



BRUNEI ECONOMIC UPDATE

OCTOBER 2020

Highlights

Recent Developments

- The global economy contracted in the second quarter of 2020 as COVID-19 containment measures severely restricted labour supply and disrupted production. Output in the United States plunged by a record 9.1 percent year-on-year (y/y) in Q2. By contrast, output in China rebounded swiftly, growing by 3.2 percent.
- After a turbulent March, financial conditions have improved. Major stock markets rallied, capital flows returned to emerging markets, and most regional currencies strengthened against the U.S. dollar. Oil prices have recovered somewhat but remain two-thirds of their January levels.
- The Brunei economy grew 2.8 percent y/y in Q2, but shrank 2.1 percent on the quarter. Growth has been largely supported by the production of petrochemicals.
- The pandemic has hit travel and tourism hard. Brunei's air transport and hotels sub-sectors contracted by more than 90 percent and 50 percent in Q2, respectively, while the restaurants sub-sector contracted by 20 percent. On the other hand, the telecommunications sub-sector expanded by about 3 percent.

Special Feature: Fiscal policy in Brunei during past oil price crashes

- Since 1970, there have been six episodes of oil price collapses before COVID-19 struck. Brunei's fiscal response has varied across the episodes, depending on the nature of the shocks. Fiscal spending was cut substantially during the 1985-86 and 2014-16 oil price crashes. By contrast, spending held steady during the 1997-98 Asian financial crisis and increased during the 2008-09 global financial crisis.

The *Brunei Economic Update* is a publication of the Centre for Strategic and Policy Studies. It is published three times a year, in April, July, and October. The *Update* is a supplement of the *Brunei Economic Outlook* that is published annually in January.

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We thank the Ministry of Primary Resources and Tourism (MPRT), the Department of Economic Planning and Statistics (DEPS) at the Ministry of Finance and Economy (MOFE), and the Department of Electrical Services (DES) at the Ministry of Energy for sharing the data used in this *Update*.

Front cover image by Safwan Sidek. Used with permission.

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Published in October 2020

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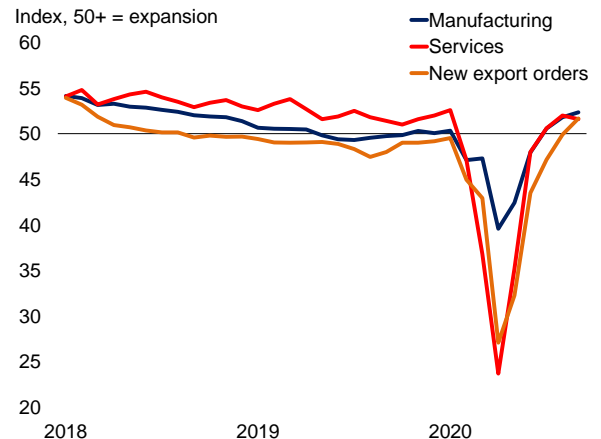
Recent Global Developments

Continuing spread of COVID-19. New cases of COVID-19 are accumulating at more than 300,000 per day, largely concentrated in the United States, India, Brazil, and Russia. As of October 11, 2020, there are about 37 million confirmed cases and over 1 million deaths worldwide (WHO 2020). Containment measures have severely restricted labour supply. In Q2, the total working-hour losses were estimated to be equivalent to 495 million full-time equivalent jobs (ILO 2020). Many countries have since eased restrictions and mobility has increased. Recent data suggest that economic activity is stabilizing after reaching its nadir in April. The global manufacturing PMI and new export orders were at two-year highs in September, while services PMI remained in expansionary territory for the third consecutive month (Figure 1).

Global growth contraction. Global growth contracted in Q2, but the impact has been uneven. After containing its outbreak relatively rapidly, the Chinese economy grew by 3.2 percent year-on-year (y/y) in Q2—a sharp turn from its record 6.8 percent contraction in Q1 (Figure 2). Fiscal stimulus has boosted the construction and manufacturing sectors. The People's Bank of China also cut interest rates and the reserve requirement ratio, resulting in bank lending reaching a record high in the first half of 2020. Exports are gradually recovering, while the manufacturing PMI reading has been above 50 since May. By contrast, output in the United States plunged 9.1 percent y/y in Q2, the largest decline since records began in 1947. Economic activity bounced back markedly in May and June but momentum appears to be slowing as several states are experiencing a surge in COVID-19 cases. The unemployment rate declined to 7.9 percent in September, after peaking at a record-high of 14.7 percent in April. However, unemployment remains much higher than before the pandemic. The U.S. Federal Reserve announced a major policy shift in August to keep borrowing costs exceptionally low. Euro Area output contracted sharply by 14.7 percent y/y in Q2, following a decline of 3.1 percent y/y in Q1. Forward looking indicators suggest that economic activity is recovering, with manufacturing PMI and new export orders in expansionary territory since July. The European Central Bank is keeping interest rates at negative levels throughout 2020 and has ramped up its quantitative easing program. In Japan, Q2 output declined by a record 10.1 percent y/y, after falling by 1.9 percent y/y in Q1. Household consumption has been weak while exports were affected by supply chain disruptions and subdued global demand. Shinzo Abe resigned on September 16 and Yoshihide Suga became Prime Minister.

Global trade weak but improving. Global trade was down by about 20 percent y/y in April and May. Since then, trade has gradually recovered but remains significantly below pre-pandemic levels (Figure 3). The WTO now forecasts a 9.2 percent decline in world merchandise trade volume in 2020, a marked improvement relative to April's projection of a collapse by 13-32 percent (WTO 2020). The recovery in trade mirrors the trajectory of global industrial production, reflecting changing consumer preferences away from services and toward goods.

