BRUNEI ECONOMIC OUTLOOK

2021

ڤوست كاجين ستراتيجيك دان داسر
Centre for Strategic and Policy Studies

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The cut-off date for the data used in this report was January 6, 2021.

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

Abbreviations

ASEAN	Association of Southeast Asian Nations
CAR	Capital adequacy ratio
COVID-19	Coronavirus disease 2019
CPI	Consumer price index
FDI	Foreign direct investment
G3	Euro area, Japan, and the United States
GDP	Gross domestic product
GFC	Global financial crisis
GVA	Gross value added
ICT	Information and communications technology
IEA	International Energy Agency
IHR	International Health Regulations
IMF	International Monetary Fund
LNG	Liquefied natural gas
m/m	Month-on-month
mb/d	Million barrels per day
mmbtu/d	Million British thermal units per day
M2	Broad money
MSCI ACWI	MSCI All Country World Index
MSME	Micro, small, and medium enterprises
NEER	Nominal effective exchange rate
NIC	National Isolation Centre
NPIs	Non-pharmaceutical interventions
NPLs	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OPEC+	The Organization of the Petroleum Exporting Countries and its allies
PISA	Programme for International Student Assessment
PMI	Purchasing Managers' Index
q/q	Quarter-on-quarter
SARS	Severe acute respiratory syndrome
tb/d	Thousand barrels per day
WHO	World Health Organization
WTI	West Texas Intermediate
y/y	Year-on-year

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Foreword by the Chairman

The year 2020 has been unprecedented by some measures, including the severity of the global recession caused by the COVID-19 pandemic and the actions taken by governments around the world to support lives and livelihoods.

The Government of His Majesty The Sultan and Yang Di-Pertuan of Brunei Darussalam has been resolute right from the onset in prioritising public health, protecting jobs, and supporting businesses. Brunei has been able to contain the COVID-19 outbreak swiftly through a series of interventions, including social distancing measures, a “test, trace, and isolate” strategy, and transparent public communications. The outbreak was brought under control within a month. As of January 5, 2021, only 172 cases were detected and there has been no community transmission since early May 2020.

Inevitably, Brunei’s economy has been adversely affected by these containment measures, in addition to weak external demand and low oil and gas prices. Fortunately, the Government’s efforts to attract foreign investment in recent years have paid off. The commencement of a new oil refinery and petrochemical project has supported growth. Most service sectors have also gradually recovered following the easing of stringent measures. Overall, CSPS estimates that the Brunei economy expanded by 0.7 percent in 2020.

The Government announced economic relief and stimulus measures totalling B$450 million in March 2020. The targeted measures, primarily aimed at supporting affected businesses and individuals, include temporary salary subsidies, deferment of social security contributions, corporate income tax discounts, exemption of custom and excise duties, discounts on utilities and rental rates of government buildings, deferment on loan principal repayments, expansion of the i-Ready apprenticeship programme, special allowances for frontline workers, and many others.

Looking ahead, Brunei’s economy is forecast to grow by 2.8 percent in 2021, according to CSPS projections. However, this outlook is subject to considerable uncertainty and predicated on a recovery in global trade and commodity prices, as well as progress in the development and deployment of a safe and effective vaccine. Brunei’s economic diversification agenda remains steadfast, with the five priority sectors—downstream oil and gas, food, ICT, tourism, and services—expected to drive growth going forward.

Yang Mulia Dato Seri Paduka Dr Haji Abdul Manaf bin Haji Metussin
Deputy Minister of Finance and Economy (Economy), Ministry of Finance and Economy
as Chairman of the Board of Directors of the Centre for Strategic and Policy Studies

Message from the Acting Executive Director

It is my great pleasure to present the inaugural edition of the *Brunei Economic Outlook*, a flagship publication of the Centre for Strategic and Policy Studies. The report discusses recent key developments in the Brunei economy and the economic outlook for the year. The timely release of the report serves as a useful guide as we navigate through uncertain times.

The COVID-19 pandemic has had profound health, economic, and social effects. We are living in challenging times, but there are reasons to be hopeful. The development of vaccines and treatments is progressing well, global economic activity is gradually recovering with massive policy support, and adoption of digitalisation and automation has been accelerating.

