AMRO Country Report
ACR/25-07

AMRO Annual Consultation Report

Brunei Darussalam - 2025

ASEAN+3 Macroeconomic Research Office (AMRO)

August 2025

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 April 17 – 23, 2025 (Article 5 (b) of AMRO Agreement). The AMRO mission team was headed by Mr Anthony Tan, Deputy Group Head and Principal Economist. Members included Ms Vanne Khut, Desk Economist; Dr Xianguo (Jerry) Huang, Senior Economist; Dr Ke Ji, Economist; Dr Tanyasorn Ekapirak, Associate Economist, Mr Van Duc Tran, Associate. Former 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 2025 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 Dong He, AMRO Chief Economist.
3. The analysis in this Report is based on information available up to May 30, 2025.
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 saw broad-based growth in 2024, its strongest expansion in decades. The economy grew by 4.1 percent in 2024, driven by strong rebounds in both upstream and downstream oil and gas (O&G) sectors. The upstream O&G sector expanded by 5.4 percent, supported by the commissioning of new oil wells that came online since October 2023, while the non-O&G sector's growth was supported by recovering downstream activities and continued strength in trade, air transport, and communication. Growth is projected to ease to a more sustainable pace of 1.7 percent in 2025, as upstream and downstream O&G production stabilizes.

2. Inflation turned negative in 2024, mainly due to falling prices of transport, communication, clothing, and footwear. Inflation continued to decline in 2024, turning negative at –0.4 percent. Transport CPI dropped by 1.2 percent, while food inflation eased to 0.5 percent from an average of 3.9 percent in the prior two years. The estimated core inflation also fell to –0.4 percent, reflecting the waning post-pandemic consumer demand, such as for communications, clothing and footwear. In the first five months of 2025, inflation remained slightly negative (–0.3 percent yoy). For the year, inflation is expected to stay modest, below 1 percent for the year.

3. The external position remains strong, supported by a sizeable current account surplus. Strong external demand boosted the trade surplus, contributing to a widening of the current account surplus to 14.6 percent of GDP (USD2.2 billion) in 2024. Meanwhile, capital outflows remained sizable—driven by higher foreign equity holdings and deposit placements abroad—but moderated compared to 2023. This helps to narrow the balance of payments deficit to 0.7 percent of GDP. As a result, international reserves dipped slightly to USD4.0 billion, or equivalent to 5.3 months of import cover. The external sector is expected to remain stable in 2025.

4. The banking sector remains well-capitalized with improving asset quality. Banks' capital adequacy ratio stays comfortably above regulatory thresholds, while the non-performing loan/financing ratio declined to 2.0 percent in 2024. Credit growth—notably to the household sector—has recovered compared to the pre-pandemic period, with increases seen across all segments, including vehicle loans, housing finance and personal loans.

5. The fiscal position weakened in FY2024 due to softer O&G revenues amid softer global energy prices. Brunei registered a fiscal deficit of 13.0 percent of GDP in FY2024, primarily reflecting the softer global energy prices, despite an increase in production volumes. Going into FY2025, revenue collection is projected to remain challenging, amid downward pressure on global energy prices. Meanwhile, expenditure is projected to rise by 1.5 percent to BND6.1 billion. As a result, the fiscal deficit is expected to remain large at 13.9 percent of GDP.

6. Risks to Brunei's growth outlook are broadly balanced amid heightened global uncertainty. Key external risks include a sharp fall in energy prices and weakened demand amongst Brunei's major trading partners given uncertainties from global trade tensions, all of which could weigh on Brunei's growth, external balance, and fiscal position. Domestically, prolonged unplanned disruptions in O&G production remain a concern, reflecting the aging

and late-stage O&G infrastructure. Over the longer term, sustaining economic diversification poses a key challenge, while uncertainty surrounding the pace of global decarbonization adds further risk to the outlook.

7. In light of continued oil price volatility and ongoing efforts to strengthen fiscal institutions, AMRO staff supports Brunei's strategy of maintaining steady aggregate annual expenditure of around BND6 billion (or slightly below 30 percent of GDP). Since the 2014–15 oil price collapse, the annual government spending has remained largely stable—around BND6 billion—even during periods of revenue windfalls such as in 2022. The expansionary FY2025 budget is seen as appropriate, as the planned spending increase is aimed at supporting the ongoing recovery, while addressing delayed public projects due to the pandemic.

8. The government remains committed to improving revenue collection, though no major tax reforms are planned in the near term, while near term fiscal management continues to be guided by the Fiscal Consolidation Program (FCP). The FCP continue to be focused on (a) restructuring public expenditures to achieve cost savings (such as trimming or rationalizing spending/allowances, consolidating asset maintenance contracts, optimization of manpower, centralizing procurement); (b) generating revenue (such as through a review of fees and charges); and (c) achieving productivity gains through greater efficiency of public service provisions (such as via corporatization, privatization, public-private partnerships). While the government acknowledges the need to diversify revenue sources, no major tax reforms are planned in the near term. AMRO staff encourages building capacity for broader tax reforms to reduce the reliance on volatile and declining O&G revenues.

9. Policymakers are encouraged to strengthen rules-based fiscal frameworks to enhance credibility, transparency and policy effectiveness to ensure long-term fiscal sustainability and intergenerational equity. Establishing a fiscal anchor within a medium-term fiscal framework would better enhance fiscal discipline and credibility, while providing the flexibility needed to accommodate countercyclical policy responses to economic shocks. The authorities are seeking AMRO's technical assistance to advance this effort.

10. Monetary conditions remain accommodative. The Currency Board Arrangement and Currency Interchangeability Agreement with Singapore continue to underpin macroeconomic stability in Brunei, anchoring monetary credibility, and contributing to low and stable inflation. In mid-2024, the Overnight Standing Facility Deposit rate was raised to align with the direction of Singapore's interest rate developments. Despite the adjustment, the transmission to retail bank deposit rates has been largely muted in Brunei (compared to Singapore), reflecting the ample liquidity in the banking system.

11. With rising global uncertainty and growing risks from digitalization, further strengthening systemic and operational risk management is essential to safeguard Brunei's financial stability. Given the prolonged period of global economic volatility and the increasing complexity of digital threats, it would be prudent for the authorities to bolster resilience of the financial sector, mitigate vulnerabilities stemming from the interconnectedness of banks' offshore lending exposures, and effectively manage emerging cybersecurity risks and technological disruptions. Policymakers are encouraged to further enhance due diligence and risk assessment frameworks for banks' offshore lending activities, such as

monitoring banks' net open position, strengthen monitoring and reporting requirements for offshore portfolios. Staff noted the positive progress made in implementing Basel III prudential regulations, particularly the upcoming Liquidity Coverage Ratio. Greater collaboration among regulators and industry participants, along with increased awareness amongst users of financial products regarding cybersecurity threats, is essential to building a more resilient financial system.

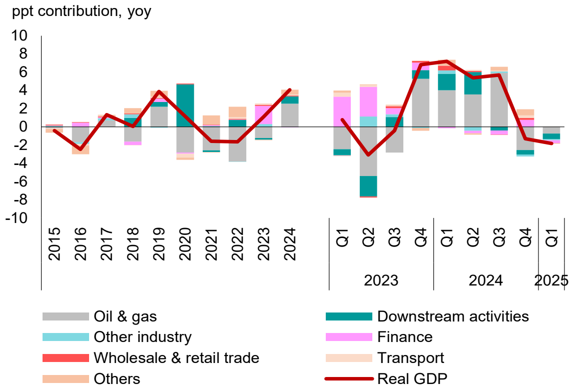
12. On the structural policy front, further diversifying Brunei's economy beyond the O&G sector is essential to unlock new sources of growth, while addressing other longstanding challenges. To support growth in priority sectors such as food, tourism, ICT, and services, continued investment in infrastructure, innovation, and workforce development is crucial. Continuing labor reforms and upskilling initiatives are vital to foster a more adaptable workforce, while further strengthening MSMEs through digital capabilities will also be key to driving innovation and growth.

A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

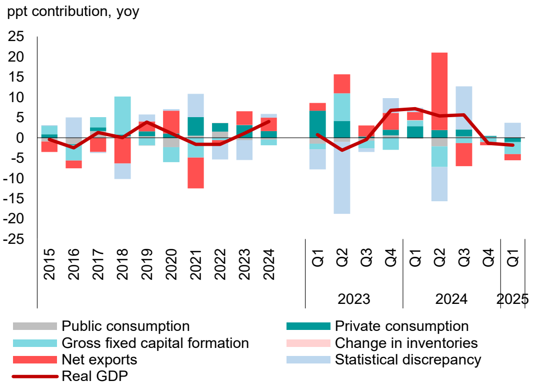
1. **Brunei's economy experienced broad-based growth in 2024, marking its strongest expansion in decades.** The economy grew by 4.1 percent in 2024, its fastest expansion since 1999 (Figure 1). Growth was primarily driven by a strong rebound in both the upstream and downstream oil and gas (O&G) sectors. The upstream O&G sector expanded strongly by 5.4 percent, supported by increased output from newly developed oil wells that began production in October 2023. Similarly, the non-O&G sector saw robust growth, fueled by a recovery in downstream activities and sustained expansion in wholesale and retail trade, air transport, and communication. On the expenditure side, private consumption[1] remained a key growth driver, with low inflation and increased domestic tourism activities boosting domestic demand. Meanwhile, higher crude oil and liquified natural gas production strengthened exports (Figure 2).

Figure 1. Real GDP (Production Side)



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

Figure 2. Real GDP (Expenditure Side)



Source: DEPS; AMRO staff calculations

2. **Growth is expected to moderate to a more sustainable pace of 2.0 percent in 2025–26, within the estimated steady-state growth rate.** The higher pace of both upstream and downstream O&G production is expected to stabilize following a strong performance in the previous year. In Q4 2024 and Q1 2025, economic activities notably slowed, following several quarters of above-trend growth (Figure 1). Maintenance challenges, reflecting the late-stage O&G infrastructure, have also weighed on production in recent quarters. Similarly, the services sector is expected to grow, albeit at a moderate pace, as the boost from economic reopening post-pandemic in 2022–23 fades. This is partly supported by the tourism sector, which is poised for stronger growth this year.[2] Positive developments in the agri-food sector are also expected to help support economic expansion.[3]

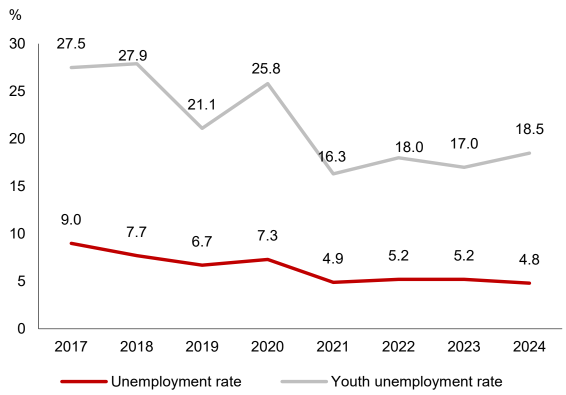
[1] Private consumption growth was largely fueled by higher spending on travel—particularly air tickets—and a broad array of services, rather than retail goods alone. The increase in outbound travel reflects a notable shift in consumer preferences towards experiences abroad. Although inbound tourism has picked up, it likely remains insufficient to counterbalance the effects of rising outbound travel on domestic retail activity. This dynamic helps to explain the decline in retail sales volumes, despite broader economic growth and increasing private consumption.

[2] This partly reflects the recent visa exemption for Chinese citizens. According to Brunei's Immigration Department, beginning March 8, Chinese nationals with ordinary passports can enter the country without a visa.

[3] Barramundi Group has commenced commercial aquaculture production in Brunei starting from this year and targets to ramp up their production to 1,200 tons annually, from the current 800 tons.

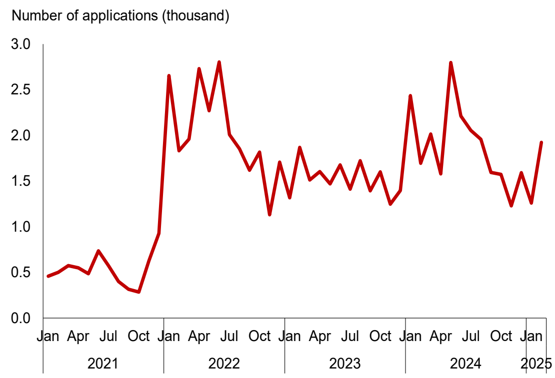
3. **Labor market conditions improved in 2024.** Both labor force participation and employment-to-population ratios improved in 2024, reaching 64.1 percent and 61.0 percent, respectively. This positive development is reflected in the improvement in the unemployment rate, which declined to 4.8 percent in 2024, from 5.2 percent in the previous year. However, youth unemployment has remained elevated (Figure 3). The improvement in labor market conditions partly reflects the gradual resumption of migrant workers coming into the country, who accounts for 28.7 percent of the total labor force. This is shown in Figure 4, where relative to 2023, the total number of foreign worker license applications increased notably in 2024. The higher-frequency Business Sentiment Index (employment sub-index) suggests that the positive labor market conditions are expected to continue in early 2025.

Figure 3. Unemployment Rates



Source: DEPS

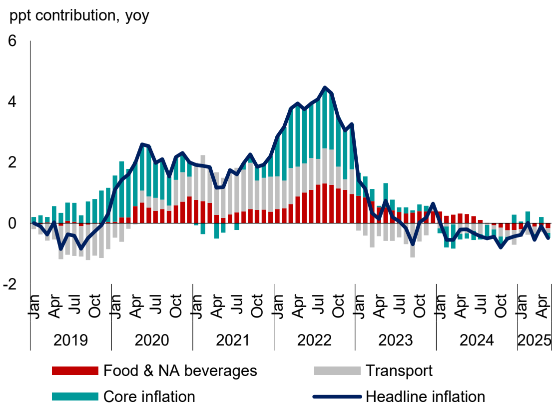
Figure 4. Foreign Worker License (Applications for Clearance Letter)



Source: Manpower Planning and Employment Council (MPEC)

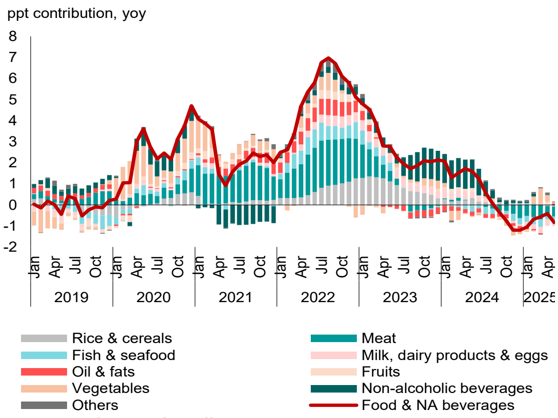
4. **Inflation registered a negative reading in 2024, driven mainly by declines in the prices of transport, communication, clothing and footwear.** Since 2023, inflation has continued to decline, turning negative (–0.4 percent) in 2024. (Figure 6). Of significance, transport CPI fell by 1.2 percent, driven by falling prices of vehicles and transport services. Meanwhile, food inflation slowed sharply to 0.5 percent, moderating from an average of 3.9 percent in the previous two years (Figure 7). Core inflation (headline CPI excluding food and transport) is estimated to have declined by 0.4 percent, reflecting the waning post-pandemic consumer demand, such as for communications, clothing and footwear (Figure 6). In the first five months of 2025, inflation remained in negative territory (–0.3 percent, yoy), as prices of food and transport continued to ease (Figure 6). In 2025, inflation is expected to remain modest, with a reading of below 1 percent.

Figure 5. Inflation



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

Figure 6. Food Inflation

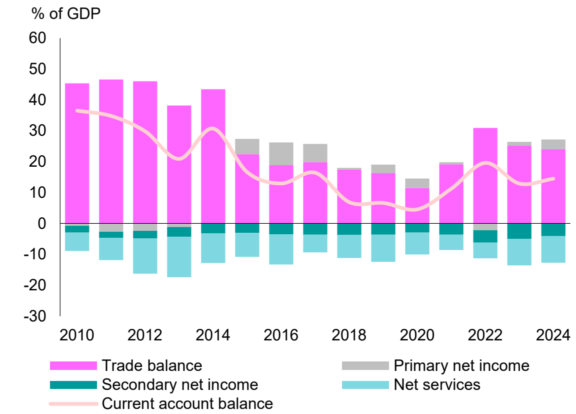


Source: DEPS; AMRO staff calculations
Note: NA = non-alcoholic

A.2 External Sector and the Balance of Payments

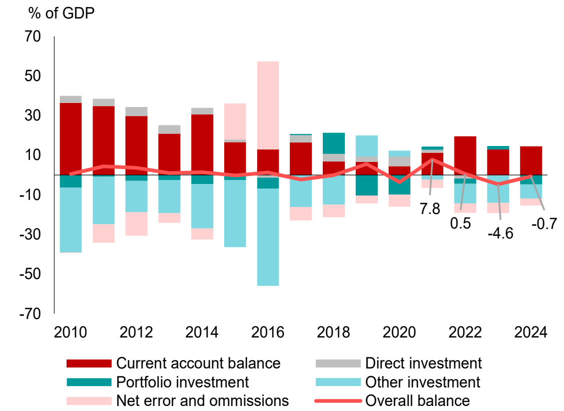
5. The external position remains strong, supported by a sizeable current account surplus. Solid external demand boosted the trade surplus to 24.2 percent of GDP (or USD3.7 billion) in 2024. Meanwhile, the services account deficit was largely maintained, reflecting the continuing demand for imports of transport, travel and other business services. This led to a widening of the current account surplus to 14.6 percent of GDP. However, during the same period, there were sizeable net capital outflows (USD1.8 billion or 11.7 percent of GDP), due to a surge in residents' holding of foreign equity assets and large placement of deposits abroad. The magnitude of these outflows has eased relative to 2023, resulting in a narrower balance of payments deficit of 0.7 percent of GDP in 2024 (2023: –4.6 percent of GDP). Accordingly, international reserves[4] edged down to USD4.0 billion in 2024 (2023: USD4.2 billion), or equivalent to 5.3 months of imports. The external sector is expected to remain stable in 2025 despite the global uncertainties.

Figure 7. Current Account Balance



Source: DEPS; AMRO staff calculations

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.

A.3 Monetary Condition and Financial Sector

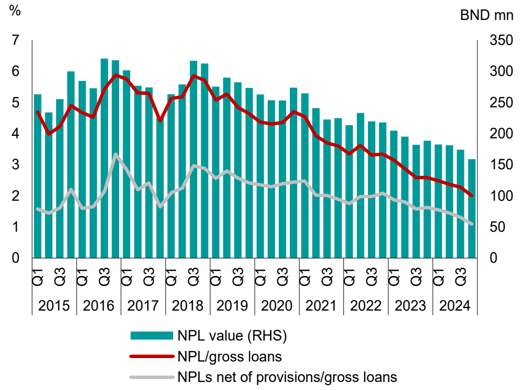
6. The banking sector remains on a strong footing. Banking institutions remain highly capitalized, with the aggregate capital adequacy ratio staying well above minimum regulatory requirements (Q4 2024: 20.5 percent). Similarly, liquidity remains ample, surpassing regional peers, underscoring the continued excess liquidity of the banking system in Brunei. Overall asset quality has continued to improve, with the (gross) non-performing loan/financing ratio falling further to 2.0 percent in Q4 2024 from 2.6 percent in Q4 2023 (Figure 9). Of significance, the loan-to-deposit ratio has risen to 46.2 percent in Q4 2024, driven by greater cross-border lending activities by domestic financial institutions (Figure 10).

7. Banks' lending/financing activities continue to be broad-based. Lending/financing to households has recovered post-pandemic, with increases in all segments, including vehicle loans, housing finance and personal loans (Figure 11).[5] Similarly, corporate sector lending/financing growth continues to be positive relative to the pre-pandemic period. However, the expansion has started to ease in recent quarters. As a result, after reaching a peak of 14 percent (yoy) in Q1 2024, aggregate banking sector credit growth moderated to

[4] Gross International Reserves refer to reserves held by the Brunei Darussalam Central Bank to uphold its monetary policy framework, which is the Currency Board Arrangement.
[5] Property financing and general consumption loans account for more than two-thirds of total household loans.

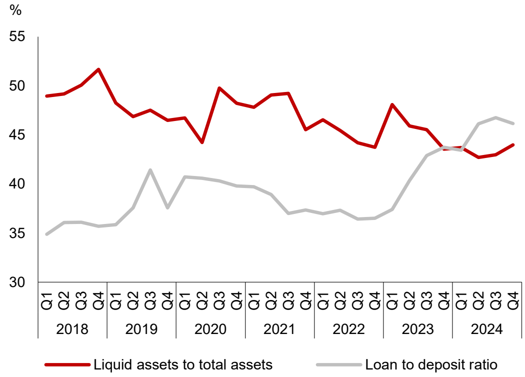
7.9 percent (yoy) in Q4 2024 (Figure 12). Likewise, growth of offshore bank lending has softened going into Q4 2024, of which a majority is channeled into the commercial property and financial sectors, notably in Singapore and the United Kingdom.

