



BRUNEI DARUSSALAM

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

September 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Brunei Darussalam, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on June 27, 2024, with the officials of Brunei Darussalam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 20, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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International Monetary Fund
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IMF Executive Board Concludes 2024 Article IV Consultation with Brunei Darussalam

FOR IMMEDIATE RELEASE

Washington, DC – September 24, 2024: The Executive Board of the International Monetary Fund (IMF) concluded on September 16, 2024 the Article IV consultation¹ with Brunei Darussalam on a lapse-of-time basis².

Brunei's real GDP rose by 1.4 percent in 2023 after two years of recession, mainly driven by the non-oil and gas (O&G) sector and the earlier-than-anticipated production from the new Salman oil field in Q4 2023. Inflation fell, reaching 0.4 percent in 2023 compared to 3.7 percent in 2022, supported by the easing of post-pandemic supply chain disruptions, the softening commodity prices, as well as large subsidies and price controls. The fiscal and external position deteriorated in 2023 reflecting weaker O&G production and prices. The current account was also impacted by higher service imports and net income outflows. The banking sector remains stable, liquid, and well capitalized with declining non-performing loans.

The recovery is anticipated to continue and risks to the outlook are broadly balanced. Growth is forecasted at about 2.4 percent in 2024 on the back of expected increase in O&G production, including from the new offshore oil fields and rebound in downstream sector, while domestic non-O&G non-tradeable sector growth is expected to plateau. Inflation is expected to remain unchanged at 0.5 percent in 2024, and fiscal and external balances would stabilize alongside O&G prices. Near-term risks tilted downward due to external factors and O&G production challenges. New O&G field discoveries would provide significant upside, while accounting for decarbonization pressures. Structural reform implementation, with product diversification and technological advancement, could boost productivity, but economic and social challenges would remain with adoption of artificial intelligence.

Executive Board Assessment

In concluding the 2024 Article IV consultation with Brunei Darussalam, Executive Directors endorsed staff's appraisal, as follows:

Growth rebounded moderately in 2023. The stronger-than-expected growth turnaround was supported by a new O&G field coming to stream in late 2023, a high interest rate environment and post-pandemic momentum boosting finance, transport, and hospitality. However, persistent O&G production challenges and maintenance related disruptions in downstream activities along with lower O&G prices weakened the fiscal and external positions in 2023. Consequently, the external position for 2023 remained substantially weaker than suggested by fundamentals and desirable policies and the output gap is assessed to be negative.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Disinflation continued mainly due to easing supply chain disruptions and the softening of commodity prices, aided by continuing large scale subsidies and price controls.

The narrowing output gap, O&G revenue uncertainty and long-term decarbonization trends warrant a prudent fiscal stance, while protecting the vulnerable and public investment. While the use of fiscal buffers in FY 2023/24 was appropriate in view of the cyclical position and to support economic recovery, restoring fiscal buffers through growth-friendly fiscal consolidation should be prioritized going forward. This will require enhanced revenue generation, and could be supported by a low-rate carbon tax, and expenditure rationalization—including via more targeted subsidies. These efforts should be guided by a fiscal consolidation plan with clear fiscal targets. Plans to establish a MTFF and fiscal anchors, strengthening fiscal risk management and transparency are welcome.

The currency board arrangement with Singapore is sound and has played a key role in supporting Brunei's macroeconomic and financial sector stability. Efforts to improve monetary operations, by including Singapore's interbank transactions in its analysis to understand the influence of Singapore's policy rates since January 2024, and continuing to narrow the corridor by raising the SFDR, integrating I-bills into the Asset Maintenance Ratio and launching a website for better communication on monetary policies, are welcome. Enhancing inter-agency cooperation regarding the issuance and management of sukuks will be helpful. Over the medium-term, the BDCB is encouraged to build internal capacity in liquidity forecasting to calibrate the issuance of the I-bills and consider establishing a single treasury account.

The financial sector remained stable with strong capital and liquidity buffers. Systemic risk is assessed to be contained. Careful tracking of credit growth in both offshore and domestic personal loans is warranted, as declining oil prices could pose risks, despite low NPLs. Ensuring that the foreign loans continue to be invested in highly credit-rated assets will help to mitigate credit risk. For domestic lending, continuing to deploy prudential measures like capping the Total Debt Service Ratio, assessing unsecured personal loan exposure, and maintaining NPL standards are welcome measures. Authorities are encouraged to stay on track with plans to implement Basel III standards for better liquidity management by the end-2024. Implementation of stress tests is recommended, while considering stress testing for climate transition and physical risks. Efforts to further strengthen prudential frameworks, develop a long-term sukuk markets, green taxonomy and unify disclosure standards, and to improve AML/CFT effectiveness will help to deepen markets, and support long-term green projects. The authorities' commitment to continue implementing the recommended actions in the APG's Mutual Evaluation Report is welcome.

The authorities' commitment to ambitious and sustained structural reforms will be critical to ensure growth and diversification, including by transitioning to a low-carbon economy. Reaching the authorities' net zero emissions goal by 2050, will require continued development of the non-O&G sector, including through adoption of green technologies. Continued skill development, while addressing AI-related challenges and closing structural gaps in the first-generation reform areas (external sector trade facilitation, improving business regulation, and governance) vis-à-vis top peers, will be key to facilitate FDI and PPPs. Completing the 2025 National Adaptation Plan and a Climate Vulnerability Assessment should support the prioritization of adaptation strategies.

Data provided to the Fund has some shortcomings that somewhat hamper surveillance and data quality should be strengthened. Steps are needed to close the identified data gaps in national income, prices, external and fiscal sectors. Efforts for improving external sector data through a survey to better gauge trends in errors and omissions, and payables/receivables and strengthening public financial management (PFM) to build more transparent and accountable fiscal systems and aligning these further with GFSM (2014) are welcome, as are plans to enhance dissemination via the Fund's e-GDDS portal.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2019–29

Area: 5,765 sq. kilometers

Population (2023): 450,500

Nominal GDP per capita (2023): US\$33,581.1

Main export destinations (2023): Australia (21.5 percent), China (16.9), and Singapore (16.7)

Unemployment rate (2023): 5.1%

Labor force participation rate (2023): total 67.2; male 75.8%; female 57.3%

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Output and Prices												
Nominal GDP (millions of Brunei dollars)	18,375	16,564	18,822	23,003	20,319	20,893	22,197	23,073	24,081	25,153	26,447	
Nominal non-oil and gas GDP (millions of Brunei dollars)	8,268	8,868	9,790	11,043	10,883	11,386	12,411	13,620	15,045	16,281	17,717	
Real GDP (percentage change) 1/	3.9	1.1	-1.6	-1.6	1.4	2.4	2.6	2.6	2.7	2.9	3.1	
Oil and gas sector GDP	3.9	-4.9	-4.8	-7.3	-2.0	2.6	3.1	3.1	1.7	1.1	1.0	
Non-oil and gas sector GDP	3.9	8.9	2.0	4.3	4.5	2.1	2.0	2.1	3.5	4.4	4.7	
Oil production ('000 barrels/day)	121	110	107	92	74	84	94	94	99	90	90	
Natural gas output (millions BTUs/day)	1,402	1,358	1,253	1,151	1,214	1,226	1,201	1,220	1,277	1,313	1,313	
Average Brunei oil price (U.S. dollars per barrel)	68.6	43.3	72.1	107.7	87.1	89.5	83.3	79.9	77.0	75.1	73.8	
Average Brunei gas price (U.S. dollars per million BTU)	9.1	6.7	9.1	14.4	10.9	8.6	9.9	8.7	7.8	7.4	7.0	
Consumer prices (period average, percentage change)	-0.4	1.9	1.7	3.7	0.4	0.5	1.0	1.0	1.0	1.0	1.0	
					(Fiscal Year, In percent of GDP)							
Public Finances: Budgetary Central Government												
Total revenue	26.4	12.6	24.0	28.3	17.3	19.3	18.9	17.5	16.3	15.5	15.1	
Oil and gas	19.8	7.7	20.2	24.5	13.0	13.6	13.4	12.2	11.1	10.1	9.5	
Other	6.5	5.0	3.8	3.9	4.3	5.6	5.5	5.3	5.2	5.4	5.6	
Total Expenditure	31.9	32.6	29.1	26.7	29.2	29.4	28.6	27.8	26.9	25.9	25.1	
Current	29.5	31.3	28.0	25.7	27.4	27.0	26.2	25.4	24.5	23.6	22.8	
Capital	2.4	1.3	1.1	1.0	1.8	2.4	2.3	2.3	2.3	2.3	2.3	
Overall balance 2/	-5.6	-20.0	-5.1	1.6	-11.8	-10.1	-9.6	-10.2	-10.5	-10.4	-9.9	
Overall primary balance excluding royalties	-22.7	-25.8	-22.5	-19.8	-22.6	-21.5	-20.7	-20.2	-19.6	-18.7	-17.7	
Non-oil and Gas Balance (In percent of non-oil and gas GDP)	-49.5	-46.1	-44.3	-40.2	-41.8	-39.2	-36.5	-33.7	-31.1	-28.6	-26.1	
					(12-month percent change)							
Money and Banking												
Private Sector Credit	2.0	0.2	2.7	6.0	3.9	2.0	2.0	2.0	2.0	2.0	2.0	
Narrow money	6.6	20.8	6.5	1.2	0.7	3.8	3.8	3.8	3.8	3.8	3.8	
Broad money	4.3	-0.4	2.7	1.3	2.7	2.6	2.7	2.7	2.7	2.7	2.7	
					(In millions of U.S. dollars, unless otherwise indicated)							
Balance of Payments												
Goods	2,211	1,359	2,679	5,153	3,808	3,966	4,264	4,121	3,925	4,013	4,131	
Exports	7,210	6,535	11,001	14,130	11,264	11,416	11,987	12,098	12,024	12,390	12,780	
Of which: oil and gas	3,244	2,943	4,730	5,660	4,185	3,867	4,387	4,243	3,798	3,668	3,617	
Imports	4,999	5,176	8,322	8,977	7,456	7,450	7,723	7,977	8,099	8,377	8,649	
Services (net)	-1,189	-855	-696	-848	-1,305	-1,324	-1,271	-1,173	-1,086	-1,029	-989	
Primary Income (net)	362	360	90	-370	194	327	226	193	146	119	83	
Secondary Income (net)	-490	-350	-502	-671	-749	-641	-687	-692	-673	-684	-683	
Current Account Balance	894	514	1,570	3,264	1,949	2,328	2,532	2,448	2,311	2,419	2,541	
Current Account Balance (in percent of GDP)	6.6	4.3	11.2	19.6	12.9	15.0	15.5	14.4	13.0	13.0	13.0	
Gross Official Reserves 3/	4,273	3,997	4,980	5,035	4,485	4,583	4,682	4,780	4,879	4,977	5,075	
In months of next year's imports of goods and services	8.0	5.2	5.9	6.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9	
Brunei dollars per U.S. dollar (period average)	1.36	1.38	1.34	1.38	1.34	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.35	1.34	1.36	1.35	1.33	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Non-oil and gas GDP includes the downstream sector.

2/ In absence of government debt and interest payments, this is also primary balance.

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.



BRUNEI DARUSSALAM

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

August 20, 2024

KEY ISSUES

Context and Recent Developments. Brunei faces complex diversification challenges while it continues to contend with a protracted recovery since the pandemic. Real GDP has rebounded moderately, driven mainly by the non-oil and gas (O&G) sector and earlier than expected supply from a new O&G field in Q4 2023. Challenges persisted in downstream and upstream O&G production until H1 and Q3 2023, respectively, weakening fiscal and external positions in 2023.

Outlook and Risks. The recovery is expected to continue, with growth strengthening in 2024 given the increase in O&G production, including from new fields. Inflation is projected to remain unchanged, and fiscal and external balances are expected to stabilize alongside O&G prices. Risks are broadly balanced, with near-term risks tilted downward due to external factors, and O&G production challenges. New O&G field discoveries provide significant upside despite decarbonization pressures. Structural reform implementation, aimed at product diversification and technological advancement and adoption of Artificial intelligence (AI), could boost productivity. AI may also bring economic and social challenges.

Main Policy Recommendations. Policies should aid the full recovery in the near term and promote transition to a low-carbon and resilient economy in the longer term.

- **Fiscal Policy.** Maintain a prudent fiscal stance given the narrowing output gap, uncertainty around O&G revenues and long-term decarbonization trends. Protect the vulnerable and public investment by enhancing revenue generation (e.g., with a supportive low-rate carbon tax), and expenditure rationalization (e.g., more targeted subsidies). Establish a rules-based medium-term fiscal framework (MTFF). Broaden the coverage of the fiscal framework to enhance fiscal transparency, support policy design and fiscal risk analysis. Integrate climate-related risk analysis into economic planning.
- **Monetary Operations.** Brunei's currency board has served it well: continuing to align policy rates with the Monetary Authority of Singapore (MAS) is recommended. Improving monetary policy transmission by actively managing liquidity, will enhance the price signal from the overnight policy rate to banks' retail rates, and help to develop a domestic interbank market. Over the medium term, building internal capacity in liquidity forecasting will be important.

- **Financial Policy.** Closely monitor credit growth. Ensure that the foreign loans continue to be invested in high credit-rated assets, to help to mitigate credit risk. Declining oil prices poses risks, despite low non-performing loans (NPLs). Continue deploying prudential measures, maintain NPL standards, along with plans to implement Basel III standards for better liquidity management by the end of 2024. Further strengthen prudential frameworks, develop a long-term sukuk market, a green taxonomy and unify disclosure standards, and continue implementing the recommended actions in the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation Report.
- **Structural Policy for Diversification.** Sustain structural reform momentum for a diversified, green, resilient, and inclusive economy. Attract Foreign Direct Investment (FDI) and Public-Private Partnerships (PPPs) by supporting first generation reforms, including on enhanced trade facilitation, deeper regulatory and governance reforms. Strengthen human capital, given challenges and opportunities from AI. Implement a comprehensive transition plan with carbon pricing, and energy subsidy reforms, while developing the non-O&G sector. Completing the 2025 National Adaptation Plan and a Climate Vulnerability Assessment will be key to prioritize adaptation strategies.
- **Address Data Gaps.** Strengthen data reporting, including for the fiscal and external sectors, prices, and national accounts statistics, as well as for physical and transition-linked climate exposures to ensure a successful transition.

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The team comprised Ritu Basu (head), Jonghyun Kim, Ganchimeg Ganpurev (all APD), and Shohhei Kawase (OAP). Mission meetings were held between June 10–June 27, 2024, and discussions took place in Brunei Darussalam during June 19–27, 2024. The mission held discussions with Honorable Minister of Finance Dato Dr Amin, Central Bank Managing Director Rokiah Badar, and their teams, and other public and private sector representatives. Maria Teresa Dueñas (OEDST) participated in the discussions. Bryn Welham (FAD), together with (APD) staff presented a hybrid high-level seminar on medium-term fiscal framework in Brunei. Thomas Augsten (SPR), and Andrea Medici (RES), contributed to the analysis of structural reforms, and Justin Flinner (APD) helped prepare this report. Paulo Medas and Masafumi Yabara (APD) and Camilo Ernesto Tovar Mora (WHD) provided helpful peer perspective.

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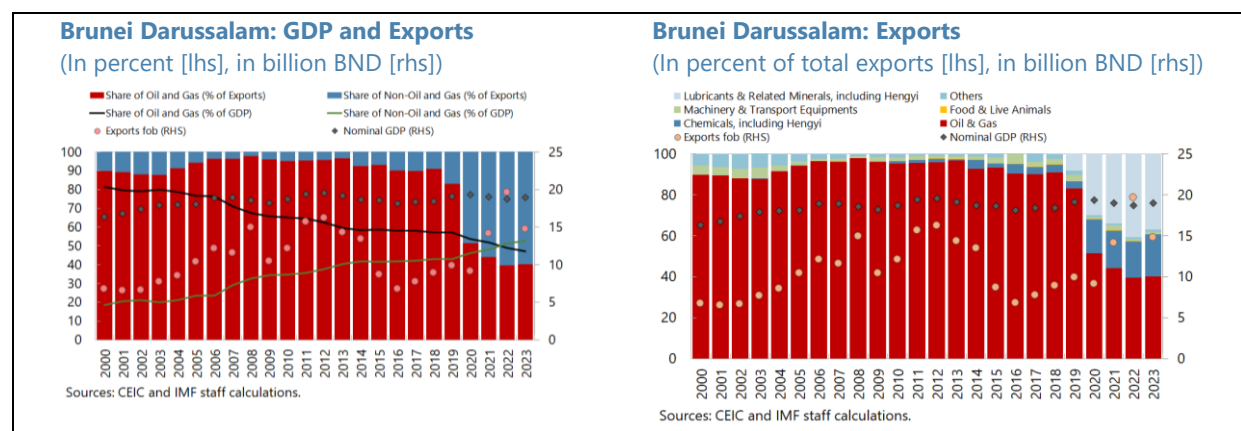
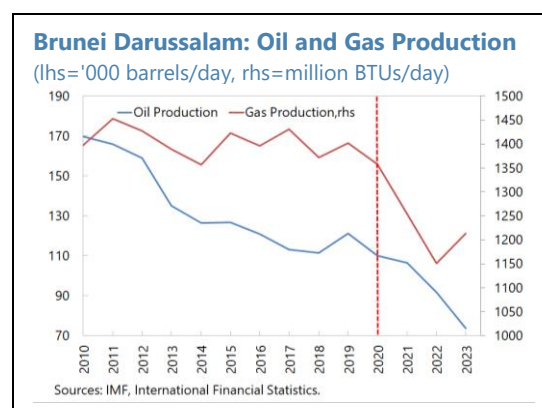
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CONTEXT AND RECENT DEVELOPMENTS

1. Brunei is facing complex diversification challenges and a protracted post-pandemic recovery. While real GDP rebounded moderately, driven mainly by the non-O&G sector, challenges persisted in downstream and upstream O&G production until H1 and Q3 2023, respectively, impacting fiscal and external positions in 2023. The production from the new Salman oilfield offered some partial relief to the decline in oil production since 2006 as offshore O&G fields mature. External buffers remain strong.

2. Looking ahead, Brunei aims to diversify its economy in line with the authorities' Vision 2035, focusing on sectors like downstream O&G, Food, Tourism, Info-Communications and Technology (ICT), and Services. The share of non-O&G sector in real GDP increased from 20 percent in 2003 to 53.6 percent in 2023, boosted by the petrochemical plant's phase 1 venture—and the associated sectoral spillovers. However, challenges remain in addressing job creation and youth unemployment¹, reducing the large public sector footprint, improving the business environment to attract private sector involvement, as well as to tackle the large transitions risks linked to diversification and climate change.



¹ The unemployment rate (age 18 years and over) remained flat at, 5.1 (5.0) percent in 2023 (2022), while youth unemployment rate (age 18 to 24 years) slightly fell to 16.8 percent in 2023 from 17.2 percent in 2022.

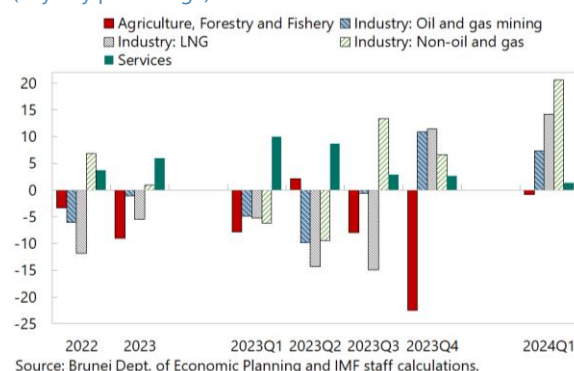
3. After two years of recession, real GDP rose by 1.4 percent in 2023.

A stronger-than-expected growth contribution came from the non-O&G sector (i.e., finance, as well as construction and transport), helped by improved bank profitability amid globally high interest rate environment, and the post-pandemic reopening momentum, offsetting weak performance in other non-O&G areas. Growth of the O&G sector was held up by maintenance activities in early 2023, but earlier-than-expected supply from a new O&G field in Q4 2023 significantly

made up for earlier production losses. On the demand side, household consumption continued to be the key driver of growth. Non-O&G growth in Q1 2024 exceeded expectations, largely due to momentum in downstream O&G and wholesale and retail trade.

Brunei Darussalam: Sectoral Growth

(In y-o-y percentage)



Source: Brunei Dept. of Economic Planning and IMF staff calculations.

Brunei Darussalam: Contributions to Real GDP Growth

(In y-o-y percentage points)

	2022		2023				2024		Share in GDP
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q1	
GDP	-1.6	1.4	0.8	-3.1	0.7	6.8	6.8		
Oil & Gas sector	-3.2	-1.0	-2.4	-5.3	-1.8	5.1	4.1	47.5	
Oil and gas mining	-2.4	-0.4	-1.8	-3.9	-0.2	4.0	2.6	35.9	
Manufacture of LNG	-0.8	-0.6	-0.6	-1.4	-1.5	1.2	1.5	11.5	
Non-Oil and Gas sector	1.6	2.4	3.1	2.2	2.5	1.6	2.8	54.4	
Downstream activities	0.2	-0.2	-0.6	-2.2	1.1	0.9	1.8	8.0	
Other non-oil and gas activities	1.4	2.6	3.8	4.4	1.4	0.7	0.9	46.4	

Source: Brunei Dept. of Economic Planning and IMF staff calculations.