Brunei's economy has been relatively resilient, registering still-positive growth in 2020. Thanks to the swift containment of the COVID-19 outbreak, most social activities have somewhat returned to normalcy after restrictions were relaxed. However, we must remain vigilant and continue to take safety precautions. To seize new growth opportunities and create jobs, structural reforms should be advanced, including intensifying efforts to boost human capital accumulation and improve the business environment.

COVID-19 has highlighted the importance of food security and the resilience of global supply chains. Consumer prices in Brunei saw a steep rise, particularly in the first half of 2020, with reported shortages of face masks, hand sanitizers, and disinfectants, as well as certain meat products and fresh vegetables. Although inflation moderated in the third quarter, there may be occasional price spikes. Continued monitoring of the affordability and availability of essential goods is critical to ensure the welfare of consumers, especially low-income households.

Oil and gas prices are anticipated to be lower for longer, putting pressures on Brunei's fiscal position. The fiscal deficit widened in 2020 owing to a plunge in oil and gas revenue. Efforts to broaden the revenue base and ensure efficient spending are expected to be stepped up.

In closing, I trust that the *Brunei Economic Outlook* will be a valuable resource for policymakers, industry professionals, investors, academics, and the general public. I thank the staff of the Centre who have worked tirelessly to produce this insightful report.

Yang Mulia Pengiran Hajah Siti Nirmala Binti Pengiran Haji Mohammad
Permanent Secretary (Vision, Finance, and Cabinet), Prime Minister's Office
as Acting Executive Director of the Centre for Strategic and Policy Studies

Summary

Brunei's economy slowed in 2020 due to weak external demand, low commodity prices, and the impact of domestic containment measures. In the third quarter of 2020, GDP growth moderated to 0.5 percent year-on-year, after robust growth of 2.7 percent in the first half.

Growth has been largely supported by the downstream oil and gas sector, particularly the production and exports of refined petroleum and petrochemical products. Crude oil and liquefied natural gas (LNG) exports, on the other hand, have been hampered by domestic production disruptions, as well as weak demand and prices.

Service sector activity has recovered following the gradual easing of stringent measures. The retail trade and telecommunications sub-sectors have been particularly resilient, as border closures boosted domestic spending for groceries and essential supplies while work-from-home arrangements led to higher demand for electronic products and ICT services. By contrast, the air transport and hotels sub-sectors have been badly hit owing to impediments to international travel.

The trade balance fell into deficit in the third quarter of 2020. Travel restrictions enforced worldwide led to lower demand for jet fuel, diesel, and gasoline. The global aromatics market has also been affected as manufacturing activity slowed. Meanwhile, imports of mineral fuels, used as feedstock for the production of refined and petrochemical products, surged.

Private consumption and investment surged in the third quarter after containment measures were eased. Public consumption and investment, on the other hand, continued to be held back by sharply lower government revenue.

Inflation surged in the first half of 2020 but moderated in the third quarter. Consumer prices rose significantly in the first half of 2020 due to a marked depreciation of the exchange rate and shortages of certain imported items caused by global supply chain disruptions. The Brunei dollar has gradually regained strength against the US dollar since May.

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 continued to improve. Despite pressures on earnings with a low level of intermediation, banks are profitable.

Domestic lending fell sharply in the third quarter of 2020 due to a decline in credit to households, particularly in personal loans financing. Credit to businesses has been more robust, although lending to certain sectors saw large declines.

Demand deposits continue to surge, which may reflect pandemic-induced precautionary saving, spending cutbacks, and preference for holding cash to avoid liquidity shortfalls. Deposit rates have also fallen to record lows.

The fiscal deficit widened substantially in 2020 due to a plunge in oil and gas revenue. Although crude oil prices have recovered from their April lows, they remain substantially below pre-pandemic levels.

Brunei's economy is forecast to expand by 2.8 percent in 2021, after growing by an estimated 0.7 percent in 2020. Growth in 2021 is expected to be supported by the export-oriented mining and manufacturing sectors as global trade and commodity prices recover. The services sector is expected to rebound, but travel and tourism is unlikely to recover swiftly. Private investment is also expected to drive growth, particularly from the Phase II expansion of Hengyi Industries' oil refinery and petrochemical complex.

The current account surplus is projected to remain high at 10.7 percent of GDP in 2021, largely driven by crude oil, LNG, and refined petroleum and petrochemical exports as external demand firms. The expected commencement of the production of fertilizers and increased aquaculture output will also boost exports.