Figure 9. Asset Quality



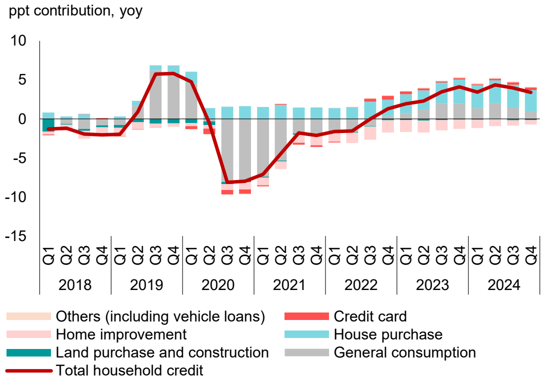
Source: Brunei Darussalam Central Bank (BDCB)

Figure 10. Liquidity Position



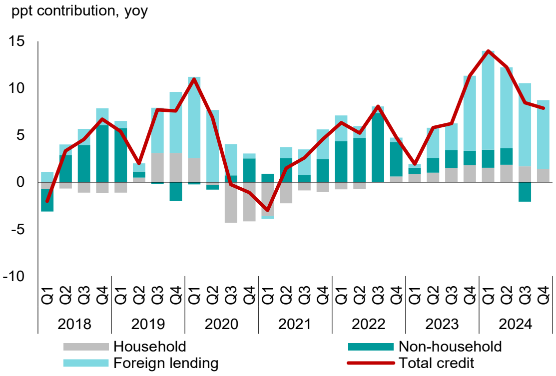
Source: BDCB

Figure 11. Household Credit by Sector



Source: BDCB; AMRO staff calculations

Figure 12. Credit Growth



Source: BDCB; AMRO staff calculations

8. **Banks' deposit base has remained broadly stable, despite pressures stemming from higher global interest rates.** Since early 2023, the banking sector has experienced some degree of deposit attrition, reflecting external pressures, particularly from more attractive interest rates abroad (notably in Singapore). However, these pressures have eased with the recent moderation in global interest rates. Banks have actively managed their cost of funds by prioritizing lower-cost sources, such as savings and current accounts. Brunei's domestic funding structure, characterized by a high share of public sector deposits, continues to provide a stable and low-volatility anchor for the banking system.

A.4 Fiscal Sector

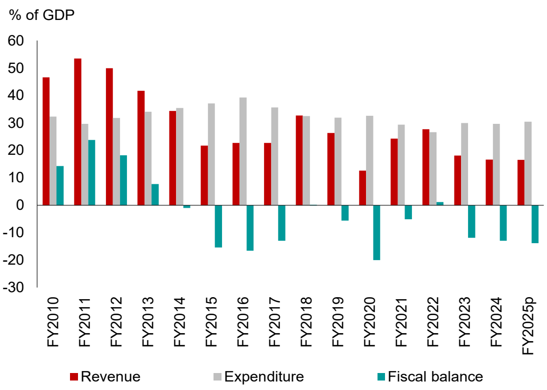
9. **The fiscal deficit remained large in FY2024, due to weaker O&G revenue receipts.** The overall fiscal deficit widened further to 13.0 percent of GDP in FY2024, mainly reflecting the declines in the O&G revenue receipts (Figures 13, 14).[6] The underperformance of the O&G revenue in FY2024 was mainly due to softer global energy prices relative to the previous fiscal year, which reduced export receipts notwithstanding higher O&G output registered during the period. Non-O&G revenue also fell by 8.5 percent to BND881 million in FY2024,

[6] The estimated fiscal deficit of 12.5 percent in FY2024 closely mirrored the development in the previous fiscal year (FY2023), when the deficit stood at 11.9 percent of GDP. This was driven by an estimated revenue decline of 3.5 percent to USD3.5 billion. Expenditures increased marginally, by 0.9 percent to BND6.0 billion.

mainly attributed to falling tax revenues. Expenditure declined by 1.7 percent to BND6 billion (or 29.6 percent of GDP) in FY2024, as capital expenditures continued to lag behind.[7]

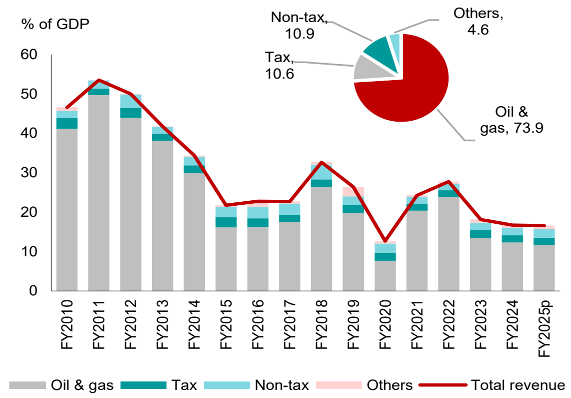
10. **Looking ahead in FY2025, the fiscal deficit is expected to remain under pressure, estimated at 13.9 percent of GDP.** On the revenue side, the projected moderation in both energy prices and O&G output is expected to reduce government revenues slightly to 16.5 percent of GDP in FY2025, down from 16.7 percent in the previous fiscal year (Figure 13).[8] On the expenditure side, AMRO staff projected a 1.5 percent increase in total expenditure to BND6.1 billion or 30.4 percent of GDP in FY2025 (Figure 13). This projection closely aligns with the government's proposed budget in FY2025 of BND6.35 billion, which represents a 1.6 percent increase from the previous budget. The budgeted spending in FY2025 is aimed at supporting priority spending such as in healthcare,[9] asset maintenance for public safety, as well as infrastructure development (12th RKN projects).[10] As a result, the fiscal deficit is projected to widen to BND2.8 billion, or 13.9 percent of GDP in FY2025.[11] Despite remaining ample, the continued fiscal deficit has resulted in a downward trend of the cumulative fiscal balance to BND15.8 billion in FY2024.[12]

Figure 13. Fiscal Position



Source: Ministry of Finance and Economy (MOFE); AMRO staff calculations
Note: p = AMRO staff projections

Figure 14. Revenue Collection



Source: MOFE; AMRO staff calculations
Note: Pie chart refers to share of revenue by type as percent of total revenue in FY2024. p = AMRO staff projections

11. **Over the medium-term (FY2025–29), the fiscal position is expected to strengthen amid the gradual improvement in non-O&G revenue streams.** Non-O&G revenue has steadily recovered since 2020 and is projected to grow over the medium term, supported by continued efforts to broaden revenue streams. Global decarbonization pressures and the maturing of the country's O&G fields are key headwinds to O&G revenue. However, given that these are longer-term trends, staff estimates showed that over the medium-term, the share of O&G revenue in GDP is only projected to decline marginally i.e., from 12.3 percent in FY2024 to 11.7 percent in FY2029 (Table 1). The fiscal outlook remains subject to inherent risks arising from the volatility of O&G prices and production, which could significantly affect revenue

[7] Capital expenditure dropped by 40.6 percent in FY2024.
[8] AMRO staff project government revenue for FY2025 at BND 3.32 billion, broadly in line with the budgeted revenue of BND 3.26 billion.
[9] The government's universal healthcare is extended to stateless permanent residents, including treatment for cancer, stroke, and cardiovascular disease. In the past, stateless permanent residents received medications from public healthcare facilities for free but were responsible for covering the expenses of any surgical procedures. Also, they previously had to pay a registration fee of BND3 for each hospital/ clinic visit, but this has now been lowered to BND1 per visit, matching the fee charged to Brunei citizens.
[10] Notably, the government has budgeted BND480 million for RKN12 for FY2025, up from the authorities' estimated under BND300 million in the previous fiscal year.
[11] AMRO staff projections in FY2025 are based on several assumptions. Assuming oil production (104kbpd), LNG production (711,157 MMBtu/day), oil price (70 USD/barrel) and LNG prices (9.0 USD/MMBtu).
[12] The cumulative fiscal balance is calculated starting from FY2000.

performance. In contrast, non-O&G revenue is expected to grow at an average annual rate of 10.1 percent over the same period, driven by ongoing efforts to diversify revenue sources (Figure 15).[13] A significant boost in tax revenue is expected from FY2026 onwards, following the end of Hengyi Industries' (Phase I) tax exemption in 2025. Preliminary estimates indicate that this could raise the non-O&G revenue to non-O&G GDP ratio by approximately 2.8 percentage points, i.e., from 8.1 percent in FY2024 to 10.9 percent by FY2029 (Figure 15).[14]

12. **The expenditure-to-GDP ratio is projected to remain steady over the medium term, reflecting the authorities' commitment to fiscal prudence (Figure 16).** Total government spending has remained relatively stable over the past decade, averaging around BND6 billion annually (or just below 30 percent of GDP). Although capital expenditure has gradually decreased, current expenditure remains substantial and continues to rise, allocated to recurring expenditure, personal emoluments and charged expenditure,[15] which together account for over 60 percent of total expenditure.[16] Encouragingly, the non-O&G fiscal balance is expected to improve, with the deficit narrowing to 37.7 percent of non-O&G GDP by FY2029, from 55.0 percent in FY2019 (Figure 15).

Table 1. Fiscal Position Outlook

	FY2024	FY2025p	FY2026p	FY2027p	FY2028p	FY2029p
			(in millions of BND)			
Government revenue	3,379	3,317	3,505	3,690	3,853	4,015
O&G revenue	*2,498*	*2,338*	*2,413*	*2,477*	*2,527*	*2,589*
Government expenditure	6,007	6,095	6,190	6,252	6,314	6,376
Budget balance	-2,628	-2,777	-2,685	-2,561	-2,461	-2,362
			(in percent of GDP)			
Government revenue	16.7	16.5	17.2	17.7	18.0	18.2
O&G revenue	*12.3*	*11.7*	*11.9*	*11.9*	*11.8*	*11.7*
Government expenditure	29.6	30.4	30.4	30.0	29.6	28.9
Budget balance	-13.0	-13.9	-13.2	-12.3	-11.5	-10.7
Memorandum items						
Nominal GDP (in millions of BND)	20,277	20,045	20,354	20,853	21,361	22,076
Non-O&G GVA (in millions of BND)	10,933	11,341	11,629	12,006	12,426	13,132
Non-O&G balance (% of non-O&G GVA)	-46.9	-45.1	-43.8	-42.0	-40.1	-37.7

Source: MOFE; AMRO staff calculations
Note: p = AMRO staff projections

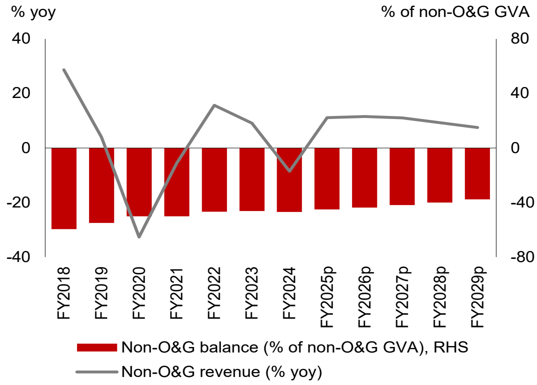
[13] Over the past five years, the authorities have gradually expanded excise taxes on goods that have negative externalities, such as on public health (e.g., sugar taxes) and the environment (e.g., plastics).

[14] Assuming that the income tax revenues from Hengyi Industries are classified under non-O&G revenue. In addition to corporate income tax, the government also expects to receive dividends from Hengyi Industries (classified as non-tax revenue), in which it holds a 30-percent stake.

[15] Charged expenditure includes payments for pensions, gratuities and grants. Recurring expenditure (other charges annually recurrent, OCAR) includes spending on maintenance of road, building, machinery; education; allowances; rental of buildings; medical supplies and services, costs for overseas meetings.

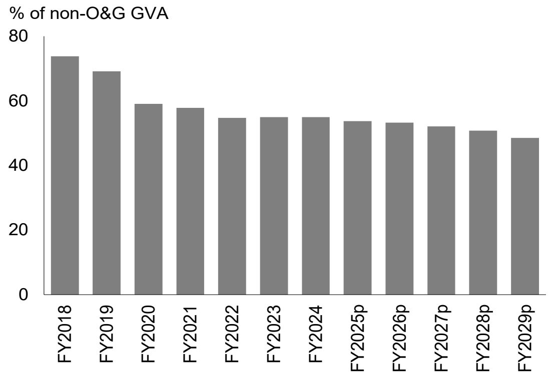
[16] The relatively stable aggregated expenditure reflects lower realized capital expenditure, which has fallen short of the budget, while the current expenditure has exceeded the budgeted level. Capital expenditure has been declining as several large-scale projects (e.g., bridges, industrial zones) have been completed, reducing the need for new capital outlays in the near term. For future economic development and infrastructure projects, the authorities are planning to enhance private sector-led investment rather than government-funded capital spending.

Figure 15. Medium-term Outlook for Non-O&G Revenue



Source: MOFE; AMRO staff calculations
Note: GVA = gross value added; p = AMRO staff projection

Figure 16. Medium-Term Outlook for Expenditure



Source: MOFE; AMRO staff calculations
Note: p = AMRO staff projection

B. Risks, Vulnerabilities and Challenges

B.1 Near-term Risks to the Macro Outlook

13. The risks to the growth outlook are generally balanced amidst high global uncertainty (Figure 17)**.** Since late 2023, economic performance has improved, driven by the earlier-than-expected commencement of production from newly developed oil wells. The completion of major post-pandemic rejuvenation and maintenance work is also expected to enhance stability in O&G production.

- **Downside risks in the near-term stem from a sharp decline in global energy prices.** Fiscal stress testing under Scenario A (energy price shock), where O&G prices dropped by one standard deviation below baseline levels in FY2025–29, i.e., 49.2 USD/barrel and 6.6 USD/MMBtu, respectively, showed that the fiscal deficit would worsen, widening by 4.1 percentage points relative to the baseline (Table 2).

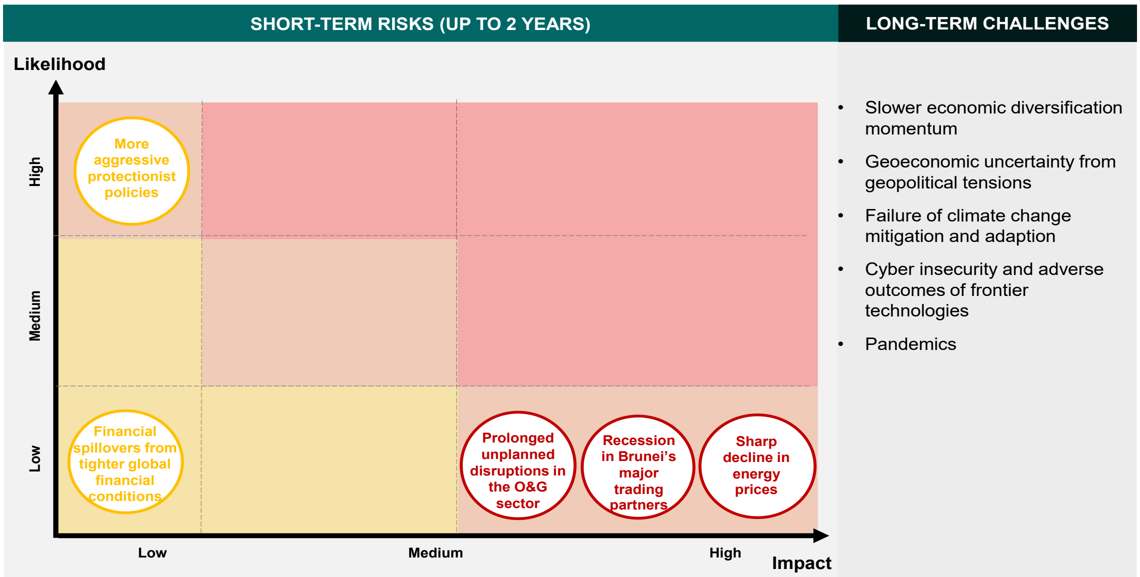
- **In addition, a sharper-than-expected slowdown in Brunei's major trading partners—a tail risk at this juncture—could also weaken Brunei's growth prospects.** AMRO staff estimates suggest that a sharp economic slowdown in Brunei's major export partners could reduce baseline growth by 1.4 percent per annum, on average in 2025–26.[17]

- **Another key downside risk is the potential disruptions to production due to unplanned shutdowns, highlighting the operational challenges of managing aging and late-stage O&G infrastructure.** Fiscal stress testing by AMRO staff suggests that a production shock would worsen the fiscal deficit. Under Scenario B, where O&G production falls by one standard deviation below baseline levels in FY2025–29, i.e., 94.3 kbpd and 617,095 MMBtu/day, respectively, the fiscal deficit would widen by 2.7 percentage points of GDP relative to the baseline (Table 2).

[17] AMRO staff estimates are derived using Brunei's export elasticity to partner GDP and the elasticity of Brunei's real GDP to its exports. The simulated shock reflects a one-standard deviation decline in the combined real GDP of Brunei's major O&G export partners. These partners are Australia, China, India, Japan, Korea, Malaysia, Singapore and Thailand.

- **However, faster-than-anticipated progress on Hengyi Industries' Phase 2 construction project could help offset some of these risks, potentially adding 0.3 percentage point to baseline growth projection over the same period.**[18]

Figure 17. Country Risk Map



Source: AMRO staff assessment

Table 2. Stress Test on Medium-Term Fiscal Outlook

	FY2025	FY2026	FY2027	FY2028	FY2029	FY2025-29 (Average)
	% of GDP					
Fiscal balance (baseline)	-13.9	-13.2	-12.3	-11.5	-10.7	**-12.3**
Fiscal balance - Scenario A (Energy price shock)	-17.1	-16.9	-16.4	-16.1	-15.5	**-16.4**
Fiscal balance - Scenario B (Production shock)	-15.8	-15.6	-15.1	-14.7	-14.1	**-15.1**
	ppt change from baseline					
Fiscal balance - Scenario A (Energy price shock)	-3.3	-3.7	-4.2	-4.5	-4.8	**-4.1**
Fiscal balance - Scenario B (Production shock)	-2.0	-2.4	-2.8	-3.1	-3.4	**-2.7**

Source: National authorities; AMRO staff assessment
Note: Baseline assumptions in FY2025-FY2029 include oil export price (70 USD/barrel); LNG export price (9 USD/MMBtu); oil production (110 kbpd), and LNG production (MMBtu/day). Energy Price Shock: assuming the oil and LNG prices are one standard deviation below their baselines in FY2025–FY2029 (1 standard deviation = 20.9 USD/barrels and 2.4 USD/MMBtu respectively). Production shock: assuming oil and gas productions are one standard deviation below their baselines in FY2025–FY2029 (1 standard deviation = 15.1 kbpd and 127,191 MMBtu/day, respectively).

14. While global trade tension has de-escalated since their peak in early April—helped by the announcement of a 90-day pause in tariff escalation—uncertainties remain over the longer-term trajectory of trade relations. Although Brunei has not been a directly targeted by the US,[19] a full-scale global trade war, if it materializes, could have adverse spillover effects, potentially weakening global growth, thereby reducing demand for Brunei's key export products. Heightened trade tensions could also exacerbate uncertainty, increase volatility in global energy prices, disrupt supply chains, indirectly weighing on trade and

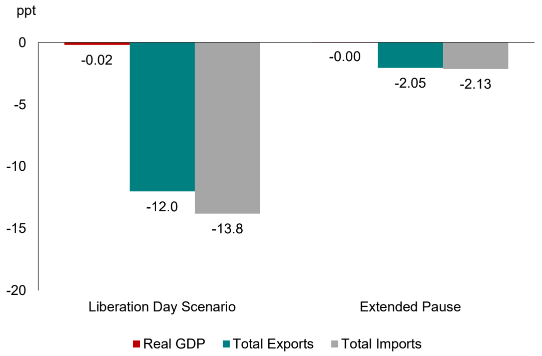
[18] AMRO staff estimates are based on a one-standard-deviation increase of the construction sector value added from the baseline.

[19] Baseline assumptions of US tariff policy: Assuming that the US tariffs measures are primarily used as a negotiation lever to encourage reciprocal market access and the reduction of unfair trade barriers, providing both predictability and a clear incentive for negotiation. Short term (through 2026): Use elevated tariffs to maintain negotiation leverage while minimizing global supply chain disruptions; medium term: Seek negotiated outcomes that allow a return to low baseline tariffs, preserving US credibility as a pro-trade actor while protecting strategic sectors; long-term: high tariff rates are used only in narrow, justified cases (e.g., for national security).

investment flows. The following scenarios are calibrated to gauge the impact of tariffs on Brunei's real GDP.