Brunei Darussalam: Contributions to Real GDP Growth by Expenditure

(In y-o-y percentage points)

	2022		2023				2024		Share in GDP
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q1	
GDP	-1.6	1.4	0.8	-3.1	0.7	6.8	6.8		
Household final consumption	2.5	3.1	6.7	4.2	0.4	1.4	2.6	34.5	
Gross capital formation	-0.5	0.1	-1.4	6.8	-1.9	-3.0	2.1	23.2	
Government final consumption	1.5	-0.6	-1.4	-1.0	-0.7	0.6	-1.3	23.4	
Net exports of goods and services	-0.6	3.4	1.9	4.7	2.7	4.2	2.0	21.3	
Statistical discrepancy	-4.5	-4.6	-5.0	-17.8	0.2	3.6	1.4	-2.4	

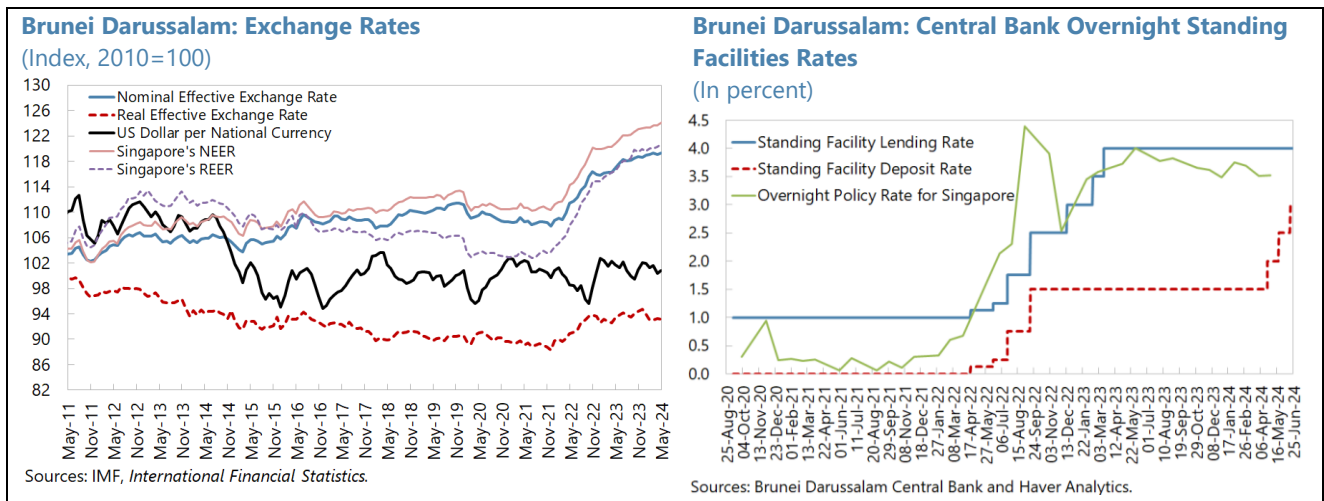
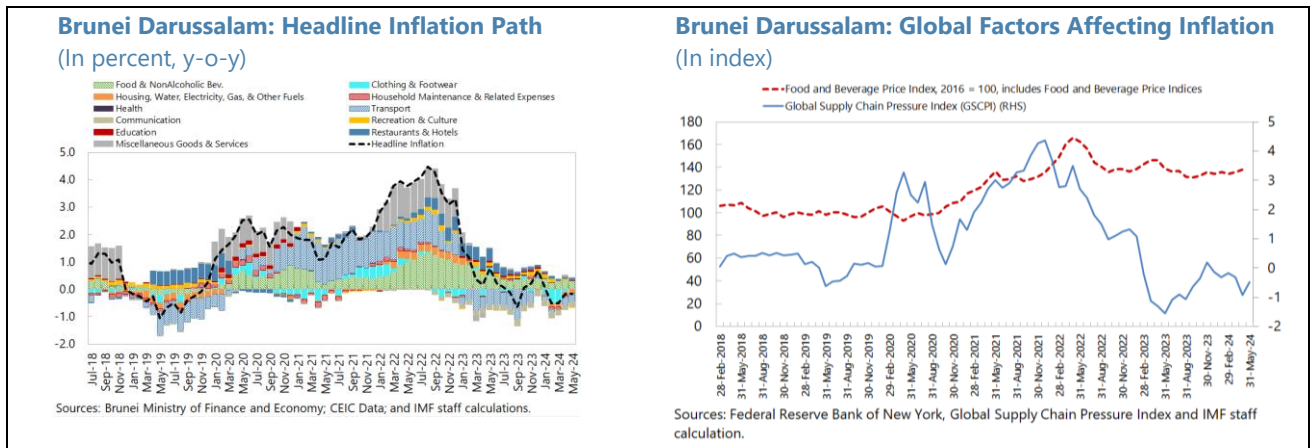
Source: Brunei authorities and IMF staff calculations.

4. Disinflation continues but remains volatile, on a sequential basis.² After peaking at 4.5 percent in August 2022, headline inflation significantly moderated to 0.7 by December 2023 and further declined to -0.2 percent in May 2024, reflecting³ the easing of post-pandemic supply chain disruptions and of global commodity prices, as well as large subsidies and price controls.⁴

² Sequential inflation is measured by month-to-month percentage change of CPI.

³ See accompanying Selected Issues Paper (SIP), Ganpurev (2024). "Drivers of Inflation".

⁴ A persistent and broad-based decline in prices of items in the consumption basket to below pre-COVID levels, reflected in part an outdated Consumer Price Index (CPI) basket based on the 2015 Household Expenditure Survey (HES), inaccurately reflecting post-COVID consumption trends.



5. A stable exchange rate, underpinned by Brunei’s longstanding currency board system with Singapore⁵ also assisted in anchoring inflation expectations. Brunei’s nominal effective exchange rate (NEER) appreciated in tandem with Singapore’s monetary policy tightening, partially assisting in mitigating the impact of imported inflation. The Brunei Darussalam Central Bank (BDCB) has kept the Overnight Standing Facility Lending Rates in line with Singapore’s overnight policy rate. However, the standing facility deposit rate (SFDR) held steady, thereby widening the corridor. Starting January 2024, the BDCB began including Singapore’s interbank transactions in its analysis to understand the influence of Singapore’s policy rates on Brunei’s market and raised its SFDR to 3.0 percent from 1.5 percent through three consecutive 50 basis points hikes in April, May, and June 2024.

6. The overall fiscal position deteriorated significantly in FY 2022/23⁶. This was led by a large decline in O&G revenue reflecting weaker production and prices. Nominal expenditure was aligned with the budget, but expenditure as a share of GDP increased relative to FY 2022. The non-

⁵ This is also supported by Currency Interchangeability Agreement (CIA) with Singapore.

⁶ Fiscal year (FY) spans April 1-March 31.

O&G deficit (excluding O&G revenue and royalty payments) deteriorated by 1.6 percentage points (ppts) of non-O&G GDP compared to FY 2022/23. The impact was offset by tapping on the fiscal buffers built up in FY 2022 and financed in part by a large decline of government deposits.⁷ The widening non-O&G deficit helped support the fragile recovery by boosting capital spending.

Text Table 1. Brunei Darussalam: Fiscal Developments 1/

	2019/20	2020/21	2021/22	2022/23	2023/24
	(Percent of GDP)				
Revenue	26.4	12.6	24.0	28.3	17.3
Oil & Gas	19.8	7.7	20.2	24.5	13.0
Non-Oil & Gas	6.5	5.0	3.8	3.9	4.3
Expenditure	31.9	32.6	29.1	26.7	29.2
Current	29.5	31.3	28.0	25.7	27.4
Capital	2.4	1.3	1.1	1.0	1.8
Overall Balance 2/	-5.6	-20.0	-5.1	1.6	-11.8
Non-O&G Balance (% of Non-O&G GDP)	-49.5	-46.1	-44.3	-40.2	-41.8
	(millions of BND)				
Nominal GDP	18,385	16,241	19,867	22,332	20,391
Nominal non-O&G GDP	8,418	9,098	10,103	11,003	11,027

Source: Brunei authorities, IMF staff estimates

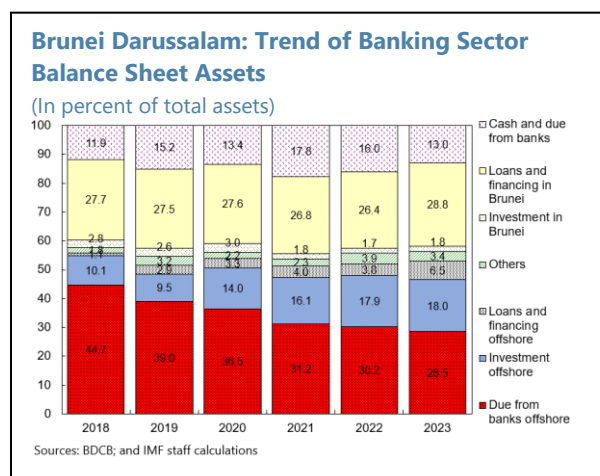
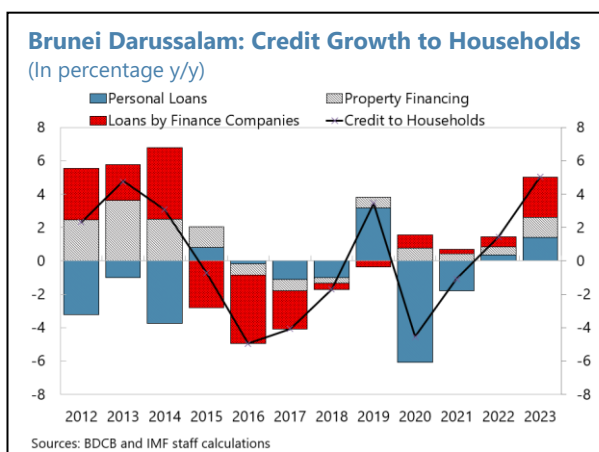
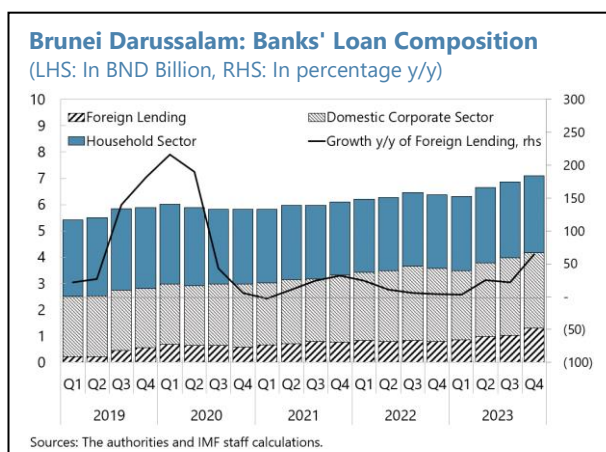
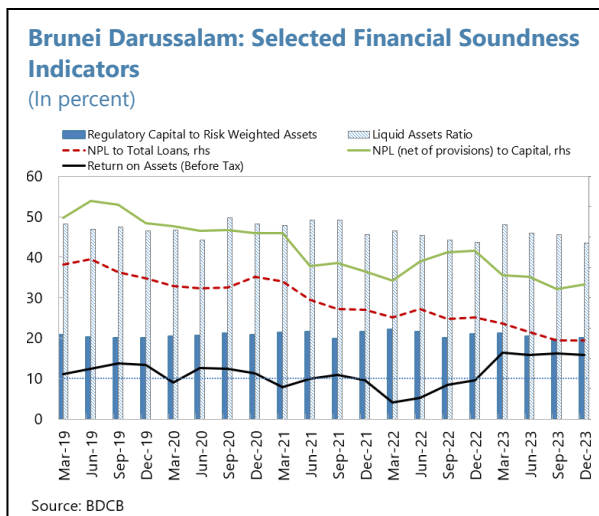
1/ Fiscal year: April-March.

2/ In absence of government debt and interest payments, this is also primary balance.

7. Brunei's current account (CA) surplus narrowed significantly to 12.9 (19.6) percent of GDP in 2023 (2022), impacted by lower O&G exports, higher service imports and net income outflows. Exports growth slowed reflecting lower O&G prices and production and due to the oil refinery and petroleum plant's planned maintenance. Consequently, imports of raw materials, mainly mineral fuels, also declined, and reflecting lower feedstock prices. The financial accounts saw significant outflows, including from increased offshore lending by domestic banks, prompting a survey to better gauge trends in errors and omissions, and payables/receivables. International reserves declined modestly. The weaker-than-expected CA performance is reflected in a substantially weaker external position than the level implied by fundamentals and desirable policy settings (Appendix I).

⁷ Monetary data suggests a large draw down of government deposit in 2023 (8.9 percent of GDP), in part reflected in decline of central bank reserves.

8. The banking sector remains stable. The capital ratio of banks is strong at around 21 percent of risk-weighted assets in 2023, well above regulatory requirements (10 percent). Gross NPL as a share of total loans declined from 3.3 percent in 2022 to 2.6 percent in 2023, owing both to a decrease in loans classified as NPLs and to an increase in gross loans. Banks' return on assets (before tax) improved to 2.1 percent in 2023 from 1.3 percent in 2022 as the global higher interest rate pushed up their earnings from offshore assets. Banks continue to have abundant liquidity funded mostly by domestic deposits.⁸



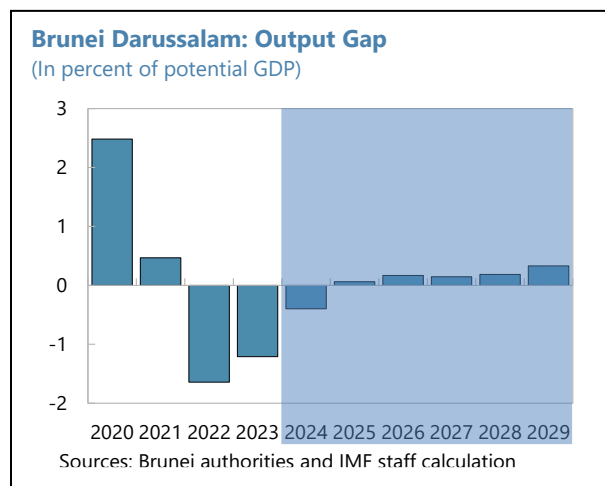
9. Foreign lending surged, while domestic lending slowed. In particular, offshore (i.e. foreign) loans by Brunei-based banks to Bruneian corporates, which invest in high credit-rated assets, rose by 64 percent year-on-year by the end of 2023.⁹ Over the past years, banks have preferred offshore activities in a context of an open capital and financial account and high global interest rates, as well as in the search for diversification opportunities. Banks have generally kept offshore assets relatively stable (ranging around 51-53 percent of total, over the past five

⁸ Around 12.3 percent of deposits are from the government as of March 2024, declining from 13.9 (32.2) percent in December 2023 (2022).

⁹ 82 (11) percent of industry counterparties offshore have a rating of A- (BB) and above.

years). Overall domestic credit growth slowed to 2.0 percent year-on-year in 2023 from 6 percent, largely due to reduced corporate credit growth (to 3.5 percent from 8.8 percent in the same period). However, household credit picked up, considering both bank and finance company loans, at a slightly faster pace of 5 percent than past peaks. With the oil price slowdown and the credit gap estimated to have closed, the authorities are monitoring the acceleration of personal loan growth and continue to cap the total debt service ratio at 60 percent.¹⁰

OUTLOOK AND RISKS



10. Real GDP is projected to increase by around 2.4 percent in 2024, supported by O&G production from the new offshore oil field.¹¹ The domestic non-tradeable sector growth is expected to plateau, as the finance and transport sectors stabilize, due to anticipated global interest rate cuts and the disappearance of one-off base effects post-reopening in H2 2022, respectively. Downstream sector and investment activities are expected to increase on account of the oil refinery and petrochemical plant Phase II investments and budgeted developmental spending, respectively. Household consumption will remain a key growth

driver. While subject to uncertainty, the estimated output gap is expected to close by 2025 and medium-term growth is expected to be impacted slightly by the China slowdown.¹²

11. Inflation is projected to stay broadly unchanged at an average of 0.5 percent in 2024.¹³ Easing global supply chains, Brunei's currency board with the Singapore dollar, along with administered prices covering 16.4 percent of CPI items will keep inflation under control, as evidenced in early 2024 outcomes (114).¹⁴

12. In 2024, Brunei's current account surplus is expected to increase to around 15 percent of GDP. This is supported by improvements in the income account and non-O&G exports, amidst a reduced fiscal deficit and corresponding lower imports (115). Over the medium term, the lower export revenues (reflecting softer O&G prices) will be partly mitigated by production of new

¹⁰In Brunei, there are finance companies, which take certain types of deposits and provide car-financing and hire-purchases primary to households.

¹¹Brunei's oil production decline since 2006, noted by Centre for Strategic and Policy Studies, is countered by efforts like developing marginal fields and deepwater exploration. The Salman oilfield, a joint venture with BSP, began production in 2023 after COVID-19 delays.

¹² China is one of the top three trading partners and the largest FDI provider.

¹³ Average inflation was -0.1 percent during Jan 2011-Feb 2020.

¹⁴ AMRO's 2022 Annual Consultation Report on Brunei Darussalam. Long-term price controls are maintained for 10 products, including petroleum products, rice, sugar, and cooking oil.

deepwater oilfields, and the pick-up in the downstream sector, and services exports. The latter are expected to be boosted by tourist arrivals, which more than doubled in 2023, and are projected to reach pre-pandemic levels by 2025. Imports would stay buoyant as the economy rebounds. Brunei's international reserves (excluding gold) were assessed to be adequate at around 185 percent of the Fund's reserve adequacy (ARA) metric in 2023.

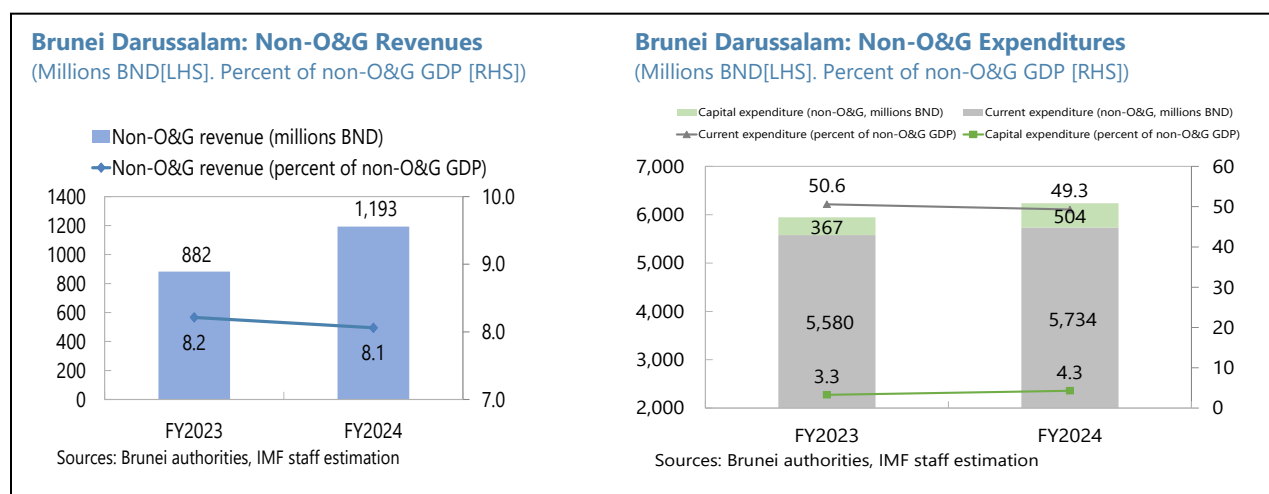
13. Risks to the outlook are broadly balanced. Downside risks include supply chain disruptions led by heightened geopolitical tensions and negative spillovers from possible further growth slowdown in China. Food price spikes due to extreme weather shocks could also be a risk. A disorderly transition to renewable energy under global decarbonization pressures remains a medium-to longer-term risk. On the upside, offsetting structural reforms and technological advancement, including artificial intelligence (AI), could boost productivity—although they may present economic and social challenges. Higher O&G prices and O&G discoveries could accelerate growth.

Authorities' Views

14. The authorities broadly concur with staff's assessment on outlook and risks. The authorities expect slightly higher growth than staff projections, driven by a rebound in upstream and downstream O&G production and growth in sectors like transport and hospitality. They expect two new projects to start in 2024, alongside the Salman field, which became operational since Q4 2023. No major maintenance for the oil refinery and petroleum plant is planned in 3-4 years. They predict stable prices while acknowledging uncertainties in global food and fuel prices. They remain committed to diversifying the economy and view the green transition as both a risk and opportunity.

