Brunei Darussalam

Even as oil prices rose in 2018, this energy exporter saw oil and gas production decline because of unplanned repairs and maintenance. Inflation stirred, and the current account shrank. As refineries resume normal production this year, growth will likely return and inflation edge up, though the current account surplus will continue to shrink. With global demand for energy increasingly favoring renewables, this hydrocarbon-dependent economy should exploit its solar potential.

Economic performance

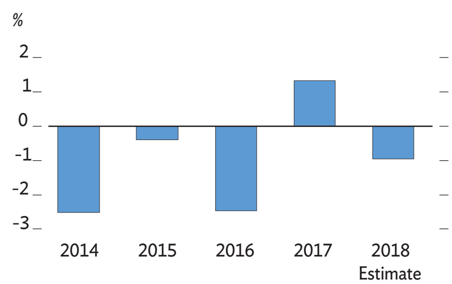
GDP is estimated to have contracted by 1.0% in 2018, reversing 1.3% growth in the previous year (Figure 3.22.1). Oil and gas output, accounting for close to two-thirds of GDP, likely contracted. Crude oil production fell by 1.5%, while the production of natural gas and liquefied natural gas each shrank by more than 3.0%. The rest of the economy contracted as well, by 0.8%, in the 3 quarters of 2018 for which data are available.

On the demand side, lower exports and domestic consumption drove down GDP growth, more than offsetting a strong rise in domestic investment (Figure 3.22.2). The decline in oil and gas production dragged volume growth in exports of goods and services to less than 1.0% in the first 3 quarters of 2018. Domestic consumption contracted by 0.4% as government consumption declined by 1.3%. Meanwhile, domestic investment rose by a whopping 23.1%, largely reflecting continued work on the Hengyi refinery, the Temburong Bridge, and a fertilizer plant for Brunei Fertilizer Industries.

Even as GDP contracted, the deflationary trend of the previous 4 years reversed because of higher global commodity prices and depreciation of the Brunei dollar against the US dollar. Consumer prices rose by 0.1% last year, with prices for food and beverages, hotels and restaurants, education and health care services posting modest increases (Figure 3.22.3).

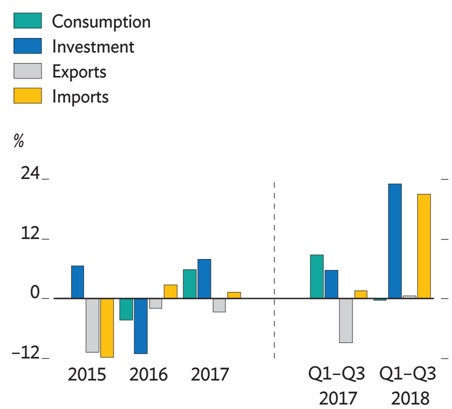
The rise in international oil prices meant that, despite near stagnation in the volume of exports, the US dollar value of merchandise exports rose by a solid 17.8% in 2018 (Figure 3.22.4). This was, however, barely more than half of the rise in the US dollar value of merchandise imports, which exceeded 35.0%. The trade surplus for the year thus narrowed, moderating the current account surplus from the equivalent

3.22.1 GDP growth



Sources: CEIC Data Company (accessed 8 March 2019); ADB estimates.

3.22.2 Demand-side growth



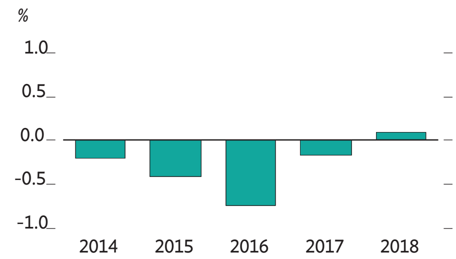
Q = quarter.
Source: CEIC Data Company (accessed 8 March 2019).

This chapter was written by Pilipinas Quising of the Economic Research and Regional Cooperation Department, ADB, Manila, and Thiam Hee Ng of the Southeast Asia Department, ADB, Manila.

of 16.7% of GDP in 2017 to an estimated 15.5% last year. With capital and financial accounts posting substantial deficits, international reserves likely declined from $3.5 billion in December 2017 to $3.4 billion a year later—still cover for 10 months of imports.

The government budgeted a fiscal deficit of B$1.54 billion for fiscal year 2018 (FY2018, ended 31 March 2019), but in the first 10 months of the fiscal year, revenues were driven higher than budgeted by rising international oil prices, keeping the actual fiscal deficit smaller than budgeted. Monetary policy continued to focus on maintaining exchange rate parity with the Singapore dollar. Broad money (M2) grew by 2.8% in calendar 2018, while credit to the private sector contracted by 2.9%.

3.22.3 Inflation



Source: CEIC Data Company (accessed 8 March 2019).

Economic prospects

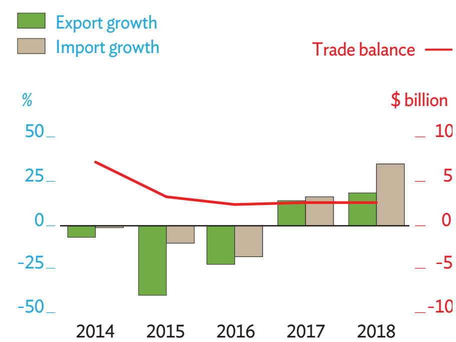
Hopes for growth in the near term are tempered by a weakening external environment and lower prospects for international oil prices. A modest boost to energy production is likely, though, with the start of downstream production at the new Hengyi refinery. Further, construction on the Brunei Fertilizer Industries plant and the $1.3 billion Temburong Bridge is expected to stimulate growth until scheduled completion near the end of 2019. The economy is thus expected to return to growth, with GDP expansion forecast at 1.0% this year and 1.5% in 2020.