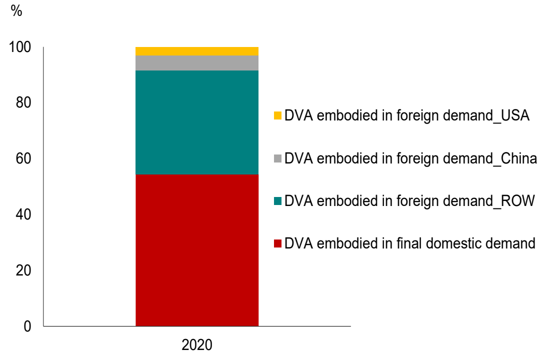
- **[Liberation Day Scenario]** This reflects the planned implementation of reciprocal tariffs announced by the U.S. on April 2 on its trading partners. These are in addition to earlier tariffs imposed on China, Canada and Mexico that took effect in February–March 2025. This includes a 20 percent tariffs on all imports from China that took effect on February 4 and March 4, 2025 and the 25 percent tariffs on imports from Canada and Mexico (except those in compliance with the US-Mexico-Canada Agreement) that took effect on March 4, 2025. This scenario assumed no retaliation by trading partners.
- **[Extended Pause Scenario]**[20] Following the recent announcement on July 8–9, the 90-day pause on reciprocal tariffs has now been extended to August 1, 2025. After this new deadline, it is assumed that reciprocal tariffs on major US trading partners—with the exception of those currently engaged in ongoing negotiations—will be reinstated. During this period of extended pause, the US is assumed to maintain a uniform 10 percent baseline tariff on most imports from trading partners *outside China*. This reflects the de-escalation of global trade war, with the US imposing a 30 percent tariff on all imports from China, and China imposing a 10 percent tariff on all imports from the US. The earlier tariffs imposed on China, Canada and Mexico that took effect in February–March 2025 remained in place.

Figure 18. Simulated Impact of Tariffs on Brunei's Trade and GDP



Source: AMRO staff estimates
Note: The "Liberation Day Scenario" refers to the planned implementation of reciprocal tariffs announced by the US on April 2, 2025 on its trading partners. In contrast, the "Extended Pause Scenario" refers to the continuation of that pause and later extended following the announcement on July 8–9, 2025. Under this extension, the pause on reciprocal tariffs remains in effect until August 1, 2025

Figure 19. GDP Breakdown by Domestic Value-Added



Source: OECD TIVA database; AMRO staff calculation
Note: DVA = domestic value added; ROW = rest of world

Simulations conducted using a computable general equilibrium (CGE) model[21] suggest that under the Liberation Day Scenario, Brunei's total export volume could decline by about 12 percent, while total import volume could experience a decline of around 14 percent relative to the pre-shock equilibrium. Under the Extended Pause Scenario, model simulation showed that the magnitude of the declines in both exports and imports is smaller, around 2 percentage points relative to pre-shock equilibrium. As the corresponding import compression[22] mitigates

[20] For Brunei, taking into account the product exemptions listed in Annex II of the April 2 Executive Order, the estimated effective tariff rate of US imports from Brunei is less than 5 percent, despite the headline rate of 25 percent post August 1, 2025.
[21] The CGE model captures the general equilibrium effects of tariff adjustments, accounting for shifts in trade flows, relative price changes, and second-round effects on sectoral output and factor allocation. It evaluates the differences between two steady-state equilibria resulting from changes in external shocks or policy interventions.
[22] Downstream production requires the import of crude materials for subsequent re-export purposes. As global demand weakens, imports for these crude materials would decline as well.

the overall trade balance effect, the simulated general equilibrium impact of tariff on Brunei's net exports—and by extension, the net impact on real GDP—is found to be relatively small (Figure 18). This result is corroborated by the notion that the domestic value-added embodied in US final demand accounts for a relatively tiny share in Brunei's total GDP (Figure 19).

15. Systemic risks in the banking sector are assessed to be low, supported by very strong capital buffers and abundant liquidity, which help mitigate potential stress. However, the banking sector's large exposure to offshore assets has grown in recent years, driven by increased cross-border bank lending. While Brunei banks offer relatively less complex products and services compared to their ASEAN peers, the rising interconnectedness of offshore assets poses potential contagion risks. Additionally, banks remain exposed to market risks (such as sharp changes in interest rate or exchange rate), as well as operational risks, including cybersecurity threats. Preliminary assessment suggests that banks' exposure to interest rate risks is relatively low, given the small share of marked-to-market securities held by banks.[23] Similarly, exchange rate and counterparty risks are assessed to be low, given that most banks' placements of excess liquidity abroad are in the Singapore dollar with highly rated counterparties.

B.2 Longer-term Challenges and Vulnerabilities

16. Maintaining the momentum of economic diversification continues to be a challenge. Geostrategic competition and shifting trade patterns are adding to the complexity of sustaining economic diversification momentum. As a small, open economy heavily reliant on external trade and foreign investment, Brunei is susceptible to shifts in the global geopolitical landscape. Heightened geopolitical conflicts and increasing global fragmentation—marked by trade restrictions, shifting alliances, and the reshoring of supply chains—will create uncertainties and make it more difficult to attract strategic capital and technology critical to support the diversification agenda. Moreover, the country's economic diversification efforts are also challenged by the O&G sector's dominant role in sustaining high living standards, as the relatively high wages in Brunei make it challenging to attract sufficient private investment to drive growth in other non-O&G industries.

17. Over the longer-run, uncertainty over the speed of global decarbonization poses additional risks to the economy. Over the longer run, uncertainty over the pace and trajectory of global decarbonization poses additional risks to Brunei's economy. As the world accelerates its transition toward cleaner energy, Brunei faces significant transition risks, given the dominant role of the hydrocarbon sector in driving growth. A faster-than-anticipated or disorderly shift away from fossil fuels—driven by stricter climate change policies, technological advancements in renewable energy, or changing investor and consumer preferences—could erode Brunei's fiscal and external buffers from reduced O&G revenue. This would not only weigh on economic growth but also imply the need for faster and more comprehensive structural reforms to diversify the economy, attract new investments, and ensure long-term sustainability.

[23] Given the potential upside risks to US inflation due to trade protectionist policies under the second Trump administration, the US Fed may be compelled to raise interest rates to safeguard price stability. Stress test by AMRO staff on banks' regulatory capital suggests that Brunei banks would continue to remain resilient under stress scenarios. The stress test was performed on the top four banks in Brunei, based on the latest available financial statements. The stress test considers a scenario of an interest rate hike of up to 100 basis points. This scenario is chosen considering that current global interest rates are already at a relatively high level, which does not warrant the US Fed to raise policy interest rates by the magnitude seen during 2022–23.

Authorities' Views

18. The authorities broadly concurred with AMRO staff's assessment of Brunei's economic outlook as well as the identified risks and challenges. *AMRO's 2025 growth projection was closely aligned with their own forecast, with GDP growth expected to moderate. In terms of domestic risks, the economy remains exposed to potential disruptions in oil and gas production and delays in key development projects, both of which are vital to sustaining growth. Although the non-oil and gas sectors have shown encouraging progress, there is a significant scope to further accelerate their development to support economic diversification. Externally, heightened global oil price volatility, escalating trade tensions, and geopolitical uncertainties pose notable risks to economic stability. Brunei's continued dependence on the O&G sector makes the economy vulnerable to external shocks, which could indirectly affect the performance of the non-O&G sectors, including downstream industries, which could potentially dampen overall growth momentum.*

C. Policy Discussions and Recommendations

C.1 Fiscal Policy

19. As global energy prices are expected to remain volatile, and establishing robust fiscal institutions remain a medium-term project, AMRO staff supports the maintenance of steady aggregate expenditure as an effective interim fiscal stabilization measure. Since the 2014–15 global oil price collapse, the government has continued to adopt a disciplined approach to expenditure, maintaining aggregate annual spending at around BND6 billion, on average (or slightly below 30 percent of GDP). Despite the earnings windfall from the spikes in global energy prices, such as in 2022, the level of expenditure has been kept relatively stable.[24] This underscores the spending discipline on the part of the authorities, reflecting the government's commitment to avoiding procyclical fiscal behavior, i.e., avoiding large spending in response to revenue upcycle (and vice versa).[25]

20. On the revenue side, while the government recognizes the need to broaden and diversify sources of revenue, there are no immediate plans to implement major policy reforms. While Brunei's ability to draw down fiscal reserves provides near-term flexibility in case price and/or production shocks materialize, it is crucial that these buffers are used strategically to smooth temporary shocks rather than finance persistent structural imbalances. In this context, continued reforms to strengthen revenue mobilization are essential to safeguard long-term fiscal sustainability. So far, the authorities have continued to rely on key initiatives, such as the review of fees and charges, as well as changes in custom import and excise duties to mobilize non-tax revenues. While staff support these initiatives, the authorities are encouraged to enhance their preparedness for a major tax reform by strengthening the

[24] This stable trend in expenditure is reflected in the latest budget for FY2025, where the total spending size is capped at around BND6 billion.

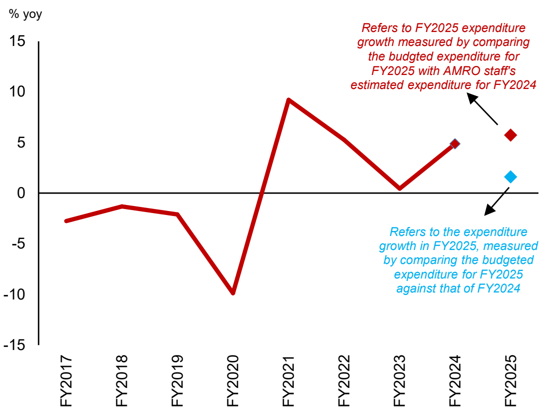
[25] In light of the ongoing global energy price volatility, authorities may consider identifying specific, short-term fiscal stimulus measures that can be deployed to cushion potential external shocks, in the event they materialized. These could include targeted social transfers, temporary tax reliefs, or front-loaded public investment programs focused on maintenance and small-scale infrastructure. Such measures would complement the government's existing policy of expenditure stability while allowing for a more responsive fiscal stance when warranted. Establishing a clear framework or menu of pre-approved, contingent stimulus tools would help strengthen fiscal policy credibility and operational readiness in the face of future external shocks.

capacity to broaden the tax base and diversify revenue sources, thereby reducing reliance on O&G revenues, which are not only volatile but appear to be declining.

21. **Brunei has so far financed its fiscal deficits through drawdowns from fiscal reserves,[26] rather than by resorting to borrowings.** While this financing plan offers short-term flexibility and avoids debt accumulation, it raises several important concerns. Prolonged reliance on reserves may weaken incentives for fiscal reform, undermine intergenerational equity, and potentially impair Brunei's future credit profile—raising the cost or limiting the feasibility of borrowing if market access becomes necessary. Although the current strategy may be sustainable in the short to medium term, its continued viability hinges on robust investment returns and sound long-term fiscal planning. To safeguard fiscal sustainability and enhance resilience, it will be critical to introduce forward-looking fiscal rules within a credible medium-term fiscal framework, as well as strengthening the transparency in reserve management.

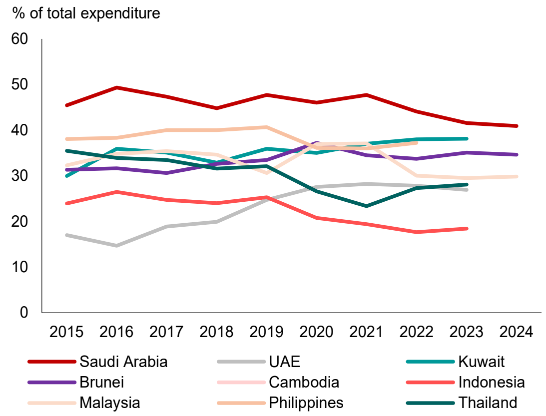
22. **Based on the FY2025 budget, the direction of fiscal policy is assessed to be broadly appropriate.** The change in expenditure in the FY2025 budget is assessed to be positive relative to FY2024 (Figure 20), amid the closing of output gap.[27] This policy direction is assessed to be appropriate, reflecting to some extent the catch-up of public spending due to the implementation delay caused by the COVID-19 pandemic (such as maintenance and upgrades to government assets). Taking into account such spending needs, the aggregate expenditure remains within the stable expenditure to GDP envelope. However, a full assessment of the appropriateness of fiscal policy direction requires greater clarity on the financing strategy of the fiscal deficit over the medium- to longer-term.

Figure 20. Change in Aggregate Expenditure



Source: MOFE; AMRO staff calculations

Figure 21. Wage Bill: Brunei and Selected Economies



Source: National authorities; AMRO staff calculations

23. **Public spending pressures are expected to rise, underscoring the importance of well-targeted spending and strategically phased investments in social development and climate resilience.** The pandemic underscored the need for a stronger healthcare system, social protection, and infrastructure. Longer-term climate-related investments, such as in flood protection and renewable energy, would also add to fiscal pressures. Given the fiscal constraints, the authorities are encouraged to prioritize development expenditures by strategically phasing high-impact investments, strengthening project appraisal and selection

[26] This is from the Fiscal Stabilisation Reserve Fund.
[27] The output gap is estimated using the two-sided HP filter.

processes, and improving public investment efficiency. Box A provides an overview of the historical evolution of RKN spending. Given the continued rise in current expenditure, rationalization should be pursued further through measures such as a review of the optimal size of the public sector, as this would have direct implications on the wage bill, which now accounts for around 35 percent of total expenditure, higher than some other ASEAN economies (Figure 21).

Authorities' Views

24. Brunei remains committed to providing comprehensive social protection and healthcare services to its citizens. *The government emphasizes the importance of aligning welfare provisions with long-term fiscal sustainability—a core policy objective. The growing pressures from rising living costs and healthcare expenditures—shaped by demographic changes, evolving economic conditions, and medical advancements—underscore the importance of robust fiscal planning and efficient resource allocation. Even during periods of economic stability, the government prioritizes the maintenance and enhancement of essential welfare services to ensure equitable access across all segments of society. Simultaneously, greater focus is being placed on improving the efficiency, effectiveness, and sustainability of welfare systems to preserve fiscal health and promote intergenerational equity.*

25. Near-term fiscal management continues to be guided by the Fiscal Consolidation Program (FCP)[28] in the absence of a comprehensive fiscal framework. The FCP is intended to guide some aspects of public financial management to promote medium-term fiscal sustainability, as a comprehensive and rules-based fiscal framework remains under development. Despite the relatively narrow set of fiscal objectives, the initiatives under the FCP can help to build support for more comprehensive reforms in the future, demonstrating the government's commitment to fiscal responsibility while maintaining public support.

26. To foster a sustainable fiscal position in the long term and uphold intergenerational equity, it is necessary to strengthen rules-based fiscal frameworks that enhance policy credibility, improve transparency, and support effective policy design. The adoption of a fiscal anchor[29] and medium-term fiscal framework would help to guide budget decisions and strengthen fiscal discipline, ensuring greater predictability in budget planning while allowing flexibility in responding to shocks. This calls for the authorities to take decisive steps towards establishing such robust fiscal institutions. It is encouraging to note that the authorities are seeking technical assistance from AMRO to further strengthen their fiscal institutions.

[28] The FCP, launched in FY2018/19 is a 3-year plan aimed at (a) restructuring public expenditures to achieve cost savings (such as trimming or rationalizing spending/allowances, consolidating asset maintenance contracts, optimization of manpower, centralizing procurement); (b) generating revenue (such as through a review of fees and charges); and (c) achieving productivity gains through greater efficiency of public service provisions (such as via corporatization, privatization, public-private partnerships). During the initial phase, 117 initiatives were implemented, focusing on policy review and reforms, and process and efficiency reforms. In preparation for the next phase, a comprehensive review is underway to refine and enhance the program, incorporating lessons learned to update FCP guidelines in response to the evolving economic landscape.

[29] To enhance fiscal control and predictability, the authorities could consider targeting the non-O&G fiscal balance—aligning expenditures with a sustainable flow of income in which expenditures can be "smoothed" over time. In resource-rich economies, such as Brunei, targeting the non-O&G balance to delink fiscal policy from fluctuations in global oil prices is consistent with the permanent income hypothesis.

27. **Recent initiatives to enhance fiscal reporting are welcomed.** The Treasury Account and Financial Information System (TAFIS 2.0), which has been in use since April 2024, is instrumental to enhancing financial reporting and oversight. The establishment of the Baseline Expenditure Review to improve the accuracy of baseline estimates across ministries is welcomed, as it allows better reporting and hence, control of operational spending while optimizing expenditures. Similarly, the introduction of e-budgeting tools would enable digital submission of budget proposals to enhance efficiency and accuracy in budget preparation and planning.

28. **Broadening the scope of fiscal data would help provide a more comprehensive picture of the fiscal position.** The existence of multiple government funds or extra-budgetary funds tends to complicate the assessment of the fiscal stance and the monitoring/control of spending plans. Furthermore, off-budget activities and contingent liabilities can obscure the true fiscal position. Broadening the scope of fiscal data by producing budget accounts on a consolidated basis would help inform policymaking, strengthen monitoring for timely risk analysis, while promoting transparency and accountability.

Box A. Public Investment Management in Brunei: Challenges and Policy Options for Effective RKN Planning and Implementation[30]

The *Rancangan Kemajuan Negara (RKN*), is *Brunei's* primary medium-term planning instrument to drive *economic diversification* and realize the *Wawasan Brunei 2035.* The RKN sets out five-year development priorities and allocates funding for key projects based on their potential contributions to economic development, institutional capacity, and alignment with national strategic objectives[31]. The RKN also emphasizes strengthening the private sector, improving public governance and enhancing the quality of education and workforce to support Brunei's long-term vision.

Timeline and Strategic Focus

RKN1 (from 1953) to RKN9 (2007–2012)	Primarily focused on infrastructure development, basic services provision, and institution building, laying the groundwork for a modern economy and improving citizens' life quality.
RKN10 (2012–2017)	Marks a shift in strategic direction to support Wawasan Brunei 2035, with growing emphasis on economic diversification. The five priority sectors—downstream O&G, food, tourism, ICT, and services are increasingly highlighted as key pillars for reducing dependence on the O&G sector.
RKN11 (2018–2023)	Reinforced the same five priority sectors, with more targeted investment to accelerate private sector participation, improve infrastructure, and align with long-term development goals.
RKN12 (2024–2029)	Marks Brunei's most comprehensive development push yet, with project allocation spanning across six strategic thrusts: (1) improving quality education and infrastructure, (2) generating a future-ready workforce, (3) promoting environmental sustainability, (4) strengthening national resilience and citizens' welfare, (5) increasing the contribution of non-O&G sectors, and (6) enhancing public sector efficiency and governance.

Source: AMRO staff

[30] Prepared by Tran Van Duc, Associate.

[31] RKN has contributed significant changes to the socioeconomic development of Brunei through various important national projects aimed at upgrading infrastructure to become more modern, high-quality, and reliable. A considerable number of welfare and infrastructure projects, such as hospitals, schools, public amenities, climate adaption projects, housing schemes, roads, bridges, electricity and water supply systems, have been constructed and operating, ensuring the Government's commitment to continuously improving the quality of life and welfare for the people. In addition, improving hard infrastructure quality through construction projects has also contributed to enhancing the attraction of foreign investment and international tourists to Brunei.

Stages of the RKN Process

- **Planning Stage: Budgeting, Project Appraisal and Selection**

At the planning stage, the RKN's budget is allocated to key sectors, closely aligned with the government's ambitions and objectives. During each RKN cycle, the government is expected to approve a specified number of projects to be implemented with a scheme value, i.e., the total planned budget of RKN projects for the whole period. Prior to approval, these projects will undergo an appraisal and selection process, evaluated against several criteria. These criteria are, amongst others:

- Potential contribution to sustainable economic diversification;
- Potential contributions to government revenue;
- Economic and social impact (e.g., job creation and domestic entrepreneurial developments);
- Extent of public-private partnerships (PPP);
- Whether the projects could attract investments from within and outside the country.

Since RKN9, it is observed that the targeted sectors are mainly in: (1) Social Services, (2) Transportation & Communication, (3) Industry & Commerce, (4) Public Utilities, (5) Security, (6) Public Building, (7) Information Technology & Info-Communication, (8) Science & Technology, R&D and Innovation (Figure A1). In tandem with the shift in RKN focus, it is observed that the five priority areas received around 80-85 percent of the total budget allocation in RKN10 and RKN11, underscoring the government's commitment to advancing economic diversification and strengthening the non-O&G sector.

In the more recent RKN11 and RKN12, it is observed that the budget allocations have trended downwards, averaging BND3.8 billion. As compared to RKN9 (2007–2011) and RKN10 (2012–2017), where total budget allocation reached BND5.2 billion and BND6.8 billion, respectively, the budget allocation declined markedly in RKN11 (2018–2023) and RKN12 (2023–2028), where the total budget allocation is only BND3.5 billion and BND4 billion, respectively, a sharp decrease of nearly 41.2 percent compared to RKN10 (Figure A2).

Strengthening the medium-term fiscal management framework and aligning it with clearly defined socioeconomic priorities would support more coherent and strategic budget planning and allocation. By anchoring budget decisions in a multi-year fiscal perspective that reflects national development objectives—such as economic diversification, inclusive growth, and sustainability—the government can better ensure that limited public resources are allocated toward sectors and projects with the highest long-term impact. This approach would also help improve the consistency of RKN allocations across cycles, reduce unplanned spending cuts, and enhance the credibility and effectiveness of the medium-term national budgeting process.

Institutionalizing greater rigor in appraisal standards (such as more systematic use of cost-benefit analysis and robust feasibility studies)—would help ensure that only well-prepared, implementation-ready projects are selected. By applying these rigorous appraisal methods consistently, the government can better assess the economic, social, and technical viability of proposed projects, reducing the risk of delays, cost overruns, or underperformance. This is particularly important for addressing common bottlenecks observed during project execution, which often stem from inadequate project preparation or insufficient analysis of risks and benefits. To support this effort, the Ministry of Development could play a more strategic and coordinating role by establishing clear technical standards for project appraisal, providing centralized guidance and training to line ministries, and overseeing cross-agency investment reviews.

