Brunei Darussalam

Weakness in the oil and gas sector continued to weigh on economic growth in 2013. Services, construction, and manufacturing expanded, helping to broaden the base of this hydrocarbon-dependent economy. Inflation remained low, and the current account surplus high. Modest economic growth and low inflation are forecast for this year and next.

Economic performance

The latest official data, covering January–September 2013, show GDP declining by 0.4% from the same period in 2012. GDP for the full year declined by an estimated 1.4% as the oil and gas sector contracted (Figure 3.22.1).

The sector contracted by 3.7% in January–September from the year-earlier period (Figure 3.22.2). The production of crude oil and condensate fell to 134,460 barrels a day in the second quarter from 154,240 in 2012. Since 2006, daily oil output has declined by nearly 40% due to managed production, production facility maintenance, and oilfield depletion (Figure 3.22.3). The production of liquefied natural gas (LNG) fell to 992 billion British thermal units a day in the second quarter from 1,254 billion in 2012.

The rest of the economy, comprising mainly services, construction, and manufacturing, expanded by 2.5% in January–September and by an estimated 3.6% for the year. Services drove most of this growth last year, with construction and manufacturing also contributing. Output from the small agriculture, forestry, and fisheries sector declined.

In a positive sign for private sector development, the privately owned part of the economy outside the oil and gas sector expanded by slightly over 3% in January–September, compared with growth of less than 1% for the public sector.

From the demand side, private consumption grew in January–September last year but at a slower pace than a year earlier. Government consumption spending was flat, and the weakness in oil and gas production eroded net exports. However, growth in fixed investment accelerated from 2012.

Merchandise exports, mainly crude oil, LNG, and methanol, fell by 11.9% to $11.4 billion in 2013 (Figure 3.22.4). Imports, which provide most of the country’s food, consumer goods, and capital goods, rose by 1.2% to $3.6 billion. A still-substantial trade surplus of $7.8 billion generated a current account surplus estimated at 43% of GDP. International reserves rose to $3.4 billion, cover for 9.9 months of imports of goods.
A reweighting of the consumer price index last year to take into account changes in spending patterns, based on a household expenditure survey in 2010–2011, put average inflation at 0.4% in 2013, compared with revised inflation of 0.1% in the 2 previous years. Higher costs for automobiles and their maintenance largely accounted the increase last year. Price controls and government subsidies on many goods and services keep inflation low.

Income from hydrocarbons through taxes, dividends, and royalties provides the government with revenue to fund a relatively large public sector and to invest in infrastructure and subsidize consumer goods and services. In FY2012 (ended 31 March 2013 and applicable only to government finances), revenue fell by 9.0%. Government spending rose by 4.2%, which still left a large fiscal surplus equal to 20.2% of GDP. Reflecting the weakness in oil production, revenue fell by a further 10.4% in the first half of FY2013, and the fiscal surplus for that period fell by 43.4%.

The Brunei dollar, which is pegged at par to the Singapore dollar through a currency board arrangement, depreciated by 3.6% against the US dollar during 2013. In March 2013, the monetary authority introduced interest rate controls on lending and Brunei dollar deposits, which may hamper financial intermediation.

### Economic prospects

Modest GDP growth at 1.1%–1.2% is forecast for this year and next, based on gradual expansion in sectors outside of oil and gas and assuming some recovery in hydrocarbon production. Forecasting is hampered by uncertainty over the timing of oil and gas production from new fields and of stoppages for maintenance of wells and pipelines. The limitations of economic data and delays in their release are further constraints.

The pace of growth depends in part on the expeditious implementation of public projects under the national development plan for 2012–2017. The implementation of public projects in the past has sometimes lagged behind schedule, but additional efforts to expedite projects under the plan in the fiscal year ended 31 March 2013 meant that 96.3% of the B$1.55 billion allocated for that period was spent.

Economic growth this year and next will be supported by infrastructure construction. Projects under way or planned to start in the forecast period include the construction of a port and industrial zone at Pulau Muara Besar, development of a technology park and high-speed broadband network, construction of three major bridges, and expansion of the international airport to double its handling capacity by the end of 2014.

Site preparations are scheduled for the first phase of an oil refinery and aromatics cracker planned for Pulau Muara Besar, which is expected to involve the investment of $2.5 billion over several years from a company in the People’s Republic of China. Brunei Darussalam’s first petrochemical project, a $450 million methanol plant at Sungai Liang Industrial Park, has been operating since 2010. A third petrochemical project has been proposed by a Japanese company, but its timing is unclear.
In addition to petrochemicals, the government is encouraging the development of halal products, including food, cosmetics, and pharmaceuticals for export. A halal-certified pharmaceuticals manufacturing plant—a joint venture with a Canadian company—plans to increase production. The Halal Science Center for food analysis is scheduled to open this year.

To improve financial services, the monetary authority is developing a national payment and settlement system, a credit bureau to improve lenders’ asset quality, and a strategy to expand the Islamic insurance industry. The government approved last year an upgraded securities market law to support the development of capital markets.

Inflation is expected to stay below 1% through the forecast period, owing to subdued global food and fuel prices and domestic price controls and subsidies. In February 2014, the consumer price index rose by just 0.05% year on year.

Soft global oil prices will dampen merchandise exports, while construction projects will put upward pressure on imports. Still, exports of oil, LNG, and methanol will, together with income from the country’s overseas investments, sustain substantial current account surpluses forecast at 44%–46% of GDP. External and fiscal surpluses provide significant buffers for the economy.

### Policy challenge—diversifying the economy

Brunei Darussalam benefits from substantial reserves of oil and natural gas that generate one of the highest GDPs per capita in developing Asia, at $41,127 in 2012 for a population of 412,000. However, heavy reliance on this sector makes the economy vulnerable to swings in global energy demand and to the gradual depletion of hydrocarbon reserves.

Aiming to diversify the economy, the government has identified certain industries and provides incentives to attract foreign investment to develop export-oriented businesses. The industries include petrochemicals, halal products, information and communications, Islamic financial services, and aviation and oilfield support services. Incentives include the public provision of infrastructure, liberal trade and labor policies, competitively priced utilities, and tax breaks.

In this regard, the investments made and planned by foreign companies, plus gradual expansion of the domestic private sector, indicate that the strategy is enjoying some success.

Steps are being taken to redress some of the weaknesses in the investment environment. The government strengthened its patent system and stepped up efforts to enforce intellectual property rights. As a result, the US trade representative last year removed Brunei Darussalam from the US watch list of countries with inadequate protection for intellectual property rights.

Brunei Darussalam jumped 20 places to 59th of 189 economies in the World Bank’s Doing Business 2014 ranking, owing mainly to improved access to credit. However, the country’s rankings in the categories of starting a business, registering property, and trading across borders fell slightly from 2013.

### 3.22.1 Selected economic indicators (%)

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<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>GDP growth</td>
<td>1.1</td>
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<td>Inflation</td>
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<td>0.6</td>
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<tr>
<td>Current account balance (share of GDP)</td>
<td>44.0</td>
<td>46.0</td>
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Source: ADB estimates.