Brunei Darussalam

This hydrocarbon-based economy grew slightly faster in 2011 and is expected to maintain modest growth during the forecast period. The pace of inflation lifted last year, but will likely ease in 2012. Substantial fiscal and current account surpluses provide a cushion against shocks. Diversifying sources of growth is the main challenge.

Economic performance

The economy grew by an estimated 2.9% in 2011, quickening from a revised 2.6% in 2010 (Figure 3.22.1). Growth stemmed from production and exports of natural gas and crude oil, which account for two-thirds of GDP, and a better performance by the nonenergy sector.

The oil and gas sector expanded by 2.2% in the first 3 quarters of the year, mainly owing to a 5.1% increase in production of liquefied natural gas (LNG). A large methanol plant, opened in May 2010, made its first full-year contribution to growth in 2011.

The nonenergy sector grew by 2.8% in the 3 quarters. It comprises—mainly government—services, and small agriculture and manufacturing output. Government services (about one quarter of the economy) grew by 3.3% in the 3 quarters. Strong growth of about 20% was recorded in air transport and hotels and restaurants services. Manufacture of garments declined for a fourth consecutive year.

Government price controls and subsidies keep inflation to the 1–2% range most years—a bracket again achieved for the full year (2.0% on average). Higher global prices for food and other consumer goods nudged up inflation to 2.8% year on year in October 2011, before it receded (Figure 3.22.2). Tobacco prices jumped after the government raised excise duties on tobacco in November 2010.

Helping to contain inflation, the Brunei dollar appreciated against the US dollar by 8.4% on average last year, a result of its peg to the Singapore dollar through a currency board arrangement.

Merchandise exports, mostly LNG and oil, rose by an estimated 32.5% to US$12.4 billion in 2011, propelled by higher global prices for hydrocarbons. According to import data from Japan and the Republic of Korea, the biggest LNG customers, in 2011 these countries together lifted their purchases from Brunei Darussalam of LNG by 39% (to US$5.6 billion) and of oil by 33% (to US$1.9 billion).

Merchandise imports are much lower than exports, reflecting the small economy (GDP of about US$17 billion in 2011) and population (423,000). Imports rose by an estimated 19.3% to US$2.8 billion in 2011.

3.22.1 GDP growth

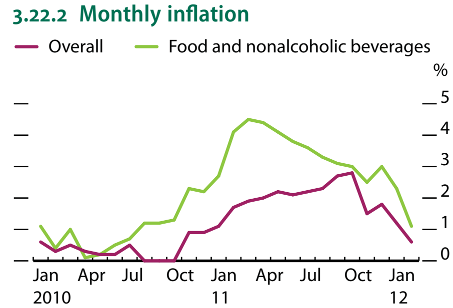
Sources: Asian Development Outlook database; ADB estimates.

3.22.1 Selected economic indicators (%)

	2012	2013
GDP growth	2.6	3.2
Inflation	1.8	2.0
Current account balance (share of GDP)	50.0	50.0

Source: ADB estimates.

3.22.2 Monthly inflation



Source: CEIC Data Company (accessed 28 March 2012).

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The trade surplus soared and the current account surplus increased to an estimated 50.0% of GDP.

Taxes, dividends, and royalties from hydrocarbons provide the government with about 90% of its revenue to fund wages for the large public sector and finance public services and subsidies. Rising oil prices boosted revenue by 43% in FY2010 (ended 31 March 2011). Government spending fell slightly owing to a decline in capital outlays, leaving a fiscal surplus equivalent to about 16% of GDP.

The government established the Autoriti Monetari Brunei Darussalam in January 2011 to supervise the financial sector and manage monetary affairs. It also set up a Deposit Protection Corporation to insure deposits up to B$50,000 for individual depositors. A centralized credit bureau is being formed to help banks assess the creditworthiness of borrowers.

Concerned about rising household debt and banks' high exposure to consumer loans, the authorities required banks to curb consumer lending and they tightened limits on credit card debt. The ratio of consumer loans to total credit fell sharply to 39% as at September 2011. Lending to the private sector fell by 5.3% during the first 7 months of 2011.

Economic prospects

The economy is expected to maintain modest growth during the forecast period, based on solid demand and prices of oil, investment in oil exploration, high levels of government spending, and gradual development of the nonenergy sector.

Two large export-oriented projects linked to hydrocarbons received government approval in 2011—a US$2.8 billion natural gas–based petrochemical complex and a US$2.5 billion oil refinery and aromatics cracker. (The country has only one small oil refinery.)

The complex, to be built at the Sungai Liang industrial park by Japanese companies, could eventually involve six downstream plants to produce chemicals for fertilizers, textiles, and plastics. The refinery and cracker project is planned by a firm from the People's Republic of China for the Pulau Muara Besar industrial zone. If it proceeds as proposed, it will have capacity of 135,000 barrels of oil a day and produce petroleum products and chemicals for textiles.

Current infrastructure activity includes completing the Pulau Muara Besar port and updating the Brunei international air terminal to double its capacity to 3 million passengers a year.

Inflation is projected to ease slightly to average 1.8% in 2012 as prices of imported food soften. It will edge up in 2013. Large current account surpluses are likely to be sustained, mainly on exports of oil and gas, and on income flows from the country's overseas investments.

3.9.1 Policy challenge—diversifying growth

Heavy reliance on oil and gas leaves the economy vulnerable to swings in global hydrocarbon prices. It also exposes it to dwindling production, unless exploration companies find new oil and gas fields. Oil output declined from a peak of 219,000 barrels a day in 2006 to 170,000 barrels in 2010.

Moreover, the oil and gas sector employs only about 3% of the work force. The government provides jobs to the majority of those in work, but says it can no longer absorb the growing number seeking employment.

A government drive to attract petrochemicals and other energy-related industries is having some success. Port facilities and an export processing zone are being built to attract manufacturers. The authorities have identified Islamic businesses including halal products, financial, logistics, and telecommunications services, and tourism for development, and have allocated funding for public–private partnerships.

To redress weaknesses in the business environment, the government plans to further cut the corporate income tax rate to 20% (it was 30% in 2006), to tax income from exports of domestically produced goods at just 1%, to lower excise duties for some machinery used in industry, and to set up a Business Facilitation Center.

It might also want to consider opening more areas for private participation and better align public–private remuneration packages so that private business can attract skilled workers.