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Brunei Darussalam: Recent Economic Developments

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BRUNEI DARUSSALAM

Recent Economic Developments

Prepared by Hideaki Shimizu and Eric Sidgwick

Approved by the Asia and Pacific Department

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	Page
Selected Economic Financial Indicators, 1993-98	3
Selected Social and Demographic Indicators	4
I. Recent Economic Developments 1997-98	5
A. Overview/Summary	5
B. Real Sector Developments, 1997-98	6
C. Fiscal Sector Developments, 1997-98	10
D. Monetary Sector Developments, 1997-First Half of 1998	13
E. External Sector Developments, 1997-98	16
II. Selected Issues	20
A. Fiscal Structure and Reform	20
B. Strengthening and Development of the Financial Sector	25
C. Economic Diversification and Development of the Private Sector	31
Text Table	
Structure of Financial Sector, 1998	26
Annexes	
I. Impact of Monetary Survey of Reclassifying Data Reported by Banks According to IMF Methodology, End-June 1998	35
II. Exchange and Trade Arrangements, December 1998	36-39
III. Summary of the Tax System, December 1998	40-43
Charts	
1. Output and Prices, 1990-98	44
2. Fiscal Indicators, 1994-98	45
3. Monetary Indicators, 1994-98	46
4. External Sector Indicators, 1990-98	47

Tables

1.	Gross Domestic Product in Current Prices by Economic Activity, 1993-98	48
2.	Composition of Gross Domestic Product in Current Prices, 1993-98	49
3.	Gross Domestic Product in Constant Prices by Economic Activity, 1993-98	50
4.	Growth in Gross Domestic Product in Constant Prices, 1993-98	51
5.	Trends in GDP and GNP, 1993-98	52
6.	Oil and Gas Production and Sales, 1993-98	53
7.	Labor Force and Employment, 1971, 1981 and 1991	54
8.	Private Sector Employment by Major Industry, 1991-95	55
9.	Employment Composition, 1995 Census	56
10.	Population Indicators, 1971-97	57
11.	Government Sector Employment by Grade, 1993-97	58
12.	Consumer Price Index, 1993-98	59
13.	Summary Budget, 1993-98	60
14.	Composition of Government Revenues, 1993-98	61
15.	Current Expenditures by Ministries and Major Departments, 1993-98	62
16.	Development Expenditures	63
17.	Accounts of the Brunei Currency Board, 1993-98	64
18.	Monetary Survey, 1993-98	65
19.	Direction of Loans by Commercial Banks, 1993-98	66
20.	Assets and Liabilities of Finance Companies, December 1995-June 1998	67
21.	Balance of Payments, 1993-98	68
22.	Exports by Commodity, 1993-98	69
23.	Value and Destination of Selected Exports, 1993-98	70
24.	Exports by Country of Destination, 1993-98	71
25.	Imports by Commodity, 1993-98	72
26.	Imports by Country of Origin, 1993-98	73
27.	International Reserves, 1993-98	74
28.	Exchange Rates, 1993-98	75
References		76-77

Brunei Darussalam: Selected Economic and Financial Indicators, 1993-98

Area (sq. kilometers)	5,765
Population (1997)	314,400
GDP per capita (1997; US\$)	17,246
Quota	SDR 150 million

	1993	1994	1995	1996	1997	Est. 1998
Output and prices (percent change) 1/						
Nominal GDP (B\$ million)	6,585	6,686	7,394	7,685	8,051	8,111
Real GDP	0.5	1.8	3.0	3.6	4.1	1.0
Consumer prices (period average)	4.3	2.4	6.0	2.0	1.7	0.0
Public Finances (percent of GDP)						
Total revenue	34.5	33.6	33.1	37.2	35.3	25.8
Tax	17.3	16.3	16.5	18.3	19.4	15.6
Nontax	17.3	17.3	16.6	19.0	15.9	10.2
Transfers 2/	17.3	31.0	26.5	12.1	14.2	24.0
Total expenditure	51.6	64.1	59.9	47.9	49.9	49.8
Current	34.2	34.4	32.9	33.7	32.3	34.2
Capital	17.4	16.2	16.6	12.9	16.8	14.7
Investment in pub. enterprises 3/	0.0	13.5	10.5	1.3	0.8	0.9
Fiscal balance (deficit -)	0.3	0.5	-0.3	1.4	-0.3	0.0
Fiscal balance excluding transfers (deficit -)	-17.1	-30.5	-26.8	-10.6	-14.6	-24.0
Money and Banking (percent change)						
Claims on private sector	25.1	34.3	-20.9	23.3	65.2	2.8
Broad money	10.7	39.4	6.7	-2.3	-4.7	1.0
Of which: currency outside banks	2.0	1.3	11.6	5.1	7.6	1.0
Prime lending rate (end of period)	5.8	6.0	6.5	6.5	6.5	6.8
Balance of Payments (US\$ million) 4/						
Trade balance	456	441	411	239	662	175
Exports	2,248	2,154	2,390	2,603	2,676	1,894
Of which: oil and gas	2,166	2,009	2,221	2,413	2,438	1,659
Imports	1,792	1,713	1,979	2,364	2,013	1,718
Investment income, net	1,819	2,379	2,451	2,643	2,739	2,381
Current account balance	2,027	2,696	2,429	2,200	2,875	2,085
Current account balance (percent of GDP)	49.7	61.6	46.6	40.4	53.0	42.9
Total international reserves (US\$ million)	2,479	4,396	5,874	5,937	3,656	4,011
Official	355	1,065	1,833	2,090	1,875	2,145
Banking system	2,124	3,332	4,041	3,847	1,781	1,866
Exchange rate						
Exchange rate regime: Pegged to Singapore dollar						
Brunei dollar per U.S. dollar (period average)	1.616	1.527	1.417	1.410	1.485	1.670
Nominal effective exchange rate 5/	94.9	97.5	100.0	103.2	104.6	106.7
Real effective exchange rate 5/	92.9	94.6	100.0	102.7	103.6	103.2

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

1/ Except where indicated otherwise.

2/ Transfers from BIA to the budget and for public enterprises.

3/ BIA investment in public enterprises.

4/ Balance of payments data are based on staff estimates of foreign investment income.

5/ Period average; 1995=100. For 1998, average for January-June.

Brunei Darussalam: Selected Social and Demographic Indicators 1/

Size (sq. km.)	5,765
Coastline (km.)	130
GDP per capita	US\$17,246
GNP per capita	US\$25,753
Population	314,400
Population (per sq. km.)	55
Percentage of population	
Under 15	32.8
55 and Over	7.1
Birth rate (per 1,000)	24.0
Life expectancy at birth (years) 2/	
Males	72.1
Females	76.5
Hospitals 3/	10
Hospital beds (per 1,000) 3/	3.1
Physicians (per 1,000) 3/	0.9
Nurses (per 1,000) 3/	4.7
Students per teacher	13.0
Students	90,146
of whom pre-secondary	56,286
Literacy rate (age 9 and over) 2/	89.2
All weather roads (km.) 4/	2,273
Private cars	162,746
Persons per private car	1.9

Source: Ministry of Finance, *Brunei Darussalam Key Indicators 1998*; and staff estimates

1/ Figures are for 1997 except as noted.

2/ For 1991.

3/ For 1996.

4/ For 1995.

I. RECENT ECONOMIC DEVELOPMENTS, 1997-98

A. Overview/Summary

1. The Brunei economy is heavily dependent on oil and natural gas, which account for over 50 percent of GDP, about 80 percent of government tax revenues, and 90 percent of exports. Substantial fiscal revenues from oil and gas production have fueled the growth of a large public sector which provides generous remuneration, an extensive welfare system, a high level of investment in infrastructure, and employment for a rapidly growing labor force. High earnings from the export of oil and gas and a steady increase in the country's net foreign assets over the years have provided a comfortable external payments position and helped to cushion the financial impact of exogenous shocks. The exchange and trade system has remained liberal, and the peg to the Singapore dollar has helped maintain a stable macroeconomic environment.
2. Despite substantial proven oil and gas reserves and ongoing exploration, an important objective of development policy has been to diversify the economic base. However, while the share of non-oil/gas sector in GDP has increased during the 1990s, this reflected mostly growth in construction and services, which have been driven by government development expenditures. Diversification and expansion of private sector activity continues to be impeded by high public sector remuneration, restrictions on the type of activities which are open to foreign participation, and cumbersome foreign investment approval procedures.
3. In 1997, the economy grew by 4 percent led by strong construction and services activities, while average inflation declined to under 2 percent. Current expenditures were contained, and a recovery in capital expenditures was financed by larger transfers from the Brunei Investment Agency (BIA). A surge in private sector credit extended by commercial banks to a large domestic private company facing major economic problems was accompanied by an almost commensurate decline in their net foreign assets position.
4. In 1998, the Brunei economy was adversely affected by the large decline in world price of crude oil, the collapse of a large domestic private company, and the impact of the Asian crisis. As a result, real GDP growth is estimated to have fallen to around 1 percent, owing to the combined effects of the decline in oil/gas exports, the slowdown in non-oil/gas activity exacerbated by the collapse of a large domestic company and lower government capital expenditures, and the related fall in consumption. The immediate financial impact of these shocks on the balance of payments and government revenues was absorbed through the BIA's investment position, while the impact on the real economy was felt through a decline in overall economic activity and the repatriation of large numbers of foreign workers.

B. Real Sector Developments, 1997-98

Output

5. Real GDP growth increased from 3½ percent in 1996 to 4 percent in 1997, buoyed by strong growth in the non-oil/gas sector, especially in the agriculture and services sectors. In 1998, real growth declined sharply, to 1 percent, owing to the combined effects of an on-going decline in oil and gas exports because of sharply lower international prices; a fall in domestic demand, exacerbated by the collapse of a large local enterprise; and lower government capital expenditure.

Oil and gas

6. In 1997, production of crude oil and condensate fell slightly to 163,000 barrels per day (bpd) from 165,000 bpd in 1996 (Table).¹ Apart from a small quantity earmarked for domestic consumption, the crude oil and condensate are exported to ASEAN countries (37 percent), Japan (28 percent), Korea (27 percent), Taiwan (6 percent), and New Zealand (2 percent) under one-year renewable contracts at prices that vary with the average monthly U.S. dollar price for light crude oil "Tapis" grade, quoted in Malaysia. A small, but increasing, amount is sold on the spot market directly. Though the average international oil price declined by just over 2 percent in U.S. dollar terms during the year, to US\$21.5 per barrel, the value of crude oil output in local currency terms rose slightly, as the Brunei dollar depreciated by over 5 percent against the U.S. dollar. Output of liquified natural gas (LNG) remained stable in 1997 at just over 1 billion standard cubic feet per day (bscf/d), maintaining Brunei as the world's fourth largest producer. About 20 percent of production is consumed domestically, and the remainder is exported exclusively to Japan (Tokyo Electric Power, Tokyo Gas, and Osaka Gas Companies) and Korea (Korea Gas Corporation) under long-term (20-year) contracts. Under the terms of the contracts, the importing countries are free to vary the volume of LNG imports in any one year by plus or minus 3 percent. The contract price for LNG, also determined in U.S. dollars, is adjusted every quarter in line with prices on the world spot market for oil. In 1997, it increased by 4½ percent in U.S. dollar terms to US\$3.84 per million BTU.

7. In 1998, reflecting the combination of a 37 percent decline in the average U.S. dollar price of oil to under US\$14 a barrel; the onset of recession in many oil importing Asian

¹The Seventh National Development Plan (1996-2000) [NDP7] foresees oil sector output to grow at an average rate of 2 percent per annum, based on the 1996 average international price of around US\$22 per barrel. In addition, the government's conservation policy, initiated in the 1980s, permits the sole oil producing company (Brunei Shell Petroleum, BSP) to vary its annual production of oil according to the evolution of the international oil price, the exchange rate, and actual demand, subject to a limit on its annual capital budget consistent with a production level of 150,000 bpd. Because of the lower international price of oil in recent years, output has remained higher than the 150,000 bpd long-term ceiling.

countries; and actual developments through end-September, annual production of crude oil and condensate is estimated to have fallen below last year's level, to 160,000 bpd. Similarly, output of LNG is estimated to have declined by about 2 percent to 1.057 bscf/d, while the average price for LNG is estimated to decline by about 25 percent over 1997.

Non-oil/gas sectors

8. In 1997, non-oil/gas activities grew by over 7 percent, spurred by 10 percent growth of the private sector; the government sector grew by under 5 percent, in line with previous years. Consistent with the government's policy of increasing domestic food production and fostering agro-industrial activities, agricultural output grew by over 6 percent, boosted by sharp increases in local production of 'halal' meats (poultry, goats, and cattle) and fruits, and a pick-up in agro-industry. Despite a 4½ percent decline in fish catch, as a result of BSP seismic survey activity and haze in the first half of the year, both of which prevented access to productive fishing areas, total output in the fisheries sector increased on account of higher aquaculture production (seabass and marine shrimp) and increased processing activities. The construction sector grew by just under 9 percent, reflecting an acceleration in public infrastructure development projects, including upgrade of facilities at Muara Port and Brunei International Airport, and development of Brunei Bay, while manufacturing output (food and beverage processing, garments, wood processing and furniture, and building materials) increased by just under 5 percent. In the tertiary sector, restaurants, hotels, real estate, and business services exhibited strong growth, as did community, social, and personal services (including government activities).

9. In 1998, growth of non-oil/gas activities slowed to 4 percent, in response to effects of the Asian crisis; the collapse of a large local company; and a lower government capital expenditure. Private sector expenditures were curtailed by the combined effects of an appreciating Brunei dollar, especially against the Malaysian ringitt (about 20 percent), which encouraged cross-border shopping (e.g., in nearby Sabah and Sarawak), and the repatriation of some 40,000 foreign workers following the collapse of the Amedeo company and a sharp reduction in related construction activities. The initial decline in public sector expenditure, following a sharp reduction in capital expenditures in the first half of the year, was partially compensated in mid-year, by a supplementary capital expenditure allocation of B\$352 million and a B\$100 million increase in allowances for lower- and mid-level government employees.

Employment, Wages, and Prices

Wages

10. Brunei's population is growing at an annual rate of 3 percent, and reached an estimated 314,400 at end-1997. Out of an estimated working age population (those between the ages of 15 and 65) of 200,900 in 1997, about 123,000 were economically active, giving

an overall labor force participation rate of 61 percent.² While the labor force participation rate (including temporary residents) of women has increased, from 46 percent in 1991 to 54 percent in 1995, male labor force participation remained much higher at 79 percent. Relatively high salaries and generous benefits offered by the government (see below) continue to act as a disincentive to private sector employment, and according to the latest Labor Department Census (1995), just under half (46 percent) of the working population is employed in the public sector, including over 39,000 in the government. Other large-scale employers are BSP (4,000) and Royal Brunei Airlines (1,900). In the private sector, chronic labor shortages, in professional as well as unskilled fields, have been alleviated by the recruitment of foreign workers, who now make up about 40 percent of the total working population. Private sector employment is concentrated in the construction sector (over 40 percent), followed by wholesale and retail trading (13 percent), and non-oil and gas mining, quarrying and manufacturing (10 percent).

11. In 1998, there was an exodus of foreign workers (including about 16,000 Thais working in the construction sector), reflecting cost cutting measures in local companies facing increased competition from Asia crisis countries; completion of major government projects and the slow down of public sector construction; and the collapse of a large local enterprise.

12. Despite the need for foreign workers and the underlying excess demand for labor, registered unemployment in the local population is estimated to exceed 6,000, equivalent to an unemployment rate of about 5 percent, owing to the reluctance of Bruneians to accept manual-type employment (e.g., in the construction sector) and a mismatch between vacancies and suitably qualified candidates. In reality, actual unemployment is higher as many unemployed people fail to register, particularly among teenage Malays who have not completed secondary school. Under the Seventh NDP, the labor force requirement is expected to increase by 5,200 per year and reach 156,000 in 2000, with the proportion of foreign workers anticipated to remain over 40 percent.

13. The government remains the most attractive employer in Brunei. In particular, an average annual salary of B\$15,800, supplemented by various allowances and benefits, (amounting to about 70 percent of salary) including rent subsidy, low interest housing and car loans, and an allowance for the *haj* pilgrimage make it very difficult for the private sector to compete for labor,³ especially small to medium-size private sector companies, even though wage determination in the private sector is entirely free. Average wage rates per month for private sector employees vary from B\$450-500 for unskilled labor to B\$1,000 for secretaries,

²The figure of economically active people is taken from the latest Labor Force Survey of 1995.

³The only two exceptions are the Brunei Shell group of companies and some financial institutions.

construction supervisors, and professional staff, equivalent to an average annual wage of B\$5,400-6,000 and B\$12,000, respectively.

Prices

14. While inflation in Brunei, as measured by changes in the CPI,⁴ generally moves in line with trend price developments in Singapore because of the currency peg to the Singapore dollar, deviations in overall annual inflation performance can arise through supply disruptions, changes in administered prices, price developments in the nontraded goods sector, and the composition and pattern of imports.

15. In 1997, average annual CPI inflation in Brunei fell to 1.7 percent, down from 2 percent in 1996, whereas average annual CPI inflation in Singapore rose to 2 percent in 1997, from 1.4 percent in 1996. There were no changes to administered prices or prices of nontraded goods, nor any major supply disruptions in 1997. For the most part, price developments reflected the combination of declines in the U.S. dollar import prices of food, manufactured products, and machinery and transport equipment, and fluctuations in bilateral exchange rates of import source countries. In particular, the appreciation of the Brunei dollar against the currencies of neighboring Asian crisis countries (Malaysian ringgit, Indonesian rupiah, Philippine peso, and Thai baht), especially in the second half of the year, which helped moderate imported inflationary pressures (ASEAN countries account for 45 percent of total imports), was offset by the depreciation of the currency against the U.S. dollar, sterling, the yen, and the major European currencies (U.S., Japan, and Europe account for 39 percent of total imports). Prices of food, clothing, and footwear (accounting for a combined 45 percent weight in the reference consumer basket) increased by 3.7 percent and 4 percent, respectively, while prices of housing, transport, and communications (with a combined weight of 39 percent) declined slightly. In the year to July 1998, average CPI inflation was negative 0.6 percent, as a decline in prices of transport and communications more than offset small increases in prices of food, clothing, and footwear.

Environment

16. The quality of the environment has been an important policy consideration since the Fifth National Development Plan, 1985-90 (NDP5). Since 1993, the National Committee on Environment (NCE), assisted by the Environment Unit in the Ministry of Development which acts as Secretariat, maintains responsibility for overall policy coordination, review, and implementation of the government's National Environment Strategy (NES) within the NDP. Under NDP7, 1996-2000, the policy objectives of the NES include sustainable use of natural resources, minimizing negative environmental impacts from population growth, and achieving an appropriate balance between socio-economic development and maintaining the

⁴The current consumption basket is based on 1990 weights and reference prices. An updated index, based on the ongoing 1997/98 Household Expenditure Survey, is expected to be ready by September 1999.

quality of the environment. Principal areas of environmental policy include conserving biodiversity, protecting forests, the ocean, freshwater resources and the atmosphere, and managing solid waste.

C. Fiscal Sector Developments, 1997-98

Overview

17. The public sector in Brunei is highly dependent on revenue from the oil and gas sector, and provides generous remuneration for public workers as well as a high level of investment in infrastructure. In response to a trend decline in oil and gas prices, the government has gradually attempted to contain current expenditure, while capital expenditure accelerated in 1993-95 to complete the Sixth NDP. In the absence of significant revenue measures, transfers from the Brunei Investment Agency (BIA) have financed budgetary shortfalls since 1992, reaching as high as 31 percent of GDP in 1994.⁵

18. Due to a turnaround in oil and gas prices which pushed up revenue in 1996, together with a decline in capital expenditure, due to temporary slowdown in new development projects, transfers were reduced to about 12 percent of GDP. However, as world oil price declined again, the government increased transfers to finance budgetary shortfalls in 1997 and 1998.

19. In 1997, total revenue, excluding transfers from BIA, declined by 2 percentage points of GDP, while total expenditure increased by the same amount from the previous year. Transfers from BIA increased by 2 percentage points of GDP. In 1998, total revenue is estimated to have declined by 9½ percentage points of GDP, while total expenditure is estimated to have remained at 50 percent GDP. Consequently, transfers from BIA are expected to have increased by about 10 percentage points of GDP. Meanwhile, defense expenditures (in both current and capital expenditure part) rose to some 14 percent of total expenditure in 1997, equivalent to 7 percent of GDP.

Revenue

20. Government revenues are dominated by receipts from the hydrocarbon sector in the form of corporate income tax, royalties, and dividends. Consequently, revenues fluctuate with oil and gas production and prices, and the profitability of the oil and gas industry (see Section II.A).

⁵Government foreign investment income is not recorded ex-ante in the budget, although it is used ex-post for financing. Ex-post transfers to the budget have been well below the estimated annual investment income of the government (See Section II. A).

21. In 1997, tax revenue increased from 18 $\frac{1}{3}$ percent of GDP to 19 $\frac{1}{2}$ percent of GDP. Income tax, which accounted for 85 percent of tax revenue, increased because of higher income tax receipts from oil and gas companies.⁶ Import duties, which accounted for 14 percent of tax revenue, also increased despite a decline in total imports, as a result of the surge in imports of motor vehicles which were subject to higher import duties (40-200 percent).

