AMRO Country Report
ACR/20-09

AMRO Annual Consultation Report

Brunei Darussalam - 2019

The report was prepared on the basis of AMRO's Annual Consultation Visit to the country from January 8-13, 2020, which was for 2019, and data availability as of April 30, 2020.

The ASEAN+3 Macroeconomic Research Office (AMRO)

August 2020

Acknowledgments

1. This Annual Consultation Report on Brunei Darussalam has been prepared in accordance with the functions of AMRO to monitor and assess the macroeconomic status and financial soundness of its members; identify relevant risks and vulnerabilities; report these to member authorities; and if requested, assist them in mitigating these risks through the timely formulation of policy recommendations. This is being done in accordance with Article 3(a) and (b) of the AMRO Agreement.

2. This Report is drafted on the basis of the Annual Consultation Visit of AMRO to Brunei Darussalam from 8-13 January 2020 (Article 5 (b) of AMRO Agreement). AMRO Mission team was headed by Dr. Siu Fung (Matthew) Yiu, Group Head and Lead Economist. Members included Mr. Muhammad Firdauz Muttaqin (Country Desk Economist for Brunei Darussalam), Dr. Anne Oeking (Temporary Desk Economist), Mr. Nguyen Huy Toan (Associate), and Ms. Chey Sovanney (Associate). AMRO Director Mr. Toshinori Doi and Chief Economist Dr. Hoe Ee Khor also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on Brunei Darussalam was peer-reviewed by Dr. Chaipat Poonpatpibul (Group Head) and Dr. Ruperto Majuca (Senior Economist); and was approved by Dr. Hoe Ee Khor.

3. The analysis in this Report is based on information available up to 30 April 2020.

4. By making any designation of or reference to a particular territory or geographical area, or by using the term “member” or “country” in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.

5. On behalf of AMRO, the Mission team wishes to thank the Brunei Darussalam authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

Table of Contents

Executive Summary

1. **Brunei Darussalam's economy recovered in 2019 and the recovery is expected to continue in 2020 amid the coronavirus pandemic**. After slowing down in 2018 and contracting in Q1 2019, the economy rose significantly in the last three quarters, especially in the second and fourth quarters, and recorded 3.9 percent growth for the whole of 2019. This was mainly due to the enhanced oil and gas production, and boosted by the commencement of Hengyi's refinery production in the last quarter. This was also supported by strong growth of the service sector, especially the finance and the wholesale and retail sub-sectors. Meanwhile, the construction sub-sector has continued to decline since early 2019, reflecting the completion of a few mega projects including FDI projects. Although facing strong external headwinds due to the coronavirus pandemic, GDP is still expected to grow by 2.2 percent in 2020, owing to the full operation of Hengyi's refinery production.

2. **Consumer price inflation turned negative in 2019 but is expected to turn positive in 2020.** After recording 1.0 percent in 2018, consumer price index (CPI) inflation fell to -0.4 percent in 2019, mostly driven by durable goods such as motor cars, bicycles, and spare parts. Inflation is expected to rebound to 1.3 percent in 2020 partly because of the weakening of the exchange rate amid the coronavirus pandemic.

3. **The external sector remains strong, despite the declining current account surplus in recent years**. Amid a decline in oil and gas prices, exports in 2019 grew quite strongly because of an increase in oil and gas production particularly in the last quarter. Although construction and FDI related imports have been falling with the completion of some projects, Hengyi's starting up operations have led to a sharp increase in crude oil and chemical imports since Q2 2019. The trade surplus has therefore declined in 2019. Along with a larger service deficit since 2018, the current account surplus is estimated to be smaller in 2019. In 2020, the current account surplus is expected to narrow further, in light of a sharp decline in oil and gas prices reflecting weaker global demand due to the coronavirus pandemic. Although it has subsided recently, the oil price war exacerbated the sharp drop of oil prices in April 2020.

4. **The financial sector is sound and credit growth is recovering.** Banks continue to be well capitalized as reflected in a high capital adequacy ratio, well above regulatory requirements under Basel II. Despite a relatively low loan-to-deposit ratio, banks have remained profitable and have increased their returns in the recent quarters. With respect to asset quality, the non-performing loans ratio was contained in 2019. Furthermore, domestic credit growth has recovered since 2018 and continued in 2019 supported by household credit.

5. **The fiscal position has improved in recent years but the budget is expected to return to deficit levels.** The fiscal situation improved considerably from a deficit of 16.6 percent in FY 2016/17 to 12.9 percent of GDP in FY2017/18 and to a surplus of 0.2 percent in FY2018/19. The surplus in the FY2018/19 was driven by higher oil and gas prices and continued restraint in fiscal spending. However, the decline in oil and gas prices in 2019, and even greater in 2020, is expected to cause the fiscal balance to return to a deficit of 7.2 percent of GDP in FY2019/20 and 11.1 percent in FY2020/21.

6. **The large role of oil and gas in the economy implies that the country will still face risks associated with the sector in the short to medium term.** Risks to the sector can arise

from unexpected disruptions in oil and gas production, geopolitical conflicts, and a slowdown in major global economies, amplified by ongoing trade tensions and the coronavirus pandemic. These conditions, strengthened by oil price frictions, will lead to a further decline in oil and gas prices, which in turn will adversely affect the economy.

7. **Other risks can arise from a delay in economic diversification efforts that can reduce the medium- to long-term economic prospects.** Recent progress in diversification and the commencement of large projects have improved employment prospects, GDP growth, and external trade. However, the improvement could be jeopardized by a slowdown in structural reforms and economic diversifications. In addition, a slowdown in the key FDI source countries can reduce the flow of new investment projects. Furthermore, a high reliance on foreign workers to operate FDI projects can pose a vulnerability to the economy if the labor supply is disrupted.

8. **AMRO supports the authorities' efforts to continue economic diversification.** Despite considerable progress in diversification, the reliance on the oil and gas sector remains high. Continued diversification is important to continue improving the doing business environment and in order to provide more employment opportunities, increase non-oil and gas fiscal revenue, boost economic resilience, and ensure long-term sustainability.

9. **AMRO encourages the authorities to continue with measures to improve human capital.** The authorities have implemented various initiatives to address labor issues, such as the i-Ready Apprenticeship Program, i-Usahawan, and the Center for Capacity Building. However, these initiatives will require time to become successful and achieve better results, and must therefore be continued. At the same time, the authorities continue to look for new ways to improve the skills and qualifications of Brunei Darussalam's labor force, such as through placements in international institutions or companies outside the country.

10. **Fiscal consolidation measures should be maintained to improve fiscal sustainability.** The authorities have made substantial progress in reducing the budget deficit in the recent years to ensure long-term fiscal sustainability. Further diversifying revenue sources away from the oil and gas sector, increasing revenue collection and expanding the tax base will support fiscal consolidation and help reduce the high reliance on oil and gas revenue. On the expenditure side, measures should focus on enhancing spending efficiency, containing current expenditure and reducing subsidies under the current low inflation environment. In light of the negative impact of the coronavirus outbreak on the economy, the government should continue prioritize fiscal spending to support certain sectors such as manufacturing, trade and tourism.

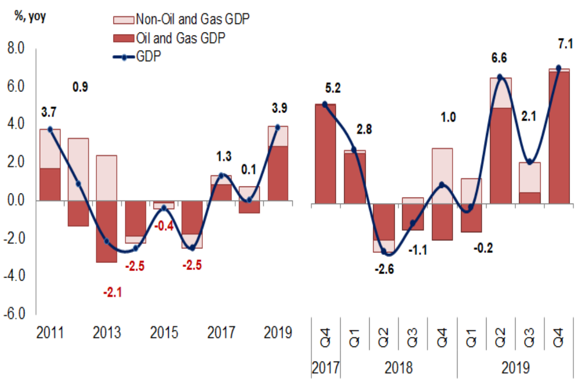
11. **The financial sector needs to be developed further to improve inclusiveness and to expand its services.** In the near term, measures to improve access to credit—particularly for SMEs—under prudent guidelines, will support diversification and economic growth. In the medium to long term, developing new financial products, including digital payments systems and financial technology platforms, will enhance investment opportunities and financial market developments. In addition, these will provide SMEs with an easier access to global online markets.

A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

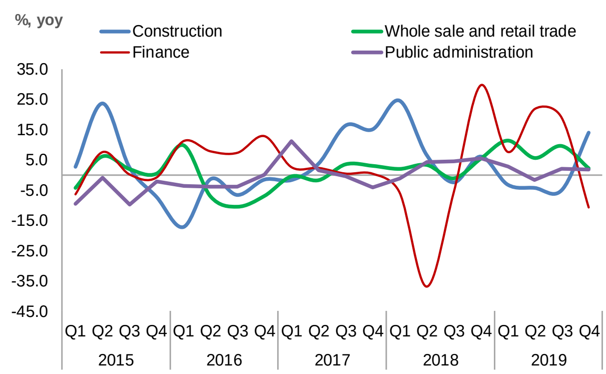
1. **Brunei Darussalam's economy grew quite strongly in 2019, driven by oil and gas production, and boosted by the commencement of downstream refinery operations.** After a four-year downturn following the oil price shock and disruptions in oil and gas production, the economy has been on the path of recovery. Despite slowing to 0.1 percent in 2018 from 1.3 percent in 2017, the economic growth has rebounded since Q2 2019 (Figure 1). The economy in 2018 experienced several quarters of low or negative growth in oil and gas production due to setbacks in ongoing maintenance and rejuvenation works. As a result, GDP growth weakened to 0.1 percent in 2018 (Figure 1). After contracting in Q1 2019, the economy grew significantly in the last three quarters: by 6.6 percent, 2.1 percent and 7.1 percent respectively. For the whole year, the economy grew by 3.9 percent in 2019, driven by an enhanced oil and gas sector and boosted by the commencement of operation of Hengyi's refinery in the last quarter. Furthermore, the vibrant GDP growth was also supported by strong growth of non-oil and gas sectors, especially in the finance and the wholesale and retail sub-sectors (Figure 2). Despite the higher GDP at the end of 2019, construction has continued to decline in line with the completion of a few mega projects, including FDI projects, since early 2019. On the demand side, the main drivers of growth were net exports and household consumption (Figure 3).

Figure 1. Real GDP Growth



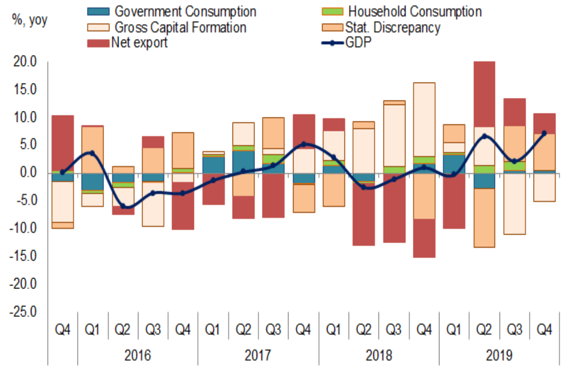
Source: DEPS; AMRO staff calculations

Figure 2. Growth in Major Non-O&G Sectors



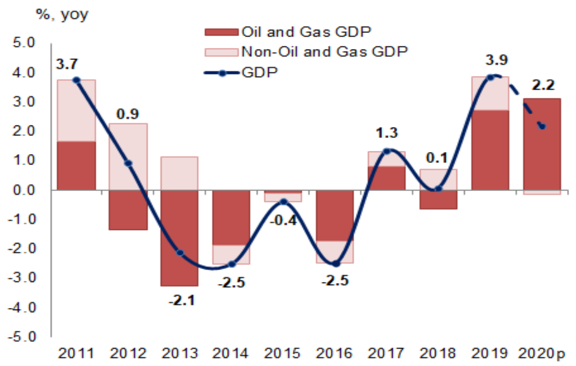
Source: DEPS

Figure 3. GDP Growth by Expenditure



Source: DEPS; AMRO staff calculations

Figure 4. Real GDP Growth Outlook

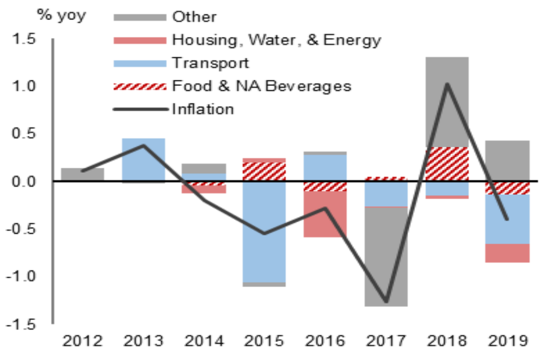


Source: DEPS; AMRO staff projections

2. **Going forward, the growth outlook is still positive due to the commencement of downstream refinery operations, amid the coronavirus pandemic**. The full operation of Hengyi's refinery project in 2020 is expected to support growth. However, the slowdown in global economic growth, coupled with lower commodity prices, is likely to dampen the growth of non-oil and gas sectors such as the industrial and service sectors in 2020. GDP is estimated to grow at 2.2 percent in 2020 (Figure 4).

3. **Consumer price inflation (CPI) has remained low and turned negative since the beginning of 2019, mainly driven by the falling prices of durable goods.** After a relatively sharp increase in early 2018, on account of the implementation of custom imports and excise duties on several food products in April 2017, average CPI inflation started to fall and reached -0.4 percent in 2019 from 1.0 percent in 2018 (Figure 5). The decline in inflation was mostly owing to decreases in the price of durable goods such as motor cars, bicycles, and spare parts (Table 1). Based on other categories, the decline in inflation during 2019 was also mainly due to a decrease in non-food prices. An increase in the number of imported goods in the newly rebased CPI also contributed to the decline in inflation reflecting a stronger exchange rate. Inflation is expected to return to a positive figure of 1.3 percent in 2020 on the back of the weakening of the exchange rate amid the coronavirus pandemic.

Figure 5. Inflation[1]



Source: DEPS; AMRO staff calculations

Table 1. Inflation by Components (updated)

Inflation Component	Weights	Inflation (Jan-Dec 2019)	
		% Change	Point of Contribution
Overall Index	**100.0**	**-0.4**	**-0.4**
Goods	**57.3**	**-1.1**	**-0.6**
Durable	12.2	-4.5	-0.5
Semi-Durable	7.9	0.1	0.01
Non-Durable	37.2	-0.3	-0.1
Services	**42.7**	**0.6**	**0.2**
Food	**18.8**	**-0.7**	**-0.1**
Non-Food	**81.2**	**-0.3**	**-0.3**

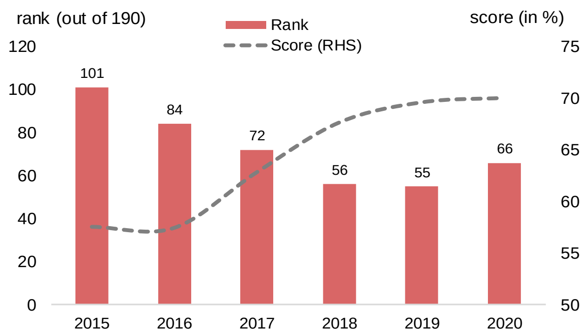
Source: DEPS

4. **The government has made progress with economic diversification and improved Brunei Darussalam's competitiveness, but the pace of reform has slowed lately.** Over recent years and following the oil price shock, the government has increased efforts to diversify the economy away from its high reliance on the upstream oil and gas sector. Efforts were made to improve the business environment and attract FDI into manufacturing and services.[2] Brunei Darussalam considerably improved its ranking in the World Bank's Doing Business survey, from the 101st rank in 2015 to the 55th rank in 2019 among a total of 190 economies (Figure 6). In the latest Doing Business report for 2020, however, its ranking fell to 66, despite a further increase in its score from 69.6 to 70.1 percent, due to greater reform momentum in other

[1] The Department of Economic and Planning and Statistics (DEPS) has changed Consumer Price Index statistics from the 2010 base year to the 2015 base year since June 2019. In this adjustment process, this report still uses a combination of the two base years for data before and after 2016.
[2] Brunei Darussalam authorities have implemented various measures to attract FDI, such as a favourable corporate tax rate of 18.5 percent, complete project facilitation, credible partnership from private and government entities, property protection, and up to 100 percent ownership of companies. Pursuant to the Investment Incentives Order 2001, companies may apply for tax and import duties exemption upon meeting as per set requirements.

