BRUNEI DARUSSALAM

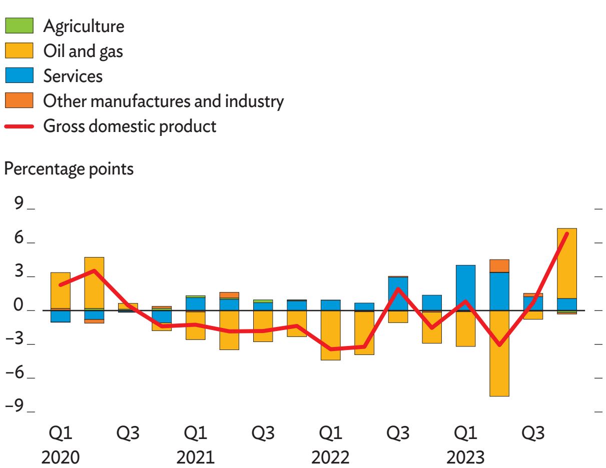
Growth is forecast to accelerate in 2024, partly due to a pickup that started in the second half of 2023. A rebound in services underpinned the economic recovery over the last 3 years, but the outlook for the next 2 years depends on recovery in the oil and gas sector. Headline inflation has been subdued recently, but food prices remain high. Fiscal consolidation and revenue diversification are needed in the medium term to ensure fiscal equity.

Economic Performance

The economy had robust growth in the fourth quarter of 2023. The long-subdued oil and gas sector recorded its first growth in the past 3 years, pushing GDP growth up by 6.8% (Figures 2.22.1 and 2.22.2). Meanwhile, growth in services, which has remained strong since the second half of 2022, slowed somewhat. This was partly due to normalization in food and beverage services, which had exceptionally strong sales growth in the second half of 2022 and the first half of 2023 (Figure 2.22.3).

Figure 2.22.1 Supply-Side Contributions to Growth

In 2021–2023, growth came mostly from services.



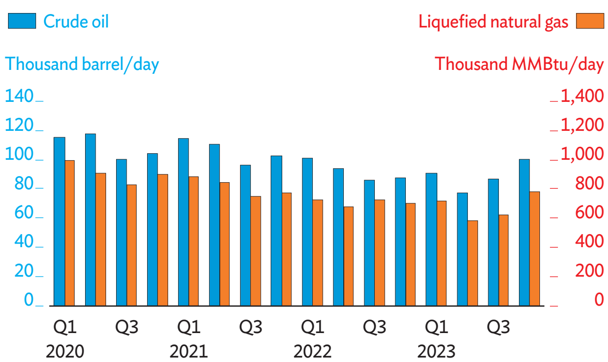
Q = quarter.

Source: CEIC Data Company.

On the demand side, private consumption continued to support growth. Despite signs of a slowdown in consumption in supply-side data, private consumption on the demand-side grew by 4.8% in the fourth quarter. Fixed investment, by contrast, continued to decline. Weaker domestic demand dragged down imports by 8.3% on weak machinery and transport equipment imports, contributing to GDP growth for the fourth consecutive quarter. However, exports continued to decline for the fourth straight quarter, as exports of minerals, including oil and gas, fell compared to the same period last year (Figure 2.22.4).

Figure 2.22.2 Gas and Oil Production

Oil and gas production remained at record lows in 2023 before rebounding in the fourth quarter.



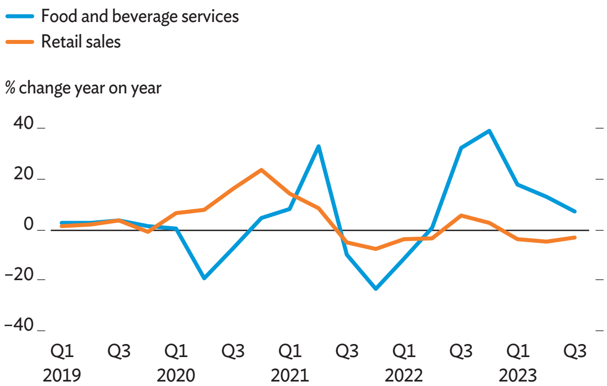
MMBtu = million British thermal unit, Q = quarter.

Source: Department of Economic Planning and Statistics.

This chapter was written by Yuho Myoda and Nedelyn Magtibay-Ramos of the Economic Research and Development Impact Department, ADB, Manila.

Figure 2.22.3 Retail Sales

Food and beverage sales have normalized from the rebound in growth.