22. Non-tax revenue, however, decreased from 19 percent of GDP to 16 percent of GDP. Government property income (mostly oil/gas-related dividends and royalties), which accounted for about 75 percent of non-tax revenue fell due to lower royalties, as the bulk of oil production shifted to farther offshore fields and exploitation of new oil and gas fields became more costly.⁷

23. In 1998, due to the fall in oil/gas prices, tax revenue is estimated to have declined to about 16 percent of GDP and non-tax revenue to 10 percent of GDP.

Current expenditure

24. In response to a decline in oil/gas revenues, the government has attempted to contain current expenditure. Salary increases have been controlled below the rate of inflation; as a result, current expenditure decreased to 32 percent of GDP in 1997, in line with the 1986-94 average (34 percent).

25. In 1998, current expenditure is estimated to have increased by 2 percentage points of GDP to 34 percent, partly due to the increase in allowances (B\$80-140 per month, depending on basic salary) for government employees effective July 1998. The impact on current expenditure is estimated to be around B\$100 million,⁸ of which B\$50 million is expected to

⁶Because of the depreciation of the Brunei dollar and higher gas production/price, the income of oil and gas companies in Brunei dollar terms increased in 1997 despite lower oil production/price.

⁷Royalty payments differ for onshore and offshore fields; Offshore fields subject to lower royalties (see Section II.A). The level of dividends is decided by the executive boards of the companies, taking various factors into account such as investment plan, so that dividends don't necessarily move in parallel with income.

⁸The increase in allowances was announced during the Sultan's birthday celebrations in July. Allowances are given to all government officers and employees excluding those officers receiving basic salary of more than \$6,800 a month. The increase raised salaries by up to 14 percent with lower-income employees benefiting the most. However, only 75 percent of this increase was given; the rest was paid into the Employees Trust Fund. Allowances were also given to all government officers and employees on pension under the Pension Act

(continued...)

be paid in 1998. Expenditure on personnel emoluments increased in 1997 owing to the creation of new posts, previously frozen, and the appointment of new permanent secretaries and new deputy secretaries, and this is also expected to increase the expenditure on personnel emoluments in 1998.

Capital expenditure⁹

26. Until 1995, the government accelerated the implementation of the projects in the Sixth NDP in order to complete projects within the Plan period. However, in 1996, capital expenditure slowed due to delays in the launching of the new Seventh NDP.

27. In 1997, capital expenditure increased by 4 percentage points of GDP, reflecting a 42 percent increase in development expenditure incurred by the inclusion of Istana Project Section (IPS) projects which were previously not recorded in the development budget. The payments for IPS projects (B\$380 million) were more than one-fourth of total capital expenditure, which was already committed by the government in 1996.

28. In 1998, as a part of public expenditure reduction measures, the government initially budgeted only B\$605 million for development expenditure, compared to B\$1.3 billion in the 1997 budget and B\$892 million of actual spending in 1997. However, as a result of the economic downturn, the authorities announced additional development expenditure of B\$352 million in late June, increasing the total budget to B\$957 million. The additional injection of funds was designed to ensure that all contractors be paid and projects carried out, and to fuel the sluggish economy. Actual expenditure is estimated to have been B\$730 million of which B\$230 million for IPS-related projects. Nevertheless, total capital expenditure is estimated to have declined by 2 percentage points of GDP.

29. Apart from capital expenditure, large investments in some public enterprises took place in 1994 and 1995, financed by transfers from the General Reserve Fund (around 1 percent of GDP).

⁸(...continued)
(B\$80-140 per month, depending on monthly pension).

⁹Capital expenditure is defined as the sum of other charged special expenditures (OCSE: equipment, vehicles and capital purchases) and development expenditures associated with the NDP (See II.A. for the classification of government expenditure).

D. Monetary Sector Developments, 1997-First Half of 1998¹⁰

Overview

30. In 1997, broad money growth declined as a sharp decline in net foreign assets of the banking system more than offset a sharp rise in credit to the private sector. In particular, a large decline in foreign assets of commercial banks (BCB net foreign assets rose) was closely matched by a corresponding increase in credit extended to a large domestic private sector company, mostly involved in construction activities. In addition, commercial banks' foreign liabilities rose as depositors switched from local currency deposits to higher yielding foreign currency deposits. Total deposits fell as an increase in quasi-money was more than offset by a decline in demand deposits. Currency outside banks grew by slightly more than non-oil/gas nominal GDP. In the first half of 1998, most monetary aggregates declined relative to end-1997, reflecting the sharp decline in oil prices and sluggish growth in the non-oil and gas sector. In particular, currency declined by 3 percent, while claims on the private sector fell by just under 12 percent. As a reflection of the economic downturn experienced in 1998, particularly in the construction sector, commercial banks' exposure rose during the year (to the real estate market and to personal loans), and the incidence of rolling over loans rose sharply. Notwithstanding the roll over of some loans, the share of nonperforming loans in total loans rose from 3 percent to just under 5 percent in the year to mid-1998.¹¹

Developments in 1997

31. Broad money fell by just under 5 percent in 1997 to B\$7,466 million in 1997, as a sharp decline in net foreign assets of the banking system more than offset the rise in net domestic assets. On the assets side, the decline in net foreign assets was entirely due to the fall in net foreign assets of commercial banks, as net foreign assets of the Brunei Currency Board (BCB) rose to B\$849 million. As a result, the BCB's net external assets ratio increased to 0.94 from 0.89, while its liquid external assets ratio rose to 0.40 from 0.36.

¹⁰Monetary aggregates are derived from data that are not compiled in accordance with international statistical standards or Fund methodology as defined in the draft *Manual on Monetary and Financial Statistics*. A STA technical assistance mission on money and banking statistics, which overlapped with the Article IV consultation mission, compiled both a monetary survey and a banking survey based on disaggregated data for end-June 1998. The main adjustments to the authorities' data as of end-June 1998 are highlighted in Annex I.

¹¹Substandard loans are defined by the Ministry of Finance's Financial Institutions Division (FID) as loans that are overdue by more than 120 days (either principal or interest). Banks are permitted to continue to record accrued interest on substandard loans as income until the loans are overdue by more than 240 days. International standards call for suspension of interest on assets that are 90 days or more in arrears. For further details on banking supervision, see Section II.B.

32. Net foreign assets of commercial banks declined by B\$2,400 million during the year to B\$2,984 million, owing to an increase in liabilities and a sharp reduction in assets. Foreign liabilities of commercial banks increased B\$237 million during the year to B\$368 million, reflecting exchange rate valuation effects and an increase in foreign currency deposits, as some customers switched from local currency denominated deposits to higher-yielding foreign currency deposits, including U.S. dollar deposits. Foreign assets of commercial banks declined by B\$2,165 million to B\$3,351 million. The decline in commercial banks' foreign assets was almost equally matched by a 65 percent increase in private sector credit, the bulk of which was used to help finance (through one commercial bank) construction-related expenditures of a large domestic company (amounting to B\$1.6 billion). As a result, the bank in question sharply increased its open foreign exchange position.¹² Excluding this amount, credit to the private sector grew by about 15 percent. Loans to the construction sector (excluding the large construction-related loans mentioned above), which accounted for 16 percent of total loans, rose by 45 percent during the year, while personal loans, which account for over a third of total loans, increased by only 2½ percent.¹³ Government deposits declined by B\$740 million during the year to B\$933 million.¹⁴

33. On the liabilities side, currency outside banks increased by 7½ percent in 1997, slightly higher than the growth rate of nominal nonoil/gas GDP. Total deposits declined by 5½ percent, as a large increase in time deposits—in response to higher deposit rates following a rise in deposit rates in Singapore in the last quarter of the year (see below)—was more than offset by a steep reduction in demand deposits.

Developments in the first half of 1998

34. Monetary aggregates through end-June 1998 reflected the sharp decline in economic activity, especially in the non-oil and gas private sector. Net external assets of the BCB

^{12/} Foreign exchange exposure levels of locally incorporated banks and finance companies are not limited by regulation. In principle, foreign-owned banks are subject to the regulatory provisions in effect in their home country.

^{13/} Although not captured in the monetary survey, credit to the private sector from finance companies, which accounted for about 12 percent of total loans, rose sharply from 1995 onward as a result of the decision to extend the repayment period for automobile loans by one year to 7 years and to reduce the amount of required down payment to 15 percent from 20 percent of purchase price for cars whose engines exceeded 2000 cc, following the sharp rise in import duties in that year. More recently, in the year to end-June 1997, the growth of hire-purchase loans remained high at 49 percent, although it had declined to 10 ½ percent by end-1997.

¹⁴Neither the BCB nor the commercial banks extend credit to the government, although the government maintains deposits in commercial banks. The bulk of the domestic financing of the fiscal deficit comes from transfers from the BIA (see Section I.B on Fiscal Sector Developments).

declined to B\$826 million over end-1997, owing mostly to valuation effects of a depreciating exchange rate. As a result, though the BCB's net external assets ratio fell to 0.92, while its liquid external assets ratio declined to 0.38.

35. Credit to the private sector declined by 11½ percent over end-1997, as just under half of the B\$1.6 million lent out in 1997 (see above) was repaid in the first half of 1998. Excluding the amount lent out in 1997, loans increased by only 3 percent or so, reflecting the uncertain regional environment and a sharp and widespread downturn in domestic non-oil and gas business activity. Loans outstanding to the construction sector declined in nominal terms, while personal loans rose by just under 3½ percent.¹⁵

36. At end-June, currency in circulation was around B\$625 million, down 3 percent from end-1997, while deposits by commercial banks at the BCB remained flat at B\$367 million, slightly below the statutory minimum cash balance requirement of 6 percent.

Interest rates

37. Consistent with the exchange rate peg to the Singapore dollar, interest rate policy in Brunei follows that of Singapore. The Brunei Bankers' Association (BBA) sets the prime lending rate every month, based on the Singapore prime rate for the previous month and market expectations. The Brunei prime rate moves with the prime rate in Singapore plus a margin, usually between 0.25-0.5 percent, and acts as a benchmark lending rate only; in practice, a lower rate is applied to preferred customers and on consumer loans. The BBA also sets monthly maximum interest rates for savings and time deposits up to B\$50,000 and B\$100,000, respectively, though not in a fixed relation to the prime rate. Interest on deposits above B\$100,000 are freely determined. Demand deposits are not remunerated, except those of the government which earn 2.5 percent annually.

38. In 1997, though the lending rate in Singapore was increased on two occasions in the last quarter, from 6¼ percent to just under 7 percent, the prime lending rate in Brunei was maintained at 6½ percent throughout the year. On the deposit side, the average three-month deposit rate in Singapore was raised in the last quarter of 1997 from under 3½ percent to over 4 percent, while the average savings rate was increased from 2¾ percent to over 3 percent. In response, the maximum rate on three-month deposits of under B\$100,000 in Brunei was raised several times during the year from 1½ percent to 2¼ percent by end-year, while the yield on savings deposits under B\$50,000 was raised from 1¾ percent to 2 percent toward the end of the year.

39. In January 1998, in response to a further increase in the prime lending rate in Singapore, to 7¾ percent, the prime lending rate in Brunei was raised to 7 percent. On November 9, 1998, in line with the reduction in the Singapore prime rate to 6½ percent, the prime lending rate was reduced to 6¾ percent in an effort to help spur economic activity in

¹⁵Loans extended by finance companies declined by 9 percent on an annual basis to B\$623 million.

the non-oil private sector. With regard to deposit rates, in response to increases in yields in Singapore on savings deposits in January (to 3½ percent) and on three-month deposits in February (to just under 5¼ percent), deposit rates in Brunei were also raised. In January, savings rates on deposits under B\$50,000 were increased to between 2¼ and 2¾ percent, while yields on time deposits under B\$100,000 were increased to between 3 and 3½ percent. In November, both rates were reduced 25 basis points in line with the decline in the prime lending rate.

E. External Sector Developments, 1997-98

Overview

40. Sizable hydrocarbon exports and the steady accumulation of long-term foreign assets over many years have provided Brunei with a comfortable external payments position, facilitating the maintenance of a liberal exchange and trade system. In recent years, however, both trade and current account balances deteriorated steadily (in terms of GDP) as imports rose sharply while exports remained stagnant. Japan is the major export market, while the increase in imports, which has been fueled by increased government expenditure, has largely come from ASEAN countries.

41. Brunei does not publish comprehensive balance of payments statistics, although the Ministry of Finance is compiling the statistics based on the limited information available. A major impediment to the compilation of the balance of payments is the lack of data on the government's investment income. Only data on merchandise exports and imports based on customs returns are published on an annual basis in the Statistical Yearbook. Unpublished data are available for some of the other components of the balance of payments, based mainly on the exchange record of the commercial banks, the balance sheet of the BCB, foreign banking transactions of the Brunei Shell group of companies, Royal Brunei Airlines, and remittance companies. Hydrocarbon exports, merchandise imports, and investment income dominate the external current account.

42. Although the current account remained in substantial surplus throughout the period,¹⁶ the surplus showed a declining trend, falling from 90 percent of GDP in 1985 to about 40-50 percent recently following reduced earnings from petroleum. In 1997, an increase in exports and a decline in imports, together with increasing investment income, improved the current account balance. However, in 1998, the trade surplus is estimated to have declined by 8½ percent points of GDP to 3½ percent, mainly due to the world oil price decline and lower investment income. As a result, the current account surplus is estimated to have fallen to 43 percent of GDP.

¹⁶Foreign investment income was estimated by adding to the amount of foreign investments reportedly controlled by the BIA at end-1985, the current account surpluses of subsequent years, and all investment earnings. Earnings were assumed to accrue at a rate equal to the average annual U.S. government bond yield (through 1992) and at an average of US, UK, and Singapore government bond yields (from 1993 onward).

Exports

43. Exports consist mostly of hydrocarbons, with revenues from LNG since 1986 equaling those from the export of oil. Although its share in total exports is still small at 9 percent, the export of nonhydrocarbons increased by 167 percent during 1993-97, led by re-exports as well as garment exports, which have benefitted from Brunei's quota in developed country markets under the Multifibre Agreement.

44. As a result of Brunei's conservation policy and long-term contracts with Japan and Korea the volume of oil exports has stabilized. The changes in the value of hydrocarbon exports have reflected mainly the price fluctuations in the world oil market.

45. Total exports increased by 3 percent in 1997. Petroleum exports (crude and condensate) decreased by 8 percent, reflecting lower oil price and volume (oil price decreased by 2½ percent and petroleum export volume declined by 5½ percent), while exports of LNG increased by 11½ percent. Gas exports to Korea increased by 29 percent. Total oil and gas exports increased marginally by 1 percent, but still accounted for 91 percent of total exports. A notable increase was seen in exports of garments¹⁷ (18½ percent over the previous year) and machinery and transport equipment¹⁸ (28⅓ percent).

46. In 1998, total exports are estimated to have declined by 29 percent, mainly due to the decline in oil and gas prices. Petroleum exports are estimated to have declined by 37½ percent, reflecting the decline in oil price, while gas exports are estimated to have declined by 26 ½ percent.

47. Japan remains the dominant export market (53 percent of total exports in 1997) while Korea (18 percent) has increased its share as it started to import LNG in 1994. Exports to ASEAN countries (21 percent), including newly joined Laos, Vietnam and Myanmar, remained almost flat in recent years.

Imports

48. Brunei imports almost everything, including most foodstuffs and beverages. In value terms, machinery and transportation equipment account for the highest share, ranging between 35 percent and 50 percent of all imports, reflecting high number of vehicles and construction activity in Brunei. Manufactured goods, such as consumer electronics and

¹⁷Mostly exported to Europe and USA. Although the share of garment in total exports is still just 2 percent, the share in non-oil/gas exports reached 23 percent in 1997.

¹⁸Consists of various items such as parts of aircrafts, cruise ships, drilling equipment etc., which are mostly re-exported to various countries (e.g., Malaysia, Singapore, Indonesia, USA, UK, Germany, Australia).

electrical appliances, come next with a 20-30 percent share, followed by food (including live animals) and other manufactures, such as textiles.

49. After nearly a 20 percent increase in 1996, total imports in U.S. dollar terms declined by 15 percent in 1997. Excluding lumpy aircraft-related imports which surged in 1996, imports declined by 8 percent. The decrease in imports (excluding aircraft-related) was due to a decline in world commodity prices, the completion of major projects by 1996 and an "effective" decline in development expenditure (development expenditure excluding payments for IPS project: B\$629 million in 1996 to 512 million in 1997).¹⁹

50. Looking at the origin of imports, in 1997, 45½ percent of total imports were from ASEAN countries. Imports from European Union, accounted for 18 percent in share. Imports from Japan, accounted for 11 percent in share, increasing significantly in 1997, partly due to the increase in the importation of cars, while imports from USA decreased in share to 10 percent in 1997 after a surge in 1996, reflecting lumpy aircraft-related imports.

51. In 1998, imports are estimated to have declined by more than 14½ percent in U.S. dollar terms, due to continued decline in world commodity prices and "effective" development expenditure (B\$512 million in 1997 to B\$500 million in 1998).²⁰

Other current account transactions

52. Investment income is estimated to have risen in line with the persistent current account surpluses. Thus, the steady growth of imports was easily financed, even though investment income may have fluctuated substantially from year to year depending on financial market performance. However, net investment income is estimated to have been around 50 percent of GDP in recent years. Net outflows on account of services and current transfers occurred each year, in the form of payments for foreign travel, and, occasionally, high consulting, management, and other professional fees in the oil and gas sector. Current transfer outflows mainly consist of remittances by immigrant workers from neighboring

¹⁹Development expenditure in 1997 includes the payments for Istana Project Section (IPS) projects which were previously outside the purview of the National Development Plan Committee. Most of the IPS projects have been awarded and some completed before 1997 (1994-96) and are not for new tenders. Therefore, this additional funding is only used to honor past commitments which would not induce extra importation of construction materials. By 1996, some big projects outside of the National Development Plan, including Yayasan Sultan Haji Hassanal Bolkhiah Foundation Complex (opened in July 1996), were completed, and this also induced large imports in 1996.

²⁰As more and more Bruneians shopped across the border, drawn by the weak Malaysian ringgit, there was an increase in the outflow of Brunei dollars into neighboring Malaysian states. Thus, a significant amount of imports of goods and services and the outflow of Brunei dollars are not recorded in the official trade statistics and foreign exchange records.

Asian countries. Nevertheless, the current account surplus increased to 53 percent of GDP in 1997.

53. In 1998, due to a loss incurred by regional economic crisis and a collapse of large private company, investment income (net) is estimated to have declined by 1½ percent point of GDP to 49 percent. Decline in interest rates in U.S. and U.K. also had a negative effect, but this was partially offset by the depreciation of the Brunei dollar. Together with a decline in the trade balance, the current account surplus is estimated to have declined by more than 10 percentage points of GDP to 43 percent.

Capital account transactions

54. Portfolio and direct investment inflows have risen in recent years. Recorded inflows, however, are dwarfed by long-term capital outflows, which are derived as a residual in the balance of payments compilation, combining direct placements and reinvested earnings. Short-term capital (the sum of recorded transactions through the domestic banking system and by the Brunei Shell group of companies, plus estimated export trade credits and transactions through BCB) provided net financing in most years. In placing their structural excess liquidity abroad, commercial banks in Brunei contributed importantly to both outward portfolio investment and short-term lending in most years.

International reserves

55. The international reserve position of Brunei is very comfortable, although it fell in 1997, mainly due to a sharp drop in commercial banks' net foreign assets. At the end of 1997, international reserves amounted to US\$3.7 billion, or 17 months of imports of goods and services, with most reserves held by the commercial banks. Commercial banks have invested their international reserves mostly with affiliated banks in Singapore; at end-1997, those net investments amounted to US\$1.8 billion. Official international reserves include the BCB's external assets and the Consolidated Fund, which could be mobilized if necessary for balance of payments financing. The BCB's external assets have been increasing steadily with currency in circulation. At the end-1997, total net official international reserves were US\$1.9 billion, equivalent to nine months of imports of goods and services.

Exchange and trade system²¹

56. **Exchange arrangement:** The Brunei dollar is issued by the Brunei Currency Board (BCB) only against payments in Singapore dollars and at par. The BCB's only intervention currency is the Singapore dollar and the BCB does not quote rates for other currencies. Under the terms of a 1967 Currency Interchangeability Agreement (CIA), the Singapore dollar is customary tender in Brunei and the Brunei dollar in Singapore. Banks are free to deal in all currencies, with no restrictions on amount, maturity, or type of transaction, and in practice, the Brunei exchange market functions as an extension of the Singapore market.

²¹A more detailed description of Brunei's exchange and trade system is contained in Annex II.

57. There is no forward market for foreign exchange in Brunei. However, as a result of the CIA, foreign exchange risk can be hedged in terms of Singapore dollars by resorting to facilities available in that country, including foreign currency futures and options traded on the Singapore International Monetary Exchange (SIMEX), over-the-counter forward transactions arranged by banks in Singapore, and the short-term foreign exchange swap market operated among banks in the Singapore money market. There is no official cover for forward positions.