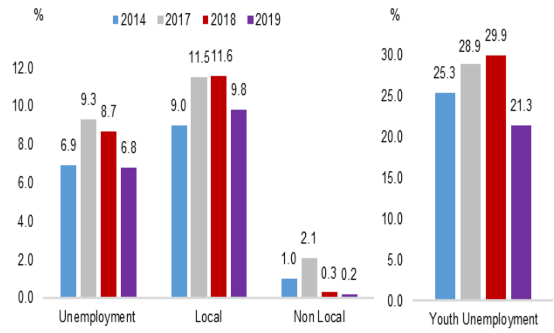
countries. Several large FDI projects have commenced operation recently, notably the Hengyi refinery facility, the biggest investment project in Brunei Darussalam in recent years. With the completion of the large FDI projects, FDI inflows have declined since Q3 2019 (Figure 3).

Figure 6. Doing Business



Source: World Bank's Doing Business; AMRO staff calculations

Figure 7. Labor Market Developments



Source: DEPS; AMRO staff calculations

5. **Notwithstanding the bumpy economic recovery since 2017, the unemployment rate has started to come down on the back of stronger private sector employment.** The unemployment rate in the country increased from 6.9 percent in 2014 to 9.3 percent in 2017, but fell to 8.7 percent in 2018 and has continued to decrease to 6.8 percent in 2019 (Figure 7). Notwithstanding a slight increase in the working age population and an increase in the labor force participation rate, the fall in the unemployment rate was driven by job creation in the private sector. Private sector employment grew by 16.3 percent from 2018 to 2019 with increase in the number of employment by 20,600, while public employment remained flat. The local and youth unemployment rates have declined from 11.6 percent and 29.9 percent in 2018, to 9.8 percent and 21.3 percent in 2019, respectively. Despite the decrease in the local and youth unemployment rates, an increase in the working age population that is not equipped with the skills and qualifications needed by industry is a major factor underlying the high unemployment in both these segments. The government has implemented various initiatives including the i-Ready Apprenticeship Program, the Center for Capacity Building, I-Usahawan to overcome this issue, but it will take time and more efforts for these initiatives to show improvement (for more detailed information on these initiatives, please see Box B. Brunei Darussalam Authorities' Initiatives to Lower Youth Unemployment Rate).

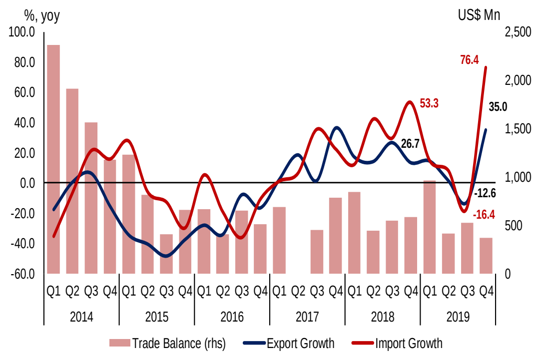
A.2 External Sector and the Balance of Payments

6. **The current account surplus has narrowed in recent years, reflecting low oil and gas prices and capital goods imports related to major FDI projects**. Although exports surged in 2018 on the back of higher oil and gas prices, imports also increased strongly boosted by capital goods for infrastructure and large FDI projects (Figure 8). Despite a decline in oil and gas prices, export growth in 2019 was still quite high, driven by an increase in oil and gas export volume and the commencement of Hengyi's refinery exports since November 2019. While construction- and FDI-related imports have fallen since early 2019 with the completion or near-completion of some projects, the commencement of Hengyi's operations

have led to a sharp increase in crude oil and chemical imports that have outstripped the drop in construction related imports. Overall, the trade surplus narrowed in 2018, and continued to decline in 2019. Moreover, the narrowing of the current account surplus was driven by the larger service balance deficit and the decline in the primary balance surplus because of an increase in profit repatriation from some FDI projects (Figure 9).

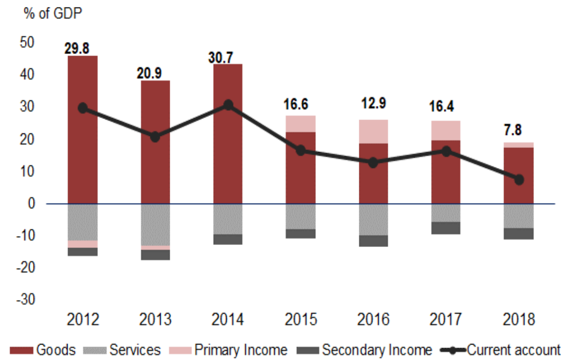
7. **The current account surplus is expected to narrow further in 2019 and 2020.** Hengyi's crude oil imports increased sharply in Q4 2019, more than offsetting the drop in construction related imports since early 2019. On balance, for the whole year of 2019, the trade surplus narrowed further. For the whole year of 2020, oil and gas exports are expected to decline sharply on account of the collapse in global oil prices. However, the commencement of Hengyi's refinery production in November of 2019 and its exports are expected to boost total exports, particularly in 2020. As a result, the current account surplus is projected to be smaller in 2019, and to narrow further in 2020, driven by the sharp fall in oil and gas prices. Overall, the external position remains strong, supported by ample official reserves and foreign assets of the sovereign wealth fund.

Figure 8. Trade Balance



Source: DEPS; AMRO staff calculations

Figure 9. Current Account Balance



Source: DEPS

A.3 Monetary Condition and Financial Sector

8. **The financial sector has remained sound, with low risks.** The financial sector continues to be dominated by the banking system, including both conventional and Islamic banks (Islamic banks have a significant role in the banking industry of the economy, see Box A.). Banks continue to be well capitalized as reflected in their high capital adequacy ratios, which stood at 20.1 percent in 2019, well above the domestic minimum requirement of 10 percent and the minimum ratio of 8 percent under Basel II (Table 2). Banks have ample liquidity, with a ratio of 46.5 percent liquid assets to total assets in 2019. Moreover, they continue to be profitable and have increased their returns, amid a relatively low loan to deposit ratio, which has been improving in recent quarters as credit growth has increased (Figure 10). Regarding asset quality, NPL ratio came down in 2019 to 4.6 percent. The improvement in NPL was in line with various measures taken by Autoriti Monetari Brunei Darussalam (AMBD) to improve banks' risk management (See Annex 1. Prudential Measures to Mitigate NPLs and Risk of Overseas Placement of Excess Liquidity).

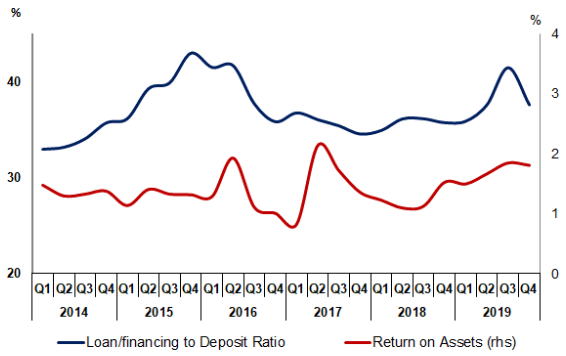
9. **Credit growth is recovering.** Credit growth recovered in 2018 on the back of an increase in domestic non-household credit, which has started slowing again since Q2 2019. With household and offshore credit picking up, total credit growth has increased by 7.6 percent in 2019 (Figure 11). After a period of negative growth, household loan growth has started to recover since Q2 2019 and has increased by 5.8 percent in 2019 (Figure 12), contributing 3.1 percent of total credit growth.

Table 2. Selected Financial Soundness Indicators

Indicator	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy							
CAR	20.4	21.0	21.7	21.5	18.9	19.3	20.1
CAR tier 1	21.2	22.1	22.9	23.2	18.2	18.94	19.7
Asset Quality							
NPL gross	5.7	5.0	4.9	5.9	4.4	5.7	4.6
NPL net	1.6	2.3	2.2	3.3	1.6	2.9	2.4
Profitability							
ROA	1.3	1.4	1.3	1.0	1.3	1.5	1.8
ROE	10.2	10.1	8.7	6.5	8.9	11.2	12.5
Liquidity							
Liquid Assets to Total Assets	56.2	53.9	45.5	50.4	51.0	51.7	46.5
Loan to Deposit Ratio	33.6	35.7	42.9	35.8	34.5	35.7	37.6

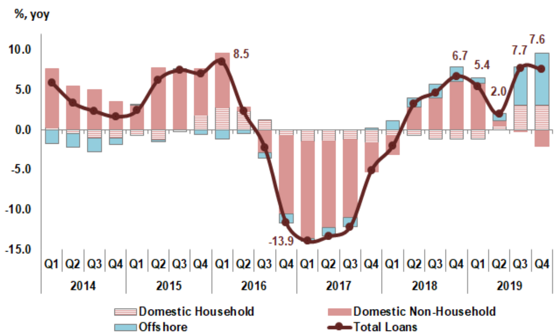
Source: Monetari Autoriti of Brunei Darussalam (AMBD)

Figure 10. Loan to Deposit Ratio and Profitability



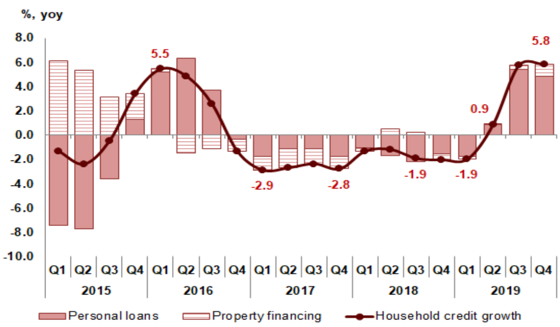
Source: AMBD

Figure 11. Credit Growth



Source: AMBD; AMRO staff calculations

Figure 12. Domestic Household Credit Growth



Source: AMBD; AMRO staff calculations

Box A. The Role of Brunei Darussalam's Islamic Banks to Promote Growth and Financial Stability [3]

Islamic banks[4] have a large role in the financial system in Brunei Darussalam. In line with Wawasan Brunei 2035[5]—which aims to establish Brunei Darussalam as an international financial centre especially in the area of Islamic finance—the share of Islamic banks has increased significantly, since 2016. The total assets of Islamic banks increased markedly from 31.8 percent in 2010 to 52 percent of total assets of financial institutions or 63.3 percent of total banking assets in 2018 (Table A1). With this development, Brunei Darussalam is one of the few countries in the world where Islamic banks account for more than 50 percent of total assets (Figure A1). This is well below Iran and Sudan (each has a share of around 100 percent in Q2 2018), but Brunei Darussalam is above Saudi Arabia (51.2 percent) according to the 2019 Islamic Financial Services Board (IFSB) report. Brunei Darussalam's ranking in the Islamic Financial Development Indicators also rose from

[3] Prepared by Muhammad Firdauz Muttaqin (Economist) and Abdurohman (Economist).
[4] There are three Islamic banks in Brunei—Bank Islam Brunei Darussalam (BIBD), Perbadanan Tabung Amanah Islam Brunei, and Bank Usahawan (a bank providing Sharia-compliant financial service for Medium, Small and Micro Enterprises-MSMes). However, the figures reported in this document under the heading "Islamic banks" does not include data from Bank Usahawan
[5] Wawasan Brunei 2035 is the long term vision that aims to turn Brunei Darussalam into a country widely recognized for well-educated and highly skilled people, one of the top 10 nations in the world in terms of quality of life, and a country with a dynamic and sustainable economy with per capita that ranks with the richest countries in the world by 2035.

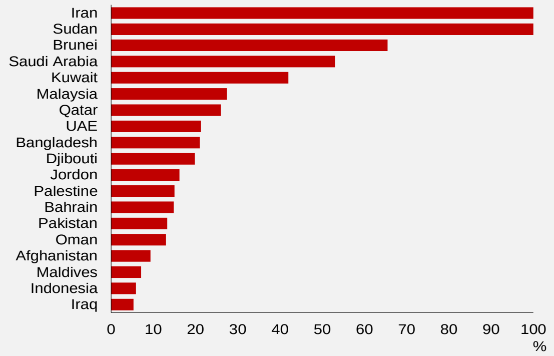
the 14th in 2016 to the 9th in 2017 and was maintained in 2018 according to the Islamic Finance Development Report published by ICD-Thompson Reuters.

Table A1. Financial System Assets

	2010		2014		2018		2019 Q3	
	BND bn	share	BND bn	share	BND bn	share	BND bn	share
Banking sector	**17.1**	**85.1%**	**18.7**	**82.4%**	**18.3**	**83.6%**	**16.9**	**82.8%**
Conventional banks	10.7	53.2%	9.4	41.4%	6.7	30.6%	6.3	30.9%
Islamic banks (incl. TAIB)	6.4	31.8%	9.3	41.0%	11.6	53.0%	10.6	52.0%
Finance companies	**1.7**	**8.5%**	**2.3**	**10.1%**	**2.0**	**9.1%**	**1.9**	**9.3%**
Insurance	**1.0**	**5.0%**	**1.0**	**4.4%**	**1.0**	**4.6%**	**1.0**	**4.9%**
Insurance companies	0.8	4.0%	1	4.4%	1.1	5.0%	1.1	5.4%
Takaful	0.2	1.0%	0.4	1.8%	0.5	2.3%	0.5	2.5%
Others	**0.3**	**1.5%**	**0.3**	**1.3%**	**0.3**	**1.4%**	**0.3**	**1.5%**
Total Assets	**20.1**	**100.0%**	**22.7**	**100.0%**	**21.9**	**100.0%**	**20.4**	**100.0%**

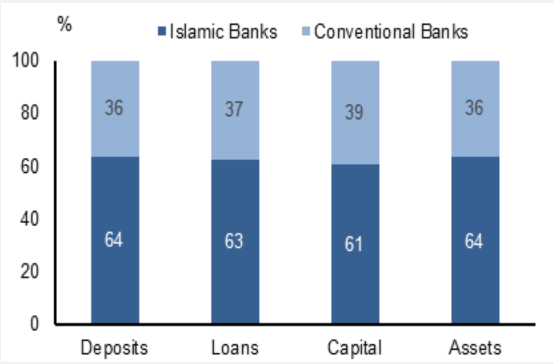
Source: AMBD

Figure A1. Islamic Banks' Share of Banking Assets (Comparison across Countries)



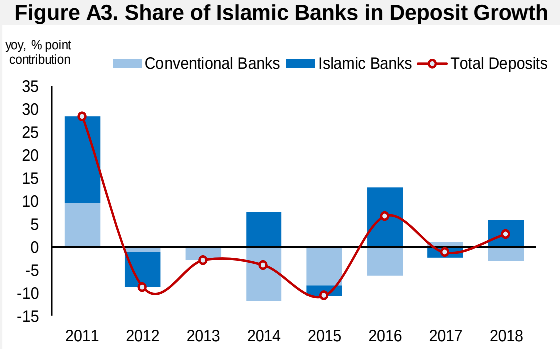
Note: Data up to Q2 2018
Source: Islamic Finance Stability Report 2019, IFSB

Figure A2. Islamic Banks' Share of Banking Sector



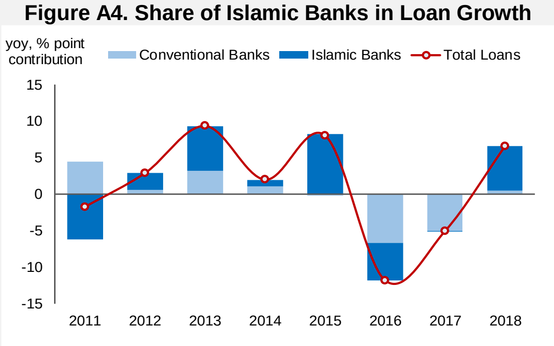
Note: Data up to Q2 2019
Source: IFSB statistics; AMBD

Figure A3. Share of Islamic Banks in Deposit Growth



Source: IFSB statistics and AMBD

Figure A4. Share of Islamic Banks in Loan Growth



Source: IFSB statistics and AMBD

With a large share, the activities of Islamic banks influence more the development and stability of the banking system as a whole. The significant share of Islamic banks in the economy can also be seen in other banking indicators such as deposits, credits and capital since 2016 (Figure A2). The increase in the share of the Islamic banks also reflects the exit of two foreign banks from Brunei Darussalam.[6] As a result, the development of deposits and credit[7] in the banking sector is influenced by Islamic banks (Figures A3, A4). With a dominant role of Islamic banks in various banking indicators, the overall financial system stability is subject more to the financial performance of this group. The performance of Islamic banks has generally been good with a high capital adequacy ratio, better asset quality, and an adequate liquidity condition (Table A2). Islamic banks also recorded a higher profitability ratio with a lower loan/financing to deposit

[6] There are two banks that moved their business from Brunei Darussalam, namely Citibank in 2014 and the Hong Kong and Shanghai Banking Corporation (HSBC) in 2016.

