparative) data, focusing on recent global trends with respect to the key contributors to implementing Brunei's climate mitigation strategies. These are in the area of electric vehicles (EV) and renewable energy as well as bridging technologies (notably carbon capture, utilization and storage). In addition, the opportunities from international climate financing to advance Brunei's climate agenda are also explored. This is followed by some policy discussions.

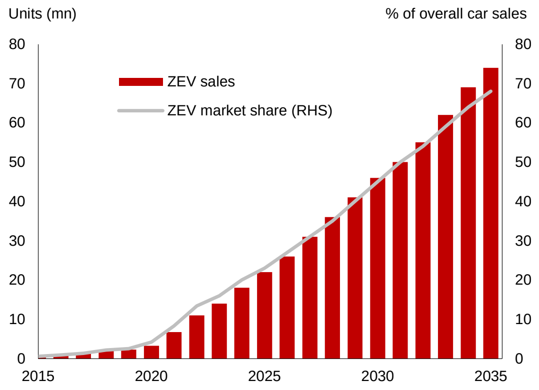
Selected Key Climate Mitigation Strategies – Overview of Recent Developments

Electric Vehicles (EV)

5. The zero-emissions electric vehicles (ZEV) market remains in its infancy in Brunei. Amid a global paradigm shift to future cars, world automotive manufacturing has been rapidly moving away from traditional internal combustion engine vehicles (ICEV) and hybrid electric vehicles (HEV) to ZEV, including battery-electric vehicles (BEV) and plug-in hybrid electric vehicles (PHEV). On the demand side, ZEV sales have been growing exponentially due to falling costs, improving technology and government support. Looking ahead, all the major car markets are planning to reduce or eliminate the sale of ICEV by 2030s. According to the *EV-volumes.com* (an EV world sale database), ZEV is forecast to account for 16 percent of overall car sales across the world in 2023 and 68 percent in 2035, respectively (Figure A3.3). As of 2022, the leading countries with the highest share of EV sales are Norway, where EV made up 80 percent of passenger vehicle sales, followed by Iceland (41 percent), Sweden (32 percent), the Netherlands (24 percent), China (22 percent), and the U.S. (6 percent), according to the World Resources Institute.[84] In terms of EV ownership per capita, European countries, the U.S., China and Korea take up the top 10 spots owing to highly lucrative government incentives to promote EV sales, including tax policies incentivizing EVs over gasoline-powered vehicles and active investments in rolling out charging network infrastructures (Figure A3.4). However, Brunei is only in its infant stages in terms of domestic ZEV sales such that there are just 19 EVs registered in the country as of August 2022.

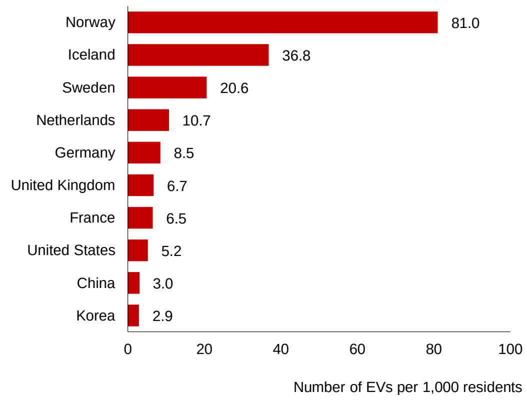
[83] The International Agency (IEA, September 2023) has projected for the first time that fossil fuel consumption will peak before 2030 and fall into permanent decline as climate policies take effect.
[84] According to the Bloomberg NEF EV outlook 2023, in H1 2023, EV reached 33 percent of total vehicle sales in China, followed by Germany (35 percent) and Norway (90 percent). In particular, EV sales are expected to hit a record 9 percent of total new passenger vehicle sales in the U.S. in 2023 (up from 7.3 percent in 2022), according to Atlas Public Policy.

Figure A3.3. Global ZEV Sales



Source: EV volumes.com; AMRO staff calculations

Figure A3.4. Top 10 with EVs per capita



Source: Statista; Chart by Canary Media

6. **Major hurdles to EV adoption are the lack of charging infrastructure as well as the absence of EV purchase and maintenance incentives.** First, there are currently only a few EV charging stations in Brunei, making it a challenge for consumers to own an EV if they do not have a home charger. According to the BloombergNEF, China, Europe, the U.S., Japan and Korea have rolled out public EV charging infrastructure, which helped to incentivize the adoption of EV, with positive prospects over the next few decades.[85] Second, given that fuel prices are largely subsidized in Brunei, the current high price of EVs may not be perceived as attractive, viewed solely in terms of costs. Third, the government has been promoting EV ownership as part of the '*Wawasan Brunei 2035*'. Since January 2021, it is noted that additional vendors have brought in EV into Brunei to provide more choices for consumers. According to the industry, however, the financial and administrative support for EV ownership has been largely muted. In contrast, Singapore has introduced notable measures and made policy changes to reduce the cost of buying and owning EV, as compared to ICEV, to support the transition and adoption of EV, including EV Early Adoption Incentive (EEAI), Enhanced Vehicular Emissions Scheme (VES), Additional Registration Fee (ARF) floor reduction, Revision of road tax framework for EV, etc.