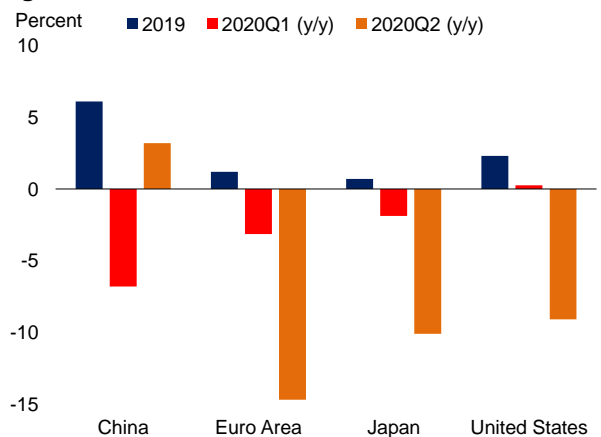
Figure 1. Global Purchasing Managers' Index (PMI)



Source: Haver Analytics, IHS Markit, J.P. Morgan.

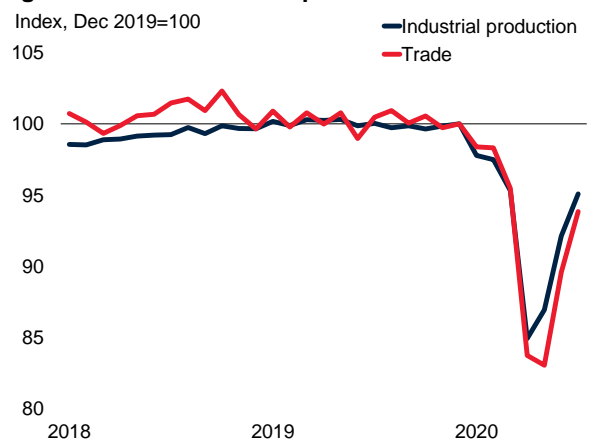
Note: PMI readings above (below) 50 indicate an expansion (contraction) in economic activity. Last observation is September 2020.

Figure 2. Growth in 2020Q2



Source: OECD

Figure 3. Global industrial production and trade



Source: CPB Netherlands Bureau for Economic Policy Analysis, Haver Analytics

Note: Last observation is July 2020.

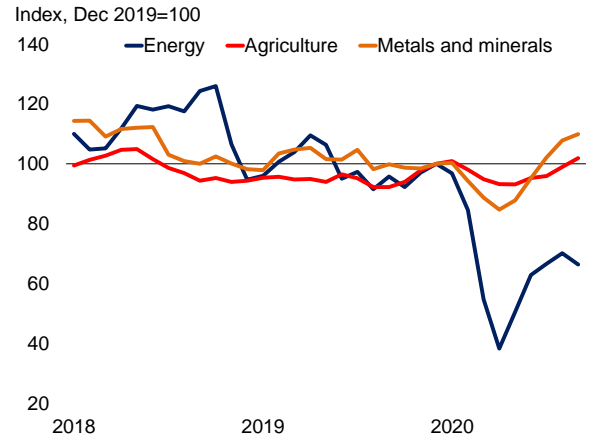
Container shipping volumes continued to grow in August, almost reaching the levels a year ago. The number of daily international flights has doubled since April, but international tourist arrivals remain more than 90 percent below last year's levels in many countries. A full recovery in tourism is unlikely in the short term. More than half of survey respondents in August preferred to wait six months to a year or more before travelling, even after travel restrictions are lifted (IATA 2020).

Oil prices still weak. Crude oil prices have recovered from their April low, but are still substantially below pre-pandemic levels (Figure 4). Oil prices retreated in September amid weaker-than-expected crude demand forecasts and a recovery in supply (IEA 2020). OPEC+ reduced its production cuts from 9.7 million barrels per day (mbpd) in July to 7.7 mbpd in August, and has agreed to maintain current production cut plans through December. Production in the United States has also recovered from weather-related shutdowns. Metal prices, on the other hand, have more than regained the losses sustained earlier in the year. The V-shaped recovery in metal prices has been largely supported by a swift rebound in industrial activity in China, which accounts for half of global metal consumption, and supply disruptions in South America.

Financial conditions improving. Financial conditions have improved considerably after a turbulent March. Unprecedented monetary stimulus measures have helped ease financial conditions, as central banks around the world injected liquidity into financial markets, including through large-scale asset purchases and policy rate cuts. September marked the sixth consecutive month of portfolio inflows into emerging markets (Figure 5). However, the inflows slowed sharply in August and September as rising COVID-19 caseloads weighed on investor sentiment. Exchange rate movements broadly reflected the changes in financial conditions and capital flows. Most emerging market currencies weakened against the US dollar during the market turmoil in March but stabilized and strengthened from May to August, before experiencing renewed depreciation pressures in September.

Global outlook less pessimistic. The collapse in global output in the first half of 2020 led to sharp downward revisions of global growth forecasts for the year. Output has since recovered somewhat following the easing of containment measures and re-opening of businesses, supported by unprecedented fiscal and monetary stimulus. The global outlook for 2020 appears to be less pessimistic, with a moderate upward revision in latest projections (Figure 6). However, risks and uncertainties remain high. Growth prospects depend on many factors, including the development of therapeutics and vaccines and their deployment, the extent and duration of stimulus measures, and the degree to which containment measures are reinforced in the event of a second wave of COVID-19 infections, which is now incipient in some European countries (IMF 2020a; OECD 2020; World Bank 2020). A gradual recovery of the global economy is projected in 2021 but output is not expected to return to pre-pandemic levels, suggesting a high risk of long-lasting costs from the pandemic.

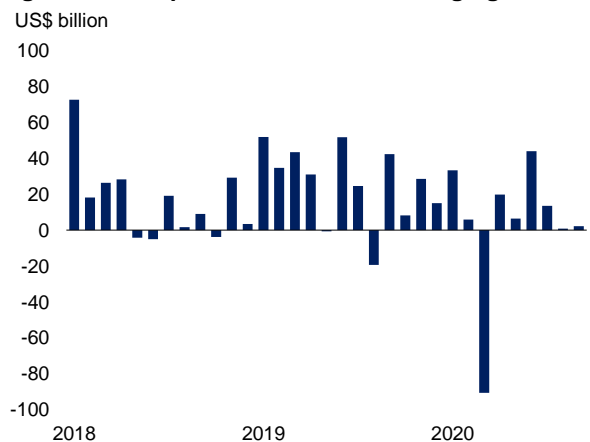
Figure 4. Commodity prices



Source: World Bank

Note: Last observation is September 2020.