[7] Some data series from Islamic banks are taken from the Islamic Financial Services Board (IFSB).

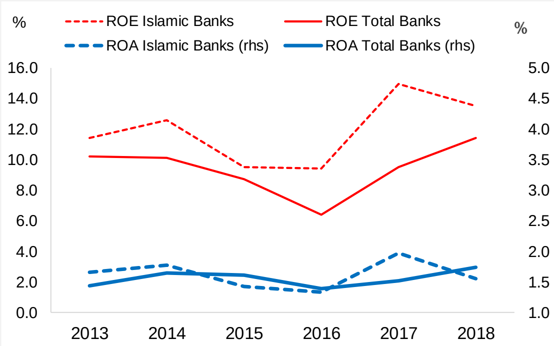
ratio compared to the banking industry as a whole (Figure A5). The efforts of Islamic banks to lessen credit risk, which previously tended to be high, has had a significant impact on reducing the overall risk in the banking system (Figure A6). Correspondingly, the effort also affected the capital adequacy ratio of Islamic banks and the banking system in general.

Table A2. Financial Stability Indicators in Q2 2019

Indicators (%)	All Banks	Islamic Banks	Conventional Banks	Foreign Banks
Regulatory Capital to Risk-Weighted Assets	20.2	19.6	21.5	25.0
Non-performing Loans				
- Gross	5.3	4.6	6.3	5.1
- Net	2.8	2.6	3.1	4.1
Profitability				
- Return on Assets	1.7	1.9	1.3	0.7
- Return on Equity	11.4	12.9	8.8	5.0
Liquidity				
- Liquid Assets to Total Deposits	55.3	53.5	58.4	62.2
- Loan/Financing to Deposit Ratio	37.6	34.6	42.8	32.5

Source: AMBD

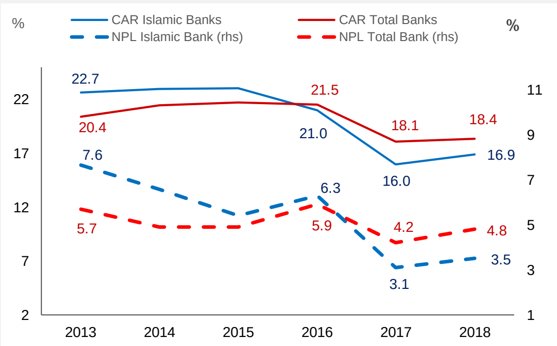
Figure A5. Profitability Ratio



Source: IFSB Statistics; AMBD

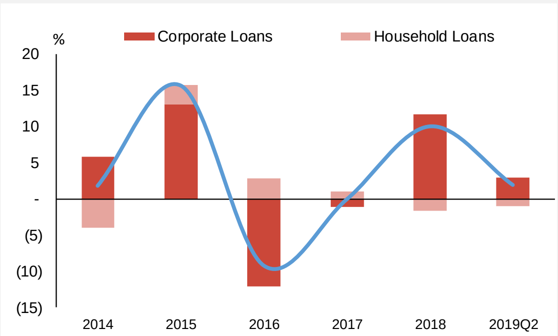
Because of their better financial performance, Islamic banks are expected to channel more financing to support the economy. Although Islamic banks have shown quite high financing growth and have the largest share of loans, the loan/financing to deposit ratio of this banking group is still lower than that of the banking system (Table A2), except for foreign banks. In addition, Islamic bank financing, which is more focused on the corporate sector, has also begun slowing in 2019 (Figure A7). With better financial stability indicators, Islamic banks have the potential to increase their financing to support economic diversification efforts, while maintaining their credit quality.

Figure A6. Banks' Capital and NPLs



Source: IFSB statistics; AMBD

Figure A7. Islamic Banks' Financing Growth



Source: IFSB statistics; AMBD

A.4 Fiscal Sector

10. **The fiscal position has improved in recent years, but the budget is expected to return to deficit this fiscal year.** The government budget recorded 0.2 percent of GDP surplus in FY2018/19 due to windfall gains from higher oil prices. Overall, the fiscal situation has improved considerably since FY2016/17, when the fiscal deficit peaked at 16.6 percent of GDP, reflecting higher oil and gas revenue and continued restraint in fiscal spending (Table 3). For FY2019/20[8] and FY 2020/21, the government sets the budget back to deficit after a

[8] The theme for this fiscal year is 'Investing in Our Future', which focuses on four areas: (i) enhancing investment activities through several priority sectors, namely the downstream oil and gas sector, food processing, tourism, services and the ICT sector to enhance the non-oil and gas sector growth and create more job opportunities; (ii) facilitating business by enhancing private sector growth, especially MSMEs to encourage economic growth; (iii) generating competent and employable human capital through several education initiatives including training programs to match the demand for labor and young people for industry; and (iv) ensuring the welfare of the public by providing services such as education and healthcare, and subsidies for basic needs such as rice, electricity, fuel, housing and others.

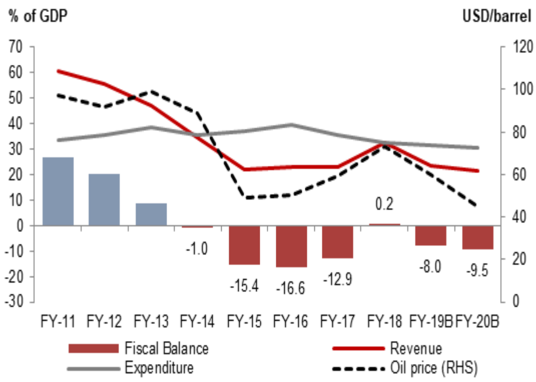
renewed fall in energy prices[9] (Figure 13). Thus far, the fiscal deficits have been financed by drawing down fiscal reserves which are estimated by staff to remain ample. However, large fiscal deficits over a prolonged period can pose a risk to long-term fiscal sustainability in a low-oil-price environment.

Table 3. Fiscal Budget

(BND million)	Outturn	Outturn	Outturn	Budget	Outturn[p]	Budget	Outturn[p]
	FY2016/17	FY2017/18	FY2018/19	FY2019/20		FY2020/21	
Total Revenue	**3,616**	**3,872**	**6,027**	**4,361**	**4,440**	**4,050**	**3,697**
Oil and Gas Revenue	2,584	2,976	4,873	3,183	3,580	2,910	2,967
Other Revenue	1,032	897	1,154	1,178	860	1,140	730
Total Expenditure	**6,252**	**6,079**	**5,999**	**5,860**	**5,790**	**5,860**	**5,810**
Current Expenditure	5,567	5,193	5,504	5,060	5,290	na	5,410
Capital Expenditure	685	887	496	800	500	na	400
Budget Deficit/Surplus	**-2,636**	**-2,207**	**28**	**-1,499**	**-1,350**	**-1,810**	**-2,113**
Budget Deficit/Surplus (% to GDP)	**-16.6**	**-12.9**	**0.2**	**-8.0**	**-7.2**	**-9.5**	**-11.1**
Non-OG Balance (% of non-OG GDP)	**-70**	**-69**	**-64**	**-58**	**-61**	**-58**	**-62**
Nominal GDP	**15,905**	**17,048**	**18,441**	**18,674**	**18,674**	**19,080**	**19,080**

Source: MOFE; AMRO staff calculations and projections

Figure 13. Fiscal Position and Oil Price



Source: MOFE; AMRO staff calculations

11. **Total revenue continues to be dominated by oil and gas, while total expenditure has fallen in line with consolidation efforts.** Mirroring price movements in energy prices, oil and gas-related revenue has been quite volatile. In 2018, rising oil and gas prices boosted government revenue. As part of the Fiscal Consolidation Program[10], the government also seeks to increase non-oil-and-gas revenues through various initiatives to enlarge the tax base, increase tax compliance and improve the effectiveness of other sources of revenue collection. These efforts have succeeded in increasing non-oil and gas revenues for FY2018/19 compared to the previous period and its targets. On the expenditure side, with ongoing fiscal consolidation efforts, total expenditure over GDP has fallen over last several years. Fiscal consolidation efforts have reduced total government expenditure from 39.3 percent of GDP in FY2016/17 to 32.6 percent for FY2018/19, particularly with lower capital spending. Total government spending, meanwhile, has been dominated by current expenditure. Despite the budgeted reduction in current expenditure, the actual outturn recorded higher-than-budgeted current expenditure for several years. Capital spending, on the other hand, remained below its budgeted value due to the lengthy implementation process. Therefore, the number of projects that have been completed or are being implemented is lower than the target for FY2018/19.

12. **Going forward, the fiscal balance is expected to be in deficit because of lower oil and gas prices.** Energy prices were considerably lower in 2019 than in 2018 and have fallen sharply since early 2020, due to the oil price war between Saudi Arabia and Russia and the coronavirus global pandemic. The ongoing recovery in oil and gas production is expected to

[9] The oil price assumption in the FY2019/20 and 2020/21 budget are estimated around USD60 per barrel and USD50 per barrel, respectively, far below the previous year's realization of USD73 per barrel.

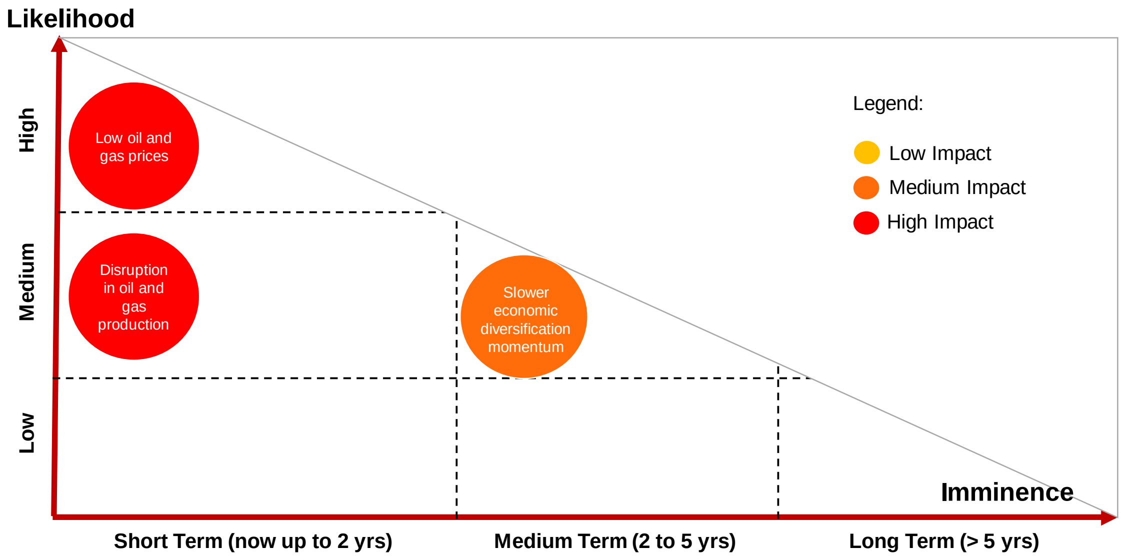
[10] The Fiscal Consolidation Program (FCP), implemented since August 2018, aims to restructure revenues and expenditures to bring the budget back to a sustainable level. The FCP requires respective ministries and departments to review their existing policies and scope of services, undertake structural reforms, streamline administrative processes and improve effectiveness and efficiency in public services. On the expenditure side, the FCP encourages line ministries to reduce less productive spending and improve expenditure structures so they can contribute to the growth of targeted industries, strengthen the private sector and create job opportunities for locals.

offset partially the lower oil prices, and total revenue is projected to reach 23.8 percent of GDP for FY2019/20. Government expenditure is expected to decrease to 31.0 percent of GDP for FY2019/20 with ongoing consolidation efforts, but with a slight rebalancing of expenditure towards capital spending. The budget is therefore projected to register a deficit of 7.2 percent of GDP in FY2019/20, and increase to 11.1 percent of GDP in FY2020/21 due to lower oil and gas revenue.

B. Risks, Vulnerabilities and Challenges

13. **Given the high dependence on the oil and gas sector, the major risks facing the Bruneian economy in the near to medium term are related to developments in the oil sector.** The risks to the sector can arise from both domestic and external factors, and they could spill over to the economy through several channels and be amplified by domestic and global developments.

Figure 14. Brunei Darussalam: Country Risk Map



Source: AMRO staff assessment

- Domestic risks: Unforeseen disruptions in oil and gas production are more likely with matured fields. Rejuvenation efforts have boosted oil and gas production, but the increase is temporary. New fields will have to be explored to sustain production, but the commercial viability for new exploration is uncertain in a low-oil-price environment.
- External risks: An economic slowdown in major global economies, which might be amplified by ongoing trade tensions, the coronavirus pandemic and geopolitical risks, could lead to lower oil and gas prices. Moreover, if the oil price war were to happen again, it will lower oil and gas prices further which will adversely affect the Bruneian economy.
- Impact: Disruptions in production and lower oil prices will impact economic growth—including spillovers to the non-oil and gas sector—and reduce exports. Moreover, given the heavy reliance on oil and gas revenue in the budget, fiscal revenue will fall, requiring more fiscal consolidation. The lower fiscal revenue could result in lower government

investment which could have negative spillovers to the rest of the economy and risk missing targets under the medium- and long-term development plans.