Renewable Energy

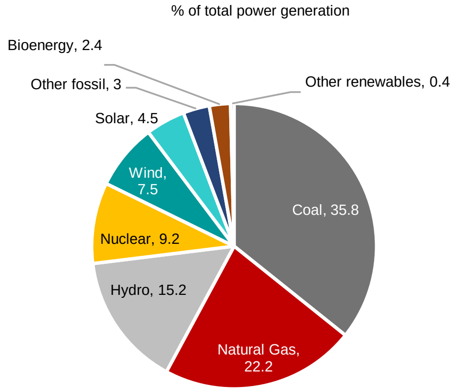
7. **While the rest of the world continues to switch away from fossil fuels to generate power, there is potential for Brunei to catch up in the deployment of renewable energy sources.** According to the Statista (Figure A3.5), fossil fuels still remain the greatest source of electricity generation worldwide.[86] Amid a global shift to green economy, world power generation has been rapidly moving away from fossil fuels to renewables, given that it has the potential to greatly reduce the amount of GHG emissions.[87] Renewable energy technology for large-scale deployment has already been proven—in terms of performance, durability and economic feasibility. Encouragingly, the share of renewables in global electricity has shown a more pronounced year-on-year growth in recent years, following increased efforts by governments to combat global warming, as well as lower costs.[88] Even at the corporate level,

[85] Each country will have its own optimal mix of home, workplace and public chargers.
[86] In 2022, coal accounted for roughly 35.8 percent of the global power mix, followed by natural gas (22 percent share).
[87] According to the International Energy Agency (IEA), annual renewable energy generation of the U.S. in 2019 exceeded coal power generation for the first time since 1885. Furthermore, the share of renewable energy generation in OECD countries reached 33 percent In H1 2021, including Denmark which recorded 77 percent, Canada (71 percent), Germany (43 percent), France (25 percent), and Japan (22 percent), respectively. Globally, more than 80 percent of newly installed power generation facilities in 2021 were renewable energy facilities.
[88] Even at the corporate level, the number of global enterprises joining RE100[88] a global initiative of over 400 globally influential corporates committed to 100 percent renewable electricity, is rapidly increasing.

the number of global enterprises joining RE100 is rapidly increasing (see Appendix Box 1). In Brunei, however, only 0.01 percent of Brunei's total power supply was generated using renewables in 2021, with negligible growth over the past six years (2015 to 2021) (Figure A3.6)

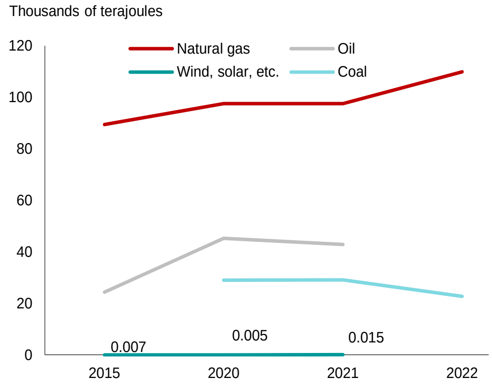
8. **With the launch of the BNCCP, the government has set up an ambitious target to meet 30 percent of its overall power generation mix with renewable energy by 2035, mostly driven by the national solar energy target to generate 200 megawatts by 2025.** While this is indeed encouraging, given that solar power accounts for 100 percent of renewable energy capacity in Brunei, the capacity utilization rate of solar power stood at only 4 percent in 2021, according to the International Renewable Energy Agency (IRENA). In contrast, the corresponding rate for fossil fuel power plants is 41 percent although the bulk of it is from gas, the cleanest form of fossil fuel. Furthermore, a small proportion (1 percent) of solar power generation is typically used for industrial purposes, and most are for household use. This underscores the challenge in deploying renewable energy in Brunei, particularly in the power sector.