58. The Brunei dollar is fully convertible and there are no exchange controls. There are no requirements to collect, repatriate or surrender foreign exchange proceeds from exports, and financing terms may be freely agreed between residents and nonresidents. While the provision of foreign exchange for invisible transactions and current international transfers is subject to a bone fide test, in practice, approval is granted quickly and without limit. There are no capital account restrictions, nor any regulations limiting banks' foreign exchange exposure. Activities relating to national food security and those based on local resources require some degree of local participation, and at least one half of the directors of a company must be either Brunei citizens or residents of Brunei.

59. **Trade arrangements:** The trade system remains very liberal and import tariffs continued to decline over the period. There are no restrictions on the destination, origin or provenance of merchandise trade. On the export side, there are neither bans nor taxes, although licenses are required for cigarettes, petroleum products, rice, salt, and sugar; in the case of the latter four because they are subsidized. On the import side, a few imports are banned or restricted for environmental, health, safety, security, or religious concerns, but not for protection or balance of payments reasons. Between 1996 and 1998, the percentage of imports subject to a zero-rate tariff, including basic foodstuffs and construction and educational materials, rose to over 82 percent from 79 percent, while the number of goods subject to tariff rates in excess of 10 percent fell from 748 to 78. As a result, while automobiles remain subject to duties ranging from 60 percent to 300 percent depending on engine size, the average weighted import tariff has fallen to under 1 percent. In accordance with the Common Effective Preference Tariff (CEPT) scheme for the ASEAN Free Trade Association (AFTA), Brunei is scheduled to reduce all its tariffs on imports from other ASEAN members to 0-5 percent range by 2003, with the exception of 203 tariff lines that are permanently excluded from the plan for environmental, health, safety, security, or religious reasons.

II. SELECTED ISSUES

A. Fiscal Structure and Reform

Structure of the budget

60. The fiscal structure of Brunei Darussalam is characterized by a very large public sector. In addition, the government budget is built on a structure of public expenditures which is relatively inflexible (given the very high levels of government employment and

salaries and perquisites) while the structure of public revenue is narrow and relatively volatile (due to the dominance of the oil and gas revenues and the lack of broad-based income or consumption taxes). As a result, the official budget tends to be in deficit in years when the world oil prices are not favorable, but this is more than offset by large investment income of government assets held abroad which is not included in the budget figures.

Budget process

61. The Ministry of Finance is in charge of the budget process, under the supervision of the State Budget Committee appointed by the Sultan. Only the central government collects revenues, and lower levels of government are dependent on transfers from central government. The fiscal year coincides with the calendar year. In addition to the yearly budget cycle there is a five-yearly NDP cycle. Although the design and implementation of NDPs is coordinated and monitored by the Economic Planning and Development Department (EPDD), the National Development Committee, chaired by the Minister for Development and including various deputy ministers and the permanent secretaries of all other ministries, makes the final allocation.

Structure of revenue

62. As mentioned in Section I, government revenues are dominated by receipts from the hydrocarbon sector in the form of corporate income tax, royalties, and dividends. The present tax system of Brunei consists of two major taxes (corporate income tax, including withholding tax on overseas interest payments, and customs duties) and three minor taxes (estate and stamp duties, and municipal buildings tax).²² Non-tax revenue consists of royalties, dividends, and some commercial receipts (fees and charges).

63. Brunei does not have personal income tax and corporate income tax accounts for the major share of tax revenue. The tax has three rates: 55 percent of oil companies; 50 percent for gas companies; and 30 percent for all other companies. Of about 4,000 registered companies, 1,500-2,000 file income tax declarations, but only 500 pay taxes. The oil and gas companies pay taxes on a quarterly basis and all other companies annually. The share of import duties in tax revenue was 14 percent in 1997, which is likely to decline in the coming years as Brunei lowers import-duty rates further, consistent with commitments under various multinational agreements.

64. New revenue measures were introduced in recent years, but their revenue impact was limited. The measures included a 30 percent increase in the price of gasoline in 1992, the introduction of a few co-payments in the medical insurance scheme, and increases in fees and charges for government services. Also, effective December 1994, import-duty rates on cigarettes and alcoholic beverages were raised substantially. In February 1995, a steep increase in the import tariffs on automobiles took place which raised a uniform rate of

²²See Annex III for a summary of the tax system.

20 percent to a range of 40-200 percent, depending on the size of engines. In April of that year, the government reduced import duty rates on 688 items, mainly consumer goods.

65. Nontax revenue consists of royalty, dividends, and some commercial receipts. Royalty payments differ for onshore, and offshore fields. For onshore fields, the royalty currently paid by BSP is a flat 12½ percent (in cash or kind) of production; for offshore fields, it is 10 percent of production between 3 and 10 miles, and 8 percent of production farther offshore. Similar terms apply to natural gas production. The level of dividends are decided by the executive boards of the companies, taking various factors into account such as investment plan.

Structure of expenditure

66. The Brunei expenditure statistics distinguish between ordinary, charged and development expenditures. Ordinary expenditures consist mostly of wages and salaries and pensions and gratuities for public sector workers, but also certain capital expenditure.²³ Charged expenditures cover other current operational costs. Finally, the category “development expenditures” contains all capital spending decided in the context of the five-year NDPs. A consistent functional breakdown of expenditures is not available, although “ordinary expenditures” are published by ministries and for a subset of major departments.

67. Brunei Darussalam’s budget policy is centered around the principle that all its people should share in the revenues from the exploitation of oil and gas. Based on this policy, current expenditure has provided public sector employees with generous remuneration and an elaborate welfare system. The welfare system offers essentially free medical care, with treatment abroad if required; a noncontributory old age pension of B\$200 per month for citizens and permanent residents who are 60 years old or older; special allowances in case of disability and poverty; free education up to the university level, abroad where necessary; subsidized housing and staple foods; and financial support in making pilgrimages to Mecca. These benefits are generally not available to temporary residents, and for permanent residents they are partly financed privately from the 10 percent of income Muslims are expected to give to charity (*zakat*). Apart from welfare-related expenditures, the budget puts emphasis on defense,²⁴ which accounted for 14 percent of total expenditure in 1997, equivalent to about 7 percent of GDP.

²³In the authorities presentation, “Ordinary expenditures” consist of three components: Personnel Emolument (PE: wage bills and bonuses), Other Charged Annually Recurrent expenditures (OCAR: perquisites and supplies), and Other Charged Special Expenditures (OCSE: equipment, vehicles and capital purchases). Here, as a rough estimation, we define current expenditure as the sum of PE, OCAR, and charged expenditures; and capital expenditure as the sum of OCSE and development expenditures.

²⁴Sum of defense expenditure in ordinary and development expenditures. A precise breakdown is not available.

68. On capital expenditure, while their principal objective has been to diversify the economic base through the expansion of agriculture and industry, the NDPs have shifted their emphasis on different spending categories. Under the Seventh NDP (1996-2000), the structural reforms to promote economic diversification included (1) encouraging oil/gas downstream activities such as petrochemical and gas-based industries, refining, and bunkering; (2) promoting Brunei as a service hub for trade, tourism, and business services; and (3) developing agriculture and fisheries, mainly to provide for some part of Brunei's domestic requirements.

Financing

69. Since 1986, government foreign investment income accruing to the General Reserve Fund is no longer recorded ex-ante in the budget, although it is used ex-post for financing budgetary shortfalls, as transfers from the General Reserve Fund have occurred regularly since 1992. Since 1994, the transfers also have included investments by the BIA in some public enterprises. However, these ex-post transfers to the budget have been well below the estimated annual investment income of the government.

70. There are two separate reserve funds: the Government Consolidated Fund, a reserve fund comprising the government's tax and non-tax revenues including transfers from the General Reserve Fund, and from which the government's ordinary and charged expenditures are paid; and the Development Fund, a reserve fund allocated in accordance with the NDP from which development expenditures are paid. Every year, a certain amount is transferred from the Consolidated Fund to the Development Fund as a "contribution to Development Fund."

71. The General Reserve Fund, under the control of the BIA, is the largest extra-budgetary fund which contains revenues from oil and gas set aside for future generations. Information on this fund is not available as the BIA presents its accounts only to the Sultan. In the mid-1980s, the government ceased recording BIA's investment income as revenues and began recording its foreign transactions separately from the exchange records. Another extra-budgetary fund is the Government Trust Fund, which finances loans on favorable terms to government employees.²⁵

Public enterprises

72. Since 1985 the government has held a 50 percent share in Brunei Shell Petroleum Company Limited (BSP) and Brunei Shell Marketing²⁶. In 1973, the government first bought a 25 percent share in BSP, which was established in 1957 as a fully owned subsidiary of the

²⁵This is essentially a revolving fund, which in principle should be self-financed. In practice, however, this fund is sometimes replenished by transfers from the Consolidated Fund.

²⁶It is likely, however, that through the BIA the Brunei government has a controlling or majority interest in enterprises domiciled abroad.

Royal Dutch/Shell group. Brunei Shell Marketing was established in 1974 to sell oil and gas products domestically. The government eventually also raised to 50 percent its initial 10 percent share in three other companies—Brunei LNG, Brunei Coldgas, and Brunei Shell Tankers—formed in 1969 to handle the liquefied natural gas trade with Japan. Brunei Coldgas was merged with Brunei LNG in 1996, and the government retains a two-thirds majority, while the remaining one-third is shared equally between Shell and Mitsubishi Corporation of Japan. Brunei Tankers is fully government owned but its activities are sub-contracted to Shell. The government's interests in the oil and gas companies are looked after by the Petroleum Unit, a division within the Prime Minister's Office, which is also the principal regulator of the oil and gas industry. In addition, the Bruneian members of the BSP board and their alternates formed in 1993, a ministerial committee, called the Brunei Oil and Gas Authority, with policy responsibility for major decisions; the Director of the Petroleum Unit serves as secretary to this committee.

Fiscal reform

73. While the authorities have undertaken some measures in recent years to raise more fiscal revenues and rationalize expenditures (selected tariff increases, freezing current expenditures, and privatizing a few small public services), there is a need to broaden the tax base away from oil revenues. Also, there is considerable scope for rationalizing large public expenditures and developing an institutional framework that can capture private sector as it becomes a more significant part of the economy.

74. The present tax system of Brunei is relatively simple and its rates are moderate by international standards, but extremely narrow in scope. It has the following five weaknesses;

- It is very narrow in coverage; it lacks a general sales tax as well as a broad-based income tax (income tax is levied only on the profits of limited companies and exempts all establishments that are unincorporated as well as all personal incomes).
- Its revenues are essentially dependent on oil and gas, which is likely to be a declining source of revenue over the medium term.
- The revenue yield of the tax system is low and lacks buoyancy.
- The system contains tax laws which are out of date and which have not kept pace with the changes in the structure of the economy as well as the economic policies.
- The present system is not efficiently administered.

75. Broadening the tax base is an important fiscal objective, given that oil/gas sector will be a declining source of revenue over the medium term. It would be necessary to expand the present corporate income tax to cover the large and growing unincorporated establishments; this sector benefits greatly from government investment in economic and social infrastructure and pays little to no taxation. Over time, it would be desirable that income tax be extended to include the incomes of individuals as well.

76. On charges, many public services, even when they involve huge investment and operations and maintenance costs and are of commercial type (e.g., electricity, water, telephone, roads) are inadequately priced. Thus, charges should be raised to recover at least the operational costs of electricity generation and distribution, water supply, and local telephone service, and over time these services should operate on a commercial basis, with prices based, as far as possible, on average costs.

77. On the expenditure side, personnel emoluments in the public sector are large (one-fourth of total expenditure) and civil service cash "perquisites" are excessive making private sector employment uncompetitive in comparison with government employment, which is the largest employer and, in fact, it is an employer of choice with the Bruneians. Although subsidies are not explicit in the budget, there are many sizable "hidden" subsidies (e.g., energy, housing, water, telephones) as well as transfers (e.g., civil service pensions). Defense expenditure also should be reduced, considering its large and increasing share in the total expenditure, in favor of human resource and infrastructure development.

78. Thus, limiting new government job creation to, or below, the annual attrition rate (thereby keeping the "net" employment level constant or even reducing it) and eliminating, or reducing, fringe benefits such as conveyance and telephone allowances, which have little rationale, would be an effective way of rationalizing large public expenditures. Also, the civil service pay scales and other pay scales (i.e., teachers, military) should be revised to incorporate all perquisites and "hidden" benefits and make government salary structures completely transparent. Over time, the subsidy given to government employees (in the form of interest-free loans) for the purchase of cars and houses, which are essentially items of private consumption, should be eliminated or reduced.

B. Strengthening and Development of the Financial Sector

79. As part of its strategy to diversify the economy, some diversification of financial services has occurred over the last few years, and the government has targeted further development in this area, including in the provision of clearing and settlements services and the development of a domestic securities market. Further development of the financial system will help spur a healthy and sustainable expansion in private sector activities in Brunei only if it is preceded by appropriate prudential regulation and supervision.

Structure

80. As detailed in the accompanying table, the financial system of Brunei comprises:

(i) The Central Bank Subsector: The operation of the BCB are limited to the issue and redemption of Brunei currency notes and coins and the investment of its external

Brunei Darussalam: Structure of Financial Sector, 1998

Type	Name	Year established	Locally-owned	Government share (Percent)	Branch of international bank	Joint venture with foreign partner	Paid-up capital (B\$ mns.)	Main activity
Currency board	Brunei Currency Board	1967	Yes	100	No	No	...	Issue currency and maintain exchange rate stability
Investment agency	Brunei Investment Agency	1983	Yes	100	No	No	...	Manages bulk of Brunei's external assets
Commercial banks (8)	Islamic Bank of Brunei Berhad	1982 1/	Yes	66.95 2/	No	Dai Ichi Kangyo Bank Ltd.	55.0	Commercial banking
	Baiduri Bank Berhad	1994	Yes	85 3/	No	Paribas	50.0	Commercial banking
	Standard Chartered Bank	...	No	...	Yes	Standard Chartered Bank	...	Commercial banking
	Hong Kong and Shanghai Banking Corporation (HSBC)	...	No	...	Yes	HSBC	...	Commercial banking
	Citibank N.A.	...	No	...	Yes	Citibank	...	Commercial banking
	Malayan Banking Berhad	...	No	...	Yes	Malayan Bank	...	Commercial banking
	Overseas Union Bank (OUB)	...	No	...	Yes	OUB	...	Commercial banking
Development bank (1)	Sime Bank Berhad	...	No	...	Yes	Sime Bank	...	Commercial banking
	Development Bank of Brunei	1995	Yes	100	No	No	...	Development banking
Savings bank (1)	Tabung Amanah Islam Brunei	1991	Yes	100	No	No	...	Islamic depository corp.
Finance companies (5)	Baiduri Finance	1996	Yes	100	No	No	1.0	Consumer and equipment lending and leasing
	IBB Kredit Berhad	1997	Yes	100	No	No	1.0	"
	Standard Chartered Finance	...	No	...	...	Standard Chartered Bank	1.0	"
	Mortgage and Finance	...	No	...	...	...	1.0	"
	IRB Finance	...	...	...	No	...	1.0	"
	Insurance companies (23)	Motor and General Insurance	1972	Yes	2.2	General insurance
Of which:	Borneo Insurance	1980	Yes	...	...	...	2.6	General insurance
	National Insurance Company	1969	Yes	...	...	Baiduri Holdings	5.0	General insurance
	Takaful IBB Berhad	1994	Yes	...	...	Allianz Insurance	10.2	General & life insurance
Securities companies (2)	Insurance Islam TAIB	1993	Yes	...	...	Mitsui Marine & Fire Insurance Company	5.0	General & life insurance
	Baiduri Securities	1995	Yes	...	...	No	...	Brokerage services
Remittance companies (29)	IBB Securities	...	Yes	...	...	No	...	Brokerage services
	...	1994	Yes	...	...	...	...	Remittances of local foreign workers
Money changers (29)	...	1994	Yes	...	...	...	...	Foreign currency exchange services
	...	1994	Yes	...	...	...	...	...

Source: Data provided by the Brunei authorities.

1/ Became an Islamic bank in 1993.

2/ Co-owned by Royal Family (66.95 percent), Dai Ichi Kangyo Bank Ltd. (14.4 percent), and over the counter stock (18.65 percent).

3/ Co-owned by Baiduri Holdings (60 percent), Royal Brunei Airlines (10 percent), Royal Brunei Technical Services (15 percent), and Paribas (15 percent).

reserves. By statute, the BCB is required not to let its external assets fall below 70 percent, or its liquid assets below 30 percent, of its demand liabilities.²⁷ The BCB does not act as a lender of last resort to banks, lend to the government, hold government securities, or maintain any government deposits.²⁸ The BCB maintains accounts in three domestic banks, which are used for the settlement of currency transactions. At end-June 1998, total assets of the BCB stood at B\$1.45 billion.

The BIA was established in 1983 for holding and managing the Government Reserve Fund and all the government's external assets, including those built-up over the years from oil and gas earnings. Data on the outstanding stock of external assets of the BIA and the performance of those assets over the years remain confidential.

(ii) Deposit money corporations: At end-June, 1998, total assets of deposit money corporations stood at B\$8,877 million (110 percent of GDP), of which over half comprised loans and advances. About 70 percent of the banking system's total assets are held by the three oldest banks: Citibank, Standard Chartered Bank (SCB), and Hongkong and Shanghai Banking Corporation (HSBC), although more recently the three local banks have been growing at a faster rate.

(iii) Other banking institutions: Finance companies are involved mainly in hire-purchase financing of cars and other consumer durables, and in mortgage lending. They are subject to the same minimum cash balance as banks (6 percent), and compete with banks in attracting nontransferable time and savings deposits (they are restricted from taking demand deposits). At end-June 1998, total assets of finance companies were B\$732 million. Finally, the Tabung Amanah Islam Brunei (TAIB) is a type of depository corporation operating under Islamic banking principles, enabling persons to save and invest to undertake the Haj pilgrimage to Mecca.

(iv) Nondepository financial corporations: Nondepository financial corporations include 23 insurance companies, half of which are local, the Employees Trust Fund (ETF), 2 securities companies, 29 money changers, and an equal number of remittance companies. The EPT was set up in 1993 as a compulsory pension scheme for all new public sector employees and, since 1994, for all private sector employees, with an exemption for those working for an employer with an approved provident fund (i.e., banks and Brunei Shell Petroleum). Two securities companies operate as fully owned subsidiaries of their respective local banks. To date, the banking system's excess liquidity has been invested in the nearby

²⁷Defined to include deposits in all currencies of nonbank residents and non-residents, and the net position of borrowings in all currencies from banks in Brunei less any claims in all currencies of such banks.

²⁸However, the BCB's balance sheet includes a small amount of claims on government on account of amounts outstanding on the sale of commemorative coins. In addition, as the IMF accounts are held by the BCB on behalf of the Ministry of Finance, a counterpart balancing entry is recorded in BCB liabilities as credit from the government.

equity and bond markets of Singapore, Malaysia and Hong Kong, and investments by Bruneians in the domestic market are mainly concentrated in the property sector. There are no bonds or bills, either public or private, and the two securities companies are limited to brokerage services for the purchase of foreign securities on behalf of their clients.

Vulnerabilities

81. Licensing, regulation and supervision of the financial sector is the responsibility of the Financial Institutions Divisions (FID) of the Ministry of Finance. FID was established in 1993 and is headed by the Director who reports directly to the Permanent Secretary. Though the financial system is dominated by the operations of commercial banks, six of which have strong ties to their parent institutions (providing them with strong technical skills and management), FID has only four professional supervisory staff, with limited expertise, assigned the responsibility for supervising all financial sector activities. Notwithstanding some progress in strengthening regulation and supervision following several financial failures in the second half of the 1980s,²⁹ the financial system of Brunei remains vulnerable to domestic and foreign disturbances, owing to inadequate prudential regulation and weak supervision.

82. Apart from the minimum paid-up capital requirements stated in the legislation, the only prudential regulations covering banks and finance companies are the annual renewal of their licenses and the imposition (in line with Singapore) of a 6 percent minimum cash balance (MCB). There are no legal or otherwise documented licensing procedures, and licenses are renewed on a case-by-case basis. The MCB was introduced in December 1995 on all banks and finance companies, and maintained at 6 percent notwithstanding the reduction to 3 percent in the MCB imposed by the Monetary Authority of Singapore in July 1998.³⁰ In

²⁹Between 1985 and 1988, failures of the United National Finance Company, the National Bank of Brunei, and the Jan Shen trading company, caused the government to be involved in the liquidation, the recovery of assets, and the repayment of depositors (including a budgetary transfer).