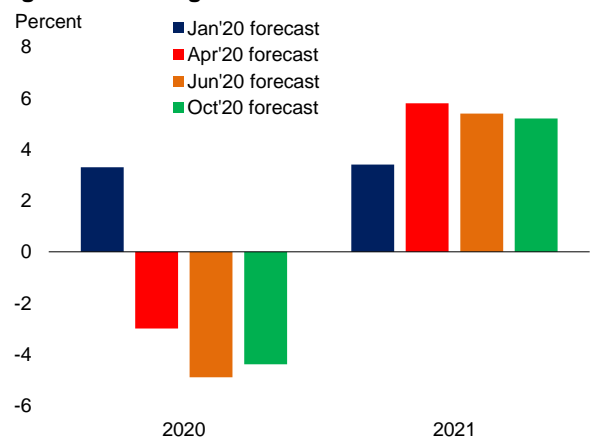
Figure 5. Total portfolio flows into emerging markets



Source: Institute of International Finance

Note: Net non-resident purchases of emerging market stocks (portfolio equity flows) and bonds (portfolio debt flows). Last observation is September 2020.

Figure 6. Global growth outlook



Source: IMF

Note: Global growth projections for 2020 and 2021 made in January, April, June, and October 2020.

Recent Regional Developments

Unsteady economic recovery. Southeast Asia has been hit hard by the COVID-19 pandemic. Stringent containment measures, including border closures and curfews, severely disrupted tourism and trade. The partial or total closure of factories and offices led to supply chain disruptions and production cutbacks. The larger economies in the region slumped in Q2, with double-digit y/y output contractions in Malaysia (-17.1 percent), Philippines (-16.5 percent), Singapore (-13.2 percent), and Thailand (-12.2 percent). Indonesia's economy also contracted in Q2, by 5.3 percent. In Brunei and Vietnam, where their COVID-19 responses have been relatively successful, modest growth rates were registered in Q2, at 2.8 percent and 0.4 percent, respectively. Most governments have relaxed restrictions and some economies have shown signs of recovery. However, infections are still on the rise in Indonesia and the Philippines, while new outbreaks have emerged in Malaysia and Myanmar (Figure 7).

Mixed inflation signals. The effect of the pandemic on inflation depends on how demand and supply shocks balance out. The decline in aggregate demand and oil prices dampened inflationary pressures in some countries (e.g. Malaysia, Thailand), whereas supply disruptions led to higher food prices in others (e.g. Brunei, Lao PDR).

Financial markets stabilizing. Following a tumultuous March, when equity markets plunged, foreign capital inflows reversed, and exchange rates experienced large depreciations, financial markets have since stabilized. Major stock markets have rallied and portfolio investment began to return to the region in May. Currencies of most Southeast Asian economies also strengthened against the US dollar from May to September. Nonetheless, risk sentiment has not fully recovered to pre-pandemic levels.

Aggressive stimulus measures. Accommodative monetary policies and stimulus packages aimed at addressing the public health crisis have helped restore investor confidence and facilitate a recovery in economic activity. Central banks have cut interest rates and capital reserve requirements to ease liquidity constraints, while most governments implemented fiscal stimulus measures to support businesses and households (Figure 8). Singapore and Thailand rolled out sizable fiscal measures, estimated at 20.8 and 12.5 percent of GDP, respectively, as of September (IMF 2020b). By August, policy interest rates have been lowered by 75 to 175 basis points, relative to January, in Indonesia, Malaysia, Philippines, and Thailand.

Further downward growth revisions. Growth forecasts in 2020 have been revised downwards for some economies (Figure 9). Countries heavily dependent on tourism, particularly Cambodia, Philippines, Thailand, are unlikely to recover quickly. Similarly, those that are deeply integrated in global value chains and heavily dependent on exports, such as Malaysia, Singapore, and Thailand, would have to await recovery in their trading partners' economies. Only three economies—Brunei, Myanmar, and Vietnam—are projected to remain in positive territory in 2020.