The fiscal deficit is projected to narrow to 9.1 percent of GDP in 2021, after widening substantially to 15.1 percent of GDP in 2020. Oil and gas revenue is forecast to be higher in 2021, with oil prices averaging US$50.8 per barrel and LNG prices at US$8.9 per mmbtu. Government expenditure is expected to continue to trend lower as fiscal consolidation efforts resume.

Inflation is projected to moderate to 0.4 percent in 2021, after a steep rise to 1.7 percent in 2020. As mobility restrictions around the world ease and production normalises, prices are anticipated to fall to near pre-pandemic levels. 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 2.8 percent in 2021

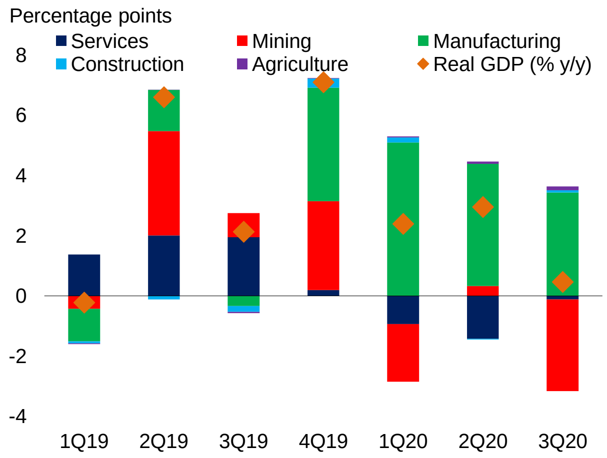
Growth is expected to be broad-based, supported by upstream and downstream oil and gas as well as the service sectors

However, the baseline projections are subject to considerable uncertainty and could be derailed by a materialisation of several risks. These include new waves of infections, delays in the development and deployment of a safe and effective vaccine, weaker-than-expected global growth and commodity prices, and unanticipated domestic oil and gas supply disruptions.

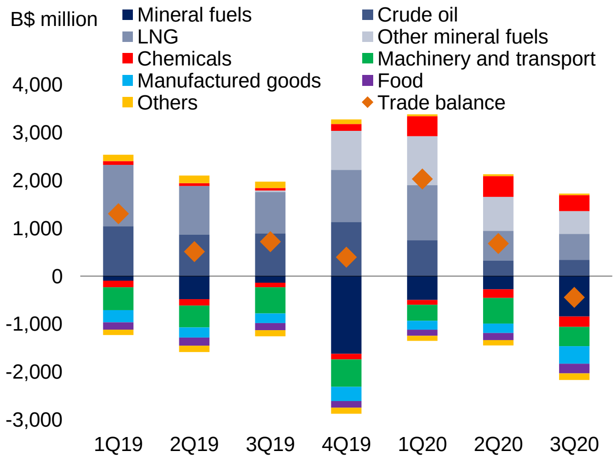
This report recommends that the immediate policy priorities should focus on **sustaining the public health response**, **supporting affected and vulnerable households and firms** to revitalise growth and jobs, **strengthening the fiscal position** by expanding the revenue base to ensure long-term sustainability, and **accelerating structural reforms** to seize new growth opportunities.

Recent economic developments

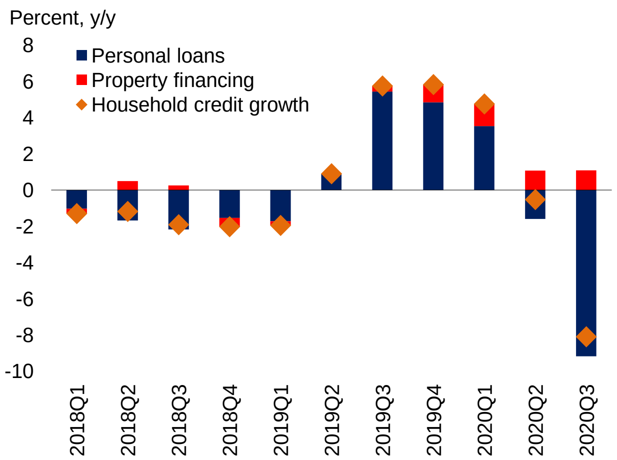
Brunei's economy slowed to 0.5 percent year-on-year in Q3 2020, with growth largely supported by the downstream oil and gas sector



