Brunei Darussalam

Lower oil production and exports weighed on economic growth in 2012. Nevertheless, private consumption and fixed investment expanded. Growth in sectors unconnected to energy indicated the country’s progress in its efforts to broaden its economic base. Modest GDP growth is projected for this year and next, accompanied by low inflation and substantial current account surpluses.

Economic performance

Economic growth slowed to an estimated 1% in 2012 owing to weakness in production and exports of crude oil (Figure 3.22.1). The latest official data put GDP growth at 0.6% in January–September from the same period in 2011.

Despite slight growth in GDP, private consumption increased by 4% in January–September, above the average of the past 5 years. Sales of new automobiles jumped by 28%. Increases in private consumption are underpinned by high employment, low inflation, and—thanks to strong government revenue flows from hydrocarbons—no taxes on personal incomes, goods and services, or capital gains. GDP per capita at $41,600 in 2012 was the highest in developing Asia after Singapore.

Fixed investment rose by nearly 3% and government consumption by 2% in January–September. While domestic demand increased in 2012, a decline in exports of hydrocarbons together with a rise in imports meant that net exports acted as a drag on GDP growth.

The oil and gas sector contracted by 2.4% in January–September. Oil production fell to 155,000 barrels a day from 166,000 barrels a day in 2011. Output has declined by about one-third since 2006, when it was 219,000 barrels a day (Figure 3.22.2). Natural gas production at mid-2012 showed a slight decline from a year earlier.

Encouragingly, economic activity unconnected with energy grew by 3.4%, indicating progress in the government’s drive to diversify the economy before hydrocarbon reserves dwindle. These sectors have gradually increased their combined share of real GDP to 54.4% over recent years (Figure 3.22.3). Services grew by 3.3% and agriculture by nearly 9%. Manufacturing and construction recorded only slight growth. In a further positive sign, the privately owned part of the economy outside the energy sector grew by a healthy 4.6% in the third quarter.

Merchandise exports, mostly oil and liquefied natural gas, increased by 9.4% to $9.9 billion on a customs basis in January–September, supported by higher prices. Exports of methanol were interrupted in April 2012 when production was shut down temporarily for maintenance.
Imports rose much more quickly than exports, by 21.8% to $2.7 billion, on the back of firm domestic demand. Most capital and consumer goods are imported, as is most food. A substantial trade surplus produced another large current account surplus, estimated at 47% of GDP in 2012. International reserves rose by a third to $3.3 billion, cover for 11.9 months of imports of goods.

Inflation decelerated from 1.2% year on year at the start of 2012 to 0.5% in December (Figure 3.22.4). Prices of food, particularly meat and cooking oil, rose but this was mostly countered by lower prices for clothing, education, and transport. Price controls and subsidies help to keep inflation low. A firm exchange rate contributed by dampening imported inflation. The Brunei dollar, which is pegged to the Singapore dollar through a currency board arrangement, appreciated by 6.3% against the US dollar in 2012.

Income taxes, dividends, and royalties from hydrocarbons provide the government with substantial revenue to fund the large public sector, invest in public infrastructure, and provide a range of services and subsidies. Revenue in FY2011 (ended 31 March 2012) increased by 7.0% and government spending by only 1.4%, with the fiscal surplus remaining at over 20% of GDP.

### Economic prospects

The government aims to extend the productive life of hydrocarbons until other pursuits can play a much larger role in the economy. This is to be achieved by enhanced recovery and managed production from existing oil and gas fields and exploration for new ones. Forecasting GDP is hampered by uncertainty over the timing of new production and production stoppages for maintenance, as well as by limitations and delays affecting economic data. The projections below assume a modest recovery in hydrocarbons production and continued growth in the rest of the economy in the forecast period. On this basis, GDP is projected to increase by 1.8%–2.0% in 2013–2014.

More important for longer-term development are gains made toward broadening the economic base. The government has identified several industries for development, principally downstream petrochemicals, tourism, Islamic businesses including halal products and financial services, and information and communication technology services.

Infrastructure projects under way to attract these industries include the Pulau Muara Besar port and industrial zone supported by a bridge and roads to the port, an expanded international airport, upgraded power transmission lines, a high-speed broadband network with fiber-to-the-home connections, and an industrial park to research and develop agricultural products including halal food. A joint venture with a foreign company is establishing a helicopter and aircraft pilot training center that has ambitions to be a regional training facility.

Given the small size of the domestic market serving a population of only about 400,000, the government is pursuing export-oriented projects. Since foreign companies completed a $450 million plant to produce and export methanol in 2010, the government has approved plans for a $2.8 billion petrochemical project using natural gas and a $2.5 billion oil
refinery and aromatics cracker, both of which are proposals from foreign companies. These projects are in the design and engineering phase.

Domestic institutions are being brought into play in the push for economic diversification. Last year the government established an investment holding company—Darussalam Assets—to improve the financial performance of government-owned firms and to take a strategic role in diversification efforts. The monetary authority started preparations to establish a national payment and settlement system, in part to develop the Islamic finance industry and promote the country as an Islamic finance hub.

Soft global oil prices cloud the outlook for growth in export receipts. Merchandise exports are projected to increase slightly in value in 2013–2014, while imports will likely maintain strong growth. Nevertheless, the current account surplus will remain substantial given the relatively large export base and income from the country’s overseas investments.

Inflation is seen at about 1% through the forecast period. Subdued global food prices and the government’s domestic subsidies and price controls should largely counter inflationary pressures that could emerge from expansion in domestic demand.

Policy challenge—attracting new industries

Brunei Darussalam ranks 28th of 144 countries in the World Economic Forum’s Global Competitiveness Report 2012–2013, better than other countries in Southeast Asia except for Singapore and Malaysia. One factor that hurts competitiveness is the small market, for which reason the country ranks only 130 in the category of domestic market size.

To address this issue, the government is building transport, power, and communications infrastructure so that companies can serve foreign markets. It has implemented liberal policies on trade, investment, and labor—such that, for example, foreign workers comprised 74% of all private sector employment in 2010. The country is a member of the Trans-Pacific Partnership, which proposes further liberalization of trade and investment between members. Moreover, the government has lowered the corporate tax rate to 20% and offers other tax concessions and incentives.

Brunei Darussalam moved up four places to 79th of 185 countries in the World Bank’s Doing Business 2013 ranking. Moving into this ranking’s top 20 is a government ambition that will require intensified efforts to, among other actions, upgrade training and labor regulations, develop capital markets, and streamline procedures for starting businesses.

<table>
<thead>
<tr>
<th>3.22.1 Selected economic indicators (%)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Current account balance (share of GDP)</td>
<td>45.0</td>
<td>47.0</td>
</tr>
</tbody>
</table>

Source: ADB estimates.