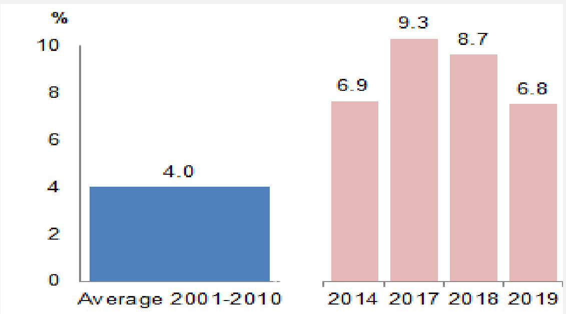
14. **Slower momentum in economic diversification could dampen medium- to long-term prospects, while a delay in large FDI projects could negatively impact the near-term outlook.** The economy still relies heavily on the oil and gas sector, although considerable progress has been made towards its diversification since the sharp fall in oil prices. In the near term, more diversification and the commencement of large projects could increase employment prospects, raise GDP growth, and foster trade (See Annex 2. Assessing the Impacts of FDI on Brunei Darussalam's GDP and Employment). Further structural reforms and economic diversification are likely to enhance the growth potential of the economy, even with declining oil and gas production in the future. Diversification progress could be affected by an economic slowdown in major FDI source countries which may reduce FDI inflows.

15. **The high dependence on foreign workers in several large FDI projects creates potential vulnerabilities for the economy.** The diversification efforts have created employment opportunities, but the share of local employment in some large FDI projects so far remains low. This is partly due to skill mismatches. Instead, many of the additional jobs currently rely on foreign workers, especially from the FDI country of origin (see Box B. Brunei Darussalam Authority's Initiatives to Lower Youth Unemployment Rate). This situation has created a vulnerability because a high reliance on foreign workers to operate the FDI projects can affect the sustainability of their production, especially if there is disruption in labor supply.

Box B. Brunei Darussalam Authorities's Initiatives to Lower Youth Unemployment Rate[11]

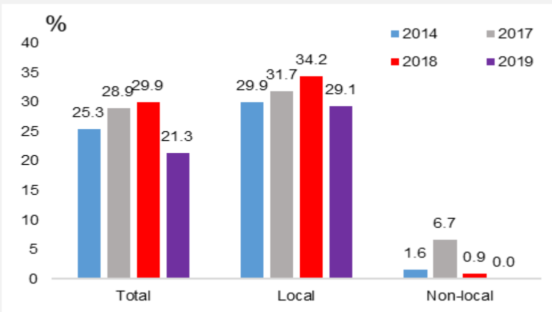
Despite advances in economic diversification, Brunei Darussalam is still faced with a high unemployment rate. The diversification efforts have shown progress as seen in the increasing number of FDI projects outside the oil and gas sector. Since 2010, the number of FDI projects that are in operation has reached 21, six projects in the process of completion, and a number of others are in the pipeline stage[12]. These FDI projects were expected to boost economic growth and create more jobs. However, the unemployment rate was high at 8.7 percent in 2018, although it declined to 6.8 percent in 2019 (Figure B1). In tandem with the improvement in the total unemployment, the youth unemployment rate has decreased from 29.9 percent in 2018 to 21.3 percent in 2019 (Figure B2). Furthermore, the youth unemployment figure for local residents was high at 34.2 percent in 2018, although it has decreased to 29.1 percent in 2019. This reveals several employment issues in Brunei Darussalam.

Figure B1. Unemployment Rate



Source: DEPS

Figure B2. The Youth Unemployment Rate

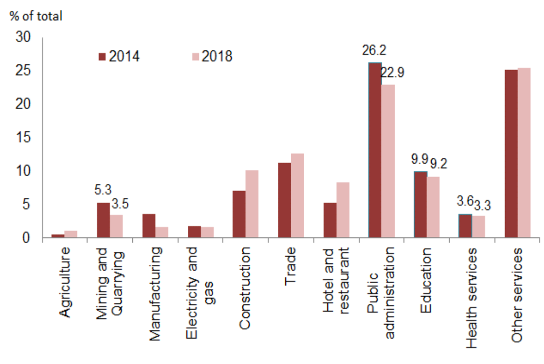


Source: DEPS

[11] Prepared by Muhammad Firdauz Muttaqin (Economist).
[12] FDI Action and Support Centre (FAST), 2020.

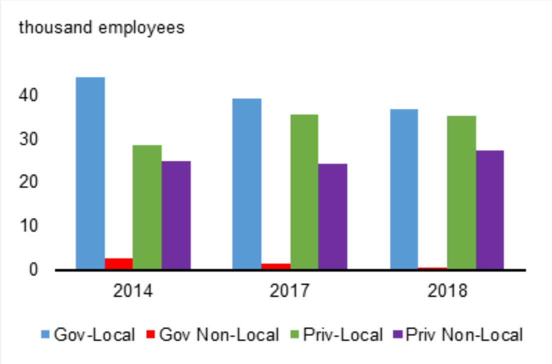
Unemployment in Brunei Darussalam is caused by cyclical and structural factors. Cyclical factors in Brunei Darussalam are related to the economic cycle, which is strongly influenced by the performance of the oil and gas sector. Structural factors are related to skills and qualification mismatches and the preferences of young people to work in the public and the oil and gas sectors. To overcome these structural problems, the government continues to enhance and strengthen private sector competitiveness. Meanwhile, the authorities have implemented several initiatives to address the problem of skills and qualification mismatches. These efforts have reduced the share (Figure B3) and number of workers (Figure B4) in the public sector since 2017. The number of workers in the public sector declined from 88,700 in 2014 to 75,500 in 2018 and 74,900 in 2019. On the other hand, the number of workers in the private sector continues to increase.

Figure B3. Share of Workers by Sector



Source: DEPS

Figure B4. Number of Employed in Private and Government Sectors



Source: DEPS

The government has implemented several youth-focused initiatives to address the issue of skills and qualification mismatches since 2017. The Manpower and Industry Steering Committee (MISC) has been established to drive an industry ready workforce and address mismatches in the nation, including youth. The initiatives being undertaken are as follows:

- **The i-Ready Apprenticeship Program**, which was introduced in April 2017, provides an opportunity for fresh graduates to gain work experience in institutions or private corporates through an 18-month apprenticeship program. Thirty-nine percent or a total of 993 i-Ready participants have been accepted as permanent employees with 34 percent being offered permanent employment by the hosting companies. Several others have taken the opportunity for overseas placement at international private organizations, and
- **I-Usahawan,** which was launched in August 2018, aims to encourage young entrepreneurs to start their own businesses by providing opportunities to secure contracts with some government entities or private corporations. Currently, 12 contracts have been established between youth entrepreneurs and several companies, especially in the non-oil and gas sector, and
- **The Centre for Capacity Building** aims to improve the skills of Brunei's citizens to qualify for various jobs, especially in FDI companies. To date, 70 percent of the 2,135 participants have completed training programs to acquire skills in the specialized manufacturing and construction industries. In the interest of an overall coherence of skilled manpower supply, the Centre of Capacity Building is now under the purview of the Ministry of Education

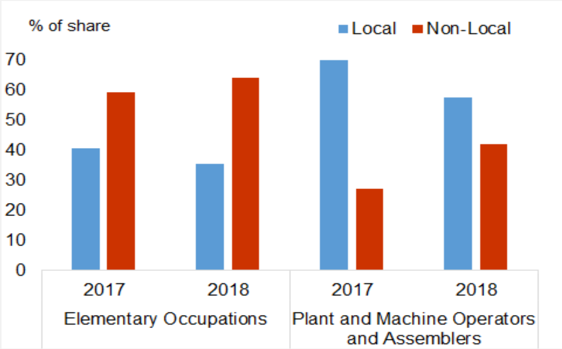
Through those initiatives, the authorities hope to achieve the Bruneianisation Directive target of 90 percent of local workers in various organizations, especially in FDI companies. In this regard, each company is required to increase its share of local employees by 5 to 10 percent per year till they hit the target. As one of the major investment projects, Brunei Fertilizer Industries (BFI) has already employed 71 percent local workers (around 100 workers) and more than 150 prospective workers are undergoing training programs in Malaysia that will last for two years.

The high dependence on foreign workers in certain sectors can potentially lead to vulnerability for the sustainability of the production of some FDI projects. Of all sectors in the economy in 2018, two have a large proportion of foreign workers, namely the construction (76.7 percent) and the manufacturing (60 percent). The construction sector even recorded a high increase in the number of foreign workers in that year (Figure B5). Although most foreign workers are employed in simple jobs, some of them work as plant and machinery operators and assemblers which are important in the production process (Figure B6). The number of foreign workers in these skilled jobs even increased 126 percent in 2018 to reach 42.1 percent of all employees. Among the important FDI projects in Brunei Darussalam, the number of local workers in Hengyi Industries phase1 have just reached 21 percent as of November 2019 compare with the target of 90 percent of total employment. This is a vulnerability to Brunei Darussalam's economy with respect to the continuity of production in large FDIs projects, if there is a disruption in the labor supply to Brunei Darussalam. To achieve the Bruneianisation Directive target, the authorities need to take measures to improve the skills and qualification of locals.

Figure B5. Share of Employees in Certain Sectors

Source: DEPS

Figure B6. Share of Employees in Certain Occupations



Source: DEPS

C. Policy Discussions and Recommendations

16. **The government should continue with economic diversification efforts.** Brunei Darussalam has achieved considerable progress in diversifying its economy, as evidenced by large FDI projects such as Hengyi Refinery, which has commenced operations. Nevertheless, the reliance on the upstream oil and gas sector remains substantial. To improve the growth potential of the economy, create more jobs, and enhance economic resilience, it is important to further diversify the economy outside the oil and gas sector. Concerted efforts should be made to foster and increase the role of the private sector in the economy, to support the development of SMEs, and to attract more FDIs into the downstream and non-oil and gas industries. Furthermore, while the government has made commendable progress in improving the business environment, it is important to keep up the reform momentum so that Brunei Darussalam does not fall behind competitor countries that are also improving their environment for doing business, as evidenced by the fall in Brunei Darussalam's Doing Business ranking last year despite an overall increase in its score.

17. **Fiscal consolidation to reduce the high reliance on the oil and gas sector should be sustained, including by enhancing the efficiency of fiscal spending**. The authorities have made considerable progress in reducing and containing budget deficits in recent years. Amid uncertain oil and gas revenue in the medium to long term, further efforts are needed to ensure long-term fiscal sustainability. On the expenditure side, measures should focus on enhancing spending efficiency, containing current expenditure, reducing subsidies in the current low inflation environment, and rebalancing spending towards capital expenditure such as infrastructure and human capital, to promote economic diversification and entrepreneurship. In addition, in light of the adverse effects of the global economic slowdown due to the coronavirus pandemic, the government should prioritize fiscal spending to support certain sectors such as manufacturing, trade and tourism.

18. **Greater efforts should be made to mobilize fiscal revenue from the non-oil and gas sector.** Further diversifying revenue sources away from the oil and gas sector, improving revenue collection, and broadening the tax base, will support fiscal consolidation and help reduce the high dependence on oil and gas revenue.

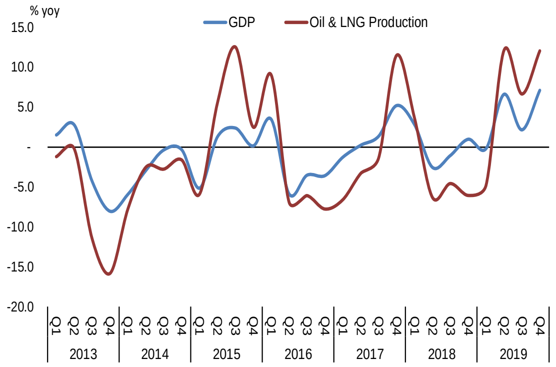
19. **Policy measures to address structural issues in the labor market should be strengthened**. The government has implemented several initiatives such as i-Ready or the Centre for Capacity Building to address the issues and encourage more private sector employment and I-Usahawan to encourage young entrepreneurs to start their own businesses. Initiatives to further address structural issues such as skills mismatches will play an important role in further diversifying the economy and in reducing youth unemployment.

20. **The financial sector is sound but it is based narrowly on banking, and should be developed further to diversify the institutions and expand the types of services offered.** The financial sector remains shallow and dominated by banks, thus there is scope for diversification and developing new institutions, financial markets and products. Within the framework of the Financial Sector Blueprint, the authorities have taken steps to diversify and develop the financial sector with the goal of supporting economic growth. In the near term, measures to improve credit access for the private sector, particularly SMEs, while maintaining prudent standards, will support diversification and economic growth. Improving digital payments systems, as envisaged by the Digital Payment Roadmap, is welcome as it will support the digital transformation of the economy, and foster diversification, and support SMEs by facilitating transactions in the global online markets. Developing new financial products could also increase investment opportunities and support financial market development. This could be in the form of issuing government securities to finance important infrastructure projects and development of a secondary market.

Appendix 1. Selected Figures for Major Economic Indicators

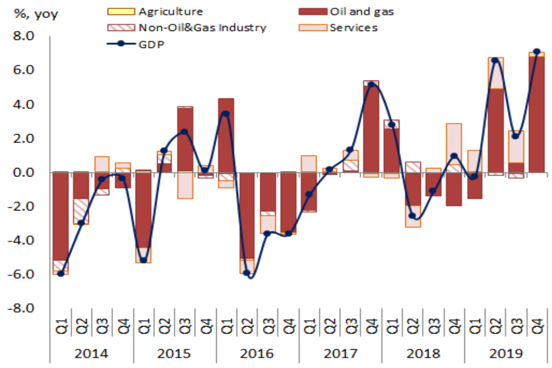
Figure 1.1. Real Sector

The economy has recovered, driven mainly by oil and gas production.



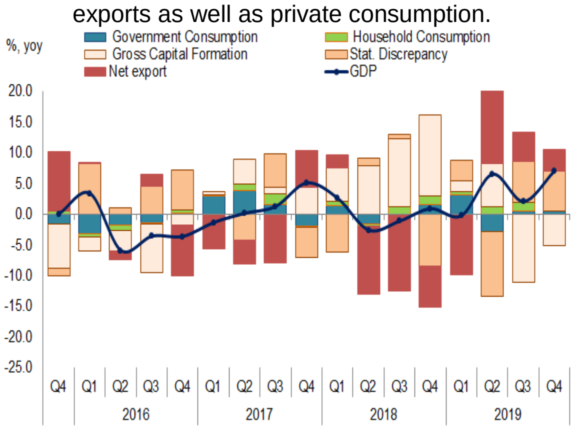
Source: DEPS; AMRO staff calculations

The recovery was also supported by the non-oil and gas sector, mainly the service sector.



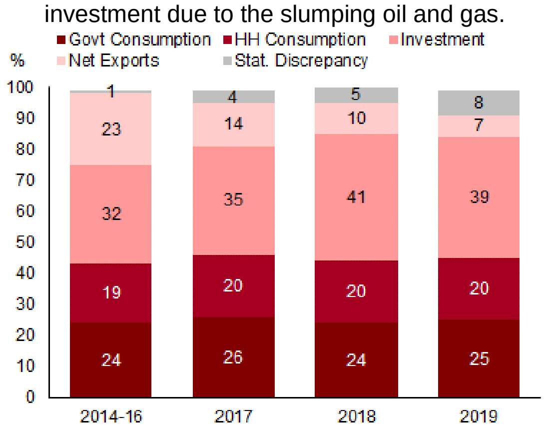
Source: DEPS; AMRO staff calculations

On the demand side, the main growth driver was net exports as well as private consumption.