- **Execution/Implementation Stage**

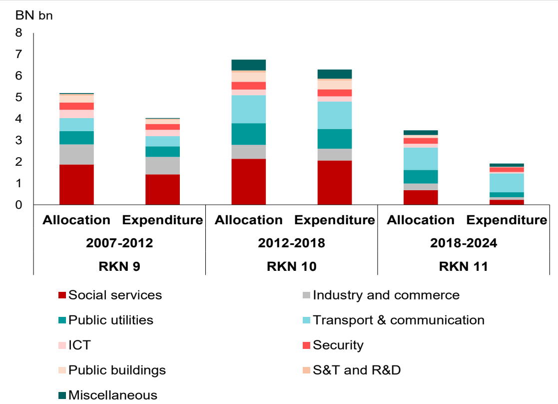
Following the planning and approval process, the implementation stage involves translating the allocated RKN budget into tangible outcomes through the timely and effective execution of public investment projects. At this stage, ministries and implementing agencies are responsible for delivering the approved projects in line with the agreed scope, timeline, and budget.

It is observed that the actual disbursement value of recent RKNs has often been volatile and falling behind planned targets. During RKN9 (2007–2011), the average disbursement rate stood at 77.6 percent and surged to 93.2 percent during RKN10 (2012–2017). From RKN11 (2018–2023) onwards, the disbursement rate declined markedly, with the average disbursement rate reaching only 46.1 percent.[32] (Figure A3). Part of this development reflects the onset of the COVID-19 pandemic, which halted the implementation of development projects (Figure A4).[33]

However, there are other key implementation challenges constraining the progress of project implementation in recent years. These include issues such as delays in site availability, changes in project scope, limitations in technical design capacity, and prolonged preparation of project briefs and tender documentation. In addition, capacity constraints among contractors and consultants have sometimes led to project delays.

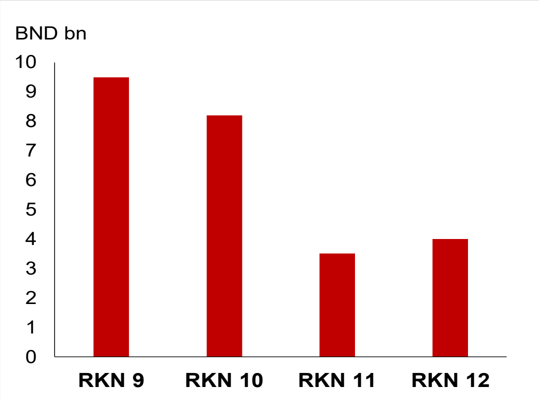
To address these execution bottlenecks, enhancing project management practices and accountability frameworks will be critical. Strengthening the role of the Ministry of Development as a central coordinating body can help oversee implementation progress, enforce standards, and facilitate inter-agency coordination. Introducing standardized implementation guidelines, milestone-based disbursements, and regular performance reviews would improve project delivery. In addition, other ministries can benefit from promptly adopting a modern tool for overseeing and monitoring construction projects. For example, developing an integrated digital information system to track all public investment projects, such as the Project Information Management System—one that is aligned with Building Information Modelling standards,[34] could further strengthen project execution. These suggested reforms would not only improve the efficiency of RKN project execution but also strengthen public financial management and the credibility of the budget process.

Figure A1. Allocation and Expenditure of RKNs by Sectors



Source: MOFE; AMRO staff calculations

Figure A2. Scheme Value of RKNs



Source: MOFE; AMRO staff calculations

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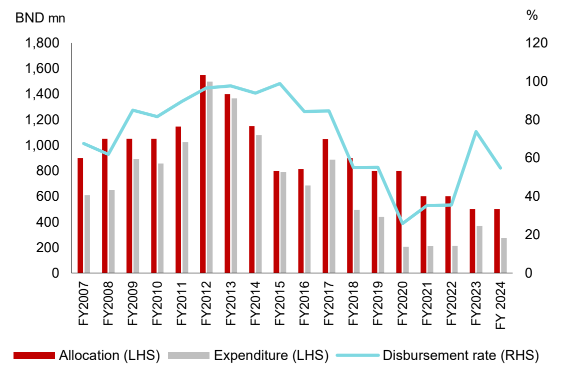
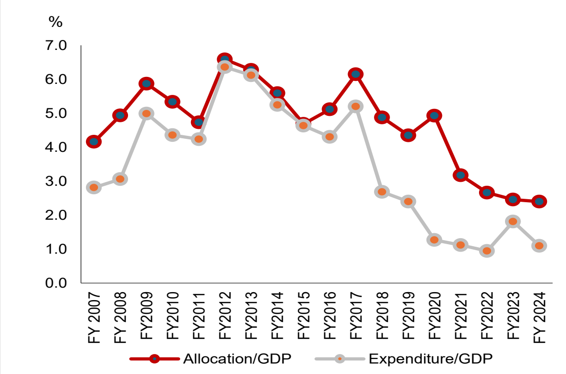
[32] Equivalent to 55.3 percent of the BND3.5 billion scheme value that has been approved.
[33] Projects that have not yet been completed under the RKN11 have been transferred to the RKN12.
[34] Building Information Modeling (BIM) is a digital process that involves the creation and management of information about a building or infrastructure asset throughout its lifecycle—from planning and design to construction and operation.

Figure A3. Allocation and Expenditure of RKNs by years



Source: MOFE; AMRO staff calculations

Figure A4. Allocation and Expenditure of RKNs to GDP



Source: MOFE; AMRO staff calculations

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C.2 Monetary and Financial Policy

29. Brunei's monetary conditions remain accommodative and supportive of economic activities. The monetary policy framework in Brunei, anchored by the Currency Board Arrangement (CBA) and the Currency Interchangeability Agreement (CIA) with Singapore, continues to function effectively, ensuring monetary stability and price stability. In mid-2024, the Overnight Standing Facility Deposit rate was adjusted upwards to realign the width of the Standing Facility corridor. Subsequently, in the second half of the year, in response to easing market conditions, both the Overnight Lending and Deposit rates were lowered by 25 bps each in September 2024 and December 2024 given the declining market rates. Despite the adjustment, the transmission to retail bank deposit rates has been largely muted in Brunei (compared to Singapore), reflecting the ample liquidity in the banking system.[35]

30. BDCB's ongoing efforts to strengthen the alignment of its central bank's facilities rates with Singapore's interest rates should continue with careful consideration and implementation. AMRO staff noted that the BDCB has plans in place to enhance monetary

[35] Retail lending rates have been largely stable, given that the prime lending rate has remained unchanged since December 2003.

policy transmission by considering a broader set of liquidity management tools, including increasing the issuance amount of BDCB I-Bills. These efforts are complemented by the close monitoring of Singapore's interbank market developments. Timely and calibrated adjustments to Brunei's BDCD's facilities rates, in line with these enhancements, will help ensure that domestic monetary conditions remain well-aligned with Singapore's, thereby supporting macroeconomic and financial stability.

31. Policymakers are encouraged to enhance due diligence and risk assessment frameworks for banks' offshore lending activities, particularly in light of potential risks arising from cross-border exposures. Given the banking sector's exposure to offshore assets, it would be prudent for BDCB to enhance systemic risk surveillance, focusing on the activities of Domestic Systemically Important Banks (DSIBs) in the event of a major external shock. This includes strengthening monitoring and reporting requirements for offshore portfolios and closely tracking banks' net open positions relative to their capital base to more effectively assess and manage foreign exchange risk exposure. It is also desirable to frequently stress-test banks' exposure to external vulnerabilities and further strengthen early warning systems.

32. AMRO staff welcome the BDCB's proactive approach to strengthen the prudential regulatory framework in line with evolving global standards. The planned implementation of the Liquidity Coverage Ratio (LCR) in July 2025 represents a significant milestone in enhancing the banking sector's short-term liquidity resilience and capacity to withstand external shocks. This step aligns Brunei's regulatory framework more closely with Basel III standards and supports the broader objective of financial stability. In addition, continued efforts to refine capital adequacy requirements, improve risk-weighting methodologies, and strengthen supervisory practices will be critical to ensure that the financial system remains sound and resilient amid rising global uncertainties. AMRO staff also encourage BDCB to adopt a more forward-looking supervisory approach, incorporating scenario analysis, stress testing, and regular reviews of existing notices and guidelines that reflect changing market conditions and emerging trends, enabling a more adaptive regulatory framework that can effectively address current and prospective challenges and opportunities.

33. In the area of operational risk management of banks, further enhancing cybersecurity remains critical to safeguarding financial stability, protecting sensitive data, and ensuring the resilience of digital banking infrastructure. As cyberattacks grow more sophisticated and cross-border in nature, timely coordination between financial institutions, regulators, and cybersecurity agencies is essential for early detection, information sharing, and a rapid response to threats. While Brunei's financial regulators have taken important steps, including the issuance of the 2022–23 *Notice and Guidelines on Technology Risk Management*, continued efforts are essential to strengthen the sector's defenses. To further enhance cybersecurity resilience in the financial sector, Brunei could build on existing efforts by institutionalizing broader inter-agency collaboration between banks, regulatory bodies, and cybersecurity experts (e.g., BruCERT[36]) which would help to enhance information sharing and the development of best practices to counteract emerging threats. Facilitating structured cross-agency secondments or training programs between banks, regulators, and

[36] BruCERT (Brunei Computer Emergency Response Team), founded in 2004, is a national cybersecurity agency operating under the Authority for Info-communications Technology Industry (AITI). It serves as the national coordination center for cybersecurity incidents.

BruCERT could further enhance institutional capacity. Establishing more targeted public awareness campaigns focused on digital banking users and MSMEs can complement technical defenses by raising user-level vigilance against evolving cyber threats.

C.3 Structural Policy and Sustainable Development

34. Diversifying, expanding and developing industries in the non-O&G sector is crucial to unlock its full growth potential. Brunei has gradually expanded its production capacities along the O&G value chains, with a strategic focus on downstream industries. This has led to a broader range of export products, particularly refined petroleum and petrochemical products. While this expansion reflects Brunei's competitive advantage and industry strength, it remains heavily reliant on hydrocarbons value chains, posing challenges in the context of growing the non-O&G sector. In order to foster growth in other priority sectors (food, tourism, ICT, and services), it is crucial to continue building domestic capacities that would sustain the economic transformation—mimicking the success stories in the downstream sector. This will have important implications on the fiscal front, as progress in developing the non-O&G sectors is key to diversifying fiscal revenues. For example, strengthening infrastructure (both hard and soft), such as transportation, energy, and digital networks in the non-O&G sector is fundamental to supporting new and emerging industries. Further developing a skilled workforce and fostering innovation and research, with continued support from the government will be critical for business to thrive.

35. Emerging industries, such as those in the agri-food sector, could benefit from supportive government assistance. Over the past several years, there has been notable progress in Brunei's food production and exports, including cooking oil, chicken eggs and aquaculture produce (e.g., salmon, blue shrimp, seabass). The launch of the Brunei Food Industry Development Multipurpose Manufacturing and Processing Facility (BFID) has certainly provided the impetus for the domestic agri-food sector to grow. However, there are challenges. For example, in the aquaculture sector, even though the country has vast clean coastal and inland water resources, making it well-suited for high value-added aquaculture production, frequent disease outbreaks (mainly from imported feeds) may have affected aquaculture production.[37] Timely government interventions, such as through the adoption of stricter biosecurity measures, e.g., by enforcing screening and decontamination processes for the importation of live-fish feeds, could be supportive of the industry. Meanwhile, the country needs to enhance and modernize its water and electricity infrastructure, offering significant opportunities to businesses and investors.

36. The rapid development of artificial intelligence (AI) is transforming global labor markets, delivering productivity gains and new employment opportunities while posing significant risks of worker displacement in various sectors—Brunei is no exception. Productivity gains could increase significantly as AI continues to push the innovation frontier and automate many tasks, where policy could play a critical role to facilitate the process. On the other hand, monitoring potential disruptions caused by AI in the labor market is also key to pre-emptively addressing skill gaps, ensuring workers are equipped for new roles, and can adapt to evolving technological demands. Staff assessment suggests that while automation risks to the labor market from generative AI (GenAI) remain low, the rapid advancement of AI

[37] Aquaculture production fell to 333 metric tons in Q1 2024 from a peak of 1,511 metric tons in Q4 2022, likely due to a disease outbreak.

could heighten automation threats and potential disruption to the workforce (SI: Bruneian Labor Market Exposure to GenAI). Looking ahead, authorities are encouraged to closely monitor AI's evolution and adoption, strengthening its regulatory framework to reduce operational risks, and mitigate labor market disruptions.

37. Measures to enhance labor market flexibility remain critical, while continued investment in training and technology is essential to support economic diversification. One key challenge in the labor market is the mismatched expectations between employers and jobseekers regarding compensation and prospects of career advancement. The introduction of the Salary Guideline addresses this gap by providing clear reference points for remuneration across job roles and sectors. This helps reduce information asymmetry, supports more effective job matching—a key aspect of labor market flexibility (Annex 1). Together with the phased implementation of the Employment (Minimum Wage) Order in 2023, and its planned sectoral expansion in 2025, these initiatives represent important steps toward creating a more flexible and inclusive labor market (SI: Spurring Growth through Productivity Enhancements in Brunei). With rapid digitalization, accelerating workforce upskilling has emerged as a key priority to support the nation's economic transformation agenda. Staff support the various strategic initiatives established between the tripartite partners to equip the workforce with future-ready skills, notably in the area of ICT, to strengthen workforce adaptability.

38. Targeted measures to enhance access to financing, facilitate market expansion, and strengthen capacity building are crucial to strengthening MSME development. Given the critical roles of MSMEs in economic diversification and growth, it is encouraging to note that the Brunei Economic Development Board (BEDB) is actively driving, implementing, and coordinating a suite of comprehensive policy initiatives to facilitate MSME development. These entail a more strategic and targeted focus to support MSMEs' access to financing—such as through the strengthening of the Co-Matching Grant and Startup Catalyst Fund—while also supporting market expansion.[38] Besides these measures, AMRO staff support the capacity building initiatives, notably in the area of digitalization (such as Brunei Innovation Hub), which would help drive innovation and accelerate operational efficiency. Staff also support the targeted capacity building programs, such as the Accelerate Bootcamp and the Business Mentorship and Skills Development, which can help enhance MSMEs' readiness by equipping them with essential skills needed across various development stages.

39. Further strengthening and broadening economic ties with trade partners can provide Brunei with better access to international markets and attract inward investment. Brunei is actively enhancing its trade and investment landscape through strategic participation in international trade agreements, including the RCEP and CPTPP. Notably, Brunei Fertilizer Industries (BFI) has benefited from the CPTPP to export urea fertilizers to various member countries within the trade agreement. To navigate the uncertainties around fragmentation and supply chain reconfiguration, Brunei can leverage these trade agreements to advance trade integration at both the global and regional level. In addition, Brunei is leveraging the Brunei–Guangxi Economic Corridor (BGEC) to promote cross-border industrial cooperation, enhance logistics connectivity, and attract FDI in priority sectors such as manufacturing, infrastructure, and halal products. Strengthening such partnership helps to

[38] The BDCB has also implemented a series of measures including the collateral registry system and the credit score system to address information gap in MSME financing.

drive Brunei's economic diversification strategy under Vision 2035 by fostering trade, bio-industry, and halal industry development, and by facilitating direct shipping links and shared production bases.

40. Keeping up with rapid financial innovation and expanding educational opportunities are crucial to unlock new sources of growth, such as in the area of Islamic finance. Brunei has made significant progress in establishing a supportive framework for Islamic finance through initiatives like the Shariah Financial Supervisory Board. However, the Islamic finance sector faces challenges in keeping up with rapid financial innovation and evolving market demand, as well as regulatory requirements. Strengthening knowledge capacity among industry players, fostering public awareness, and attracting scholars with expertise in Shariah-compliance and contemporary financial systems is vital to ensuring the industry's sustainable growth and its ability to meet future challenges (Box B).

Box B. Unlocking the Potential of Islamic Finance to Drive Future Growth in Brunei Darussalam [39]

In the early 1990s, Brunei took its first steps towards integrating Islamic finance[40] into its economy. Since then, its financial system has evolved into a comprehensive framework that supports the growth of Shariah-compliant banking, insurance (Takaful), investment, and other ancillary products and services. Over the years, strategic initiatives of the government and its strong support have fostered a robust environment for the Islamic finance sector to thrive (Rohmad et al., 2024). In recognition of its potential, the government has identified Islamic finance as one of the key strategic development agenda in the Brunei Darussalam Financial Sector Blueprint 2016-25.[41] This box seeks to explore first, how Islamic finance has contributed to Brunei's financial landscape and the overall economy. Second, highlight the potential for Islamic finance as a catalyst for future economic growth. And third, discuss the challenges in achieving a more dynamic Islamic financial ecosystem.

Brunei's financial landscape has witnessed significant transformation with the growing prominence of Islamic finance.[42] The contributions of Islamic finance to the overall economy can be observed in four key areas:

- **Diversification of financial services.** Islamic finance has introduced a variety of Shariah-compliant financial products and services, providing alternatives to conventional financial offerings. This diversification caters to the needs of individuals and businesses seeking ethical and interest-free financial solutions. For example, Takaful products have broadened their scope to include services covering health and education, offering a viable alternative to conventional insurance.
- **Increased financial inclusion.** By offering products that adhere to Islamic principles, Islamic finance has attracted segments of the population that may have previously been excluded from conventional financial system due to religious beliefs, thereby promoting financial inclusion. The ethical principle of Islam also promotes ethical finance, which further enhances the reputation of Brunei's financial sector.

[39] Prepared by Tanyasorn Ekapirak, Associate Economist.
[40] Brunei's Islamic financial system comprises of Islamic banks, takaful operators, Islamic investment dealers, sukuk (Islamic bonds) and other ancillary service providers.
[41] In 2016, BDCB published the Brunei Darussalam Financial Sector Blueprint 2016 – 2025. The Blueprint sets out a vision of a dynamic and diversified financial sector for Brunei Darussalam by 2025 to support Wawasan 2035's goal of transforming Brunei Darussalam into a diversified, dynamic and sustainable economy. https://www.bdcb.gov.bn/financial-sector-development/financial-sector-blueprint
[42] As of end-2024, Islamic financial assets account for 58.7 percent of total financial assets in Brunei. Of significance, the Islamic banking industry holds a dominant 95 percent of the market share within the Islamic finance sector, with total assets amounting to BND 13.7 billion as of Q4 2023.

- **Development of domestic capital markets.** The issuance of sukuk (Islamic bonds) has contributed to the development of Brunei's capital markets. The growth of sukuk has not only strengthened market liquidity but also contributed to the development of a yield curve, which is essential for establishing benchmark rates for pricing other financial instruments, enhancing transparency, and improving the overall investment climate.

- **Strengthening regulatory framework.** The growth of Islamic finance has also necessitated the development of robust regulatory frameworks to ensure Shariah compliance and consumer protection. This has led to the establishment of institutions and guidelines that enhance the overall governance of the financial sector.

Potential for Islamic Finance to Drive Future Growth Agenda

- **As Islamic finance continues to gain global appeal, it is unlocking new demand and driving growth in Shariah-compliant products and services.** According to the Global Islamic Finance Report (2024) and Islamic Finance Development Report (2024), the global financial landscape is witnessing a transformative shift as Islamic finance continues to expand. For Brunei, this trend presents an opportunity to capitalize on its strong Islamic finance infrastructure and regulatory environment to broaden the range of its financial services activities. For example, by further developing a wider range of Shariah-compliant financial products/ services offerings (such as *ijara* (leasing), *murabaha* (cost-plus financing), longer maturity *sukuk* (Islamic bond) and/ or Islamic mutual funds), Brunei can attract different types of investors, including those interested in socially responsible investments (see discussion below). As Islamic finance continues to gain global acceptance, having a diverse range of Islamic product and services offerings can help attract investments and unlock growth opportunities in new sectors and markets, reducing Brunei's reliance on traditional growth industries such as the O&G. Furthermore, a bespoke Islamic finance products/ services that are tailored for the MSMEs[43] can provide the much-needed capital for growth and expansion, while generating other economic spinoffs (Muhmad et al., 2020).

- **The growing demand for ESG (Environmental, Social, and Governance) investment also creates significant opportunities.** As investors increasingly prioritize sustainability and ethical considerations, Brunei can capitalize on this trend by developing and promoting financial products that align with ESG principles. One potential growth area is green (or transition) financing. Amid the mounting climate challenges, nations worldwide are compelled to step-up decarbonization efforts to mitigate the devastating impacts of climate change. To fulfill the ambitious Paris Accord, a significant amount of financing is required from diverse, unconventional, and innovative sources (World Bank, 2021; UNFCC, 2021). This presents an opportunity for Brunei to spearhead the financing of investments in renewables, energy efficiency, and environmental conservation. Green and sustainability-linked Islamic debt market instruments, such as green sukuk, have emerged as a popular bespoke financial instrument to address environmental and social challenges while aligning with Shariah principles.[44]

- **In today's more uncertain global environment, the risk-sharing and asset-based principles of Islamic finance offer opportunities for investors seeking to avoid speculative risks, which in turn, helps to promote financial stability.** The principles of risk-sharing and asset-based in Islamic finance are key to promote better risk management, mitigate speculative risks and minimize disruptive boom-bust cycles. In Islamic finance, financial transactions are grounded in the core principles of Shariah, which entails conducting operations with fairness and transparency, maintaining robust Shariah governance, and embracing equitable practices such

[43] Such as Bank Usahawan (financing to MSMEs) and BIBD Ar-Rahnu (micro-financing based on pawnbroking articles).
[44] Brunei Darussalam, as a member of the ASEAN Capital Market Forum (ACMF), has adopted the ASEAN Green, Social, Sustainable and Sustainability Linked Bond Standards.

as risk-sharing. As one of the key players in ASEAN, there is potential for Brunei to be one of the leading hubs for Shariah-compliant finance in the region.

