BRUNEI ECONOMIC OUTLOOK

2023

ڤوست كاجين ستراتيڬيک دان داسر
Centre for Strategic and Policy Studies

BRUNEI ECONOMIC OUTLOOK 2023

Centre for Strategic and Policy Studies

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Published in February 2023.

Acknowledgements

The *Brunei Economic Outlook* is an annual flagship report of the Centre for Strategic and Policy Studies (CSPS). This edition of the *Brunei Economic Outlook* was managed and prepared by Koh Wee Chian, under the general supervision of Diana Cheong.

Research assistance was provided by Pg Mohd Redhuan Pg Hj Abd Rajak, Nur Izzati Shahari, and Dk Lubabah Nabilah Pg Hj Md Pura. Design was handled by Rina Sidek. Nisa Zaini produced the website www.csps.org.bn/publications/economic-outlook.

This report benefited from productive consultation meetings and valuable information from the Brunei Economic Development Board, Brunei Darussalam Central Bank, Department of Economic Planning and Statistics, JobCentre Brunei, Manpower Planning and Employment Council Secretariat, Ministry of Energy, Ministry of Finance and Economy, Ministry of Health, Tourism Development Department, Treasury Department, other government agencies, and private sector companies.

The cut-off date for the data used in this report was January 14, 2023.

Please email economics@csps.org.bn if you have any questions, comments, or suggestions regarding the *Brunei Economic Outlook*.

Foreword by the Chairman

The Brunei economy faced another challenging year in 2022. A resurgence of the COVID-19 pandemic in the first half of the year and prolonged disruptions to oil and gas production had been a drag on economic growth. Nonetheless, there are some bright spots. The ongoing rejuvenation activities in the oil and gas sector will help to improve production and maximise the value of existing assets. The non-oil and gas continues to register robust growth, buoyed by the start of urea fertilizer production and the recovery in service sector activity following the lifting of pandemic-related restrictions, including reopening of borders.

Globally, persistently high inflation has led to central banks around the world to increase interest rates. Inflationary pressures may have begun to subside amid weakening global demand and an easing of supply bottlenecks. However, inflation remains high and broad-based. Further negative shocks, such as a worsening of geopolitical tensions, could again stoke the flames of inflation and lead to more forceful monetary policy tightening and push the global economy into a recession.

Against the backdrop of elevated uncertainty, strengthening resilience is a key priority. We must continue to ensure adequate investment in education, healthcare, and infrastructure, rebuild fiscal buffers, and enhance social safety nets to prepare for future pandemics and crises. We must also push ahead with our plans to build a digitally-connected economy, improve the business environment, and attract foreign investment, among others, to bolster long-term growth, in line with the Brunei Economic Blueprint. Another key priority is to minimise the risks of climate change, which is increasing the frequency and severity of natural disasters. Although Brunei's natural hazard risk remains low at present, we must prepare for extreme weather-related events that could result in high economic losses and fiscal strain. It is therefore important to advance the initiatives specified in the Brunei Darussalam National Climate Change Policy.

Looking ahead, we are cautiously optimistic that the Brunei economy can achieve sustainable growth due to its strong fundamentals. GDP growth is expected to rebound in 2023, according to CSPS projections, as economic activity normalises following the lifting of restrictions. A renewed focus on sound economy policy will help to foster green, resilient, and inclusive growth.

Yang Berhormat Dato Seri Setia Dr Awang Haji Mohd Amin Liew bin Abdullah
Minister at the Prime Minister's Office and Minister of Finance and Economy II
as Chairman of the Board of Directors of the Centre for Strategic and Policy Studies

Summary

The anticipated recovery of the Brunei economy in 2022 has, again, been derailed by a materialisation of key downside risks—prolonged domestic oil and gas production disruptions and a resurgence of more virulent COVID-19 variants.

Real GDP in 2022 is anticipated to have declined, following a contraction in 2021, largely due to weakness in the oil and gas sector. The Brunei economy grew 0.9 percent year-on-year in Q3 2022, following seven consecutive quarterly contractions. Crude oil and LNG production fell nearly 13 percent in the first three quarters in 2022.

Robust growth in the non-oil and gas sector helped to support economic activity. The non-oil and gas sector remains a bright spot in 2022. The downstream sector received a boost from the commencement of urea fertilizer production. Service sector activity, including travel and tourism, has continued to recover following the lifting of containment measures.

Retail sales fell quarter-on-quarter in Q3 2022, reflecting cross-border spending leakages. Retail sales picked up in H1 2022 after the easing of mobility restrictions that were enforced during the Delta outbreak in H2 2021. However, domestic consumer spending has since declined after the reopening of borders.

The labour market is improving, while challenges in hiring foreign labour are easing. The unemployment rate fell to 4.9 percent in 2021, the lowest since 1995. However, the average monthly income has declined. Migrant workers are gradually returning after the lifting of border restrictions.

The external position remains strong, buoyed by high energy prices. Brent crude oil prices averaged US$100 per barrel in 2022—more than 40 percent higher than in 2021—while Japan LNG prices surged 70 percent.

Brunei's exports have become more diversified. The share of crude oil and LNG in total exports has fallen sharply from 90 percent in 2018 to 39 percent in 2022. Other petroleum and chemical products now account for the bulk of exports.

Inflation may have peaked in Q3 2022 but remains historically high. Headline inflation reached 4.5 percent year-on-year in August 2022, the highest in more than 25 years. Inflation fell to 3.1 percent in November, signalling an easing of price pressures.

The financial sector remains sound and well-buffered. The capital adequacy ratio is well above the minimum regulatory and Basel II requirements. Banks have ample liquidity and non-performing loan ratios have improved. Banks' profitability has started to increase following the rise in global interest rates.

Domestic lending has recovered, driven by credit to the corporate sector. Loans for manufacturing activity and commercial property development have increased. By contrast, personal loans financing remains lacklustre in part due to efforts by regulators to encourage prudent lending and borrowing to households.

The fiscal position improved markedly in 2022 thanks to higher oil and gas revenue. Following seven consecutive calendar years of deficits, the fiscal balance registered a surplus despite higher expenditure.

Brunei's economy is forecast to grow by 2.6 percent in 2023, after contracting by an estimated 2.3 percent in 2022. Growth in 2023 is expected to be broad-based, reflecting the normalisation of economic activity following the lifting of pandemic-related restrictions.

Despite the growth rebound, the level of output in 2023 remains lower than in 2019. The projected growth rate in 2023 partly reflects base effects, as real GDP has been lower than anticipated in the past three years due to the pandemic and oil and gas sector weakness.

The current account surplus is projected to remain high at 8.3 percent of GDP in 2023, largely driven by exports of crude oil, LNG, and refined petroleum and chemical products. The ramping up of fertilizer production and increased aquaculture output are also expected to boost exports.

The fiscal balance is projected to remain at a surplus of 0.5 percent of GDP in 2023, following a substantial improvement to an estimated surplus of 1.2 percent of GDP in 2022. Oil and gas revenue is forecast to be still high, with crude oil prices averaging US$90 per barrel and LNG prices at US$17 per mmbtu. Government expenditure as a share of GDP is expected to continue to trend lower as fiscal consolidation efforts resume.

Inflation is projected to moderate to 2.5 percent in 2023, following three years of elevated prices. Supply bottlenecks have begun to ease amid weak global demand. Imported food price inflation, which has been a key contributor of high domestic prices, is anticipated to fall. Brunei's currency peg to the Singapore dollar and price administration through subsidies and price controls should keep inflation in check.

Brunei's economy is forecast to grow by 2.6 percent in 2023

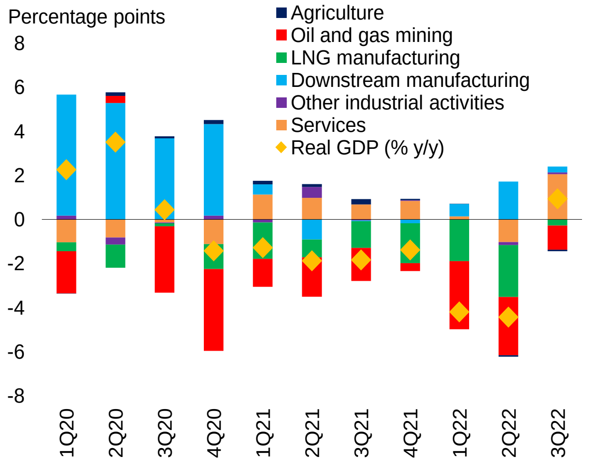
Growth is expected to be broad-based, reflecting the normalisation of economic activity following the lifting of restrictions

However, the baseline projections are subject to considerable uncertainty and could be derailed by a materialisation of several risks. These include persistent inflation and further monetary policy tightening, oil market uncertainty, and protracted domestic oil and gas supply disruptions.

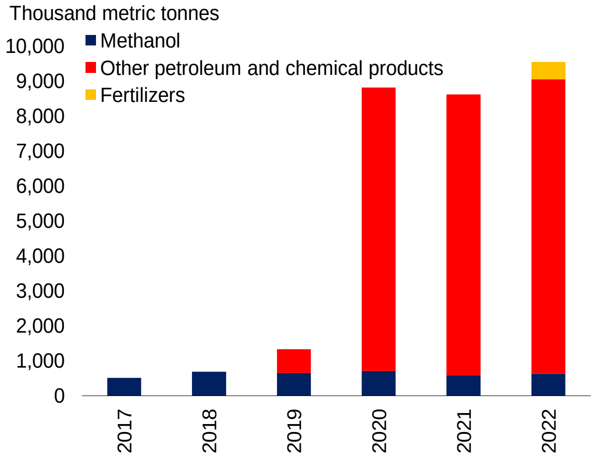
This report recommends that the policy priorities should focus on **enhancing fiscal space** by expanding the revenue base and increasing spending efficiency, **strengthening resilience** including increasing investment in the public health system and intensifying digital transformation, and **advancing structural reforms** such as building a more resilient education system, improving the business environment, strengthening public service delivery, and taking measures to minimise risks from climate change.

Recent economic developments

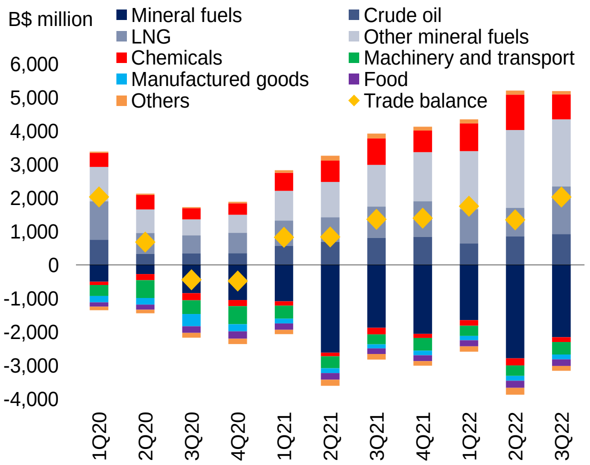
Brunei's economy grew 0.9 percent year-on-year in Q3 2022, after seven consecutive quarters of contraction



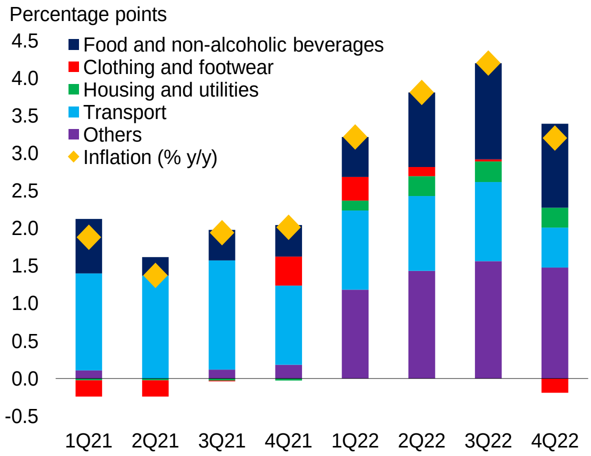
The downstream oil and gas sector continued to expand, with new fertilizer production coming online in 2022



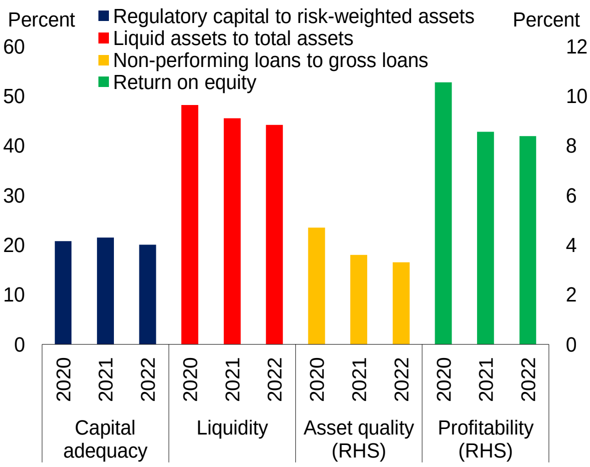
The external position remains strong, supported by a widening trade surplus