Figure 7. New daily COVID-19 cases

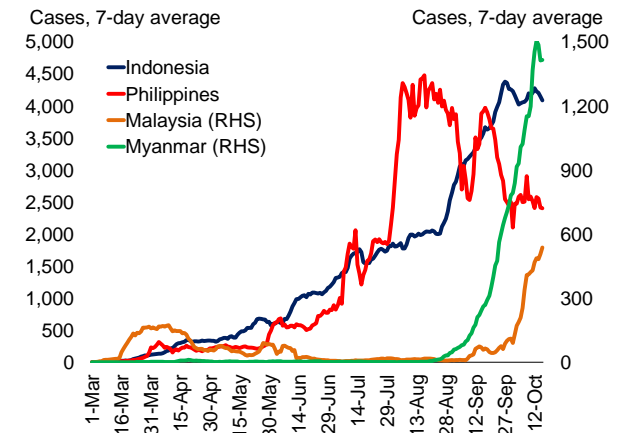


Figure 8. Fiscal and monetary stimulus

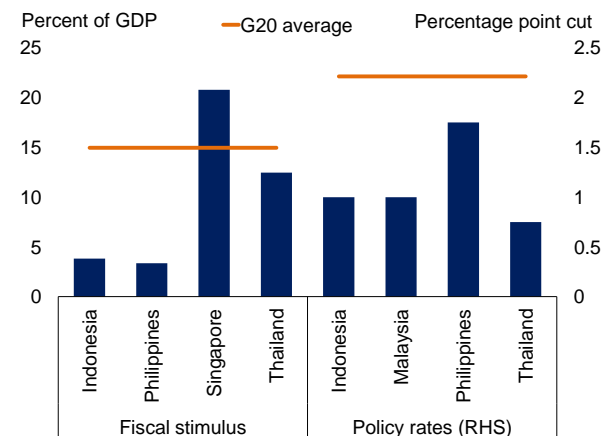
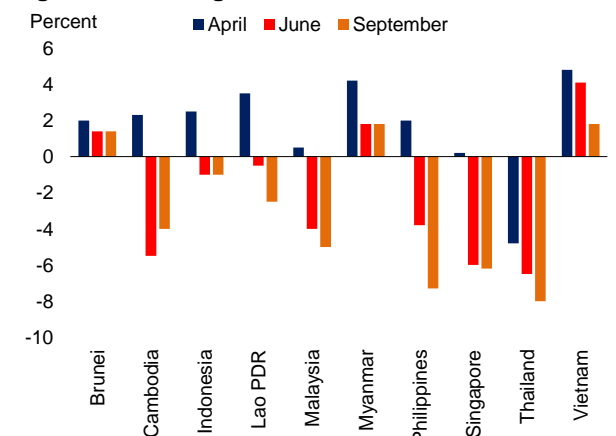


Figure 9. ASEAN growth forecasts for 2020



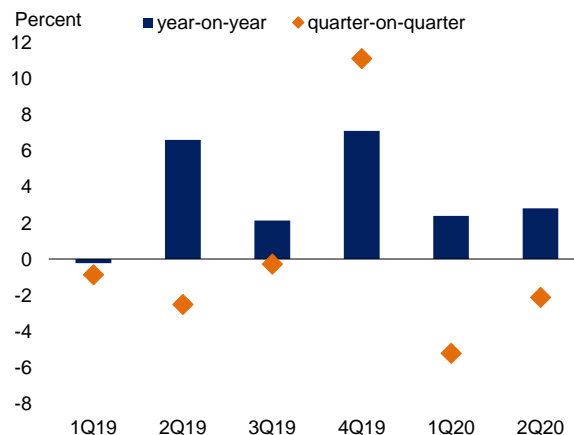
Recent Developments in Brunei

Petrochemicals-led growth. The Brunei economy grew 2.8 percent y/y in Q2, but on a quarter-on-quarter (q/q) basis, output fell by 2.1 percent (Figure 10). Economic activity in Q2 was comparatively more robust than the preceding quarter, where growth registered 2.4 percent y/y and -5.2 percent q/q. Despite stringent containment measures put in place in mid-March to contain the COVID-19 outbreak, which were gradually relaxed since May, the impact on the overall economy has been relatively muted. Growth has been largely supported by the downstream oil and gas sector, particularly manufacturing of petrochemical products. Since Hengyi Industries' oil refinery and petrochemical plant began full operations late last year, it has contributed about B\$740 million to real GDP from 2019 Q4 to 2020 Q2. The mining sector expanded by 0.7 percent y/y in Q2, as crude oil production increased to 118 thousand barrels per day (tbpd) from 115 tbpd in 2019 Q2. Production of liquefied natural gas (LNG), on the other hand, declined by 7.4 percent y/y in Q2.

Steep declines in travel and tourism. Outside of the mining and manufacturing sectors, other sectors have taken a hit from the implementation of restrictive measures, especially the travel and tourism-related sub-sectors. More than 90 percent of international flights to and from the Brunei International Airport have been cancelled since end March. Tourist arrivals, which had been on a rising trend before COVID-19 struck, plunged by more than 70 percent y/y in March and there were virtually no tourists in Q2 due to border closures, while hotel occupancy rates tumbled to 18.2 percent in June (Figure 11). The air transport, travel agency and tour operator, and hotel sub-sectors contracted by a staggering 93.1 percent, 92.2 percent, and 55.5 percent in Q2 y/y, respectively (Figure 12). The consumer-facing sectors were also adversely affected, albeit by less than the tourism-related sector. Government-enforced measures, such as prohibiting restaurant dine-ins, as well as voluntary social distancing, led to an output decline of 19.6 percent y/y in the restaurant sub-sector in Q2, while growth in the retail trade sub-sector fell to 0.1 percent y/y.

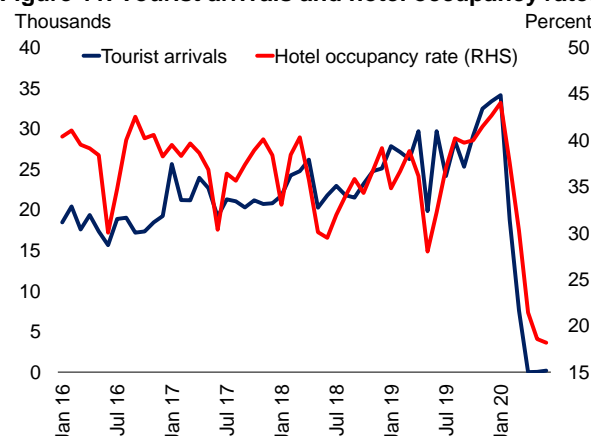
Targeted economic relief measures. Announced economic relief and stimulus measures totalled B\$450 million (3.2 percent of GDP; IMF 2020b). Targeted measures aim to support the private sector, particularly micro, small, and medium enterprises (MSMEs) in the tourism, hospitality, restaurants, and transportation sectors, and to ensure job security for locals. These temporary measures include corporate income tax discounts, wage subsidies, deferment of social security contributions, discounts on utilities and rental rates of government buildings, expanding the i-Ready apprentice scheme (government-funded program for unemployed jobseekers to gain industry experience), and deferment of loan principal repayments (Brunei Government 2020). Increased use of online platforms and digital banking services were also encouraged. Co-matching grants have been made available to businesses engaged in e-commerce and logistics services, and online local interbank transfer charges have been waived.