³⁰The Banking Act of January 1957, sets out license requirements and minimum paid-up capital for banks, and requires banks to establish a reserve fund from annual profits, submit monthly statements of assets and liabilities to FID (from which FID prepares an annual report on the operation of the banking system on a consolidated basis), and publish annual audited financial statements. A new draft Emergency (Banking) Order includes more extensive provisions on minimum capital ratios, restrictions on some large exposures and related party transactions, expanded prudential reporting, the carrying out of on-site inspections, and required corrective actions. The draft includes specific supervision provisions for branches of foreign banks. The Emergency (Islamic Banking) Order was passed in 1992 to promote Islamic banking, although only one bank has been licensed under this order to date (the Islamic Bank of Brunei). Unlike the Banking Act, the Islamic Banking Order contains detailed supervision provisions, including the requirement to maintain adequate levels of

(continued...)

practice, because there is no lender-of-last-resort facility, in times of tight liquidity, some banks fall short of the latter requirement. Except for the MCB, FID has not issued any capital adequacy, loan classification and provisioning requirements, or any other prudential criteria. FID does not conduct on-site inspections of banks or of other deposit-taking institutions, to assess the adequacy of banks' internal procedures and controls, nor is there any effective off-site supervision. Though minutes of the meetings of the Bankers' Association are submitted to FID, meetings between FID and bank managers are not held on a regular basis. There are no legal requirements for FID to approve large share holdings, changes in ownership, or major investments by banks, nor are there any limits on exposure to foreign currencies other than the Singapore dollar. There are no cease and desist provisions for regulatory and prudential violations, nor is there regular consultation with parent supervisory authorities. In addition, no anti-money laundering laws are in force, nor have any guidelines in this regard been issued by FID. Finally, although banks voluntarily report their nonperforming loans and their risk-weighted capital adequacy ratios (CAR) on a quarterly basis (the latter requirement is to be extended soon to the finance companies), audited statements of banks are not required to be prepared in accordance with internationally accepted accounting standards, nor are they systematically forwarded to, and analyzed by, FID, on an on-going basis. Though supervisory staff have some knowledge of the Basle Committee's *Capital Adequacy Criteria*, they are not sufficiently familiar with the Committee's *Core Principles for Effective Banking Supervision*. In particular, while data reported by banks indicate that they all meet the minimum risk-weighted CAR of 8 percent, it is unclear whether banks are correctly valuing their assets and applying appropriate risk-weights. In addition, finance companies most likely fall short of the requirement, as their paid-up capital base has remained unchanged at B\$1 million despite sharp increases in their loan portfolios in recent years. While nonperforming loans (NPL) of banks are small, both in absolute terms and as a share of total loans, between end-1996 and end-June 1998, their share doubled to just under 5 percent. The share of NPL of finance companies is not known but is also likely to have risen in the last year in line with the sharp drop in economic activity and the weakening of the real estate market.

³⁰(...continued)

capital, reserves, and liquid assets; submitting and publishing annual audited financial statements; furnishing any other information required by the Minister of Finance; and empowering the latter to require corrective action, force the removal of directors and managers, issue cease and desist orders, and order the winding up of an Islamic bank. Finance companies are regulated and licensed under the Finance Companies Act of 1972. While more comprehensive than the Banking Act, its provisions are not as extensive as those of the Islamic Banking Order. No annual report is prepared on finance companies despite the compilation of information by FID on their operations, and no information is available on the share of their nonperforming loans or exposure levels. The TAIB is governed by the Emergency (Perbadanan TAIB) Order of 1991, and, contrary to banks and finance companies, is not subject to any licensing requirements. Money changers and remittance companies are governed by the Emergency (Money Changing and Remittance Businesses) Order of 1994. Finally, in their efforts to improve the legal framework, the authorities have also prepared a draft Emergency (Insurance) Order.

Prudential policy reforms

83. Against this background, it is clear that prudential regulation and supervision need to be significantly improved to ensure the soundness of the financial system. The government recognizes the need for an improved supervisory structure and has stated in its Seventh National Development Plan (1996-2000), that a proper regulatory mechanism to oversee the financial system will be given priority attention.

84. Banking regulation needs to be brought up to international best practices by requiring banks, especially local ones, to adopt appropriate standards for accounting, valuation, loan classification and provisioning; instituting transparent licensing procedures; mandating ceilings on loans to single borrowers and connected lending; limiting liquidity mismatches and excessive open foreign exchange positions; requiring that major changes in ownership or management obtain prior supervisory approval; and extending the coverage of reporting requirements. In addition, in light of the intention to launch an International Offshore Finance Center (IOFC), it will be particularly important to guard against money laundering by obtaining approval from home supervisory authorities before issuing IOFC operating licenses and extending prudential regulation to cover banks operating in the IOFC.³¹ Finally, prudential regulations governing finance, securities, remittance, and insurance companies, along with money changers, will need to be appropriately coordinated and harmonized.

85. Comprehensive and coordinated prudential regulation will need to be accompanied by close supervision and monitoring of financial institutions. This will require effective coordination between BCB and FID, a sharp increase in the number of staff assigned supervisory duties to enable more frequent monitoring of financial data, and the development of an early-warning system such as the CAMELS rating system.³² In exercising its functions, the supervisory agency must be granted sufficient authority and independence from political influence, established by law, to carry out its functions, including powers to control the issue and withdrawal of licenses, request relevant data, conduct regular on-site inspections, demand loan provisions, remove managers, and force the closure of unsound institutions.

Development of the financial sector

86. The authorities have stated that they are committed to maintaining the currency peg and the present currency board arrangement, which have provided a solid framework of monetary stability over the years. Over time, they also view the role of the currency board as

³¹As mentioned above, the draft Emergency (Banking Act) Order includes specific supervision provisions applicable to branches of foreign banks. In addition, the authorities have prepared drafts of an International Trusts Act and an International Limited Partnership Order.

³²The CAMELS rating system is an off-site evaluation system that encompasses the adequacy of Capital, the quality of Assets and Management, Earnings capability, Liquidity management, and the effectiveness of control Systems of banks.

a natural complement financial market development. In that context, the authorities are preparing to the transfer settlement services to the BCB, and they see some scope for limited money market operations while maintaining an adequate rule for foreign exchange backing of the currency.

Clearing and settlement services

87. Automatic clearing arrangements have been recently transferred to the BCB, and with some further technical assistance from Singapore, the BCB will soon be operationally ready to take on the additional responsibility of settlement services, as soon as the institutional framework is agreed upon. As the BCB accumulates sufficient experience in operating the clearing and settlements system and demonstrates the ability to closely monitor the overall liquidity of the banking system on a daily basis, including in the interbank market, the authorities plan to offer shorter-term maturities in the primary market, to divert some of the excess funds that are currently placed abroad to finance local investment while reducing reliance on transfers from the stock of external assets, and develop a secondary market in government securities, as an indirect tool of monetary management.

The securities market

88. Though the authorities have yet to decide whether to issue conventional-type securities which would be consistent with Islamic banking principles, or conventional-type securities alongside Islamic-based securities, as in Malaysia, draft legislation (including specific provisions on Islamic-based securities) has been prepared and is scheduled to be enacted shortly.³³ Initially, the securities would have a maturity of not less than one year, yield a market rate of return, and be available to commercial banks (but not the BCB) and other interested parties. The latter would include religious organizations, with total assets of around B\$300 million, the Employees' Trust Fund, which has accumulated B\$285 million in pension contributions since 1993, and insurance companies, with assets of around B\$60 million. Yields would probably be at a small premium over the equivalent yield in the Singapore market for government securities to compensate for the (low) exchange and country risks. Over time, the development of a long-term government bond market could be used for funding infrastructure investment and act as a useful benchmark cost of capital for assessing government projects.³⁴

C. Economic Diversification and Development of the Private Sector

89. The authorities' medium-term economic objectives, as elaborated in the current Seventh National Development Plan, 1996-2000 (NDP7), are to diversify the country's productive base away from oil and gas and enhance economic efficiency by expanding the

³³Entitled Emergency (Securities) Order.

³⁴Currently, Singapore government securities would provide useful proxy benchmark indicators for market pricing of Bruneian government securities.

role of the private sector. The strategy to achieve these goals is based on a broad corporatization/privatization effort; greater foreign investment; and a more competitive labor market.

90. In response to recent events; namely, the economic turmoil in nearby Asian countries, sharply lower oil prices, and the collapse of a large domestic company, the authorities decided to accelerate the implementation of their strategy to achieve their objectives. In particular, in mid-1998, the Brunei Darussalam Economic Council (formerly known as the Ministerial Economic Council) was established under the Sultan's brother Prince Mohamed Bolkiah to come up with specific recommendations on how to restructure the economy over the short- to medium-term away from dependence on oil and gas activities and toward greater private sector participation, including through corporatization/privatization, encouraging foreign investment by extending the scope of activities open to foreign participation and streamlining approval procedures, and reducing the disparity between government and private sector remuneration.³⁵

Corporatization/privatization

91. The move toward reducing the scope of government activities began under NDP6 and has continued under NDP7. In particular, partial privatization has been achieved in several areas, including power generation; telecommunications (equipment and mobile cellular telephone system); transportation (taxi and bus services); domestic waste collection outside Municipal areas; meat and poultry processing; some trading activities (Muara Export Zone); and selected government services. Looking to the future, in a bid to secure a larger private sector role in the provision of infrastructure, the government has announced that it will allow broader participation by the private sector in the traditional areas of heavy government involvement, including transportation, communication, and utilities. In preparation, guidelines for large scale privatization are currently being drawn up. In the meantime, the government intends to corporatize/commercialize several government activities and services. In the short-term, targets include telecommunication equipment and services; civil aviation; port services (container terminal); transport (passenger services); and postal services. This will encourage private sector growth and help promote Brunei as a service hub for tourism and trade (SHuTT) through transshipment and export-oriented activities within the Brunei-Indonesia-Malaysia-Philippines East Asia Growth Area (BIMP-EAGA). Over the medium-

³⁵The Council, comprised of government officials and private sector representatives, has set up five Working Groups. Four Working Groups, which are scheduled to submit their recommendations to the Cabinet sometime in 1999, cover the following areas: (i) *Promoting Productivity, Manufacturing, and Services*; (ii) *Diversifying Oil and Gas Industries*; (iii) *Developing Finance and Banking*; and (iv) *Facilitating Economic Policy, Infrastructure, Regulation, Finance, Credit, Trade, and Labor*. A fifth Working Group is tasked with assessing the current economic situation and drawing up recommendations on how to cushion the impact on the domestic economy of the ongoing economic downturn in nearby Asian countries, including Japan. This Working Group is expected to report to Cabinet by early 1999.

term, candidates for privatization include downstream activities in the oil and gas sectors, including an ammonia/urea plant, a methanol plant, an export-oriented refinery, and production of plastics and paint. In the non-oil/gas sector, medium-term candidates for privatization include producers of primary products (agriculture, forestry, and fish), construction, trade, and utilities. With regard to human resource development, the authorities have targeted an increase in the participation of the private sector in the areas of education (particularly curriculum development, and technical and vocational training), health services, training and technology transfer.

Foreign investment and regulatory framework

92. On the one hand, Brunei offers many attractive features to potential foreign investors, including a stable political climate and macroeconomic conditions, a liberal exchange and trade system, good physical infrastructure, and a strategic location. In addition, the authorities believe that the Investment Incentive Act of 1975 contains many incentives which should encourage start-up and ongoing businesses. On the other hand, limits on foreign ownership and cumbersome and sometimes unclear approval procedures and practices continue to act as major disincentives to foreign investment. In particular, while industries for the local market not related to national food security, as well as those for the export market, can be totally foreign-owned, industries relating to national food security and those based on local resources require a minimum share of local participation. Moreover, limits on foreign ownership prevent the transfer of much-needed expertise and technology. Finally, a recent attempt by the Ministry of Industry and Primary Resources (MIPR), which is responsible for promoting and facilitating the industrial development of the country, to coordinate all industrial development activities and act as a "one stop agency" to assist investors in acquiring: physical facilities (land and buildings); local primary and natural resources; commercial advantages and incentives; technical and production services; and administrative services, has proved unsuccessful. The government will need to revisit this issue, as experience across many countries has shown that prospective foreign investors are more likely to be attracted by clear and transparent rules of operation, including bidding processes, and streamlined and efficient approval procedures, rather than by tax incentives and exemptions.

Labor market

93. Economic diversification remains seriously hampered by the relatively high level of remuneration in the government sector. Though the creation of the Employees Trust Fund in January 1993 with a mandatory contribution for private sector employees since 1994 has helped improve the relative attractiveness of seeking private sector employment, the large differential between public and private sector remuneration continues to act as the main disincentive to private sector employment. In particular, as explained above (Section I.B), the estimated average annual salary of a government employee (B\$15,800) is over 30 percent higher than the comparable average annual wage of professional staff in the private sector. Moreover, the higher average government wage is supplemented by various allowances, which amount, on average, to around 70 percent of base salary. In these circumstances, only the Brunei Shell group of companies and some of the private financial institutions, can afford

to compete with remuneration levels in the government sector. Over time, a reduction in the size of the public sector and a gradual narrowing of wage differentials will be necessary to encourage private sector activity and employment.

94. In addition, though labor regulations appear relatively transparent, especially with regard to hiring and firing of expatriate labor, in practice, hiring decisions of private companies are not entirely free of government involvement. In particular, the government's "Bruneization" policy, according to which priority of employment is to be given to locals over expatriates, except in cases where there is no local interest or suitably qualified candidate, often acts as a further disincentive to private sector employment, as employers fear that it may be harder to shed local labor.³⁶

³⁶The "Bruneization" policy was adopted to help absorb the estimated 5,200 people who enter the working age population each year and as a way to achieve an increase the female participation rate. Bruneization has largely been achieved in the government, oil and gas, and financial sectors.

**Brunei Darussalam: Impact on Monetary Survey of Reclassifying
Data Reported by Banks According to IMF Methodology
End-June, 1998 1/**

(In millions of Brunei dollars)

	Before 2/	Description of principle reclassifications	After 2/	Difference
Net foreign assets	3,957		3,110	-846
BCB	826	Plus valuation effects	830	4
Commercial banks	3,131	Less foreign currency claims on domestic banks	2,280	-851
Net domestic assets	3,530		3,628	98
Domestic credit	4,605		5,134	529
Credit to government, net	0	Plus government deposits and BCB liability to Ministry of Finance on IMF accounts	672	672
Credit to private sector	4,605	Less loans to non-residents and finance companies	4,462	-143
Other items, net	-1,075		-1,506	-431
Broad money	7,487		6,738	-749
Currency	528	Plus foreign notes and coins	536	8
Deposits	6,959	Less government deposits and BCB deposits, plus required reserves of finance companies	6,202	-757

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

1/ For a detailed explanation of the data reported by banks and all the reclassifications, see forthcoming STA technical assistance report *Brunei Darussalam: Report on Money and Banking Statistics Mission*, prepared by Mr. R. Skarzynski.

2/ Before and after reclassification of monetary data in accordance with Fund methodology.

Brunei Darussalam: Exchange and Trade Arrangements, December 1998

Article VIII Date of acceptance: October 10, 1995.

Exchange Arrangement

Currency	The currency of Brunei Darussalam is the Brunei dollar.
Other legal tender	The Singapore dollar is also legal tender.
Exchange rate structure	Unitary.
Classification	
Pegged	<p>The Brunei dollar is issued by the Brunei Currency Board (BCB) only against payments in Singapore dollars and at par. Under the terms of a 1967 Currency Interchangeability Agreement (CIA) between the BCB and the Board of Commissioners of Currency of Singapore (BCCS), the Singapore dollar is customary tender in Brunei Darussalam and the Brunei dollar in Singapore. The BCB and BCCS have accepted each other's currency and have agreed to mutual exchange at par and without charge. They have instructed their banks to do the same with their customers. Any excess currency is repatriated regularly, with the issuing institution bearing the costs, and settlements are made in the other country's currency. The BCB deals only in Singapore dollars and does not quote rates for other currencies. Banks, however, are free to deal in all currencies, with no restrictions on amount, maturity, or type of transaction.</p> <p>The Brunei Association of Banks fixes daily buying and selling rates for electronic transfers and sight drafts in 17 other currencies on the basis of the interbank quotations for these currencies in relation to the Singapore dollar. Banks in Brunei Darussalam must apply these rates for transactions with the general public for amounts up to B\$100,000. Exchange rates for amounts exceeding B\$100,000 are set competitively by each bank on the basis of the current interbank quotations for the Singapore dollar on the Singapore market.</p>
Exchange tax	No.
Exchange subsidy	No.
Forward exchange market	There is no forward market for foreign exchange in Brunei Darussalam. However, as a result of the CIA, foreign exchange risk can be hedged in terms of Singapore dollars by resorting to facilities available in that country, including foreign currency futures and options traded on the Singapore International Monetary Exchange (SIMEX), over-the-counter forward transactions arranged by banks in Singapore, and the short-term foreign exchange swap market operated among the banks in the Singapore money market.
Official cover of forward operations	No.

Arrangements for Payments and Receipts

Prescription of currency requirements	No.
Payment arrangements	
Regional arrangements	Brunei Darussalam is a member of the ASEAN.
Administration of control	
Exchange control authorities	There are no formal exchange controls, but the Ministry of Finance (MOF) retains

International security restrictions	responsibility for exchange control matters. No.
Payments arrears	No.
Controls on trade in gold (coins and/or bullion)	
Controls on domestic ownership and/or trade	Only banks licensed to operate in Brunei Darussalam, and gold dealers and jewelers specifically authorized by the MOF may buy and sell gold bars. Gold bars are not subject to import duty, but a 10% duty is levied on the importation of gold jewelry.
Controls on external trade	Yes.
Controls on exports and imports of banknotes	No.

Resident Accounts

Eligibility to hold accounts	Juridical and natural persons are eligible.
Foreign exchange accounts permitted	Yes.
Held domestically	Yes.
Held abroad	Yes.
Accounts in domestic currency convertible into foreign currency	Yes.

Nonresident Accounts

Eligibility to hold accounts	Juridical and natural persons are eligible. There is no distinction between accounts of residents and nonresidents of Brunei Darussalam.
Foreign exchange accounts permitted	Yes.
Domestic currency accounts	Yes.
Convertible into foreign currency	Yes.
Blocked accounts	No.

Imports and Import Payments

Foreign exchange budget	No.
Financing requirements for imports	No.
Documentation requirements for release of foreign exchange for imports	No.
Import licenses and other nontariff measures	
Negative list	A few imports are banned or restricted for environmental, health, safety, security, or religious reasons.
Import taxes and/or tariffs	Except for cigarettes and alcoholic beverages, most imports are subject to tariff rates of up to 300%. Some 80% of items (including basic foodstuffs, construction materials, and educational materials) are zero rated. Most other goods are subject to tariff

rates of 5%, 10%, or 20%. Automobiles are subject to duties ranging between 60% and 300%, depending on engine size. In accordance with the CEPT scheme for the AFTA, Brunei Darussalam will reduce its tariffs on imports from other ASEAN members to 0-5 percent range by 2003, with the exception of about 203 tariff lines that are permanently excluded from the plan.

Taxes collected through the exchange system	No.
State import monopoly	No.

Exports and Export Proceeds

Repatriation requirements	No.
Documentation requirements	No.
Export licenses	Export licenses are required for cigarettes, diesel, gasoline, kerosene, rice, salt, and sugar. There are no export taxes.
Without quotas	Yes.
With quotas	n.a.
Export taxes	No.

Payments for Invisible Transactions and Current Transfers

Controls on these payments	The provision of foreign exchange for these payments is subject to a bona fide test. Interest payments are subject to a 20% withholding tax. Information on transfers for amortization of loans and depreciation of direct investments was not available at the time of publication.
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Proceeds from Invisible Transactions and Current Transfers

Repatriation requirements	No.
Restrictions on use of funds	No.

Capital Transactions

Controls on capital and money market instruments	No.
Controls on derivatives and other instruments	No.
Controls on credit operations	No.
Controls on direct investment	
Inward direct investment	There are no sectoral restrictions, but activities relating to national food security and those based on local resources require some degree of local participation. Industries producing for the local market that are not related to national food security and industries that solely export may be fully foreign owned. Joint ventures are particularly encouraged in export-import industries and activities supporting such industries. At least one-half of the directors of a company must be either Brunei citizens or residents of Brunei Darussalam.
Controls on liquidation of direct investment	No.
Controls on real estate transactions	

Purchase locally by nonresidents	Only Brunei citizens are allowed to own land. However, foreign investors may lease land on a long-term basis, including sites destined for industry, agriculture, agroforestry, and aquaculture.
Sale locally by nonresidents	n.a.
Provisions specific to commercial banks and other credit institutions	No.
Provisions specific to institutional investors	No.
Other restrictions imposed by securities laws	No.

Changes During 1998

No significant changes occurred in the exchange and trade system.