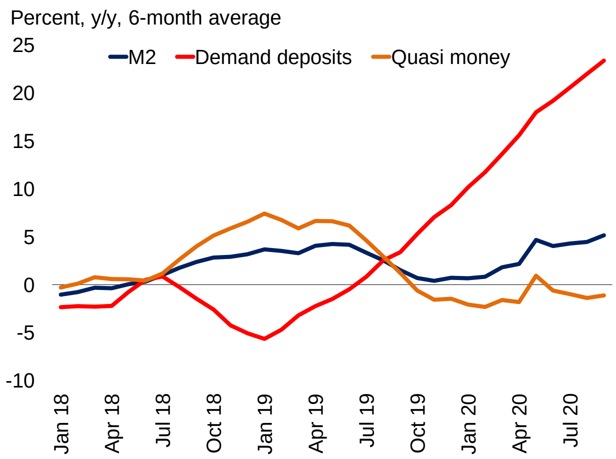
The trade balance fell into deficit in Q3 2020 due to lower exports and a surge in mineral fuel imports



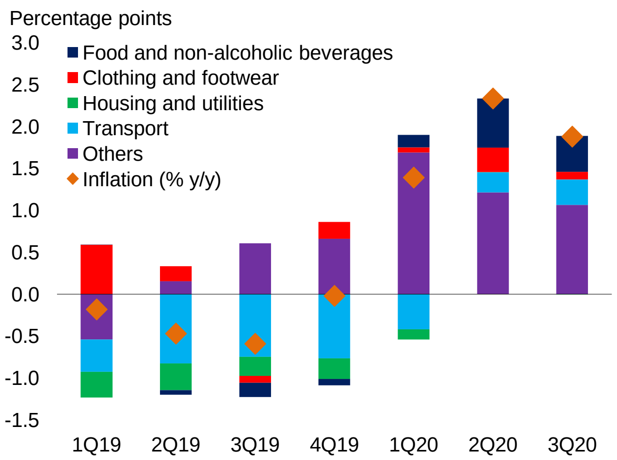
Domestic lending slowed sharply in Q3 2020 due to a marked decline in personal loans



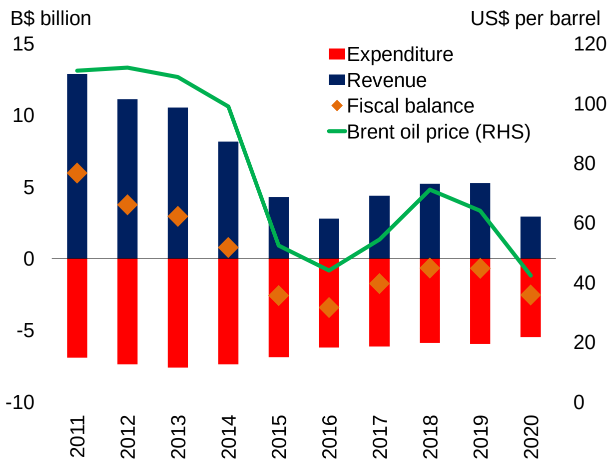
Demand deposits continued to trend higher, which may reflect an increase in precautionary saving



Inflation moderated in Q3 2020, partly reflecting a stabilisation of the exchange rate

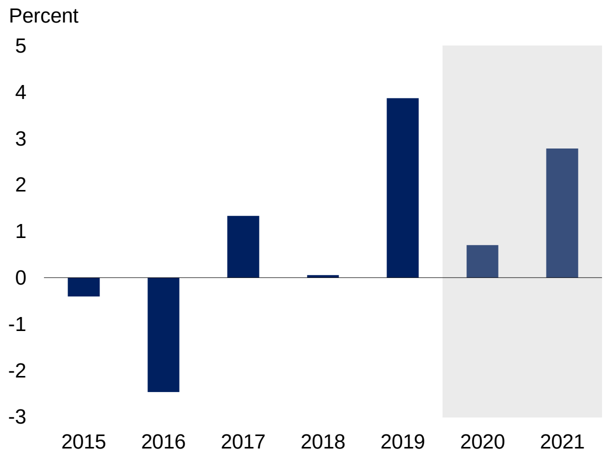


The fiscal deficit widened substantially in 2020 due to a plunge in oil and gas revenue