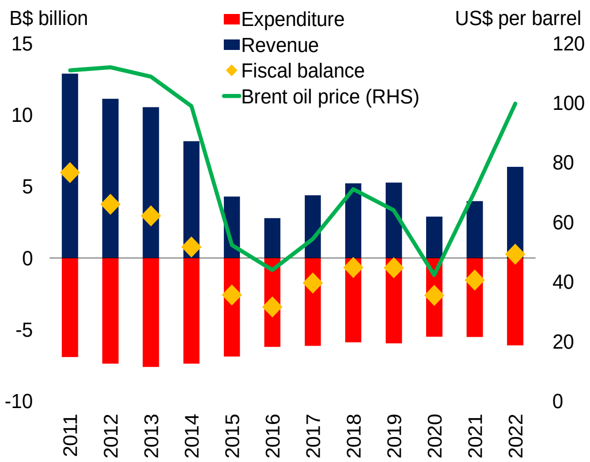
Inflation may have peaked in Q3 2022 but is still historically high



The financial sector remains sound and well-buffered

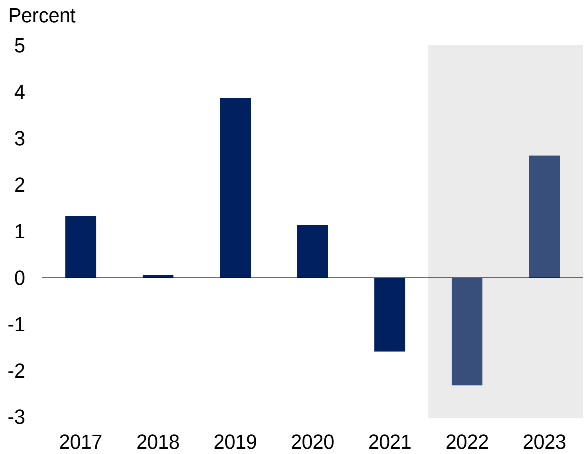


The fiscal position continued to improve in 2022 thanks to higher oil and gas revenue

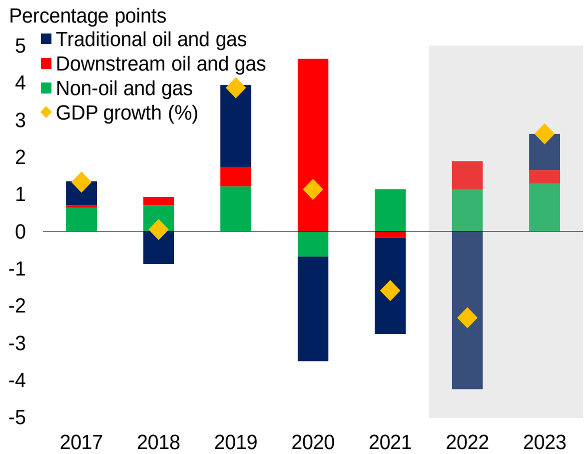


Economic outlook and risks

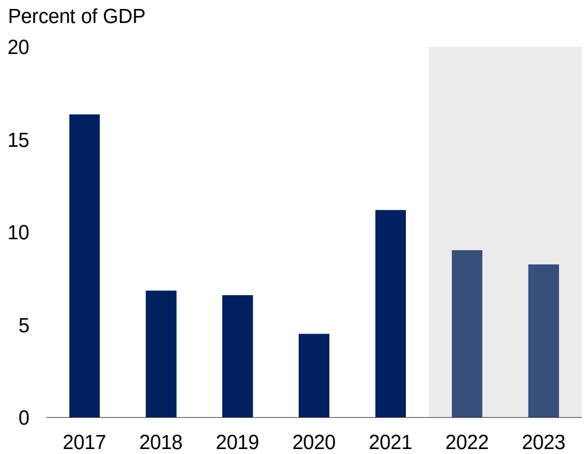
Brunei's economy is forecast to grow by 2.6 percent in 2023, after an estimated 2.3 percent contraction in 2022



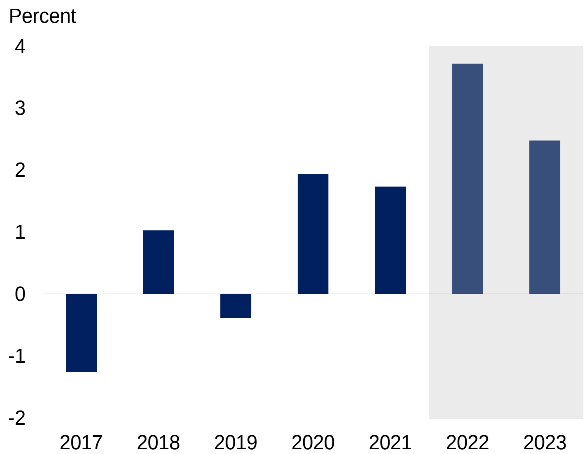
Growth in 2023 is expected to be broad-based as economic activity normalises following the lifting of pandemic-related restrictions



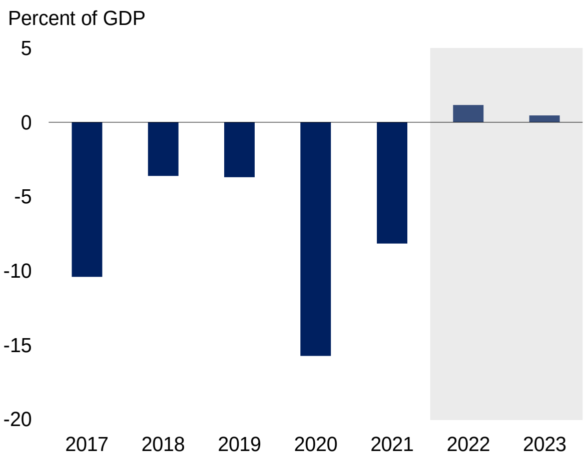
The current account surplus is projected to remain high at 8.3 percent of GDP in 2023



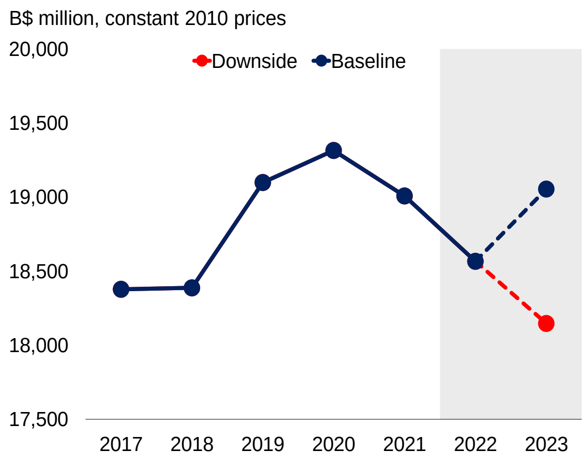
Inflation is projected to moderate to 2.5 percent in 2023 but remain high by historical standards



The fiscal balance is forecast to register a surplus in 2023, following a marked improvement in 2022



Risks to the outlook are tilted to the downside, with growth projected to be lower if risks materialise



Recent global developments

Global growth has lost momentum amidst persistently high inflation, weak consumer confidence, and elevated uncertainty

Global growth slowed markedly in the second quarter of 2022, reflecting the adverse effect of the war in Ukraine and China's zero COVID-19 policy. Despite a pickup in growth in the third quarter, supported by a rebound in China as pandemic-related mobility restrictions eased, recent indicators of global economic activity point to significant weakness in the near term. Both the global manufacturing and services PMI contracted further in December, declining to their lowest levels since mid-2020 (Figure 1). New export orders in manufacturing have been in contractionary territory for 10 consecutive months since March (Figure 2).

Figure 1. Global PMI activity

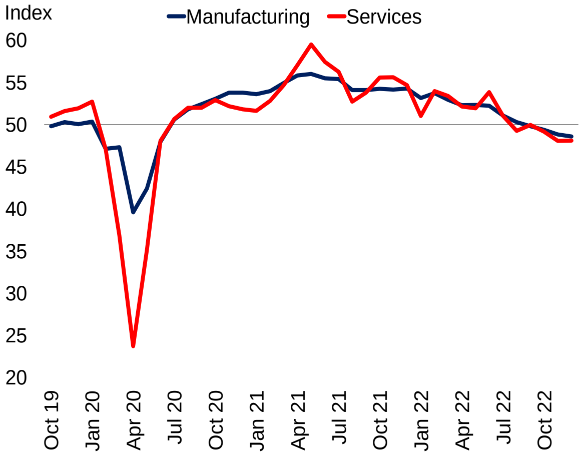
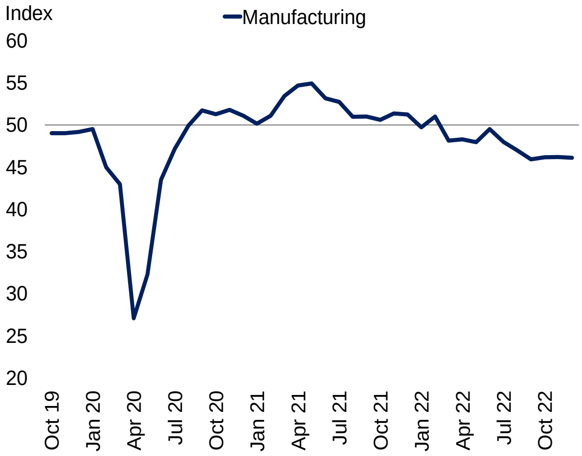


Figure 2. Global PMI new export orders



Source: IHS Markit; J.P. Morgan
Note: Last observation is December 2022.

Consumer confidence in major economies remains weak, in part due to a decline in real household incomes afflicted by persistently high inflation (Figure 3). Low-income households have been particularly hit hard, reflecting the large share of energy and food in their expenditures. Economic sentiment has continued to erode in recent months, with the overall global Sentix index in December remaining well below its 2021 level (Figure 4).

Figure 3. Consumer confidence

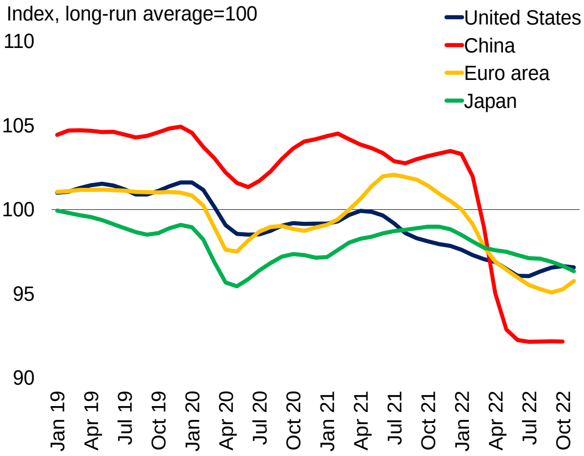


Figure 4. Global Sentix index

Source: Organisation for Economic Co-operation and Development; Sentix
Note: Last observation for consumer confidence is November 2022, except for China (October). Last observation for Sentix index is December 2022.

Global trade held up well in the first half of 2022 but has slowed in recent months

Global trade continued to pick up in the first half of 2022, reflecting a shift in demand toward highly trade-intensive manufacturing goods. However, recent indicators point to a slowing of trade growth (Figure 5). The war in Ukraine has disrupted the usual pattern of bilateral trade flows, with declines in trade between advanced economies and Russia, while trade between Russia and some Asian economies has risen. Overall global containerised trade volume has declined and logistics costs have fallen significantly (Figure 6).

Supply chain bottlenecks have eased alongside the lifting of pandemic-related restrictions

Containment measures in many countries have been lifted, which have helped ease supply chain bottlenecks and port congestion (Figure 7). Manufacturing surveys show that supplier delivery times have improved and backlogs of work have almost normalised (Figure 8). The proportion of goods waiting on container ships has also declined sharply. After nearly three years, China abandoned its stringent zero-COVID policy and reopened its borders to international travellers on January 8, 2023.

Figure 5. Global trade and industrial output

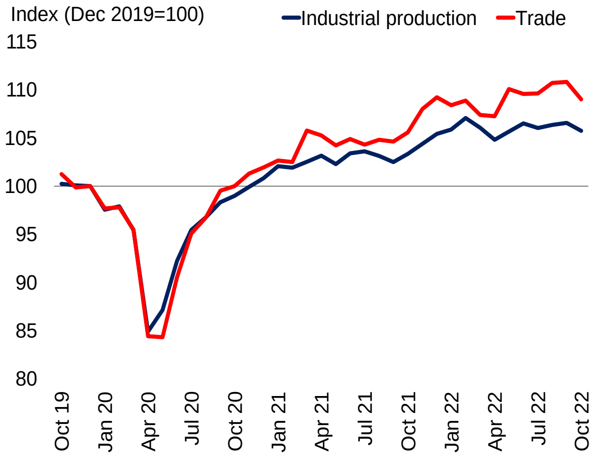
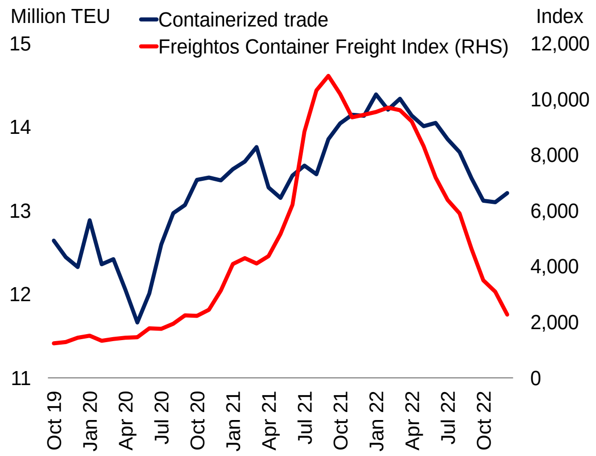


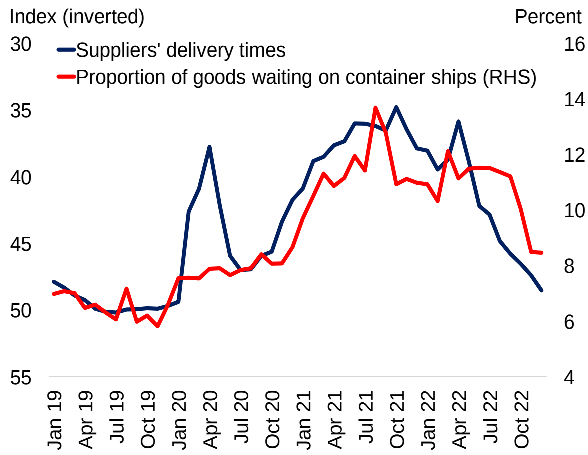
Figure 6. Container volume and shipping cost



Source: Freightos; Kiel Institute; Netherlands Central Planning Bureau
Note: The Freightos Index reflects the spot rates for 40-foot containers. Last observation for trade is October 2022. Last observation for shipping is December 2022.