Brunei Darussalam: Summary of Tax System, December 1998			
Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Tax on income and profits			
1.1 Tax on individuals	None	None	None
1.2 Corporate tax	<p>Payable by resident company on income accruing in, derived from, or receivable in Brunei Darussalam. A nonresident company is only taxed on its income arising in Brunei Darussalam. Sole proprietorships and partnerships are not subject to tax</p> <p>A company, whether incorporated locally or overseas, is considered as resident in Brunei Darussalam for tax purposes if the control and management of its business is exercised in Brunei Darussalam.</p> <p>Oil and gas companies pay taxes on a quarterly basis while all other companies pay annually.</p>	<p>All expenses, wholly and exclusively, incurred in the production of taxable income, are allowable as deductions for tax purposes. Among others, these deductions include:</p> <ul style="list-style-type: none"> - Interest on borrowed money used in acquiring income; - Rent on land and buildings used in trade or business; - Costs of repair on premises, plant and machinery; - Bad debts and specific doubtful debts, with any subsequent recovery being treated as income when received; and - Employer's contributions to approved pensions or provident funds. <p>-For oil and gas companies, royalties are deductible for income tax purposes.</p> <p><u>Allowances for qualifying capital expenditures:</u> The taxpayer is entitled to claim wear and tear allowances calculated as follows:</p> <p>1. <u>Industrial buildings</u></p> <p>An initial allowance of 10 percent is given in the year of expenditure and an annual allowance of 2 percent of the qualifying expenditure is provided on a straight-line basis until the total expenditure is written off.</p>	<p>1. Oil companies 55%</p> <p>2. Gas companies 55%</p> <p>3. Other companies 30%</p>

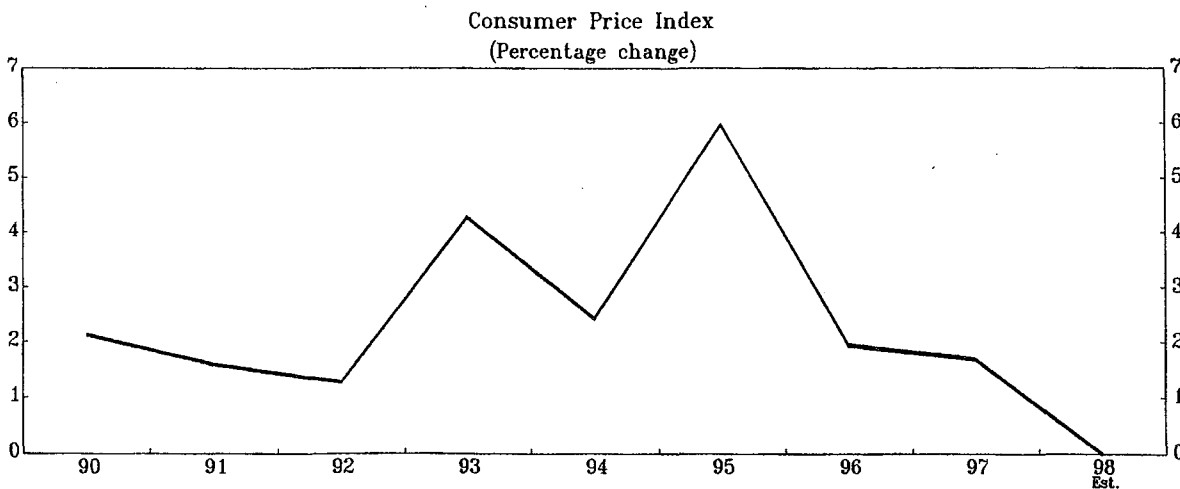
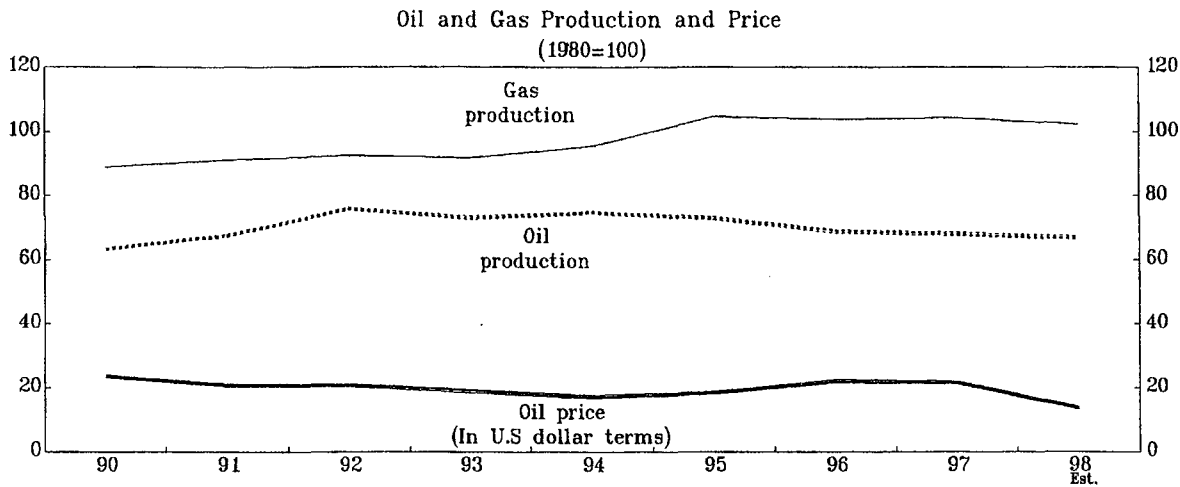
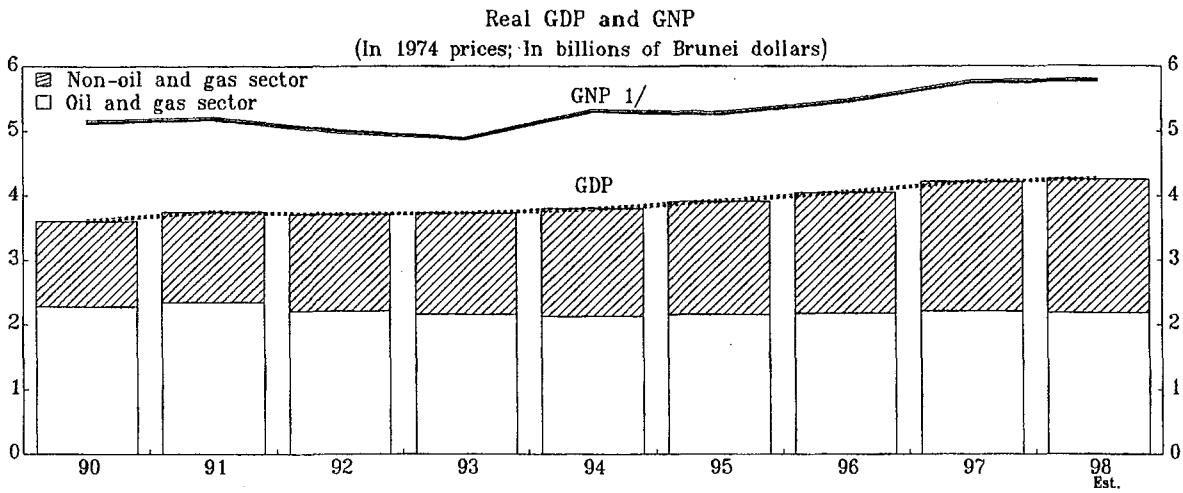
Brunei Darussalam: Summary of Tax System, December 1998			
Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 <u>Corporate tax</u> (Cont.)		<p>2. <u>Machinery and plant</u></p> <p>An initial allowance of 20 percent of the cost is given in the year of expenditure together with annual allowances calculated on the reducing value of the assets. The 13 rates range from 3 to 25 percent, depending on the nature of the asset.</p> <p>3. <u>Balancing allowances/charge</u></p> <p>Balancing allowance is an additional allowance allowed in the year of depreciable assets to take into account any excess of tax written down value over the amount realized on disposition.</p> <p>The excess of the amount realized on the disposition and sale of a capital asset over the tax written down value is treated as profit and charged to tax.</p> <p>4. <u>Carry forward of allowances</u></p> <p>Unused capital allowances may be carried forward indefinitely.</p> <p>5. <u>Gain or loss on disposal of fixed asset</u></p> <p>Any gain on disposal of fixed assets is allowed in the computation of income tax. However, any loss on the same is disallowed.</p> <p>Losses incurred by a company can be carried forward for six years for set-off against future income, and can be carried back one year.</p> <p>Dividends received from Brunei Darussalam companies assessable to income tax are exempt.</p> <p><u>Exemptions under Investment Incentive Act</u></p> <p>A company granted a "Pioneer" Certificate is exempt from corporate tax for a basic period of 2-5 years depending on the level of fixed capital expenditure.</p> <p>A company granted an "Expansion" Certificate is exempt from corporate tax up to a period of five years subject to certain conditions.</p>	

Brunei Darussalam: Summary of Tax System, December 1998			
Tax	Nature of Tax	Exemptions and Deductions	Rates
1.3 <u>Withholding tax</u>	Tax on interest paid to nonresident companies under a charge, debenture or in the respect of a loan.	Interest on a foreign loan is exempt for a company which has received an "Expansion" Certificate and if: - It is utilized for the purpose of productive equipment; - The credit facilities are obtained through financial agreement with the foreign lending company; - The amount of the loan is not less than B\$200,000.	20 %
2. Taxes on Property			
3.1 <u>Capital gains tax</u>	None (gains by companies are included in taxable income)	None	None
3.2 <u>Estate duty</u>	A stamp duty levied on the estate of a person who died on or after December 15, 1988.	First B\$2 million of total value of houses, plus first B\$2 million of other assets.	3 %
3.3 <u>Gift tax</u>	None	None.	None.
3.3 <u>Building tax</u>	Annual tax on value of buildings within the territory of the three Municipal Boards. (a) For rented property, value is annual rental value. (b) For owner-occupied property, value is a standard value depending on square footage and nature of use.	Exemptions: - unoccupied buildings - buildings owned by the Royal family - buildings owned by the government - public schools - buildings used for religious or charitable purposes.	Varying rates: Current maximum: 12% Legal maximum: 15 %
3. Taxes on Goods and Services			
3.1 <u>Sales tax</u>	None.	None.	None.
3.2 <u>Excise duties</u>	None.	None.	None.

Brunei Darussalam: Summary of Tax System, December 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>4. Taxes on International Trade</p> <p>4.1 <u>Customs duties</u></p>	<p>Levied at ad valorem rates on the C.I.F. value of imports, also specific rates apply to a few items.</p>	<p>Imports by the royal family, the government, diplomats, and religious bodies are exempt. In addition, the following items are exempt under certain conditions:</p> <ul style="list-style-type: none"> - Containers and pallets. - Protective apparel, clothing, accessories, and equipment. - Street lighting equipment. - Ship and boat parts, accessories, and fittings. - Goods related to aircraft operations. - Passengers' baggage. <p>In addition, goods for industrial use (machinery, vehicles, appliances, some petroleum products, etc.) are exempt.</p>	<p style="text-align: right;"><u>Percent of Value</u></p> <p>Foodstuff 0 Chemicals, raw materials 0 Textile fabrics 0 Nonelectrical equipment and appliances 5 Clothing and footwear 5 Jewelry, watches 5 Cosmetic and perfumes 5 Hats 10 Music instruments 10 Bulldozers, excavators 15 Electrical machinery 20 Timber products 20 Photographic materials and equipment 20 Furniture 20 Hair lacquer, hair dyes 30 Motor vehicles and spare parts 40-200</p> <p style="text-align: right;"><u>Specific rates</u></p> <p>Coffee B\$11-22/kg Beer B\$3/liter Wine B\$5.5-9/liter Sparkling wine B\$12/liter Spirits B\$25/liter Cigarettes B\$60/kg Cigars B\$100/kg Other manufactured tobacco B\$18-60/kg</p>
<p>4.2 <u>Export duties</u></p>	<p>None.</p>	<p>None.</p>	<p>None.</p>
<p>5. Other Taxes</p>			
<p>5.1 <u>Stamp duties</u></p>	<p>Levied on agreements, insurance policies, bills of sale and exchange, promissory notes, and various property and title transfers.</p>		<p>Some ad valorem, most specific.</p>

BRUNEI DARUSSALAM Output and Prices, 1990-98

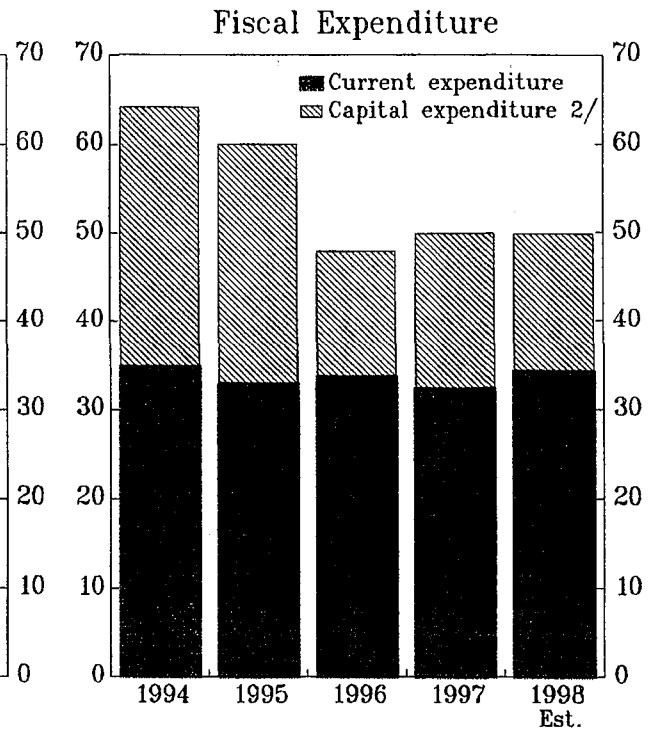
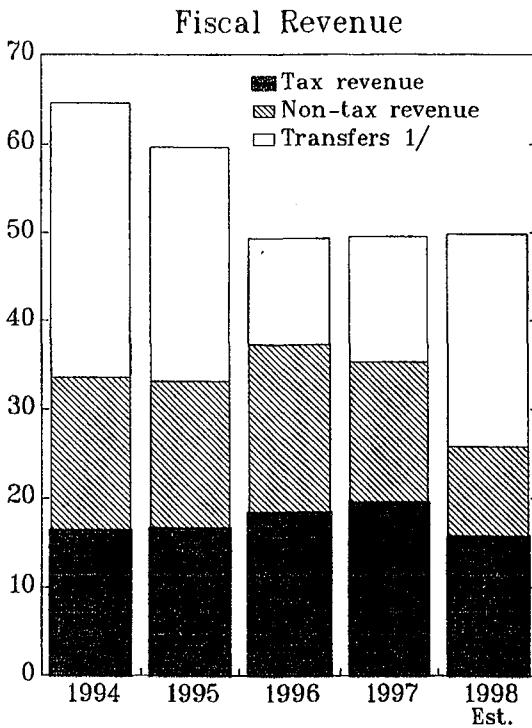
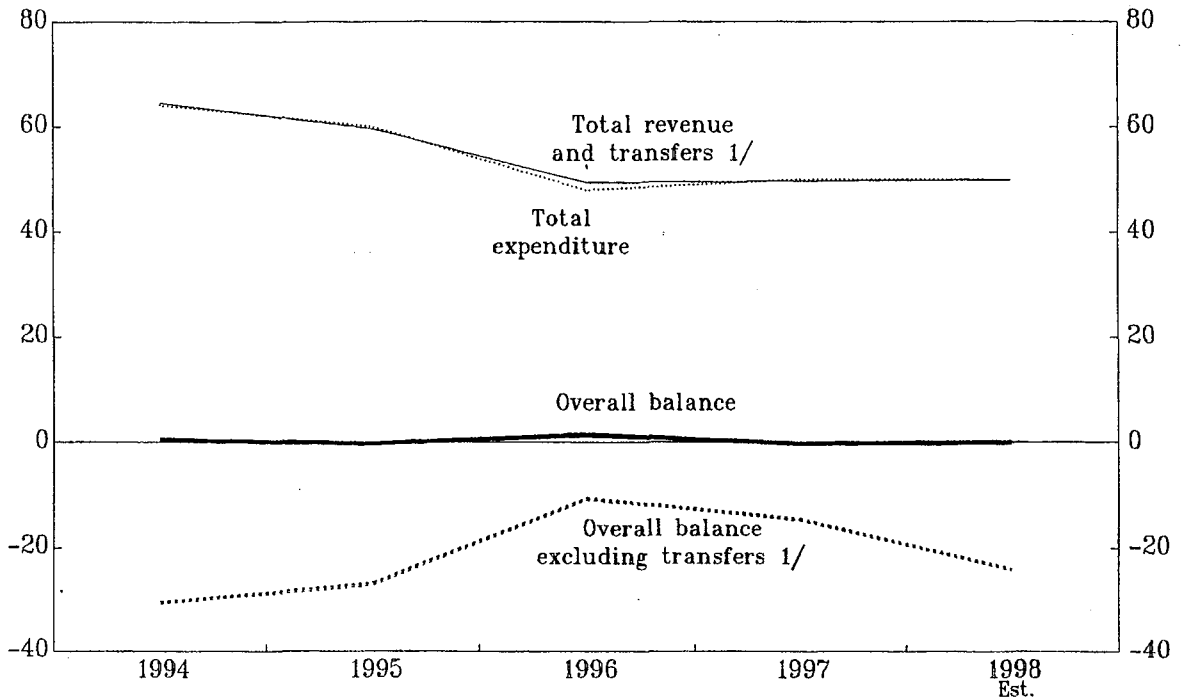


Sources: Data provided by the Brunei authorities; and staff estimates.

1/ GNP based on staff estimates of net factor income.

CHART 2

BRUNEI DARUSSALAM
Fiscal Indicators, 1994-98
(In percent of GDP)
Fiscal Balances



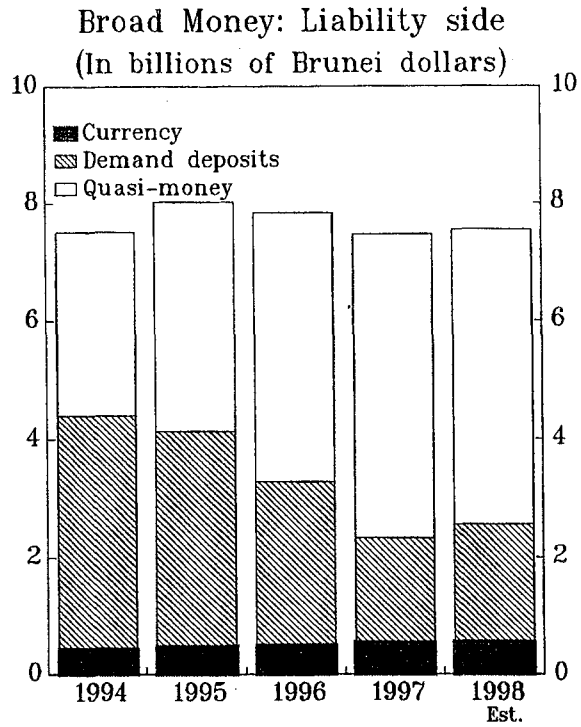
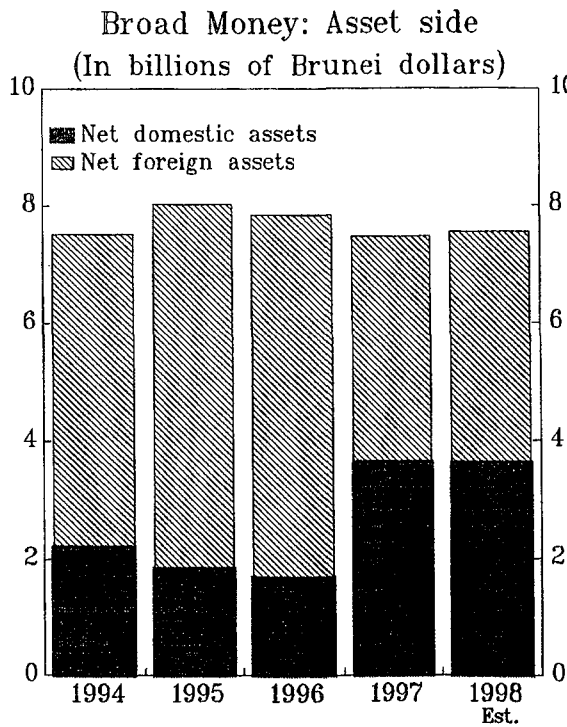
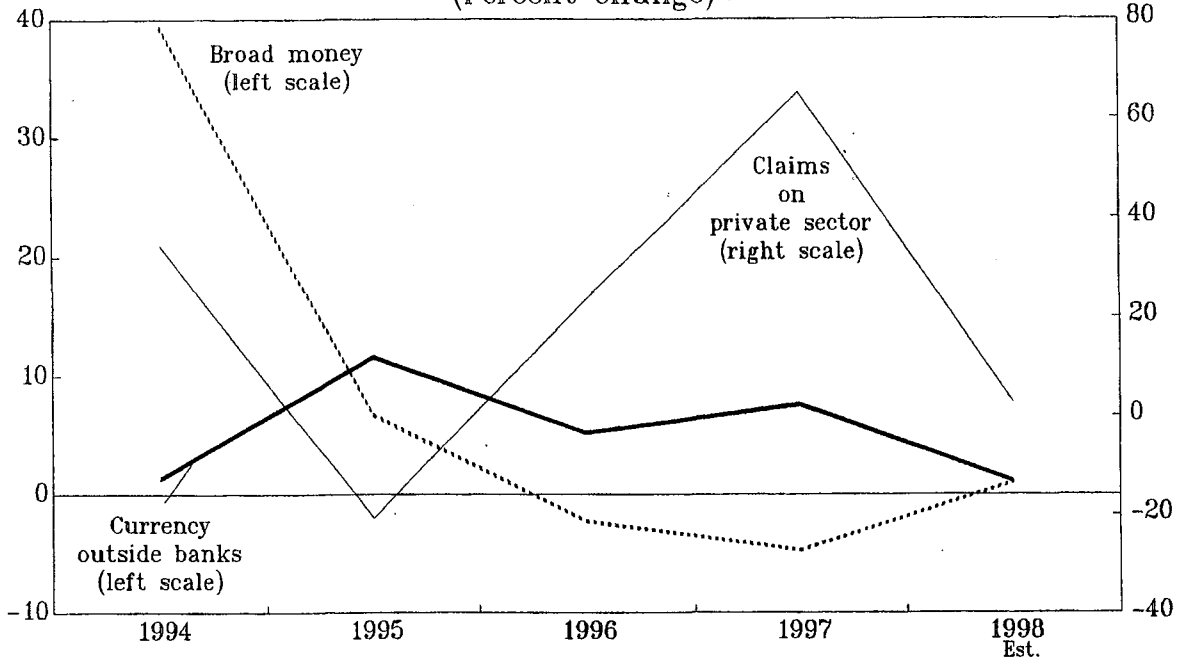
Sources: Data provided by the Brunei authorities; and staff estimates.