Figure 10. Real GDP growth



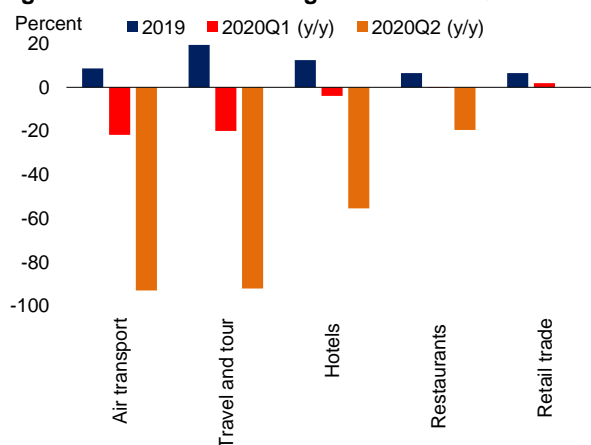
Source: CSPPS, Department of Economic Planning and Statistics

Figure 11. Tourist arrivals and hotel occupancy rates



Source: CSPPS, Ministry of Primary Resources and Tourism
Note: Last observation is June 2020.

Figure 12. Services sector growth in 2020Q2



Source: CSPPS, Department of Economic Planning and Statistics

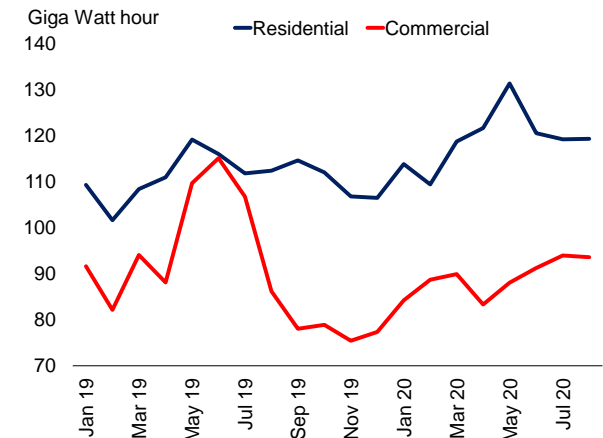
Shift in consumer demand. School closures and the transition to work-from-home arrangements led to increased demand for telecommunication services and computer and electronic products. The telecommunications sub-sector grew by 2.8 percent y/y in Q2, while sales of related equipment jumped 59 percent. Increased time spent at home may have also contributed to increased purchases of groceries and essential items, as sales at supermarkets, pharmacies, and household appliance stores surged 7.3 percent, 11.8 percent, and 18.1 percent y/y, respectively. The impact of the containment measures is also reflected in demand for electricity consumption. Residential electricity use increased about 10 percent y/y from March to May, but the consumption growth has moderated since June (Figure 13). Meanwhile, commercial electricity use declined by more than 12 percent y/y from March to June, but has started to pick up in July. In line with the fall in demand for domestic travel, sales at petrol stations declined by 18.2 percent y/y in Q2.

Exports growth moderated. Gross merchandise exports grew 1.4 percent y/y in Q2, but were 37 percent lower than in Q1 (Figure 14). Crude oil and LNG exports suffered steep declines largely due to the collapse in energy prices. In May, the share of crude oil and LNG in total exports declined to a record low of 36 percent. Exports of refined petroleum products in Q2 were also about 30 percent lower than the preceding quarter, whereas exports of chemicals grew 5 percent. Gross imports, on the other hand, remained broadly unchanged. The trade balance was in deficit in June—the first-ever negative reading since monthly records began in 2003. The trade deficit worsened in July on lower petrochemical exports and higher mineral fuel imports.

Upward price pressures continue. Headline inflation, as measured by the y/y percent change in the Consumer Price Index (CPI), increased for ten consecutive months from September 2019 to June 2020 (Figure 15). In June, the CPI rose 2.6 percent y/y—the highest since October 2008—but moderated to 2.0 percent in July. Rising inflation has been largely attributed to higher prices of insurance premiums, air transport, vegetables, and beverages. Global production and supply chain disruptions have led to higher prices of imported food items, household products, and medical supplies, most widely seen in the price hikes of face masks and hand sanitizers. Price declines, on the other hand, were reported for accommodation services and package holidays.

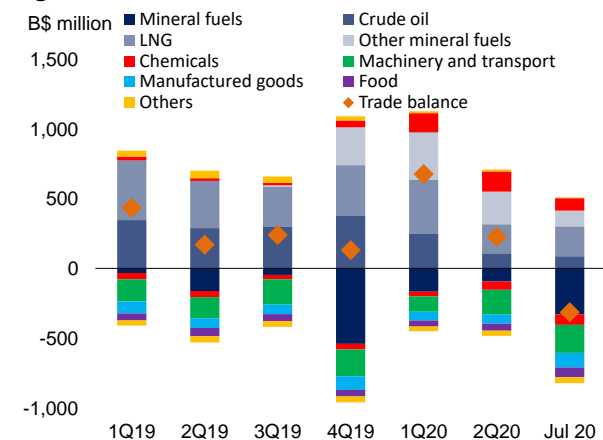
Stable, but uncertain, growth outlook. Growth in 2020 is projected to be between 1 and 2 percent. Growth in the first half of the year has been more resilient than anticipated, almost wholly supported by the production of petrochemicals. Economic activity is expected to return to near pre-COVID-19 levels in the second half of the year. However, a full recovery in the travel and tourism sub-sectors is unlikely to happen anytime soon. After registering a 7.1 percent y/y growth in 2019 Q4 following the commencement of Hengyi Industries' operations, growth in Q4 this year is not expected to be as high. A resurgence of cases and reinforced social distancing measures, as well as further declines in oil and gas prices, are key downside risks to the outlook.