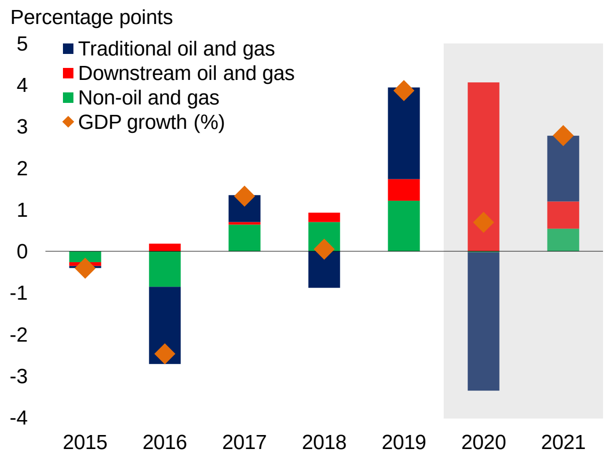


Economic outlook and risks

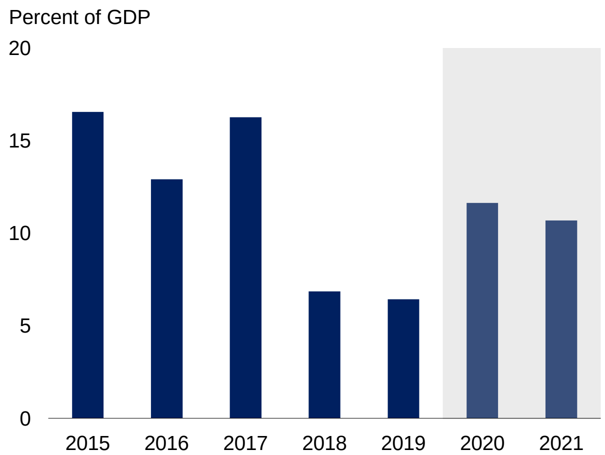
Brunei's economy is forecast to grow by 2.8 percent in 2021, following an estimated 0.7 percent growth in 2020



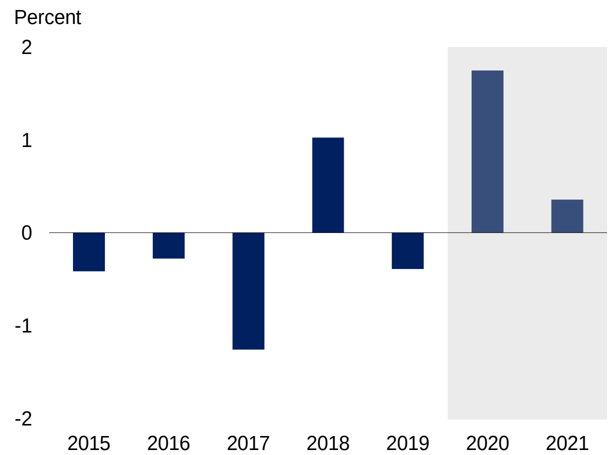
Growth in 2021 is expected to be broad-based, as external demand and domestic activity strengthen



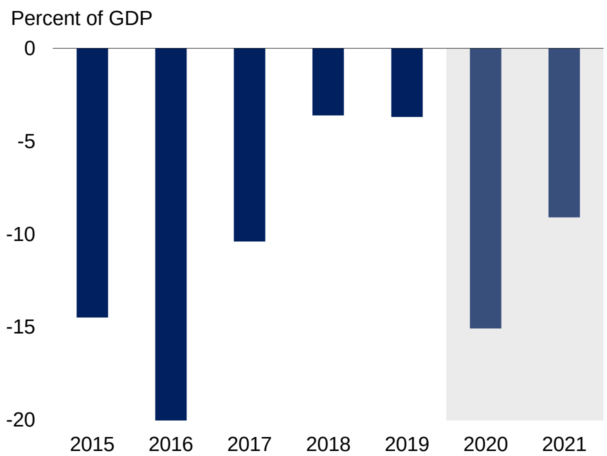
The current account surplus is projected to remain high at 10.7 percent of GDP in 2021