ECONOMIC POLICIES TO SECURE RESILIENCE AND SUPPORT ECONOMIC TRANSFORMATION

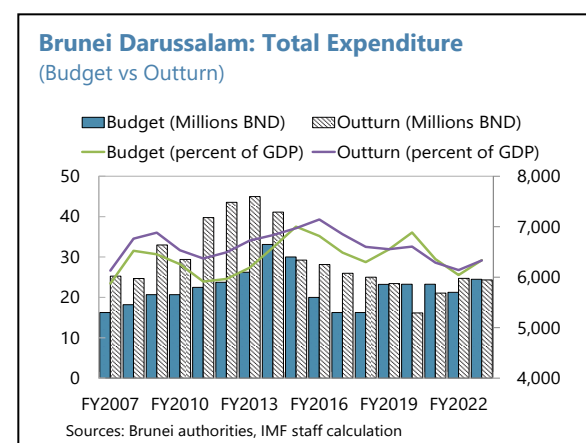
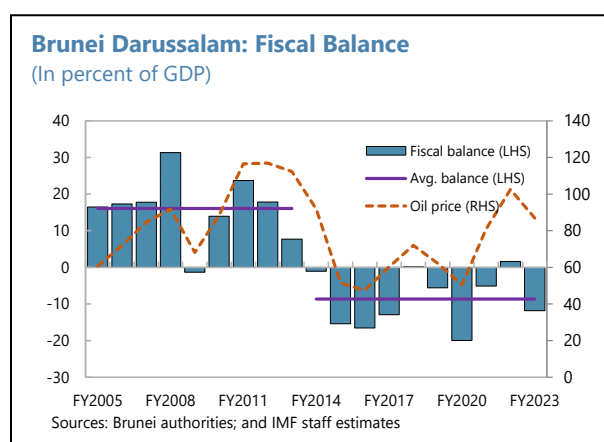
A. Fiscal Policy



15. The near-term fiscal stance is appropriate, given the narrowing output gap.¹⁵ The authorities frontloaded the fiscal consolidation in FY 2022, leveraging windfalls in O&G prices and the strong non-O&G growth, later unwound in FY 2023/24 (¶16), and are expected to tighten in FY 2024/25 reflecting the cyclical position. As a share of GDP, the overall fiscal deficit is projected to shrink by 1.7 ppts in FY2024/25 due to continued increase in O&G production and related tax revenues. The non-O&G balance would also return to a more prudent stance. The assumed reduction of 2.6 ppts of non-O&G GDP would rely on the continuing non-O&G sector growth and corresponding non-O&G revenue. Reflecting the budget, capital expenditure would be boosted through reallocation from current expenditures. The overall deficit is expected to be financed by the continued drawdown of the Consolidated Fund (CF).

16. Prioritizing growth-friendly fiscal consolidation over the medium-term is essential to support fiscal sustainability. Such consolidation should foster private sector investment and intergenerational equity, while protecting the vulnerable. To achieve this, mobilizing non-O&G revenue must remain a key priority.¹⁶ Given the decline in O&G production, limited O&G physical reserves¹⁷ and global pressures for de-carbonization, securing fiscal space through growth friendly expenditure rationalization, phasing out untargeted subsidies and allowing room for green investments is critical.

17. Broadening the tax base and reducing the reliance on O&G revenues are crucial. While the non-O&G sector's share in nominal GDP has grown significantly, from 26.2 percent in 2008 to 53.6 percent in 2023, its share in total revenue remains low. It only reached 25.0 percent in FY2023/24 from 7.3 percent in FY2008/09. To address this, measures such as reducing tax exemptions, implementing a goods and services tax (GST) and personal income tax, adjusting tax rates (including property tax), and expanding excise taxes on goods with negative externalities are recommended. Carbon pricing, along with phasing out of fossil fuel subsidies, as suggested by recent work,¹⁸ could generate additional



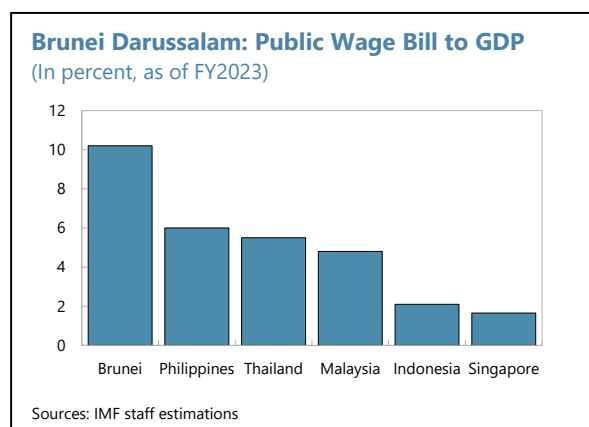
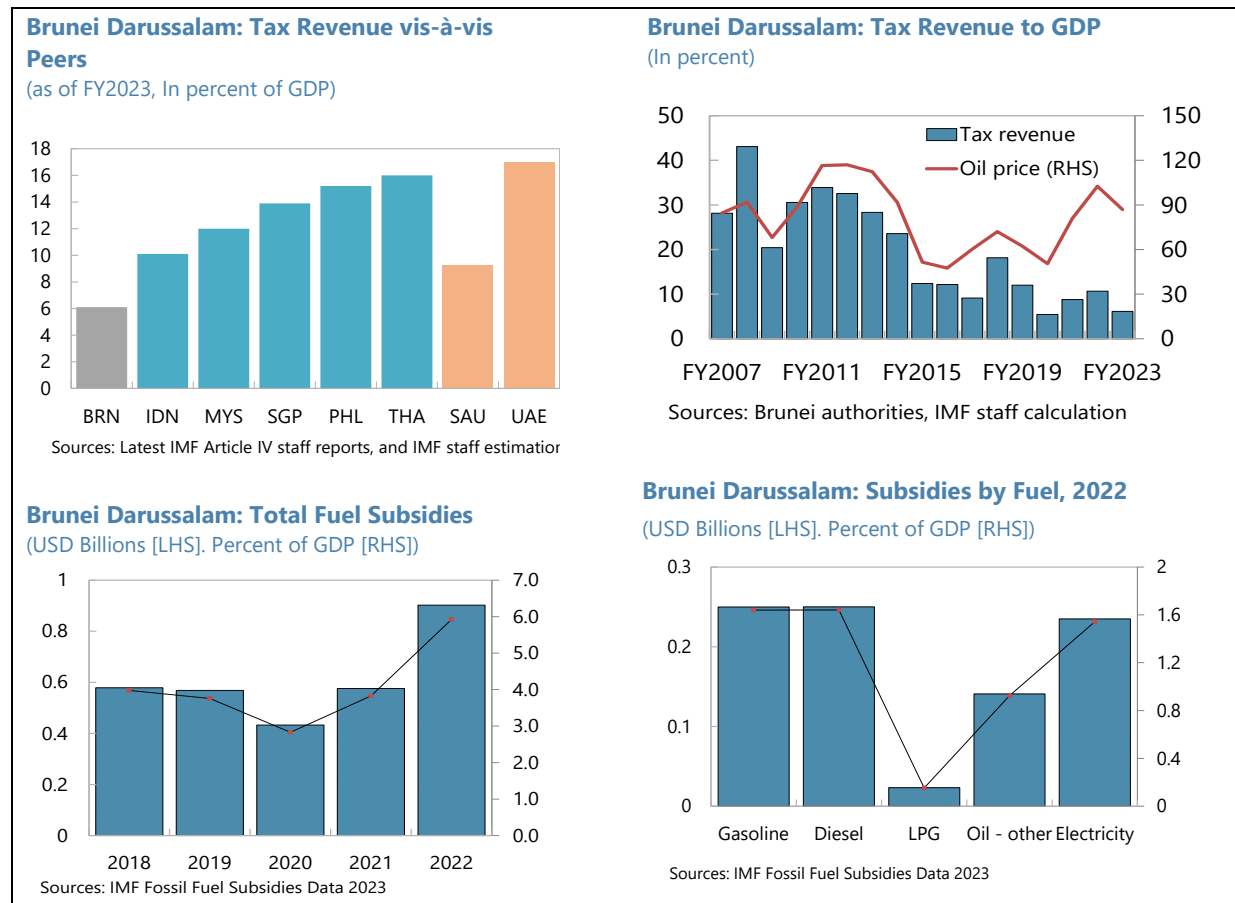
¹⁵ The non-O&G output gap is expected to have closed.

¹⁶ The share of revenues from O&G sectors in total revenue is 75.0 percent in FY2023/24.

¹⁷ Proven reserves are likely to be depleted in 27 years (BP Statistical Review of World Energy 2021), subject to a production capacity of 110 thousand barrels a day and assuming no further discovery of oil fields.

¹⁸ See Zhunussova and Basu (2023) IMF Country Paper No 23/347.

revenues, (1.6-7.2 percent of GDP above the baseline in 2030, with a \$50 per tonne carbon tax by 2030), and help to reduce emissions. If recycled, the revenues could effectively shield the vulnerable and economic growth from the higher tax. Digitalizing the tax system would enhance efficiency and compliance in tax administrations.¹⁹



18. Revenue mobilization should be prioritized as tax revenues are below regional peers. The estimated tax revenue to GDP ratio fell to around 6 percent in FY2023/24 (Table 2). On average, tax revenue in Brunei between FY2020-FY2023 was 7.8 percent of GDP, lower than the estimated tax capacities²⁰ of advanced and emerging market economies, 26.9 percent, and 19.3

¹⁹ The “One Common Billing System” (OBCS) —launched in February 2020—to help facilitate government’s revenue collection by allowing the public to make payments online has expanded coverage and contributed to improved revenue collections.

²⁰ The maximum level of tax revenue in percent of GDP that a country can achieve. (Fenochietto and Pessino, 2013)

percent, respectively²¹. Brunei has a narrow tax base including Corporate Income Tax (CIT) and Withholding tax (only on non-residents), with taxes on goods and services (GSTs) and on individual income not yet implemented. (Text Table 2)

19. More efforts to rationalize expenditure are needed. While revenue fluctuates exogenously and mostly linked to changes in global hydrocarbon prices, downward rigidity of spending makes fiscal consolidation difficult. Brunei's large public footprint is evident in the high public wage bill to GDP vis-à-vis its regional peers, ASEAN-5 countries.²² Wage bill rationalization by downsizing through attrition and continued tightening of temporary positions is called for. Targeting broad-based subsidies (e.g., energy, housing, utilities, etc.)²³ would help reduce market distortions and secure resources for development expenditures listed in the 12th National Development Plan (RKN 12), including for building resilience.

Country	Personal income tax	Corporate income tax	Withholding tax (Dividends / Interest / Royalties)		Indirect tax ^{1/}
			Resident	Non-resident	
Brunei Darussalam^{2/}	NA	18.5 (55) ^{3/}	0	0 / 2.5 / 10	NA
Indonesia	35	22	0 or 10 / 10, 15 or 20 / 15	20 / 20 / 20	11
Malaysia	30	24	0	0 / 0 or 15 / 10	10
Philippines	35	25	0 / 10, 15 or 20 / 20	15 or 25 / 20 / 25	12
Thailand	35	20	10 / 1 / 3	10 / 15 / 15	7
Singapore	24	17	NA	0 / 15 / 10	9
Qatar	NA	10 (35)	NA	0 / 5 / 5	NA
Saudi Arabia	NA	20	NA	5 / 5 / 15	15
Kuwait	NA	15	NA	NA	NA
Bahrain	NA	0 (46)	NA	NA	10
Oman	NA	15	NA	10 / 10 / 10	5
UAE	NA	9	0	0	5

Source: PWC Worldwide Tax Summaries, Deloitte International Tax Highlights
 1/ Value added tax (VAT), Goods and services tax (GST), Sales tax
 2/ Brunei has Property tax (levied on properties under commercial use), Import duty, Excise duty (liquor, cigarettes, and manufactured tobacco), and Stamp duty besides above taxes.
 3/ Numbers inside brackets are tax rates for petroleum companies.

²¹ See Appendix VI. Raising Revenues for a Sustainable Future (IMF staff report for the Malaysia 2024 Article IV consultation)

²² Sourced from latest staff reports of each ASEAN-5 country. In Brunei, wages and salaries include benefits (bonus, special allowance, etc.) based on the information in the Budget book 2023/24.

²³ Brunei has the lowest electricity rate and the highest energy and water consumption intensity of all ASEAN countries.

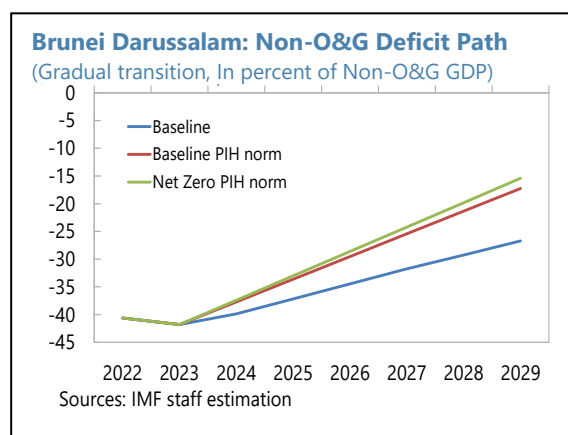
20. A sustainable fiscal position will require continued strengthening of rules-based fiscal frameworks. The authorities have taken steps toward establishing a MTFF to delink spending from short-term volatility in O&G prices, protect priority spending, and support fiscal consolidation over the medium term. The government introduced a Fiscal Consolidation Programme (FCP) in FY 2018/2019; this should be updated with clear fiscal targets based on regular assessments.^{24,25} Focusing more on the non-O&G balance to delink fiscal policy from oil price volatility would enhance the feasibility and credibility of emerging frameworks. Based on staff's analysis, under current policies, a permanent income hypothesis (PIH) norm of a constant annuity in real terms, indicates a need for further fiscal consolidation of cumulative 9-10 percent of non-O&G GDP between 2024-2029, relative to the baseline; continued fiscal prudence is needed in the long-run to close the gap.²⁶ An alternative PIH anchor under Net Zero Emissions (NZE) by 2050 scenario would imply even higher, adjustment needs, about 12 ppts²⁷, suggesting vulnerabilities to climate change pressures.²⁸

21. Broadening the coverage of the fiscal framework would enhance fiscal transparency and support policy design and fiscal risk analysis. More comprehensive data could include the activities of extrabudgetary funds, government-linked companies (GLCs), joint ventures, PPPs, and the associated risks and contingent liabilities. Increased transparency around key long-term fiscal policy issues could promote budget planning in line with longer-term goals, improve investment efficiency and strengthen credibility for the macroeconomic framework. Developing a systematic approach to identifying and reporting climate-related expenditures within the budget framework that aligns with the BNCCP, analyzing climate-related economic and fiscal risks (both direct physical climate risks and indirect economic transition risks) and integrating the analysis into economic and fiscal planning are also recommended.

Authorities' Views

22. The authorities agreed with the need for growth-friendly fiscal consolidation, revenue mobilization and enhanced fiscal frameworks.

Brunei aims to boost revenue with potential tax strategies, including a low-rate carbon tax. The authorities have initiated subsidy reforms by



²⁴ The Ministry of Finance and Economy (MOFE) had tasked line ministries and departments to prepare a five-year FCP including structural reforms and policy changes (2019 Article IV). It includes measures on corporatization and privatization, PPPs, subsidy programs, fiscal management enhancement, revenue diversification, and government's asset management system.

²⁵ The annual Fiscal Outlook provides 5-year forecasts of aggregate budget components, but they do not constitute a MTFF that aligns fiscal policy and budget preparation.

²⁶ Balasundharam and Kim (2023), IMF Country Paper No 23/347.

²⁷ An upside scenario from the baseline, assuming O&G depletion by 2060 with new O&G discoveries, would need fiscal consolidation of cumulative 5 percent of non-O&G GDP between 2024-2029.

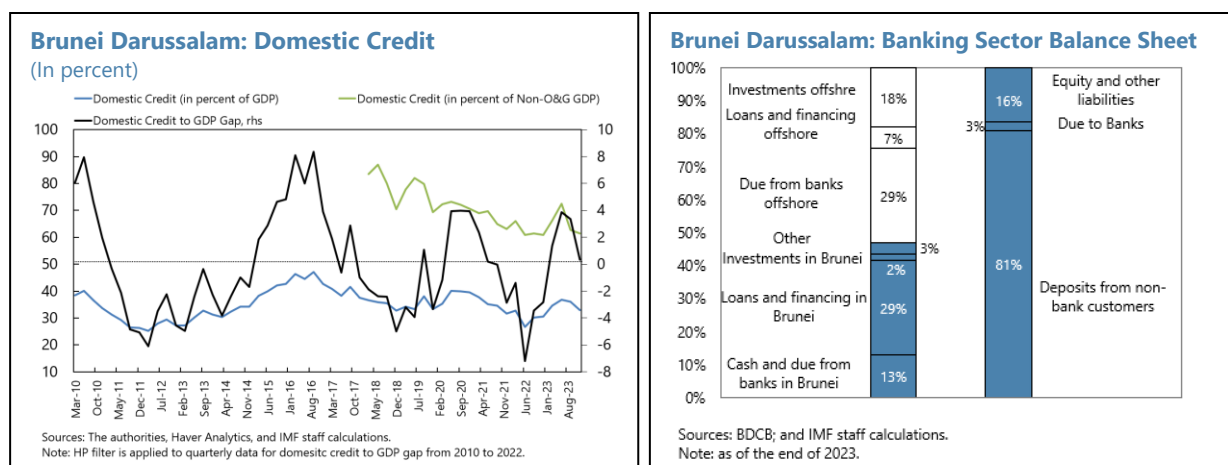
²⁸ See accompanying SIP, Kim and Basu (2024). "Long-term Fiscal Trajectory Based on the Permanent Income Hypothesis" for details.

launching non-subsidized premium fuel, implementing smart meters, discussing tariff reforms, and digitizing the National Welfare System to target and support the neediest. Efforts are underway to enhance fiscal planning and management by establishing the MTFF and fiscal rules and reviewing the FCP introduced in FY2018/19 with greater focus on reducing the non-O&G balance and improving public service delivery via corporatization, privatization, and PPPs. The authorities are in the process of consolidating subsidy data across the line ministries through the strengthening of the financial management system by implementing Treasury Accounting Financial Information Systems (TAFIS 2.0), with a revised Chart of Accounts (COA), for better oversight, transparency, efficiency, and accountability since April 2024. Furthermore, the virement rules have been enhanced to provide more flexibility and accountability to the line ministries. The government is also continuing its efforts on economic diversification through Brunei Darussalam Economic Blueprint to achieve Brunei Vision 2035.

B. Protecting Financial Stability and Enhancing Financial Market Depth

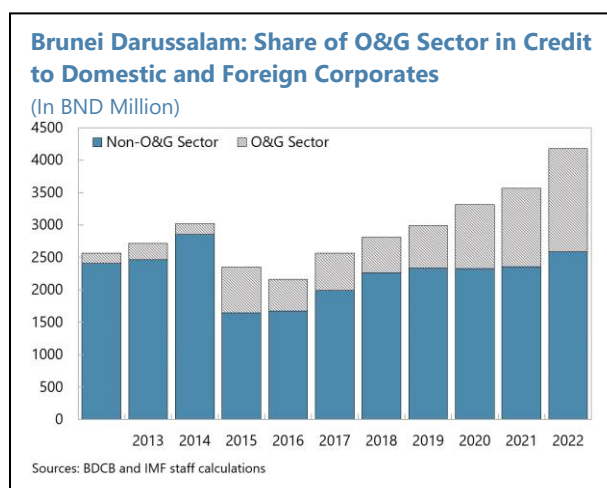
23. The currency board arrangement with Singapore is sound and has played a key role in supporting Brunei's macroeconomic and financial sector stability. This monetary policy framework has helped to stabilize exchange rate fluctuations and minimize the impact of imported inflation to the domestic economy. The currency board is safeguarded by the BDCB adhering to the coverage of all issued liabilities in Brunei dollars (BND) by foreign currency, and with no monetary financing.

24. Improving monetary operations is recommended to enhance interest rate transmission and facilitate financial deepening. The authorities have widened the interest corridor to be equal or larger than the MAS corridor, and continue to align interest rates with Singapore through the standing facility rate changes, while disconnecting the limit on the standing lending facility from collateral. To develop liquidity management and the interbank market, I-bills are now included as eligible assets in the Asset Maintenance Ratio (AMR) and a dedicated website to enhance communication on monetary frameworks implementation has been established. Increasing issuance of I-bills to allow more active management of liquidity to strengthen the signal from the overnight policy rate to retail rates is underway. Additionally, absorption of structural liquidity through the lock-in of the proceeds from the Brunei Government Sukuk in the Treasury account with the BDCB will enhance liquidity management. Over the medium term, the BDCB is encouraged to build internal capacity in liquidity forecasting to calibrate I-Bill issuance and consider establishing a single treasury account.



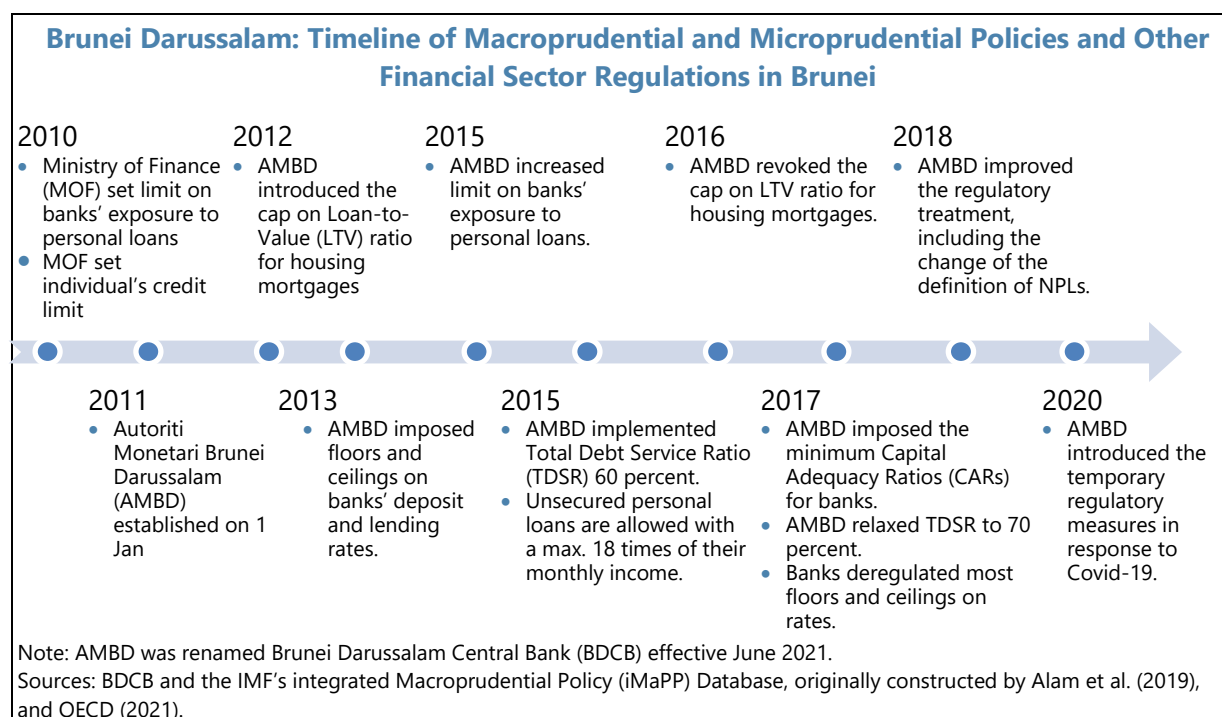
25. The financial sector has strong capital buffers and abundant liquidity, and systemic risk is assessed to be contained. The rapid growth in foreign lending by Bruneian banks, (¶19), suggests the need for diligent market risk management. Interest rate risks and liquidity tail risks related to further rapid increase in interest rates and the unavailability of liquidity placed offshore in times of extreme stress, appear to have improved since last year and can be mitigated by the existing strong capital and liquidity buffers. BDCB continues its efforts to strengthen prudential regulatory framework for the banking industry and is expected to formally implement the Basel III liquidity coverage ratios (LCR) before end-2024. Basel III liquidity measures are already being deployed internally in some banks, particularly in Domestic Systemically Important Banks (DSIBs).