Figure 7. Global supply chain pressure index

Figure 8. Supply chain indicators



Source: Federal Reserve Bank of New York; IHS Markit; J.P. Morgan; Kiel Institute
Note: A higher reading of suppliers' delivery time indicates an improvement in delivery times. Last observation is December 2022.

Commodity prices have been volatile following Russia's invasion of Ukraine

The outbreak of the war in Ukraine resulted in an immediate spike in commodity prices, particularly for those where Russia and Ukraine are large exporters, such as natural gas, wheat, and fertilizers (Figure 9). Energy prices have continued to be volatile. European natural gas prices surged to a record-high of US$70/mmbtu in August in part due to limited supply from Russia. Brent crude oil prices fell to US$80/bbl in December from US$120/bbl in June (Figure 10). In early December, the G7 set a price cap on Russia oil exports at US$60/bbl, close to the current price of Urals, the Russian oil benchmark.

Figure 9. Commodity prices

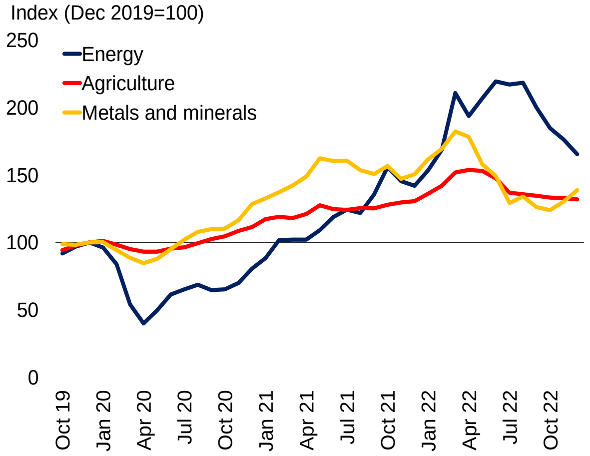
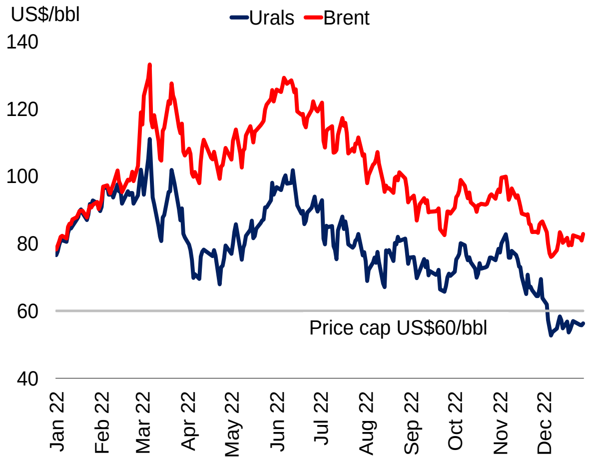


Figure 10. Crude oil prices



Source: Bloomberg; Haver Analytics; World Bank
Note: Last observation is December 2022.

Inflationary pressures may have subsided but prices remain elevated

Headline inflation rates increased rapidly in many countries throughout the pandemic, largely reflecting supply-demand mismatches. In the United States, inflation rose to 9.1 percent y/y in June—a 40-year high (Figure 11). In the Euro area, inflation reached an all-time high of 10.6 percent in October. Central banks around the world have aggressively tightened monetary policy to contain high inflation (Figure 12). Inflationary pressures may have begun to subside as demand has softened and supply chain bottlenecks have eased.

Figure 11. Inflation in major economies

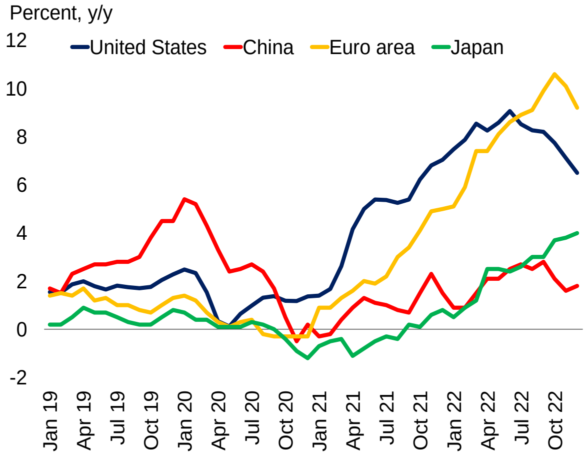
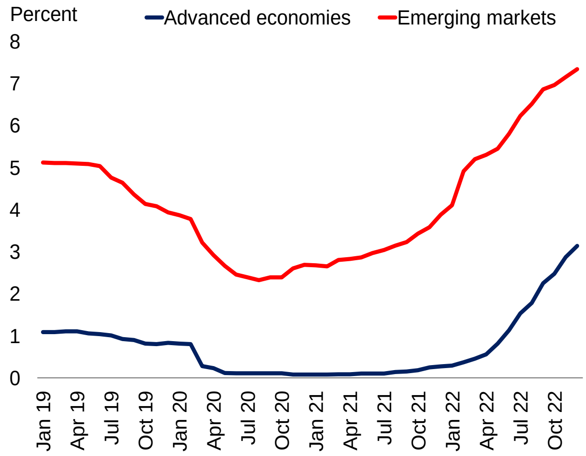


Figure 12. Policy interest rates



Source: Bank for International Settlements; National Bureau of Statistics of China; Organisation for Economic Co-operation and Development
Note: Last observation is December 2022.

Financial market conditions have tightened significantly due to rapid monetary policy tightening

The accelerated pace of monetary policy tightening has led to a tightening of global financing conditions. The Federal Reserve raised its key policy interest rate seven times in 2022 by a combined 4.25 percentage points, reaching its highest level in 15 years (Figure 13). The U.S. dollar has also appreciated sharply, with the dollar index rising to its highest level in two decades. This led to five consecutive months of portfolio outflows from emerging markets between March and July (Figure 14). Similar capital flow reversals were seen in previous stress episodes, such as the 2009 global financial crisis and the 2015 Chinese stock market correction.

Figure 13. Fed policy rate and US dollar index

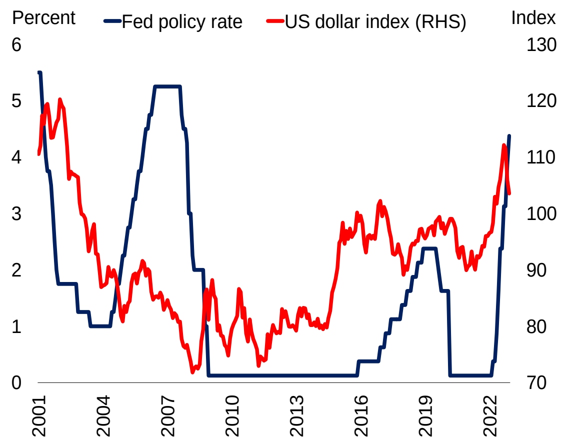
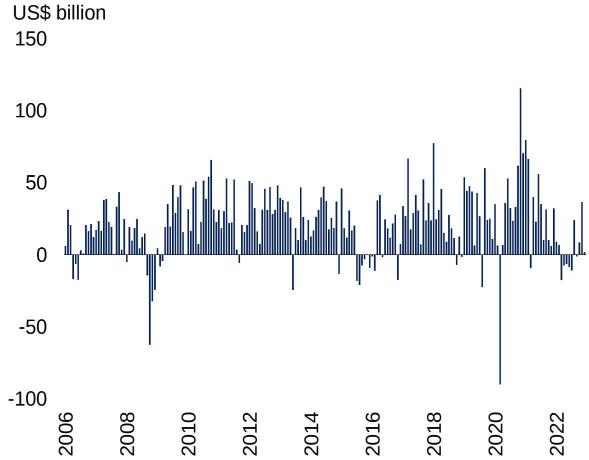


Figure 14. Emerging markets portfolio flows



Source: Bloomberg; Federal Reserve Bank of St. Louis; Institute of International Finance
Note: Last observation is December 2022.

High debt and strong U.S. dollar could amplify financial stress in emerging markets

Government and private sector debt in emerging market economies have increased sharply during the pandemic (Figure 15). Rising indebtedness, tighter financial conditions, and a strengthening of the U.S. dollar could exacerbate financial vulnerabilities in emerging markets. Large currency depreciations against the U.S. dollar add to debt service burdens from higher interest rates. In countries with very high inflation rates, aggressive monetary policy tightening has been accompanied by large currency depreciations (Figure 16). Foreign exchange reserves, which have been used to cushion depreciation, need to be rebuilt.

Figure 15. Cumulative credit to the non-financial sector in emerging market economies

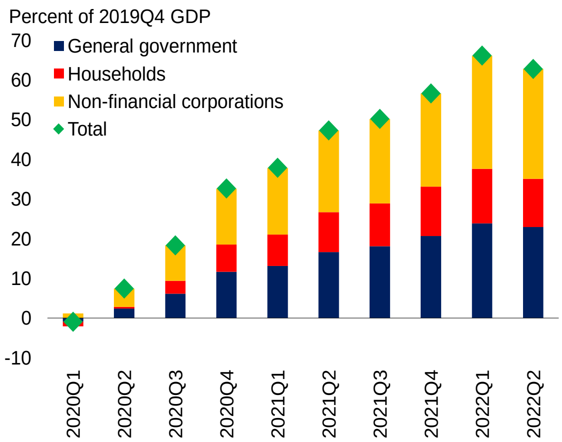
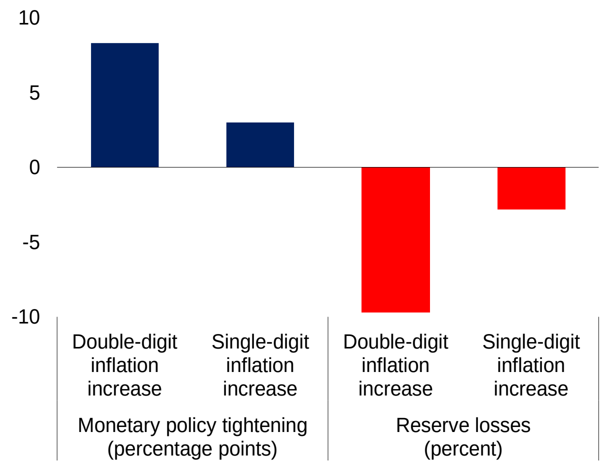


Figure 16. Monetary policy tightening and reserve losses in emerging market economies



Source: Bank for International Settlements; World Bank

Recent developments in Brunei

The anticipated recovery of the Brunei economy in 2022 has, again, been derailed by a materialisation of downside risks

Two major downside risks to growth that were highlighted in last year's *Brunei Economic Outlook 2022* report—further oil and gas production disruptions and the emergence of new and more transmissible COVID-19 variants—have, unfortunately, materialised.

Brunei's economy grew 0.9 percent year-on-year (y/y) in Q3, after seven consecutive quarters of negative growth (Figure 17). The downturns in Q1 (-4.2 percent) and Q2 (-4.4 percent) were especially steep. Brunei had also experienced such a lengthy spell of contractions from 2013 Q3 to 2015 Q1. Despite the positive growth outturn in Q3, GDP growth for the whole of 2022 is estimated to be -2.3 percent, the lowest since 2016 (-2.5 percent).

The traditional oil and gas sector, which comprises oil and gas mining and manufacturing of liquefied natural gas (LNG), continues to be hampered by production disruptions. Crude oil and LNG production fell nearly 13 percent in the first three quarters of 2022 (Figure 18). Although the ongoing rejuvenation activities have had an adverse impact on growth, greater asset reliability would help to improve production.

The downstream oil and gas sector, which has become a key driver of growth since 2020, continued to expand. Methanol production increased 8.8 percent in the first three quarters of 2022, while production of other petroleum and chemical products grew 4.9 percent over the same period (Figure 19). After some operational delay, Brunei Fertilizer Industries began production and exports of ammonia and urea in early 2022. The much-anticipated expansion of Hengyi Industries' oil refinery and petrochemical plant has been delayed, but will be a significant boost to the economy when the project is commissioned.