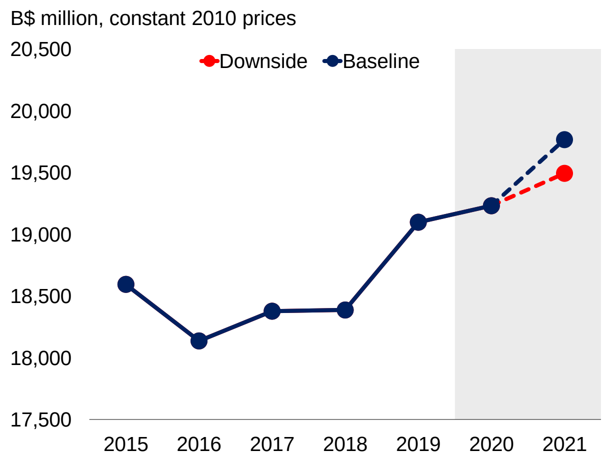
Inflation is projected to moderate to 0.4 percent in 2021, after a steep rise to 1.7 percent in 2020



The fiscal deficit is forecast to narrow to 9.1 percent of GDP in 2021, after widening substantially in 2020



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



PART ONE

Recent Economic Developments

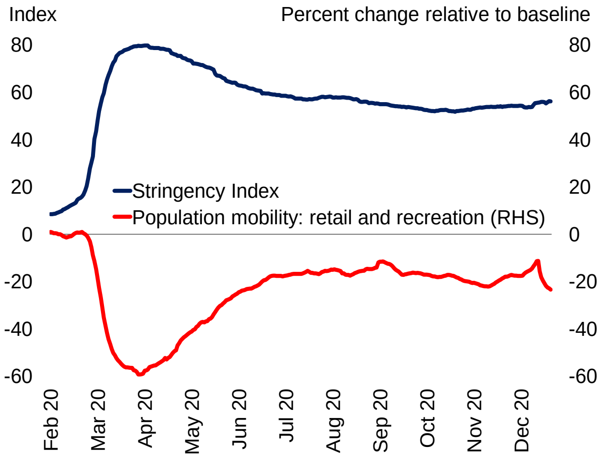
Recent economic developments

The COVID-19 pandemic caused a deep global recession in 2020

The COVID-19 pandemic has triggered a global economic shock of historic proportions, causing a collapse in global economic activity in H1 2020. Governments worldwide imposed necessary but economically costly measures to contain the public health crisis, with uneven rates of success at curbing infections. These non-pharmaceutical interventions (NPIs) include closures of schools and non-essential businesses, travel restrictions, and national lockdowns. The pandemic and associated measures have affected economic activity through several channels (Box 1). Labour supply has been reduced and production disrupted, particularly services activity reliant on face-to-face interactions or travel (Figure 1). Sharply lower household incomes and business revenues, as well as heightened uncertainty, led to reduced consumption and investment.

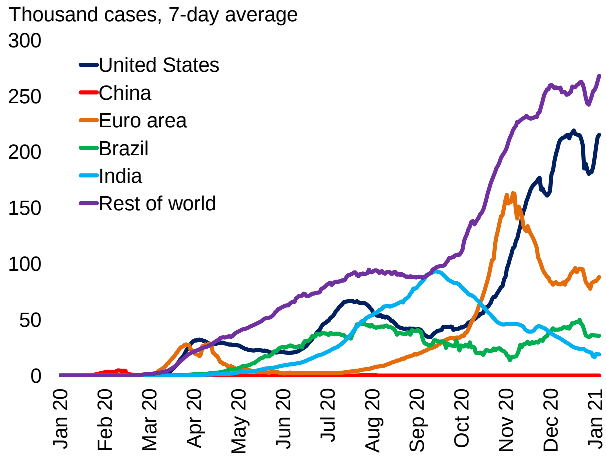
Economic activity picked up in Q2 and Q3 as stringent restrictions were eased. The strengthening from the nadir in April was most evident in retail sales, where discretionary consumer purchases increased with reopening of businesses. However, after a tentative flattening of the epidemic curve, infections have started to rise again, with a sharp resurgence in the United States, Europe, and other areas (Figure 2). Some countries have reinstated partial lockdowns, resulting in a slowdown in the pace of the economic recovery. Nonetheless, pandemic-control measures have become more targeted and less economically disruptive. According to the World Bank, the global economy contracted by 4.3 percent in 2020—a recession surpassed only by the two World Wars and the Great Depression in the past 150 years.

