Growth resumed in late 2022 with the reopening of borders and easing of travel restrictions. Inflation surged because of supply chain disruption. Growth is forecast to rise in the medium term with higher production of petroleum and chemical products. Inflation should ease as global supply conditions normalize. A significant challenge is diversifying the economy to ensure more balanced sources of future growth.

Economic Performance

After contracting in the first 2 quarters of 2022, GDP growth resumed in the third quarter (Q3) on robust expansion in services. After 7 consecutive quarters of contraction, the economy grew marginally by 0.9% in Q3 (Figure 2.22.1). The service sector was the main contributor to growth, adding 2.1 percentage points, as borders reopened and travel restrictions were lifted, reviving activity in air transport, hotels, and restaurants. Industries other than oil, gas, or methanol contributed 0.1 percentage points with expansion by 1.5% coming mainly from manufacturing. However, the oil and gas industry contracted by 2.0%, deducting 1.1 points as maintenance and COVID-19 restrictions heavily disrupted the production of crude oil and natural gas. Expanding fisheries mitigated contraction in agriculture.

On the demand side, trade boosted growth in Q3. All demand factors contributed to growth, with net exports the most significant contributor, adding 8.3 percentage points (Figure 2.22.2). The easing of travel restrictions boosted consumption in Q3, which had been maintained by subsidies, financial support, and other measures enacted by the government to ease the impact of COVID-19. Investment recovered slightly, but accommodating a sizeable statistical discrepancy on the demand side required that 11.7 percentage points be subtracted from GDP growth. With demand recovering after borders reopened, annual contraction of GDP improved somewhat from 1.6% in 2021 to an estimated 0.5% in 2022.

Inflation in 2022 was the highest in 27 years. The inflation rate was 3.7% as several items had higher price rises throughout the year, caused by supply chain disruption that meant higher costs for imports and transport (Figure 2.22.3). Food and nonalcoholic beverages, transport, and miscellaneous goods and services were the biggest drivers of domestic inflation. However, unlike the double-digit increases seen in many other parts of the world, inflation remained manageable. Monetary policy tightening in Singapore dampen inflation, as Brunei Darussalam maintains parity between its dollar and the Singapore dollar. This softened the effect of higher import prices.
The trade balance remained in surplus in 2022. The surplus came mainly from a Q3 surge in the goods account, the largest component in the current account, reflecting strong exports. In the year to November, the trade surplus grew by 46.9% as 40.5% expansion in exports outweighed 37.6% growth in imports. Export growth came mainly from mineral fuels and chemicals following the introduction of fertilizer production earlier in the year. Mineral fuels led imports, brought in to provide feedstock for the downstream petrochemical sector.

Economic Prospects

The growth outlook is for improvement across sectors. Supported by higher production of petroleum and chemical products, GDP growth is forecast to return after an absence of 2 years, reaching 2.5% in 2023 and rising to 2.8% 2024 (Table 2.22.1). Higher production targets and exploration for new oil wells will spur revival in upstream oil and gas activities. Ramped-up fertilizer production will drive improved growth downstream in the oil and gas industry, aiming to achieve optimal production capacity for export purposes and to increase methanol production. Industry outside of oil and gas will also contribute to economic expansion. Growth in construction is expected with ongoing projects under the National Development Plan. Primary industry will gain from the assumed achievement of higher production targets across agriculture, fisheries, and livestock rearing. Full reopening of air, land, and sea borders will further boost growth in the transport and logistics industry.

Government measures partly eased labor shortages during the COVID-19 pandemic. As travel restrictions reduced the supply of foreign workers, the government enacted some measures to help businesses alleviate this constraint. The foreign worker license application process was expedited to allow the Job Centre Brunei to issue clearance letters. Further, the government introduced programs to upgrade the quality of local workers to thereby reduce reliance on imported labor in the future. The reopening of the economy and increased infrastructure development shifted the top hiring businesses in 2022. The three most active recruiters of local and nonlocal workers were wholesale and retail trade, motor vehicle and motorcycle repair services, accommodations and food services, and construction.