26. Close monitoring of sectoral credit growth is warranted, ¶19²⁹. Vulnerabilities could emerge if oil prices decline, notwithstanding low NPLs (¶10). Thus, remaining vigilant and continuing to strengthen regulatory frameworks is important.³⁰ Continued implementation of prudential measures like capping the Total Debt Service Ratio (2015), assessing the unsecured personal loan exposure (2015), and enhancing and maintaining NPL definitions (2018), are welcome. Further strengthening risk-based supervision, including enhanced stress testing, and for climate transition and physical risks, could be considered.



²⁹ See accompanying SIP, Kawase and Basu (2024). "Brunei Financial Sector".

³⁰ While all three pillars of the Basel II have been implemented including, 10 percent minimum CAR, annual submission of Capital Adequacy Assessment Process (ICAAP) and provision of enhanced risk disclosures and capital management, along with additional capital buffer requirements for DSIBs. Basel III Liquidity Coverage Ratio (LCR) measures is planned to be implemented by end-2024. The 1st and 2nd rounds consultation on LCRs with the banks were completed in January 2023 and November 2023, respectively.



27. Efforts are needed to further enhance the depth of financial markets and promote financial sector growth. Excess liquidity hampers Brunei's interbank market development, crucial for financial sector deepening. As of June 2024, BDCB completed four high priority, near-term reforms in this area, (1124). BDCB is currently working on further six needed measures, focused on: (i) establishing a Master legal documentation for interbank placements, Commodity Murabaha, and Unrestricted Investment Wakalah Agreements to reduce market segmentation (ii) stepping up in BDCB I-Bills issuance, (iii) better aligning overnight standing facility (deposit), and (iv) establishing a Brunei reference rate. In efforts to deepen markets and improve payment efficiencies, in April 2024, Brunei joined the Regional Payment Connectivity (RPC) to foster payment connectivity with participating Asian peers³¹. An ongoing digital payment hub is integrating existing payment systems. Guidelines for issuance of debentures in 2022,³² and amended in January 2024, are expected to facilitate green bond issuance, but more is needed on green taxonomy and unifying disclosure standards. Islamic investment regulations were legislated in September 2023, but more effort is needed to enhance the business environment for financial growth, including deepening sukuk markets.

28. The authorities are taking steps to enhance the AML/CFT framework and its implementation. The authorities remain committed to strengthening AML/CFT regulatory and supervisory frameworks to safeguard financial integrity, in line with the recommendations in the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation completed in 2023. Two laws were

³¹ RPC is an initiative that aims to promote faster, cheaper, more transparent, and more inclusive cross-border payments in the region. In April 2024, the members of the RPC consist of central banks of Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Brunei Darussalam and Lao PDR. ([Joint Press Release, 3 April 2024](#))

³² BDCB. Amendment to the Guideline on the Issuance of Debentures.

amended in 2022, namely the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations and the Criminal Asset Recovery Order. The BDCB also introduced provisions requiring oversight of virtual assets and virtual asset service providers (VASPs) in line with the Financial Action Task Force's (FATF) Recommendation 15, through amendments to the Money-Changing and Remittance Business Act and Notice on Requirements for Payment Systems and issuance of new Guidelines on Offering Trading of Security Tokens.

Authorities' Views

29. The authorities broadly agreed with the assessment of monetary and financial policies.

They emphasized that the banking sector had adequate buffers against global uncertainties. They are focusing on strengthening prudential regulatory framework for improving risk management, and plan to implement Basel III standards for better liquidity management by the end-2024. To enhance monetary operations and financial market depth, the authorities are analyzing interbank transactions in Singapore. They acknowledged the need to strengthen collaboration between the BDCB and the MOFE to introduce sukuk, to promote an investment culture within the local market. Consideration is being given to develop a long-term Sukuk market to support savings and finance long-term projects, aiming to bolster Brunei's financial sector. The authorities reaffirmed their commitment to continue to implement the recommended actions in the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation Report.

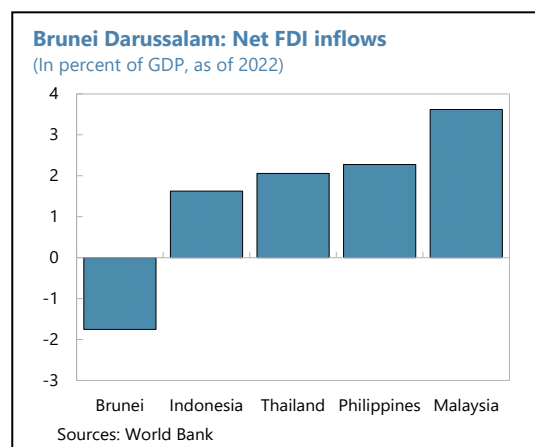
C. Structural Reforms

30. Structural reforms can help to improve Brunei Darussalam's long-term productivity.

A recent IMF Staff Discussion Note (SDN) by Budina et al. (2023) advises prioritizing first-generation reforms—governance, external sector, and business regulation—before implementing second-generation reforms like domestic finance and labor market changes for better job creation. This approach can yield significant upfront gains in output growth, facilitate the green transition, and balance growth with climate concerns. Staff analysis³³ concludes that Brunei could benefit from closing gaps in some 'first generation' structural reforms, vis-a-vis top performing peers, thereby positively affecting future potential output growth.

31. Progress with economic diversification has contributed to a more resilient economy, but challenges remain.

Brunei has a low labor force participation relative to peers (Figure 6), challenges remain with youth unemployment, and their potential exposure to job displacement by adoption of AI technology. Domestic product and labor markets are served by dominant GLCs. Structural challenges in the



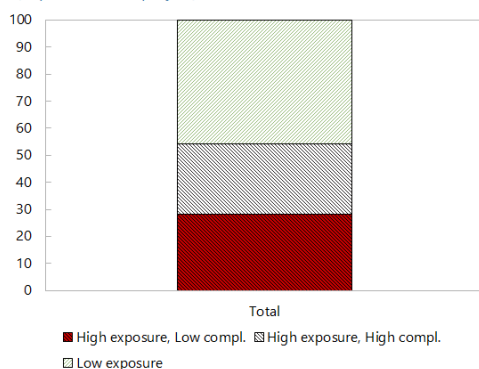
³³ See accompanying SIP, Basu, Augsten, Kim, Kawase, Ganpurev and Medici (2024). "Augmenting Growth Prospects: The Role of First-Generation Structural Reforms".

regulatory framework are limiting FDI and PPPs into Brunei. Brunei’s performance in first-generation reform areas appears broadly comparable to peers – ASEAN-6³⁴ and the Gulf Cooperation Council (GCC)³⁵ –indicating progress. Yet, key remaining gaps remain, to enhance the business environment include distortive taxes and subsidies, non-tariff barriers, lengthy property rights transfer processes, and remaining gaps in the legal/regulatory framework³⁶.

Brunei Darussalam: Impact of AI on Labor Market in Brunei

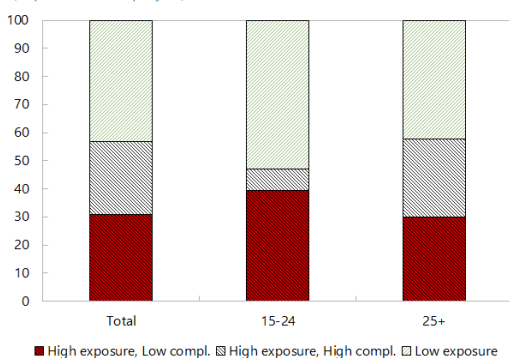
Half of Brunei’s labor market is highly exposed to AI, slightly higher than world average (40 percent), yet lower than AEs such as Singapore (77 percent).

Brunei: AI Occupational Exposure
(in percent of employed)



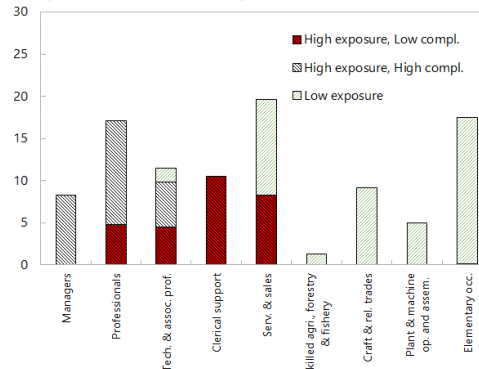
Young workers in Brunei are more likely to be employed in occupations that are highly susceptible to displacement by AI, 40 percent of youth (15-24 years old), compared to 30 percent of their peers (25+ years old).

Brunei: AI Occupational Exposure by Age Group
(in percent of employed)



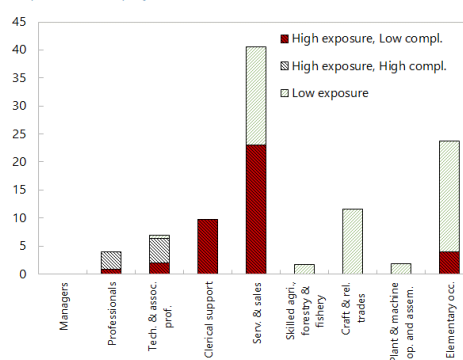
About half of AI exposure has high complementarity (e.g., managers and professionals), while other half has low complementarity (i.e., higher risk of being displaced by AI), e.g., in clerical support roles, and services and sales.

Brunei: AI Occupational Exposure by Major Occupations
(in percent of employed)



Moreover, a disproportionately low share of youth is employed in occupations with high exposure and high complementarity to AI (i.e., with higher chance of benefitting from AI advancement) (8 percent, compared to 28 percent for 25+ years old).

Brunei: AI Occupational Exposure for 15-24 Year Olds
(in percent of employed)



Source: IMF staff calculations based on Brunei’s labor force survey 2022 by International Labor Organization (ILO).

Note: AI occupational exposure (AIOE) is estimated by linking AI applications to workplace abilities based on O*NET, a database developed by US Department of Labor decomposing occupations into 52 abilities. High (low) AIOE is when the exposure is above (below) median occupational exposure across all occupations (Felten et al. (2021)). AI’s potential to complement or substitute for labor is captured in complementarity where high (low) complementarity is above (below) median (Pizzinelli et al., 2023).

³⁴ ASEAN-6 include Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

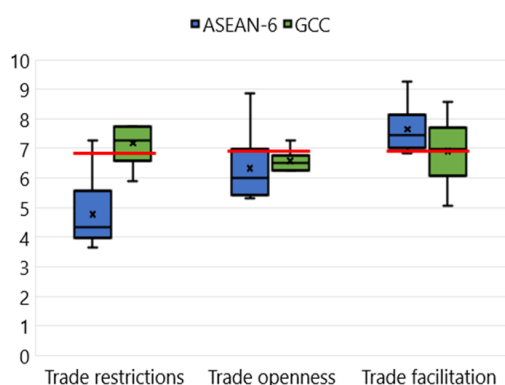
³⁵ GCC countries include Bahrain, Kuwait, Oman, Saudi Arabia, UAE, Qatar.

³⁶ The Financial Regulations of 2022 need updating, and Public-Private Partnership guidelines lack detail compared to global standards. See also accompanying SIP, Basu, Augsten, Kim, Kawase, Ganpurev and Medici (2024).

32. Brunei is advised to prioritize closing gaps in some first-generation structural reform areas to enhance the business environment. External competitiveness and efficiency would be strengthened by further promoting trade through rationalizing non-tariff barriers and import restrictions on intangible goods, and improving trade facilitation, specifically by simplifying the export/import documentation process,³⁷ and improving the timeliness of appeal procedures.³⁸ Regarding market regulation, reducing the regulatory burden for firms such as business licensing

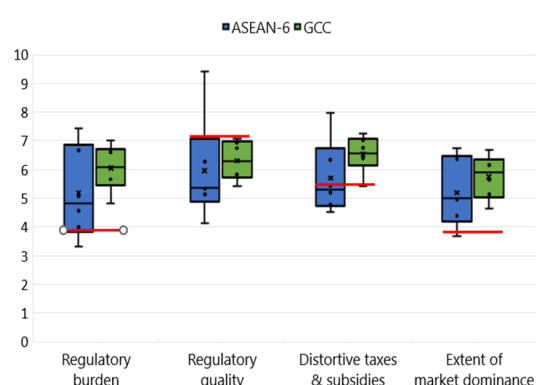
Brunei Darussalam: Performance in First-Generation Reform Areas Is Broadly Similar to the Average Performer Comparator Peer-Groups

Gap 1. Trade Indicators



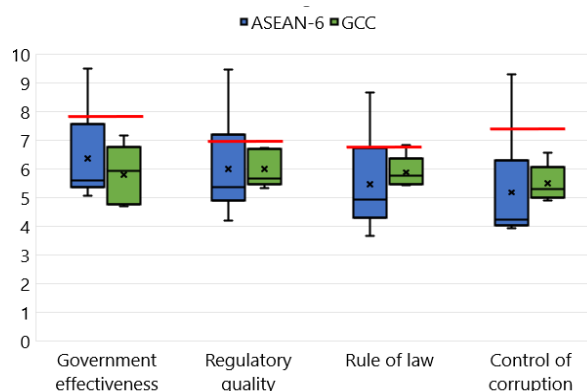
Sources: IMF AREAER, World Economic Forum (WEF) Global Competitiveness Index (GCI), OECD Trade Facilitation, and IMF staff calculations.

Gap 2. Market Regulation Indicators



Sources: WEF GCI, Worldwide Governance Indicators (WGI), and IMF staff calculations.

Gap 3. Governance Indicators



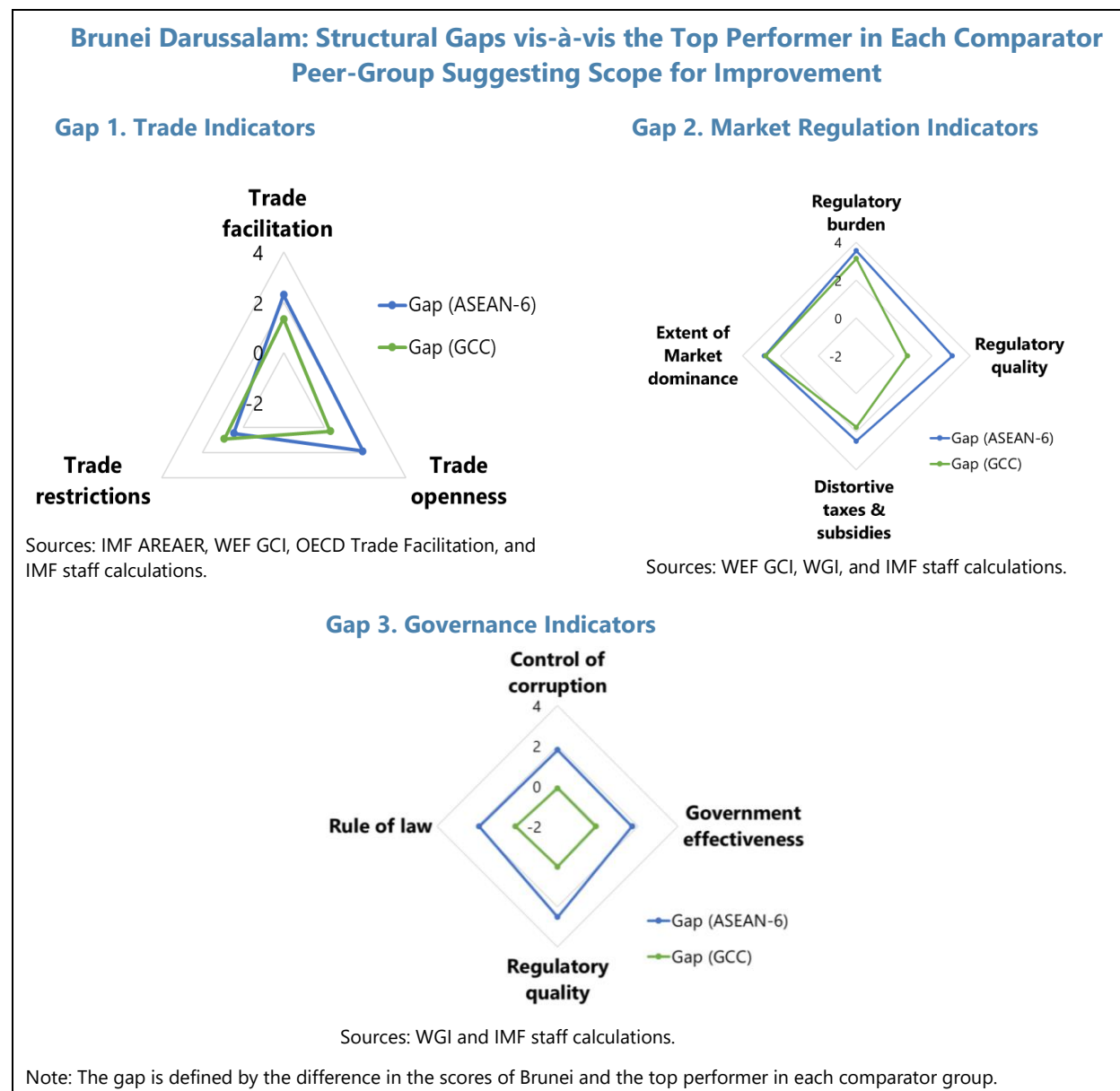
Sources: WGI and IMF staff calculations.

Note: The gap is defined by the difference in the scores of Brunei and the top performer in each comparator group. The red bars indicate Brunei's standing.

³⁷ According to OECD Trade Facilitation Performance, time to prepare documents for exports (imports) in Brunei Darussalam is 155 (132) days, which is longer than the 70th percentile of the country sample.

³⁸ According to OECD Trade Facilitation Performance, no set periods specified in the laws and regulations for providing a decision on appeal in Brunei Darussalam.

and permits,³⁹ reforming taxes and subsidies that create distortive effects in the product market, and lowering market dominance of large firms, especially GLCs, would foster domestic competitiveness and promote FDI and PPPs. Efficient property rights transfers and commercial case resolutions would further enhance investors’ confidence in the domestic economy. Enhancing the quality of the regulatory framework would also contribute to boosting growth momentum, helping green transition, and laying the groundwork for second-generation reforms.⁴⁰



³⁹ The Ministry of Home Affairs of Brunei exempted seven business activities scheduled under the Business License Act from the rule requiring a business license in 2016.

⁴⁰ See the IMF Staff Discussion Note (SDN/2023/007) “Structural Reforms to Accelerate Green Growth and Ease Policy Trade-Offs in EMDEs”.

Authorities' Views**33. The authorities agree that diversification is key for building a more robust economy.**

Brunei is pushing economic diversification with plans like Brunei Vision 2035 and enhancing growth through downstream expansion and related activities. The authorities are boosting private sector activity with export support, including through the availability of Halal Certification, capacity building, and improving business conditions, as well through continuing trade facilitation (Indo-Pacific Economic Corridor (IPEC)) and other economic corridors (BIMP-EAGA/ Brunei-Guangxi). The country is committed to reaching its net zero emissions goal by 2050. The government is preparing a National Adaptation Plan for 2025 and a Climate Vulnerability Assessment to prioritize climate change adaptation strategies.

D. Data Issues and Capacity Building**34. Data provided to the Fund has some shortcomings that somewhat hamper surveillance and quality should continue to improve (Appendix IV).**

Brunei participates in the IMF's general data dissemination systems, (e-GDDS) but more efforts are needed for granular, timely, frequent, and consistent reporting, especially for fiscal and external sectors. The underlying CPI consumption basket is dated and may be hampering the quality of inflation data and trends, especially post-COVID. Lack of granularity in external sector statistics, and large errors and omissions limit data accuracy and narrow the scope for detailed discussion on sources of capital outflows. Limited information on activities of extrabudgetary funds, GLCs, joint ventures and PPPs constrain fiscal risk analysis. Providing further breakdowns and improved classifications for BOP statistics, including through survey data, continuing efforts to broaden the dissemination of IIP data, as well as providing more comprehensive data for extrabudgetary funds, GLCs, joint ventures, and PPPs will help to improve surveillance. The authorities plan to improve the timeliness and granularity of their e-GDDS fiscal and external data submissions. Authorities are working on a survey to improve classification of errors and omissions and receivables/payables in BOP statistics and are planning to update the 2015 CPI consumption basket based on the ongoing household expenditure survey (HES). They are working with Fund support, towards aligning a new set of fiscal charts of accounts (COA) with the GFSM 2014. The Fund is assisting Brunei with GDP rebasing and enhancing national income data quality. Strengthening institutional capacity for timely and consistent macroeconomic statistics remains crucial, including building capacity for climate-related data.