Figure 17. Real GDP growth

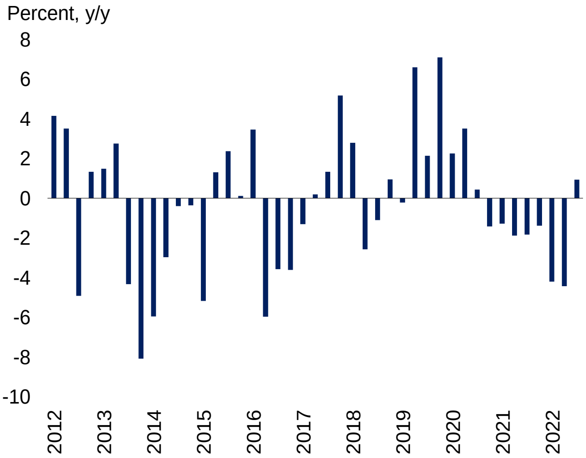


Figure 18. Crude oil and LNG production

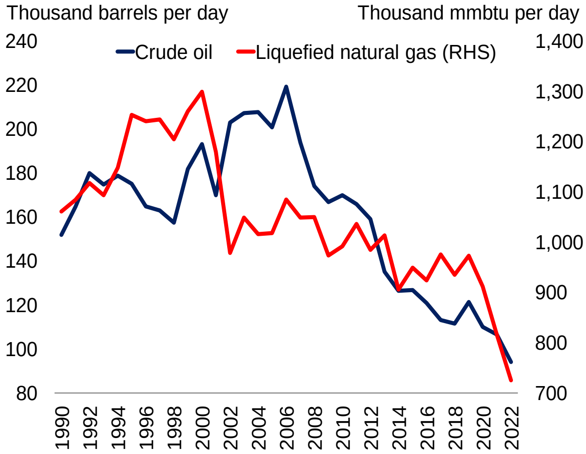
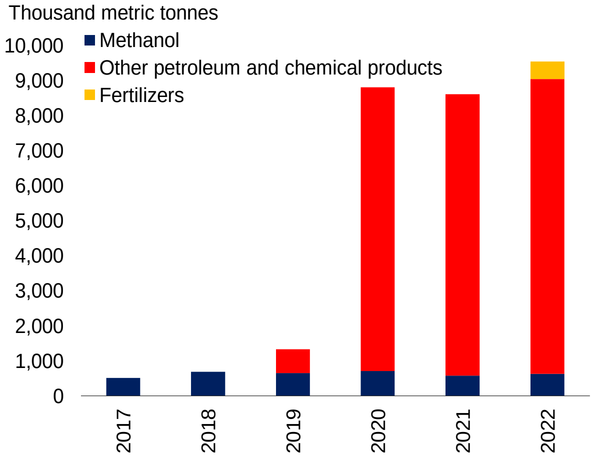


Figure 19. Downstream oil and gas production



Source: CSPS; Department of Economic Planning and Statistics; Ministry of Energy
Note: Production in 2022 annualised using Q1 to Q3 data.

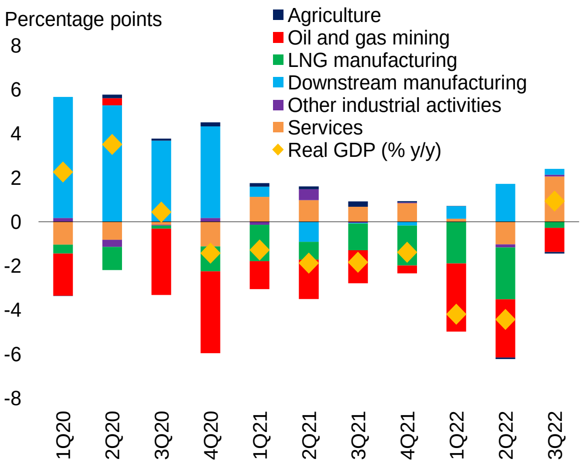
Lifting of COVID-19 restrictions enabled the recovery of services activity

The services sector staged a strong recovery in Q3, expanding by 5.1 percent y/y after a contraction of 2.8 percent in Q2 (Figure 20). Growth was supported by the lifting of pandemic-related measures, including the reopening of borders in August to allow international travel. Borders were slated to reopen in early 2022 but were delayed after the emergence of the Omicron variant.

Among the other positive developments has been the strong growth of the fishery sector, particularly increased production in aquaculture (farm prawns) and the capture industry (small-scale fishermen activities). The sector grew 7.2 percent in the first three quarters of 2022, following a 27 percent growth in 2021.

Construction, on the other hand, has remained weak, reflecting challenges in hiring foreign labour and a lack of new infrastructure investment. The sector's output fell 3.8 percent through the first three quarters of 2022, following a contraction of 5.6 percent in 2021. Nonetheless, constraints on labour supply have begun to ease with more migrant workers returning after the lifting of border restrictions.

Figure 20. Contribution to real GDP growth



Source: CSPS; Department of Economic Planning and Statistics
Note: Other industrial activities refer to non-oil and gas manufacturing, electricity and water, and construction.

Travel and tourism is gradually recovering but remains below pre-pandemic levels

The air transport sub-sector grew 250 percent y/y in Q3. However, international arrivals by air remain well below pre-pandemic levels (Figure 21). China's loosening of its COVID-19 containment policies and reopening of its international borders are expected to help boost tourist arrivals to Brunei.

The hotels sub-sector continues to recover, growing by 23 percent y/y in Q3. Alternative indicators using high frequency data, such as internet search, suggest that activity has nearly recovered to pre-pandemic levels (Figure 22).

Figure 21. International arrivals by air

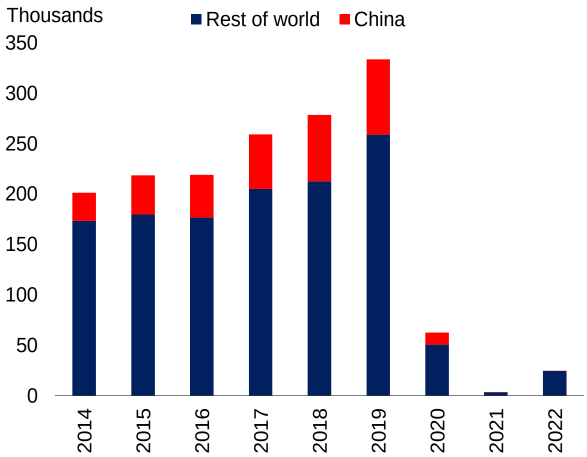
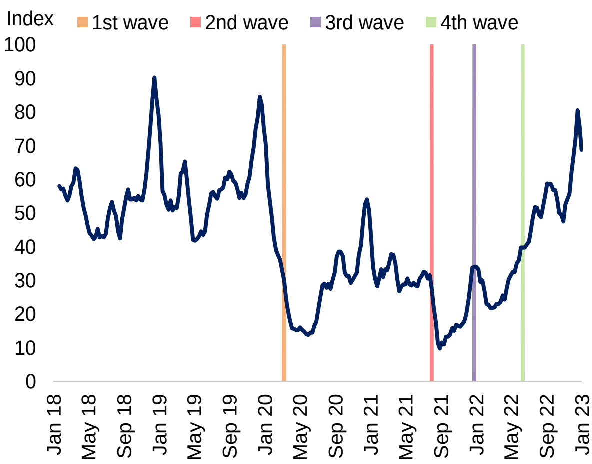


Figure 22. Google search for "hotel" in Brunei



Source: CSPS; Google Trends; Tourism Development Department
Note: Tourist arrivals in 2022 annualised using Q1 to Q3 data. Last observation for hotels search is the week of January 8, 2023.

Retail sales up y/y in Q3 but down q/q due to higher cross-border spending

Retail sales increased 4.8 percent y/y in Q3, in part reflecting base effects from the lifting of lockdown measures enforced in August last year during the second COVID-19 wave. However, on a quarter-on-quarter (q/q) basis, retail sales plunged by 8.8 percent (Figure 23). Declines across all domestic retail activities suggest that cross-border spending may have increased. Such spending leakages are expected with the reopening of borders. On the other hand, food and beverages services have continued to register strong growth (Figure 24).

Figure 23. Contribution to retail sales growth (quarter-on-quarter)

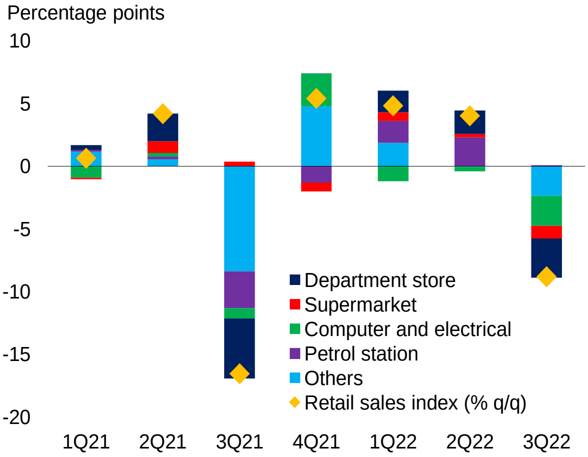
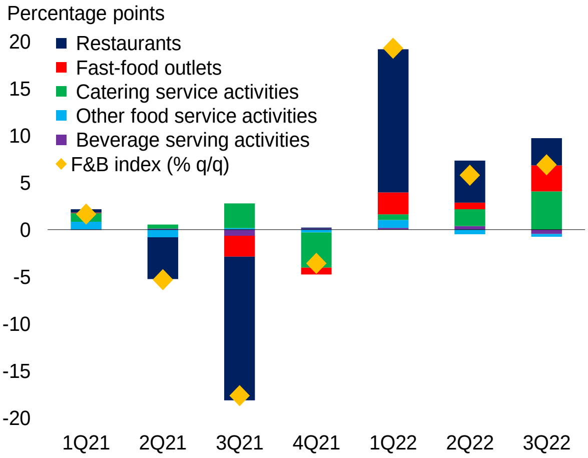


Figure 24. Contribution to food and beverages services growth (quarter-on-quarter)



Source: CSPS; Department of Economic Planning and Statistics

High vaccination rates allowed the transition to endemic phase and rebound in economic activity

Pandemic containment measures have been gradually relaxed since December 2021 as the country entered the endemic phase (Figure 25). Despite the large Omicron outbreak in early 2022, mobility restrictions have not been significantly tightened and economic activity, especially in the contact-sensitive sectors, has continued to rebound. High vaccination rates have allowed the progressive reopening of the economy. As of end 2022, almost 100 percent of the population have received their two-dose regimen and more than three-quarters have received at least a booster dose (Figure 26).

Figure 25. Stringency of COVID-19 restrictions and daily new COVID-19 cases

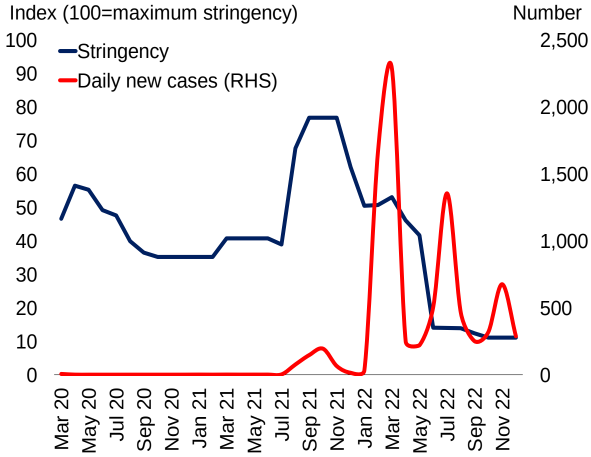
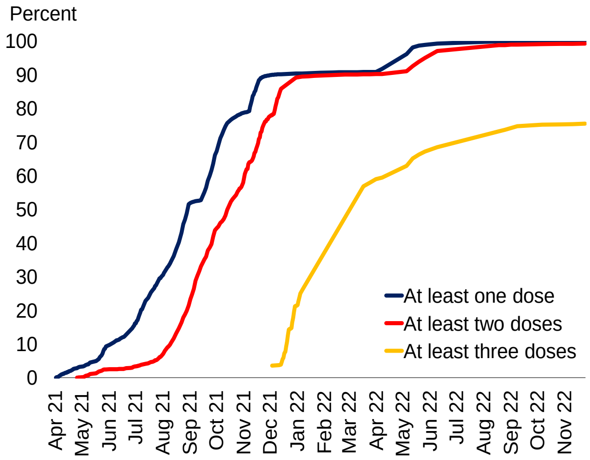


Figure 26. COVID-19 vaccination rates



Source: CSPS; Ministry of Health; Our World In Data; Oxford COVID-19 Government Response Tracker
Note: Last observation is December 2022.

The external position remains strong, buoyed by high energy prices

High prices of key exports led to a widening of the trade surplus in 2022, as export growth outpaced that of imports (Figure 27). Energy prices soared following the outbreak of the war in Ukraine. Brent crude oil prices averaged US$100 per barrel in 2022—more than 40 percent higher than in 2021—while Japan LNG prices surged 70 percent (Figure 28).

Brunei's exports have shifted from being dominated by crude oil and LNG to a more diversified composition, with other petroleum and chemical products accounting for the bulk of exports. The share of crude oil and LNG in total exports has fallen sharply from 90 percent in 2018 to 39 percent in 2022 (Figure 29).