Figure A3.5. World Power Generation by Source, 2022



Source: Statista

Figure A3.6. Total Energy Supply in Brunei



Source: International Energy Agency (IEA)

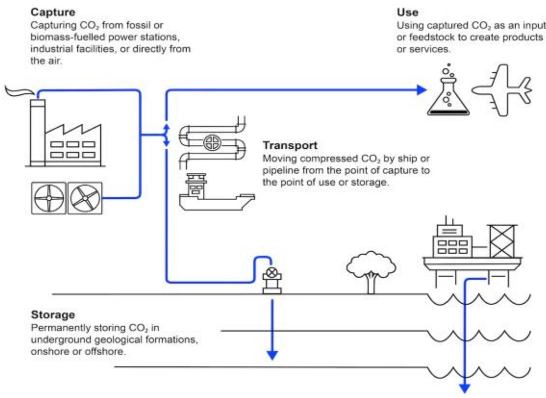
Mitigation Technologies—Carbon Capture, Utilization and Storage (CCUS)

9. **In the energy sector's 2050 net-zero pathways, the country aims to undertake resource optimization (such as improvement in generation, transformation, and process efficiency), while leveraging on mitigation technology as part of the commitment towards achieving carbon neutrality**. Leveraging on mitigation technology would serve as a bridge towards achieving a lower carbon intensity particularly for hard-to-abate industries, notably in the power generation sector. Considering that hydrocarbon resources will continue to remain important in meeting the energy demand during the transition, leveraging on green technology—such as CCUS—can help reduce the risk of stranded (fossil-fuel based) assets, while safeguarding economic growth during the country's energy transition.

10. **Against this backdrop, Brunei has the potential to scale up deployment of CCUS technology, which enables industrial and power facilities to operate with substantially reduced emissions.** As shown in Figure A3.7, CCUS is one of the few scalable solutions available for decarbonizing heavy industries and power plants. CCUS involves the capture of CO2 from large point sources, including power generation or industrial facilities. If the CO2 is not being used on-site, the captured CO2 is compressed and transported by pipeline, ship,

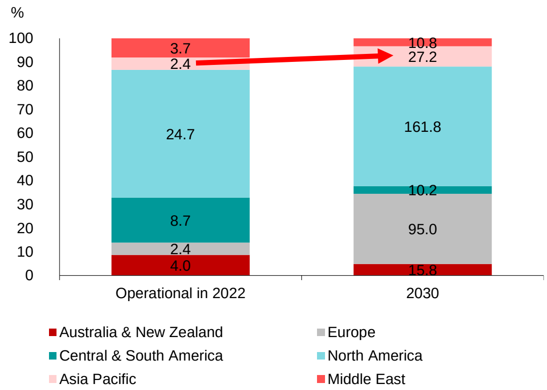
rail or truck to be used in a range of applications, or injected into deep geological formations, including depleted oil and gas reservoirs or saline formations, which trap the CO2 for permanent storage. According to the IEA, CCUS deployment has been behind expectations in the past, but stronger investment incentives and climate targets are providing new impetus for CCUS growth, with over 500 projects in various stages of development across the CCUS value chain. In the region, Indonesia finalized its legal and regulatory framework for CCUS in March 2023, making it the first country in the region to establish a framework for CCUS activities. Vietnam also approved the National Energy Masterplan (NEMP) in August 2023 to aim for Vietnam's CCUS capacity in industries and power plants of about 1 million metric tons per year (mt/year) by 2040 and 3-6 million mt/year by 2050. As a result, the IEA predicts that the Asia-Pacific region will show the steepest growth in the CCUS capture capacity after Europe (Figure A3.8).