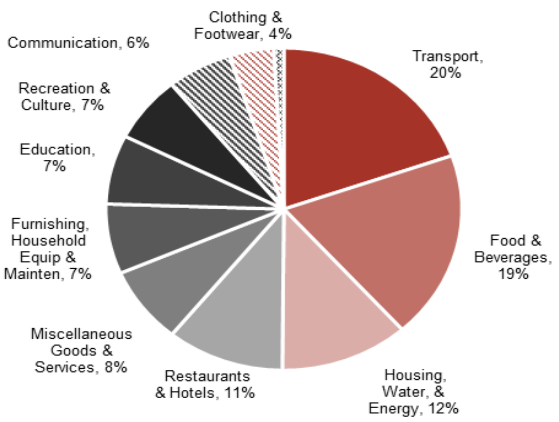
Source: DEPS; AMRO staff calculations

Aggregate demand has shifted from net exports to investment due to the slumping oil and gas.



Source: DEPS; AMRO staff calculations

Transport and food & beverages are the biggest components in the newly based CPI basket.



Source: DEPS; AMRO staff calculations

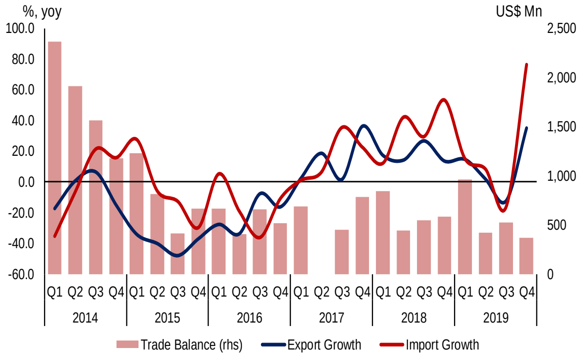
The role of imported goods prices increases in the new rebased CPI.

Components	Base Year	
	2015	2010
Transport	19.6%	18.8%
Food & Beverages	18.8%	19.1%
Housing, Water, & Energy	11.7%	11.1%
Restaurants & Hotels	10.7%	8.9%
Miscellaneous Goods & Services	7.7%	6.5%
Furnishing, HH Equip & Maintenance	7.0%	11.0%
Education	7.0%	3.9%
Recreation & Culture	6.6%	9.1%
Communication	5.9%	6.0%
Clothing & Footwear	4.0%	4.2%
Health	0.9%	1.3%

Source: DEPS; AMRO staff calculations

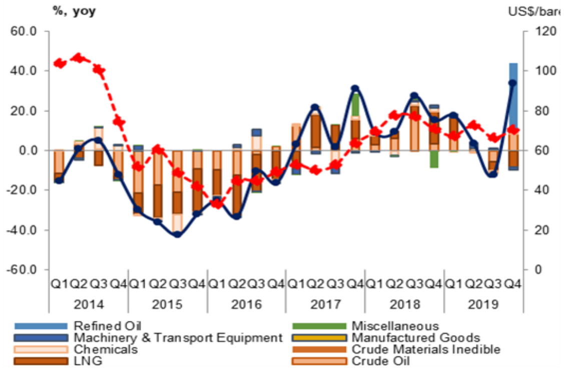
Figure 1.2. External Sector

The trade balance surplus decreased in 2019 in line with lower oil and gas prices compared to 2018



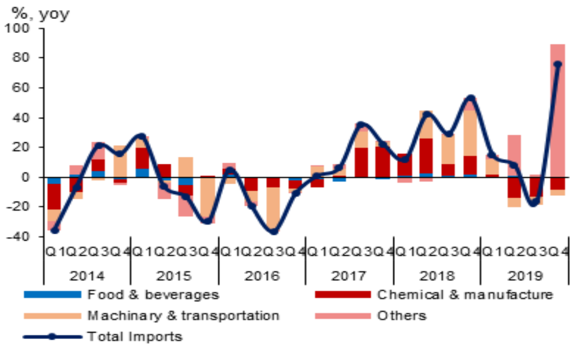
Source: DEPS; AMRO staff calculations

Recent export performance has been driven by oil and gas production and refined oil product in the last quarter of 2019.



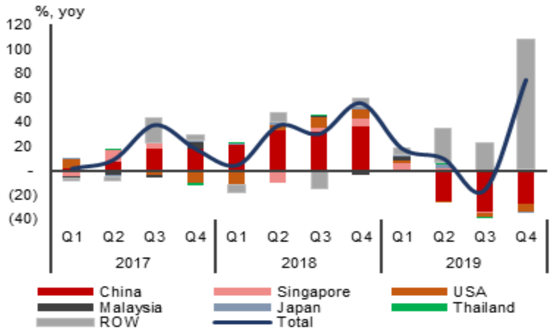
Source: DEPS; AMRO staff calculations

Imports growth increased high in 2019 as Hengyi's crude oil imports risen sharply in the last quarter.



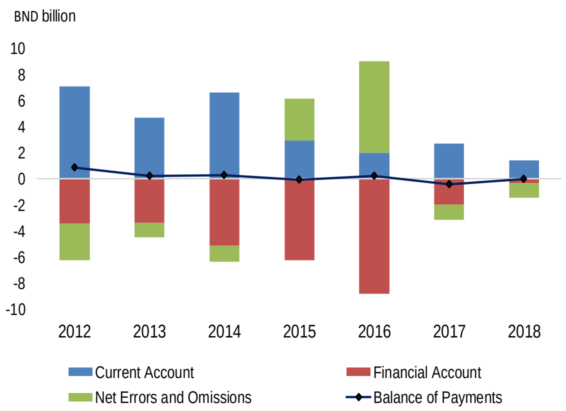
Source: DEPS; AMRO staff calculations

…as reflected in a sharp increase in imports from rest other world especially from some oil exporting countries.



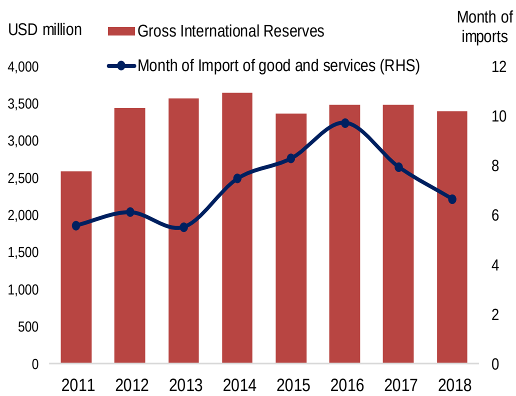
Source: DEPS; AMRO staff calculations

The external sector remains strong, despite the declining surplus in the current account.



Source: DEPS; AMRO staff calculations

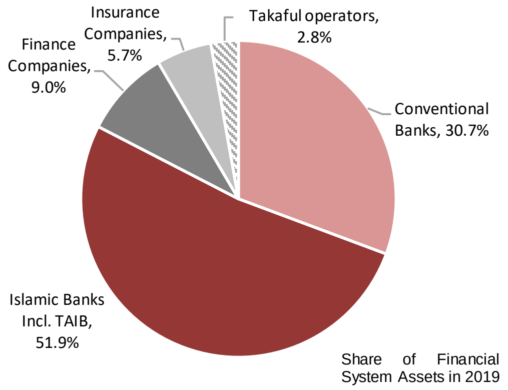
The overall external position remains well buffered with international reserves covering around seven months of imports.



Source: AMBD; AMRO staff calculations

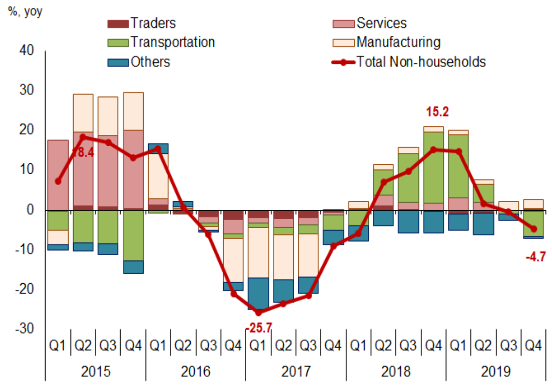
Figure 1.3. Monetary and Financial Sector

The financial sector is dominated by the banking sector, in particular Islamic banks.



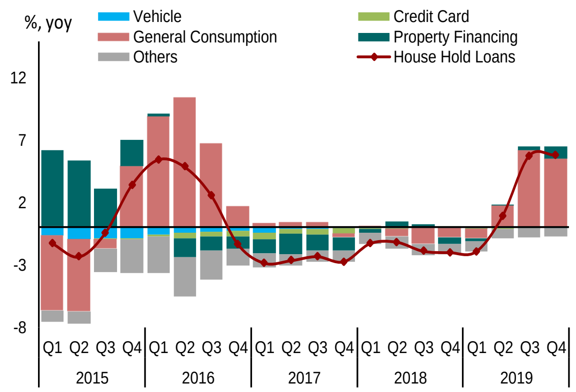
Source: AMBD; AMRO staff calculations

Domestic non-household credit growth continued to slow with the decline in credit to the transportation sector.



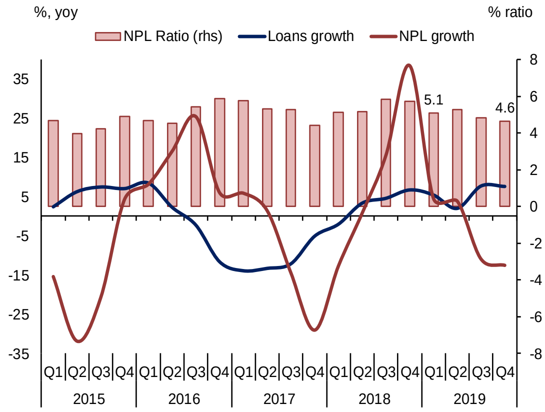
Source: AMBD; AMRO staff calculations

The increase in consumer credit was largely driven by general consumption loans, while loans to the property sector were still relatively low.



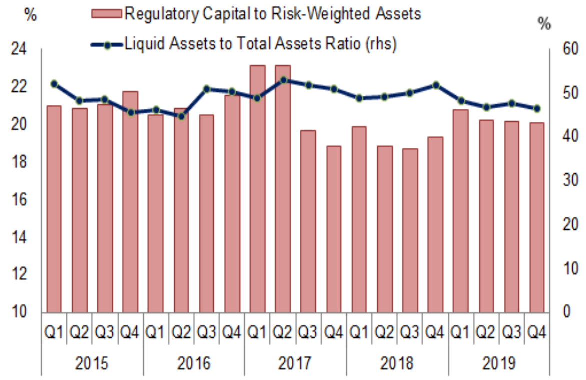
Source: AMBD; AMRO staff calculations

Credit growth since 2018 has been accompanied by an increase in NPLs, which came down again in 2019.



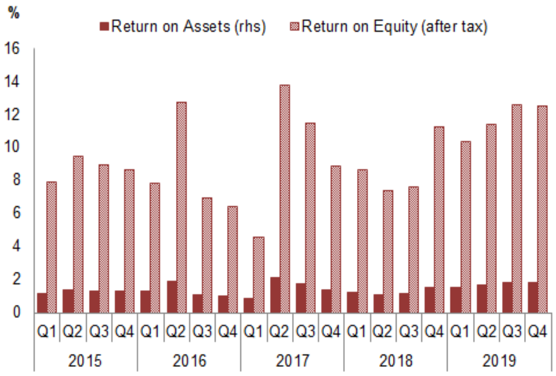
Source: AMBD; AMRO staff calculations

The banking sector remains well buffered with a relatively high capital adequacy ratio, supported by ample liquidity.



Source: AMBD; AMRO staff calculations

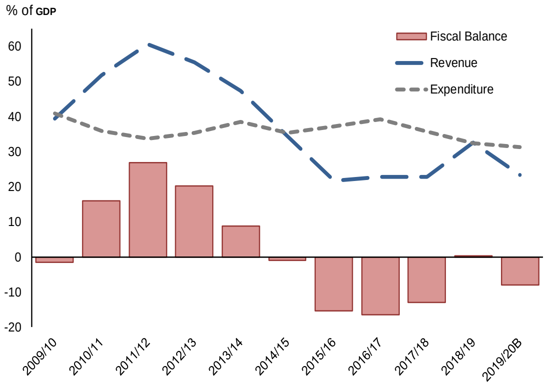
Banks have remained profitable, with a recent increase in returns.



Source: AMBD; AMRO staff calculations

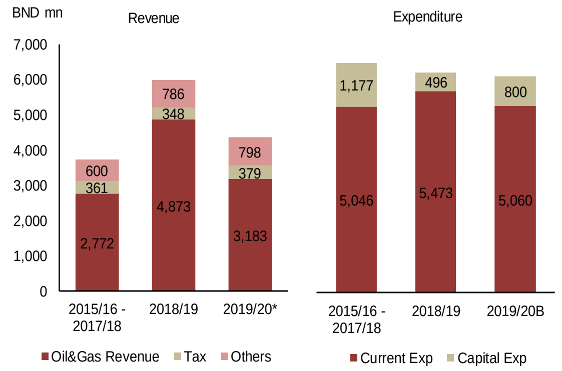
Figure 1.4. Fiscal Sector

The fiscal position improved in FY2018/19 on the back of higher energy prices, but is budgeted to remain in deficit for FY2019/20.



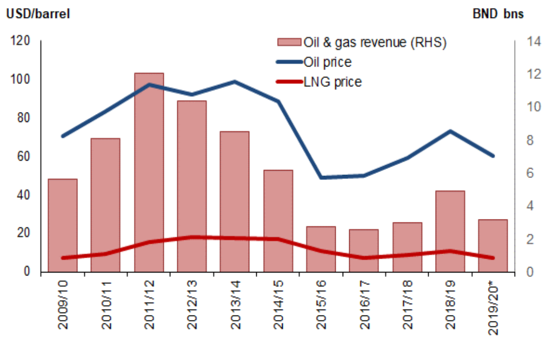
Source: MOFE; AMRO staff calculations

Oil & gas related revenue dominates total revenue and explains most of its volatility, while government spending is dominated by current expenditure.



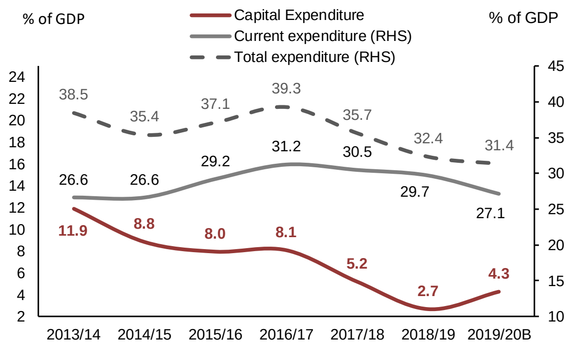
Source: MOFE; AMRO staff calculations

Oil & gas related revenue moves in line with prices, which have strengthened somewhat over recent years.



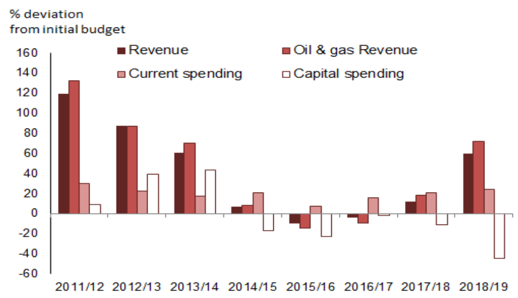
Note: *) Based on the government budget; actual prices until November 2019, Fiscal year: April to March.
Source: MOFE; AMRO staff calculations

Overall expenditure as a share of GDP has fallen over the past few years, particularly in capital spending.