However, foreign direct investment (FDI) inflows have been weak in 2022, particularly in the manufacturing and mining sectors, following sharp declines in 2021 (Figure 30). As of Q3, manufacturing accounted for nearly two-fifths of the total FDI stock, a significant increase compared to about 12 percent in 2016.

Figure 27. Merchandise trade by product

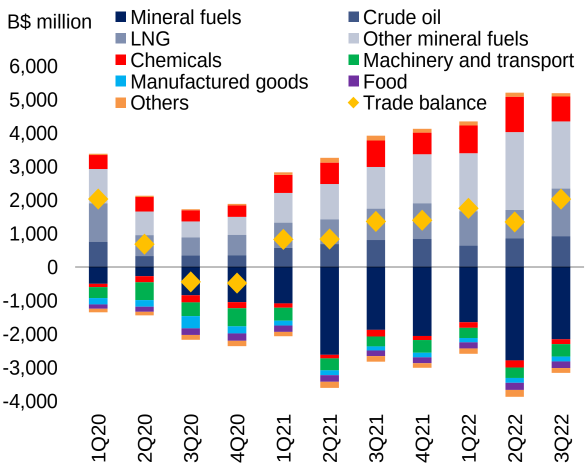
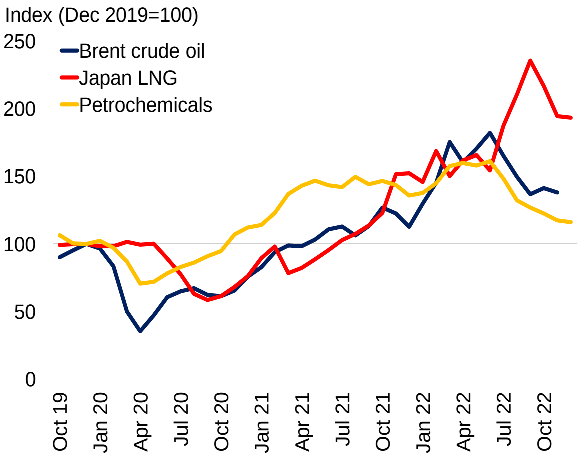


Figure 28. Benchmark prices of key exports



Source: CSPS; Department of Economic Planning and Statistics; ICIS; World Bank
Note: Exports (imports) indicated by positive (negative) values. Last observation for prices is December 2022.

Figure 29. Share of crude oil and LNG exports

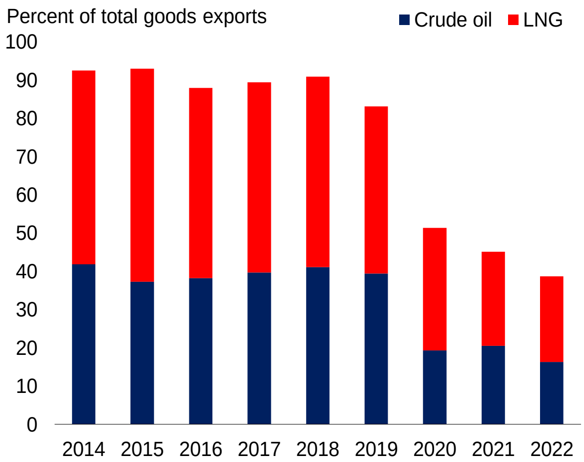
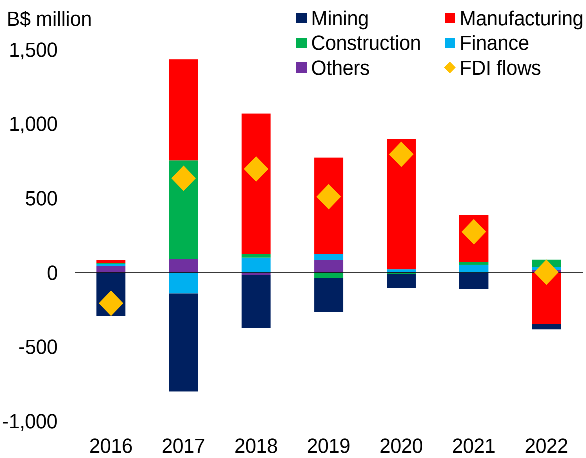


Figure 30. Foreign direct investment flows

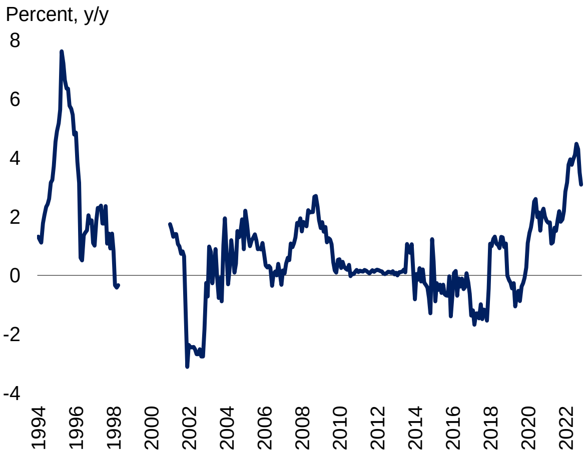


Source: CSPS; Department of Economic Planning and Statistics
Note: Exports and FDI in 2022 as of Q3.

Consumer price inflation may have peaked but remains historically high

Headline inflation, measured by the y/y percent change in the Consumer Price Index (CPI), reached 4.5 percent in August—the highest in more than 25 years (Figure 31). Inflation has since fallen to 3.1 percent in November, suggesting that it may have peaked. The proportion of items in the CPI basket that recorded price increases has also fallen in recent months, signalling an easing of inflationary pressures (Figure 32). Nonetheless, inflation remains historically high (average inflation during 2000-19 was 0.3 percent). Positive inflation rates have been recorded for 36 consecutive months since December 2019.

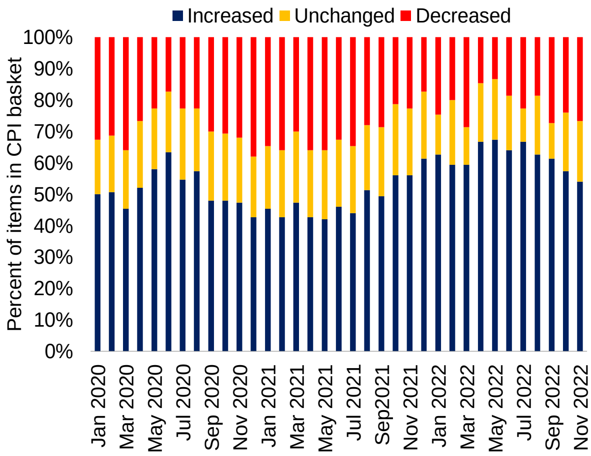
Figure 31. Consumer price inflation



The war in Ukraine has led to rising global commodity prices and further disrupted supply chains. Soaring agricultural and food prices have contributed to higher domestic inflation (Figure 33). Between 2019 and 2022, on average, prices of cooking oil surged more than 50 percent, beef and lamb prices jumped 40 percent, and prices of fresh vegetables increased by about 30 percent.

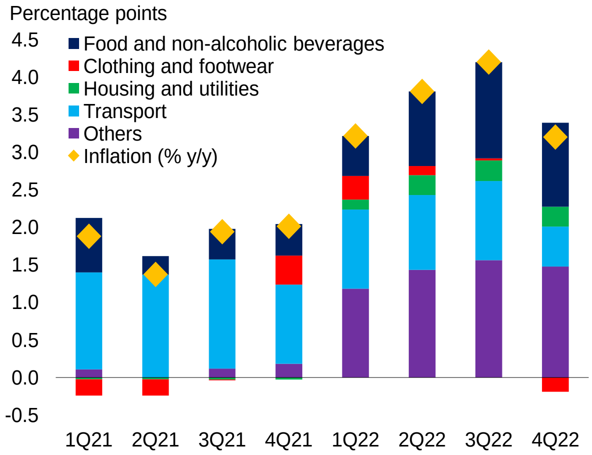
Although subsidies and price controls have helped to keep inflation low, they have only tempered but not offset the upward pressure on prices. Even prior to the war in Ukraine, inflation pressures had begun to rise. Following the reopening of economies around the world, demand for motor vehicles rebounded strongly but supply could not keep pace owing to the global shortage of semiconductors—a key component of new car models. Consequently, prices of both new and used cars have risen significantly globally and in Brunei. Vehicle insurance prices have concomitantly increased.

Figure 32. Proportion of items in the CPI basket with price changes



Source: CSPS; Department of Economic Planning and Statistics; International Monetary Fund
Note: Last observation is November 2022. Data for May 1998 – December 1999 not available.

Figure 33. Contribution to consumer price inflation by category



Source: CSPS; Department of Economic Planning and Statistics

Unemployment declined in 2021 but labour force participation fell too

The unemployment rate fell to 4.9 percent in 2021 from 7.4 percent in 2020—the lowest on official record since 1995 (Figure 34). The decline was partly due to the significant increase in the population outside the labour force, who may have decided to study or care for their family members during the pandemic. The labour force participation rate dropped to 63.8 percent in 2021—the lowest since 1986.

The decline in the unemployment rate also reflected the increase in positions filled by local jobseekers after a large number of foreign workers left the country during the pandemic. Most new jobs were in the private sector whereas the public sector downsized (Figure 35). Overall, there was a small net increase of 427 employed locals.

Figure 34. Unemployment and labour force participation

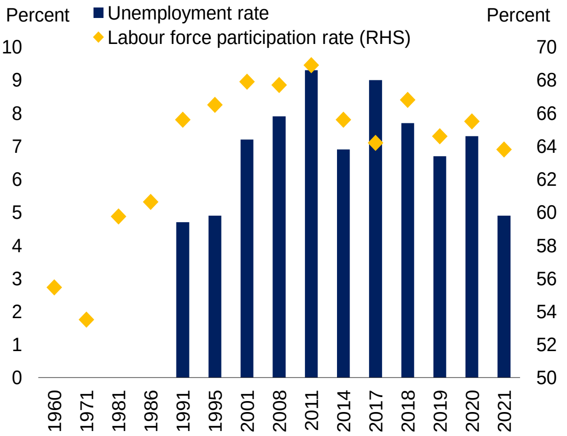
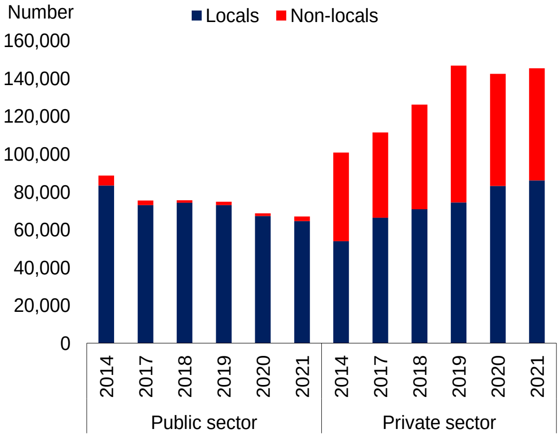


Figure 35. Employment by citizenship



Source: CSPS; Department of Economic Planning and Statistics; International Labour Organization

The largest increases in new jobs filled by locals were in accommodation and food, construction, and business services (Figure 36). On the other hand, migrant workers took up employment mostly in the manufacturing sector and in domestic work. The average hours worked increased to 47.1 hours a week in 2021 from 44.4 hours a week in 2020. However, the average monthly income declined to B$1,536 in 2021 from B$1,755 in 2020.

Labour market conditions appeared to have improved in 2022. The number of active jobseekers has dropped, as of December 2022, with the largest decline seen in those with a university degree (Figure 37).

Figure 36. Change in employment by economic sector between 2020 and 2021

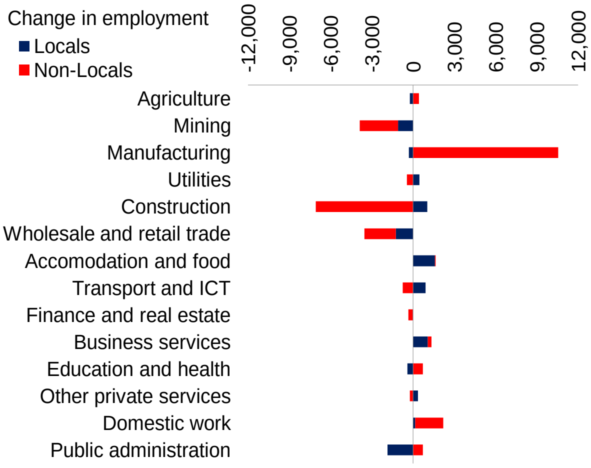
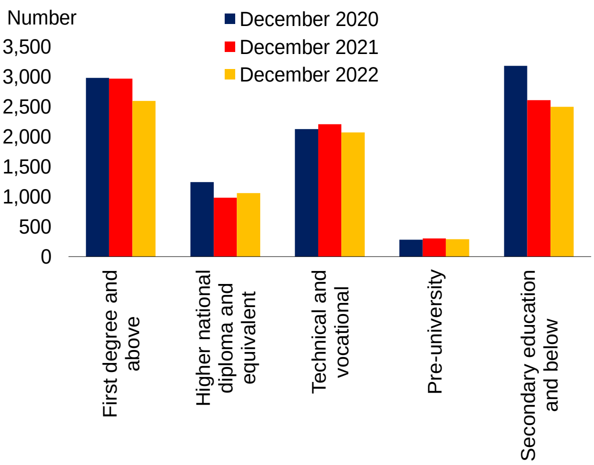


Figure 37. Active jobseekers by education level



Source: CSPS; Department of Economic Planning and Development; JobCentre Brunei

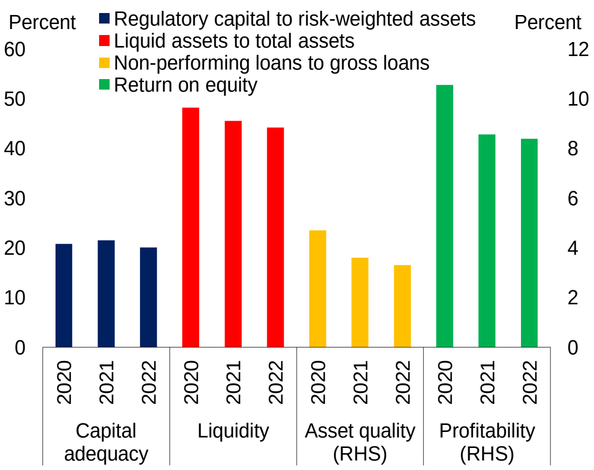
The financial sector remains sound and well-buffered

The banking system, which dominates the financial sector with more than four-fifths of total assets in the financial system, remains sound with solid capital and liquidity buffers. The capital adequacy ratio stood at 20.1 percent in Q3, down from 21.5 in 2021 but still well above the regulatory minimum requirement of 10 percent and the minimum requirement of 8 percent under Basel II (Figure 38).