- **Another area of opportunity is the growing prominence of Islamic Fintech.** Fintech represents a significant evolution in the financial sector, integrating technology to offer innovative financial solutions. Fintech sandboxes instigated by regulatory bodies have helped bring new players into regulatory scope while making regulators aware of growing trends in the industry (Prastowo et al., 2024). In Islamic finance, this burgeoning field combines the traditional values of Islamic finance with cutting-edge digital technology, creating new opportunities for financial inclusion, efficiency, and growth. Brunei has taken proactive steps to position itself as an attractive FinTech hub. Although Brunei's Islamic Fintech developments are still in their infancy, they could potentially expand rapidly, as evidenced in a growing number of jurisdictions where Islamic banking has achieved systemic importance. In Brunei, the BDCB established the BDCB Regulatory Sandbox in 2017. The Sandbox has, among other conventional Fintech activities, hosted the testing of a Shariah-based peer-to-peer crowdfunding platform. The BDCB also established a FinTech Innovation Centre, known as the Mekar FinTech Innovation Centre (Mekar) in 2024. The center aims to foster a culture of innovation in the financial sector, focusing on the provision of a co-working space, a platform for continuous knowledge sharing and community building initiatives as well as a platform for FinTech companies to seek guidance on regulatory matters.

- **Brunei's Islamic finance sector can also benefit greatly from international partnerships, offering opportunities for both knowledge exchange and market expansion.** Collaborations with established Islamic finance markets like Malaysia and the Middle East can unlock market access.[45] However, competition from these markets requires Brunei to carve out a niche for itself, which can be achieved through specialization in certain types of Islamic financial instruments or services. The nation's vision to diversify its economy away from O&G dependency aligns well with the principles of Islamic finance, which emphasizes risk-sharing and asset-backed financing. This opens doors for funding diverse projects, such as infrastructure and climate financing.

Challenges in Achieving a More Vibrant Islamic Finance Ecosystem in Brunei

- **While Brunei has made notable progress in establishing a supportive framework for Islamic finance through initiatives like the Shariah Financial Supervisory Board, inadequate global regulatory harmonization presents challenges for cross-border operations and regional integration.** Brunei has made significant strides in creating a conducive environment for Islamic finance, as well as implementing the Shariah Financial Supervisory Board (SFSB)[46] in 2006.[47] This Order ensures that the monitoring and supervision of Shariah pronouncement are well monitored. However, while specific standards have been developed by specialized standard-setting bodies (such as AAOIFI), regulatory and supervisory frameworks in many jurisdictions do not yet adequately capture the unique risks of the industry (Ariff and Iqbal, 2011).[48] As a result, cross-border operations have expanded without regulatory harmonization, leading to fragmentation and inconsistencies in the application of Islamic finance principles.[49] As Brunei seeks to strengthen its position as a regional financial hub, these

[45] BDCB is also a member of several international organizations involved in Islamic Finance matters such as the Islamic Financial Services Board (IFSB) and the International Islamic Financial Market (IIFM).
[46] The SFSB holds the responsibility of ascertaining Islamic law in financial matters, issuing rulings on related issues, and providing guidance on any Syariah-related aspects pertaining to Islamic financial business, activities, or transactions.
[47] BDCB has produced its own Syariah standards and reflected in the legislation. See Syariah Financial Supervisory Board Act (Chapter 295).
[48] In Brunei, the AAOIFI standards have been used as the main reference point by the SFSB and Syariah Advisory Bodies of IFIs.
[49] While organizations such as AAOIFI and the Islamic Financial Services Board (IFSB) do set standards and/or provide guidelines, here is no global authority with enforcement power to ensure compliance across jurisdictions. This is complicated by the varying interpretations of Shariah principles across jurisdictions.

inconsistencies in Islamic finance regulations across different countries can pose challenges. The fragmentation in regulatory practices can affect Brunei's ability to attract cross-border investments and integrate seamlessly with other financial markets in ASEAN and elsewhere.

- **Keeping pace with rapid financial innovation and evolving market demand poses a significant challenge for the Islamic finance sector**. Given the rapid pace of financial innovation, the challenge extends beyond simply diversifying and customizing financial products to align with cultural and religious practices; it also requires ensuring that these innovations adhere strictly to Shariah principles. The rapid pace of technological change, such as blockchain, also presents a new challenge to the industry. Keeping up with evolving market demand is another challenge. Historically, the market in Brunei has been dominated by traditional instruments focused on short- and medium-term maturities, lacking a robust suite of products for long-term needs.

- **Regulatory challenges are also significant and would need to be addressed.** Regulatory requirements, particularly in terms of liquidity management, are a key concern, due to insufficient high-quality liquid Islamic financial assets This isa common challenge in many jurisdictions including Brunei. In Brunei, although the availability of Brunei Government Sukuk *Ijara* securities and BDCB Islamic Bilis (BDCB I- Bills)[50] allows financial institutions to meet their investment and liquidity needs, it is important to strengthen the liquidity management infrastructure and its interconnectedness with the development of a Shariah-compliant interbank and capital market developments.

- **Strengthening knowledge capacity and expanding educational opportunities are essential for Brunei's Islamic finance industry to fully realize its growth potential.** Even though Brunei's Islamic finance industry is poised for growth, developing (and regulating) Shariah-compliant instruments requires a deep understanding of both Islamic principles and modern financial practices, which can be challenging to fulfill. It is therefore crucial to strengthen knowledge capacity amongst industry players, foster greater public awareness, and attract scholars who are well-versed with both Shariah-compliance and contemporary financial systems. The Brunei Institute of Leadership & Islamic Finance (BILIF) was established in 2010 to help build expertise in the areas of Islamic finance through immersive programs and international events.[51] While Brunei has made efforts to foster public awareness and capacity building, expanding educational opportunities in Islamic finance is vital to ensuring the industry's sustainable growth and its ability to meet future challenge.

Brunei has integrated Islamic finance into its economy since the 1990s, fostering growth in Shariah-compliant banking, insurance, investment, and other services. The strategic initiatives and strong support by the government have created a robust environment for the sector to drive future growth. As global interest in Islamic finance gains prominence, Brunei can capitalize on its strong Islamic finance infrastructure and regulatory environment to broaden its financial services activities, attract investments, and support sustainable development. However, realizing its potential would require strengthening regulatory harmonization, enhancing financial innovation, and expanding knowledge capacity to ensure long-term industry resilience and competitiveness.

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[50] As of June 2024, the government of Brunei Darussalam has issued over BND 17 billion worth of Sukuk Ijarah securities since the maiden offering in April 2006, while BDCB has issued BND 4.48 billion worth of short-term BDCB I-Bills, since the maiden offering in October 2020.

[51] Aside from BILIF, universities in Brunei (UNISSA, UBD, etc.) offer degrees in Islamic Finance. These universities also support the human capital development for the Islamic finance industry.

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41. Accelerating the digitalization of Brunei's payment systems will enhance efficiency in transactions and foster inclusive growth. Brunei is actively advancing the digitalization of payment infrastructure. The introduction of the centralized platform — Digital Payment Hub (DPH) — will enable instant transfers between different banks and e-wallets, thereby enhancing the interoperability and efficiency payment system.[52] Concurrently, Brunei' s participation in the Regional Payment Connectivity (RPC) initiative will strengthen cross-border payment linkage with ASEAN nations. These digital payment initiatives are poised to significantly benefit Brunei's economy by reducing costs and improving efficiency in financial transactions, and by facilitating cross-border trade and investment flows. To maximize the benefits of these developments, continued efforts should be made to promote digital payment adoption, ensure robust cybersecurity measures, and foster collaborations with international payment providers to expand cross-border transaction capabilities.

42. Brunei has taken significant strides in energy transition and emission reduction efforts. The country is advancing its net zero ambitions and renewable energy goals through a multi-agency approach that aligns policies, regulations, and investments to drive the shift towards clean energy. However, inter-agency coordination and collaboration with the private sector remain a key challenge for mobilizing investments critical to drive green growth. Closer cooperation within ASEAN, such as through initiatives like the ASEAN Climate Change Strategic Action Plan 2025–2030, which serves as the region's roadmap for climate action up to 2030, could help address these gaps, as member states can collectively benefit from shared experiences, best practices, and mutual learning in advancing their green transition agendas. In this context, regional knowledge sharing, potentially on the design of green incentives could further accelerate the transition by encouraging cleaner energy use and promoting low-carbon alternatives.

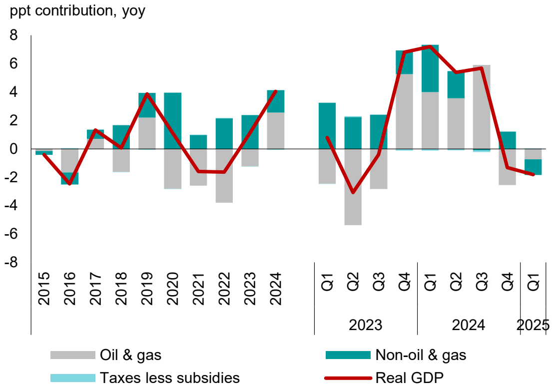
[52] The Digital Payment Hub (DPH) is a centralized platform launched in Q1 2025 and is managed by Brunei's National Digital Payments Network (ndpx). The authorities are also finalizing the Notice on National QR Code Standard for Payment, which will unify the QR code for all payment system operators and e-wallet platforms. The authorities issued the Notice QR Code Standard for Payment on 10 March 2025, with the objective to unify and standardised QR code for payments to facilitate interoperability of payment systems and promote the use of digital payment by financial consumers.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

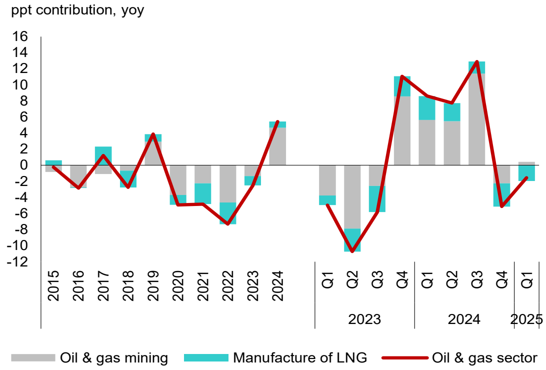
Figure 1.1. Real Sector and Inflation

After several quarters of above-trend growth, economic growth slowed sharply since Q4 2024.



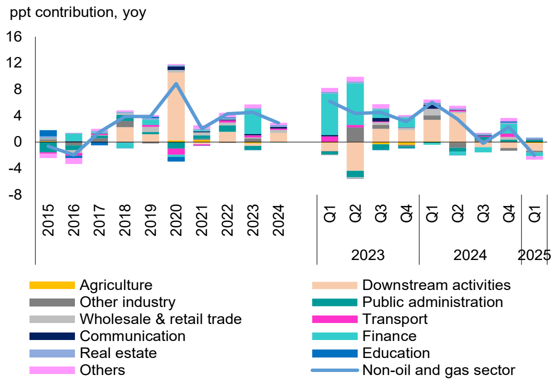
Source: DEPS; AMRO staff calculations

The upstream O&G continued to face production challenges, partly due to maintenance challenges.



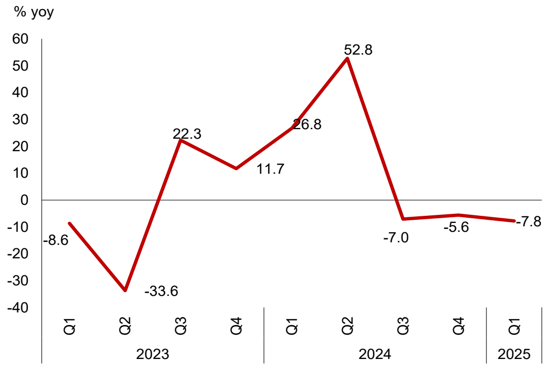
Source: DEPS; AMRO staff calculations

Activities in the non-O&G sector also slowed in Q1 2025, mainly due to the contraction in the downstream O&G and finance sub-sectors.



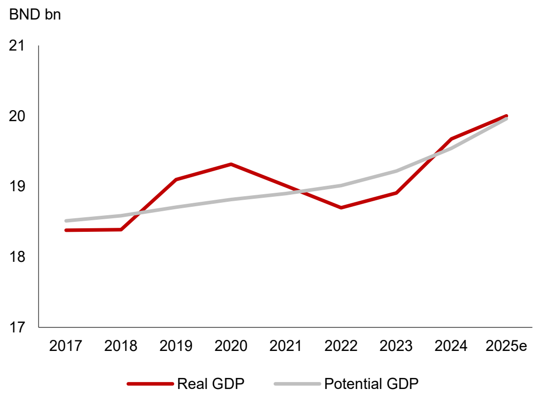
Source: DEPS; AMRO staff calculations

Activities in the downstream sub-sector continued to remain weak since Q3 2024.



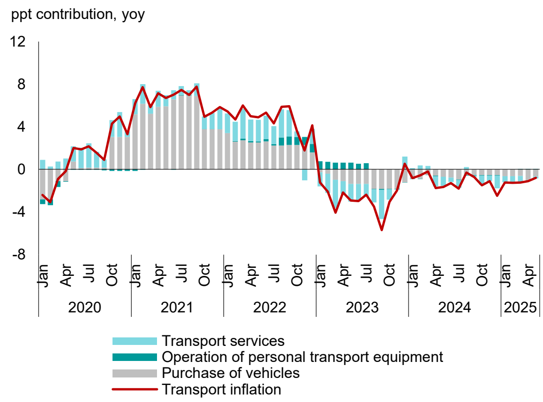
Source: DEPS; AMRO staff calculations

The output gap is estimated to close in 2025.



Source: DEPS; AMRO staff calculations
Note: The potential GDP is estimated by using two-sided HP filter.

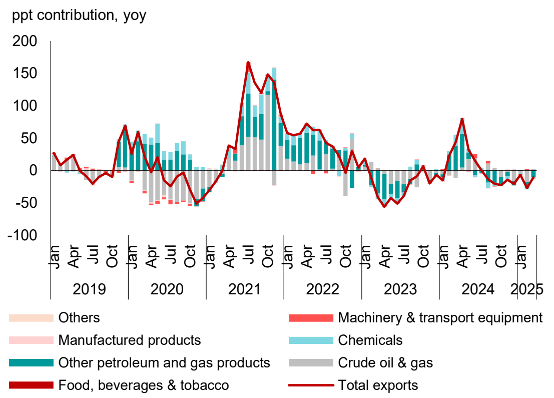
Transport inflation remained in negative territory, largely driven by declines in prices of transport services and purchase of vehicles.



Source: DEPS; AMRO staff calculations

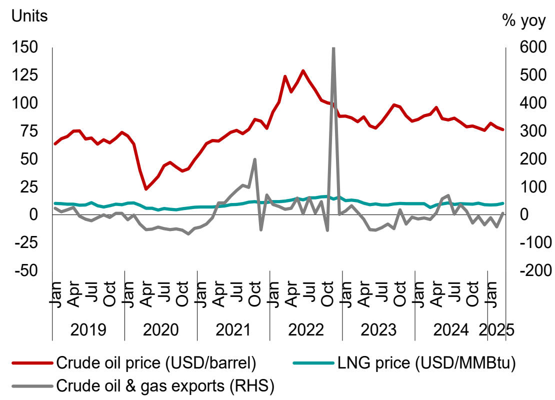
Figure 1.2. External Sector

Exports declined from mid-2024, due to weakness in O&G exports



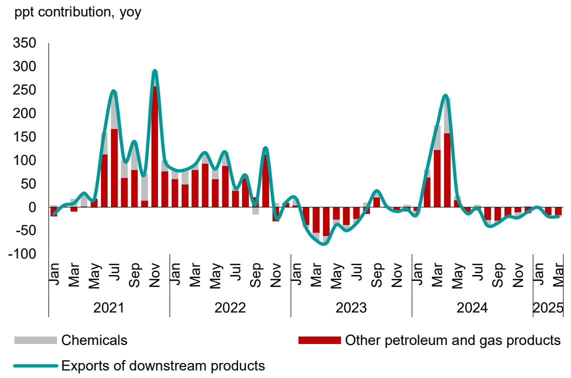
Source: DEPS; AMRO staff calculations

Setbacks to O&G exports in Q4 2024 reflect operational upsets in the mid-stream O&G sector.



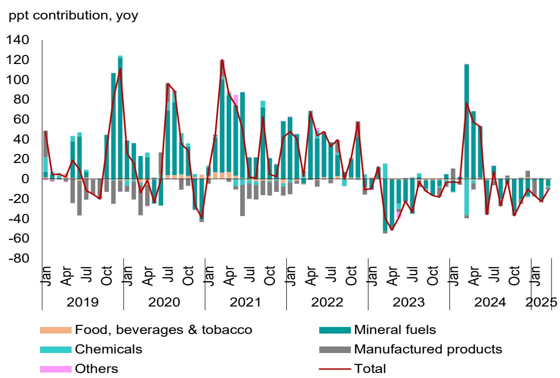
Source: DEPS; AMRO staff calculations

Downstream exports have also declined from mid-2024.



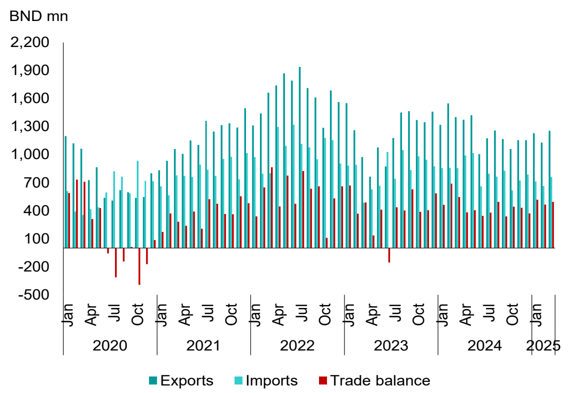
Source: DEPS; AMRO staff calculations

Similarly, total imports have been decreasing since mid- 2024, led by lower import demand for mineral fuels.



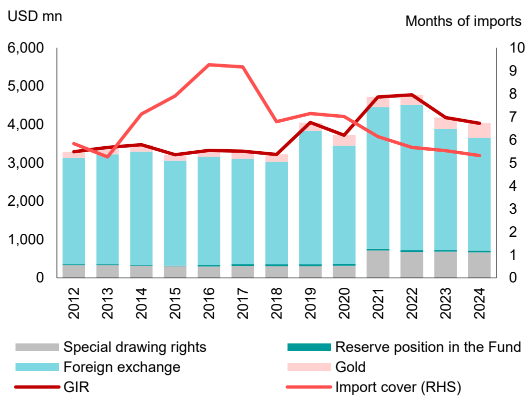
Source: DEPS; AMRO staff calculations

Overall trade surplus sustained in 2024, albeit narrowing from the preceding year.



Source: BDCB; AMRO staff calculations

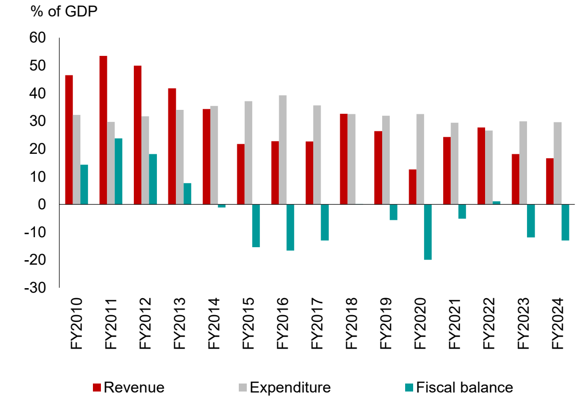
Reserves stood at USD4.03 billion at the end of 2024, from USD4.18 billion in 2023.



Source: IMF; BDCB; AMRO staff calculations
Note: According to BDCB, the foreign exchange component includes gold. However, in this chart, gold is separated from the foreign exchange for charting purposes.