Table 2.22.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>-1.6</td>
<td>-0.5</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.7</td>
<td>3.7</td>
<td>2.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Sources: CEIC Data Company; Asian Development Bank estimates.
Consumption growth will be supported by further recovery in tourism. Growth prospects suggest sustained consumption to the forecast horizon. In addition, efforts to invigorate domestic tourism, enhance product offerings, and promote sustainability will further strengthen domestic consumption. Border reopening will benefit hotels and restaurants as tourist arrivals increase, though higher outbound tourism may undermine domestic retail performance. Hotel reservations and flight frequencies have increased since the reopening.

Growth in exports is likely to accelerate. An expected increase in crude oil and natural gas production supports prospects for export growth. In addition, the maturing of operational processes at Brunei Fertilizer Industries, a government-owned company, is expected to stabilize production growth for export. Meanwhile, crude oil imports—the main driver of imports in recent years, mainly to provide feedstock for the downstream petrochemical industry—are expected to slow as refinery production at Hengyi Industries is interrupted by scheduled maintenance. Consequently, net exports are expected to continue contributing to growth.

Investment is expected to increase. Government investment in multiple basic infrastructure projects, the Lugu Phase 2 Housing Project, and several road infrastructure projects will continue under the National Development Plan. Foreign direct investment in food production, transport services, and eco-tourism have potential to boost investment. Investment in food production promises to offset the country’s food trade deficit in the future.

Inflation is expected to ease to 2.0% in 2023 and 1.6% in 2024. As borders reopen globally and likely ease supply chain disruption, inflation is forecast to slow. However, stronger domestic demand and persistently elevated prices in global commodity markets will continue to exert upward pressure on domestic prices.

While the overall outlook is improving, downside risks predominate. If the global economy weakens more than expected or geopolitical tensions worsen, these developments could disrupt markets in major trading partners, hurting growth and stoking inflation.

Policy Challenge—Furthering Economic Diversification

Economic diversification would reduce risks from the volatile oil and gas market and foster cleaner production. The oil and gas industry remains the most critical in the economy. But the share of activity outside of oil and gas extraction increased steadily from 49.7% in 2010 to 60.7% in 2021 (Figure 2.22.4). Expanding the role of the downstream oil and gas industry and other non-extractive industries will strengthen the economy’s resilience when global oil and gas markets are disrupted, and it will move the economy forward in terms of promoting cleaner and better production processes.

The government emphasizes development in five priority sectors. Brunei Darussalam has started strengthening the 5 priority sectors, downstream oil and gas industries, food, services, tourism, and information and communication technology, which are expected to increase future revenue outside of the upstream oil and gas industry. To do so, the provision of industrial sites by the Division of Industry and Business Eco-system and Darussalam Enterprise (DARE) is key to the future development of clusters. DARE’s engagement in public–private partnership under projects such as Brunei Food Industry Development and the Brunei Innovation Lab will have to be enhanced to give local businesses access to opportunities and services that can foster higher-quality economic activity and growth.
Ensuring an adequate supply of competitive input factors is a challenge. Preventing labor shortages is key to ensuring continuity when diversifying the economy. Increasing expenditure on education, particularly geared for employment outside of oil, will serve the economy well. Available programs for upskilling and reskilling workers can be enhanced with additional training and the adoption of new technology, in particular digital technology. Businesses are engaged in training programs and research and development facilitated by DARe to build their capacity and gain more knowledge about business development and growth. As the economy relies heavily on imports of input materials, ensuring the provision of these materials at a competitive price is crucial, particularly for small-scale producers. To this end, the government has initiated efforts to procure input factors in bulk to achieve economies of scale and guarantee adequate provision at competitive prices.

Increasing foreign direct investment will expand the economy aside from petroleum and boost export capability. The Brunei Economic Development Board, government agencies, and local players in the logistics industry are looking at ways to support growth in exports. Projects in 2022 included a new scheduled container shipping line servicing Muara in Brunei Darussalam, Kota Kinabalu and Bintulu in Malaysia, and Singapore fortnightly, with anchorage facilities in Brunei Bay. Also launched in 2022 was the Integrated Marine Maintenance Yard and Decommissioning Yard project. The project is expected to provide maintenance, repair, and overhaul services for vessels in the region, as well as asset decommissioning, material recovery, and disposal services for companies within Brunei Darussalam and in the region. Integrating the development board and DARe promises to provide a seamless and effective platform for identifying potential spinoff activities using foreign direct investment. Local companies will be supported to develop their capabilities and have the opportunity to participate in the supply chains of incoming FDI projects.