1/ Transfers from Brunei Investment Agency (BIA).

2/ Includes BIA investment in public enterprises through the budget.

BRUNEI DARUSSALAM
Monetary Indicators, 1994-98

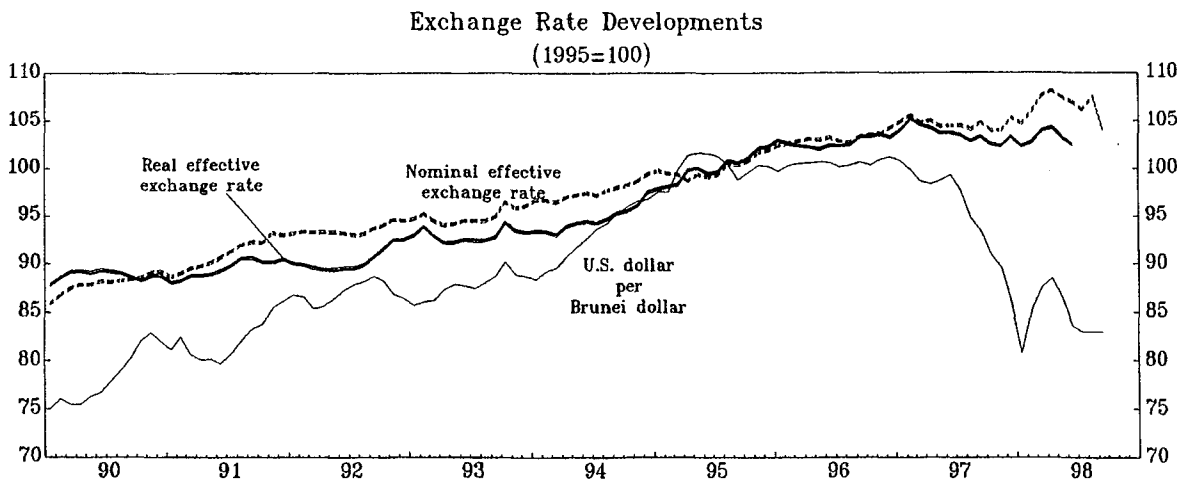
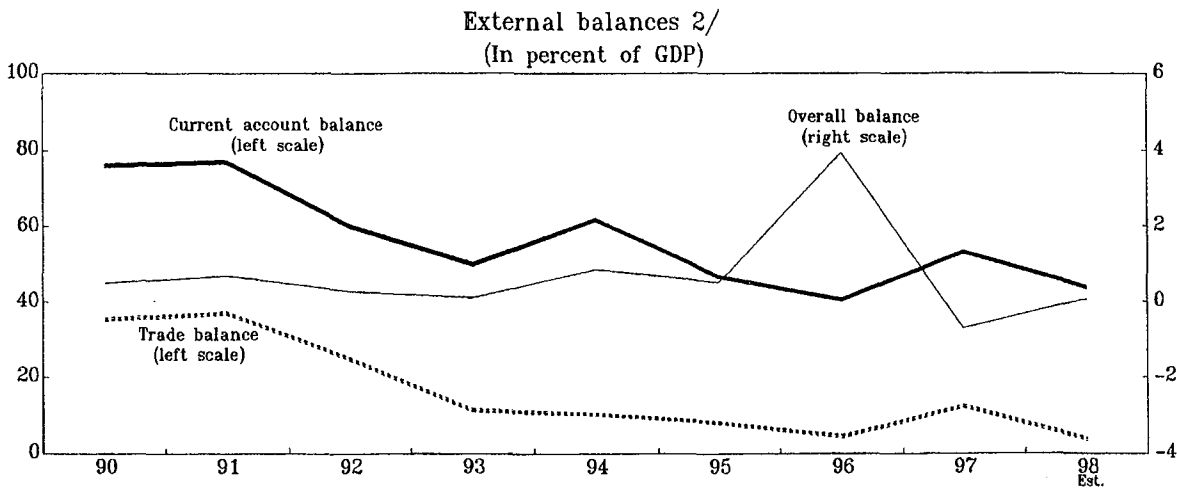
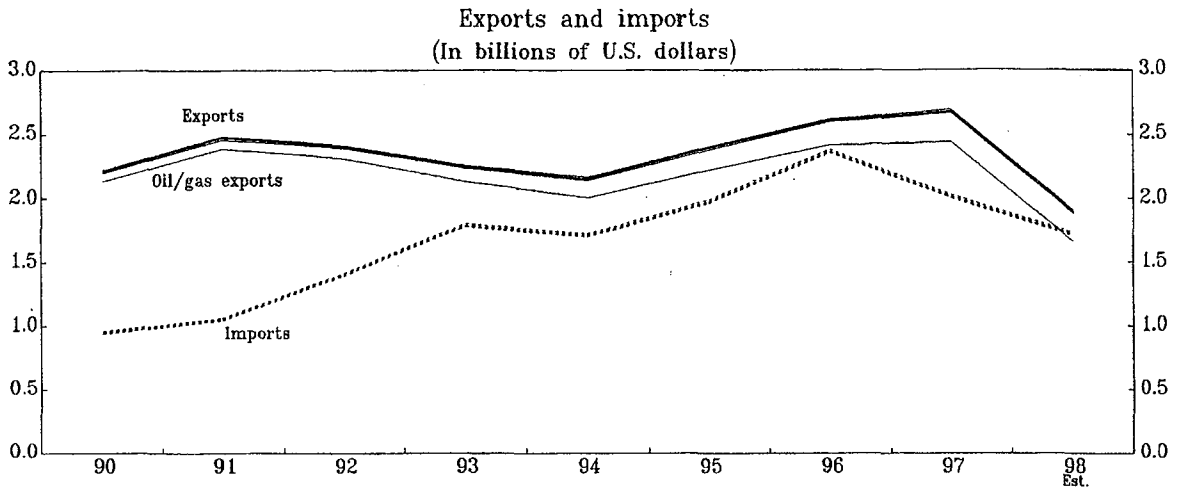
Monetary Developments
(Percent change)



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

CHART 4

BRUNEI DARUSSALAM
External Sector Indicators, 1990-98



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

Table 1. Brunei Darussalam: Gross Domestic Product in Current Prices by Economic Activity, 1993-98

(In millions of Brunei dollars)

	1993	1994	1995	1996	1997	Est. 1998
Total	6,585	6,686	7,394	7,685	8,051	8,111
Oil and gas sector	2,753	2,541	2,863	2,832	2,866	2,721
Non-oil and gas sector	3,832	4,145	4,532	4,853	5,185	5,391
Agriculture and hunting	125	128	132	142	153	162
Forestry and logging	17	18	20	22	25	26
Fishing	32	33	36	37	40	43
Mining, quarrying, and manufacturing	208	213	221	230	242	254
Electricity production	67	70	74	79	83	88
Construction	334	364	405	455	510	539
Wholesale trade	142	152	163	186	205	213
Retail trade	296	307	325	372	406	429
Restaurants and hotels	86	96	108	119	131	138
Transportation, storage, and communication	265	278	299	311	335	351
Banking and finance	254	274	298	335	375	397
Insurance	77	82	90	104	115	123
Real estate and business services	73	76	81	82	87	89
Ownership of dwellings	73	76	80	82	83	85
Community, social, and personal services	1,948	2,153	2,390	2,497	2,612	2,673
Less: Bank charges	164	176	188	202	217	220

Sources: Ministry of Finance, Sixth and Seventh National Development Plans, and Statistical Yearbook (various issues).

Table 2. Brunei Darussalam: Composition of Gross Domestic Product in Current Prices, 1993-98

(In percent of total GDP)

	1993	1994	1995	1996	1997	Est. 1998
Total	100.0	100.0	100.0	100.0	100.0	100.0
Oil and gas sector	41.8	38.0	38.7	36.9	35.6	33.5
Non-oil and gas sector	58.2	62.0	61.3	63.1	64.4	66.5
Agriculture and hunting	1.9	1.9	1.8	1.8	1.9	2.0
Forestry and logging	0.3	0.3	0.3	0.3	0.3	0.3
Fishing	0.5	0.5	0.5	0.5	0.5	0.5
Mining, quarrying, and manufacturing	3.2	3.2	3.0	3.0	3.0	3.1
Electricity production	1.0	1.0	1.0	1.0	1.0	1.1
Construction	5.1	5.5	5.5	5.9	6.3	6.6
Wholesale trade	2.2	2.3	2.2	2.4	2.5	2.6
Retail trade	4.5	4.6	4.4	4.8	5.0	5.3
Restaurants and hotels	1.3	1.4	1.5	1.6	1.6	1.7
Transportation, storage, and communication	4.0	4.2	4.0	4.1	4.2	4.3
Banking and finance	3.9	4.1	4.0	4.4	4.7	4.9
Insurance	1.2	1.2	1.2	1.4	1.4	1.5
Real estate and business services	1.1	1.1	1.1	1.1	1.1	1.1
Ownership of dwellings	1.1	1.1	1.1	1.1	1.0	1.1
Community, social, and personal services	29.6	32.2	32.3	32.5	32.4	33.0
Less: Bank charges	2.5	2.6	2.5	2.6	2.7	2.7

Sources: Ministry of Finance, Sixth and Seventh National Development Plans, and Statistical Yearbook (various issues).

Table 3. Brunei Darussalam: Gross Domestic Product in Constant Prices by Economic Activity, 1993-98

(In millions of Brunei dollars; 1974 prices)

	1993	1994	1995	1996	1997	Est. 1998
Total	3,728	3,795	3,911	4,050	4,215	4,257
Oil and gas sector	2,151	2,130	2,151	2,172	2,205	2,170
Non-oil and gas sector	1,577	1,666	1,760	1,878	2,010	2,087
Agriculture and hunting	44	44	44	47	50	52
Forestry and logging	5	6	6	6	6	6
Fishing	10	10	11	11	12	12
Mining, quarrying, and manufacturing	64	66	68	71	74	78
Electricity production	32	33	34	36	38	41
Construction	109	115	125	135	147	150
Wholesale trade	57	59	62	65	71	72
Retail trade	119	120	123	129	138	141
Restaurants and hotels	36	40	44	50	57	59
Transportation, storage, and communication	94	99	107	116	126	131
Banking and finance	98	104	111	122	132	137
Insurance	30	31	34	36	39	41
Real estate and business services	28	29	30	32	35	36
Ownership of dwellings	22	24	25	27	28	29
Community, social, and personal services	933	997	1,059	1,131	1,202	1,257
Less: Bank charges	104	111	122	134	143	154

Sources: Ministry of Finance, Sixth and Seventh National Development Plans, and Statistical Yearbook (various issues).

Table 4. Brunei Darussalam: Growth in Gross Domestic Product in Constant Prices, 1993-98

(Percent change)

	1993	1994	1995	1996	1997	Est. 1998
Total	0.5	1.8	3.0	3.6	4.1	1.0
Oil and gas sector	-2.4	-1.0	1.0	1.0	1.5	-1.6
Non-oil and gas sector	4.8	5.6	5.7	6.7	7.1	3.8
Agriculture and hunting	0.5	0.7	0.9	6.6	6.2	3.6
Forestry and logging	1.9	1.9	1.8	1.8	1.8	1.7
Fishing	6.4	1.0	7.9	0.9	4.5	3.5
Mining, quarrying, and manufacturing	1.3	2.2	3.7	4.1	4.7	5.0
Electricity production	0.3	1.6	3.1	7.1	6.4	6.8
Construction	2.7	6.1	8.1	8.1	8.9	2.0
Wholesale trade	0.9	3.3	3.9	5.7	8.4	2.1
Retail trade	0.3	0.7	2.5	4.8	6.7	2.5
Restaurants and hotels	8.0	9.9	10.3	13.6	13.6	3.3
Transportation, storage, and communication	4.0	6.2	7.2	8.3	9.4	3.6
Banking and finance	4.0	6.1	7.0	9.3	8.5	3.8
Insurance	2.1	5.7	7.3	7.7	8.0	3.6
Real estate and business services	2.2	3.2	4.2	4.7	10.8	3.2
Ownership of dwellings	3.7	5.8	5.9	7.2	4.9	3.2
Community, social, and personal services	6.9	6.9	6.2	6.7	6.3	4.6
Less: Bank charges	5.8	7.0	9.4	9.9	7.1	7.3

Sources: Ministry of Finance, Sixth and Seventh National Development Plans, and Statistical Yearbook (various issues).

Table 5. Brunei Darussalam: Trends in GDP and GNP, 1993-98 1/

	1993	1994	1995	1996	1997	Est. 1998
(In current prices; In millions of Brunei dollars)						
GDP	6,585	6,686	7,394	7,685	8,051	8,111
Net factor payments	2,799	3,764	3,498	3,635	3,971	3,929
GNP	9,384	10,450	10,893	11,320	12,022	12,040
(In current prices; percentage growth)						
GDP	0.3	1.5	10.6	3.9	4.8	0.7
GNP	-2.5	11.4	4.2	3.9	6.2	0.1
(In prices of 1974; In millions of Brunei dollars)						
GDP	3,728	3,795	3,911	4,050	4,215	4,257
GNP	4,880	5,308	5,269	5,456	5,755	5,778
(In prices of 1974; percentage change)						
GDP	0.5	1.8	3.0	3.6	4.1	1.0
GNP	-2.3	8.8	-0.7	3.6	5.5	0.4
(In current prices; In millions of U.S. dollars) 2/						
GDP	4,075	4,378	5,217	5,450	5,422	4,857
GNP	5,808	6,842	7,685	8,028	8,097	7,209
(Per capita; U.S. dollars) 2/						
GDP	14,750	15,387	17,624	17,864	17,246	15,009
GNP	21,020	24,048	25,963	26,313	25,753	22,278

Sources: Ministry of Finance, Sixth and Seventh National Development Plans, and Statistical Yearbook (various issues); and staff estimates.

1/ GNP was calculated on the basis of net factor payments estimated by the staff.

2/ Converted at current exchange rates.

Table 6. Brunei Darussalam: Oil and Gas Production and Sales, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
<hr/>						
Oil Production	(Thousands of cubic meters per day)					
Crude petroleum	25.0	25.6	25.0	23.6	23.4	22.9
Casing head petroleum spirit	2.8	2.8	2.8	2.6	2.6	2.6
Total	27.8	28.4	27.8	26.2	25.9	25.5
	(Thousands of barrels per day) 1/					
Crude petroleum	157	161	157	149	147	144
Casing head petroleum spirit	18	18	18	16	16	16
Total	175	178	175	165	163	160
Number of wells	735	741	740	723	732	732
	(Millions of cubic feet per day)					
Gas Production	946	985	1,080	1,073	1,077	1,057
<hr/>						
Exports						
Volumes						
Oil (thousands of barrels per day)	170	174	168	161	152	149
Gas (trillions of BTU per year)	286	283	323	321	319	319
Average prices received						
Crude oil (U.S. dollars/barrel)	18.8	17.1	18.3	22.0	21.5	13.6
Gas (U.S. dollars/million BTU)	3.1	3.0	3.4	3.7	3.8	2.9

Sources: Ministry of Finance, Sixth and Seventh National Development Plans; Statistical Yearbook (various issues); and Petroleum Unit, Office of the Prime Minister.

1/ A cubic meter is equal to 6.293 barrels.

Table 7. Brunei Darussalam: Labor Force and Employment, 1971, 1981 and 1991 1/

	1971	1981	1991	1971	1981	1991
	(In persons)			(In percent)		
Population	136,256	192,832	260,482	100.0	100.0	100.0
Males	72,772	102,942	137,616	53.4	53.4	52.8
Females	63,484	89,890	122,866	46.6	46.6	47.2
Employed	40,012	68,128	106,746	100.0	100.0	100.0
Males	33,562	52,737	72,338	83.9	77.4	67.8
Females	6,450	15,391	34,408	16.1	22.6	32.2
Unemployed	1,087	2,562	5,209	100.0	100.0	100.0
Males	649	1,122	2,745	59.7	43.8	52.7
Females	438	1,440	2,464	40.3	56.2	47.3
Total labor force	41,099	70,690	111,955	100.0	100.0	100.0
Males	34,211	53,859	75,083	83.2	76.2	67.1
Females	6,888	16,831	36,872	16.8	23.8	32.9
Total employed			106,746			100.0
Citizens			54,595			16.3
Permanent residents			7,344			3.1
Temporary residents			43,993			80.7
Others			814			
Excluding temporary residents:						
Unemployment rate (in percent)			7.7			
Participation rate (in percent)			39.8			
Employment						
All sectors	40,012	68,128	106,746	100.0	100.0	100.0
Males	33,562	52,737	72,338	83.9	77.4	67.8
Females	6,450	15,391	34,408	16.1	22.6	32.2
Private sector	24,433	36,402	48,998	61.1	53.4	45.9
Males	20,130	28,492	33,153	50.3	41.8	31.1
Females	4,303	7,910	15,845	10.8	11.6	14.8
Public sector	15,579	31,726	57,748	38.9	46.6	54.1
Males	13,432	24,245	39,185	33.6	35.6	36.7
Females	2,147	7,481	18,563	5.4	11.0	17.4

Source: Ministry of Finance, Department of Economic Planning and Development.

1/ Data for census years 1971, 1981, and 1991.

Table 8. Brunei Darussalam: Private Sector Employment by Major Industry, 1991-95

	1991	1993	1994	1995
	(In persons)			
Agriculture, forestry, and fishing	1,188	1,379	1,502	1,539
Production of oil and natural gas	4,257	4,193	4,144	3,950
Sawmilling and timber processing	587	716	691	437
Other mining, quarrying, and manufacturing	5,244	5,161	7,981	6,009
Construction	21,538	30,560	34,199	38,128
Wholesale and retail trading	7,435	8,850	10,177	8,941
Coffee shops, restaurants, and hotels	2,814	3,843	4,585	2,880
Transport, storage, and communication	3,853	4,136	4,635	4,320
Financial, insurance, and business services	2,974	3,453	5,337	5,143
Community, social, and personal services	4,530	5,699	6,893	4,271
Total private sector employment 1/	54,420	67,990	80,144	75,618
	(In percent of total)			
Agriculture, forestry, and fishing	2.2	2.0	1.9	2.0
Production of oil and natural gas	7.8	6.2	5.2	5.2
Sawmilling and timber processing	1.1	1.1	0.9	0.6
Other mining, quarrying, and manufacturing	9.6	7.6	10.0	7.9
Construction	39.6	44.9	42.7	50.4
Wholesale and retail trading	13.7	13.0	12.7	11.8
Coffee shops, restaurants, and hotels	5.2	5.7	5.7	3.8
Transport, storage, and communication	7.1	6.1	5.8	5.7
Financial, insurance, and business services	5.5	5.1	6.7	6.8
Community, social, and personal services	8.3	8.4	8.6	5.6
Total	100.0	100.0	100.0	100.0
	(Percent change)			
Total private sector employment	1.5	7.7	17.9	-5.6

Source: Labor Department, Ministry of Home Affairs.

1/ Figures on total private sector employment differ from those reported by the Ministry of Finance.

Table 9. Brunei Darussalam: Employment Composition, 1995 Census

	(In persons)		(In percent of total employment)						
	Total	Males	Females	Total	Males	Females	Brunei citizens	Permanent residents	Temporary residents
Legislators, administrators and managers	4,935	3,534	1,401	6.5	5.6	10.8	26.5	20.9	1.9
Professionals	3,331	2,206	1,125	4.4	3.5	8.7	5.4	9.4	4.0
Technicians and associate professionals	4,105	3,006	1,099	5.4	4.8	8.5	13.7	11.6	3.5
Clerical workers	4,074	1,029	3,045	5.4	1.6	23.5	21.4	18.2	1.7
Service workers and shop, market, and related sales workers	6,192	2,947	3,245	8.2	4.7	25.1	12.3	8.1	7.4
Agricultural and fishery workers	511	475	36	0.7	0.8	0.3	0.2	0.8	0.8
Production craftsperson and related workers	18,022	16,443	1,579	23.8	26.2	12.2	5.5	10.2	28.0
Plant and machine operators and assemblers	4,610	4,446	164	6.1	7.1	1.3	4.1	7.8	6.4
Cleaners, laborers and related workers	29,838	28,581	1,257	39.5	45.6	9.7	10.8	13.2	46.2
All occupations	75,618	62,667	12,951	100.0	100.0	100.0	100.0	100.0	100.0
				100.0	82.9	17.1	16.3	3.1	80.7

Source: Labor Department, Ministry of Home Affairs.