Authorities' Views**35. The authorities agree with the need to enhance data quality and dissemination.**

They took note of newly introduced data provision requirements by the IMF to become effective only from late 2025, and the Data Adequacy Assessment (DAA), for the AIV 2024 Consultation. They shared actionable plans to address existing data gaps identified under the DAA and potential Technical Assistance (TA) needs. These include (i) improving the timeliness and granularity of their e-GDDS fiscal and external data submissions and (ii) aligning a new set of fiscal charts of accounts (COA) with the GFSM 2014, (iii) improving classification of errors and omissions and receivables/payables in BOP statistics, (iv) updating the 2015 CPI consumption basket based on the ongoing household

expenditure survey (HES). They noted progress based on ongoing IMF TA on national accounts, including on resolving gaps in intersectoral consistency.

STAFF APPRAISAL

36. Growth rebounded moderately in 2023. The stronger-than-expected growth turnaround was supported by a new O&G field coming to stream in late 2023, a high interest rate environment and post-pandemic momentum boosting finance, transport, and hospitality. However, persistent O&G production challenges and maintenance related disruptions in downstream activities along with lower O&G prices weakened the fiscal and external positions in 2023. Consequently, the external position for 2023 remained substantially weaker than suggested by fundamentals and desirable policies and the output gap is assessed to be negative. Disinflation continued mainly due to easing supply chain disruptions and the softening of commodity prices, aided by continuing large scale subsidies and price controls.

37. The narrowing output gap, O&G revenue uncertainty and long-term decarbonization trends warrant a prudent fiscal stance, while protecting the vulnerable and public investment. While the use of fiscal buffers in FY 2023/24 was appropriate in view of the cyclical position and to support economic recovery, restoring fiscal buffers through growth-friendly fiscal consolidation should be prioritized going forward. This will require enhanced revenue generation, and could be supported by a low-rate carbon tax, and expenditure rationalization—including via more targeted subsidies. These efforts should be guided by a fiscal consolidation plan with clear fiscal targets. Plans to establish a MTF and fiscal anchors, strengthening fiscal risk management and transparency are welcome.

38. The currency board arrangement with Singapore is sound and has played a key role in supporting Brunei's macroeconomic and financial sector stability. Efforts to improve monetary operations, by including Singapore's interbank transactions in its analysis to understand the influence of Singapore's policy rates since January 2024, and continuing to narrow the corridor by raising the SFDR, integrating I-bills into the Asset Maintenance Ratio and launching a website for better communication on monetary policies, are welcome. Enhancing inter-agency cooperation regarding the issuance and management of sukuks will be helpful. Over the medium-term, the BDCB is encouraged to build internal capacity in liquidity forecasting to calibrate the issuance of the I-bills and consider establishing a single treasury account.

39. The financial sector remained stable with strong capital and liquidity buffers. Systemic risk is assessed to be contained. Careful tracking of credit growth in both offshore and domestic personal loans is warranted, as declining oil prices could pose risks, despite low NPLs. Ensuring that the foreign loans continue to be invested in highly credit-rated assets will help to mitigate credit risk. For domestic lending, continuing to deploy prudential measures like capping the Total Debt Service Ratio, assessing unsecured personal loan exposure, and maintaining NPL standards are welcome measures. Authorities are encouraged to stay on track with plans to implement Basel III standards for better liquidity management by the end-2024. Implementation of stress tests is recommended, while considering stress testing for climate transition and physical risks. Efforts to

further strengthen prudential frameworks, develop a long-term sukuk markets, green taxonomy and unify disclosure standards, and to improve AML/CFT effectiveness will help to deepen markets, and support long-term green projects. The authorities' commitment to continue implementing the recommended actions in the APG's Mutual Evaluation Report is welcome.

40. The authorities' commitment to ambitious and sustained structural reforms will be critical to ensure growth and diversification, including by transitioning to a low-carbon economy.

Reaching the authorities' net zero emissions goal by 2050, will require continued development of the non-O&G sector, including through adoption of green technologies. Continued skill development, while addressing AI-related challenges and closing structural gaps in the first-generation reform areas (external sector trade facilitation, improving business regulation, and governance) vis-à-vis top peers, will be key to facilitate FDI and PPPs. Completing the 2025 National Adaptation Plan and a Climate Vulnerability Assessment should support the prioritization of adaptation strategies.

41. Data provided to the Fund has some shortcomings that somewhat hamper surveillance and data quality should be strengthened.

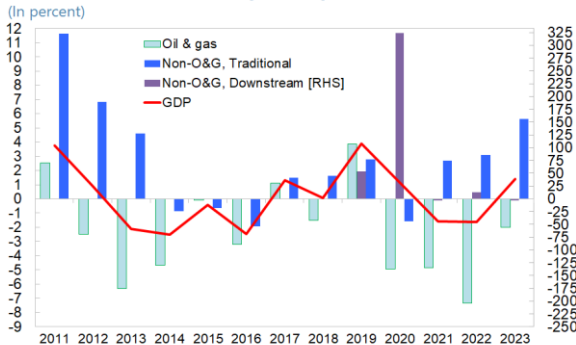
Steps are needed to close the identified data gaps in national income, prices, external and fiscal sectors. Efforts for improving external sector data through a survey to better gauge trends in errors and omissions, and payables/receivables and strengthening public financial management (PFM) to build more transparent and accountable fiscal systems and aligning these further with GFSM (2014) are welcome, as are plans to enhance dissemination via the Fund's e-GDDS portal.

42. It is expected that the next Article IV consultation with Brunei Darussalam will be held on the standard 12-month cycle.

Figure 1. Brunei Darussalam: Real and Fiscal Indicators

GDP recovered moderately in 2023 due to stronger-than-expected growth contribution from the non-O&G sector.

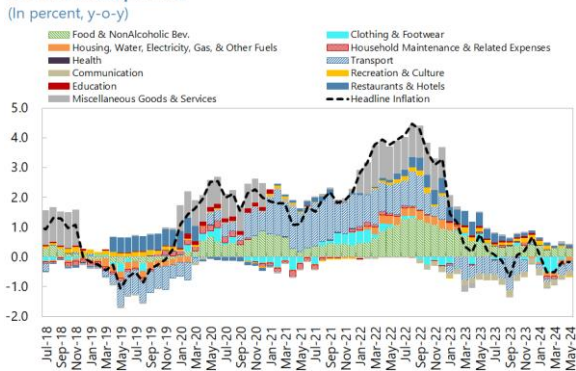
Growth in Real GDP and Major Components



Note: Non-O&G Downstream starts in 2018 and its growth rate start in 2019. Sources: Brunei authorities; and IMF staff estimates.

Disinflation continues reflecting easing of post-pandemic supply chain disruptions and of global commodity prices.

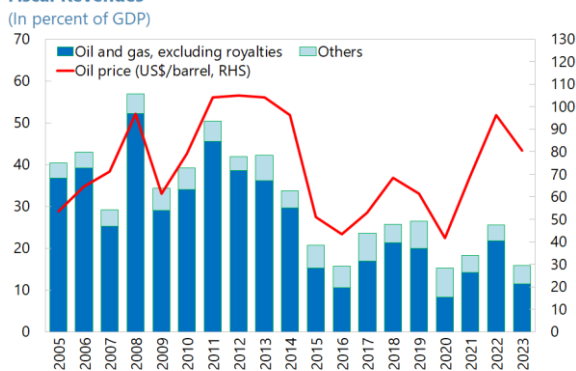
Inflation Decomposition



Sources: Brunei Ministry of Finance and Economy; CEIC Data; and IMF staff calculations.

...owing to sharp reduction in revenues, particularly tax revenues, caused mainly by oil and gas price decline...

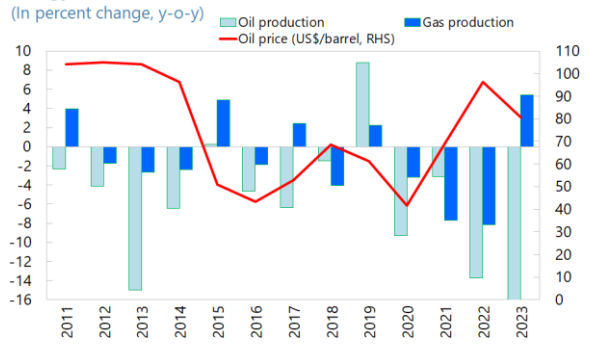
Fiscal Revenues



Sources: Brunei authorities; and IMF staff estimates.

Earlier than expected supply from a new O&G field in Q4 2023 mitigated production losses from previous quarters.

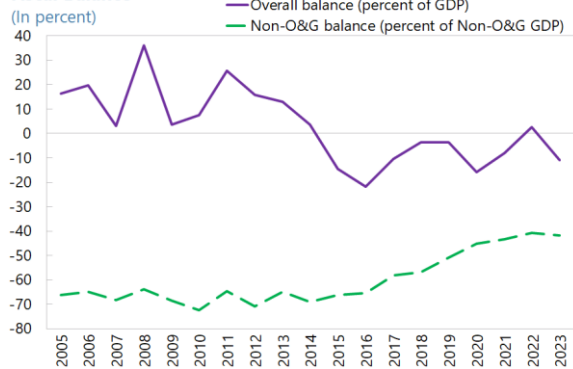
Energy Sector Production and Oil Price



Sources: Brunei authorities; CEIC Data; IMF, *World Economic Outlook*; and IMF staff estimates.

Fiscal balance has deteriorated...

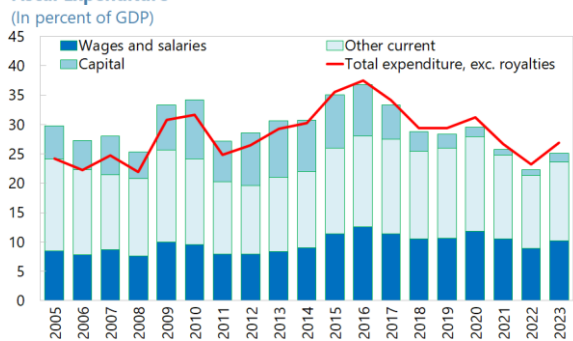
Fiscal Balance



Sources: Brunei authorities; and IMF staff estimates.

...expenditure in nominal terms has been largely stable, but increased slightly in percent of GDP, with a recompositing towards capital spending in line with the budget

Fiscal Expenditure



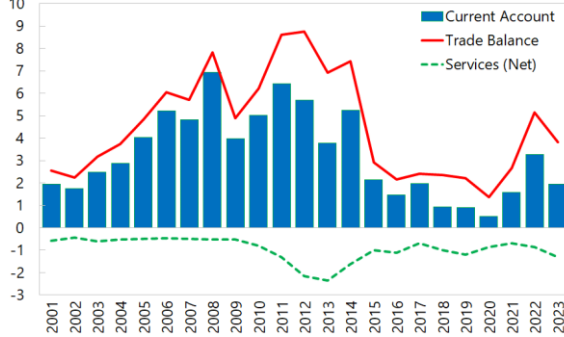
Note: Fiscal deficit is increasing because of lower O&G prices & production, and COVID-19 stimulus enacted by the govt. Sources: Brunei authorities; and IMF staff estimates.

Figure 2. Brunei Darussalam: External and Financial Indicators

The current account balance decreased significantly in 2023 reaching 12.9 percent of GDP...

External Balances

(In billions of U.S. dollars)

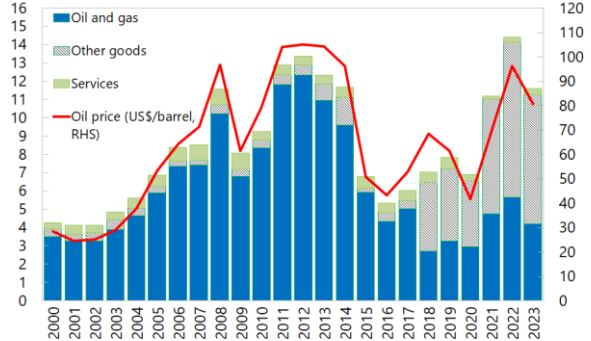


Sources: Brunei authorities; and IMF staff estimates.

... impacted by lower oil and gas (O&G) prices and production delays due to infrastructure maintenance.

Exports Composition

(In billions of U.S. dollars)

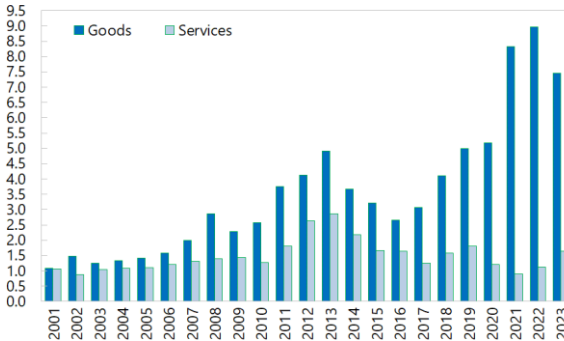


Sources: Brunei authorities; and IMF staff estimates.

Imports also decreased due to the petrochemical manufacturing slowdown and lower feedstock prices.

Import Composition

(In billions of U.S. dollars)

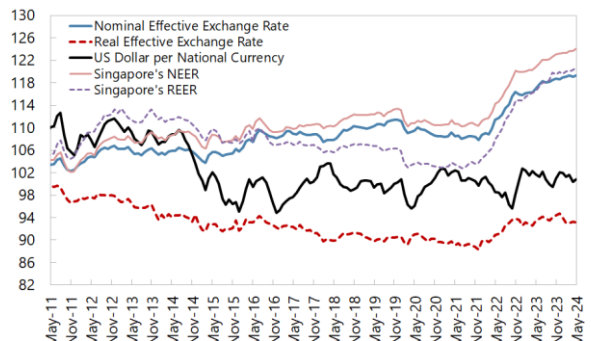


Sources: Brunei authorities; and IMF staff estimates.

Nominal and real effective exchange rates both appreciated slightly in 2023 owing to the appreciation of Singapore's NEER, but REER reflecting lower inflation in Brunei.

Exchange Rates

(In index, 2010=100)

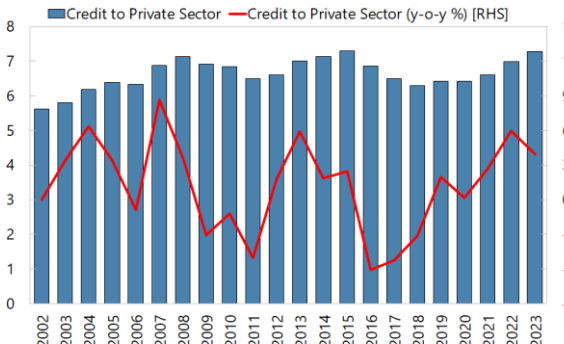


Sources: IMF, International Financial Statistics.

Credit to private sector saw positive growth in 2023...

Credit to Private Sector

(In billions of BND [LHS]; y-o-y percent change [RHS])

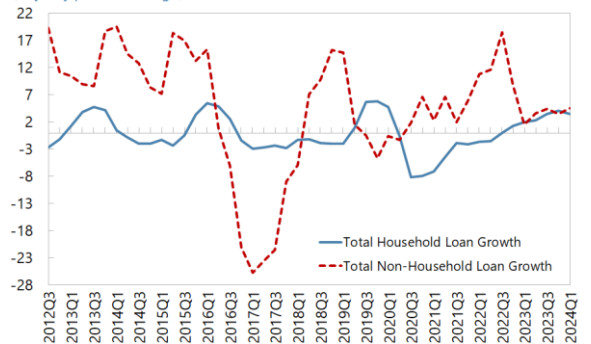


Sources: IMF, International Financial Statistics.

...with the positive loan growth to both households and non-households.

Loan Growth

(In y-o-y percent change)



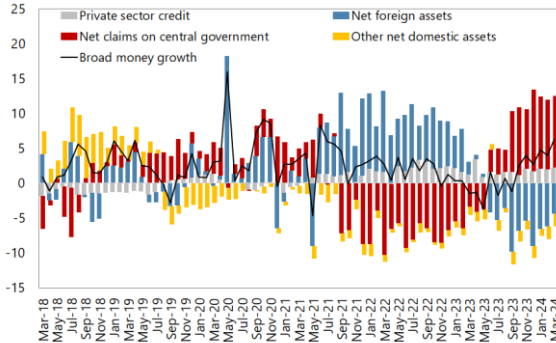
Sources: Brunei Darussalam Central Bank

Figure 3. Brunei Darussalam: Recent Monetary Sector Developments

An increase in net claims on government (partly reflecting deposit withdrawal by government) and offsetting net foreign asset movements have contributed to moderate growth in broad money

Broad Money Growth

(In percent y/y, contribution to broad money growth)

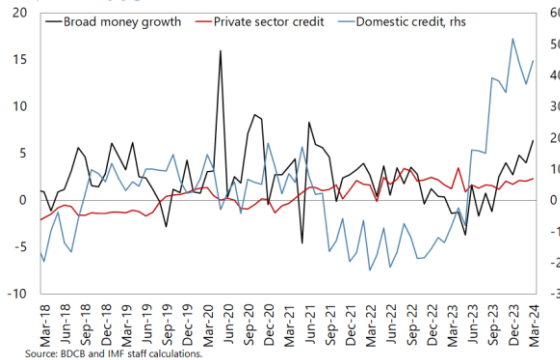


Source: BDCB and IMF staff calculations.

Growth in private sector credit remained relatively stable, while domestic credit (which includes claims to central government net of deposits) fluctuates.

Credit and Money Growth

(In percent of y/y growth)

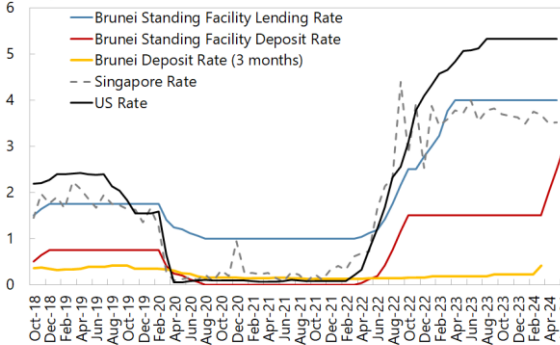


Source: BDCB and IMF staff calculations.

Brunei has raised Standing Facility Lending rates since 2022 in line with rates in Singapore...

Interbank Overnight Interest Rates

(In percent)

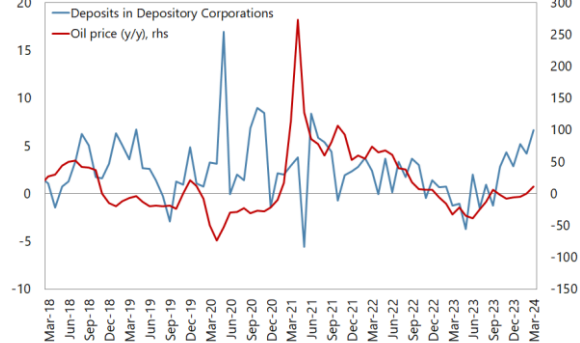


Sources: Haver analytics, and IMF staff calculations.

...while deposits appeared to have moved in tandem with oil price in recent times.

Deposits in Depository Corporations and Oil Price

(In percent of y/y growth)

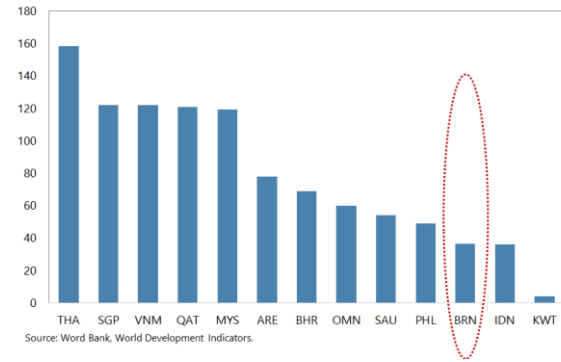


Source: BDCB and IMF staff calculations.

Private sector credit-to-GDP ratio remains lower than peer countries.

Domestic Credit to Private Sector

(In percent of GDP, 2020-22 or latest 3-year average)

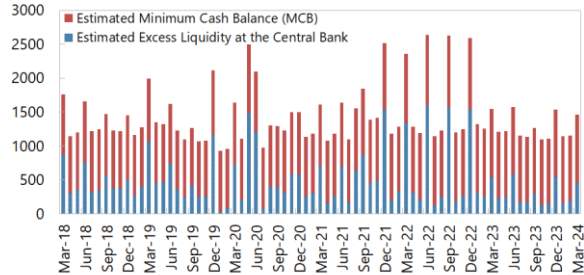


Source: World Bank, World Development Indicators.

...and banks' excess liquidity appeared to have remained volatile in tandem with external interest rate and oil prices.

Banks' Excess liquidity

(In million BND)



Source: BDCB and IMF staff calculations.