Banks have ample liquidity, with the liquid assets to total assets ratio at 44.2 percent. However, financial intermediation remains low, with the loan-to-deposit ratio at 36.4 percent. A large proportion of banking sector assets is placed abroad. Offshore asset currency risks are partly mitigated by placements in S$, but large fluctuations in other foreign currencies remain a significant risk.

Banking system asset quality continues to improve with the non-performing loans (NPLs) ratio declining to 3.3 percent in Q3 from 4.7 percent in 2020. The deferment of loan and financing repayments during the pandemic has not impacted NPLs. Banks' profitability has also improved. The banking sector's return on equity rose to 8.4 percent in Q3 from a record-low of 3 percent in Q1, consistent with rising interest rates since March.

Figure 38. Banking system financial soundness



Source: Brunei Darussalam Central Bank; CSPS
Note: Data for 2022 as of end Q3.

Domestic lending has recovered, driven by the corporate sector

Domestic lending has recovered to pre-pandemic levels, expanding by 8.5 percent y/y in Q3 (Figure 39). The increase in domestic credit has been driven by stronger corporate sector loan, particularly in manufacturing and commercial property development. In the household sector, residential property financing continued to grow. By contrast, personal loans financing (general consumption, credit cards, home improvement, vehicles, and consumer durables) remain lacklustre. Prudent loan limits, debt service ratios, and sound underwriting standards have underpinned the reduction in the share of personal loans in household debt to 48 percent in Q3 2022, from 67 percent in 2011 (Figure 40).

Figure 39. Contribution to credit growth

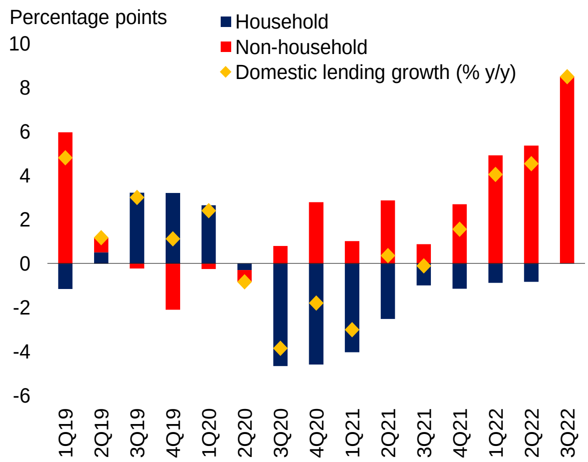
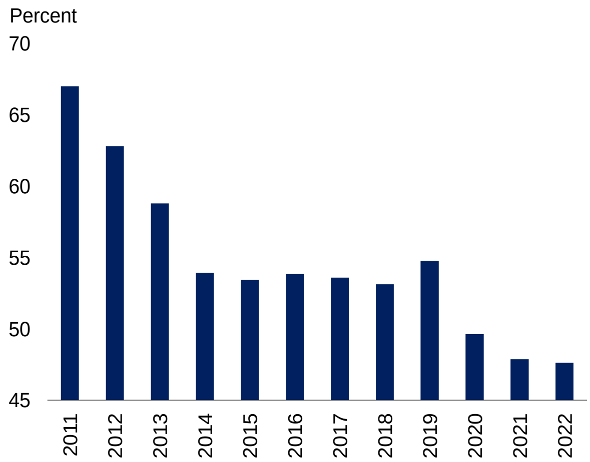


Figure 40. Share of personal loans in household sector debt



Source: Brunei Darussalam Central Bank; CSPS

Brunei's exchange rate has appreciated against most regional currencies

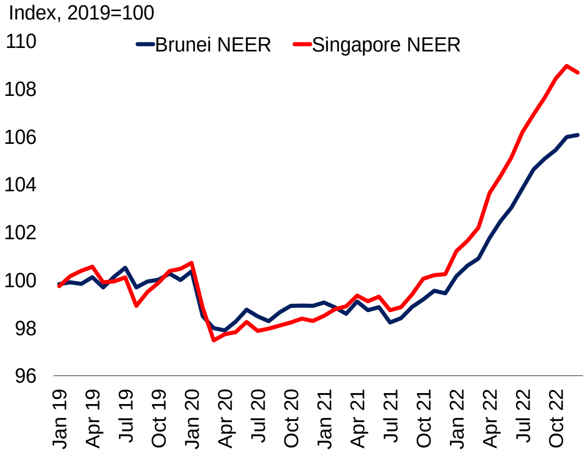
Brunei's nominal effective exchange rate (NEER)—a trade-weighted exchange rate against a basket of foreign currencies—has broadly appreciated in line with Singapore's NEER (Figure 41). This largely reflects Brunei's monetary policy, which is based on a currency board arrangement whereby the Brunei dollar is pegged at par to the Singapore dollar. The Monetary Authority of Singapore (MAS) has continued to tighten its monetary policy stance amid a broadening of sustained inflationary pressures. Brunei's currency has therefore faced some upward pressures, which has helped alleviate imported inflation.

The Brunei dollar weakened against the US dollar, but has recovered its strength since November. The B$/US$ exchange rate averaged 1.38 in 2022 compared to 1.34 in 2021. However, the Brunei dollar appreciated markedly against other regional currencies, such as the Australian dollar, British pound, Euro, Japanese yen, and Malaysian ringgit.

Interest rates have increased as central banks tightened monetary policy to tame inflation

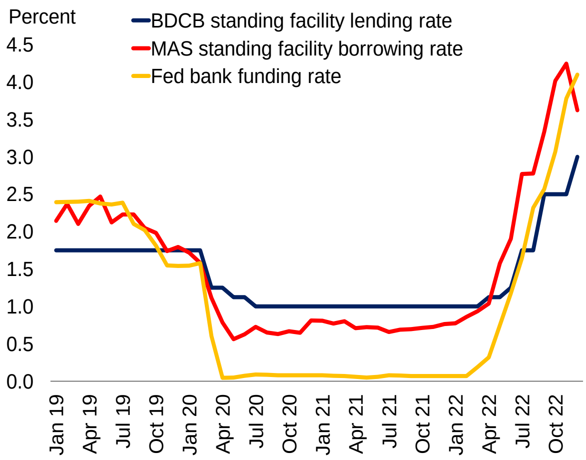
Short-term interest rates have risen sharply since March, reflecting the aggressive monetary policy tightening by central banks to dampen inflation. The U.S. Federal Reserve (Fed) raised its policy interest rate seven times in 2022 by a combined 4.25 percentage points. In October, the MAS tightened its monetary policy for the fifth time in a year. Mirroring global developments, the Brunei Darussalam Central Bank (BDCB) has raised its standing facility deposit and lending rates since April, but by a smaller magnitude compared to Singapore (Figure 42). BDCB's deposit and lending rates stood at 1.5 percent and 3 percent, respectively, in December.

Figure 41. Nominal effective exchange rate in Brunei and Singapore



Source: Brunei Darussalam Central Bank; CSPS; Monetary Authority of Singapore
Note: A higher (lower) nominal effective exchange rate index indicates an appreciation (a depreciation). Last observation is December 2022.

Figure 42. B$, S$, and US$ interest rates



Source: Brunei Darussalam Central Bank; CSPS; Federal Reserve Bank of St. Louis; Monetary Authority of Singapore
Note: Last observation is December 2022.

The fiscal balance improved markedly due to higher oil and gas revenue

The fiscal position continued to improve in 2022 thanks to a sharp increase in revenue, despite higher expenditure (Figure 43). The fiscal balance is estimated to have registered a surplus of 1.2 percent of GDP in 2022, from a deficit of 8.2 percent of GDP in 2021. Oil and gas revenue in 2022 was 75 percent higher than a year ago as oil prices averaged US$100 per barrel (US$70 per barrel in 2021) and LNG prices were twice higher at US$18.3 per mmbtu. On the expenditure side, both current and capital spending increased in 2022. The public wage bill remains high at more than 30 percent of government expenditure and more than 10 percent of GDP (Figure 44).

Fiscal deficits were recorded for seven consecutive years, on a calendar year basis, from 2015 to 2021. Deficits have been financed by drawing down ample fiscal reserves rather than through external borrowing. This has been possible as the government has prudently saved a fraction of oil windfalls, especially during the oil price boom in the 2000s. Cumulated fiscal balances reached a peak of around B$57 billion in 2014 but have declined following the oil price plunge in 2014-15 (Figure 45). Changes in the fiscal position broadly mirror fluctuations in oil and gas prices, given the high reliance on revenue from the oil and gas sector (Figure 46).

Figure 43. Government finance and oil price

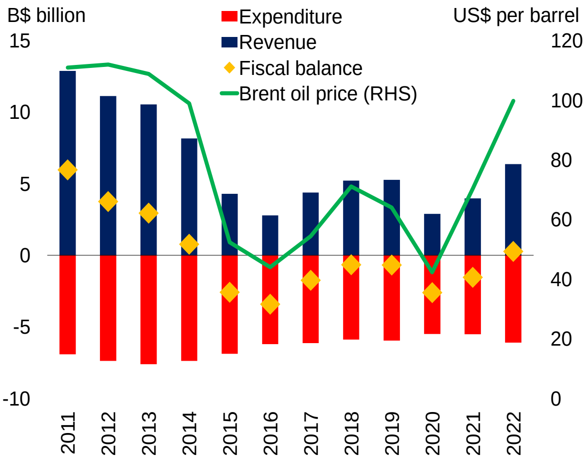
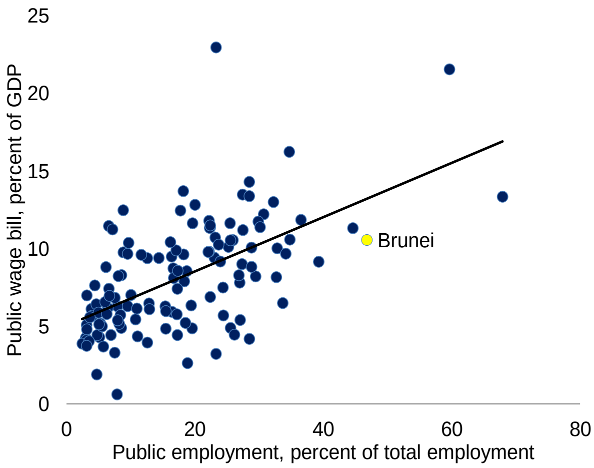


Figure 44. Public wage bill



Source: CSPS; International Monetary Fund; Treasury Department; World Bank
Note: Government finance data based on calendar year. Data for 2022 are CSPS projections.

Figure 45. Cumulative fiscal balance

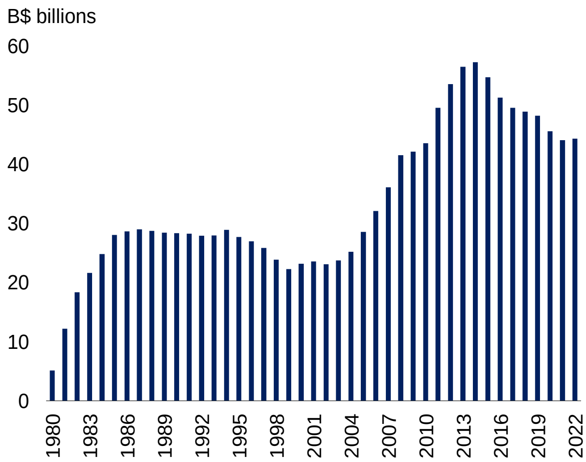
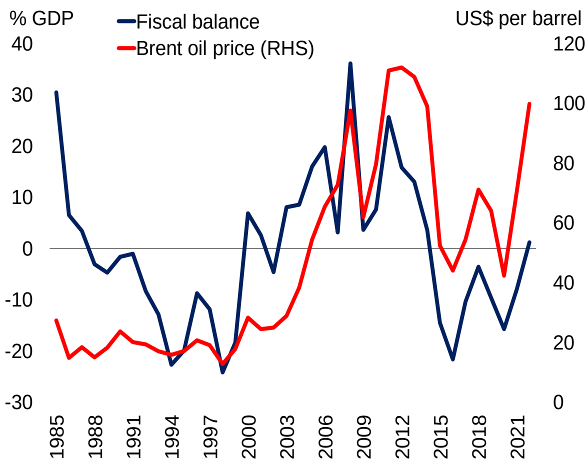


Figure 46. Fiscal balance and crude oil price



Source: CSPS; International Monetary Fund; Treasury Department; World Bank
Note: Data for 2022 are CSPS projections. Real oil prices calculated using US CPI as deflator.