Figure 1. Stringency of public health measures and population mobility



Source: Oxford COVID-19 Government Response Tracker, Google Community Mobility Reports
Note: The Stringency Index is a composite measure of nine policy measures: school closing, workplace closing, cancel public events, restrictions on gatherings, close public transport, stay at home requirements, restrictions on internal movement, international travel controls, and public info campaigns. The baseline for the population mobility index is the median value for the corresponding day of the week during January 3 to February 6, 2020.

Figure 2. New daily confirmed cases



Source: European Centre for Disease Prevention and Control

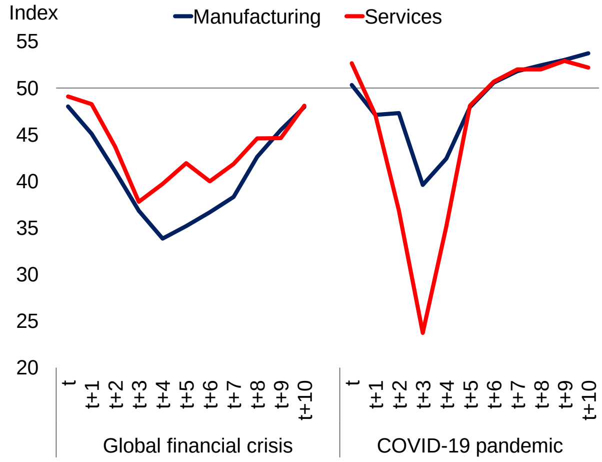
Service sectors suffered larger contractions than manufacturing

The service-oriented sectors have been much more adversely affected compared to manufacturing, unlike previous recessions, such as the global financial crisis (GFC), where services tended to suffer smaller growth declines (Figure 3). This was a direct result of the mobility restrictions induced by the COVID-19 pandemic, and its impact on consumer behaviour. Service sectors dependent on contact or travel, such as transport, wholesale and retail trade, and accommodation, saw large contractions. By contrast, the impact on financial and information and communications technology (ICT) services has been less severe as many workers in these industries have been able to work remotely during lockdowns. While the slump in services output was more pronounced, the rebound has also been sharper and faster than previous crises.

Economic activity remains robust in China but slowed in G3

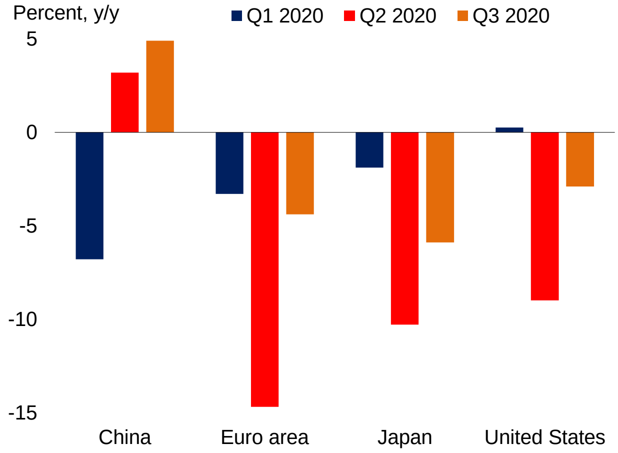
The rebound in economic activity has been uneven across countries, largely driven by the relative stringency of movement restrictions and economic structures. China's economy expanded by 3.4 percent year-on-year (y/y) in Q2 and 4.9 percent in Q3, after contracting by 6.8 percent in Q1 (Figure 4). China's swift recovery reflected its rapid containment of the virus and large policy support mainly through public infrastructure investment. In the United States, output declined by 2.9 percent in Q3, following a sharp contraction of 9.0 percent in Q2. The nascent recovery has been weighed down by subdued demand due to lingering restrictions amid localised flare-ups of COVID-19. Similarly, the recovery in the Euro area and Japan lost momentum as a resurgence of infections dampened consumption, but manufacturing activity is still firm.