Net exports will continue to drag on the economy as an expected increase in the volume of exports will be more than offset by higher imports to supply investment projects. Last year's decline in domestic consumption may begin to reverse, however, and domestic investment may continue to grow, especially in construction as various economic diversification projects proceed and as the government streamlines regulations and procedures toward improving the business environment (Figure 3.22.5). An anticipated increase in oil and gas revenue should enable higher government consumption but will be tempered by government efforts to consolidate its finances.

Inflation is expected to edge up as the economy improves but only minimally, to 0.2% in both years, as global commodity prices stay subdued, the government continues to subsidize consumer needs including fuel, and the Brunei dollar remains stable.

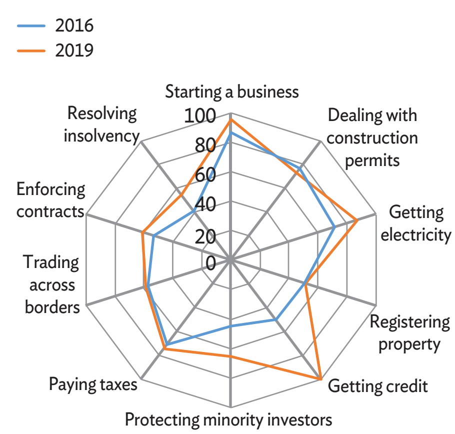
Export earnings will be constrained by lower international oil prices even as the import bill keeps rising in tandem with domestic investment that will require higher imports of construction materials, machinery, and equipment. The current account surplus is thus expected to narrow to the equivalent of 13.0% of GDP both this year and next.

3.22.4 Merchandise trade



Source: CEIC Data Company (accessed 18 March 2019).

3.22.5 Doing business scores



Note: An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 is the lowest performance and 100 the best.

Source: World Bank. *Doing Business 2019, 2017.*

Key external risks to the outlook would be a global slowdown that is steeper than expected or a sharp fall in international oil prices. A critical domestic risk would be possible failure of the government to sustain the timely implementation of domestic investment projects.

Policy challenge—exploiting solar energy potential

Brunei Darussalam has substantial reserves of oil and gas that will last for decades (Figure 3.22.6). However, the composition of global demand for energy is expected to shift significantly away from conventional nonrenewable sources toward renewable ones. The International Energy Agency predicted in 2018 that growth in global demand for oil and gas would slow as energy users sought other sources. The Association of Southeast Asian Nations now aims to source 23% of its primary energy from renewable sources by 2025. For its part, Brunei Darussalam aims by 2035 to reduce its energy intensity by 45% and, by the same deadline, increase the share of renewables in electric power generation to at least 10.0%.

Most electricity in Brunei Darussalam currently comes from oil and gas. The sole solar energy plant, Tenaga Suria Brunei, produces 1,700 megawatt-hours of solar energy per year, or 0.05% of domestic electricity supply. A recent study estimated that from January 2011 to August 2017 the plant saved the government $1.7 million and reduced carbon dioxide emissions by 8,000 tons. Given the proven value of solar plants such as this and the improving affordability of solar panels, solar power has significant potential as an additional source of energy, even in a country as rich in hydrocarbons as Brunei Darussalam.

In 2014, the Energy Department—since reorganized as the Ministry of Energy, Manpower, and Industry—published its *Energy White Paper*, which outlines several initiatives to develop renewable energy. Progress on these initiatives has been slow, however, with no regulatory framework or renewable energy policy yet formulated. Work is not yet complete on a program to apply a feed-in tariff, which has encouraged the use of solar power globally by allowing users of renewable energy to sell energy back to the electric utility.

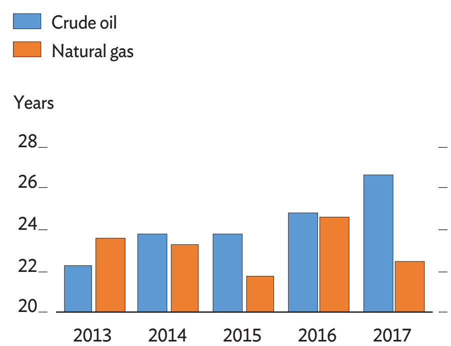
Much remains to be done toward educating the public on the benefits of solar power. One way to do this would be to introduce small standalone solar systems to replace the noisy, polluting generators used to power lights and fans in night markets. More broadly, the government should support research and development on ways to reduce the cost of solar energy.

3.22.1 Selected economic indicators (%)

	2019	2020
GDP growth	1.0	1.5
Inflation	0.2	0.2
Current account balance (share of GDP)	13.0	13.0

Source: ADB estimates.

3.22.6 Ratio of reserves to production



Note: The ratio of reserves to production is the number of years the remaining reserves at year-end would last given the production rate of the particular year.

Source: *BP Statistical Review of World Energy*, various years.