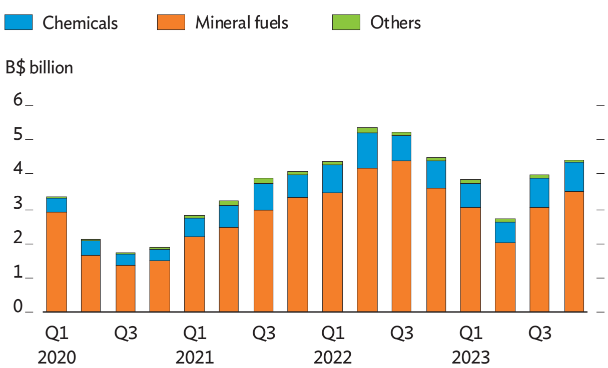
Q = quarter.

Note: Sales index is not seasonally adjusted, 2019 = 100.

Source: Haver Analytics.

Figure 2.22.4 Goods Exports

Mineral fuels exports declined in 2023 from the 2022 recovery.

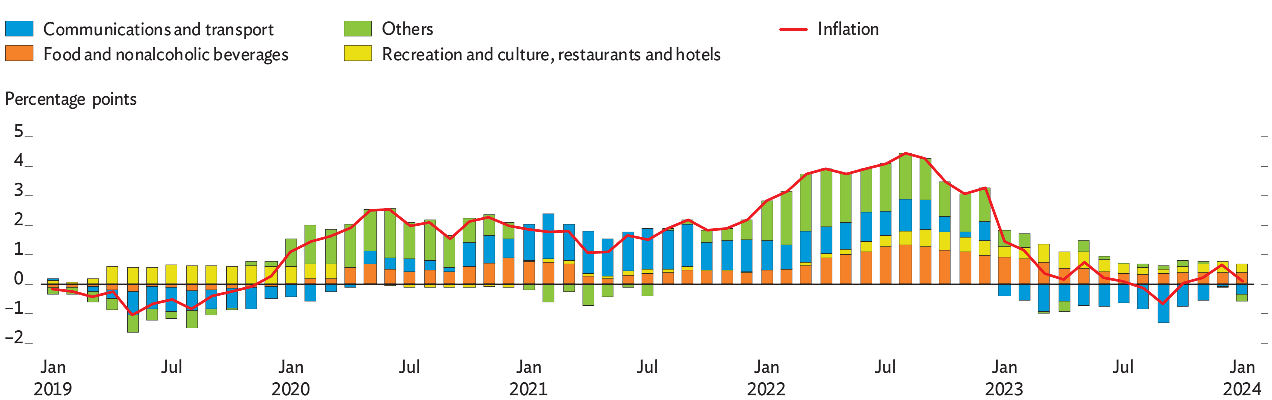


Q = quarter.

Source: CEIC Data Company.

Figure 2.22.5 Sources of Inflation

Declining communications and transport prices dragged down inflation.



Source: CEIC Data Company.

Inflation remained close to zero in the second half of 2023. Nevertheless, headline inflation rebounded to 0.7% in December 2023, the highest since May. Food and non-alcoholic beverages remained at 2.1%, driving inflation since October (Figure 2.22.5). Elevated international food prices kept rice and cereals inflation at 1.6% despite the country's price cap on specific foods. Non-alcoholic beverage prices remained high at 11.1% in December since their spike in July 2023, partly due to an increase in the sugar beverage tax. Meanwhile, significant deflation in communications and transport, which account for more than a quarter of the total consumption basket, continued to offset inflationary pressures from food and services in 2023.

Economic Prospects

Growth is forecast to accelerate to 3.7% in 2024. Growth is expected to remain more robust than the historical trend as the economy continues to recover from the aftereffects of the pandemic (Table 2.22.1). Previously deferred investment in the oil and gas sector will boost fixed investment over the forecast period. Supported by the replacement of production equipment and the opening of the Salman oilfield, daily oil production is expected to recover from 89,000 barrels per day to 95,000 barrels per day. Liquefied natural gas production is expected to recover from 678 billion British thermal units per day to more than 700 British thermal units per day. The recovery in oil and gas production will boost growth through higher exports. As production is expected to normalize in 2024, growth will moderate to 2.8% in 2025.

Table 2.22.1 Selected Economic Indicators, %

Growth will accelerate in 2024 before moderating in 2025.

	2022	2023	2024	2025
GDP growth	–1.6	1.4	3.7	2.8
Inflation	3.7	0.4	1.1	1.0

GDP = gross domestic product.

Sources: CEIC Data Company; Asian Development Bank estimates.