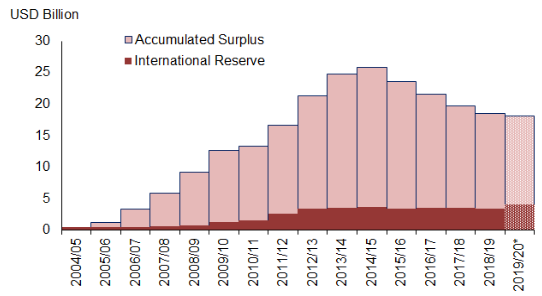
Source: MOFE; AMRO staff calculations

Current spending realization has often been over budget, while capital spending has tended to be under, related to the length of the execution process.



Source: MOFE; AMRO staff calculations

The fiscal buffer measured in accumulated surpluses remains ample, but continues to decline amid continuous fiscal deficits.



Note: *) Based on the government budget; The gross international reserves position is as of December 2019.
Source: MOFE; AMRO staff calculations

Appendix 2. Selected Economic Indicators for Brunei Darussalam

	2015	2016	2017	2018	Projection 2019 [1]	Projection 2020
National Income and Prices	(in annual percentage change)					
Real GDP	-0.4	-2.5	1.3	0.1	3.9	2.2
Consumer price inflation (average)	-0.5	-0.3	-1.3	1.0	-0.4	1.3
Balance of Payments [2)]	(in millions of US dollars unless otherwise specified)					
Trade balance	2,910	2,153	2,403	2,365	2,147	1,805
Exports	6,126	4,812	5,474	6,471	7,247	6,984
Imports	3,216	2,659	3,072	4,106	5,100	5,180
Current account balance	2,157	1,470	1,984	1,068	795	415
In percent of GDP	16.6	12.9	16.4	7.8	5.9	3.1
Overall balance	204	365	-61	231	357	-372
Gross international reserves	3367	3489	3488	3407	4,273	3,901
In months of imports of goods & services	8.3	9.7	9.7	7.2	7.4	6.7
	(in annual percentage change)					
Export value	-40.2	-22.4	13.6	17.8	10.2	-3.6
Oil and gas	-39.9	-24.8	13.2	19.2	0.7	-23.8
Others	-44.6	9.4	17.3	5.4	105.8	95.6
Export volume	0.7	-1.8	0.7	-5.1	6.5	6.7
Government [3)]	(in percent of GDP)					
Revenue and grants	21.7	22.7	22.7	32.7	23.8	19.4
Oil and gas revenue	16.2	16.2	17.5	26.4	19.2	15.5
Non-Oil and Gas Revenue	5.2	5.1	5.3	6.3	4.6	3.8
Expenditure	37.1	39.3	35.7	32.5	31.0	30.5
Current Spending	32.5	35.0	30.5	29.8	28.3	28.4
Capital Spending	4.6	4.3	5.2	2.7	2.7	2.1
Budget Balance	-15.4	-16.6	-12.9	0.2	-7.2	-11.1
Monetary Sector	(in annual percentage change)					
Domestic claims	27.1	-21.8	-16.7	5.9	2.2	6.1
of which: private sector	2.5	-6.1	-5.3	-3.1	2.0	6.4
Broad money	-1.8	1.5	-0.4	2.8	4.3	2.7
Memorandum items:						
World oil price (USD per barrel)	53.8	45.0	56.0	73.5	65.0	40.0
Exchange rate (BND/USD) period avg	1.37	1.38	1.38	1.35	1.36	1.39
Exchange rate end of period (BND/USD)	1.41	1.45	1.34	1.37	1.35	1.35
GDP in millions of USD	12,977	11,412	12,136	13,556	13,469	13,466
GDP in millions of BND	17,778	15,748	16,748	18,301	18,375	18,775

Note:

1) Except for BOP and Government Balance, all data are realization figures
2) BOP data from DEPS and IMF
3) Fiscal Year April to March

Source: National authorities; AMRO staff projections

Appendix 3. Balance of Payments

	2015	2016	2017	2018	Projection	
					2019	2020
	(in millions of US dollars unless otherwise specified)					
Current account balance (I)	2,157	1,470	1,984	1,068	795	415
Trade balance	2,910	2,153	2,403	2,365	2,147	1,805
Exports	6,126	4,812	5,474	6,471	7,247	6,984
Imports	3,216	2,659	3,072	4,106	5,100	5,180
Services, net	-1,006	-1,114	-698	-1,005	-1,170	-1,088
Receipts	648	530	552	570	670	761
Payments	1,654	1,645	1,249	1,576	1,840	1,849
Primary Income, net	650	834	720	215	324	219
Secondary Income, net	-396	-404	-442	-506	-507	-521
Capital account (II)	0	0	0	0	0	0
Financial account (III)(+indicates net outflows)	4,554	6,392	1,441	213	438	786
Direct Investment (net)	-159	151	-468	-512	-400	-200
Portfolio Investment (net)	336	625	-60	-1,349	-880	-450
Other Investment (net)	4,377	5,617	1,969	2,073	1,718	1,436
Error and omission (IV)	2,589	5,287	-604	-624	0	0
Overall balance (I + II - III + IV)	192	365	-61	231	357	-372
Reserve Assets (+indicates increase)	192	365	-61	231	357	-372
Memorandum items:						
Current account balance (in percent of GDP)	16.6	12.9	16.4	7.8	5.9	3.1
Gross International Reserves (BND million)	3,367	3,489	3,488	3,407	4,273	3,901
(in months of imports of goods and services)	8.3	9.7	9.7	7.2	7.4	6.7
Changes in gross reserves (BND million)	(281)	122	(1)	(81)	866	(372)
GDP (USD million)	12,977	11,412	12,136	13,556	13,469	13,466

Source: National authorities; IMF; AMRO staff projections

Appendix 4. Statement of Government Operations

	FY2015	FY2016	FY2017	FY2018	Projection	
					FY2019	FY2020
General Government [1]	(in millions of BND)					
Revenue and grants (I)	3,778	3,616	3,872	6,027	4,440	3,697
Oil and gas revenue	2,757	2,584	2,976	4,873	3,580	2,967
Non-Oil and Gas Revenue	1,021	1,032	897	1,154	860	730
Government Expenditure (II)	6,338	6,252	6,079	5,999	5,790	5,810
Current Spending	5,548	5,567	5,193	5,503	5,290	5,410
Charged Expenditure	1,145	1,101	1,120	1,208	1,210	1,255
Personal Emoluments	1,985	1,978	1,860	1,956	1,995	2,055
Other Charges Annually Recurrent	2,418	2,489	2,213	2,340	2,085	2,100
Capital Spending	791	685	887	496	500	400
Budget Balance	(2,561)	(2,636)	(2,207)	28	(1,350)	(2,113)
Memorandum items:						
Budget balance (in percent of GDP)	-15.0	-16.6	-12.9	0.2	-7.2	-11.1
Government Revenue (in percent of GDP)	22.1	22.7	22.7	32.7	23.8	19.4
Government Expenditure (in percent of GDP)	37.1	39.3	35.7	32.5	31.0	30.5
Nominal GDP (in millions of BND, FY)	17,063	15,905	17,048	18,453	18,674	19,080

Note: Fiscal Year April to March
Source: National authorities; AMRO staff projections

Appendix 5. Data Adequacy for Surveillance Purposes: a Preliminary Assessment

Surveillance Areas	Data Availability(i)	Reporting Frequency/ Timeliness(ii)	Data Quality(iii)	Consistency(iv)	Others, if Any (v)
National Accounts	Yearly GDP data is available for both the expenditure and production sides. Quarterly GDP data is also available both expenditure and production side.	Quarterly GDP data comes with a 4 to 5-month lag. For example, the Q3 GDP 2019 was released in the second week of January 2020 and Q2 GDP 2019 was published in October 2018.	In certain cases, statistical discrepancy remains relatively high. For example, in 2018, statistical discrepancy accounted for more than 5.3 percent of total GDP.	Historical GDP data using the new base of 2010 have not been made available, making comparisons over time difficult.	
CPI Inflation	CPI inflation is available publicly in monthly bases.	CPI data is released regularly with a lag of 1-2 months	Data quality is good and quite detailed.	CPI base year has been changed from 2010 to 2015 since 2019, while historical data before 2016 is not yet available. Historical data still uses two different base years.	
Balance of Payments (BOP) and External Position	Yearly and quarterly BOP data is available publicly on the DEPD website	Yearly data BOP is only available up to 2018 Quarterly balance of payments data is not available to the public.	Net error and omission values have improved from 44.4 percent in 2016 to around 6.3 percent of GDP in 2018. This condition is expected to facilitate the assessment of Brunei Darussalam's external conditions		
State Budget and Government/ External Debt	Annual budget data is available yearly in government publications such as the Brunei Darussalam Statistical yearbook. The quarterly budget data is only available upon request to the authorities.	Annual government revenue and expenditure data are released with a time lag of more than one year. More recent data is available upon request.	-	-	
Money Supply and Credit Growth	Money supply and domestic credit data are available at the AMBD website	Monthly data are released with a time lag of 2 months	Data quality is fairly good and quite detail		
Financial Sector Soundness Indicators	Financial soundness indicators are available in quarterly bases	The data is released with a time lag of 3 months	Data quality is fairly good but need more detail such as NPL for each sector		
Labor Market	The last available data up to 2018	The current data is released with better schedule	-	-	

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

Annexes: Selected Issues

Annex 1. Prudential Measures to Mitigate NPLs and Risk of Overseas Placement of Excess Liquidity[13]

Background

1. **Although it remains sound, the banking sector in Brunei Darussalam faces potential vulnerabilities that could affect bank performance and financial stability in the medium to long term.** The vulnerabilities come from the overseas placement of excess liquidity and the current relatively high level of NPLs. This selected issue tries to study whether the prudential policy measures of the monetary authority could mitigate the vulnerabilities.

2. **The banking sector dominates Brunei Darussalam's financial system.** Banks in the country follow a traditional business model with lending and borrowing as the main activities. Banks account for 83.5 percent of total assets of the financial system in 2019. Despite recent attempts to encourage market development such as the implementation of the Central Securities Depository system that provides depository services for the Brunei Darussalam Government Sukuk Al-Ijarah program, Brunei Darussalam's financial market is still shallow as there is limited activity in the capital market, while the equity market continues to develop.

3. **The banking sector in Brunei Darussalam remains sound and resilient.** Banks are well capitalized and highly liquid**.** The current Capital Adequacy Ratio (CAR) stood at 20.1 percent well above the minimum requirement of 10 percent. Banks have continued to hold surplus liquid assets with a ratio of liquid assets to total assets at 47.5 percent.[14] [15] The NPL ratio at 4.8 percent in Q3 2019 showed a slight improvement compared to the 5.3 percent in the previous quarter, due to the improvement of loan quality in the transportation, manufacturing and services segments.

4. **While banks are sound and resilient, the economy's heavy reliance on the oil and gas sector and the shallowness of the financial market create potential vulnerabilities to the banking sector.** The Bruneian economy has been exposed to credit cycles associated with the changing conditions in the global energy market more than domestic economic activities. As credit booms can easily spread to other sectors, especially the real estate market, downturns in the credit cycle often leave the banking sector with high levels of NPLs. The high reliance on overseas placement for excess liquidity further exposes the banking sector to external shocks. This reflects the small role of the non-oil and gas sector in the economy and, more importantly, the small size of SMEs. This is because the direct spillover from the oil and gas sector to other economic sectors is often less than expected.

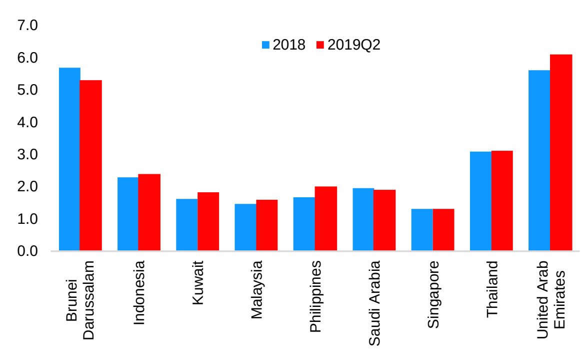
5. **These potential vulnerabilities may affect banks' performance and financial stability in the medium to long term**. Having a large proportion of offshore assets in their portfolio potentially exposes Bruneian banks to external shocks. The current decline of global

[13] Prepared by Nguyen Huy Toan (AMRO Associate and Secondee from the State Bank of Vietnam)
[14] Autoriti Monetari Brunei Darussalam Policy Statement 2/2019.
[15] The high ratio of liquid assets to total assets is a structural issue, mainly due to the private sector's weak credit demand.

interest rates will directly affect the returns on the excess liquidity of these banks. Regarding the asset quality, although the current NPL ratio stood at 4.8 percent at Q3 2019, having improved marginally from the previous quarter, it is still relatively higher than those of its regional peers and some oil producing economies. These vulnerabilities indicate that, if there are no structural reforms in the economy, the performance and soundness of the banking sector will be susceptible to external factors.

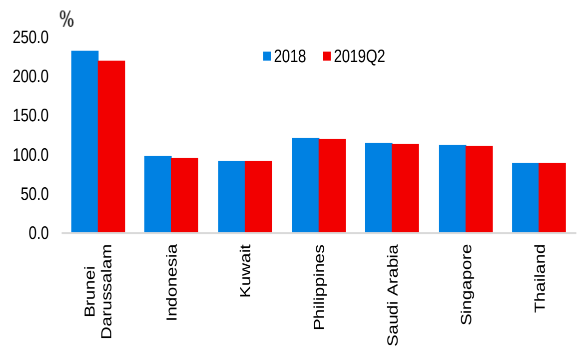
6. **The monetary arrangement of Brunei Darussalam provides monetary stability but financial stability needs to be ensured by prudential policies and effective surveillance**. While the currency board arrangement with the Singapore dollar provides

Figure A1.1. Non-Performing Loans Ratio



Source: IMF FSI database

Figure A1.2. Deposit to Loans Ratio



Source: IMF FSI database

monetary stability and other advantages, it limits Brunei to a few policy instruments. The persistent structural and excessive liquidity coupled with limited risk management tools (due to the underdeveloped money and capital markets) may potentially raise banks' vulnerability to financial stability risks and this leads to the need of adopting effective surveillance, supervision and regulation to mitigate risks in the financial sector.

7. **This selected issue employs a simple Vector auto regression (VAR) framework to study the relationship among real GDP, credit and NPLs to assess policies/measures in mitigating vulnerabilities of the banking sector.** The VAR results suggest that both real GDP and credit impact on NPLs.