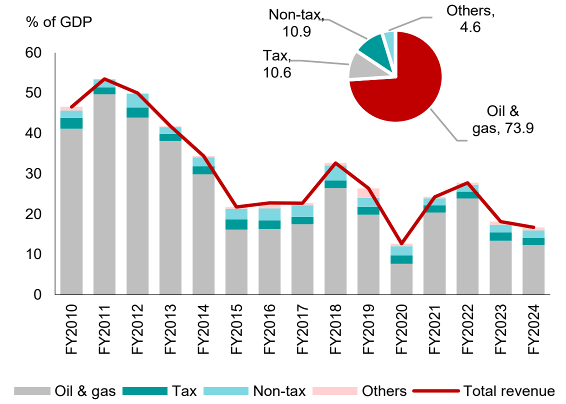
Figure 1.3. Fiscal Sector

Fiscal deficit remained large in FY2024…



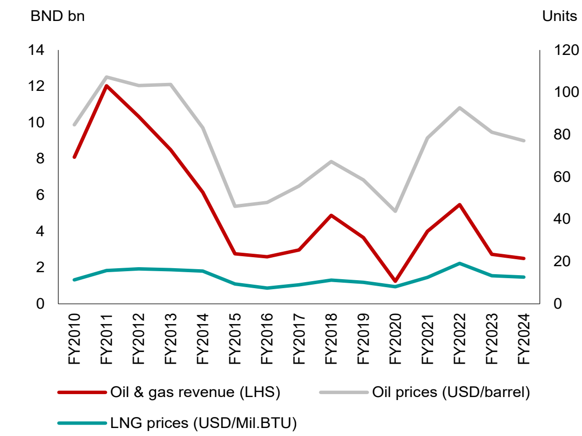
Source: MOFE; AMRO staff calculations

…largely attributed to lower O&G revenue.



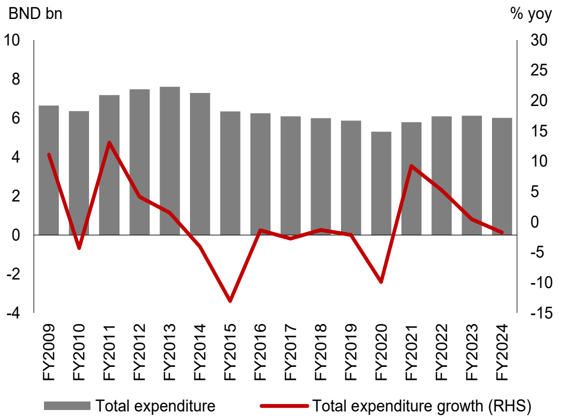
Source: MOFE; AMRO staff calculations
Note: Fiscal year starts from Apr to Mar. The unit for pie chart is percent of total revenue for FY2024.

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



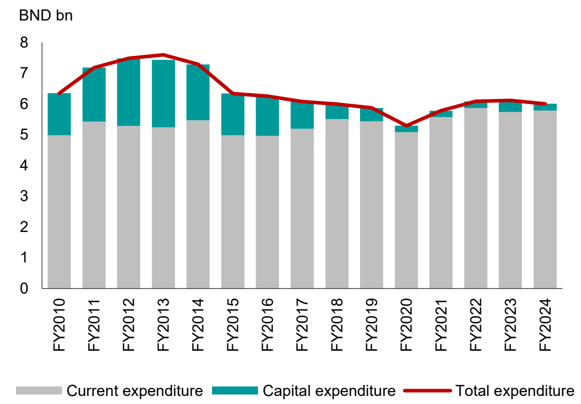
Source: MOFE; The World Bank; AMRO staff calculations

After accelerated spending during the pandemic, expenditure growth has slowed since FY2022.



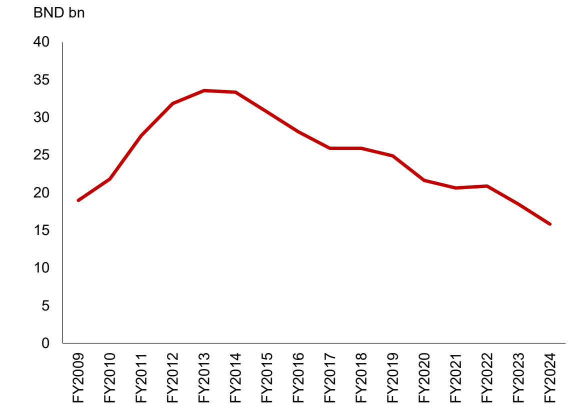
Source: MOFE; AMRO staff calculations

Spending for current expenditure needs is sizeable and continues to grow, while the size of capital expenditure has been gradually reduced.



Source: MOFE; AMRO staff calculations

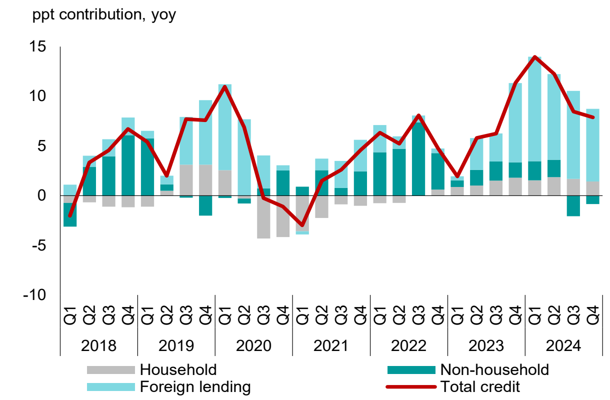
Since FY2013, the cumulative fiscal surplus has progressively narrowed.



Source: MOFE; AMRO staff calculations
Note: This data is estimated by AMRO staff. The accumulation of fiscal surplus starts from FY2000.

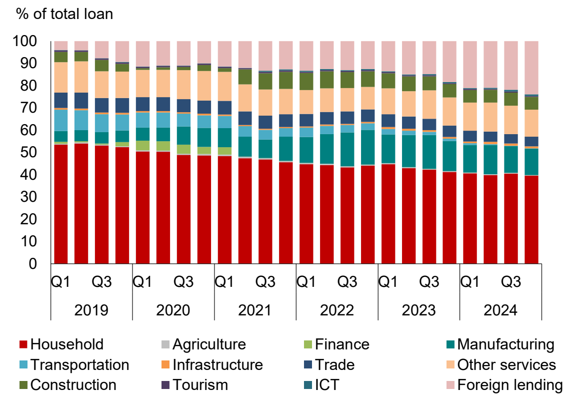
Figure 1.4. Monetary and Financial Sector

Banking sector credit growth eased further in Q4 2024, reflecting the softer pace of growth in corporate lending.



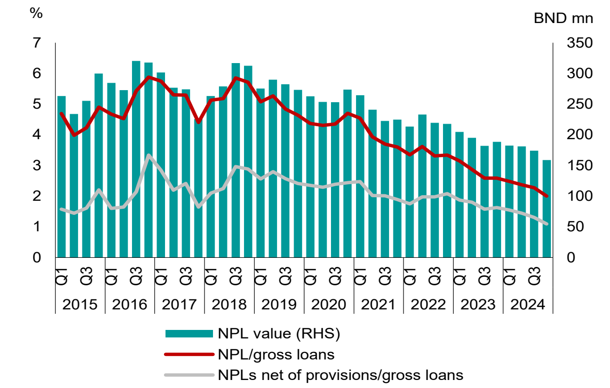
Source: BDCB; and AMRO staff calculations

The household sector accounts for the largest share of total bank credit, followed by foreign lending in Q4 2024.



Source: BDCB; and AMRO staff calculations

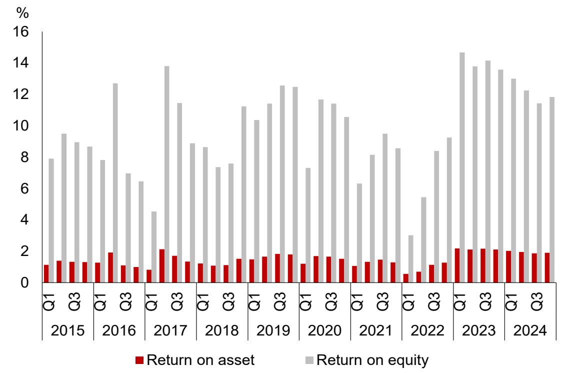
Asset quality further improved further as NPL ratio decreased to 2.0 percent in Q4 2024 from 2.3 percent in Q3 2024.



Sources: BDCB

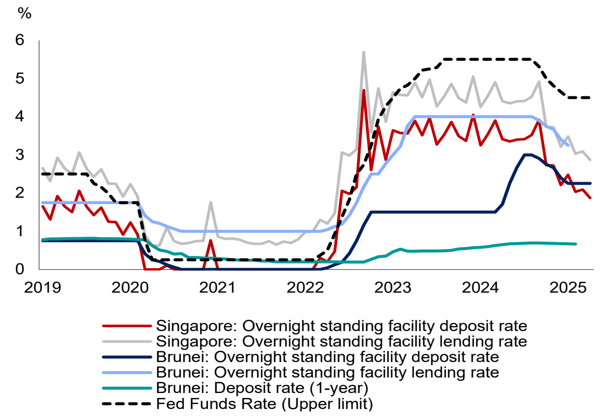
Note: NPL = non-performing loan

Banks' profitability continued to remainhigh in Q4 2024.



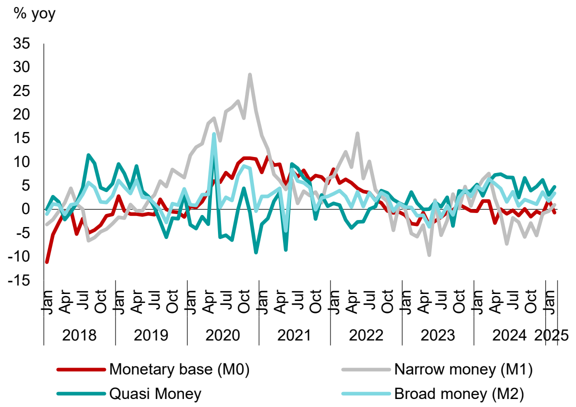
Sources: BDCB

Since mid-2024, Brunei's overnight standing facility deposit rate has moved closer to Singapore's standing facility deposit rate.



Source: BDCB; and AMRO staff calculations

Monetary aggregates, except M0 and M1, cotinued to grow in 2024.



Source: BDCB

Appendix 2. Selected Economic Indicators for Brunei Darussalam

	2021	2022	2023	2024	Projections	
					2025	2026
Real Sector and Prices	(in annual percentage change)					
Real GDP	-1.6	-1.6	1.1	4.1	1.7	2.3
CPI inflation (average)	1.7	3.7	0.4	-0.4	0.2	0.3
External Sector	(in millions of USD, unless otherwise specified)					
Current account balance	1,570	3,265	1,944	2,234	1,696	1,792
(In percent of GDP)	11.2	19.6	12.9	14.6	11.5	11.9
Trade balance	2,679	5,153	3,800	3,711	3,182	3,370
Exports	11,002	14,132	11,240	11,075	10,773	10,959
Imports	8,323	8,978	7,440	7,363	7,590	7,589
Services, net	-697	-848	-1,303	-1,335	-1,399	-1,478
Primary income, net	90	-370	194	490	636	697
Secondary income, net	-502	-671	-747	-632	-723	-796
Financial account balance	-119	2,387	1,842	1,800	1,680	1,661
Direct investment	-205	292	51	-26	-187	-244
Portfolio investment	-237	456	-271	730	759	774
Other Investment	323	1,638	2,062	1,096	1,108	1,131
Net errors and omissions	-594	-800	-801	-546	0	0
Overall balance	1,096	77	-699	-112	16	131
Gross international reserves (incl. gold)	4,717	4,771	4,181	4,032	4,048	4,179
(In months of imports of goods and services)	6.1	5.7	5.5	5.3	5.1	5.2
Fiscal Sector	(in percent of GDP)					
Revenue	24.3	27.7	18.1	16.7	16.6	17.2
Oil and gas revenue	20.4	23.9	13.4	12.3	11.7	11.9
Non-oil and gas revenue	3.9	3.9	4.7	4.3	4.9	5.4
Expenditure	29.4	26.6	30.0	29.6	30.4	30.4
Current expenditure	28.3	25.7	28.2	28.5	29.1	28.9
Capital expenditure	1.1	0.9	1.8	1.1	1.3	1.5
Overall fiscal balance	-5.2	1.1	-11.9	-13.0	-13.9	-13.2
Monetary and Financial Sectors	(in annual percentage change, end-period)					
Broad money	2.7	1.3	2.7	3.6	2.2	2.0
Domestic Credit	-19.6	-15.6	51.7	4.7	6.4	4.0
Credit to private sector	2.7	6.0	3.9	3.0	3.0	3.2
Memorandum Items						
Nominal GDP (in millions of USD) (Calendar year)	14,008	16,684	15,098	15,334	14,781	15,013
Nominal GDP (in millions of BND) (Calendar year)	18,822	23,003	20,274	20,496	19,954	20,267
Nominal GDP (in millions of BND) (Fiscal year)	19,654	22,882	20,396	20,277	20,043	20,354
Exchange rate (BND/USD) (period average) (Calendar year)	1.34	1.38	1.34	1.34	1.35	1.35
Exchange rate end of period (BND/USD) (Calendar year)	1.35	1.34	1.32	1.37	1.35	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

	2019	2020	2021	2022	2023	2024
	(In millions of USD, unless otherwise specified)					
Current account balance	890	543	1,570	3,265	1,944	2,234
Trade balance	2,208	1,385	2,679	5,153	3,800	3,711
Exports	7,208	6,543	11,002	14,132	11,240	11,075
Imports	5,000	5,158	8,323	8,978	7,440	7,363
Services	-1,189	-854	-697	-848	-1,303	-1,335
Receipts	618	352	200	282	340	409
Payments	1,807	1,207	897	1,130	1,643	1,744
Primary Income	361	362	90	-370	194	490
Secondary Income	-490	-350	-502	-671	-747	-632
Capital account	-	-	-	-	-	-
Financial account	-405	264	-119	2,387	1,842	1,800
Direct Investment	-375	-578	-205	292	51	-26
Portfolio Investment	1,399	1,194	-237	456	-271	730
Other Investment	-1,429	-353	323	1,638	2,062	1,096
Error and omission	-539	-722	-594	-800	-801	-546
Overall balance	757	-443	1,096	77	-699	-112
Reserve Assets	757	-443	1,096	77	-699	-112
Memorandum items:						
Current account balance (in percent of GDP)	6.6	4.5	11.2	19.6	12.9	14.6
Gross international reserves (in millions of USD)	4,052	3,721	4,717	4,771	4,181	4,032
(in months of imports of goods and services)	7.1	7.0	6.1	5.7	5.5	5.3
Changes in gross international reserves (in millions of USD)	831	-331	996	54	-589	-149
Nominal GDP (in millions of USD)	13,472	12,008	14,008	16,684	15,098	15,334

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

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
General Government	(In millions of BND, unless otherwise specified)					
Revenue and grants	4,846	2,051	4,768	6,345	3,694	3,379
Oil and gas revenue	3,646	1,243	4,004	5,463	2,731	2,498
Non-oil and gas revenue	760	706	686	764	802	725
Taxes	355	340	349	374	425	358
Fees, Charges and Rent	364	312	319	346	353	333
Others	41	54	19	44	24	34
Returns from Investments and Savings	440	102	61	78	90	111
Excess revenue (statutory bodies)			17	41	71	45
Government Expenditure	5,873	5,292	5,780	6,085	6,111	6,007
Current spending	5,432	5,086	5,569	5,872	5,745	5,789
Charged expenditure	1,276	1,062	1,303	1,490	1,298	1,261
Personal emoluments	1,965	1,969	1,993	2,107	2,149	2,175
Other charges annually recurrent	2,191	2,055	2,273	2,275	2,297	2,352
Capital spending	441	207	211	213	367	218
Budget balance	-1,027	-3,241	-1,013	260	-2,417	-2,628
Memorandum items:						
Budget balance (in percent of GDP)	-5.6	-20.0	-5.2	1.1	-11.9	-13.0
Government revenue (in percent of GDP)	26.4	12.6	24.3	27.7	18.1	16.7
Government expenditure (in percent of GDP)	31.9	32.6	29.4	26.6	30.0	29.6
Nominal GDP (in millions of BND) (Fiscal year)	18,385	16,241	19,654	22,882	20,396	20,277

Sources: National authorities; AMRO staff calculations
Note: Brunei's fiscal year starts from April to March. Nominal GDP for FY2024 is AMRO staff estimates.

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 and semi-annual BOP data is published on the DEPS's website. However, quarterly data are only made available in the e-Data Library after the completion of the annual data. Import and export data are published on the DEPS's website. Import and export data breakdown by both product and market are available in the e-Data Library.	BOP data is released on a yearly and semi-annually basis with a time lag of over 1 year. Trade data is released on a monthly basis with a time lag of around 2 months.	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. Full report on exports markets (by trading partner) are available in the e-Data Library.		-
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 6. Climate Change Policy Fact Sheet for Brunei

<table>
<tr><th>Item</th><th>Sub-item</th><th colspan="5">Note</th></tr>
<tr><td rowspan="7">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">(Six 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 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.
(Three Enabling Strategies)
Carbon Pricing - Impose price on carbon emissions for industrial sector.
Carbon Inventory - Mandatory monthly and annual GHG reporting for industries.
Awareness and Education
(One Adaptation and Resilience Strategy)
Address floods, forest fires, and landslides via infrastructure and policy upgrades</td></tr>
<tr><td></td><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>

		• 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	<u>United Nations Framework Convention on Climate Change (UNFCCC) funds</u> • Adaptation fund (AF): Financing of adaptation projects. • Global Environmental Facility (GEF): Financing of mitigation projects. • Least Developed Countries Fund (LDCF): Financing of adaptation projects. • Green Climate Fund (GCF) <u>Non-UNFCCC funds</u> • 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	• 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

1. Spurring Growth through Productivity Enhancements in Brunei[53]

1. Sustaining long-term economic growth requires a strong focus on productivity improvements. For resource-rich economies like Brunei, prioritizing this is vital to mitigate the risks associated with the exhaustibility of non-renewable resources (Auty 1993; Sachs and Warner 1995; Gylfason 2005; Van der Ploeg 2010). By investing in technology diffusion and fostering innovation, resource-rich economies can leverage their resource wealth to diversify their economies, while creating productivity spillovers across various sectors. In the context of Brunei's aging population, enhancing both total factor productivity (TFP) and labor productivity becomes especially fundamental to unlock new growth potential, shifting the focus from not just increasing primary inputs—like labor and capital—to prioritizing the adoption and spread of innovative technologies.

Key Drivers of Productivity Shifts in Brunei: 2005–2023

2. Output decomposition using the production function approach reveals that between 2005 and 2019, Brunei's economic growth was largely driven by increases in primary inputs (Figure A1.1). Labor played a key role, supported by peak labor force participation rates and robust employment growth, particularly in the mid-2000s. Similarly, capital stock expanded significantly, spurred by substantial investments in downstream fertilizer and petrochemical projects. However, while the volume of labor and capital input grew sharply during this period, TFP was a drag on overall output growth.[54]

3. Similarly, factor decomposition revealed that even though increased investments in capital goods—such as machinery and equipment—supported gains in labor productivity (i.e., capital deepening), TFP consistently weighed on labor productivity throughout most of the pre-pandemic years (Figure A1.2a). Sectoral analysis showed that the oil and gas (O&G) sector, despite being a central pillar of Brunei's economy, struggled with declining output resulting from maturing fields and aging infrastructure that led to negative labor productivity growth (Figure A1.2b). The non-O&G sector also faced challenges, such as shortages of skilled labor and slower technology adoption especially among smaller enterprises. These findings highlight the challenges to technological innovation and efficiency improvements in Brunei (Cheong (2013)**;** Koh (2014)).

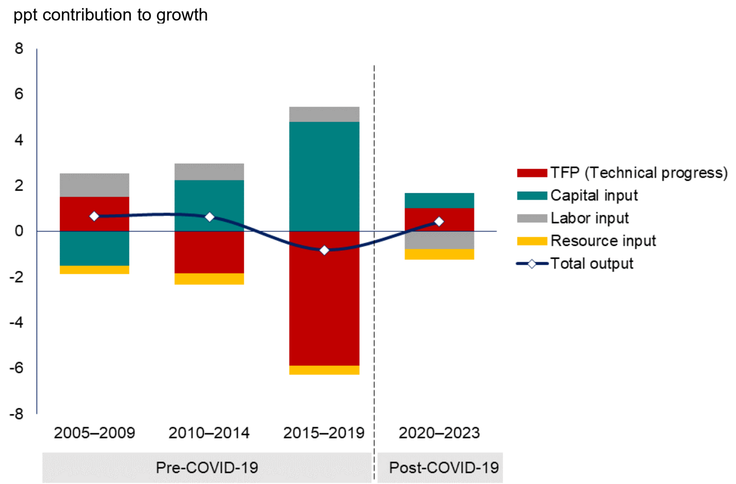
4. Encouragingly, between 2020 and 2023, Brunei achieved significant gains in TFP, driven by rapid digital transformation that accompanied the transition to the post-pandemic environment. The swift adoption of digital tools, automation, and e-commerce platforms allowed businesses to maintain operations despite mobility restrictions— a trend that has continued to drive efficiencies until today. The non-O&G sector saw the most pronounced TFP improvements. The sector was supported by government-led initiatives such as the BRUHealth system and the Smart Nation projects, which significantly modernized

[53] Prepared by Anthony Tan, Mission Chief, and Lay Lay Aung, Associate.

[54] The growth accounting framework, based on the Cobb-Douglas production function, has some limitations. It treats productivity as a residual, which can overlook the effects of important factors like institutional quality, infrastructure improvements, and spillovers. For example, positive spillovers from technology adoption or negative ones like environmental damage may not be fully captured, resulting in an incomplete picture of the actual drivers behind economic growth and efficiency.