Figure 13. Electricity consumption in the residential and commercial sectors



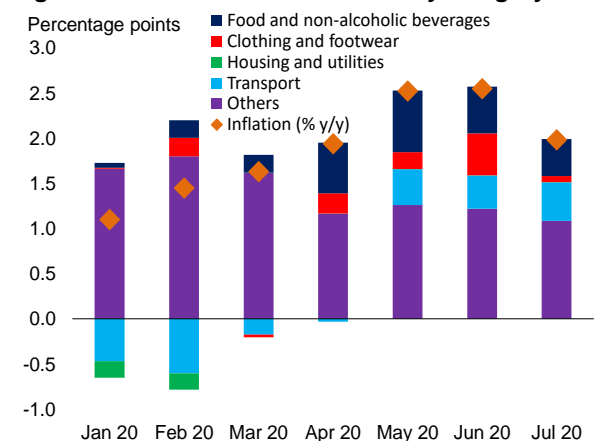
Source: CSPS, Department of Electrical Services
Note: Last observation is August 2020.

Figure 14. Trade



Source: CSPS, Department of Economic Planning and Statistics
Note: Quarterly values are the three month averages. Exports (imports) indicated by positive (negative) values.

Figure 15. Contribution to inflation by category



Source: CSPS, Department of Economic Planning and Statistics

Special Feature

Fiscal policy in Brunei during past oil price crashes

Introduction

Brunei Darussalam, like most of its oil-rich peers, has faced mounting fiscal pressures in recent years. In March 2020, oil prices collapsed by 40 percent—the steepest one-month decline in half a century. Oil prices fell further in April, by 35 percent, to US\$21 per barrel, before gradually recovering to two-thirds of their January levels. This episode follows the oil price collapse in 2014-16, in which prices plunged from about US\$110 per barrel in June 2014 to US\$30 per barrel in January 2016. Brunei experienced large fiscal deficits in 2015-2017, at 15 percent of GDP, despite fiscal consolidation efforts. At current and projected oil prices, fiscal balances are unlikely to turn positive. The government is thus confronted with the choice of reducing expenditure, which has cyclical implications for the domestic economy given the stabilisation role of fiscal policy, or increasing non-oil and gas revenues such as introducing new or increasing existing taxes, which may not be palatable. Expenditure choices also relate directly to the medium- and long-term development objectives in human and physical capital accumulation, as well as ensuring future generations receive a fair share of the country's natural resource wealth. In this special feature, we review the evolution of fiscal policy in Brunei over the past four decades, focusing on specific episodes of oil price crashes.

Evolution of fiscal policy in Brunei

Brunei's fundamental economic structure which centres on hydrocarbons has largely remained unchanged for decades. Government revenues are dominated by receipts from the hydrocarbon sector in the form of corporate income tax, royalties, and dividends. As a result, revenues fluctuate with oil and gas production and prices. Figure SF1 shows the high dependency of GDP and government revenues on volatile oil prices. Government revenues experienced sharp falls during the 1985-86 oil price crash and endured almost two decades of low oil receipts. The new millennium ushered in large windfalls boosted by the oil price boom in the 2000s, followed by a steep decline and immediate recovery during the 2008-09 global financial crisis (GFC). Revenues fell sharply again following the 2014-16 oil price collapse before making a modest recovery in 2018-19.

Figure SF1. Brunei nominal GDP, government revenue, and crude oil prices, 1980-2019

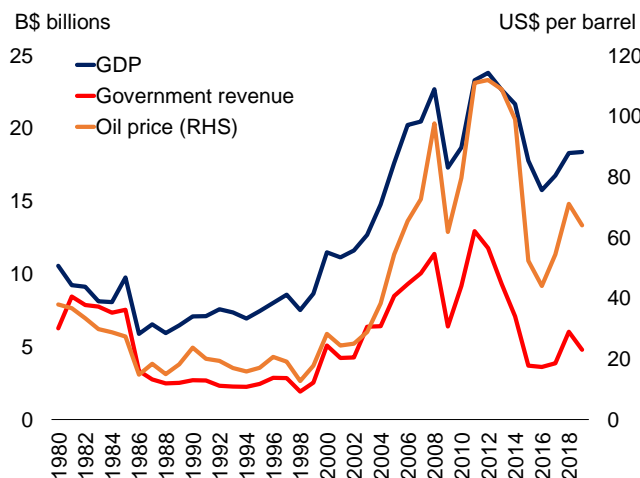
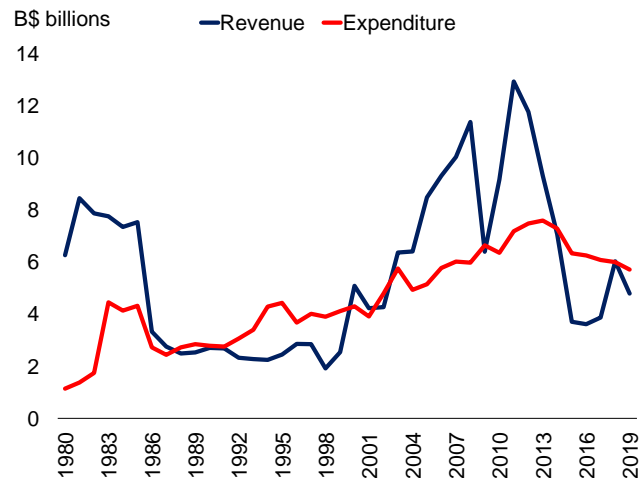


Figure SF2. Brunei government revenue and expenditure, 1980-2019



Source: Brunei Statistical Yearbook (various issues), CSPPS, IMF, Ministry of Finance and Economy, World Bank
Note: Data from 2003 onwards are based on Brunei's fiscal year, which runs from April to March.

Several key features of Brunei's fiscal policy management can be derived from comparing the trajectories of revenue and expenditure. First, government expenditure has, at times, co-moved with revenue and oil prices, suggesting a procyclical fiscal stance—where spending increases during good times and falls during bad times (Koh 2016; Figure SF2). This is evident in the reduction in spending during 1985-86, a ramp-up in spending during the oil price boom in the 2000s, and the spending cutback in recent years. A notable exception to this procyclical stance was in the 1990s, when government expenditure increased despite low and falling revenue (Figure SF3). Second, the volatility of expenditure is much lower than the volatility of revenue, which could reflect the downward rigidities of government spending. It may be difficult to cut spending, particularly on welfare grounds, even as oil prices and revenue decline significantly. Third, the government has been saving a fraction of the oil windfalls, especially during the 2000s as seen in the rise in cumulative fiscal balances (Figure SF4), likely reflecting intentions

to accumulate assets to prepare for periods of low oil prices and saving for future generations. However, after reaching a peak of B\$50 billion in 2013 (220 percent of GDP), cumulated fiscal balances have declined following the oil price plunge in 2014.