Figure A3.7. CCUS Chain Overview



Source: Illustration by IEA

Figure A3.8. Operational & Planned Capture Capacity (MtCO2/year) by region

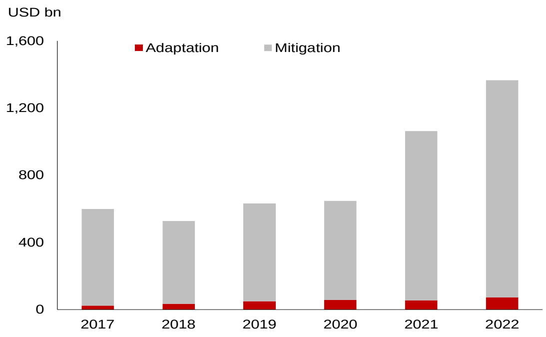


Source: IEA CCUS Projects Explore, AMRO staff calculations

Opportunities from International Financing to Advance Brunei's Climate Agenda

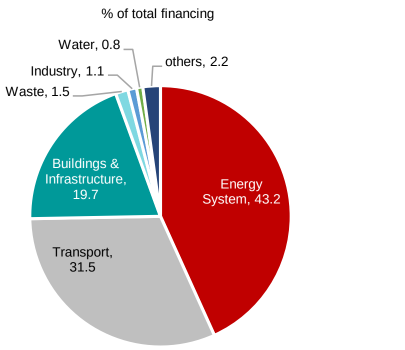
11. In the area of international finance and cooperation, there are opportunities that Brunei can explore, including possible bilateral, regional and multilateral climate financing mechanisms in meeting the NDC target, in addition to domestic financing. According to the UN and World Bank, international climate funds play a critical role as one of the three pillars of climate financing (along with the public and private funding and climate-related instruments such as carbon credits and climate insurance) in support of efforts to mitigate GHG emissions and adapt to the impacts of climate change. According to the Climate Policy Initiative (CPI, November 2023), global climate finance flows reached USD1.4 trillion in 2022, more than doubled the 2020 level of US665 billion, of which international finance accounts for 15 percent, or USD212 billion.

Figure A3.9. Volume of Global Climate Financing



Source: Climate Policy Initiative (CPI, Nov. 2023)

Figure A3.10. Share of Global Financing for Climate Mitigation by Sector



Source: Climate Policy Initiative (CPI, Nov. 2023); AMRO staff calculations

12. Global climate finance continues to be channeled primarily towards climate mitigation strategies, an avenue which Brunei can tap. According to the CPI, climate mitigation finance accounted for 91 percent of the total climate financing (USD1.4 trillion) in 2022, mostly towards renewable energy generation and low-carbon transport. The financial resources, together with technical advisory that typically comes with international climate financing can be leveraged to scale up the deployment of renewables, green technologies and low-carbon mobility solutions in Brunei. The country can potentially access various international climate financing and technical assistance programs, including the international organizations' financial mechanism funds and bilateral financial sources by major countries (see Appendix 7).

Policy Discussions and Suggested Recommendations

13. To incentivize greater EV adoption, the government can consider easing the concerns amongst consumers by first addressing the infrastructure and financing constraints. EV can be a viable transportation option for Brunei, as travelling pattern is primarily of short distance, and relatively inexpensive when it comes to the cost of electricity charging. To facilitate greater EV adoption, priority can be focused on establishing a network of fast-charging stations for EV, since the primary concern of prospective EV owners is the availability of such infrastructure. One practical solution is to utilize existing gas stations as much as possible. In addition, the authorities can consider designing the 'EV Early Adoption Incentive (EEAI)' scheme, where covers, amongst others, a purchase subsidy, additional registration fee (ARF) rebate, tax breaks, lower electricity tariffs and priority parking. Authorities can consider working with vendors and insurance providers to lower the retail purchase prices, repair costs and insurance premiums for EV. The cost can be met by rationalizing fuel subsidy spending and reallocating them to fund the scheme. The authorities can take the lead in this initiative by promoting the use of EV amongst government officials and/or across government agencies and/or public service providers. This approach would be of significance given that EV adoption by the public sector can be seen to spur consumer confidence, helping to accelerate the achievement of national targets.

14. In the area of renewable energy, Brunei could benefit from greater Public-Private Partnership (P3) in mobilizing renewable energy development projects in the country. While the O&G industry will continue to play a crucial role in meeting the growing energy demand and ensuring economic growth, it is important to take a pragmatic and market-driven approach to the energy transition that ensures both energy affordability and security, while meeting emissions goals. In this context, Brunei could benefit from greater private sector participation through P3, such as in advancing its national solar energy target to 200 megawatts by 2025 and meet 30 percent of its overall power generation mix with renewables by 2035.

15. **On the technology front, priority should be given to foster and promote the deployment of green technologies.** In particular, CCUS can play a critical role in reducing emissions along the supply chain for natural gas which will continue to play an important role in the country's energy transition. Its deployment could unlock new economic opportunities such as those associated with low carbon fertilizer production. Worldwide, CCUS capacity is expected to grow rapidly from 45.9 MtCO2 per year in 2022 to 320.9 in 2030 (IEA CCUS Projects Explore). In the region, seven potential projects have been identified and are in their early development stages (in Indonesia, Malaysia, Singapore and Timor-Leste). The establishment of the Asia CCUS Network in June 2021, with the objective of facilitating collaboration and the deployment of CCUS, is another significant milestone and opportunity to advance CCUS in the region. Going forward, Brunei has the potential to be a CCUS hub in the region. The IEA evaluates Brunei as one of the CCUS hub candidates in the region, along with Indonesia, Malaysia, Thailand, Singapore and Vietnam. The MOU between Shell Eastern Petroleum and Brunei Shell Petroleum (BSP) to explore the feasibility of carbon transport and storage options for Brunei and Singapore is a good start, potentially forming a part of the CCUS hub in the region.