Table 10. Brunei Darussalam: Population Indicators, 1971-97 1/

	1971	1981	1991	1993	1994	1995	1996	1997	1971-81	Annual average rates or annual averages		
	Census	Census	Census					1997	1981-91	1971-91	1971-91	1991-97
Male	72,772	102,942	137,616	145,800	150,000	156,600	161,500	166,600	3.5	2.9	3.2	2.8
Female	63,484	89,890	122,866	130,500	134,500	139,400	143,600	147,800	3.5	3.2	3.4	2.7
Total population	136,256	192,832	260,482	276,300	284,500	296,000	305,100	314,400	3.5	3.1	3.3	2.7
	(In persons)											
Annual population growth	5,996	7,612	7,082	8,500	8,200	11,500	9,100	9,300	5,688	6,842	6,201	8,714
-natural increase	4,380	5,227	6,254	6,296	6,362	6,469	6,631	6,576	4,654	5,848	5,252	6,427
-immigration (+)	1,616	2,385	828	2,204	1,838	5,031	2,469	2,724	1,034	994	949	2,287
Live-births	5,181	5,878	7,106	7,314	7,270	7,341	7,633	7,459	5,371	6,614	5,998	7,345
Total deaths	801	651	852	1,018	908	872	1,002	883	717	766	746	917
of which infants	199	80	79	82	61	58	53	55	132	66	100	65
	(In percent of total population)											
Crude birth rate	38.0	30.5	27.3	26.5	25.6	24.8	25.0	23.7	33.2	29.4	31.3	25.7
Crude death rate	5.9	3.4	3.3	3.7	3.2	3.0	3.3	2.8	4.5	3.4	4.0	3.2
Natural rate of increase	32.1	27.1	24.0	22.8	22.4	21.9	21.7	20.9	28.7	26.0	27.4	22.5
	(In percent of infant live births)											
Infant mortality rate	38.4	13.6	11.1	11.2	8.4	7.9	6.9	7.4	25.0	10.2	17.7	8.9
	(Percentage change from previous year)											
Population growth rate	4.6	4.1	2.8	3.2	3.0	4.0	3.1	3.0	25.0	10.2	17.7	8.9

Sources: Ministry of Finance; and Statistical Yearbooks (various issues).

1/ The years 1971, 1981, and 1991 were census years; for the other years, the figures are estimates.

Table 11. Brunei Darussalam: Government Sector Employment by Grade, 1993-97

	1993	1994	1995	1996	1997
	(In persons)				
Division I: Heads of departments	434	453	470	494	499
Division II: Senior officers	3,337	3,710	4,021	4,451	4,493
Division III: Supervisory	8,036	8,116	8,291	8,640	8,777
Division IV: Clerical and operators	10,528	10,848	11,023	11,312	11,448
Division V: Clerical and operators	14,205	14,236	14,263	14,188	14,128
Total government employment	36,540	37,363	38,068	39,085	39,345
	(In percent of total)				
Division I: Heads of departments	1.2	1.2	1.2	1.3	1.3
Division II: Senior officers	9.1	9.9	10.6	11.4	11.4
Division III: Supervisory	22.0	21.7	21.8	22.1	22.3
Division IV: Clerical and operators	28.8	29.0	29.0	28.9	29.1
Division V: Clerical and operators	38.9	38.1	37.5	36.3	35.9
	(Percent change)				
Total government employment	3.4	2.3	1.9	2.7	0.7

Source: Public Service Department, Office of the Prime Minister.

Table 12. Brunei Darussalam: Consumer Price Index, 1993-98

(Period average and percent change; 1990=100)

	All commodities	Food	Clothing and footwear	Housing	Transportation and communication	Miscellaneous				
1993	107.3	4.3	113.1	8.6	106.0	5.3	108.7	5.1	107.7	4.4
1994	109.9	2.4	116.3	2.8	109.0	2.8	113.8	4.7	109.9	2.0
1995	116.5	6.0	122.7	5.5	111.2	2.0	129.8	14.1	118.8	8.2
1996	118.8	2.0	121.3	-1.1	110.7	-0.5	134.8	3.8	120.1	1.1
1997	120.8	1.7	126.1	4.0	110.3	-0.4	134.7	-0.1	121.1	0.8
1996										
Q1	118.2	4.0	119.5	-1.5	110.7	-1.2	134.7	15.0	119.2	0.3
Q2	118.0	0.7	119.2	-2.8	110.4	-0.7	134.9	0.9	119.6	0.7
Q3	119.1	1.7	123.1	0.2	110.8	0.4	134.8	0.5	120.4	1.5
Q4	119.7	1.6	123.3	-0.5	111.0	-0.3	134.7	0.2	121.0	1.7
1997										
Q1	120.3	1.7	123.9	3.7	110.0	-0.6	134.6	-0.1	120.7	1.2
Q2	120.7	2.3	127.1	6.7	110.4	0.0	134.6	-0.2	120.9	1.1
Q3	120.9	1.5	127.8	3.8	110.6	-0.2	134.7	-0.1	120.7	0.2
Q4	121.2	1.3	125.7	1.9	110.1	-0.8	134.8	0.1	121.9	0.7
1998										
Q1	120.3	0.0	126.8	2.4	110.3	0.3	132.1	-1.9	120.8	0.1
Q2	120.2	-0.4	127.9	0.6	110.5	0.1	130.7	-2.9	120.2	-0.6
Memorandum item:										
Weights (percent)	100.0	38.7	6.4	18.6	19.9	16.3				

Sources: Ministry of Finance; Economic Planning and Development Department, and Brunei Statistical Yearbook (various issues).

Table 13. Brunei Darussalam: Summary Budget, 1993-98

	1993	1994	1995	1996	Budget 1997	Actual	Budget 1998
(In millions of Brunei dollars)							
Total revenue	2,274	2,246	2,451	2,861	2,353	2,843	2,775
Tax	1,137	1,092	1,223	1,404	1,186	1,561	1,515
Non-tax revenue	1,137	1,155	1,227	1,456	1,167	1,282	1,260
Transfers 1/	1,142	2,072	1,957	929	...	1,146	...
Total expenditure	3,397	4,286	4,431	3,679	4,989	4,016	4,295
Current	2,254	2,301	2,430	2,587	2,783	2,600	2,813
Capital	1,143	1,083	1,226	994	2,206	1,350	1,482
Investment in pub. enterprises 2/	0	901	775	98	...	67	...
Surplus or deficit (-)	19	32	-24	111	-2,636	-27	-1,520
Surplus or deficit (-), excluding transfers	-1,123	-2,039	-1,981	-818	0	-2,636	-1,520
(In millions of Brunei dollars; end of period balances)							
Consolidated Fund	140	1,109	2,123	2,161	...	2293	...
Development Fund	523	488	225	398	...	264	...
Government Trust Fund	207	179	153	89	...	71	...
(Percent change)							
Total revenue	-2.2	-1.2	9.1	16.7	-17.8	-0.6	-2.4
Total expenditure	11.1	26.2	3.4	-17.0	35.6	9.2	6.9
(In percent of GDP)							
Total revenue	34.5	33.6	33.1	37.2	29.2	35.3	34.2
Of which: Tax	17.3	16.3	16.5	18.3	14.7	19.4	18.7
Total expenditure	51.6	64.1	59.9	47.9	62.0	49.9	53.0
Current	34.2	34.4	32.9	33.7	34.6	32.3	34.7
Capital	17.4	16.2	16.6	12.9	27.4	16.8	18.3
Investment in pub. enterprises 2/	0.0	13.5	10.5	1.3	...	0.8	...
Surplus or deficit (-)	0.3	0.5	-0.3	1.4	-32.7	-0.3	-18.7
Surplus or deficit (-), excluding transfers	-17.1	-30.5	-26.8	-10.6	-32.7	-14.6	-18.7
(In millions of Brunei dollars)							
Memorandum items:							
Ordinary expenditure	2,281	2,235	2,369	2,428	3,233	2,564	2,866
Charged expenditure	426	414	424	524	456	493	472
Development expenditure	690	735	864	629	1,300	892	957
Defense expenditure	...	...	...	474	...	555	614
in percent of total expenditure	...	...	...	12.9	...	13.8	14.3
in percent of GDP	...	...	...	6.2	...	6.9	7.6
GDP	6,585	6,686	7,394	7,685	8,051	8,051	8,111

Sources: Ministry of Finance, Statistical Yearbook (various issues); data provided by the Brunei authorities; and staff estimates.

1/ Transfers from BIA to the budget and for public enterprises.

2/ BIA investment in public enterprises.

Table 14. Brunei Darussalam: Composition of Government Revenues, 1993-98

	1993	1994	1995	1996	Budget 1997	Actual	Budget 1998
(In millions of Brunei dollars)							
Total revenue and transfers	3,416	4,318	4,407	3,790	2,353	3,989	2,775
Tax revenue	1,137	1,092	1,223	1,404	1,186	1,561	1,515
Import duty	105	101	164	183	192	224	199
Estate duty	2	0	1	0	2	1	2
Corporate income tax	1,029	989	1,055	1,217	990	1,333	1,313
Stamp duty	2	2	3	4	2	3	2
Nontax revenue	1,137	1,155	1,227	1,456	1,167	1,282	1,260
Licenses	6	8	8	9	8	10	9
Service receipts	6	8	9	10	10	11	11
Commercial receipts	248	259	264	279	327	303	302
Property income	876	880	946	1,158	822	957	937
Transfers 1/	1,142	2,072	1,957	929	...	1,146	...
(In percent of total revenue and transfers)							
Tax revenue	33.3	25.3	27.8	37.1	50.4	39.1	54.6
Of which:							
Import duty	3.1	2.3	3.7	4.8	8.2	5.6	7.2
Corporate income tax	30.1	22.9	23.9	32.1	42.1	33.4	47.3
Nontax revenue	33.3	26.7	27.8	38.4	49.6	32.1	45.4
Of which:							
Commercial receipts	7.3	6.0	6.0	7.4	13.9	7.6	10.9
Property income	25.6	20.4	21.5	30.5	34.9	24.0	33.8
Transfers 1/	33.4	48.0	44.4	24.5	...	28.7	...
(In percent of GDP)							
Total revenue and transfers	51.9	64.6	59.6	49.3	29.2	49.6	34.2
Tax revenue	17.3	16.3	16.5	18.3	14.7	19.4	18.7
Of which:							
Import duty	1.6	1.5	2.2	2.4	2.4	2.8	2.4
Corporate income tax	15.6	14.8	14.3	15.8	12.3	16.6	16.2
Nontax revenue	17.3	17.3	16.6	19.0	14.5	15.9	15.5
Of which:							
Commercial receipts	3.8	3.9	3.6	3.6	4.1	3.8	3.7
Property income	13.3	13.2	12.8	15.1	10.2	11.9	11.5
Transfers 1/	17.3	31.0	26.5	12.1	...	14.2	...

Sources: Ministry of Finance, Statistical Yearbook (various issues); and data provided by the Brunei authorities.

1/ Transfers from BIA to the budget and for public enterprises.

Table 15. Brunei Darussalam: Current Expenditures by Ministries and Major Departments, 1993-98 1/

	1993	1994	1995	1996	Budget	Actual	Budget
					1997	1997	1998
Ministries							
(In millions of Brunei dollars)							
Prime Minister's Office	157	162	164	177	211	183	199
Defense	378	400	405	463	820	548	596
Foreign Affairs	79	90	87	104	126	116	124
Finance	580	425	559	490	702	502	590
Home Affairs	88	88	88	88	113	94	105
Education	285	301	311	329	373	347	394
Law	14	16	16	18	19	17	21
Industry and Primary Resources	38	40	39	41	47	43	49
Religious Affairs	89	96	100	105	122	113	124
Development	306	350	319	303	339	286	296
Culture, Youth, and Sports	48	48	48	51	59	53	57
Health	142	148	154	163	207	178	200
Communication	79	72	79	97	95	86	109
Total	2,281	2,235	2,369	2,428	3,233	2,564	2,866
(In percent of total "ordinary expenditures")							
Prime Minister's Office	6.9	7.2	6.9	7.3	6.5	7.1	7.0
Defense	16.6	17.9	17.1	19.1	25.4	21.4	20.8
Foreign Affairs	3.5	4.0	3.7	4.3	3.9	4.5	4.3
Finance	25.4	19.0	23.6	20.2	21.7	19.6	20.6
Home Affairs	3.9	3.9	3.7	3.6	3.5	3.7	3.7
Education	12.5	13.5	13.2	13.5	11.5	13.5	13.7
Law	0.6	0.7	0.7	0.7	0.6	0.6	0.7
Industry and Primary Resources	1.7	1.8	1.7	1.7	1.5	1.7	1.7
Religious Affairs	3.9	4.3	4.2	4.3	3.8	4.4	4.3
Development	13.4	15.6	13.5	12.5	10.5	11.1	10.3
Culture, Youth, and Sports	2.1	2.2	2.0	2.1	1.8	2.1	2.0
Health	6.2	6.6	6.5	6.7	6.4	6.9	7.0
Communication	3.5	3.2	3.3	4.0	2.9	3.3	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Major departments							
(In millions of Brunei dollars)							
Education	285	301	311	329	373	347	394
Electrical	81	97	92	89	101	92	101
Medical and Health	142	148	154	163	207	178	200
Police	69	63	61	66	75	67	73
Public Works	193	218	192	180	198	158	156
Royal Brunei Armed Forces	378	400	405	463	820	548	596
Religious Affairs	89	96	100	105	122	113	124

Sources: Ministry of Finance, Statistical Yearbook (various issues); data provided by the Brunei authorities.

1/ "Current expenditures" are approximated here by the authorities' category of "ordinary expenditures."

Table 16. Brunei Darussalam: Development Expenditures

	Sixth NDP 1991-95		Seventh NDP 1996-2000		1996		1997		1998	
	Actual	Allocation 1/	Actual	Allocation 1/	Spent	Spent	Spent	Spent	Budget	Budget
	(B\$ mn)	(% total)	(B\$ mn)	(% total)	(B\$ mn)	(% total)	(B\$ mn)	(% total)	(B\$ mn)	(% total)
Industry and Commerce	175	5.8	908	11.5	31	5.0	27	3.0	16	1.7
Agriculture	21	0.7	173	2.2	5	0.8	6	0.7	3	0.3
Forestry	19	0.6	104	1.3	3	0.5	8	0.9	4	0.4
Fisheries	22	0.7	73	0.9	5	0.7	4	0.4	2	0.2
Commerce	12	0.4	55	0.7	9	1.4	6	0.7	2	0.2
Industrial development	100	3.3	504	6.4	10	1.5	2	0.3	6	0.7
Transport and Communications	714	23.6	1,772	22.4	146	23.1	228	25.6	267	27.8
Roads	266	8.8	1,012	12.8	91	14.4	193	21.6	207	21.6
Civil aviation	41	1.3	130	1.7	27	4.2	17	1.9	19	1.9
Marine and ports	48	1.6	163	2.1	19	3.0	12	1.4	18	1.9
Telecommunications	351	11.6	399	5.0	8	1.3	7	0.7	21	2.1
Postal services	1	0.0	3	0.0	0	0.1	0	0.0	0	0.0
Radio and television	8	0.3	64	0.8	1	0.1	0	0.0	2	0.2
Social services	1,208	39.8	2,345	29.7	228	36.2	411	46.0	335	34.9
Education	430	14.2	413	5.2	29	4.5	33	3.7	36	3.7
Medical and health	43	1.4	233	2.9	30	4.7	19	2.1	16	1.7
Government housing	123	4.1	419	5.3	24	3.8	198	22.2	69	7.2
National housing	473	15.6	956	12.1	58	9.3	117	13.1	178	18.6
Religious affairs	48	1.6	63	0.8	8	1.2	7	0.8	11	1.1
Public facilities	91	3.0	261	3.3	80	12.7	36	4.1	25	2.6
Public Utilities	609	20.1	1,572	19.9	96	15.3	126	14.1	167	17.4
Electricity	358	11.8	1,072	13.6	51	8.1	36	4.1	50	5.2
Sanitation	26	0.9	95	1.2	11	1.8	23	2.5	12	1.2
Water supplies	192	6.3	304	3.8	24	3.9	52	5.8	89	9.3
Drainage	33	1.1	102	1.3	10	1.6	15	1.7	16	1.7
Public Buildings	188	6.2	701	8.9	111	17.6	89	9.9	147	15.4
Security	118	3.9	528	6.7	13	2.1	8	0.9	22	2.3
Royal Brunei Armed Forces	101	3.3	466	5.9	11	1.8	7	0.8	18	1.9
Police	17	0.6	62	0.8	2	0.3	1	0.1	4	0.5
Miscellaneous	21	0.7	76	1.0	4	0.7	4	0.5	3	0.4
Surveys and investigations	21	0.7	69	0.9	4	0.7	4	0.5	3	0.4
Contingency reserves	0	0.0	7	0.1	0	0.0	0	0.0	0	0.0
Total	3,033	100.0	7,902	100.0	629	100.0	893	100.0	957	100.0
Memorandum item										
Total (US\$ mn.)	1,916		...		446		601		573	

Sources: Ministry of Finance, Sixth and Seventh National Development Plans; data provided by the Brunei authorities.

1/ Includes Istana Project Section (IPS) projects.

Table 17. Brunei Darussalam: Accounts of the Brunei Currency Board, 1993-98

	1993	1994	1995	1996	1997	End-June 1998
(In millions of Brunei dollars; end-of-period)						
Assets	538	550	605	1,258	1,428	1,455
External assets	431	446	469	1,071	1,150	1,153
Of which: Reserve for currency	431	446	469	533	604	574
Liquid assets	255	155	197	447	499	489
Of which: Reserve for currency	255	155	197	216	255	237
Securities	174	290	270	316	344	335
Accrued interest	2	1	2	1	5	2
IMF reserve position and holdings of SDRs	...	...	...	307	301	327
Other assets	107	104	136	187	277	302
Of which: Cash at bank	107	104	136	187	258	283
Liabilities	538	550	605	1,258	1,427	1,455
Allocation of SDRs in IMF	...	...	...	307	301	327
Currency	479	515	573	601	644	625
Notes	459	493	551	577	...	601
Coins	21	22	22	24	...	24
Deposits by commercial banks	...	...	...	310	371	367
Other liabilities	...	...	20	20	20	20
Reserve fund	59	35	12	20	91	116
Memorandum items:						
Ratio to demand liabilities of						
external assets 1/	0.90	0.87	0.82	0.89	0.94	0.92
liquid external assets 2/	0.53	0.30	0.34	0.36	0.40	0.38
External assets (net, US\$ mn.)	268	305	332	546	507	484

Source: Data provided by the Brunei authorities.

1/ Ratio of external reserve (for currency) to currency.

2/ Ratio of liquid external reserve (for currency) to currency.

Table 18. Brunei Darussalam: Monetary Survey, 1993-98

	1993	1994	1995	1996	1997	End-June 1998
(In millions of Brunei dollars; end of period)						
Net foreign assets	3,847	5,313	6,184	6,149	3,833	3,957
BCB	431	446	469	764	849	826
Commercial banks	3,416	4,867	5,715	5,385	2,984	3,131
Assets	3,708	5,160	5,855	5,516	3,351	3,431
Liabilities	292	293	140	131	368	299
Claims on private sector	2,410	3,237	2,562	3,160	5,219	4,605
Other assets	335	289	502	673	805	972
BCB	107	104	136	187	277	302
Commercial banks	228	185	366	486	527	669
Assets=liabilities	6,591	8,839	9,248	9,982	9,856	9,533
Money	2,458	4,398	4,126	3,271	2,331	2,520
Currency	426	432	482	507	545	528
Demand deposits	2,032	3,966	3,644	2,765	1,786	1,992
Quasi-money	2,935	3,118	3,894	4,562	5,135	4,967
Time deposits	1,935	2,040	2,726	3,299	3,860	3,770
Savings and other deposits	999	1,078	1,168	1,263	1,276	1,197
Other liabilities	1,199	1,323	1,228	2,149	2,390	2,047
BCB	59	35	32	350	482	503
Commercial banks	1,140	1,288	1,196	1,799	1,908	1,544
Memorandum items:						
Currency with banks	53	83	91	94	99	97
Broad money	5,393	7,516	8,020	7,833	7,466	7,487
Prime lending rate (end of period)	5.8	6.0	6.5	6.5	6.5	7.0
(Percent change)						
Net foreign assets	-4.9	38.1	16.4	-0.6	-37.7	...
Claims on private sector	25.1	34.3	-20.9	23.3	65.2	...
Money	0.5	78.9	-6.2	-20.7	-28.7	...
Currency	2.0	1.3	11.6	5.1	7.6	...
Demand deposits	0.2	95.2	-8.1	-24.1	-35.4	...
Quasi-money	21.0	6.3	24.9	17.1	12.6	...
Time deposits	27.1	5.4	33.6	21.0	17.0	...
Savings and other deposits	10.6	7.9	8.4	8.1	1.0	...
(In percent of broad money 12 months ago)						
Contribution to broad money growth						
Net foreign assets	-4.1	27.2	11.6	-0.4	-29.6	...
Claims on private sector	9.9	15.3	-9.0	7.5	26.3	...
Memorandum item:						
Broad money	10.7	39.4	6.7	-2.3	-4.7	...

Source: Data provided by the Brunei authorities.