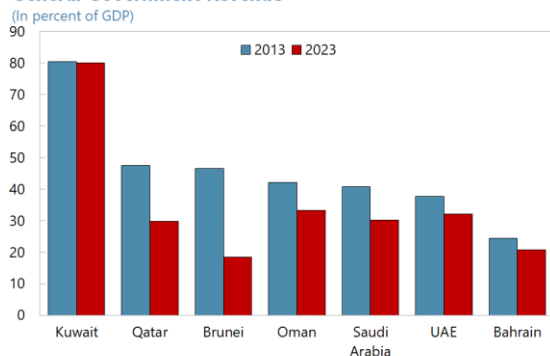
Note: MCB is required reserves at the central bank and the current MCB rate is 6 percent of certain liabilities. The estimated excess liquidity is reserves at the central bank less estimated MCB, which is calculated as 6 percent of total deposits excluding due from domestic banks, implying that the level of the estimated excess liquidity is the lower bound.

Figure 4. Brunei Darussalam: Fiscal Indicators in Comparison with GCC Countries

Brunei's fiscal revenue since 2012 has been on a declining trend due to slowdown in production and weaker O&G prices...

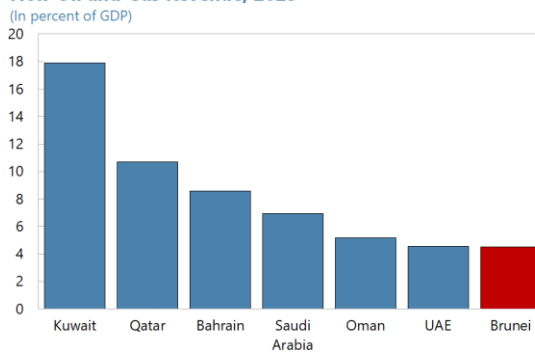
...and relatively shallow non-O&G revenue.

General Government Revenue



Source: IMF, World Economic Outlook.

Non-Oil and Gas Revenue, 2023

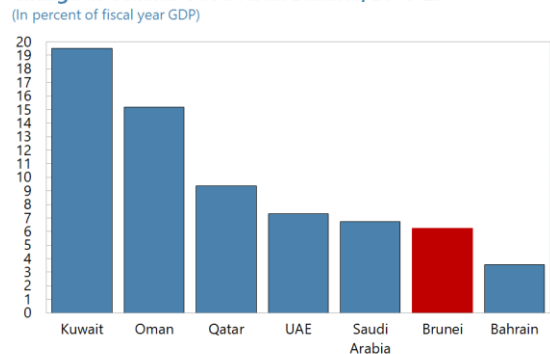


Sources: IMF, Middle East & Central Asia Regional Economic Outlook; and IMF Staff calculations.

Progress in fiscal consolidation is slow...

...More efforts are needed given its relatively modest hydrocarbon generating capacity compared to GCC countries.

Change in General Govt. Fiscal Balance, 2018-23



Source: IMF, World Economic Outlook.

Oil and Gas Production in GCC Countries and Brunei, 2021

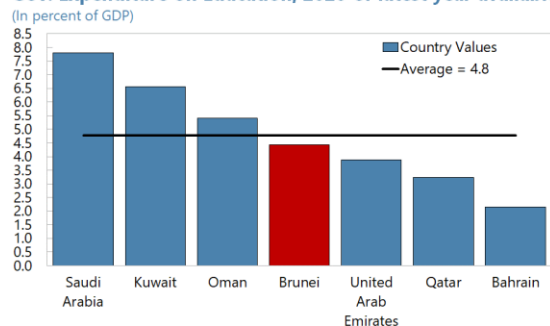
	Oil 1/	Natural gas 2/	Population (Millions)
Saudi Arabia	10,954.0	117.3	35.5
United Arab Emirates	3,668.0	57.0	9.6
Kuwait	2,741.0	17.4	4.7
Qatar	1,746.0	177.0	2.6
Oman	971.0	41.8	4.5
Bahrain		17.2	1.5
Brunei Darussalam	107.0	11.5	0.4

Source: BP Statistical Review of World Energy, 2021; IMF, WEO; International Energy Agency.
1/ In thousands of barrels per day. Includes crude oil, shale oil, oil sands and natural gas
2/ In billion cubic meters.

Brunei's public education expenditures are lagging its peers...

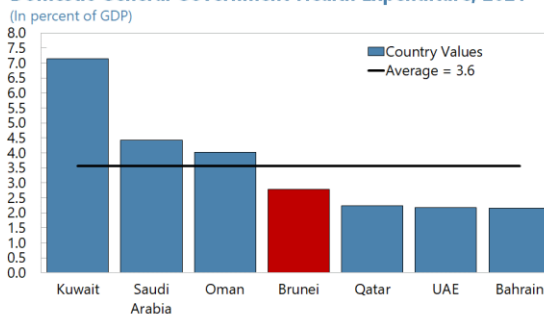
...and the same holds for health expenditures.

Gov. Expenditure on Education, 2020 or latest year available



Note: Data for Oman as of 2019 and Brunei as of 2016.
Sources: World Bank, World Development Indicators; UNESCO Institute for Statistics.

Domestic General Government Health Expenditure, 2021

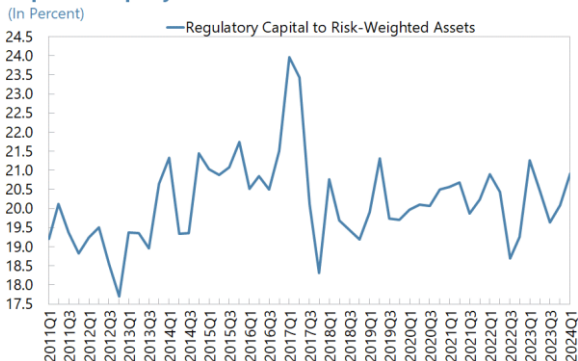


Sources: Global Health Security Index 2021 by Johns Hopkins Center for Health Security, Nuclear Threat Initiative, and the Economist Intelligence Unit; IMF, World Economic Outlook; and IMF staff calculations.

Figure 5. Brunei Darussalam: Financial Stability Indicators

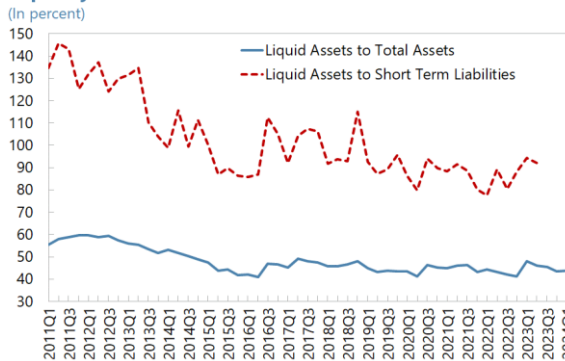
Banks' capital ratio remains well capitalized and significantly above the regulatory minimum ratio...

Capital Adequacy



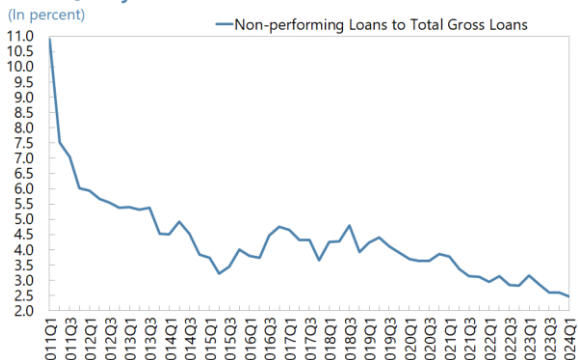
...with ample liquidity even with a declining trend.

Liquidity



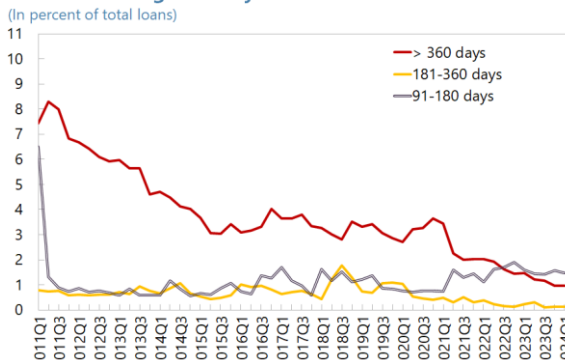
NPL shares have further declined since 2020...

Asset Quality



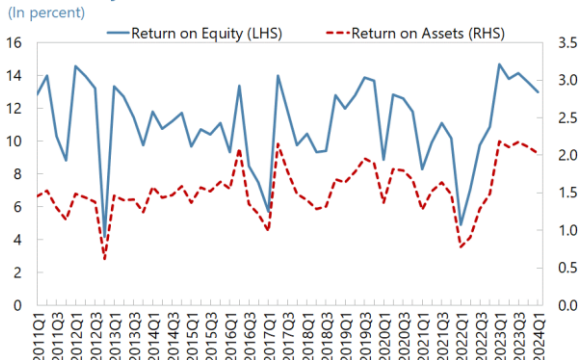
...mostly due to a decrease in NPLs of over 1 year.

Non-Performing Loans by Duration



Banks' profitability remains high and peaked in Q1 2023 reflecting in part the global higher interest rate environment ...

Profitability



...while deposit rates are also picking up since 2022H2.

Deposit Rates

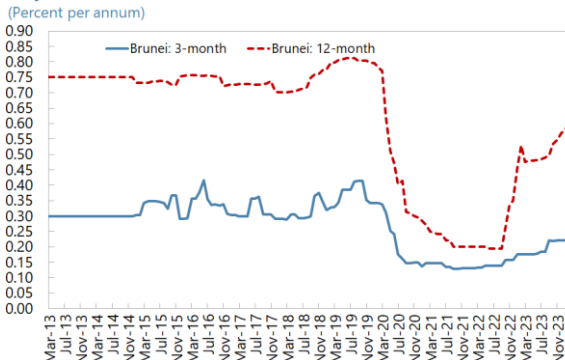
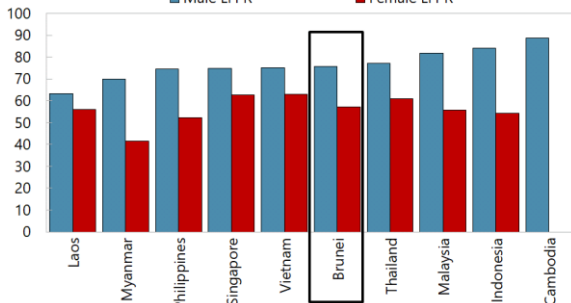


Figure 6. Brunei Darussalam: Labor Market

When compared to other ASEAN peers, Brunei's labor force participation is low for both genders.

Labor Force Participation Rate (LFPR)

(In percent)

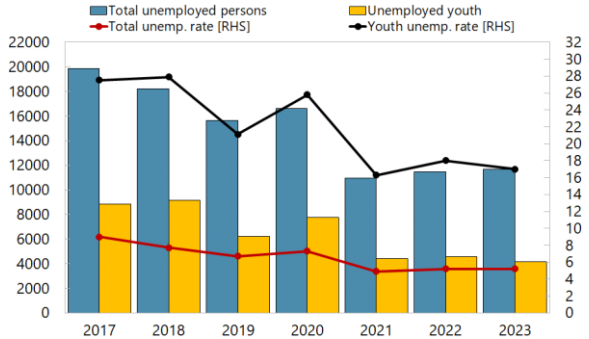


Source: CEIC Data. Note: All are as of 2023 except for Malaysia as of 2022 and Cambodia as of 2021.

Unemployment has increased slightly reflecting cyclical position, skill mismatch and increased labor supply post reopening.

Unemployment

(Unemployed persons [LHS]; Percent [RHS])

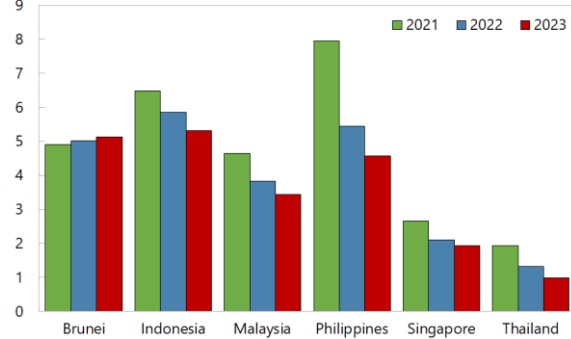


Source: Brunei Dept. of Economic Planning & Statistics.

Unemployment rate is relatively high compared to peers...

Unemployment Rate

(In percent)

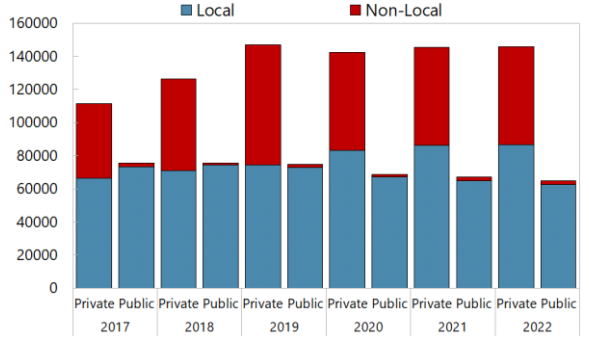


Sources: Brunei Dept. of Planning & Statistics; and CEIC Data.

Private sector employs a large share of foreign workers, but it continues declining following the pandemic...

Employment by Sector and Residence

(Number of persons)

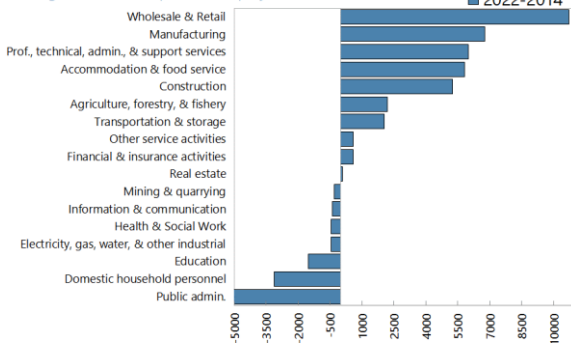


Source: Brunei Dept. of Economic Planning & Statistics.

Employment creation concentrates in lower paying end of the non-tradable sector as well as the downstream sector.

Employment Change by Industry

(Change in number of persons employed)

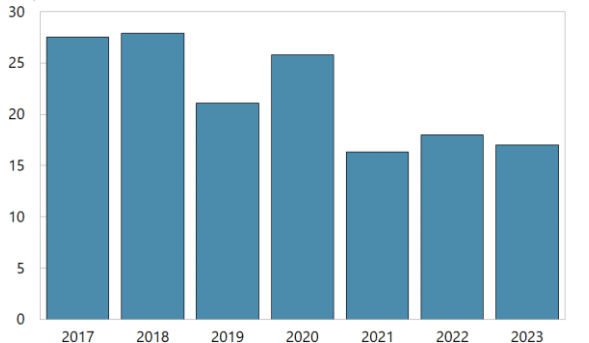


Sources: Brunei Dept. of Economic Planning & Statistics; and Haver Analytics.

Youth unemployment has decreased slightly in 2023 but continues remaining high.

Youth Unemployment

(In percent)



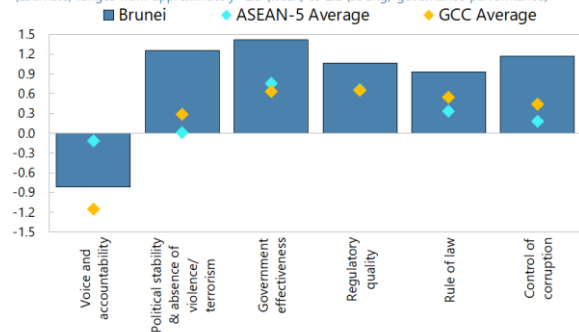
Sources: Brunei Dept. of Planning & Statistics; and Haver Analytics.

Figure 7. Brunei Darussalam: Governance and Competitiveness

On average Brunei outperforms the peers in most of governance indicators

Worldwide Governance Indicators, 2022

(Estimate, ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

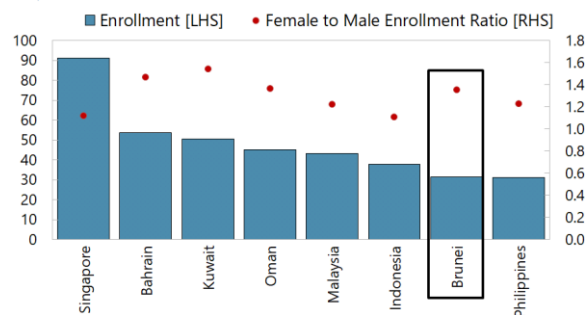


Sources: Worldwide Governance Indicators (WGI): D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank).

The provision of higher education is lagging...

Tertiary Education, 2022 or Latest

(In percent [LHS]; Ratio [RHS])

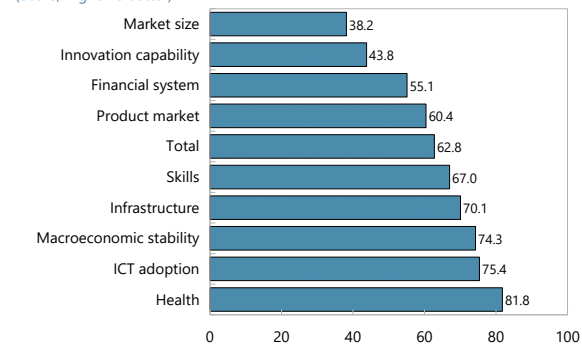


Note: Brunei is as of 2020, Oman, Philippines, and Singapore are as of 2021, and rest are as of 2022.

Limited domestic market size poses a challenge to attracting investment and diversifying industries...

Global Competitiveness Indicators by Category, 2019

(Score; Higher is better)

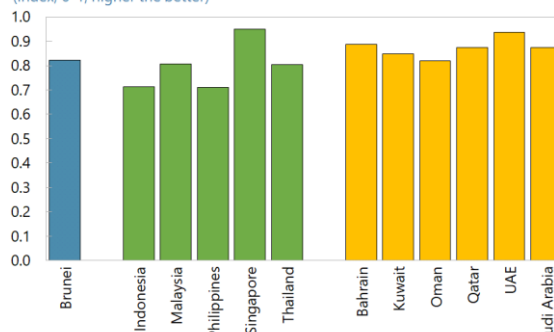


Source: World Economic Forum, Global Competitiveness Report 2019.

...while scores similarly to the comparison groups in human development indicators.

HDI 2022 in Brunei, ASEAN-5, & GCC Countries

(Index; 0-1; higher the better)

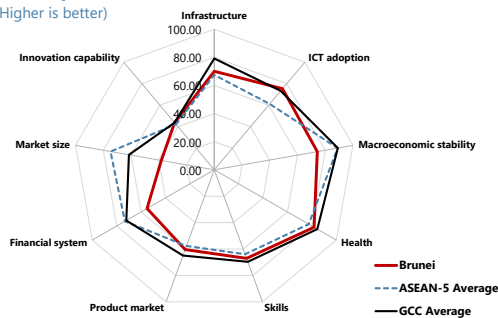


Sources: United Nations Development Programme (UNDP); and Haver Analytics.

...and improved labor force quality, better infrastructure and financial development can help improve competitiveness.

Global Competitiveness Indicators, 2019

(Score; Higher is better)

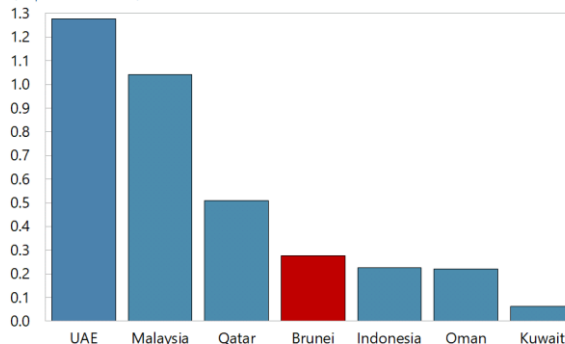


Sources: World Economic Forum, The Global Competitiveness Report 2019, and IMF staff calculations.

...and investments in innovation capacities are also lacking.

R&D Expenditure, 2018

(In percent of GDP)



Source: UNESCO Institute for Statistics.