16. **In the area of international cooperation in climate financing, technology exchange and capacity building, the government can leverage on bilateral and global cooperation mechanisms within the framework of UNFCCC.** The ASEAN Centre for Climate Change (ACCC)[89] in Brunei stands as a pivotal knowledge hub, crucial for driving forward regional and global cooperation efforts. By leveraging on such cooperation mechanisms, Brunei can take advantage of the available climate financing schemes and access to climate finance data,[90] technology and technical assistance crucial for understanding investment gaps and effective solutions. This approach will facilitate the development of a climate financing scheme that is tailored to address diverse objectives and strategies in Brunei.

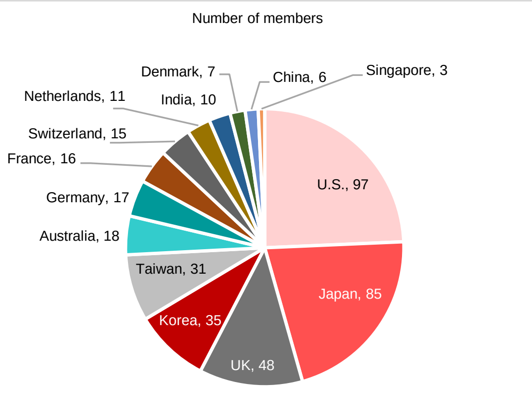
Box A3.1. RE100

RE100 is the global corporate renewable energy initiative bringing together hundreds of globally influential and ambitious businesses committed to 100 percent renewable electricity. In the era of global climate crisis, if companies do not reduce GHG, it will become difficult for them to survive in global export competition. More consumers around the world are beginning to question the social responsibility of companies that emit large amounts of GHG. Global investors are also including companies' performance in responding to the climate crisis, including expansion of renewable energy use, as an important factor in their investment decisions. This trend is rapidly spreading. As of November 2023, 422 RE100 enterprises have made a commitment to go "100% renewable" (Figure A3.1.1), widely across all industries (Figures A3.1.1, A3.1.2). In the region, there are 129 members registered – only in Japan, Korea, China and Singapore. In particular, some RE100 member companies such as Apple have begun requiring suppliers and vendors in their supply chains to supply

[89] Handover Ceremony of the Signed Establishment Agreement of the ASEAN Centre for Climate Change (ACCC) to Secretary-General of ASEAN as Depositary of EA ACCC was held on 23 August 2023 in Vientiane at the sideline of the 17th ASEAN Ministerial Meeting on the Environment. In addition, the 43rd ASEAN Summit in Jakarta on 5th September 2023 welcomed the progress made towards the establishment of ACCC in Brunei to facilitate regional cooperation and coordination on climate change initiatives among ASEAN Member States with relevant national governments, regional, and international organizations, and provide policy recommendations.
[90] Governments need to build consensus on a new, standardized, and centralized approach for tracking climate finance data (CPI, November 2023).

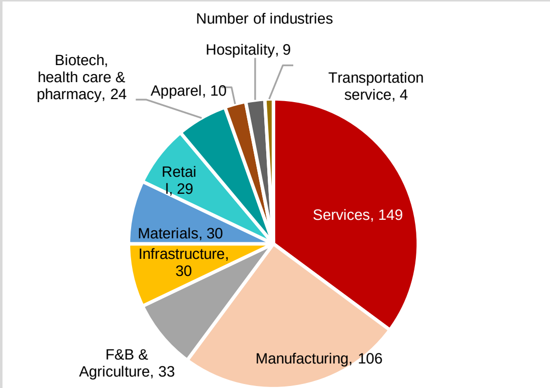
components produced using renewable electricity. To further accelerate change towards a net zero future, RE100 has recently revised its guidance on corporate renewable electricity procurement, which defines 'what counts as renewable electricity for the purpose of participation in the RE100 campaign'. As of 1 January 2024, members should observe a 15-year date limit on commissioning or repowering when purchasing renewable electricity to cover 85 percent of their total annual electricity demand. As a result, this change will stimulate the construction of new and additional renewable capacity by directly increasing members' demand for new projects.

Figure A3.1.1. RE100 Members by Country, November 2023



Source: Climate Group RE100

Figure A3.1.2. RE100 Members by Industry



Source: World Resources Institute CAIT Climate Data & Enerdata

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Address: 10 Shenton Way, #15-08
MAS Building, Singapore 079117
Website: www.amro-asia.org
Tel: +65 6323 9844
Email: enquiry@amro-asia.org

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