Figure SF3. Correlation of Brunei government revenue and expenditure by decade

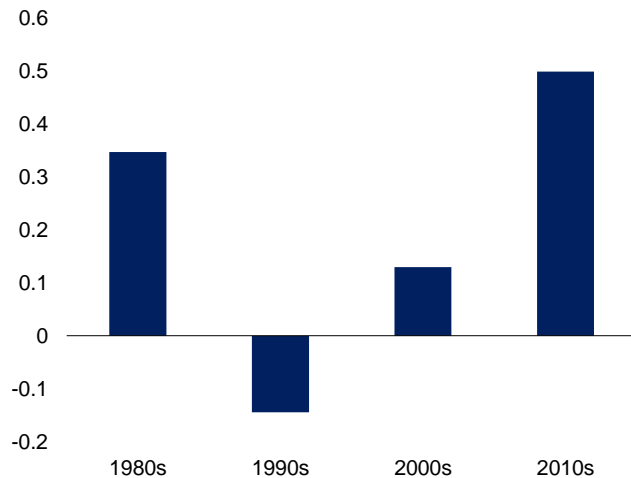
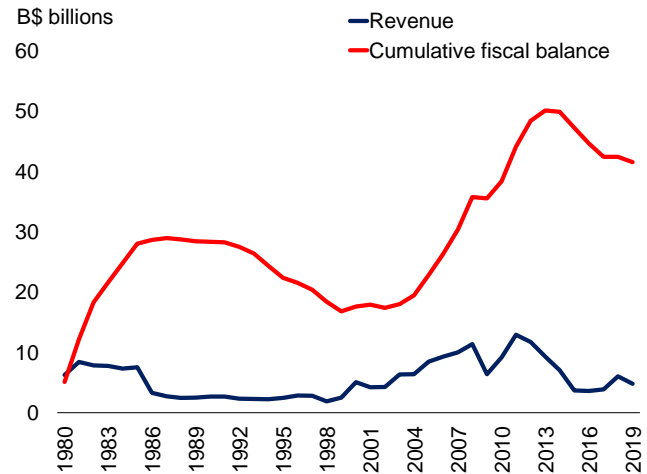


Figure SF4. Brunei government revenue and cumulative fiscal balance, 1980-2019



Source: Brunei Statistical Yearbook (various issues), CSPS, IMF, Ministry of Finance and Economy, World Bank
 Note: Data from 2003 onwards are based on Brunei's fiscal year, which runs from April to March. 1980s = 1980-1989.

Past oil price crashes

To put these key features in perspective, we explore in greater detail the extent of Brunei's fiscal policy response to specific adverse oil price shocks in the past. Since 1970, there have been seven episodes of oil price collapses, defined as a fall in prices of more than 30 percent over a six-month period (Kabundi and Ohnsorge 2020; Figure SF5).

The 1985-86 oil price crash, preceded by several years of high oil prices precipitated by the Iranian Revolution, was attributed to rising non-OPEC production from Alaska, Mexico, and the North Sea as well as OPEC's decision to abandon price setting in favour of protecting market share (World Bank 2015). The oil price hikes in the 1970s had prompted a broad-based increase in spending, and the government was not prepared to cope with an abrupt fall in oil prices. In 1986, Brunei's government revenue fell drastically by 56 percent while expenditure was reduced by 37 percent. The overall fiscal balance declined to 10.4 percent of GDP from 33 percent a year ago (Figure SF6).

The 1990-91 crash followed Iraq's invasion of Kuwait which led to a temporary spike in oil prices amid supply shortfalls. However, oil prices suddenly plunged, prompted by the approval of the International Energy Agency (IEA) to draw emergency stocks to calm the market and the apparent success of "Operations Desert Storm". As the impact was short-lived, the corresponding effects on Brunei's government finances were minimal.

Oil prices fell by about one-third during the 1997-98 Asian financial crisis, leading to a commensurate fall in Brunei's government revenue in 1998. However, expenditure held steady, declining by only 3 percent, resulting in a fiscal deficit of 26.4 percent of GDP. The 2001 U.S. recession led to an oil price decline of a similar magnitude as the 1997-98 crisis, but the swift recovery meant that the impact on Brunei's government finances was somewhat limited. Nonetheless, government revenue declined by 17 percent in 2001 and spending was reduced by 9 percent.

Oil prices plunged by two-thirds during the height of the 2008-09 GFC, reflecting high uncertainty and a drastic reduction in global demand. Consequently, Brunei's government revenue declined 44 percent in 2009. Yet, expenditure grew by 11 percent as several years of high oil prices and windfall savings allowed the accumulation of substantial policy buffers to implement fiscal stimulus. The overall fiscal balance deteriorated from a surplus of 23.8 percent of GDP in 2008 to a deficit of 1.4 percent of GDP in 2009.

The nature of the 2014-16 oil price collapse, following OPEC's decision to change the cartel's policy objective from targeting an oil price band to maintaining market share amid lacklustre global demand and rising U.S. shale oil production, bears resemblance to the 1985-86 crash (Stocker et al. 2018). Brunei's government revenue declined 48 percent in 2015 and

expenditure fell 13 percent, while registering a fiscal deficit at 14.8 percent of GDP. The seventh episode is the current COVID-19 pandemic and the effects are still unfolding. Oil prices in April 2020 were more than 60 percent lower than at end 2019.