Brunei's digital infrastructure. These advancements not only streamlined service delivery and enhanced connectivity but also laid the groundwork for sustainable productivity growth across various sectors. As a result, the economy is better positioned to leverage technology for economic diversification, reducing its dependency on O&G while fostering long-term resilience.

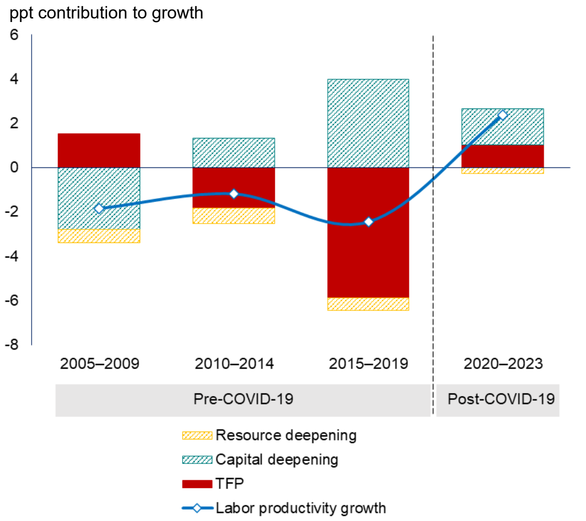
Figure A1.1. Decomposition of Output Growth



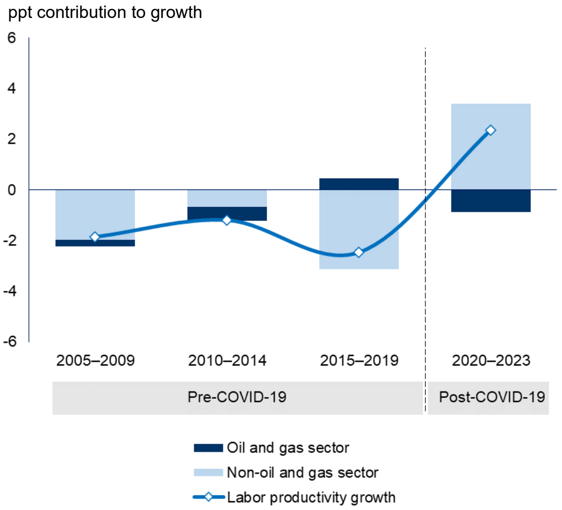
Source: National authorities; Penn World Tables; United Nations Development Program; World Bank; AMRO staff estimates
Note: TFP = total factor productivity. The decomposition of output growth is estimated using the extended Cobb-Douglas production function, which incorporates natural resources as an additional factor of production. This extended model is better suited for analyzing growth in economies where natural resources—such as oil, gas, and minerals—are central to output (Tan and Aung 2025).

Figure A1.2. Decomposition of Labor Productivity Growth

a. Factor Decomposition



b. Sectoral Decomposition



Source: National authorities; PWT; UNDP; World Bank; AMRO staff estimates.

Strategic Approaches and Policy Priorities for Enhancing Productivity Growth

5. Brunei's focus on enhancing productivity has been a key priority since the early days of its national development plans. The emphasis on productivity can be traced back to the 2nd National Development Plan, which is aligned with the Wawasan Brunei 2035 (also known as Brunei Vision 2035). While the government has made strides in targeting labor market efficiency, human capital development, and private sector innovation, there is significant potential for further progress in these three areas.

Promoting greater labor market competition and flexibility. Addressing structural rigidities in the labor market remains key to promoting labor market competition and flexibility. This would require a suite of complementary and market-based policies. A persistent structural challenge in Brunei's labor market lies in the disconnect between employer requirements and jobseeker expectations, particularly around compensation and career progression. To address this misalignment, the introduction of the Salary Guideline provides greater transparency in wage structures across sectors and occupations, helping to reduce information asymmetries and enhance labor market efficiency. This, alongside the phased implementation of the Employment (Minimum Wage) Order—launched in 2023 with plans for broader sectoral application by 2025—marks significant progress toward fostering a more inclusive and dynamic labor market.

Addressing staffing gaps. To close the talent gap, deliberate and targeted policies to align educational and training programs with industry needs are key priorities. Brunei is doing well in this area, as evident by the various strategic initiatives established between the tripartite partners, particularly in the area ICT. Some of the notable achievements are:

- **Brunei ICT Industry Competency Framework (BIICF):** Launched in August 2022, the BIICF identifies 79 technical and soft skill competencies across 20 ICT job roles in six sub-sectors, including IT services, telecommunications, and data analytics. It serves as a guide for aligning workforce skills with industry needs, supporting career planning, training, and talent development.

- **Digital Upskilling Training Programme:** The Authority for Info-communications Technology Industry (AITI) introduced this programme to equip local youth and the workforce with industry-relevant ICT skills. The training covers areas such as data analytics, AI, cybersecurity, and cloud computing, aiming to increase employability and support Brunei's digital economy goals.

- **TechXPLORE Digital Apprenticeship Programme:** This initiative offers local ICT graduates overseas work experience, enhancing their employability and preparing them to contribute effectively to Brunei's ICT sector and future growth.

- **iSkill Programme:** Developed in collaboration with the Institute of Brunei Technical Education (IBTE), iSkill aligns training with industry demands in sectors like oil and gas. It offers comprehensive training and industry placements in various technical fields, aiming to fill 13,000 skilled jobs over five years.

- **UBD-IBM Centre:** A collaboration between Universiti Brunei Darussalam and IBM, this centre focuses on research in high-performance computing and data analytics, supporting innovation and technological advancement in Brunei.

Promoting technological innovation. To drive productivity in non-O&G sectors, a "whole-of-nation" approach needs to be geared toward enhancing digital infrastructure and innovation. The Digital Economy Masterplan 2025 serves as a key national framework, outlining strategic priorities such as enhancing digital infrastructure, developing future-ready talent, and fostering innovation-led economic diversification. Continued investment in emerging technologies—

including cloud computing, artificial intelligence (AI), Internet of Things (IoT), and cybersecurity—will be essential for modernizing industries and creating high-value job opportunities, particularly in sectors such as logistics, finance, and healthcare. To support these ambitions, a more innovation-friendly policy environment is critical. This includes expanding access to innovation financing, such as grants and risk capital for startups and tech-driven MSMEs; offering tax incentives for R&D spending; and streamlining regulatory approval processes for new technologies and digital services. Additionally, the government could strengthen collaboration with global tech firms and academic institutions to facilitate technology transfer, pilot emerging solutions, and build local innovation capacity.

- At the enterprise level, accelerating digital transformation amongst MSMEs is crucial. Many MSMEs still face challenges in adopting digital tools due to capacity gaps, limited technical knowledge, or cost barriers. Government support programs—such as digital readiness assessments, targeted upskilling, and subsidized access to productivity-enhancing software—would continue to remain key in helping firms transition toward digital operations. Further, open innovation platforms and public-private partnerships can encourage the co-creation of digital solutions tailored to Brunei's development needs.

- To sustain innovation momentum, investments in digital literacy and entrepreneurial talent must continue, especially through initiatives that engage youth, women, and underrepresented groups in the tech sector. Enhancing STEM education, expanding coding and data science training, and supporting digital entrepreneurship incubators will help build a future-ready workforce and unlock the full potential of Brunei's digital economy.

By working to solve structural challenges using targeted strategies, Brunei can make significant strides toward enhancing overall productivity, supporting economic diversification, and achieving the ambitious goals outlined in Wawasan Brunei 2035.

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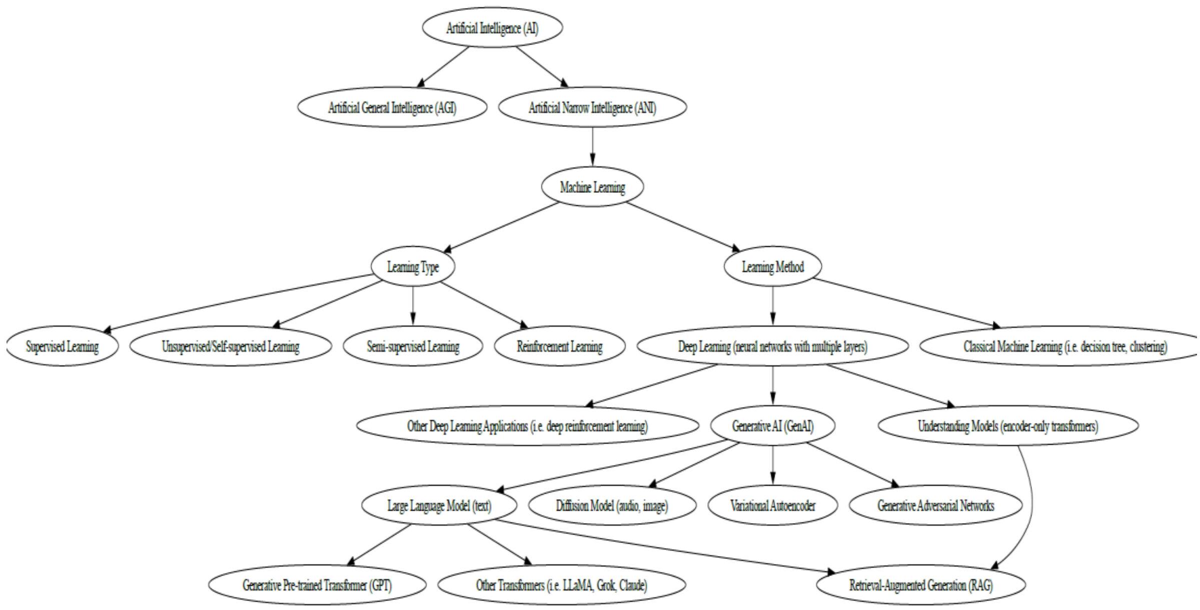
2. Labor Market Exposure to GenAI—The Case of Brunei [55]

1. Recent advancements in GenAI are pushing the boundaries of technological capability and redefining the very nature of work. With increasingly multimodal capabilities and a rapidly expanding range of applications, GenAI distinguishes itself in both scope and speed of diffusion. Early studies have produced highly divergent estimates of AI's automation potential, driven by differences in methodologies and underlying assumptions. More recently, a growing body of research has assessed GenAI-driven automation risks using novel approaches that leverage Large Language Models (LLMs) as domain-specific evaluators. LLMs—a class of GenAI models built on neural network architectures, particularly transformers (Figure A2.1) [56]—are trained on vast amounts of text to understand and generate human-like language. Their applications as analytical tools have expanded rapidly across disciplines, although ongoing scrutiny remains over their reliability, validity, and suitability for structured evaluation tasks. [57] Against such backdrop, this Selected Issue adopts and extends a task-based framework, utilizing LLMs in combination with detailed labor force employment data, to assess occupational exposure to Generative AI in Brunei.

Figure A2.1: AI Diagram



Source: AMRO staff compilation

Data and Methodology

2. To assess labor market exposure at the job task level for each occupation, this study relies on the latest International Labor Organization (ILO) occupation classification and task descriptions. Specifically, the ILO's ISCO-08 four-digit classification

[55] Prepared by Xianguo Huang, Senior Economist.
[56] This research stream, initiated by Eloundou et al. (2023), has since expanded with global analysis by Gmyrek et al. (2023) and a China-focused study by Chen et al. (2023). Colombo et al. (2024) applied internal LLM evaluations to estimate AI exposure in the U.S. labour market, while Gmyrek et al. (2024) compared GPT-4 with human assessments in the UK.
[57] Examples include AI-generated responses in healthcare (Tan et al., 2024), e-commerce reviews (Roumeliotis et al., 2024), climate assessments (Joe et al., 2024), and financial analysis, as in Bybee (2023), which compares AI outputs with human expert judgments.

covers 427 occupations (excluding armed forces occupations), with 3,265 individual tasks evaluated based on their detailed text descriptions of job tasks.[58]

3. **The model was selected to ensure access to the latest knowledge and was instructed to produce more calibrated and structured responses.** Grok-2 by AI was chosen for its up-to-date knowledge base, real-time data integration capabilities, large context window, and ability to deliver calibrated and deterministic outputs. A system prompt was used to guide the model to act as a skills specialist with expertise in AI technologies, while user prompts instructed it to assess all tasks associated with each occupation in a single API call. This batch-processing approach optimized efficiency and minimized latency. The prompts directed the model to generate automation scores and estimate the proportion of time allocated to each task. Meanwhile, by leveraging recent advancements in reasoning models and the availability of larger context windows, additional instructions were incorporated to enhance consistency and strengthen the rigor of the justification process, while employing various prompt techniques to minimize hallucination. [59]

4. **Exposure to GenAI is assessed at a task level and key statistics are used to evaluate associated occupation exposure.** This follows the classification framework proposed by Gmyrek, Berg, and Bescond (2023) and the defined categorization of task and occupation exposure. At the task level, a score of 0.5 as indicative of 'medium exposure' while a score of 0.75 is indicative of 'high exposure' to AI automation. At the occupation level, based on the disaggregated task results, the mean and standard deviation are used to characterize the Occupation Exposure to GenAI with groups such as 'augmentation potential' and 'automation potential', according to the rules defined in Table A2.1.

Table A2.1: Occupation Classification Criteria

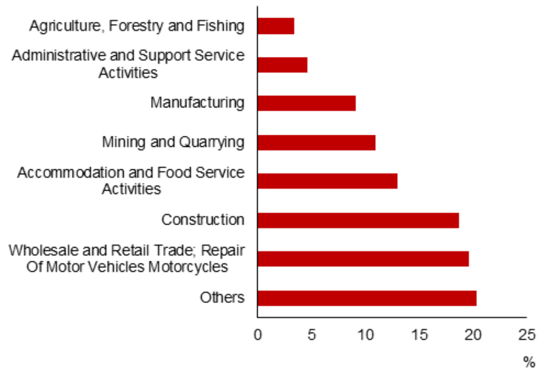
Category	Criterion 1	Criterion 2
'Augmentation potential'	< 0.4	$\mu + \sigma \geq 0.5$
'Automation potential	>0.6	$\mu - \sigma \geq 0.5$
'Not affected'	< 0.4	$\mu + \sigma \leq 0.5$
'Big unknown'	> 0.6	$\mu - \sigma \leq 0.5$
'Others'	Other unspecified	

Source: Gmyrek, Berg, and Bescond (2023)
Note: μ and σ refer to mean and standard deviation.

[58] The numbers exclude three occupations categorized under Code 0 (military) and six occupation titles labeled as "not elsewhere classified" across various groups.

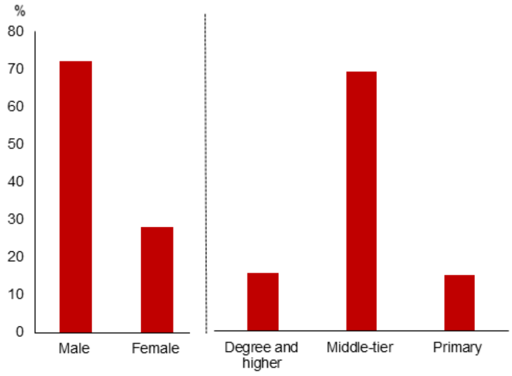
[59] It adopted the Chain of Thought (CoT) prompting technique (Chen et al. 2023) to encourage structured and sequential reasoning. Furthermore, the paper applied the "tip and penalize" principle—an incentive-based strategy that explicitly defines rewards for well-reasoned responses and penalties for inadequate ones—as demonstrated by Bsharat, Myrzakhan, and Shen (2023) and Chen and Zhao (2024). Few-shot prompting with a small number of examples also help guide its response to query.

Figure A2.2. Employment by Sector



Source: Employer and Employee Census 2023

Figure A2.3. Employment by Gender and Education



Source: Employer and Employee Census 2023

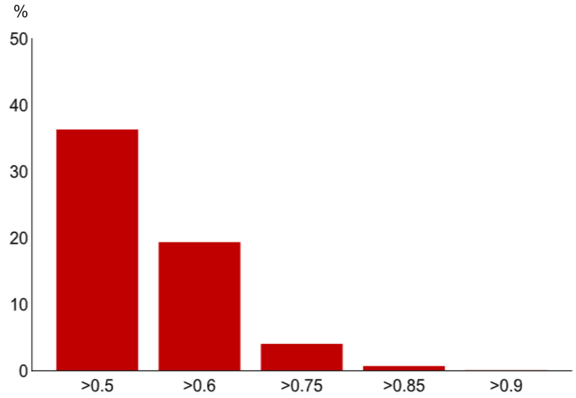
5. **A detailed breakdown of Brunei's private sector employment reveals key sectoral, educational, and gender patterns shaping the labor market.** Detailed data by economic sector, gender, education level, and ISCO-08 4-digit occupation codes, cover private sector employment, excluding private household services (e.g., domestic helpers), and provide a comprehensive snapshot of Brunei's labor market.[60] As shown in Figure A2.2, wholesale and retail trade, construction, accommodation and food services, mining and quarrying, and manufacturing—collectively account for 71.6 percent of total employment. Male workers, workers with primary education, or with degree and higher qualifications accounted for 72.1 percent, 14.9 percent and 15.6 percent respectively (Figure A2.3).

Key Findings

6. **A bottom-up approach analyzing task exposure suggests there is a small share of tasks that is highly exposed to GenAI automation potential.** At the task level, associated with 3265 task descriptions, one-third of tasks are found to exhibit medium exposure and only about 3 percent of tasks are evaluated to be at a high exposure to GenAI automation potential (Figure A2.4 and Figure A2.5). For example, those tasks with the highest score of automation potential include i) recording notes for follow-up actions, updating marketing databases, and maintaining call statistics by contact center salespersons in high-income and middle-income countries; and ii) issuing tickets, passes and vouchers by travel consultants and clerks in middle-income countries. Tasks with the lowest score (0.00) are consistently associated with athletes and sports players across all country groups, reflecting the nature of physical, real-time decision-making tasks that remain beyond GenAI capabilities.

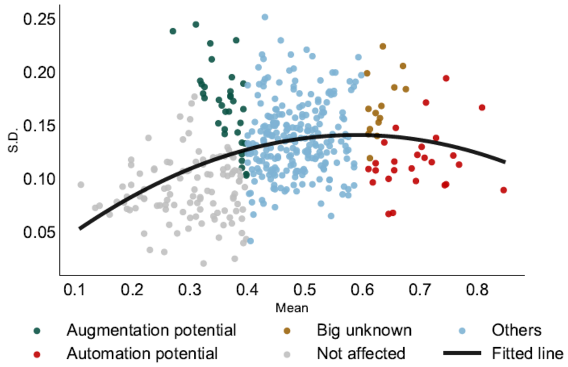
[60] Brunei labor market data of employment by occupation is based on the Employer and Employee Census 2023.

Figure A2.4. GenAI Exposure Score at Task level (Share, Above threshold)



Source: AMRO staff estimates

Figure A2.5. GenAI Exposure Score Mean and Standard Deviation (Occupation level)



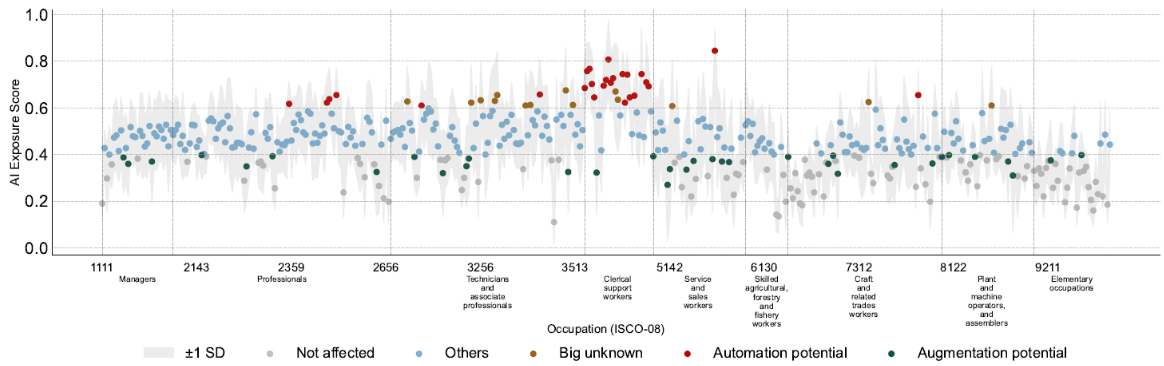
Source: AMRO staff estimates

7. **Most occupations highly susceptible to GenAI automation risk are characterized by repetitive and rule-based tasks.** Aggregating tasks under each occupation leads to exposure scores at the occupation level, of which key statistics are used to differentiate occupations in terms and automation and augmentation potential.

- Occupations with high automation potential—characterized by a high mean task score and low variance across tasks—comprise 5.6 percent of the occupation list. In contrast, occupations with high augmentation potential—marked by a low mean task score and significant variance across tasks—represent 8.2 percent (see Figure A2.6).