Box A1. Analysis of the Relationship among Real GDP, Credit and Non-Performing Loans (NPL) using a VAR Model[16]

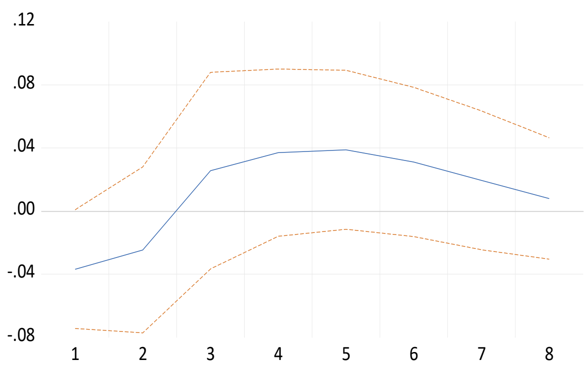
A VAR model is used to investigate the impact of economic growth and credit growth on NPL growth. Data used in this model are real GDP, credit and NPLs, in annual growth from Q1 2012 to Q3 2019. Due to limited data availability, particularly as the sample period is dominated by negative real GDP growth from 2013 to 2016 associated with the fall of oil and gas production and drop of global oil prices, the results of this VAR model should be considered as indicative rather than conclusive. The VAR model is specified in the following form:

$$Y_{i,t} = \sum A\,Y_{i,t-i} + C_{i,t} + u_{i,t}$$

Where Y = $\begin{bmatrix} Real\ GDP\ growth \\ Credit\ growth \\ NPL\ growth \end{bmatrix}$ and $i = 1, \ldots, p$

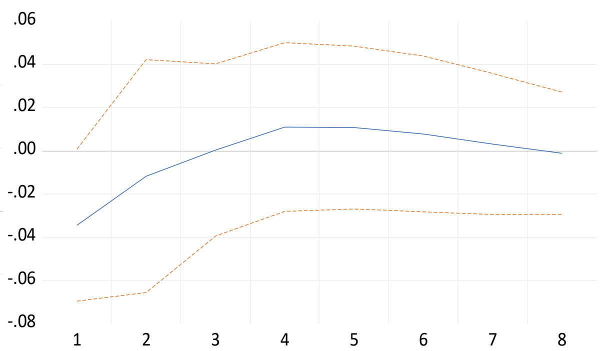
The VAR[17] results show that the impact from real GDP and credit on NPLs are relatively short-lived. Based on a positive shock[18], Figure A1.3 and A1.4 depict that real GDP and credit have a negative impact on NPLs, with NPLs falling first, then rising to its peak and falling again. The impact of real GDP also indicates that the volatility in the global energy market can have an indirect impact on NPL given the heavy reliance of the Bruneian economy on oil and gas production.

Figure A1.3 Impulse Response of NPL to Real GDP Growth



Source: AMBD; DEPS; AMRO staff calculations

Figure A1.4 Impulse Response of NPL to Credit Growth



Source: AMBD; DEPs; AMRO staff calculations

A further breakdown of credit into credit to households and non-households, to assess impact from different credit segment reveals different impact patterns on NPLs. In Figure A1.5, credit to the non-household segment exhibits the expected impact on NPLs, as a positive shock in credit to non-household segment reduces NPL at first and the effect diminishes after five quarters. However, credit to household segment shows a jump in NPLs before reversing to its neutral position after six quarters. The differing impacts from the two segments may be due to the differences in their credit risks. In general, and in the sample period, the household loans face higher credit risks.

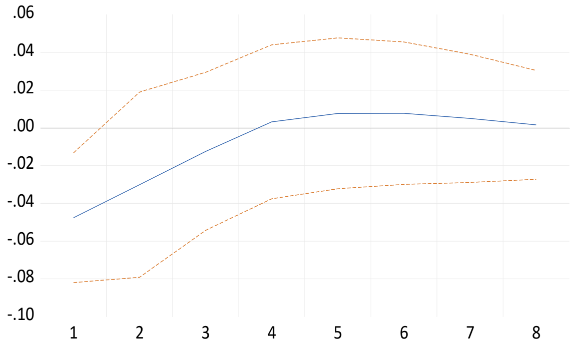
As mentioned earlier, the above results have to be interpreted with caveats because of the limitation of data availability. The time series from 2012 to 2019 may not be sufficiently long to capture the full impact of real GDP and credit on NPLs. Furthermore, it is worth noting that the number of variables included in this analysis may not be optimal. If the sample period is longer, more relevant variables could be included to improve the validity of this study.

[16] Prepared by Nguyen Huy Toan (AMRO Associate and Secondee from the State Bank of Vietnam)

[17] The VAR is of order 2 because of the constraint of the length of data series and the endogenous variables are transformed into growth rate.

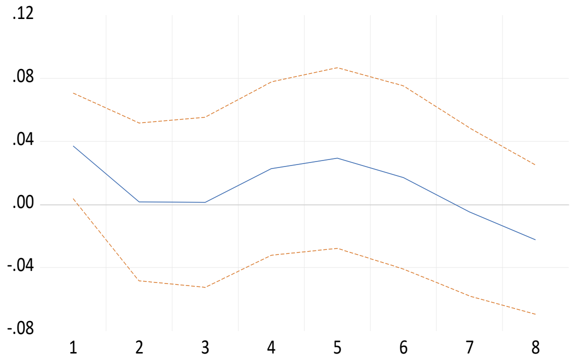
[18] it is noted that the impulse response functions (IRFs) are not statistically significant after the first period. This may be due partly to the short length of data series. However, the patterns are matched with the expected responses. Therefore, the IRFs results are more indicative rather than conclusive.

Figure A1.5 Impulse Responses of NPL to Non-Household Credit Growth



Source: AMBD; DEPD; AMRO staff calculations

Figure A1.6 Impulse Responses of NPL to Household Credit Growth



Source: AMBD; DEPD; AMRO staff calculations

Current Policy Measures and Practices on Risk Management of Banks

8. **Enhancing micro-prudential measures has been the AMBD's main approach in ensuring banking stability over the past several years.** The approach focuses on strengthening the soundness and resilience of the banking sector as well as the AMBD's supervisory capacity. In line with this approach, the AMBD has successfully introduced all three pillars of Basel II in the banking supervisory framework and recently supplemented this framework with key policy components such as three additional regulatory notices and one guideline for all banks issued by the AMBD at the end of 2018 to ensure the effective implementation of the Basel Core Principle. The strong stand on financial soundness is applied not only to the banking sector. Since 2017, the AMBD has adopted a risk-based monitoring framework for the insurance and takaful sector. Recently, the AMBD has also issued regulations to promote a risk management framework in that sector.

9. **The AMBD also aims to strengthen its supervisory capacity and to identify banks' potential vulnerabilities in a timely manner**. The recent Brunei Darussalam Supervisory Risk Assessment Framework allows the de facto central bank to perform a comprehensive review not only on consolidated risks, but also on the soundness of business models and the adequacy of processes and controls of risk management. In addition, the Internal Capital Adequacy and Assessment Process exercise conducted in June 2019 allows the AMBD to have a forward-looking assessment on how much capital a bank needs on a 'business as usual' basis as well as how its capital adequacy will be affected under stressed scenario.

10. **Stronger standards have been adopted to its non-performing loan assessment**. With the adoption of Regulatory Notice on Prudential Treatment of Problem Assets and Accounting for Expected Credit Losses in December 2018, the key features of IFSR9 have been applied in the regulatory definitions of non-performing, forborne and classified exposures. It has also instilled greater discipline into all banks in Brunei Darussalam in terms

of NPL management. An exposure or a loan will now be considered as non-performing if it meets certain conditions even without any missed contractual payments.

11. **Macro-prudential policy has been used mainly to target household lending but the AMBD has also extended its focus to systemic risks recently**. The AMBD has so far targeted household lending by imposing the Total Debt Servicing Ratio (TDSR) with a ratio of 60 percent. Household lending growth has slowed down in recent years but housing credit constitutes a major portion of total loans. With the introduction of the Risk Perception Survey, the AMBD has extended its focus to the assessment of potential risks from the banks' perspective. The perceptions from banks regarding potential vulnerabilities in the financial sector for the next six to 12 months could further facilitate macro-prudential surveillance and policy formulation.

12. **The improvement in banks' risk management is mainly driven by AMBD's adoption of stricter risk management framework**. With the Guideline on Risk Management Framework issued in late 2018, all banks are expected to apply the risk management standard. In September 2019, the AMBD issued an exposure draft on the guidelines on market risk management for industry consultation. These guidelines which aims to further enhances banks' risk management practices is expected to be issued in Q2 2020.

Policy Discussion and the Way Forward

13. **The focus on the micro-prudential approach as a main approach to mitigate banking sector vulnerabilities is relevant to the current development of Brunei Darussalam's financial sector.** In this regard, the AMBD has been steadfast in strengthening its regulatory frameworks and several consultation papers were issued in 2019 to enhance the stability of the banking sector. Owing to AMBD's work on banking regulations, the potential impact of vulnerabilities on the banking sector has been to some extent mitigated. The NPL ratio, although at a relatively high level compared to the peer economies in the region, has remained stable and shown a downward tendency. The counterparty risk and currency risk from offshore placements are well contained as banks place their offshore assets with counterparty banks with high credit worthiness and mostly in two major currencies — the US dollar (60.3 percent) and the Singapore dollar (34.3 percent)[19] —due to the high prudent standards set out by the AMBD and the banks themselves.

14. **The comprehensiveness of the regulatory framework should be further enhanced by considering a counter-cyclical macro-prudential policy.** Under the macro-prudential measure TDSR, household loan growth has slowed and its NPL is currently registering a declining trend. The high exposure of the Bruneian economy to the global energy market, however, indicates the need for a counter-cyclical macro-prudential policy. In addition, the AMBD might consider strengthening macro-prudential measures as more credit has been given to the non-household segment for productive activity in the past few years. The

[19] Data on Q2 2019.

usefulness of stricter macro-prudential measures has been shown in the Gulf Cooperation Council economies[20] that are similar to Brunei Darussalam in that they too rely heavily on the oil and gas sector and have fixed exchange rate regimes. Given that Brunei Darussalam's financial sector is sound and generally well-regulated, the AMBD should, over the short term, focus on enhancing its monitoring and analytical tools. It could, for example, develop an early warning system of banking stress and macro-stress testing. Closer monitoring of the Domestic Systemically Important banks is also warranted.

15. **Moving forward, the AMBD should continue the current prudent approach.** The AMBD has successfully adopted a modern, sophisticated supervisory framework and implemented stricter prudential standards on banks. The banking sector is sound and the AMBD is well aware of potential vulnerabilities. More efforts could be allocated towards enhancing analytical tools to identify and monitor potential systemic risks. Lastly, to reduce banking risks, which come primarily from the high reliance on the oil and gas sector, the economic diversification that the authorities have been pursuing in the past several years is essential and will certainly strengthen the resilience of the banking sector. Thus, concerted efforts are needed by the authorities to maintain economic diversification momentum in the forthcoming years.

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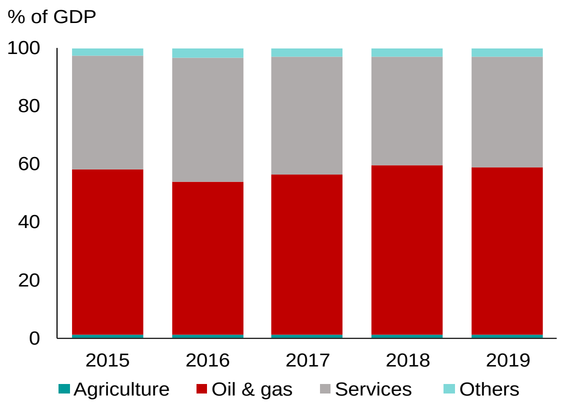
Annex 2. Assessing the Impact of FDI on Brunei Darussalam's GDP and Employment[21]

1. **Over the past few years, Brunei Darussalam has attracted sizeable FDI projects, mainly attributed to the country's efforts in promoting economic diversification and improving business environment.** The inflows of quality mega investment projects in recent years have helped propel growth while reducing unemployment. This selected issue aims to 1) discuss recent FDI developments, 2) assess the impact of FDI on Brunei Darussalam's GDP and employment, and 3) provide policy recommendations.

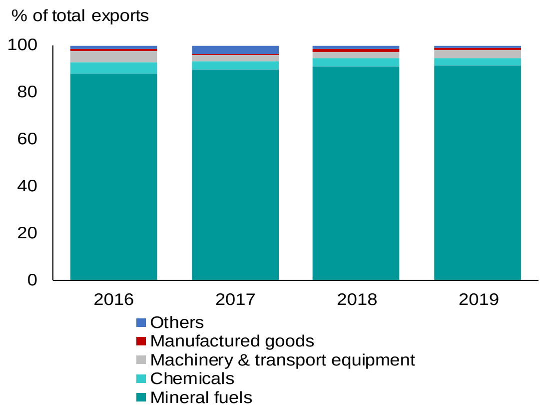
2. **Brunei Darussalam's economy continues to be primarily driven by the oil and gas sector, which accounts for a sizeable share of the GDP.** In 2019, the oil and gas sector value added constituted 57.9 percent of GDP, while exports of crude oil and natural gas accounted for 91.4 percent of total exports (Figure A2.1, A2.2). Having the highest export orientation, the oil and gas sector also has the strongest forward linkages, indicating its significance in output increase of other sectors (Figure A2.3, A2.4). With such a heavy reliance on the sector, any disruptions in oil and gas production and fluctuations in global oil and gas prices will jeopardize the economy. In this regard, the government has been stepping up its efforts to diversify the economy into non-oil and gas industries.

Figure A2.1 Brunei Darussalam's Economic Structure



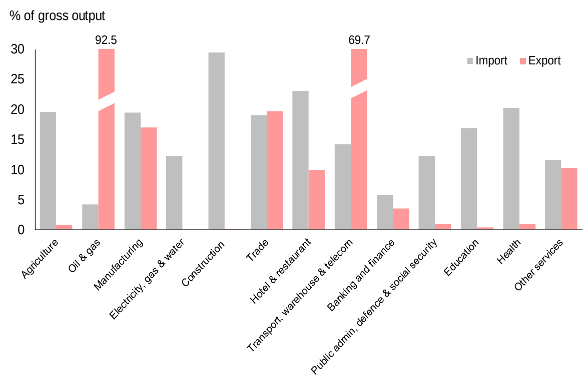
Source: DEPS; AMRO staff calculations

Figure A2.2 Composition of Brunei Darussalam's Exports



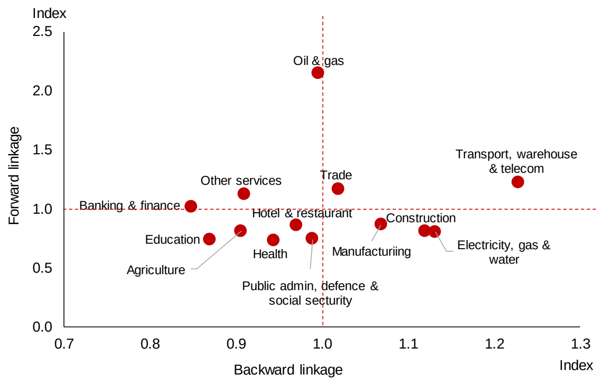
Source: DEPS; AMRO staff calculations

Figure A2.3 Export and Import Orientation



Note: The calculation is based on Brunei Darussalam authority's IO table 2010.
Source: DEPS; AMRO staff calculations

Figure A2.4 Inter-Industry Dependence

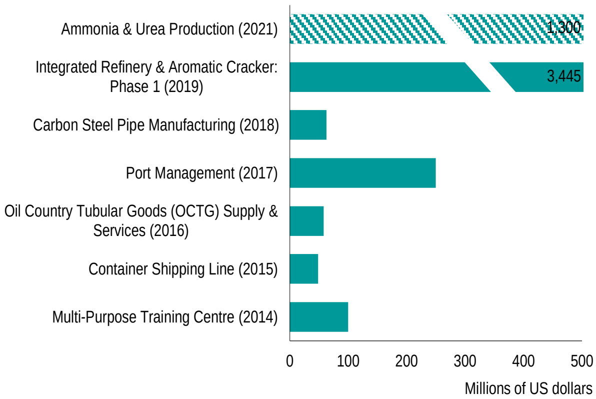


Note: The calculation is based on Brunei Darussalam authority's IO table 2010.
Source: DEPS; AMRO staff calculations

[21] Prepared by Khut Vanne (Researcher).