Low digital and innovation readiness in private sector

Brunei has several policies and strategies on digitalisation, such as the National Digital Strategy 2016-2020 and the Digital Economy Masterplan 2025. However, digital and technological investment and adoption in the private sector have been slow, in part due to the availability of cheap labour and the lack of digital skills in micro, small, and medium enterprises (MSMEs). This is reflected in Brunei having the lowest scores in ASEAN in terms of the growth of innovative companies and the number of companies that embrace disruptive ideas (Figure 47). Despite being a high-income country, Brunei is an outlier with low innovation (Figure 48). In particular, innovation outputs are disproportionately low relative to investments.

Sustainability and climate change issues require greater awareness

Sustainability and climate change issues have received more attention in recent years. The Brunei Darussalam National Climate Change Policy document has clearly-defined goals and timeframes up to 2035 covering elements such as energy efficiency and conservation, renewable energy, waste, pollution, and emissions. It is important for the government to take a proactive approach in raising climate change awareness and incorporate circular economy concepts in its development planning. Brunei's low resource efficiency is reflected in increasing per capita raw material consumption and rising energy intensity (Figure 49). Greenhouse gas emissions remain high, mostly from electricity and heat generation (Figure 50).

Figure 47. Digitalisation and innovation

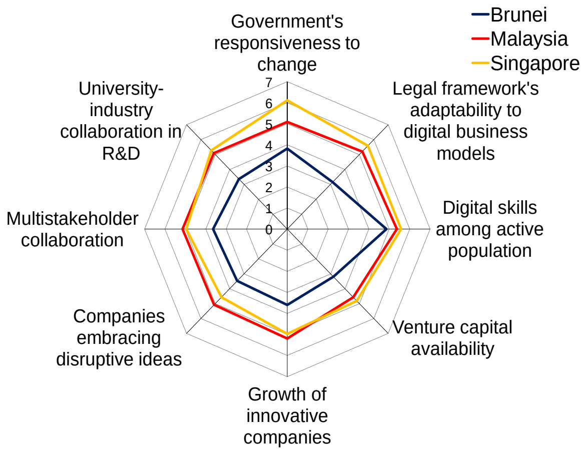
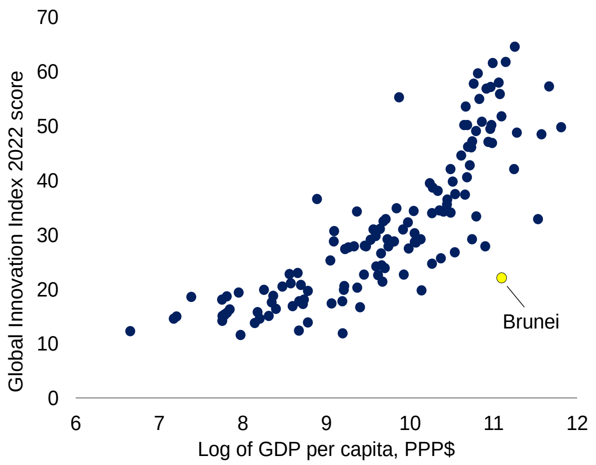


Figure 48. Innovation and GDP per capita



Source: CSPS; World Economic Forum; World Intellectual Property Organization

Figure 49. Energy intensity level

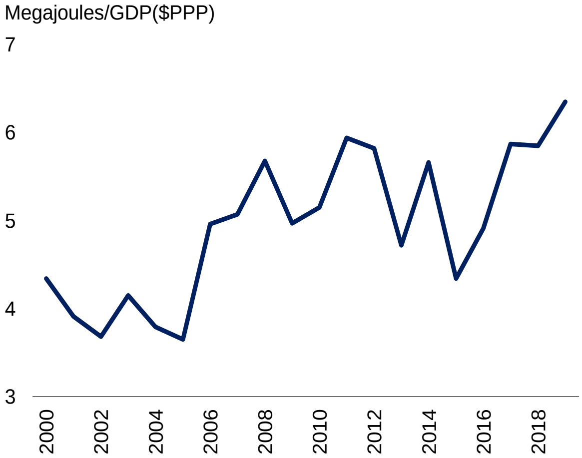
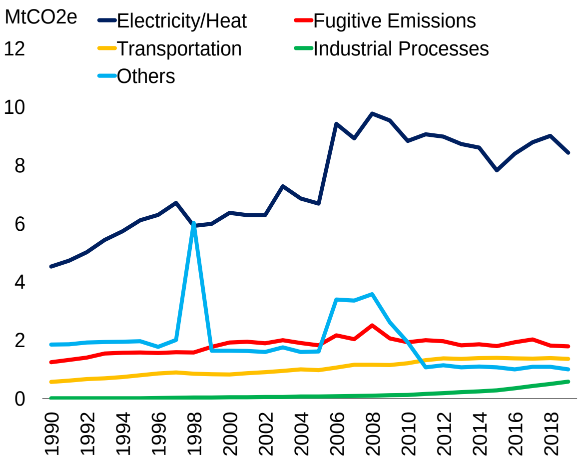


Figure 50. Greenhouse gas emissions



Source: Climate Watch; CSPS; International Energy Agency; World Bank

Economic outlook and risks

Global growth is projected to slow sharply to 1.7 percent in 2023, reflecting rapid monetary policy tightening, deteriorating financial conditions, and continued disruptions from the war in Ukraine

Global financial conditions have tightened significantly amidst the synchronous increase in policy interest rates by central banks to contain very high inflation. Global growth is projected to decelerate sharply to 1.7 percent in 2023—its third weakest pace in three decades, overshadowed only by the 2009 and 2020 global recessions (Figure 51). Further negative shocks could push the global economy into recession. Inflation is projected to moderate but remain elevated, reflecting a gradual easing of supply bottlenecks (Figure 52).

Figure 51. Global GDP growth

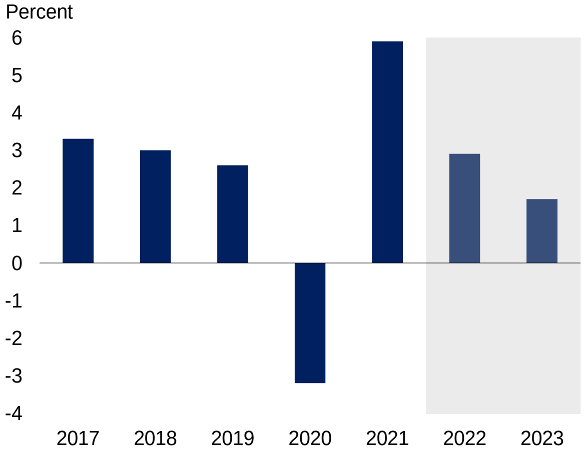
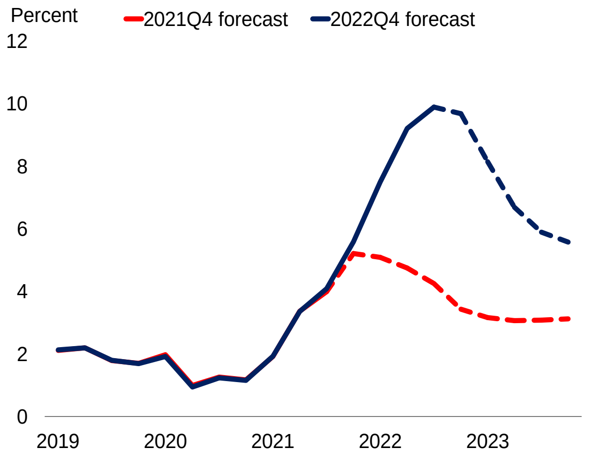


Figure 52. Inflation in OECD countries



Source: Organisation for Economic Co-operation and Development; World Bank
Note: Grey shaded areas and dashed lines are projections.

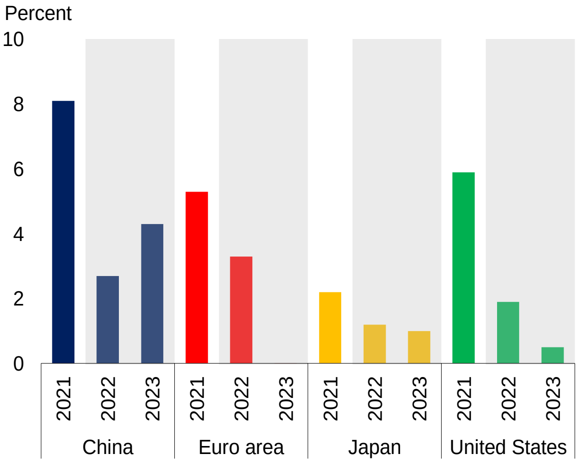
China's economy is forecast to grow by 4.3 percent in 2023, after deteriorating markedly in 2022 (Figure 53). The lifting of pandemic restrictions is expected to release pent-up consumer spending. However, weaker external demand and protracted weakness in the real estate sector would be a drag on growth.

Growth in the United States is forecast to slow to 0.5 percent in 2023, after growth had stalled to an estimated 1.9 percent in 2022. Continued policy tightening is envisaged to compound the lagged effects of rapid interest rate increases in 2022 and further weigh on economic activity.

In the Euro area, growth is forecast at zero percent in 2023, owing to ongoing energy supply disruptions and further monetary policy tightening. Inflation in the Euro area remains higher than other advanced economies.

Growth in Japan is forecast to slow further to 1.0 percent in 2023 due to deteriorating terms of trade and weakening global demand. High energy prices have eroded household purchasing power and dampened consumption.

Figure 53. GDP growth in major economies



Source: World Bank
Note: Grey shaded areas are projections.

Brunei's economy is forecast to expand by 2.6 percent in 2023, but real GDP would remain below its pre-pandemic level

Brunei's real GDP growth is projected to rebound to 2.6 percent in 2023, after the economy had contracted by an estimated 2.3 percent in 2022 (Figure 54). The improved outlook in 2023 reflects broad-based growth across sectors, as the lifting of pandemic-related restrictions should allow economic activity to continue to recover (Figure 55). Private consumption will remain a key growth driver, whereas investment, which has been declining since 2019, is expected to be weak.

Figure 54. Brunei's GDP growth

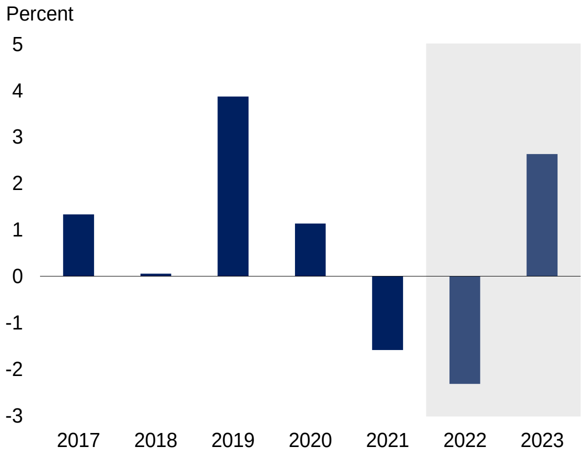
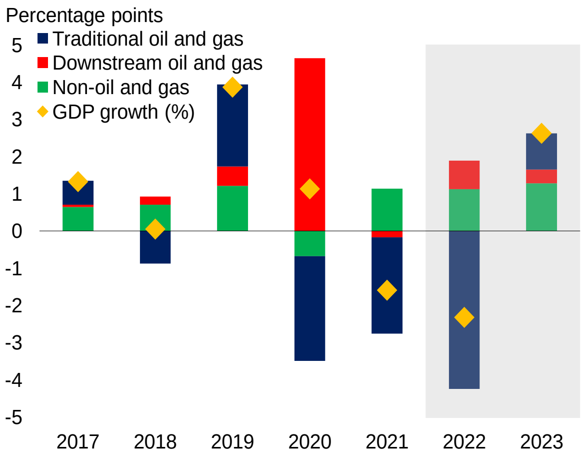


Figure 55. Contribution to GDP growth by major economic sectors



Source: CSPS; Department of Economic Planning and Statistics
Note: Grey shaded areas are CSPS projections. Traditional oil and gas refers to oil and gas mining and manufacturing of LNG. Downstream oil and gas refers to manufacturing of petroleum and chemical products, including methanol and fertilizers. Non-oil and gas refers to all other sectors.

The traditional oil and gas sector, which comprises oil and gas mining and LNG manufacturing, is projected to grow by 2 percent in 2023, after contracting by an estimated 8.2 percent in 2022. Growth is expected to be supported by a marginal increase in supply following asset rejuvenation activities, with crude oil production forecast at 94 tb/d and LNG production at 738 thousand mmbtu/d. Output is anticipated to increase further from 2024 onwards as new production from offshore discoveries, such as the Salman project, comes online. Energy prices in 2023 are projected to be lower than in 2022, given the bleak global outlook, but will still be at elevated levels. Crude oil prices are forecast to average US$90 per barrel and LNG prices at US$17 per mmbtu.