Figure SF5. Real crude oil prices, January 1970-August 2020

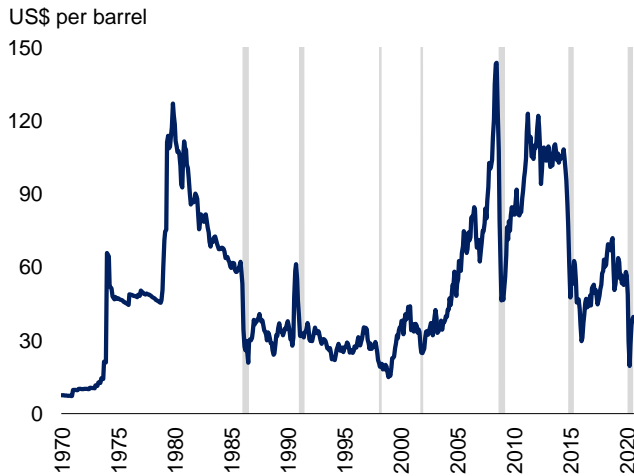
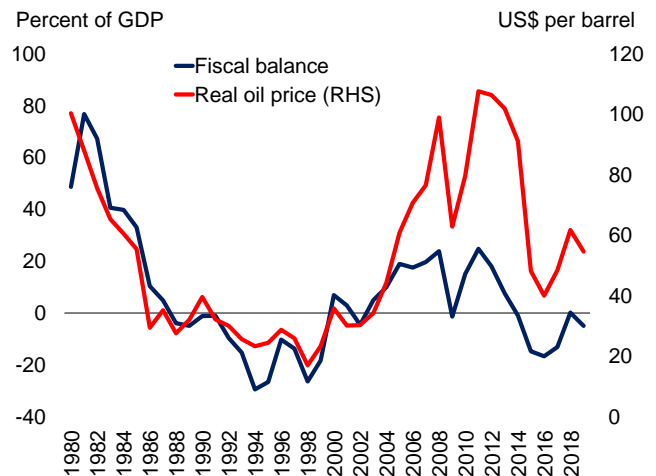


Figure SF6. Brunei's fiscal balance and real crude oil price, 1980-2019



Source: Brunei Statistical Yearbook (various issues), CSPS, Federal Reserve Bank of St. Louis, IMF, Ministry of Finance and Economy, World Bank
Note: Oil prices deflated by the U.S. consumer price index (2015=100). Grey bars denote periods in which oil prices declined by at least 30 percent in six months. Fiscal data from 2003 onwards are based on Brunei's fiscal year, which runs from April to March.

Across the first six episodes, the median size of the oil price shock was a decline of 35 percent, which led to a fall in government revenue of 38 percent (Figure SF7; Table SF1). The fiscal response has been to cut spending, by about 6 percent, and the fiscal balance declined by 13 percentage points of GDP. Overall, Brunei's fiscal policy response to oil price fluctuations has been broadly consistent with the nature of the shocks. If oil price declines are anticipated to be temporary, such as due to subdued demand during the 1997-98 Asian financial crisis or the 2008-09 GFC, maintaining or increasing spending to cushion the impact of oil price declines should be pursued. On the other hand, if price declines are perceived to be mostly permanent due to structural shifts such as technological advancements and the emergence of new supply sources in 1985-86 (oil discoveries in the North Sea) and 2014-15 (shale oil fracking in the United States), reducing expenditures is justified.

Figure SF7. Median growth rates of Brunei government revenue and expenditure and change in fiscal balance during past episodes of oil price crashes

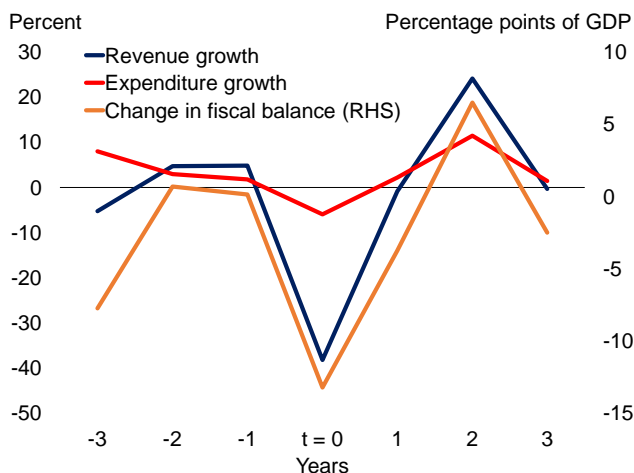


Table SF1. Brunei government revenue and expenditure and change in fiscal balance during past episodes of oil price crashes

Episode (t=0)	Revenue (% of GDP)	Expenditure (% of GP)	Change in fiscal balance (% points of GDP)
1986	-55.8	-37.0	-22.6
1991	-0.8	-1.1	0.1
1998	-32.6	-2.9	-12.7
2001	-16.8	-8.9	-4.0
2009	-43.8	11.1	-25.3
2015	-47.6	-13.1	-13.8

Source: Brunei Statistical Yearbook (various issues), CSPS, IMF, Ministry of Finance and Economy, World Bank
Note: An oil price crash episode is defined as a fall in oil prices of at least 30 percent in a six-month period. Data based on six episodes with t=0 in 1986, 1991, 1998, 2001, 2009, and 2015. Fiscal data from 2003 onwards are based on Brunei's fiscal year, which runs from April to March.

Conclusion

The large oil price swings in the past several years is a stark reminder of the uncertainty that oil-exporting countries face, which can complicate the conduct of fiscal policy. Brunei's fiscal policy stance has varied throughout the decades, likely reflecting the authorities' assessment on the persistence of oil price shocks. Since the oil price plunge in mid-2014, government spending has been reduced in response to a possibly prolonged period of low oil prices. In the context of heightened uncertainty amid the COVID-19 pandemic and geopolitical tensions, continuous efforts in strengthening Brunei's fiscal policy framework, particularly with regard to macroeconomic stabilisation and fiscal sustainability, is called for. The main policy issues are fiscal adjustment to low oil prices and rebuilding fiscal buffers. Priorities can include streamlining expenditures with a focus including on growth-enhancing spending and increasing non-oil revenues.

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