Table 19. Brunei Darussalam: Direction of Loans by
Commercial Banks, 1993-98

	1993	1994	1995	1996	1997	End-June 1998
(In millions of Brunei dollars)						
Total Loans	2,406	3,267	2,564	3,160	5,219	4,605
Agricultural	17	9	16	18	34	38
Credit and Finance	599	1,308	259	167	1,601	884
Manufacturing	22	26	36	40	67	89
Transport	49	29	21	116	221	229
Construction	271	343	514	569	822	819
General Commerce	319	311	340	389	562	568
Professional Services	32	80	30	36	42	44
Personal Loans	1,097	1,162	1,348	1,825	1,870	1,934
(In percent of total loans)						
Total Loans	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural	0.7	0.3	0.6	0.6	0.7	0.8
Credit and Finance	24.9	40.0	10.1	5.3	30.7	19.2
Manufacturing	0.9	0.8	1.4	1.3	1.3	1.9
Transport	2.0	0.9	0.8	3.7	4.2	5.0
Construction	11.3	10.5	20.0	18.0	15.8	17.8
General Commerce	13.3	9.5	13.3	12.3	10.8	12.3
Professional Services	1.3	2.4	1.2	1.1	0.8	1.0
Personal Loans	45.6	35.6	52.6	57.8	35.8	42.0
(Percent change)						
Total Loans	24.8	35.8	-21.5	23.2	65.2	...
Agricultural	90.2	-49.5	84.8	12.5	88.9	...
Credit and Finance	67.9	118.2	-80.2	-35.5	858.7	...
Manufacturing	-3.7	17.5	36.7	11.1	67.5	...
Transport	53.4	-41.3	-26.8	452.4	90.5	...
Construction	-3.4	26.6	49.7	10.7	44.5	...
General Commerce	27.2	-2.7	9.5	14.4	44.5	...
Professional Services	45.1	153.2	-62.5	20.0	16.7	...
Personal Loans	15.0	6.0	16.0	35.4	2.5	...

Source: Data provided by the Brunei authorities.

Table 20. Brunei Darussalam: Assets and Liabilities of Finance Companies, December 1995 - June 1998

	(In millions of Brunei dollars)						(Annual percent change)			
	1995		1996		1997		1996		1997	
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.
Assets	509.5	565.8	671.4	847.8	697.9	732.3	31.8	49.8	4.0	-13.6
Cash		6.3	1.6	1.8	1.8	1.5	...	-71.5	12.7	-18.4
Deposits with MoF 1/	20.5	21.4	24.3	30.8	25.9	31.7	18.8	43.7	6.5	3.0
Deposits with financial institutions	81.5	66.5	83.9	117.3	55.9	60.4	3.0	76.6	-33.4	-48.5
Of which:										
Banks	25.0	21.5	20.3	43.6	43.9	48.3	-19.0	102.2	116.4	10.9
Loans and advances	404.0	469.9	558.3	692.3	606.2	630.1	38.2	47.3	8.6	-9.0
Hire-purchase	388.4	451.6	541.1	674.2	597.9	623.4	39.3	49.3	10.5	-7.5
Lease	14.5	17.6	16.8	17.5	7.9	6.4	15.2	-0.9	-53.2	-63.6
Factoring	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0
Housing	0.0	0.2	0.2	0.2	0.3	0.3		9.0	8.1	9.1
Other	1.0	0.4	0.2	0.5	0.1	0.1	-80.0	13.3	-26.3	-79.4
Fixed assets	1.2	1.1	1.6	1.9	1.8	2.0	33.5	78.1	14.2	1.4
Other assets	2.4	0.7	1.8	3.6	6.4	6.6	-26.5	423.8	258.9	81.3
Liabilities	509.5	565.8	671.4	847.8	698.0	732.3	31.8	49.8	4.0	-13.6
Deposits of banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits of nonbanks	356.2	386.7	460.1	592.5	447.7	469.1	29.2	53.2	-2.7	-20.8
Borrowings from financial institutions	5.4	13.1	8.4	20.4	28.7	38.8	54.3	55.8	243.8	90.6
Of which:										
Banks	...	12.6	8.1	19.9	28.7	38.8	...	58.6	256.6	94.7
Other	...	0.5	0.3	0.4	0.0	0.0	...	-12.9	-100.0	-99.8
Other	100.1	121.1	156.2	185.7	180.0	179.5	56.0	53.3	15.2	-3.3
Paid-up capital	6.0	6.0	8.0	9.0	7.0	8.0	33.3	50.0	-12.5	-11.1
Reserves	27.0	31.0	31.3	35.5	29.6	33.9	15.9	14.4	-5.5	-4.5
Balance of profit and loss	14.8	7.9	7.4	4.678	4.9	2.9	-49.9	-40.8	-33.4	-37.2
Memorandum item:										
Number of finance companies	3	3		5		5				

Source: Financial Institutions Division, Ministry of Finance.

1/ Includes cash in 1995.

Table 21. Brunei Darussalam: Balance of Payments, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of U.S. dollars)						
Trade balance	456	441	411	239	662	175
Exports	2,248	2,154	2,390	2,603	2,676	1,894
Imports	1,792	1,713	1,979	2,364	2,013	1,718
Services, net 1/	-160	-119	7	-339	-343	-288
Receipts	74	53	562	459	526	486
Payments	234	171	555	798	869	774
Investment income, net 2/	1,819	2,379	2,451	2,643	2,739	2,381
Receipts	2,007	2,530	2,692	2,772	2,853	2,439
Payments	188	151	241	129	114	58
Current transfers, net 1/	-88	-6	-441	-343	-184	-184
Receipts	1	1	21	14	12	8
Payments	89	7	461	357	196	192
Current account balance	2,027	2,696	2,429	2,200	2,875	2,085
Capital transfers, net	-4	0	0	4	0	0
Foreign investment, net	824	670	-634	119	126	151
Long-term capital, net	-3,603	-4,360	-2,954	-2,685	-3,583	-2,610
Short-term capital, net	759	1,032	1,186	576	543	376
Overall balance	4	37	26	214	-39	3
External assets BCB (increase -)	-4	-37	-26	-214	39	-3
(In percent of GDP)						
Trade balance	11.2	10.1	7.9	4.4	12.2	3.6
Exports	55.2	49.2	45.8	47.8	49.3	39.0
Imports	44.0	39.1	37.9	43.4	37.1	35.4
Services 1/	-3.9	-2.7	0.1	-6.2	-6.3	-5.9
Receipts	1.8	1.2	10.8	8.4	9.7	10.0
Payments	5.8	3.9	10.6	14.6	16.0	15.9
Investment income, net 2/	44.6	54.4	47.0	48.5	50.5	49.0
Receipts	49.3	57.8	51.6	50.9	52.6	50.2
Payments	4.6	3.4	4.6	2.4	2.1	1.2
Current transfers 1/	-2.2	-0.1	-8.4	-6.3	-3.4	-3.8
Receipts	0.0	0.0	0.4	0.3	0.2	0.2
Payments	2.2	0.2	8.8	6.6	3.6	4.0
Current account balance	49.7	61.6	46.6	40.4	53.0	42.9

Sources: Ministry of Finance, Statistical Yearbook (various issues) ; data provided by the Brunei authorities; and staff estimates.

1/ There is a statistical break between 1994 and 1995.

2/ Investment income is based on staff estimates.

Table 22. Brunei Darussalam: Exports by Commodity, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of Brunei dollars)						
Total exports	3,632	3,290	3,388	3,670	3,973	3,162
Food and live animals	21	19	3	2	2	...
Beverages and tobacco	1	1	0	1	1	...
Crude material (inedible), except fuel	0	1	2	2	2	...
Mineral fuels, lubricants, and related materials	3,500	3,069	3,148	3,402	3,620	2,771
Animal and vegetable oils and fats	0	0	0	0	0	...
Chemicals	6	6	4	5	5	...
Manufactured goods classified chiefly by material	22	22	27	31	50	...
Machinery and transportation equipment	68	118	108	133	179	...
Miscellaneous manufactured articles	15	54	80	81	93	...
Miscellaneous transactions and commodities not elsewhere classified	0	1	15	15	22	...
(In percent of total exports)						
Mineral fuels, lubricants, and related materials	96.3	93.3	92.9	92.7	91.1	87.6
(In percent of total non-oil/gas exports)						
Food and live animals	15.6	8.5	1.4	0.8	0.5	...
Beverages and tobacco	0.8	0.2	0.1	0.2	0.1	...
Crude material (inedible), except fuel	0.2	0.5	0.9	0.6	0.5	...
Animal and vegetable oils and fats	0.0	0.0	0.0	0.0	0.0	...
Chemicals	4.8	2.5	1.5	1.7	1.3	...
Manufactured goods classified chiefly by material	16.3	9.8	11.4	11.7	14.1	...
Machinery and transportation equipment	50.9	53.2	44.9	49.5	50.8	...
Miscellaneous manufactured articles	11.1	24.5	33.4	30.1	26.5	...
Miscellaneous transactions and commodities not elsewhere classified	0.2	0.6	6.4	5.5	6.2	...
(Percent change)						
Total exports	-7.2	-9.4	3.0	8.3	8.3	-20.4
Mineral fuels, lubricants, and related materials	-6.0	-12.3	2.6	8.1	6.4	-23.5
Other	-30.2	66.8	8.5	11.6	31.7	11.0

Sources: Ministry of Finance, Statistical Yearbook (various issues); and data provided by the Brunei authorities.

Table 23. Brunei Darussalam: Value and Destination of Selected Exports, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of Brunei dollars)						
Value of major exports						
Petroleum	1,908	1,656	1,587	1,819	1,761	1,236
Crude petroleum	1,786	1,550	1,476	1,702	1,650	...
Petroleum products	123	106	111	117	110	...
Natural gas	1,591	1,413	1,561	1,583	1,860	1,534
(In millions of U.S. dollars)						
Petroleum	1,181	1,084	1,119	1,290	1,186	740
Crude petroleum	1,105	1,015	1,041	1,207	1,111	...
Petroleum products	76	69	78	83	74	...
Natural gas	985	925	1,102	1,123	1,252	919
(In millions of Brunei dollars)						
Major exports by destination						
Crude petroleum						
Japan	527	385	424	503	433	...
Korea	391	353	316	437	424	...
Philippines	82	51	20	0	0	...
Singapore	291	279	219	216	182	...
Taiwan Province of China	106	88	84	104	106	...
Thailand	360	361	371	420	444	...
Natural gas:						
Japan	1,591	1,358	1,384	1,402	1,614	...
Korea	0	54	177	181	246	...
Petroleum products						
Japan	103	54	73	50	60	...
Korea	15	45	37	60	50	...
Singapore	0	7	0	2	0	...
United States	5	0	0	0	0	...
(In percent of total)						
Crude petroleum						
Japan	29.5	24.8	28.7	29.5	26.2	...
Korea	21.9	22.7	21.4	25.7	25.7	...
Philippines	4.6	3.3	1.3	0.0	0.0	...
Singapore	16.3	18.0	14.8	12.7	11.0	...
Taiwan Province of China	6.0	5.7	5.7	6.1	6.4	...
Thailand	20.2	23.3	25.2	24.7	26.9	...
Natural gas:						
Japan	100.0	96.1	88.6	88.6	86.8	...
Korea	0.0	3.9	11.4	11.4	13.2	...
Petroleum products						
Japan	83.9	51.3	66.3	43.0	54.3	...
Korea	12.3	42.4	33.7	51.3	45.7	...
Singapore	0.0	6.3	0.0	1.8	0.0	...
United States	3.8	0.0	0.0	0.0	0.0	...

Sources: Ministry of Finance, Statistical Yearbook (various issues), and data provided by the Brunei authorities.

Table 24. Brunei Darussalam: Exports by Country of Destination, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of Brunei dollars)						
ASEAN	829	862	752	784	829	...
Of which:						
Indonesia	0	1	13	5	7	...
Malaysia-West	6	53	13	22	92	...
-Sabah	2	4	4	4	5	...
- Sarawak	50	36	16	12	14	...
Philippines	82	59	21	1	1	...
Singapore	329	348	313	318	264	...
Thailand	360	362	372	421	446	...
European Union	15	28	26	39	46	...
Of which:						
France	4	5	8	2	4	...
Other	2,789	2,400	2,610	2,847	3,098	...
Of which:						
Australia	29	2	24	2	28	...
Japan	2,221	1,798	1,883	1,955	2,108	...
Korea	406	452	531	678	721	...
Taiwan Province of China	106	88	84	104	106	...
United States	22	46	67	76	97	...
Total	3,632	3,290	3,388	3,670	3,973	3,162
(In percent of total exports)						
ASEAN	22.8	26.2	22.2	21.4	20.9	...
Of which:						
Indonesia	0.0	0.0	0.4	0.1	0.2	...
Malaysia-West	0.2	1.6	0.4	0.6	2.3	...
-Sabah	0.1	0.1	0.1	0.1	0.1	...
- Sarawak	1.4	1.1	0.5	0.3	0.3	...
Philippines	2.3	1.8	0.6	0.0	0.0	...
Singapore	9.1	10.6	9.2	8.7	6.6	...
Thailand	9.9	11.0	11.0	11.5	11.2	...
European Union	0.4	0.9	0.8	1.1	1.2	...
Of which:						
France	0.1	0.1	0.2	0.0	0.1	...
Others	76.8	72.9	77.0	77.6	78.0	...
Of which:						
Australia	0.8	0.0	0.7	0.0	0.7	...
Japan	61.1	54.6	55.6	53.3	53.1	...
Korea	11.2	13.7	15.7	18.5	18.1	...
Taiwan Province of China	2.9	2.7	2.5	2.8	2.7	...
United States	0.6	1.4	2.0	2.1	2.5	...

Sources: Ministry of Finance, Statistical Yearbook (various issues); and data provided by the Brunei authorities.

Table 25. Brunei Darussalam: Imports by Commodity, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of Brunei dollars)						
Total imports	3,055	2,760	2,960	3,516	3,154	3,027
Food and live animals	229	327	324	354	352	...
Beverages and tobacco	53	60	67	83	62	...
Crude material (inedible), except fuel	28	69	111	130	108	...
Mineral fuels, lubricants, and related materials	25	5	16	10	6	...
Animal and vegetable oils and fats	7	9	10	15	13	...
Chemicals	134	143	166	188	201	...
Manufactured goods classified chiefly by material	602	630	909	865	804	...
Machinery and transportation equipment	1,514	1,172	1,039	1,504	1,229	...
Miscellaneous manufactured articles	449	339	303	350	364	...
Miscellaneous transactions and commodities not elsewhere classified	12	7	14	17	16	...
(In percent of total imports)						
Total imports	100.0	100.0	100.0	100.0	100.0	100.0
Food and live animals	7.5	11.8	11.0	10.1	11.1	...
Beverages and tobacco	1.8	2.2	2.3	2.4	1.9	...
Crude material (inedible), except fuel	0.9	2.5	3.8	3.7	3.4	...
Mineral fuels, lubricants, and related materials	0.8	0.2	0.5	0.3	0.2	...
Animal and vegetable oils and fats	0.2	0.3	0.3	0.4	0.4	...
Chemicals	4.4	5.2	5.6	5.3	6.4	...
Manufactured goods classified chiefly by material	19.7	22.8	30.7	24.6	25.5	...
Machinery and transportation equipment	49.6	42.4	35.1	42.8	39.0	...
Miscellaneous manufactured articles	14.7	12.3	10.2	10.0	11.6	...
Miscellaneous transactions and commodities not elsewhere classified	0.4	0.2	0.5	0.5	0.5	...
(Percent change)						
Total imports	26.4	-9.6	7.2	18.8	-10.3	-4.0

Sources: Ministry of Finance, Statistical Yearbook (various issues); and data provided by the Brunei authorities.

Table 26. Brunei Darussalam: Imports by Country of Origin, 1993-98

	1993	1994	1995	1996	1997	Est. 1998
(In millions of Brunei dollars)						
ASEAN	922	1,318	1,489	1,501	1,435	...
Of which:						
Indonesia	92	99	61	52	59	...
Malaysia-West	244	335	336	350	361	...
- Sabah	5	6	18	14	8	...
- Sarawak	4	19	52	63	59	...
Philippines	4	4	7	16	14	...
Singapore	524	768	937	900	807	...
Thailand	49	86	76	104	124	...
European Union	825	505	486	563	565	...
Of which:						
Denmark	9	25	34	17	8	...
France	20	24	31	32	37	...
Germany	363	114	132	123	189	...
Italy	159	55	62	74	74	...
Netherlands	87	61	26	41	38	...
United Kingdom	130	192	171	245	192	...
Other	1,308	938	985	1,452	1,154	...
Of which:						
Australia	76	96	94	96	83	...
China	38	49	89	92	78	...
Hong Kong SAR	50	29	81	123	115	...
Japan	286	279	261	278	353	...
Korea	27	26	42	53	57	...
Taiwan Province of China	28	43	52	45	42	...
United States	766	313	262	614	316	...
Total	3,055	2,760	2,960	3,516	3,154	3,027
(In percent of total imports)						
ASEAN	30.2	47.7	50.3	42.7	45.5	...
Of which:						
Indonesia	3.0	3.6	2.0	1.5	1.9	...
Malaysia-West	8.0	12.1	11.3	10.0	11.5	...
- Sabah	0.2	0.2	0.6	0.4	0.2	...
- Sarawak	0.1	0.7	1.8	1.8	1.9	...
Philippines	0.1	0.1	0.3	0.4	0.5	...
Singapore	17.2	27.8	31.7	25.6	25.6	...
Thailand	1.6	3.1	2.6	3.0	3.9	...
European Union	27.0	18.3	16.4	16.0	17.9	...
Of which:						
Germany	11.9	4.1	4.5	3.5	6.0	...
United Kingdom	4.2	7.0	5.8	7.0	6.1	...
Other	42.8	34.0	33.3	41.3	36.6	...
Of which:						
Japan	9.4	10.1	8.8	7.9	11.2	...
United States	25.1	11.3	8.8	17.5	10.0	...

Sources: Ministry of Finance, Statistical Yearbook (various issues); and data provided by the Brunei authorities.

Table 27. Brunei Darussalam: International Reserves, 1993-98 1/

	1993	1994	1995	1996	1997	Est. 1998
(In millions of U.S. dollars)						
1. Brunei Currency Board	268	305	332	546	507	510
Of which: liquid assets	159	106	139	319	298	296
2. Consolidated Fund	87	759	1,501	1,544	1,369	1,635
3. Official reserves (1.+2.)	355	1,065	1,833	2,090	1,875	2,145
4. Commercial banks	2,124	3,332	4,041	3,847	1,781	1,866
5. International reserves (3.+4.)	2,479	4,396	5,874	5,937	3,656	4,011
(In months of imports of goods and services)						
Official reserves	2.1	6.5	8.7	7.9	8.8	10.2
International reserves	14.6	26.8	27.8	22.4	17.2	19.1
Memorandum items:						
Imports of goods and services (US\$ mn.)	2,026	1,884	2,534	3,162	2,883	2,492
Brunei dollar/U.S. dollar (end of period)	1.608	1.461	1.414	1.400	1.676	1.650

Sources: Brunei Currency Board, Annual Report (various issues); and data provided by the Brunei authorities.

Table 28. Brunei Darussalam: Exchange Rates, 1993-98 1/

	U.S. dollar		Brunei dollar per SDR		Yen per Brunei dollar		Brunei dollar per ECU		Brunei dollar Effective exchange rates		Singapore dollar Real effective exchange rate 2/	
	Period average	End of period	Period average	End of period	Period average	End of period	Period average	End of period	Nominal 2/	Real 2/	Period average	Period average
1993	1.616	1.608	2.26	2.21	69	70	1.89	1.80	94.9	92.9	94.9	94.9
1994	1.527	1.461	2.19	2.13	67	68	1.82	1.80	97.5	94.6	98.4	98.4
1995	1.417	1.414	2.15	2.10	66	73	1.85	1.86	100.0	100.0	100.0	100.0
1996	1.410	1.400	2.05	2.01	77	83	1.79	1.75	103.2	102.7	103.5	103.5
1997	1.485	1.676	2.04	2.26	82	78	1.68	1.85	104.6	103.6	105.7	105.7
1996												
Q1	1.414	1.408	2.07	2.06	75	75	1.82	1.81	102.6	102.7	102.8	102.8
Q2	1.408	1.410	2.04	2.03	76	78	1.77	1.77	103.1	102.2	103.7	103.7
Q3	1.412	1.408	2.05	2.03	77	79	1.79	1.77	103.0	102.7	103.2	103.2
Q4	1.405	1.400	2.03	2.01	80	83	1.77	1.75	103.9	103.4	104.4	104.4
1997												
Q1	1.420	1.445	1.98	2.00	85	86	1.67	1.68	105.1	104.6	107.0	107.0
Q2	1.435	1.430	1.98	1.99	83	80	1.64	1.62	104.6	103.9	106.3	106.3
Q3	1.488	1.530	2.03	2.09	79	79	1.62	1.70	104.4	103.2	105.6	105.6
Q4	1.596	1.676	2.18	2.26	78	78	1.79	1.85	104.4	102.7	104.0	104.0
1998												
Q1	1.676	1.606	2.26	2.15	76	82	1.82	1.73	106.1	103.0	104.2	104.2
Q2	1.645	1.707	2.20	2.27	82	83	1.81	1.87	107.5	103.6	105.0	105.0
Q3	1.729	1.685	2.32	2.31	81	80	1.93	1.97	106.1	...	100.0	100.0

Sources: IMF, International Financial Statistics; and staff estimates.

1/ Exchange rates for the Brunei dollar are based on Singapore dollar rates reported to IMF, International Financial Statistics.

2/ 1995=100

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