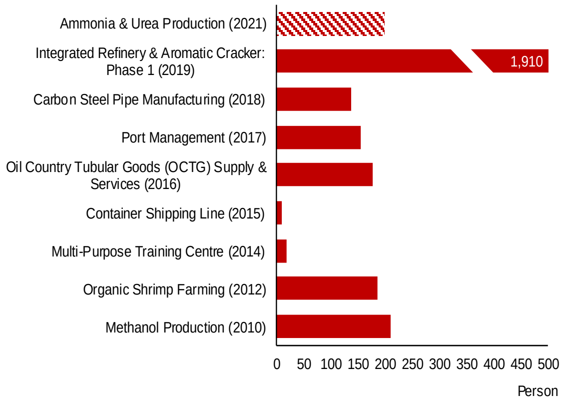
3. **Thanks to the government's diversification efforts, Brunei Darussalam has attracted many quality FDI projects that have helped drive growth and generate employment.** During 2017-2019, the value of total FDI projects amounted to USD 3.8 billion, generating about 2,424 jobs[22]. Among these projects, Hengyi refinery Phase 1 is the most sizeable project, costing USD 3.4 billion (Figure A2.5) or equivalent to around 27 percent of GDP in 2019. In terms of employment, the project has so far created 1,910 jobs, of which 21 percent are locals (Figure 6). Another big investment project scheduled to commence operation in 2021 is ammonia and urea production facility by Brunei Fertilizer Industries worth USD 1.3 billion, with projected employment of around 200 when at full capacity (Figure A2.5, A2.6).

Figure A2.5 Selected FDI Projects



Note: Numbers in parenthesis refers to year of operation.
Source: FDI Action and Support Center

Figure A2.6 Employment, Selected FDI Projects



Note: Numbers in parenthesis refers to year of operation.
Source: FDI Action and Support Center

4. **Reflecting the recent FDI developments, this study aims to estimate the impact of FDI on Brunei Darussalam's GDP and employment.** In order to assess the impact, a shock simulation is carried out using the multiplier coefficient derived from the Input-Output (IO) Table (Table A2.1, Figure A2.7). The shock is applied to FDI, while taking into consideration the implementation of a mega investment project, namely Hengyi refinery, whose project value is disbursed over a few years following an S-curve pattern.[23]

5. **AMRO staff simulation suggests that the implementation of the Hengyi project did have a significant impact on both GDP and employment in 2019.** As depicted in Figure A2.8, the project is estimated to have contributed about 1 percentage point to real GDP growth in 2019. At the same time, given the interlinkages with other sectors, it is estimated the project could have created additional 3,210 jobs in 2019, of which the biggest chunk goes to construction sector, followed by trade, hotel & restaurant, and manufacturing (Figure A2.9, A2.10).

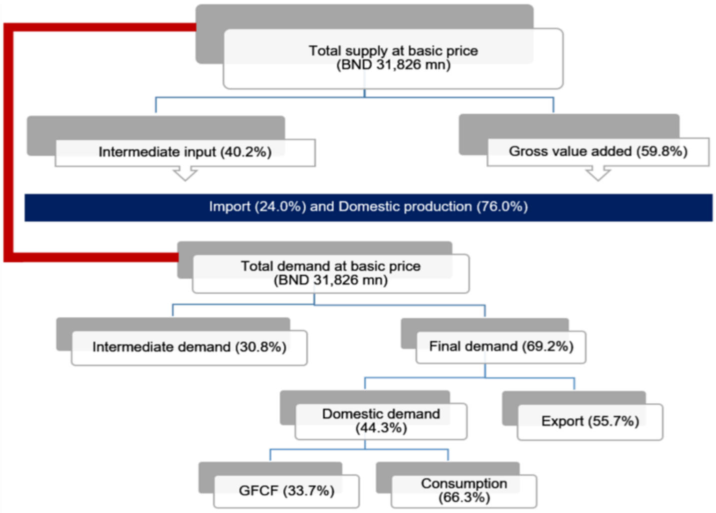
[22] Source: FDI Action and Support Center; AMRO staff calculations
[23] AMRO staff assumed slow project growth at the beginning stages in 2016-17, requiring much lower disbursement compared to the later stages. As much more progress was made in 2018, the rapid acceleration in projects' growth created an upward slope to form the middle part of the 'S', where the highest spending was incurred. In the last stage in 2019, the project was considered to be in its mature phase, with growth starting to plateau as it was on the verge of completion. With this, the disbursement followed the upper part of the 'S', where the remaining project value was disbursed.

Table A2.1 Methodology

Methodology	Variable Description
Impact on GDP *Impact (GVA) = GVA* (I-A)* $^{-1}$ ** X* **Impact on Employment** *Impact (Employment) = L* (I-A)* $^{-1}$ ** X*	GVA and L are the coefficients of gross value added at basic prices and employment. *(I-A)* $^{-1}$ ** X* is the Leontief coefficient inverse matrix calculated from the IO table.

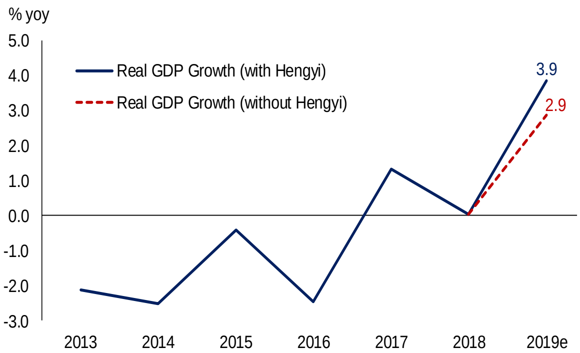
Source: AMRO staff

Figure A2.7 Brunei Darussalam's Economic Structure from the Input Output Table



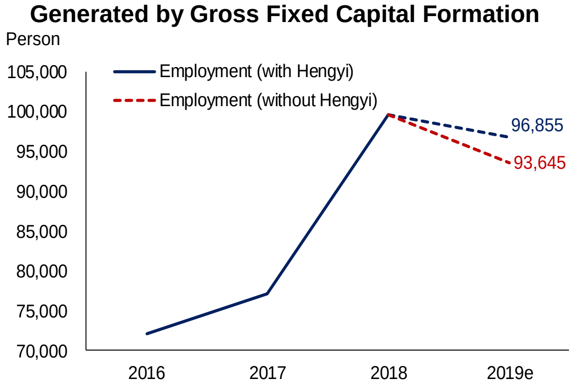
Note: The calculation is based on Brunei Darussalam authority's IO table 2010.
Source: National authorities; AMRO staff calculations

Figure A2.8 Impact of FDI on 2019 Real GDP Growth



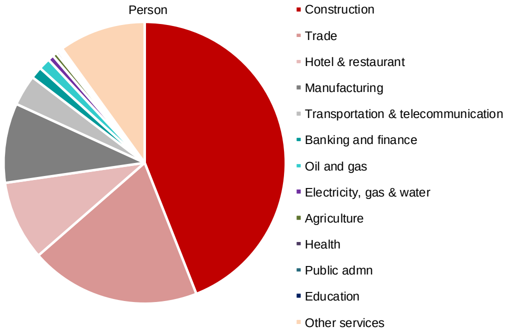
Note: The estimation is based on Brunei Darussalam authority's IO table 2010. Real GDP growth (with Hengyi) is the actual GDP in 2019.
Source: DEPS; AMRO staff estimates

Figure A2.9 Impact of FDI on 2019 Employment Generated by Gross Fixed Capital Formation



Note: The estimation is based on Brunei Darussalam authority's IO table 2010.
Following the last stage of the S-curve pattern, a smaller number of workers were expected at the end of the project in 2019, which caused the slightly downward trend in the employment generated by the GFCF.
Source: DEPS; AMRO staff estimates

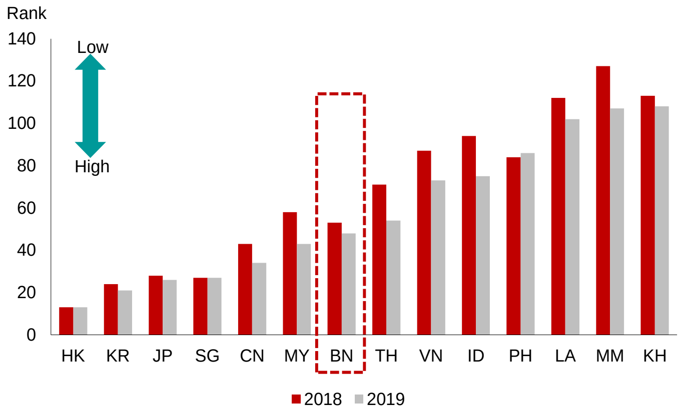
Figure A2.10 Impact of FDI on 2019 Employment Generated by GFCF, by Sector



Note: The estimation is based on Brunei Darussalam authority's IO table 2010.
Source: DEPS; AMRO staff estimates

6. **Notwithstanding the commendable improvement in economic diversification, further efforts to diversify FDI into non-oil and gas sectors are needed to sustain economic growth and reduce unemployment in the longer term.** There are five priority business clusters stipulated in Wawasan Brunei 2035 development plan, such as downstream oil and gas, food, tourism, services and ICT. Nevertheless, the oil and gas sector is still the largest FDI recipient, which suggests the need to further expedite the diversification process. In this regard, the development of private sector participation and entrepreneurship may play an important role in fostering competition and innovation, which could help attract more FDI inflows into the country. Given the limited role of the private sector, the government should promote private sector's development, including through the Public-Private Partnerships (PPPs). According to a study by World Intellectual Property Organization (2012), PPPs innovatively deploying the ICT are able to improve services that matter most to an economy, including education, transportation, public safety, and social services – one of the key drivers of inward FDI. Despite some improvement in the Global Entrepreneurship Index rank (Figure A2.11), efforts to strengthen entrepreneurship should be sustained.

Figure A2.11 Brunei Darussalam's Global Entrepreneurship Index

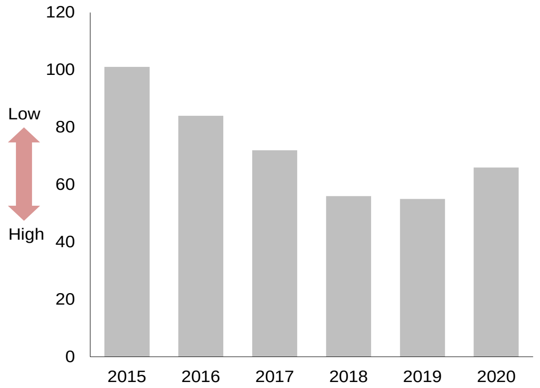


Source: The Global Entrepreneurship and Development Institute

7. **Brunei Darussalam's overall Doing Business performance weakened somewhat in 2020, reflecting the need for more structural reforms.** The country's ease of doing business condition kept improving during 2016 – 2019 (Figure A2.12), contributing to the increase in quality FDI projects, e.g. Hengyi refinery and Brunei Fertilizer Industry (petrochemical industry). However, its overall doing business ranking declined from 55 in 2019

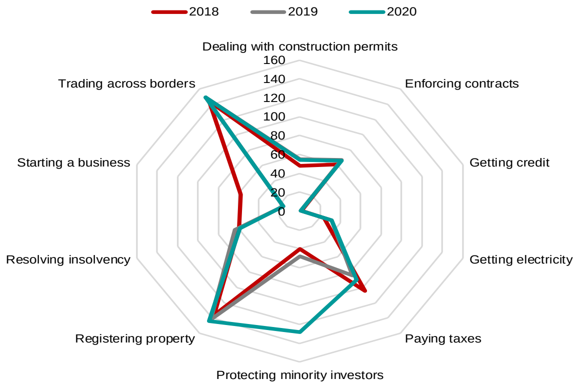
to 66 in 2020, necessitating more reforms to improve weak areas, particularly registering property, and trading across borders, which rank 144 and 149, respectively. Nevertheless, two indicators – enforcing contracts and resolving insolvency – record better performance, while some indicators have maintained their position from last year's report, such as starting a business, getting electricity, and trading across borders. Getting credit has been the top rank for two consecutive years, on the back of Brunei's strong credit reporting systems (Figure A2.13).

Figure A2.12 Brunei Darussalam's Ease of Doing Business Index, Overall Ranking



Note: There are changes in methodology and scope of assessment (not accounted for in the past years) for an indicator "protecting minority investors", which has caused a sharp increase in 2020 rank.
Source: World Bank

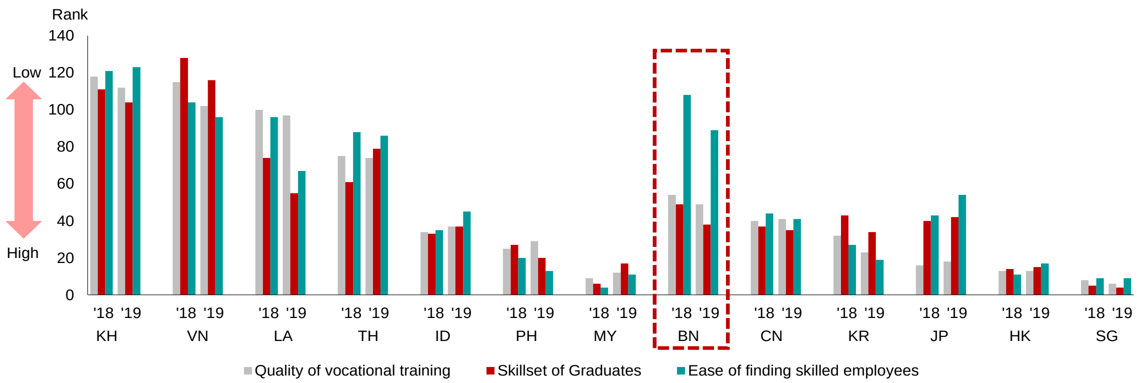
Figure A2.13 Brunei Darussalam's Ease of Doing Business Index Rank by Component



Note: There are changes in methodology and scope of assessment (not accounted for in the past years) for an indicator "protecting minority investors", which has caused a sharp increase in 2020 rank.
Source: World Bank

8. **Upgrading both hard and soft infrastructure while leveraging on digital innovations could strengthen Brunei Darussalam's competitiveness and hence attract more quality FDI going forward.** According to the latest World Economic Forum's Global Competitiveness Report, Brunei Darussalam is still lagging behind many of its regional peers when it comes to quality of vocational training, skillset of graduates, and ease of finding skilled employees (Figure A2.14). Thus, in addition to the natural resources Brunei Darussalam is endowed with, skills development deserve special attention if the country is to tap into digitalization. The latter will allow it to enhance its competitiveness and attract more quality FDI. With a young and tech-savvy population, digitalization will help boost productivity and perhaps reduce certain costs, while generating new jobs for its people.

Figure A2.14 Ranking of Quality of Vocational Training, Skillset of Graduates and Ease of Finding Skilled Employees



Source: World Economic Forum

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