Table 1. Brunei Darussalam: Selected Economic and Financial Indicators, 2019–29

Area: 5,765 sq. kilometers

Population (2023): 450,500

Nominal GDP per capita (2023): US\$33,581.1

Main export destinations (2023): Australia (21.5 percent), China (16.9), and Singapore (16.7)

Unemployment rate (2023): 5.1%

Labor force participation rate (2023): total 67.2; male 75.8%; female 57.3%

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and Prices											
Nominal GDP (millions of Brunei dollars)	18,375	16,564	18,822	23,003	20,319	20,893	22,197	23,073	24,081	25,153	26,447
Nominal non-oil and gas GDP (millions of Brunei dollars)	8,268	8,868	9,790	11,043	10,883	11,386	12,411	13,620	15,045	16,281	17,717
Real GDP (percentage change) 1/	3.9	1.1	-1.6	-1.6	1.4	2.4	2.6	2.6	2.7	2.9	3.1
Oil and gas sector GDP	3.9	-4.9	-4.8	-7.3	-2.0	2.6	3.1	3.1	1.7	1.1	1.0
Non-oil and gas sector GDP	3.9	8.9	2.0	4.3	4.5	2.1	2.0	2.1	3.5	4.4	4.7
Oil production ('000 barrels/day)	121	110	107	92	74	84	94	94	99	90	90
Natural gas output (millions BTUs/day)	1,402	1,358	1,253	1,151	1,214	1,226	1,201	1,220	1,277	1,313	1,313
Average Brunei oil price (U.S. dollars per barrel)	68.6	43.3	72.1	107.7	87.1	89.5	83.3	79.9	77.0	75.1	73.8
Average Brunei gas price (U.S. dollars per million BTU)	9.1	6.7	9.1	14.4	10.9	8.6	9.9	8.7	7.8	7.4	7.0
Consumer prices (period average, percentage change)	-0.4	1.9	1.7	3.7	0.4	0.5	1.0	1.0	1.0	1.0	1.0
(Fiscal Year, In percent of GDP)											
Public Finances: Budgetary Central Government											
Total revenue	26.4	12.6	24.0	28.3	17.3	19.3	18.9	17.5	16.3	15.5	15.1
Oil and gas	19.8	7.7	20.2	24.5	13.0	13.6	13.4	12.2	11.1	10.1	9.5
Other	6.5	5.0	3.8	3.9	4.3	5.6	5.5	5.3	5.2	5.4	5.6
Total Expenditure	31.9	32.6	29.1	26.7	29.2	29.4	28.6	27.8	26.9	25.9	25.1
Current	29.5	31.3	28.0	25.7	27.4	27.0	26.2	25.4	24.5	23.6	22.8
Capital	2.4	1.3	1.1	1.0	1.8	2.4	2.3	2.3	2.3	2.3	2.3
Overall balance 2/	-5.6	-20.0	-5.1	1.6	-11.8	-10.1	-9.6	-10.2	-10.5	-10.4	-9.9
Overall primary balance excluding royalties	-22.7	-25.8	-22.5	-19.8	-22.6	-21.5	-20.7	-20.2	-19.6	-18.7	-17.7
Non-oil and Gas Balance (In percent of non-oil and gas GDP)	-49.5	-46.1	-44.3	-40.2	-41.8	-39.2	-36.5	-33.7	-31.1	-28.6	-26.1
(12-month percent change)											
Money and Banking											
Private Sector Credit	2.0	0.2	2.7	6.0	3.9	2.0	2.0	2.0	2.0	2.0	2.0
Narrow money	6.6	20.8	6.5	1.2	0.7	3.8	3.8	3.8	3.8	3.8	3.8
Broad money	4.3	-0.4	2.7	1.3	2.7	2.6	2.7	2.7	2.7	2.7	2.7
(In millions of U.S. dollars, unless otherwise indicated)											
Balance of Payments											
Goods	2,211	1,359	2,679	5,153	3,808	3,966	4,264	4,121	3,925	4,013	4,131
Exports	7,210	6,535	11,001	14,130	11,264	11,416	11,987	12,098	12,024	12,390	12,780
Of which: oil and gas	3,244	2,943	4,730	5,660	4,185	3,867	4,387	4,243	3,798	3,668	3,617
Imports	4,999	5,176	8,322	8,977	7,456	7,450	7,723	7,977	8,099	8,377	8,649
Services (net)	-1,189	-855	-696	-848	-1,305	-1,324	-1,271	-1,173	-1,086	-1,029	-989
Primary Income (net)	362	360	90	-370	194	327	226	193	146	119	83
Secondary Income (net)	-490	-350	-502	-671	-749	-641	-687	-692	-673	-684	-683
Current Account Balance	894	514	1,570	3,264	1,949	2,328	2,532	2,448	2,311	2,419	2,541
Current Account Balance (in percent of GDP)	6.6	4.3	11.2	19.6	12.9	15.0	15.5	14.4	13.0	13.0	13.0
Gross Official Reserves 3/	4,273	3,997	4,980	5,035	4,485	4,583	4,682	4,780	4,879	4,977	5,075
In months of next year's imports of goods and services	8.0	5.2	5.9	6.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Brunei dollars per U.S. dollar (period average)	1.36	1.38	1.34	1.38	1.34	...	...	...	...	...	...
Brunei dollar per U.S. dollar (end of period)	1.35	1.34	1.36	1.35	1.33	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Non-oil and gas GDP includes the downstream sector.

2/ In absence of government debt and interest payments, this is also primary balance.

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.

Table 2. Brunei Darussalam: Budgetary Central Government Developments, 2019/20–2029/30 1/

	2019/20	2020/21	2021/22	2022/23	2023/24 Est.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.	2029/30 Proj.
(In millions of Brunei dollars)											
Revenue	4,846	2,051	4,768	6,326	3,532	4,087	4,244	4,091	3,981	3,961	4,037
Tax	2,209	884	1,749	2,384	1,253	1,686	1,833	1,750	1,698	1,662	1,676
Oil and gas	1,858	546	1,404	2,017	883	1,258	1,372	1,270	1,189	1,103	1,062
Other	351	338	346	367	370	428	460	481	510	558	614
Nontax revenue	2,636	1,167	3,018	3,942	2,279	2,401	2,412	2,341	2,282	2,299	2,361
Oil and gas	1,787	697	2,601	3,445	1,767	1,636	1,629	1,574	1,516	1,480	1,482
Other	849	471	417	497	512	765	782	767	767	819	879
Expenditure	5,873	5,292	5,780	5,961	5,946	6,238	6,405	6,476	6,546	6,601	6,682
Current	5,432	5,085	5,569	5,748	5,580	5,734	5,882	5,930	5,976	6,014	6,073
Wages and salaries	1,966	1,969	1,993	2,044	2,085	2,129	2,151	2,172	2,194	2,216	2,238
Other	3,466	3,116	3,576	3,705	3,494	3,605	3,731	3,758	3,782	3,799	3,835
Of which: Royalty payment	506	292	542	677	458	487	527	512	495	469	463
Capital	441	207	211	213	367	504	523	546	570	587	609
Of which: Development expenditure	441	207	211	213	367	504	523	546	570	587	607
Overall balance 2/	-1,027	-3,241	-1,012.7	365	-2,414	-2,151	-2,161	-2,386	-2,565	-2,641	-2,646
Non-oil and gas overall balance	-4,167	-4,191	-4,475	-4,420	-4,606	-4,559	-4,635	-4,717	-4,775	-4,755	-4,727
(In percent of GDP)											
Revenue	26.4	12.6	24.0	28.3	17.3	19.3	18.9	17.5	16.3	15.5	15.1
Tax	12.0	5.4	8.8	10.7	6.1	7.9	8.2	7.5	7.0	6.5	6.3
Oil and gas	10.1	3.4	7.1	9.0	4.3	5.9	6.1	5.4	4.9	4.3	4.0
Other	1.9	2.1	1.7	1.6	1.8	2.0	2.1	2.1	2.1	2.2	2.3
Nontax revenue	14.3	7.2	15.2	17.7	11.2	11.3	10.8	10.0	9.4	9.0	8.9
Oil and gas	9.7	4.3	13.1	15.4	8.7	7.7	7.3	6.7	6.2	5.8	5.6
Other	4.6	2.9	2.1	2.2	2.5	3.6	3.5	3.3	3.1	3.2	3.3
Expenditure	31.9	32.6	29.1	26.7	29.2	29.4	28.6	27.8	26.9	25.9	25.1
Current	29.5	31.3	28.0	25.7	27.4	27.0	26.2	25.4	24.5	23.6	22.8
Wages and salaries	10.7	12.1	10.0	9.2	10.2	10.0	9.6	9.3	9.0	8.7	8.4
Other	18.9	19.2	18.0	16.6	17.1	17.0	16.6	16.1	15.5	14.9	14.4
Of which: Royalty payment	2.8	1.8	2.7	3.0	2.2	2.3	2.4	2.2	2.0	1.8	1.7
Capital	2.4	1.3	1.1	1.0	1.8	2.4	2.3	2.3	2.3	2.3	2.3
Of which: Development expenditure	2.4	1.3	1.1	1.0	1.8	2.4	2.3	2.3	2.3	2.3	2.3
Overall balance 2/	-5.6	-20.0	-5.1	1.6	-11.8	-10.1	-9.6	-10.2	-10.5	-10.4	-9.9
Non-oil and gas overall balance	-22.7	-25.8	-22.5	-19.8	-22.6	-21.5	-20.7	-20.2	-19.6	-18.7	-17.7
in percent of non-oil and gas GDP	-49.5	-46.1	-44.3	-40.2	-41.8	-39.2	-36.5	-33.7	-31.1	-28.6	-26.1
Memorandum items:											
Nominal GDP (in millions of Brunei dollars)	18,385	16,241	19,867	22,332	20,391	21,219	22,416	23,325	24,349	25,477	26,657
Non-oil and gas GDP (in millions of Brunei dollars)	8,418	9,098	10,103	11,003	11,027	11,642	12,713	13,976	15,354	16,640	18,108

Sources: Data provided by the Brunei authorities, and Fund staff estimates and projections.

1/ GFSM 1986 Presentation (cash-based); fiscal year ends March 31.

2/ In absence of government debt and interest payments, this is also primary balance.

Table 3. Brunei Darussalam: Balance of Payments, 2019–29 1/

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of U.S. dollars; unless otherwise indicated)												
Current account	940	894	514	1,570	3,264	1,949	2,328	2,532	2,448	2,311	2,419	2,541
In percent of GDP	6.9	6.6	4.3	11.2	19.6	12.9	15.0	15.5	14.4	13.0	13.0	13.0
Goods	2,365	2,211	1,359	2,679	5,153	3,808	3,966	4,264	4,121	3,925	4,013	4,131
Exports	6,471	7,210	6,535	11,001	14,130	11,264	11,416	11,987	12,098	12,024	12,390	12,780
Oil and gas	2,691	3,244	2,943	4,730	5,660	4,185	3,867	4,387	4,243	3,798	3,668	3,617
Other 2/	3,780	3,966	3,592	6,271	8,469	7,079	7,548	7,600	7,855	8,227	8,722	9,164
Imports	4,106	4,999	5,176	8,322	8,977	7,456	7,450	7,723	7,977	8,099	8,377	8,649
Services	-1,005	-1,189	-855	-696	-848	-1,305	-1,324	-1,271	-1,173	-1,086	-1,029	-989
Receipts	570	618	351	200	282	341	353	384	425	471	508	547
Payments	1,576	1,806	1,206	897	1,130	1,646	1,677	1,655	1,599	1,558	1,537	1,536
Primary income	87	362	360	90	-370	194	327	226	193	146	119	83
Receipts	999	1,028	919	959	549	960	1,043	943	866	825	812	802
Payments	912	666	560	869	919	765	716	717	673	679	693	720
Secondary income	-506	-490	-350	-502	-671	-749	-641	-687	-692	-673	-684	-683
Receipts	32	46	47	66	49	58	58	55	57	56	56	56
Payments	538	536	396	569	720	806	698	741	749	729	740	739
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account												
Net lending (+) / net borrowing (-)	52	-405	244	-119	2,386	1,846	2,229	2,434	2,350	2,213	2,320	2,443
Net acquisition of financial assets	717	1,684	632	-19	1,324	1,103	1,941	2,016	1,988	1,887	2,015	2,187
Net incurrence of liabilities	665	2,090	388	100	-1,063	-743	-288	-418	-361	-326	-305	-256
Direct investment												
of which: Direct investment abroad	0	0	0	0	0	0	0	0	0	0	0	0
of which: Direct investment in Brunei	516	373	566	205	-292	-51	245	274	299	328	359	397
Portfolio investment												
of which: Portfolio investment assets	-1436	1400	1161	-237	456	-271	971	595	436	311	468	549
Other investment 2/												
of which: Other investment assets	2,153	284	-528	218	868	1,374	970	1,421	1,552	1,576	1,547	1,638
of which: Other investment liabilities	148	1,716	-177	-105	-770	-692	-534	-691	-660	-654	-664	-653
Errors and omissions	-898	-538	-715	-597	-800	-803	0	0	0	0	0	0
Reserve assets	-10	761	-446	1,092	77	-700	98	98	98	98	98	98
Gross official reserves 3/	3,407	4,273	3,997	4,980	5,035	4,485	4,583	4,682	4,780	4,879	4,977	5,075
In months of next year's imports of goods and services	6.0	8.0	5.2	5.9	6.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Memorandum items:												
Exchange rates												
Brunei dollars per U.S. dollar (period average)	1.35	1.36	1.38	1.34	1.38	1.34	...	...	...	...	...	...
Nominal GDP (in millions of U.S. dollars)	13,567	13,469	12,006	14,006	16,682	15,128	15,469	16,359	17,015	17,757	18,546	19,503

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Reflects BPM6 presentation adopted by the authorities. Includes official revisions in March 2014, which improved data coverage and methodology, but lack of comprehensive balance of payments data remains.

2/ Includes changes in banks' foreign assets and liabilities

3/ Comprises foreign exchange assets of Brunei Darussalam Central Bank, SDR holdings, and reserve position in the Fund.

Table 4. Brunei Darussalam: Monetary Developments, 2019–29

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of Brunei dollars, end of period)												
Central Bank Survey												
External assets (net) 1/	4,012	4,918	4,488	5,449	5,542	4,127	4,462	4,554	4,708	4,831	4,970	5,100
Foreign exchange holdings	3,917	4,998	4,483	5,390	5,476	4,581	4,813	4,950	5,082	5,216	5,349	5,482
Other assets	63	19	-14	65	17	23	35	25	27	29	27	28
Currency issued	1,249	1,228	1,358	1,431	1,422	1,363	1,389	1,426	1,441	1,443	1,447	1,465
Reserve money excluding currency outside ODCs	1,705	2,371	1,792	2,737	2,815	1,440	1,750	1,794	1,912	1,997	2,092	2,181
Other liabilities	1,235	1,513	1,499	1,510	1,489	1,489	1,489	1,489	1,489	1,489	1,489	1,489
Depository Corporations Survey												
Foreign assets (net)	13,600	14,325	13,317	15,026	16,047	14,153	14,487	15,175	15,947	16,770	17,559	18,430
Net claims on government	-1,871	-1,619	-585	-1,940	-3,016	-782	-782	-782	-782	-782	-782	-782
Claims on nonfinancial public sector	575	483	411	361	253	305	319	348	382	422	456	496
Claims on private sector	6,296	6,420	6,430	6,604	6,998	7,179	7,323	7,469	7,618	7,771	7,926	8,085
Claims on other financial corporations	72	-97	-96	22	21	18	21	22	22	24	25	26
Capital accounts	3,416	3,728	3,936	3,989	3,958	4,263	4,460	4,862	5,335	5,893	6,377	6,940
Other items (net)	-314	-78	-1	-60	-68	60	-23	-11	9	-8	-3	-1
Broad money	3,190	3,505	4,320	15,920	16,119	16,495	16,931	17,381	17,844	18,320	18,811	19,316
Money	10,656	11,009	9,997	5,861	5,934	5,947	6,173	6,407	6,651	6,903	7,166	7,438
<i>Of which: currency outside depository corps</i>	10,656	11,009	9,997	1,267	1,256	1,221	1,258	1,296	1,334	1,374	1,416	1,458
Quasi-money	0	0	0	10,058	10,185	10,547	10,758	10,974	11,193	11,417	11,645	11,878
(12-month percent change)												
Depository Corporations Survey												
Foreign assets (net)	2.6	5.3	-7.0	12.8	6.8	-11.8	2.4	4.7	5.1	5.2	4.7	5.0
Claims on private sector	-3.1	2.0	0.2	2.7	6.0	2.6	2.0	2.0	2.0	2.0	2.0	2.0
Memorandum items:												
Central bank net external asset ratio 2/	3.1	4.1	3.3	3.9	3.9	3.4	3.4	3.4	3.5	3.6	3.7	3.7
Brunei dollars per U.S. dollar (end of period)	1.37	1.35	1.34	1.36	1.35	1.33	...	...	...	...	...	...

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ Comprises central bank's foreign exchange assets, SDR holdings, and reserve position in the Fund.

2/ Ratio of foreign exchange holding to currency.

Table 5. Brunei Darussalam: Financial Soundness Indicators, 2018–23 1/

(In percent)

	2018	2019	2020	2021	2022	2023
Capital Adequacy						
Regulatory capital to risk-weighted assets	18.9	20.5	21.2	21.8	20.6	21.1
Tier 1 capital to risk weighted assets	19.3	20.9	21.5	22.1	20.9	21.4
NPL net of provisions to capital	7.8	6.5	6.1	4.9	5.5	4.4
Assets Quality						
NPL to total loans	5.7	4.7	4.7	3.6	3.3	2.6
NPL net of provisions to total loans	2.9	2.4	2.4	1.9	2.1	1.6
Provision coverage (specific provisions to total NPLs)	49.5	48.1	48.2	47.1	37.8	37.2
Profitability (Annualized)						
Return on assets (before tax)	1.5	1.8	1.5	1.3	1.3	2.1
Return on equity (after tax)	11.2	12.6	10.5	8.9	9.3	13.7
Non-interest expense to gross income (efficiency ratio)	48.9	47.2	50.7	57.1	56.7	46.0
Net Interest/Profit Margin to Gross Income	77.7	73.4	71.5	67.9	80.2	82.3
Liquidity						
Liquid assets to total assets	51.7	46.5	48.3	45.5	43.7	43.6
Liquid assets to total deposits	61.8	55.2	60.3	54.1	51.8	53.2
Liquid assets to demand and Savings deposits (nonbank customers)	126.0	102.9	95.9	84.0	94.9	91.9
Loans to deposits ratio	35.7	37.2	39.7	37.3	36.5	43.7

Source: BDCB.

1/ Data excludes finance companies, which is classified as depository corporations. Numbers are for Q4 of each year.

Table 6. Brunei Darussalam: Indicators of Vulnerability, 2019–29

	2019	2020	2021	2022	2023	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Financial sector indicators 1/											
Broad money (M2, percent change, y/y)	4.3	-0.4	2.7	1.3	2.7	2.6	2.7	2.7	2.7	2.7	2.7
Private sector credit (percent change, y/y)	2.0	0.2	2.7	6.0	3.9	2.0	2.0	2.0	2.0	2.0	2.0
NPL to total loans	3.9	3.9	3.1	2.8	...	...	...	...	...	...	...
NPL net of provisions to capital	6.4	5.9	5.4	5.8	...	...	...	...	...	...	...
Regulatory capital to risk-weighted assets	20.5	21.2	21.8	20.6	21.1	...	...	...	...	...	...
External indicators											
Exports of goods and services (percent change, in U.S. dollars)	11.2	-12.0	62.7	28.7	-19.5	1.4	5.1	1.2	-0.2	3.2	3.3
Imports of goods and services (percent change, in U.S. dollars)	19.8	-6.2	44.4	9.6	-9.9	0.3	2.7	2.1	0.9	2.7	2.7
Current account balance (in millions of U.S. dollars)	894	514	1,570	3,264	1,948	2,328	2,532	2,448	2,311	2,419	2,541
(In percent of GDP)	6.6	4.3	11.2	19.6	12.9	15.0	15.5	14.4	13.0	13.0	13.0
Gross official reserves (in millions of U.S. dollars)	4,273	3,997	4,980	5,035	4,485	4,583	4,682	4,780	4,879	4,977	5,075
(In months of next year's imports of goods and services)	8.0	5.2	5.9	6.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9

Sources: Data provided by the Brunei authorities; and Fund staff estimates and projections.

1/ The calculation of Financial Soundness Indicators is based on the IMF's *Financial Soundness Indicators: Compilation Guide*.

Annex I. External Sector Assessment¹

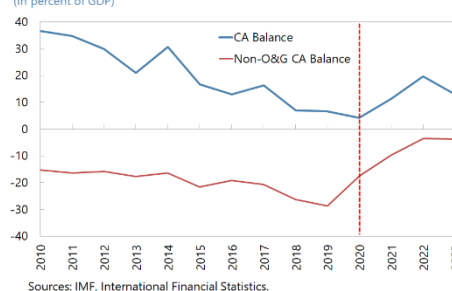
Overall Assessment: The external position of Brunei in 2023 is estimated to remain substantially weaker than the level implied by fundamentals and desirable policies. The current account surplus in 2023 decreased significantly relative to 2022 owing to the decline in O&G prices and higher service imports. The current account balance is projected to improve in 2024 as net income outflows are expected to decline and non-oil and gas (non-O&G) exports are expected to increase slightly. Over the medium term, the CA surplus is expected to stabilize at around 13 percent of GDP as downstream activities mature and, and fiscal consolidation in non-O&G balances keep pace. Substantial international and fiscal reserves offer protection against external shocks, and the currency peg to the Singapore dollar continues to be a suitable and reliable nominal anchor.

Current Account

Background. The current account surplus had been on a secular decline until 2020 following the downward trajectory of oil and gas (O&G) production. The CA surplus has increased after 2020 owing to the commodity price increases and the shrinkage of a deficit in non-O&G CA balance after the launch of the oil refineries and petrochemical operations in November 2019 amid the decline in O&G production due to the prolonged O&G production disruptions during the pandemic (2020) and maintenance delays.

In 2023, the current account surplus reached 12.9¹ percent of GDP, a substantial decline from 19.6 percent of GDP in 2022. Exports of crude oil and LNG decreased by 24 percent y/y in 2023, mainly due to the decreases in O&G prices. Also, the exports of O&G downstream products decreased by 23 percent in 2023, resulting from the closures due to maintenance activities of the oil refineries and petrochemical' downstream activities. In tandem with the exports, the value of imports declined by 21 percent in 2023. The largest contributor to the decline was the imported mineral fuels and chemicals mainly to provide feedstock for the O&G downstream sector and the oil refineries and petrochemical' production, which constitutes 70 percent of total imports in 2023 and decreased by 24 percent y/y. Service imports have increased by 54 percent y/y mainly driven by rebound in tourism for Bruneians travelling abroad post-COVID period. The current account balance is projected to improve in 2024 as net outflows in income account will decline and non-O&G exports increase slightly. Over the medium term, the CA surplus is expected to stabilize at around 13.0 percent of GDP as exports products diversify.

