

Brunei Darussalam

Recovery in 2010 stemmed from higher oil and gas production coupled with moderate growth in the nonenergy private sector. Inflation remained subdued. Growth in the near term is projected to return to slightly higher than recent trend levels, in a context of low but rising inflation. The major challenge remains diversifying the sources of growth

Economic performance

The economy recovered by an estimated 2.0% in 2010, driven by higher production of oil and natural gas, stronger energy demand from traditional export markets such as Japan and the Republic of Korea, expansion of liquefied natural gas (LNG) production, and the opening of a new methanol plant in May 2010. Production of hydrocarbons, including LNG, accounts for nearly half GDP. Nonenergy-related private sector activity picked up moderately.

On the demand side, recovery benefited from estimated rises of 12% in private consumption and 10% in exports of goods and services. Investment was likely flat.

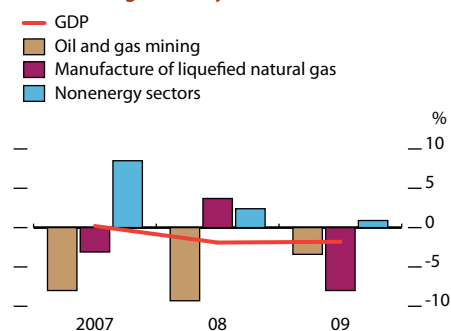
The GDP contraction in 2009 was revised to 1.8%. In that year, production of oil and gas fell by 3.4%, and LNG output by 8.0% (Figure 3.22.1), largely a consequence of weaker external demand and maintenance-related stoppages. Growth in the nonenergy sector in 2009 slowed to 0.9%, reflecting the impact of the global recession on trade, tourism, and manufacturing.

Contracting economic activity in 2009, with lower global commodity prices and a broadly stable Brunei dollar, brought inflation down to 1.0%. Official data for the first 8 months of 2010 indicate that inflation eased further, but the consumer price index likely picked up after that, in tandem with global commodity prices (most commodities are imported). Average inflation for 2010 is estimated at 1.5%.

Preliminary and unadjusted data indicate that the budget recorded a deficit of US\$192 million in FY2009 (ended 31 March 2010), or 1.7% of GDP. This was on the back of sharply lower tax and nontax revenue (dividends and royalties) from oil and gas, as well as higher current and capital spending. In FY2010, available data indicate that the budget returned to surplus of US\$860 million in the first half of the fiscal year. The turnaround reflects a combination of higher tax revenue, lower current expenditure, and a cut in capital spending.

Broad money supply increased by 8.2% in the 12 months through June 2010, marking a continued buildup in net foreign assets and an expansion of domestic credit. Credit to the private sector rose by 20.9%, while net

3.22.1 GDP growth by sector



Source: Brunei Darussalam Department of Economic Planning and Development (JPKE).

[Click here for figure data](#)

3.22.1 Selected economic indicators (%)

	2011	2012
GDP growth	1.7	1.8
Inflation	1.5	1.5
Current account balance (share of GDP)	50.0	50.0

Source: ADB estimates.

claims on the government declined (government deposits in the banking system expanded) as the budget returned to surplus.

Exports of oil and gas, which represent over 90% of total exports, slumped by 33.1% to US\$7.2 billion in 2009. This was due to both lower export volumes and prices. Exports of LNG to Japan, which accounted for about 30% of Brunei's GDP in recent years, declined by 21.8%. Imports also dropped sharply, by 20.1%, due to the downturn in economic activity. It is estimated that the current account surplus fell by over US\$3 billion to around US\$4 billion (but still high at 37% of GDP).

Data on the capital and financial accounts are not available but international reserves, excluding amounts held by the Brunei Investment Agency, were estimated at US\$1.4 billion at end-2009.

For the first half of 2010, exports of oil and gas picked up by 14.1%, and imports increased slightly. The current account surplus rose to US\$5.4 billion in January–June 2010 and is estimated to have totaled about the same amount for the full year (43% of GDP).

Economic prospects

The outlook for the forecast period is based on the *ADO 2011* assumptions of continued modest growth in industrial economies and significantly higher global oil prices through 2012.

As the high-base effect from the rebound in 2010 dissipates, economic growth is projected at the slightly higher than trend rates of 1.7% in 2011 and 1.8% in 2012 (Figure 3.22.2), reflecting buoyant global energy markets and an increase in domestic demand. Oil and gas production is expected to rise moderately and the new methanol plant will contribute a full year's production to GDP.

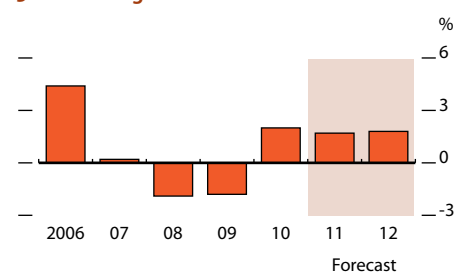
Private consumption is forecast to rise and investment to pick up this year as a result of construction projects and an improving business environment. Projects include the Pulau Muara Besar port (scheduled to be completed by end-2012), an upgrade of the international airport, and a power transmission line between Brunei and Malaysia.

Inflation is seen rising in the forecast period, mainly due to higher prices for imported food. Still, it should remain relatively low at 1.5%, given the government's policy to subsidize many consumer items and the currency's peg to the Singapore dollar.

The current account surplus is likely to return to levels reached before the economic contractions of 2008 and 2009—about 50% of GDP—on the back of higher export receipts from oil and gas and a rebound in net income inflows from the recovery in foreign asset prices. Demand from Japan for LNG could increase owing to damage to its nuclear industry from the March 2011 earthquake.

A maritime border agreement reached with Malaysia will encourage exploration and foreign investment in oil and gas. Drilling has begun in two offshore exploration zones and an international company plans to bring a new gas discovery into production in about 3 years.

3.22.2 GDP growth



Sources: Asian Development Outlook database; ADB estimates.

[Click here for figure data](#)

3.22.1 Development challenges

The long-term challenge is to make the economy less dependent on oil and gas. The increase in the global price of oil this year and next will likely lead to moderately higher levels of production, but could also quicken the depletion of hydrocarbon reserves (unless offset by new discoveries).

A gradual transition to more diversified sources of growth will require progress in fostering a more conducive business environment for the private sector, improvements in the institutional capacity of the government, including service delivery, and finance sector development.

The authorities seem to have made a start: according to the World Bank's *Doing Business 2011* report, Brunei Darussalam was in the top 10 countries to have improved its business environment over the previous year. The country climbed 19 places in ease of starting a business (to 133 out of 183 countries)—though this is still a poor ranking—and ranks relatively well in ease of paying taxes (22) and trading across borders (52). However, the ranking remains low in investor protection (120), ease of obtaining credit (116), and ease of doing business (112).

As part of finance sector development, the government set up a Brunei Monetary Authority in January 2011 to improve regulation and supervision of the financial system.