- These findings highlight the dual role of GenAI in potentially displacing certain job functions while enhancing others, reflecting the nuanced interplay between automation and human capability in work execution. Of the 24 occupations identified as having high automation potential, 20 are clerical support-related roles, characterized by repetitive and rule-based tasks, while the remaining four encompass professionals, technicians, and associate professionals, such as those in technical or academic fields. In contrast, occupations with high augmentation potential—where GenAI enhances rather than replaces human effort—span a more diverse range of job types. These include managers, who may leverage AI for decision-making support; professionals, such as professors, who could integrate AI into research or teaching; and elementary occupations, where routine tasks might be complemented by AI-driven tools. This diversity underscores the varied impact of GenAI across the occupational spectrum, reflecting its capacity to both streamline efficiency and amplify human capabilities.

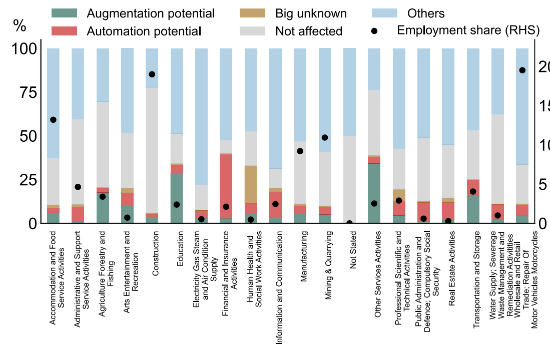
Figure A2.6. GenAI Automation Exposure across Occupation



Source: AMRO staff estimates

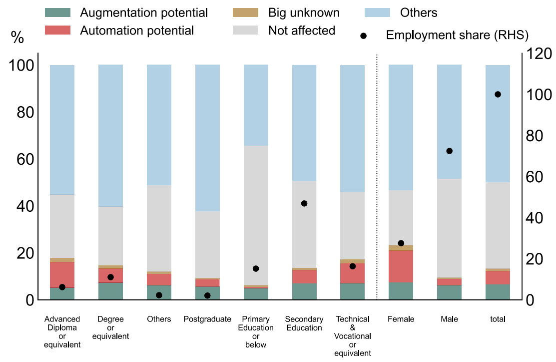
8. The financial and insurance sectors are most exposed to GenAI risks but they have a limited share in total employment. Combining occupation classification with detailed employment information in Brunei's labor market, GenAI exposure for each economic sector could be assessed. As depicted in Figure A2.7 (dots aligned with the right-hand axis), sectors with elevated automation potential include financial and insurance activities, followed by some government-related domains and professional, scientific, and technical activities. By contrast, sectors with pronounced augmentation potential—where GenAI amplifies human capabilities rather than supplants them—span education, other service activities, and transport and storage.

Figure A2.7. AI Exposure by Sector



Source: AMRO staff estimates
Note: Economic sectors are categorized based on the primary activity of companies.

Figure A2.8. AI Exposure by Education and Gender



Source: AMRO staff estimates
Note: "Others" in education category is dropped.

9. Workers with low and high levels of education have relatively lower exposure to automation potential, compared to those with middle-tier education qualifications. Individuals with lower qualifications (e.g., primary education) or advanced credentials (e.g., postgraduate degrees) experience lower exposure, likely reflecting some non-standardized demands of higher-tier roles or labor-intensive ones. Middle-tier qualifications—including secondary education, advanced diplomas, undergraduate degrees, and technical or vocational training—show a higher exposure not only to automation, but also augmentation.

10. Looked by gender, females encounter greater automation risk than males—a pattern echoing global findings—while augmentation potential remains broadly

equivalent across genders. Quantitatively, Brunei's labor market shows 5.4 percent of employment at risk of automation and 7.9 percent poised for augmentation (Figure A2.8). Comparatively, Gmyrek et al. (2023) estimate that in high-income economies globally, 5.1 percent of jobs are automation-prone and 13.4 percent augmentation-prone, with female employment facing double the automation risk of male employment.[61]

Discussions

11. Given Brunei's labor market structure, overall exposure to GenAI remains relatively limited for now. On balance, augmentation potential tends to outweigh automation risk, reflecting a labor market where GenAI is more likely to complement rather than replace human work. Nonetheless, specific occupations—particularly clerical and support roles—face elevated exposure due to the nature of their tasks, such as data entry, document processing, and routine correspondence, which are highly amenable to automation or enhancement through GenAI. High-exposure sectors, including financial and insurance services as well as administrative and support service activities, are especially vulnerable given their reliance on structured, rule-based processes. In such roles—for example, insurance underwriters or paralegals—GenAI may either displace workers or significantly alter workflows toward AI-assisted models.

12. However, the impact could be amplified via indirect channels which have not been captured in this study, and become more prominent with continued AI progress. The current measurement approaches typically overlook second-order effects and general equilibrium dynamics. For instance, within a single occupation, workers whose productivity is significantly enhanced through AI augmentation may outcompete peers with lower productivity gains, especially if labor demand does not expand proportionally in the short term. This dynamic could lead to a paradox where even occupations with high augmentation potential face displacement pressures—not through direct automation, but via intensified intra-occupational competition. In addition, as pointed out by Acemoglu and Restrepo (2022), the general equilibrium effect with changes in industry composition and due to task reallocation, could lead to profound second-round effects and is beyond the scope of the current study. Looking ahead, AI exposure is likely to intensify as technology progresses where GenAI-driven augmentation evolves.

13. Policy makers are encouraged to enhance data adequacy to effectively monitor the development of AI use and understand the potential impact of AI. Addressing existing data gaps is a critical starting step and multiple existing survey channels could be utilized to serve this purpose. These include the annual Labour Force Survey conducted by Department of Economic Planning and Statistics (Ministry of Finance and Economy), Annual Employer and Employee Census by Department of Labour (Ministry of Home Affairs), or monthly survey to construct Business Sentiment Index by the Brunei Darussalam Central Bank. A new standalone survey could also be considered to allow greater flexibility. Strengthening mechanisms such as targeted workforce development, re-skilling initiatives, and adaptive

[61] A distinct 'big unknown' category emerges across specific sectors and education levels, encompassing occupations that exhibit both high average task scores and significant task-level variability. This group spans diverse fields, including healthcare and social work, arts and entertainment, financial services, professional sectors, and real estate. The pronounced heterogeneity within this category amplifies uncertainty regarding GenAI's ultimate net and realized impact.

social protection policies would also be critical to ensuring that the gains from AI are inclusive and aligned with national development goals.

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3. Brunei's Export Product Space: Trends and Developments[62]

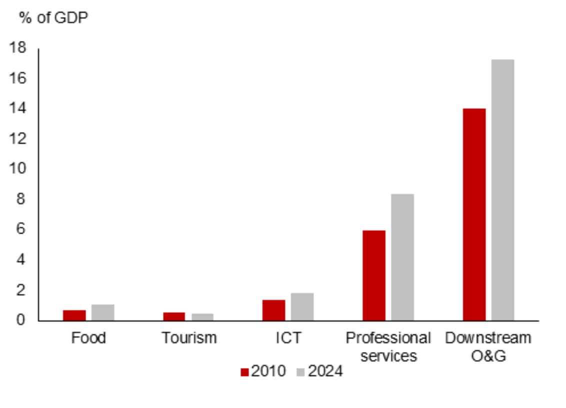
1. Brunei's pursuit of economic diversification is central to its long-term development strategy. Reducing hydrocarbon dependence is not only a fiscal necessity but also crucial for sustained and inclusive growth. To reduce the over-reliance on finite hydrocarbon resources, the government has prioritized structural reforms, aligned with the strategic sectors identified in the Wawasan Brunei 2035 (Brunei Vision 2035). These sectors, which include O&G, food, ICT, services, and tourism, are key to driving the economic transformation. Although non-oil activities have expanded, progress has remained uneven across sectors (Figure A3.1).

2. This study examines Brunei's economic diversification journey through the lens of export product space. Product space is a reflection of the underlying knowledge, skills and technology—that an economy possesses. Economies grow as they enhance production capabilities and the complexity of products, while expanding product scope for economic diversification (Hidalgo and Hausmann 2009; Hausmann et al 2007). This study explores how Brunei's export structure and production capabilities have evolved over time and discusses opportunities for future development. The Selected Issue also identifies policy implications to support Brunei's economic transformation.

Evolution of Export Product Space

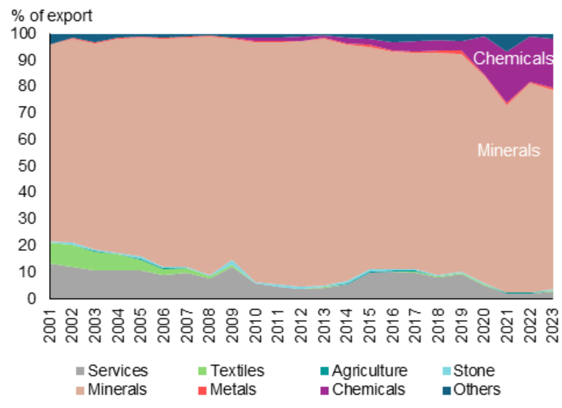
3. Brunei's export structure reflects a gradual shift from crude hydrocarbons to higher-value petrochemicals. Although O&G continues to dominate Brunei's exports, the composition of the export basket has evolved with more downstream products being produced. The share of minerals, primarily crude O&G has declined from over 90 percent of total exports to 75 percent in 2023. At the same time, the share of chemical products has increased significantly, reaching around 18 percent in 2023. Conversely, the share of textiles has declined to around 1 percent in 2023, underlining the retreat of less competitive sectors. This shift reflects Brunei's growing capacity to process raw materials and produce more complex goods (Figure A3.2).

Figure A3.1. Key Industries' Share of GDP



Source: CEIC; AMRO staff calculations
Note: Food include fishery, livestock and poultry, and food products; Tourism is proxied by hotel and air transport services.

Figure A3.2. Brunei's Export Basket

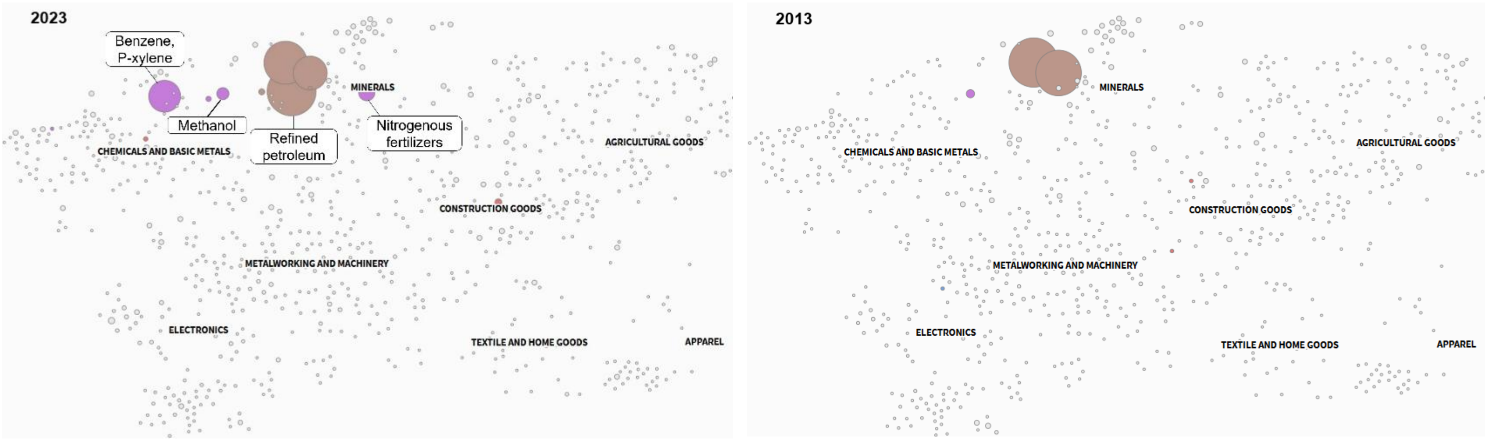


Source: UN Comtrade; AMRO staff calculations
Note: Based on HS sectors. Others include vehicles, electronics, and Miscellaneous.

[62] Prepared by Ke JI, Economist.

4. Brunei's product space map highlights its increasing specialization in hydrocarbons and downstream value chains. The product space[63] map reveals that Brunei's strength is primarily centered around the O&G sector and adjacent downstream refinery and petrochemical industries. The brown nodes (representing crude O&G and refined fuels) remain central, while purple nodes (petrochemicals) and have expanded significantly (Figure A3.3). Over the past decade, the expansion of the purple nodes in the product space highlights Brunei's significant progress in building capacity and competitiveness in refined petroleum products. The country has seen notable growth in the fertilizer industry, and is actively exploring the development of additional capabilities, including cyclic hydrocarbons and aromatics. Table A3.1 summarizes the petrochemical products in which Brunei already enjoys notable comparative advantage.

Figure A3.3. Export Product Space of Brunei



Source: Harvard Growth Lab
Note: Each node denotes a product, colored ones represent high exports (products with RCA>1 for Brunei) while grey nodes represent products with low or no export. The node size is based on Brunei's export. Products that are closer to each other require similar capabilities.

5. Brunei's downstream industries exemplify its strategic pivot toward high-value, technology-driven production. The development of downstream sectors reflects Brunei's successful entry and expansion along the petrochemical value chain with increased domestic value-added. These downstream projects convert Brunei's rich hydrocarbon resources into higher-value petrochemical products. The establishment of Hengyi Industries has been instrumental in this transformation. Hengyi Phase 1 complex (operational since 2019) produces refined fuels and chemical feedstocks (p-xylene, benzene), contributing significantly to export earnings and industrial development (AMRO, 2024). The company's operations have also spurred growth in ancillary sectors like logistics and engineering. Similarly, Brunei Fertilizer Industries (BFI) has, since 2022, successfully leveraged the country's abundant natural gas resources to produce urea fertilizers. This development not only enhances domestic value addition but also positions Brunei as a competitive exporter in global fertilizer markets.

[63] The product space depicts the connectedness between products based on the similarities of the know-how required to produce them. Products are linked by their proximity to each other, based on the probability of co-export of both two products (Hausmann et al., 2014).

Table A3.1. Key Petrochemical Products of Brunei with Comparative Advantage

Feedstock	Key Products	Plant/operation year	Main end-use/ application	RCA (HS 4-digit)
Crude oil	**Benzene**	Hengyi Phase 1 (2019)	Core raw material for plastics, resins and nylon fibres	75 (Cyclic hydrocarbons)
	p-Xylene	Hengyi Phase 1 (2019)	Core raw material for polyester clothing and PET drink bottles	
Natural gas	**Methanol**	Brunei Methanol Co. (2010, debottlenecked 2021)	Building-block chemical for making plastics, solvents and cleaner fuel additives	12 (Acyclic alcohols)
	Urea	Brunei Fertilizer Industries (2022)	World's most common nitrogen fertilizer	20 (Nitrogenous fertilizers)

Source: Harvard Growth Lab; AMRO staff compilation.
Note: Revealed Comparative Advantage (RCA) indicates a country's relative advantage in exporting a particular product compared to the world market. A value greater than 1 indicates specialization and comparative advantage.

Growth Opportunities

6. **Brunei's long-term economic sustainability hinges on expanding its product scope and advancing the complexity of its exports**. Countries tend to achieve more resilient growth with diversified, high-complexity export portfolios (Hidalgo and Hausmann, 2009; Tacchella et al, 2013) For Brunei, this may be achieved through two complementary strategies: deepening participation in existing value chains, particularly in petrochemicals, and venturing into new and more complex industries. The former offers immediately opportunities, given Brunei's existing strengths, while the latter requires long-term planning and significant investment.

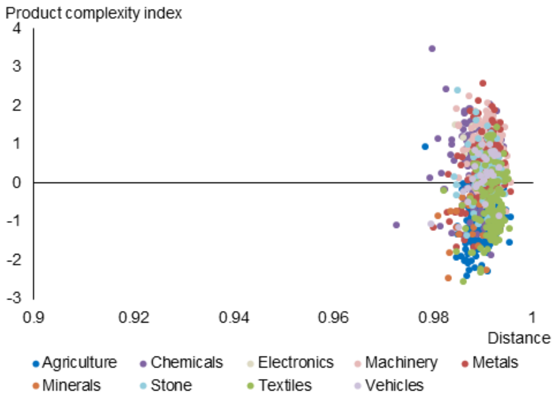
7. **Near-term opportunities center on consolidating and extending the existing petrochemical complex.** The success of Hengyi and BFI underscores the potential to produce higher value-added products along the downstream industries. The country's strategic location, robust infrastructure, and established partnerships provide a strong foundation to expand the petrochemical value chain. Projects in operation including Hengyi Phase 1 can also supply refined fuel and petrochemical inputs for downstream projects such as PTA/PET and chemical fiber in Phase 2, enabling entry into global packaging and polyester markets. This shows there are further opportunities to diversify into petrochemical products, chemical materials and fibers, and other downstream products. Strategic infrastructure upgrades, such as expanding the Pulau Muara Besar Port to accommodate larger chemical tankers, will further enhance Brunei's export competitiveness.

8. **Venturing into new industries remains challenging, and given Brunei's current capabilities, will take time.** Entering new industries for economic diversification remains challenging as most high-potential products remain distant from current industrial capabilities, and Brunei should therefore take a long-term approach. Figure A3.4 and A3.5 illustrate the distance and benefits of potential products. Distance measures a location's ability to enter a new product.[64] Meanwhile, the potential benefits can be measured by two indicators: product complexity (which reflects the knowledge and technology embedded in a product) and opportunity gain (which measures the potential of a product to open pathways to more

[64] The distance (between 0 to 1) of a potential product indicates the country's existing capabilities to make the product. It is measured by how closely related a product is to its current exports. A closer product with a shorter distance requires similar know-how and capabilities to existing products, a distant product suggests difficulty to enter production.

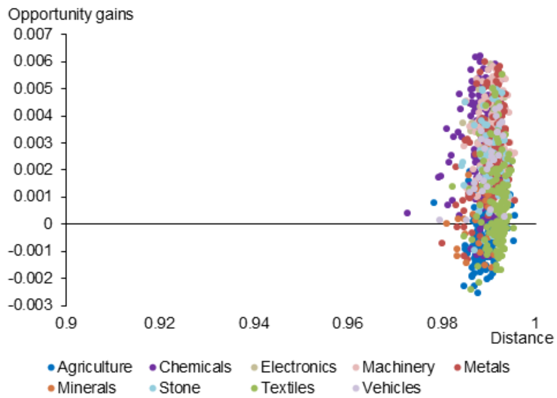
complex goods).[65] Figure A2.5 and Figure A2.6 show that most of the potential products sit at a distance close to 1 in terms of both product complexity and opportunity gains, reflecting multiple constraints such as gaps in industrial base and infrastructure. Rapid diversification into unrelated sectors remains unrealistic without sustained investments and long-term development.

Figure A3.4. Product Complexity and Distance



Source: Harvard Growth Lab; AMRO staff calculations.
Note: Product complexity index is standardized to have a mean of zero.

Figure A3.5. Opportunity Gain and Distance



Source: Harvard Growth Lab; AMRO staff calculations.

9. Developing new industries in Brunei will require strategic planning and for structural hurdles to be addressed. Diversification beyond hydrocarbons carries strong potential but is held back by: gaps in human capital, limited industrial facilities and capacity, and constraints in logistics and supplier networks. Unlike larger peer economies in ASEAN, Brunei does not enjoy the labor depth or resources required for large-scale manufacturing. However, resource-based niches such as aquaculture and high-value agriculture—demonstrated through offshore fish-farming and seafood processing in Brunei—offer another pragmatic diversification path.

Policy Implications

10. Brunei should continue to prioritize downstream O&G industries while laying the ground for broader diversification. The government's current focus on petrochemicals and fertilizers is well-placed and can be complemented by a medium-term roadmap that sets out phased development plan, identifies potential products, maps critical in infrastructure upgrades, and strengthens supply chains linkages. Continued support for ongoing construction projects (such as Hengyi Phase 2) and the upgrade of existing projects (BFI) will also be critical to sustain momentum. Developing entirely new industries will require a comprehensive, long-term approach that tackles structural constraints. Targeted FDI attraction—coupled with upgraded power, water and digital infrastructure—can offset Brunei's scale disadvantage to some extent. Incentives that reward technology adoption, R&D spending and workforce up-skilling will nurture a resilient local enterprise base and enhance human capital.

[65] PCI is calculated based on how many other countries can produce the product and the economic complexity of those countries. It captures the amount and sophistication of know-how required to produce a product. Theopportunity gain measures potential benefit to a country if it were to move to a particular new product, and it quantifies the contribution of a potential product in terms of opportunities for more complex products.

11. International cooperation and trade integration will be key enablers of diversification. Brunei can fully exploit trade and investment accords—including BIMP-EAGA, RCEP, CPTPP and the BRI economic corridors—to widen market access, attract foreign investors and embed itself in regional value chains. CPTPP accession has already opened Latin-American markets for BFI's urea exports. Similar outreach, combined with e-commerce interoperability and cross-border payment linkages, can help new industries scale faster.

12. In summary, Brunei's economic diversification is advancing, and balanced and inclusive growth will hinge on sustained capability building and targeted policy support. The downstream sector's success demonstrates the benefits of leveraging existing strengths and strategic partnerships. However, expanding into new industries will require sustained effort, patient investment, and policy consistency. Through all of this, Brunei can realize its vision of becoming a resilient, diversified, and future-ready economy.

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