Inflation is expected to remain above 1% for the outlook period as temporary downward pressures fade. The average annual inflation rate is expected to be 1.1% in 2024 and 1.0% in 2025, reflecting higher prices of food, including sugar beverages, while negative short-term pressures, such as falling prices of imported cars and airline tickets, are expected to dissipate in 2024. The depreciation of the Brunei dollar against major trading partner currencies through mid-2023 may also push up inflation through a delayed transfer to retail prices.

Economic diversification will continue under the Vision of Brunei 2035 plan. Brunei Darussalam's long-standing efforts at economic diversification showed some progress in 2023. In agricultural product exports, leveraging its reliable halal certification system, the country signed a trade facilitation agreement with Sabah, Malaysia for halal food products. Also, the country shipped its first local food exports to Singapore in September. Brunei Darussalam is also investing to take advantage of its proximity to many offshore oil fields to become a ship dismantling and repair center. Demand for repair and disposal of related facilities in Southeast Asia is expected to grow in the coming years. Investment in the yard at Pulau Muara Besar through a public-private partnership began in 2022, with construction expected to be completed in 2025. If successful, the integrated yard project is expected to bring more employment and income opportunities. That should help decrease the ratio of the oil and gas sector to GDP, which is currently around 50%.

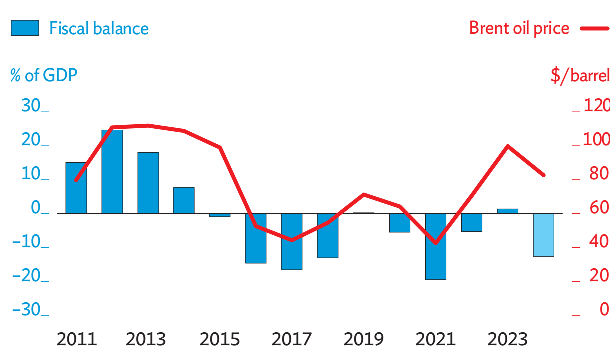
The growth outlook relies heavily on the recovery in oil and gas production. Risks are tilted to the downside. Limited private investment for maintenance and renewal in prior years may lower the operating rate of production facilities and, thus, future output in the oil and gas sector. The government recognizes that rising geopolitical tension is a downside risk on growth and an upside risk for inflation as it may dampen oil prices via weaker global demand and increase production costs through supply chain disruptions. Yet elevated international energy prices, if more persistent than currently expected, will be a tailwind for the country's trade and fiscal balances over the forecast period.

Policy Challenge—Revenue Diversification and Fiscal Consolidation

Fiscal consolidation is required in the medium term for inter-generational equity. The government has been mostly running a fiscal deficit since fiscal year (FY) 2015 (ended 31 March 2015), following the drop in oil prices in the middle of 2014 (Figure 2.22.6). With an abundant sovereign wealth fund from past mineral revenues—as of October 2023, the $73 billion in assets under management is equivalent to four times nominal GDP—the country has low short-term fiscal risk. However, according to an International Monetary Fund (IMF) analysis based on the permanent income hypothesis, the current fiscal deficit is well above the preferred standard in the medium to long term. Moreover, the acceleration in the global transition to net-zero by 2035 is further clouding the long-term outlook for oil and gas demand and prices, making revenues increasingly uncertain for the country.

Figure 2.22.6 Fiscal Balance

The fiscal accounts have been mostly in deficit since FY2015.



FY = fiscal year, GDP = gross domestic product.

Notes: Years are fiscal years ending on 31 March of that year. The fiscal balance for fiscal year 2024 is the government's estimate. Corresponding oil prices are from calendar years 2010 to 2023, as each fiscal year covers 3 quarters of the previous year.

Source: CEIC Data Company.

Brunei Darussalam needs both expenditure rationalization and domestic resource mobilization. The government has been controlling a variety of food and fuel prices over the long term at a significant fiscal cost through government purchases, distribution, and price caps. Reviewing and rationalizing these broad-based subsidies into targeted transfers to vulnerable groups is recommended. According to the IMF, energy subsidies amounted to about 6% of GDP in 2022. On the revenue side, over 70% of total revenue derives from oil- and gas-related sources. Currently, Brunei Darussalam is the only country without a general consumption tax among ASEAN members. Introducing goods and services taxes with properly targeted transfers to cushion the adverse effect on vulnerable groups will strengthen and diversify revenue sources. The country also lacks a personal income tax. In the long term, introducing an income tax with a relatively high exemption threshold could help cushion the regressivity of the general consumption tax. Alternatively, the government could gradually raise the employers' and introduce an employees' contribution to the Employees Trust Fund to cover broader social security expenses in the future.