Brunei Darussalam

Oil and natural gas production is estimated to have declined in 2009, resulting in a moderate contraction in GDP. Inflation remained low and the current account surplus large. A forecast return to modest economic growth in 2010 is based on higher global demand and prices for hydrocarbons, the start of output from a new methanol plant, and a pickup in construction. As oil and gas reserves are depleted, the main development challenge is to diversify into new sources of growth.

Economic performance

The economy contracted by 1.9% in 2008 as oil and natural gas production, which accounts for 70% of GDP, fell by 6.2% (Figure 3.22.1). The significant contraction in hydrocarbon production, for a second year in a row, reflected the aging of the country's oil fields and a government decision to use reserves more sparingly to extend the life of energy production. Growth in the nonenergy sector slowed to 2.4%, from 8.5% in 2007, mainly due to the impact of the global downturn on trade, tourism, and manufacturing (predominantly clothing).

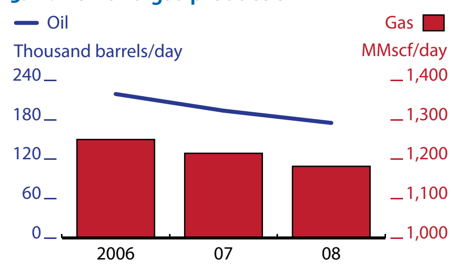
GDP contracted by 2.8% year on year in the first quarter of 2009 (the latest period for which data are available). Oil and gas production fell by a further 6.7%, and growth slowed in the nonenergy sector. For the full year, GDP is projected to have contracted by 1.2% (Figure 3.22.2). The estimated decline in hydrocarbon production was likely offset to some extent by increased government services output associated with efforts to expedite capital spending. Construction activity benefited from the government spending, and services such as retail trading, transportation, and recreational services likely picked up last year as consumer confidence improved in line with the better overall economic outlook.

Inflation moderated to 1.8% in 2009, from 2.7% in 2008, reflecting softer commodity prices and subdued domestic demand. Food, which accounts for 29% of the consumer price basket, was the main contributor to inflation, increasing by 2.3% (down from 5.0% in 2008), while transport costs, which account for 23% of the price basket, rose by 2.1% (versus 1.6% in 2008). A broadly stable Brunei dollar, which is linked to the Singapore dollar, helped contain inflation.

Available data indicate that the budget fell into deficit (by $81.9 million) in the second quarter of FY2009 (ended 31 March 2010) after a $392.1 million surplus in the first quarter, and a surplus of $3.9 billion in FY2008. The turnaround in the fiscal position was caused by a slump in revenue from oil and gas (taxes, dividends, and royalties) and an increase in both current and capital expenditure.

High oil prices in recent years have contributed to substantial current account surpluses. The surplus increased to an estimated $7.2 billion in

3.22.1 Oil and gas production

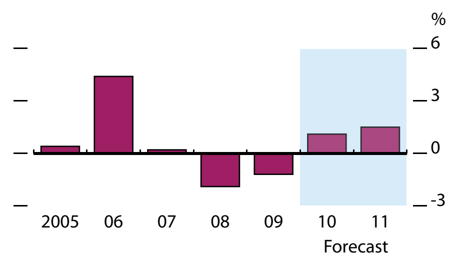


MMscf = million standard cubic foot.

Source: Department of Economic Planning and Development. 2009. *Brunei Darussalam Key Indicators*. http://www.depd.gov.bn

Click here for figure data

3.22.2 GDP growth



Source: Asian Development Outlook database.

Click here for figure data

3.22.1 Selected economic indicators (%)

	2010	2011
GDP growth	1.1	1.5
Inflation	1.7	1.5
Current account balance (share of GDP)	33.0	31.0

Source: ADB estimates.

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2008 (50.4% of GDP) as the value of merchandise exports (almost entirely oil and gas) shot up by 37.5% to $10.5 billion. Merchandise imports rose by 22.5% to $2.4 billion. During the first quarter of 2009, the current account surplus narrowed as the value of hydrocarbon exports fell and imports of food and machinery, transport equipment, and other manufactured items rose.

Preliminary trade data for all 2009 indicate that exports (in decreasing share) to Japan, Indonesia, the Republic of Korea, and Australia, which accounted for 87% of Brunei's exports, dropped by 45%, while imports (also in decreasing share) from Singapore, Malaysia, Japan, the People's Republic of China, and Thailand, which account for 73% of total imports, declined by 1.2%. As a result, the current account surplus is likely to have narrowed to a still comfortable 35.0% of GDP in 2009. International reserves at the end of 2009 amounted to $1.4 billion.

Economic prospects

The aging of oil and gas fields, coupled with consequent stoppages in production for maintenance and repairs, suggests that hydrocarbon production will remain subdued in the forecast period. As for the nonenergy sector, recent efforts to diversify the economy will support growth, but the extent of that support depends on how fast that projects under the national development plan, Rancangan Kemajuan Negara 2007–2012, are rolled out. Growth projections are based on the assumption that there will be no sharp decline in oil and gas production in the forecast period and no letup in efforts to expedite projects under the national plan.

The economy is forecast to grow by 1.1% in 2010 and 1.5% in 2011, the recovery based on an expected gradual rise in global demand for energy, higher oil and gas prices, and the startup in the first half of 2010 of a large methanol plant under construction for the past 6 years. Construction activity relating to Pulau Muara Besar port and a power transmission line from Sarawak to Brunei, as well as the likely start of construction on some agri-processing projects, will also support growth.

Foreign direct investment is expected to pick up as the recovery in Asian economies strengthens, joining the rise in public investment scheduled under the development plan. Private consumption is likely to increase modestly with improved domestic economic prospects.

Inflation is forecast to edge up to 1.7% in 2010 before moderating to 1.5% in 2011. Its evolution depends largely on movements in global prices of food, most of which is imported. Price pressures will be contained by government subsidies on basic foods, fuel, housing, education, and health services, and by expected stability of the Brunei dollar against the US dollar during the forecast period.

The current account surplus is seen narrowing slightly, but staying at over 30% of GDP, underpinned by exports of hydrocarbons and methanol and likely increases in tourist arrivals and income from foreign assets. Growth in imports is projected to more than offset higher exports, reflecting increases in the machinery and equipment that are needed to maintain and upgrade hydrocarbon facilities, together with growth in construction materials for government infrastructure projects.

3.22.1 Development challenges

Proven reserves of oil are sufficient for about another 20 years of production, and of gas for about 30 years. The main long-term challenges are therefore to diversify the economy away from dependence on hydrocarbons, during exploration for new oil and gas fields.

Some progress on diversification has been achieved, despite the small size of the domestic market, but weaknesses in institutional capacity and the business environment need to be overcome before new industries can become an important source of growth.

While the government has accumulated abundant financial resources to promote diversification, slow progress in implementing government-funded projects points to a need to improve the bureaucracy's capacity.

As for the private sector, the World Economic Forum's Global Competitiveness Index for 2009/10 indicates that, although the country's overall ranking is relatively high at 32 out of 133 countries, it ranks poorly on several indicators including the number of procedures required to start a business (ranked 126); time required to start a business (126); and financing through local equity markets (117).

To promote private sector development, the government has announced plans to privatize a range of government services and is making efforts to modernize the financial sector. These include developing a modern payment and settlement system, drafting laws relating to capital market development, and introducing laws to vest a future monetary authority with relevant powers to supervise the financial system. Progress in streamlining procedures for businesses is likely to remain important to diversify the economy.