Current Account Balance
(In percent of GDP)

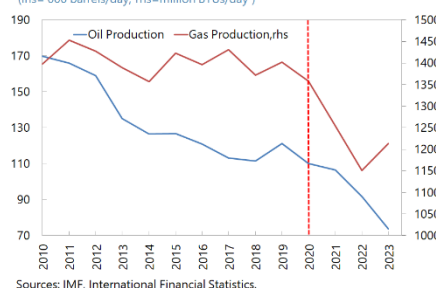


Brunei Darussalam: EBA-lite Model Results, 2023

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	12.9	
Cyclical contributions (from model) (-)	0.7	
Adjusted CA	12.2	
CA Norm (from model) 2/	20.0	
CA Gap	-7.7	-0.8
o/w Relative policy gap	7.9	
Elasticity	-0.4	-0.4
REER Gap (in percent)	18.6	1.9

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Oil and Gas Production
(lhs='000 barrels/day, rhs=million BTUs/day)



¹ IMF staff projection based on International Merchandise Trade Statistics as of Dec 2023.

¹ Prepared by Shohhei Kawase and Ganchimeg Ganpurev.

Current Account

Assessment. The EBA-Lite 3.0 model estimates an adjusted current account balance of 12.2 percent of GDP in 2023, considering adjustments for the cyclical contributions.² The current account norm is 20.0 percent of GDP.³ This implies that the estimated current account gap was -7.7 percent of GDP and the adjusted current account balance was substantially weaker than the level implied by underlying fundamentals, based on the *macro balance approach*.

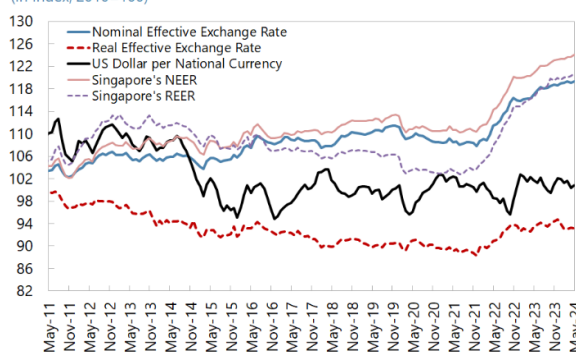
While the estimated CA gap is subject to considerable uncertainties, the assessment is in line with the need for growth friendly fiscal consolidation, based on a non-O&G fiscal balance anchor, to support economic diversification and greening.

Real Exchange Rate

Background. The real effective exchange rate (REER) has appreciated since 2022 after the trend decline in previous years. This is largely driven by appreciation in Singapore's nominal effective exchange rate (NEER) since the Bruneian dollar is pegged to the Singapore dollar, while adjusting for a lower inflation rate.

Assessment. The REER model indicates a REER gap of 1.9 percent which implies a CA gap of -0.8 percent of GDP in 2023 (see table – EBA-lite model results, above). Maintaining the peg to the Singapore dollar is fitting, as it offers a dependable nominal anchor for economic and financial stability. Brunei's fund managers can take advantage of Singapore's extensive financial markets due to currency board agreement, as Brunei's surplus liquidity is mostly channeled into Singapore dollar assets. The peg also helps to anchor inflation expectations. Moreover, it aids diversification efforts by attracting foreign direct investment, in addition to promoting price stability.

Exchange Rates
(In index, 2010=100)



Sources: IMF, *International Financial Statistics*.

Capital Flows

Background. Capital inflows into Brunei had been driven primarily by FDI flows, which saw a significant rise between 2017 and 2020 with large FDI inflows supporting the O&G downstream oil refineries and petrochemical project. The FDI inflow (net) became negative in 2022 and 2023 partly due to redemptions of FDI-related debt instruments after the start of projects' operation.

The baseline outlook for FDI is modest. But the downstream sector is expected to grow further and the anticipated new FDI project of the oil refineries and petrochemical industries can contribute to a small and

² An adjustment to the current account balance is applied to compare with the level of the current account balance estimated based on underlying fundamentals and desirable policies. It addresses cyclical contributions from output gap and terms of trade. It does not include temporal effects from natural disasters and conflicts consistent with Brunei's low level of INFORM Risk Index (2024) in Hazard and Exposure for Nature.

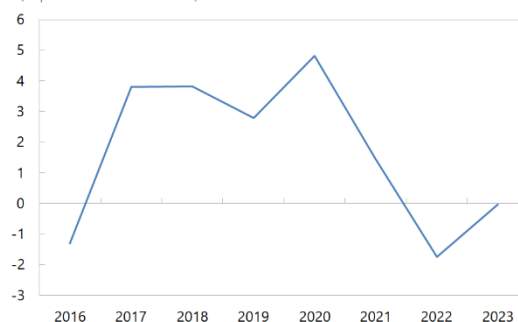
³ The EBA-Lite methodology uses regression analysis to predict the equilibrium current account level consistent with a range of structural and policy factors.

Capital Flows

gradual increase in Brunei's FDI inflows in the medium term. Capital outflows reflect to a large extent domestic banks' holdings of foreign assets, including the excess liquidity placed abroad.

Assessment. Domestic banks' large holding of foreign assets, mainly in Singapore, is a risk and authorities' monitoring on the exposure and impact through forward looking liquidity and interest rate risk stress tests is important. The currency board arrangement with the Singapore dollar is a mitigating factor. Additionally, since 2019 supervisors have been engaging in more risk-based supervision, alongside initiation of macro stress tests for the banking sector. Domestic systemically important banks (D-SIBs) were designated in 2020, subject to additional policy measures like Higher Loss Absorbency (HLA) capital requirements since 2023. Plans are underway to implement Basel III liquidity standards and other framework elements in phases by 2024.

FDI Inflows
(in percent of nominal GDP)



Sources: Brunei authorities; and IMF staff estimates.

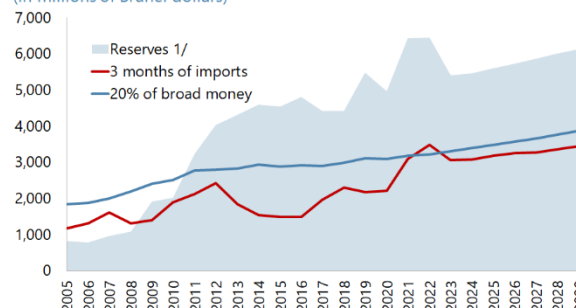
FX Intervention and Reserves Level

Background. Brunei's international reserves (excluding gold) in 2023 was estimated at USD 4.1 billion, the equivalent to 5.4 months of imports and 33 percent of broad money. In addition, the level of reserves was around 185 percent of the Fund's composite metric, which exceeds the recommended 100–150 percent adequacy range.

Net lending in the financial accounts, reflecting a decrease in net FDI inflows, increased banks' offshore loans in search for yield, funded in part by a drawdown of their unremunerated excess reserve holding in the central banks contributed to a modest decline in international reserves, along with factors like lower oil prices.

Assessment. Official reserve level remains adequate and in line with sustaining the currency board arrangement with Singapore.^{4,5} In addition, the reserves are complemented by large sovereign wealth fund assets. Brunei's reserve coverage is in line with other countries that heavily rely on O&G exports.

Brunei Darussalam: Reserves Adequacy 1/, 2005–2029
(In millions of Brunei dollars)



Sources: Brunei authorities; and IMF staff estimates. Note: 1/ Official Reserve Assets excluding gold.

⁴ The currency board arrangement between Singapore and Brunei remains sound. The central bank (BDCB) is strictly adhering to the coverage of all issued liabilities in Brunei dollars (BND) by foreign currency. In addition, to the external required back-up ratio set as the Currency Fund over the Currency in Circulation (CIC), on a monthly basis, the BDCB compiles and monitors a more conservative internal ratio defined as the Total External Assets over the Monetary Base. The absence of monetary financing also safeguards the currency board.

⁵ The central bank offers the possibility to convert BND and SGD at par through the standing funding window in BND.

Annex II. Risk Assessment Matrix¹

	Risks	Likelihood	Expected Impact	Policy Response
External	Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium Supply-chain disruption due to regional conflicts increases import prices and inflation. But higher energy prices improve fiscal and external balances.	<ul style="list-style-type: none"> Expand fiscal reserves along with continuous fiscal consolidation, Accelerate food production, and support vulnerable households through cash transfers while allowing for international prices to pass through to domestic consumers.
	Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	Medium	Medium Fiscal and external balances are negatively affected by lower external demand and fuel prices. FDI inflow is reduced.	<ul style="list-style-type: none"> Accelerate the diversification of export products, Improve business climate to attract foreign investments, Provide targeted and temporary financial and fiscal support to firms and households.
	Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	High High energy prices improve fiscal and external balances with positive effects on domestic demand. Surging food prices heighten inflation and put a strain on the vulnerable household.	<ul style="list-style-type: none"> Expand fiscal reserves along with continuous fiscal consolidation, Accelerate food production, and support needy households.
	Deepening geo-economic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Medium Supply disruptions and weaker confidence can undermine investment, but potentially increase commodity prices depending on the degree of fragmentation.	<ul style="list-style-type: none"> Build fiscal buffers with fiscal consolidation that provides strong protections to those in needs. Increase public investment to promote economic diversification.
	Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium Inflationary pressure from high food prices. Disruptions in economic activities and physical damages to infrastructure. Increased spending for recovery.	<ul style="list-style-type: none"> Accelerate food production, and support needy households.
	Disorderly energy transition. A disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	Medium Sudden drop of energy prices deteriorates fiscal and external balances.	<ul style="list-style-type: none"> Expand fiscal reserves along with continuous fiscal consolidation, Accelerate the economic diversification, Implement energy transition based on a well-planned scenario

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

	Risks	Likelihood	Expected Impact	Policy Response
Domestic	Unexpected variations in energy production. Oil and gas production changes by speed of maintenance works and rejuvenation programs, execution of new projects as well as exploration and excavation results.	Medium	High Declined (Increased) production lowers (augments) fiscal revenues, and exports.	<ul style="list-style-type: none"> Diversify the economy and secure revenue from Non-O&G sector. Refrain from procyclical fiscal policy and build additional fiscal reserves, Strengthen contingency planning.
	Accelerated productivity improvement. Structural reform implementation and technological advancement including artificial intelligence.	Medium	Medium Stronger growth and diversification momentum by productivity boost. AI adoption leads to economic and social challenges via employment channel.	<ul style="list-style-type: none"> Accelerate the economic diversification, Attract more FDI by improving business environment. Decrease low-skilled jobs

Annex III. Status of Staff Advice in 2023 Article IV Consultation

Staff Advice	Policy Actions
<i>Fiscal Policy</i>	
<p>Maintain fiscal support in the near term while resume growth-friendly consolidation for the longer term by rationalizing wage bill and pensions, targeting subsidies, accelerating revenue mobilization, including through carbon pricing, and promoting corporatization and privatization with strengthened fiscal frameworks and improved public financial management, including with efficiency consideration for climate friendly issues.</p>	<p>The government has continued fiscal support by expanding fiscal deficits and increased development expenditure, particularly in the Security and Public Utilities sectors, after its continuous reduction from FY 2012/13. However, more efforts are needed as no major changes in tax and subsidy measures have been announced and the corporatization/privatization efforts are still delayed. The authorities have requested a high-level seminar on fiscal framework and a week-long workshop covering carbon pricing using FAD's CPAT module.</p>
<i>Financial Sector Policies</i>	
<p>Further development of the financial sector while strengthening risk-based regulatory, supervision and macroprudential framework to safeguard financial stability. Deepen the implementation of macro-stress testing TA recommendations and explore/prepare data inventory for climate exposure for physical and transition risks.</p> <p>Strengthening AML/CFT framework to safeguard financial system integrity.</p>	<p>The authorities welcomed the recommendations of 2023 IMFTA on strengthening liquidity management, liquidity forecasting, and interbank market development and agreed with the importance to enhance monetary transmission. They plan to implement the liquidity standard of Basel III agreement between 2023 and 2024 and other Basel III framework in a phased way. The authorities also indicated that several measures are in progress for developing a secondary market of government sukus and I-bills, encouraging the issuance of corporate bonds/sukus, and establishing a stock exchange. In line with the Brunei Darussalam Central Bank's (BDCB) commitment to manage and mitigate systemic risks in the financial sector, identified Domestic Systemically Important Banks (D-SIBs) for 2023 have been subjected to additional policy measures, such as Higher Loss Absorbency (HLA) capital requirements to further enhance their resilience.</p> <p>Two laws were amended in 2022, namely the Anti-Terrorism Order and Anti-Terrorism (Terrorist Financing) Regulations and the Criminal Asset Recovery Order. The BDCB also introduced provisions requiring oversight of virtual assets through amendments to the Money Changing and Remittance Business Act and Notice on Requirements for Payment Systems and issuance of new Guidelines on Offering Trading of Security Tokens, in line with the Financial Action Task Force's (FATF) Recommendation 15, as determined by the Asia Pacific Group on Money Laundering (APG) Mutual Evaluation.</p>
<i>Structural Policies</i>	
<p>Further diversify the economy and raise growth potential by developing human capital and accelerating digitalization while enhancing Public-Private Partnerships (PPPs).</p>	<p>The government launched 12th National Development Plan (RKN 12) with a five-year allocation of \$4 billion for the period 2024-29. Under RKN 12, several projects for digitalization (digitalizing housing applications and payments, digital transformation in government, Smart Transport System, etc.), diversification (tourism development, Livestock Industry Development, agriculture and aquaculture improvement, etc.), and human capital development (National Education Management System, building education facilities, Miftaahun Najaah Scheme for underprivileged students, etc.) are included. The government also marked another milestone for its economic diversification in the downstream sector by signing an Implementation Agreement for the Phase 2 Development</p>

Staff Advice	Policy Actions
<i>Structural Policies</i>	
Energy transition and policies for transforming to a low-carbon economy.	Project of Hengyi Industries in November 2023. Progress with Public-Private Partnerships (PPPs) have been slow. The authorities have completed a pilot for hydrogen fuel. The authorities are laying the groundwork for a voluntary carbon market.
<i>Data Issues</i>	
Improve data compilation and reporting	The authorities maintain their commitment of publishing the National Summary Data Page (NSDP) on a regular basis in addition to adhering to the IMF's enhanced general data dissemination systems (e-GDDS). To further enhance their data quality, the authorities have requested IMF TA on National Account Assessment scheduled to take place in May 2024. Brunei's Department of Economics Planning and Statistics has started to release "Advance Release Calendar" in 2024.

Annex IV. Data Issues

Annex IV. Table 1. Brunei Darussalam: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	D	C	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	C	D	C		
Granularity 3/	C		C	D	C		
Consistency			C	D			C
Frequency and Timeliness	C	B	D	D	B		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Overall, the data provided to the Fund has some shortcomings that somewhat hamper surveillance. There are substantial shortcomings that significantly hamper surveillance on external sector statistics, while government finance statistics' coverage and timeliness need enhancement. In particular, currently, there is no coverage of government-linked companies (GLCs) and contingent liabilities, among others. On timeliness, there is a substantial data lag. Authorities plan to improve frequency and granularity of fiscal data submission in e-GDDS. They are working to improve the Chart of Accounts (COA) and would like to request further assistance from the IMF to align with COA with GFSM (2014). External sector statistics need improvement in coverage, granularity, consistency, and timeliness. More specifically, current BOP statistics do not cover gross outflow FDI. Historically, large errors and omissions have been observed. There is a substantial delay in dissemination as BOP is published only once a year. Additionally, on granularity, although IIP is not disseminated publicly. There are moderate shortcomings in national accounts and monetary and financial sector statistics. Current GDP statistics have an outdated base year (2010), and there is a lack of distinction between private and public investment in addition to data lag. Timeliness can improve as currently it is one quarter. On the monetary and financial sector, the statistics do not cover the financial sector other than depository institutions and insurance companies. There is a lack of data on household debt and income, and corporate indebtedness. Price statistics can benefit from an update to its outdated base year (2015) and improvement in timeliness. Existing CPI basket is based on 2015 HES and authorities are currently conducting update on HES to better reflect the consumption pattern. Bruneian statistical agencies are improving the availability and quality of their statistics, but more progress is needed to improve consistency, frequency, and availability of economic statistics.</p>							
<p>Changes since the last Article IV consultation. N/A</p>							
<p>Corrective actions and capacity development priorities. Based on authorities' request on need to address current data lags, IMF mission took place in Brunei in May 2024 on National Accounts Assessment. This mission completed a review of sources and methodologies used for compiling annual and quarterly GDP. A census of enterprises is in progress to provide the necessary data for current price benchmark data to be compiled within a Supply-Use Table (SUT) for 2023. Additionally, a workplan was developed for rebasing GDP to 2023 and for capacity development for compilers of national accounts. On external sector statistics, the authorities have been taking actions, including improving granularity of BOP data; however, more progress is needed to disseminate BOP fully compliant with BPM6 standard. Authorities plan to disseminate quarterly BOP data on a half-yearly basis with less than existing lag. 2024Q1 and Q2 data will be disseminated including through e-GDDS starting 2024Q3.</p>							
<p>Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics. For third party data use, staff follow Third Party Indicators (TPI) guidance note, including (i) not illustrating ranking of countries, (ii) mentioning that some of the TPIs are perception based, and (iii) following TPI data list.</p>							
<p>Other data gaps. The priority is to improve data on macro critical statistics such as granular and more frequent data on employment and unemployment. Additional efforts will be needed to collect and disseminate comprehensive climate related dashboards and taxonomies, and data on inequality.</p>							

Annex IV. Table 2. Brunei Darussalam: Data Standard Initiatives

Brunei Darussalam participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since August 2019.

Annex IV. Table 3. Brunei Darussalam: Table of Common Indicators Required for Surveillance

As of July 2024

	Data Provision to the Fund		Publication under the Data Standards Initiatives through the National Summary Data Page					
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Brunei Darussalam ⁸	Expected Timeliness ^{6,7}	Brunei Darussalam ⁸
Exchange Rates	06/2024	07/2024	M	M	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	04/2024	06/2024	M	M	M	M	1M	1M
Reserve/Base Money	04/2024	06/2024	M	M	M	M	2M	2M
Broad Money	04/2024	06/2024	M	M	M	M	1Q	2M
Central Bank Balance Sheet	04/2024	06/2024	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	04/2024	06/2024	M	M	M	M	1Q	2M
Interest Rates ²	04/2024	06/2024	M	M	M	M	...	2M
Consumer Price Index	05/2024	06/2024	M	M	M	M	2M	2M
Revenue, Expenditure, Balance and Composition of Financing ³ - General Government ⁴	N/A	N/A	N/A	N/A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing ³ - Central Government	Q4/FY2023	06/2024	Q	Q	Q	Q	1Q	2Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2023	05/2024	Q	Q	Q	...	2Q	...
External Current Account Balance	2023	06/2024	A	A	Q	A	1Q	6M
Exports and Imports of Goods and Services	12/2023	02/2024	M	M	M	M	12W	3M
GDP/GNP	Q1/2024	06/2024	Q	Q	Q	Q	1Q	1Q
Gross External Debt	N/A	N/A	N/A	N/A	Q	...	2Q	...
International Investment Position	2023	Jun-24	A	A	A	...	3Q	...

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."



BRUNEI DARUSSALAM

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 20, 2024

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS _____	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____	4

FUND RELATIONS

(As of June 30, 2024)

Membership Status: Joined October 10, 1995; Article VIII

General Resources Account

	SDR Millions	Percent of Quota
Quota	301.30	100.00
Fund holdings of currency (exchange rate)	266.31	88.39
Reserve position in Fund	35.20	11.68

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	492.29	100.00
Holdings	509.06	103.41

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Obligations to Fund: None

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Arrangements

Brunei Darussalam's exchange rate arrangement is a currency board arrangement¹, with the Brunei dollar exchanged at par with the Singapore dollar. Brunei has accepted the obligations under Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation

Brunei is on the 12-month consultation cycle. The Executive Board concluded the 2023 Article IV consultation on September 11, 2023.

FSAP Participation: Not applicable

¹ This is also supported by Currency Interchangeability Agreement (CIA) with Singapore.

Technical Assistance

FAD: A Medium-Term Strategy for Fiscal Sustainability (June 1998)

FAD: Public Financial Management (December 2006, June 2011, April 2014)

FAD: Fuel Subsidy Reform (April 2016)

FAD: Public Investment Management Assessment (April 2023)

FAD: Carbon Pricing Workshop (FY 2025)

MFD: Developing the Financial System of Brunei Darussalam (December 1997)

MCM/MFD: Establishment of Brunei Darussalam Monetary Authority (January 2006, December 2006, August 2008)

MCM: Payment and Settlement Systems/Liquid Payment and Settlement Systems (May 2012), Liquidity Monitoring (January 2015), Monetary and Financial Statistical (March 2015), Scoping mission on the systemic risk monitoring and macroprudential policy frameworks (April 2018), Framework for bank resolution and crisis management (April 2018)

MCM: Review of Macro Stress Testing (April 2022)

MCM: Liquidity Management and Forecasting (February 2023)

STA: Monetary and Financial Statistics (October 1998, January 2006, July-August 2008, October 2009, July 2010, November 2011)

STA: Balance of Payments Statistics (May 1996, June-July 2003, June 2004)

STA: Government Finance Statistics (October 2011, May 2017)

STA: Enhanced General Data Dissemination System (June 2019)

STA: External Sector Statistics (July 2020)

STA: Strengthen compilation and dissemination of National Production, Income and Expenditure Accounts (January-April 2024)

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <https://countryhistoricalprofiles.worldbank.org/?just-country=BRN>

Asian Development Bank: <https://www.adb.org/publications/brunei-fact-sheet>