The downstream oil and gas sector, consisting of the production of petroleum and chemical products, including methanol and fertilizers, is forecast to grow by 5.4 percent in 2023, after output had jumped by an estimated 13 percent in 2022. Petrochemicals production should continue its robust growth while ammonia and urea production is expected to ramp up. Meanwhile, the timeline for the much-anticipated second phase of Hengyi Industries' refinery and integrated petrochemical project has not been announced.

The non-oil and gas sector is projected to grow by 2.8 percent in 2023, following an estimated growth of 2.6 percent in 2022. Most economic activity is anticipated to normalise as containment measures have been lifted and borders have reopened since August 2022. The ongoing resumption of tourism and travel is expected to see a timely and much-needed boost with China's reopening.

Despite the projected growth in 2023, real GDP would still be lower than its 2019 level, reflecting the contractions in 2020 and 2021.

Inflation is expected to moderate but will remain historically high

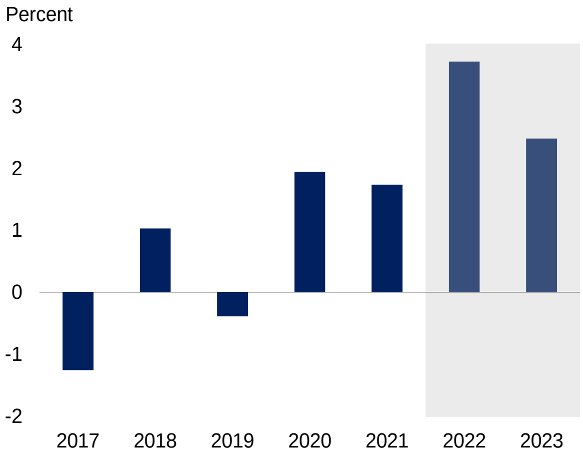
Consumer price inflation is projected to moderate to 2.5 percent in 2023, following a surge to an estimated 3.7 percent in 2021—the highest since 1995 (Figure 56). The high inflation observed over the past three years has been largely driven by global supply shortages and bottlenecks, which have been exacerbated by the war in Ukraine. Global demand is weakening and supply chain pressures have begun to ease. As such, prices are anticipated to fall but will remain at elevated levels. Brunei's currency peg to the Singapore dollar and price administration through subsidies and price controls should continue to keep inflation in check.

The fiscal balance is projected to register a surplus due to high energy prices

The fiscal position improved markedly in 2022, turning to a surplus of 1.2 percent of GDP from a deficit of 8.2 percent of GDP in 2021. The fiscal balance is projected to continue to register a small surplus in 2023, at 0.5 percent of GDP, thanks to still high energy prices (Figure 57). Oil and gas revenue is forecast to remain high due to slightly higher production and price assumptions for 2023. Non-oil and gas revenue is also forecast to increase as economic activity in the non-oil and gas sector resumes its pre-pandemic growth trend.

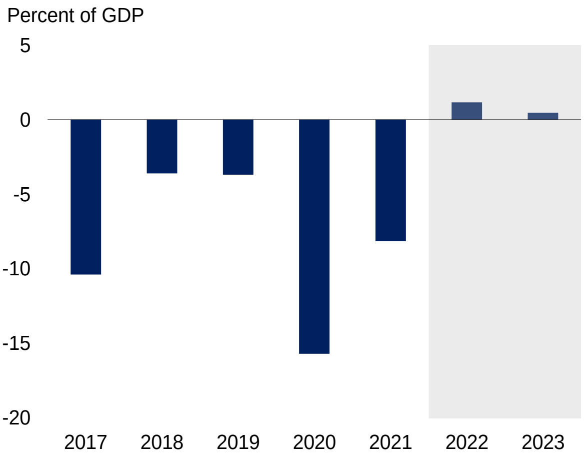
Government spending is projected to be somewhat contained in 2023 as fiscal consolidation efforts continue apace. The government's policy intention is to maintain a prudent level of spending consistent with planned reforms under the Fiscal Consolidation Program. Fiscal support measures introduced during the pandemic have been rolled back, in tandem with the transition to the endemic phase. Total expenditure as a share of GDP in 2023 is projected to be 28.7 percent, in line with the downward trend of government spending since 2014.

Figure 56. Consumer price inflation



Source: CSPS; Department of Economic Planning and Statistics
Note: Grey shaded areas are CSPS projections.

Figure 57. Fiscal account balance



Source: CSPS; Department of Economic Planning and Statistics; Treasury Department
Note: Government finance data based on calendar year. Grey shaded areas are CSPS projections.

Risks to the outlook are tilted to the downside, including higher inflation and tighter monetary policy, oil market uncertainty, and protracted domestic oil and gas production disruptions

The baseline forecasts are conditional on several factors. Although supply bottlenecks have begun to ease as capacity expands and pent-up demand fades, a resurgence of more virulent COVID-19 variants or an intensifying of geopolitical tensions could lead to supply chain disruptions. More persistent inflation could lead to more forceful policy rate increases that further depress the global growth outlook. A tightening of global financial conditions amid weak growth prospects could elevate global uncertainty and financial stress. Sharply higher borrowing costs could lead to a flight to safety and substantial capital outflows from emerging markets, weaken investment, and trigger corporate defaults.

Uncertainty in the oil market could be detrimental to the fiscal sustainability of oil-exporting countries. A sharp decline in global oil demand and prices will directly affect Brunei's exports and government revenue, with spillovers to other sectors of the economy.

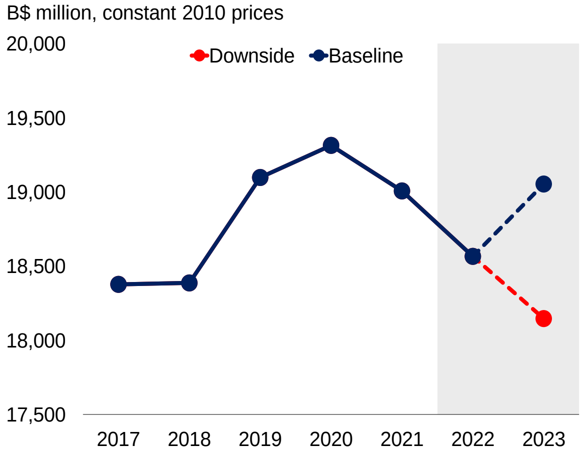
Unexpected disruptions to domestic oil and gas production continue to be a major downside risk. The volatility in the manufacturing of LNG and methanol partly reflects supply disruption of natural gas, which is an important input. Fertilizer production, which uses natural gas as feedstock, will also be impacted. The volatile price environment also poses risks on the commercial viability for new offshore exploration and production.

To illustrate the potential implications of the materialisation of these risks, we consider the following downside scenario in 2023:

- Crude oil prices at US$80 per barrel and LNG prices at US$16 per mmbtu
- Crude oil production at 85 tb/d and LNG production at 700 thousand mmbtu/d
- A reduction of petrochemicals production by 10 percent relative to baseline

In this scenario, Brunei's economy is anticipated to experience a recession in 2023, with growth projected at -2.3 percent (Figure 58). The current account surplus is projected to fall to 5.0 percent of GDP as net exports decline, while the fiscal balance is projected to swing back to a deficit of 3.4 percent of GDP due to lower oil and gas revenue.

Figure 58. Comparison of real GDP under baseline and downside scenarios



Source: CSPS; Department of Economic Planning and Statistics
Note: Grey shaded areas are CSPS projections.

Policy priorities should focus on enhancing fiscal space, strengthening resilience, and advancing structural reforms

Looking ahead, the policy priorities should focus on enhancing fiscal space to ensure fiscal sustainability, strengthening national resilience by prioritising public healthcare and accelerating digital transformation, and advancing structural reforms to bolster long-term growth prospects.

During the pandemic, fiscal policy has focused on providing relief to firms and households and stimulating the economy. In the near term, fiscal support should be targeted to vulnerable groups to address cost of living pressures. Over the medium term, fiscal sustainability should be the primary focus. Fiscal buffers have deteriorated after seven consecutive years of budget deficits from 2015 to 2021, notwithstanding the surplus in 2022. Although the recent financial windfall from high oil and gas prices has helped rebuild buffers, such gains may not be sustained. The revenue base has to be broadened beyond oil and gas. Immediate tax actions can include raising or introducing excises on products with a negative health or environment impact. This would be more feasible compared to other tax options. Enhancing spending efficiency should also be continued, which may include containing the high public wage bill, improving the targeting of social spending, and reviewing policies on blanket subsidies to make them more targeted.

Strengthening national resilience should start with the public health system. High priority should be placed on scaling up healthcare capacity to prepare for an unexpected surge in demand, including investing in health-related digital innovation. It is also essential to make the prevention and control of noncommunicable diseases (NCDs) a key priority. The incidence of NCDs in the Brunei population remains at a very high level, and the COVID-19 pandemic has highlighted that people with underlying health conditions, such as NCDs, have a higher risk of severe disease.

To enhance national productivity, digital transformation should be intensified, including investing in low-cost, high-speed infrastructure and building a digital payment hub. Medium, small, and micro enterprises (MSMEs) should be encouraged to adopt digital solutions and the government can facilitate and provide the necessary support for the transition. It is also vital to equip the workforce with digital and technological skills to secure decent jobs in the digital era. Lifelong learning through reskilling and upskilling is particularly important.

Structural reforms are needed to bolster long-term growth prospects. Enhancing human capital and building a more resilient education system should be a policy priority, which can include more effective remote learning, providing remedial classes to reverse learning losses, and closing the education gap and digital divide among socioeconomic groups. Initiatives to foster a business environment that is conductive to trade and investment should continue to be a priority, including improving trade facilitation and strengthening public service delivery by digitalising work processes. Improving access to financing for MSMEs, including building their capacity in developing a sound business plan and keeping accurate accounting records, should also be prioritised.

The government should continue its efforts to create awareness on the threat of climate change on Brunei’s long-term economic and financial stability. Climate-related disasters are becoming more common, and extreme-weather related events can result in significant losses to physical assets and infrastructure, as well as put strain on public finances and pose systemic risk to the financial sector. Substantial investments are required to bolster green, resilient, and inclusive growth. This can include redeploying fuel subsidies towards accelerating the energy transition by incentivizing renewable energy and energy efficiency.

Annex 1. Selected economic indicators for Brunei

	2019	2020	2021	2022[e]	2023[f]
Output and prices					
Nominal GDP (B$ million)	18,375	16,564	18,822	23,218	20,896
Real GDP (B$ million, 2010 constant prices)	19,099	19,315	19,008	18,566	19,054
Real GDP (percent change)	3.9	1.1	-1.6	-2.3	2.6
Traditional oil and gas sector[1]	*3.9*	*-4.9*	*-4.8*	*-8.2*	*2.0*
Downstream oil and gas sector[2]	*54.0*	*324.6*	*-2.8*	*12.9*	*5.4*
Non-oil and gas sector	*2.8*	*-1.6*	*2.7*	*2.6*	*2.8*
Oil production (thousand barrels per day)	121	110	107	92	94
LNG production (thousand mmbtu per day)	973	912	816	724	738
Oil price (US$ per barrel)	68.6	43.3	72.1	99.8	90.0
LNG price (US$ per mmbtu)	9.1	6.7	9.1	18.3	17.0
Inflation (period average, percent change)	-0.4	1.9	1.7	3.7	2.5
Balance of payments (B$ million)					
Current account balance	1,214	748	2,110	2,097	1,729
In percent of GDP	*6.6*	*4.5*	*11.2*	*9.0*	*8.3*
Trade balance	3,012	1,911	3,600	3,737	3,511
Exports	*9,831*	*9,027*	*14,783*	*15,929*	*16,272*
Imports	*6,820*	*7,116*	*11,183*	*12,192*	*12,740*
Services, net	-1,622	-1,179	-936	-1,030	-1,132
Primary and secondary income, net	-175	16	-554	-610	-671
Gross international reserves	5,829	5,515	6,123	7,205	7,695
In months of imports of goods and services	*7.8*	*7.6*	*6.5*	*7.0*	*7.2*
B$/US$ exchange rate (period average)	1.36	1.38	1.34	1.38	1.36
Nominal effective exchange rate (2010=100)	111.0	110.4	110.8	112.3	111.8
Real effective exchange rate (2010=100)	93.7	93.9	92.9	93.6	96.5
Public finance (B$ million)[3]					
Total revenue	5,282	2,892	3,975	6,376	6,100
Oil and gas	*4,077*	*1,728*	*3,211*	*5,618*	*5,254*
Non-oil and gas	*1,205*	*1,164*	*764*	*758*	*846*
Total expenditure	5,960	5,499	5,512	6,103	6,000
Current spending	*5,520*	*5,219*	*5,343*	*5,899*	*5,800*
Capital spending	*440*	*280*	*170*	*205*	*200*
Budget balance	-678	-2,606	-1,537	273	100
In percent of GDP	*-3.7*	*-15.7*	*-8.2*	*1.2*	*0.5*

Note: [e] expected; [f] forecast; [1] Traditional oil and gas sector refers to oil and gas mining and manufacturing of LNG; [2] Downstream oil and gas sector refers to manufacturing of refined petroleum and petrochemical products, including fertilizers and methanol. [3] Government finance data based on calendar year.

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