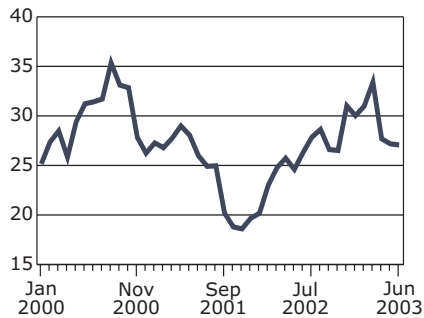


# Brunei Darussalam

Figure 1: **Average Weighted Price of Crude Oil** (\$/barrel)



Source: Brunei Economic Bulletin.

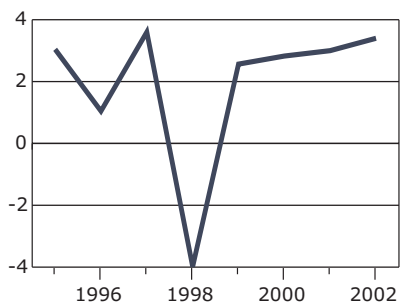
## **Higher oil prices boosted first-half economic growth.**

Brunei benefited significantly from the 28% increase in oil prices in the first half of 2003. (Figure 1). The oil and gas sector accounts for about one third of GDP and almost 90% of merchandise exports and government revenue. Consequently, the economy expanded 7.3% in the first quarter and 8.3% in the second. The oil and gas sector grew 14.5% in the second quarter. But the non-oil and gas sector rose an anemic 1.4%. The hotel and restaurant sector, along with transport and communications, performed poorly in the quarter because of SARS. Brunei's economy grew 3.4% in 2002 (Figure 2).

## **The budget swung into surplus in the first half.**

The Government's fiscal position strengthened in the second quarter with a surplus of Br\$317.6 million, up about Br\$80 million from the first quarter, and reversing the Br\$417.5 million deficit of a year earlier. Revenues rose 16%, driven by a 20% increase in oil and gas receipts. Expenditures fell 39% from a year ago, reflecting a decline in both current and capital expenditures. Project disbursements continued to lag behind allocations, as they did in the previous two years, despite efforts to streamline administrative procedures. The Eighth National Development Plan 2001–2005 allocates Br\$1 billion, equivalent to about 10% of GDP, for development projects in 2003. Cumulative disbursements for projects in the first half were 41% of the target. Spending on public utility projects reached 53% of the target for the first half, but projects in new sectors such as information, communications, and technology were proceeding at a glacial pace of just 3% of target.

Figure 2: **Real GDP Growth** (%)

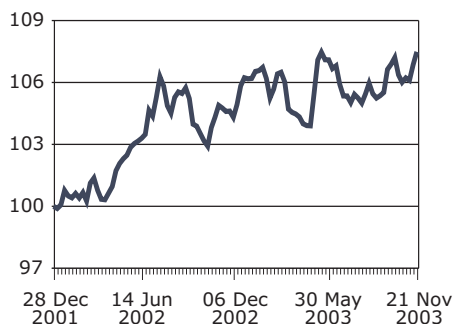


Source: National Development Committee, Eighth National Development Plan 2001–2005.

## **Prices edged up in the first half after declining in 2002.**

Consumer prices increased an estimated 0.3% in the first half from a year earlier, after a 2.3% decline in 2002. The slight increase in the price level may suggest that domestic demand is stabilizing, although import data still show some weakness. Monetary stability is underpinned by the currency peg to the Singapore dollar under a currency board arrangement (Figure 3).

Figure 3: **Exchange Rate Index, Weekly Average** (last week of Dec 2001=100, \$/Br\$)



Source: ARIC Indicators.

## **The trade surplus widened sharply.**

Total merchandise exports grew 24.4% in the second quarter as a result of a 28.4% rise in oil and gas exports. Liquefied natural gas, which accounts for about 46% of oil and gas exports, rose 65%. Non-oil and gas exports declined 2.9%. Garment shipments, comprising two-thirds of non-oil and gas exports, were flat. Imports fell 4.6% in the second quarter, suggesting that the spillover effects from increased

oil and gas receipts on domestic demand remain weak. Imports of manufactured goods, 26% of total imports, fell 13%. Given these trade patterns, the trade surplus recorded a strong 48% increase in the second quarter and was up 46% in the first half.

***More labor market reforms are required.***

The unemployment rate rose to 5.6% in 2001, the latest year data are available. Of the total 145,600 people employed, 67% were in the private sector, with 71% of these foreign workers. The increase in unemployment has been attributed to the residual effects of the Asian financial crisis, the preference among residents to be employed in the public sector, which is more lucrative but has a limited potential to absorb workers, and the perceived lack of local skills relative to foreign workers. One solution to the unemployment problem calls for reducing the relative size of the public sector and modifying its incentive structure while raising the skills of local residents. The Government implemented several programs to partially address these issues, including job placement and training schemes. The economic recovery program initiated in 2001 targeted small and medium enterprises (SMEs) estimated to account for about 70% of total private sector employment. The program includes the Public Housing Development Scheme to help local contractors and provision of working capital to SMEs in diverse sectors. In the latter scheme, the government guarantees 75% of the principal payment on loans to SMEs by participating banks.

***Growth is likely to exceed official projections of 3-4% this year.***

Buoyant oil prices and improved prospects for growth globally make it likely that Brunei's GDP growth in 2003 will exceed the official projection of 3-4%. Oil prices declined from their peaks for the year but remain above year-earlier levels. The recovery in tourism and a better outlook for exports should assist the non-oil and gas sectors, especially if the authorities are able to speed up the implementation of planned development projects. However, with the expected further drop in oil prices in 2004, growth may return to the 3-4% range.

***The Government outlines a strategy to diversify the economy.***

Over the medium to longer term, the main challenge facing the authorities is to reduce the vulnerability of the economy to the vagaries of oil prices. Early this year, the Government announced an ambitious strategy to diversify the economy. The plan aims to attract local and foreign investment of \$4.5 billion over several years and create 6,000 permanent jobs for its citizens. Planned projects include an aluminum smelter, power plant, and a container port facility. The Government

also intends to develop clusters in tourism, financial services, business services, and transportation and logistics. A study to define human resource development policies to ensure a well-equipped workforce in these sectors is being considered.