Figure 3. Manufacturing and services Purchasing Managers' Index (PMI) during the global financial crisis and the COVID-19 pandemic



Source: Haver Analytics, IHS Markit, J.P.Morgan
Note: PMI readings above (below) 50 indicate expansion (contraction) in economic activity. "t" is August 2008 for the global financial crisis episode, and January 2020 for the COVID-19 pandemic episode.

Figure 4. GDP growth in major economies



Source: Organisation for Economic Co-operation and Development

Goods trade recovered swiftly but services trade remains depressed

The pandemic has induced expenditure switching away from services towards goods, which has in turn supported merchandise trade volume. After falling by 17 percent in May 2020 relative to its end-2019 levels, international merchandise trade has rebounded swiftly (Figure 5). By contrast, continued restrictions to international travel have contributed to the slow recovery in services trade. Although international travel has recovered from its April trough, the number of tourist arrivals remains far below pre-pandemic levels (Figure 6).

Global financial conditions have stabilised after a turbulent March

Aggressive policy countermeasures by central banks, including interest rate cuts and large-scale asset purchases, have calmed financial markets and supported sentiment after a turbulent March. The rally in global equity markets has been sharper than during the GFC (Figure 7). Capital inflows to emerging market economies have stabilised, following an unprecedented reversal in March (Figure 8). However, the buoyancy in financial markets stands at odds with the fragility still evident in the real economy.

Figure 5. Global trade and industrial production

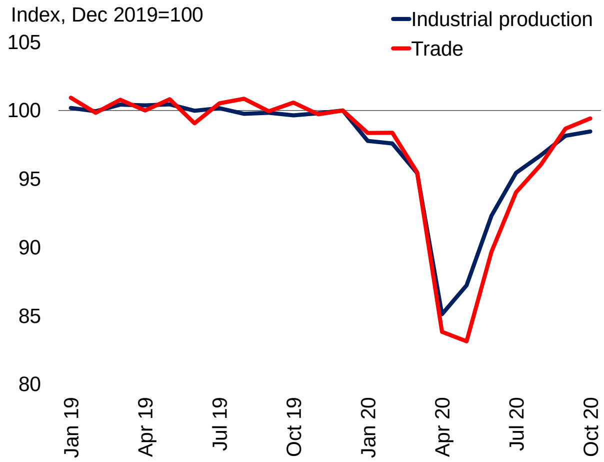
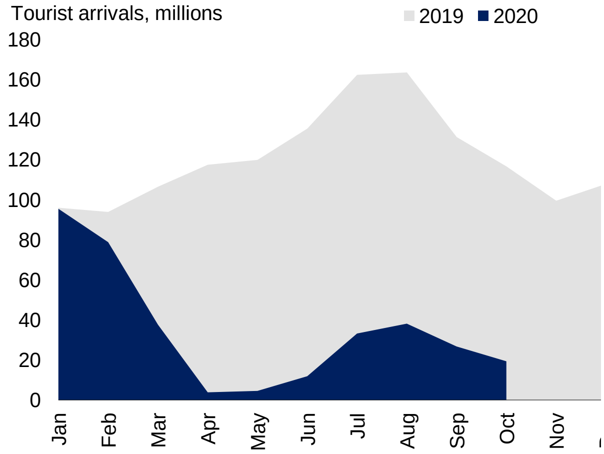


Figure 6. International tourist arrivals



Source: CPB Netherlands Bureau for Economic Policy Analysis, United Nations World Tourism Organization

Figure 7. MSCI ACWI global equity index

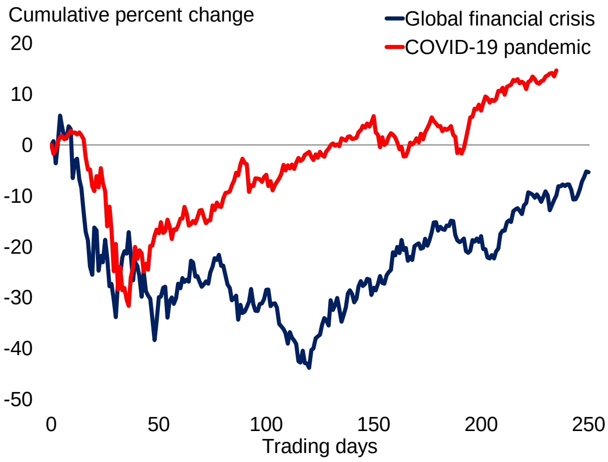
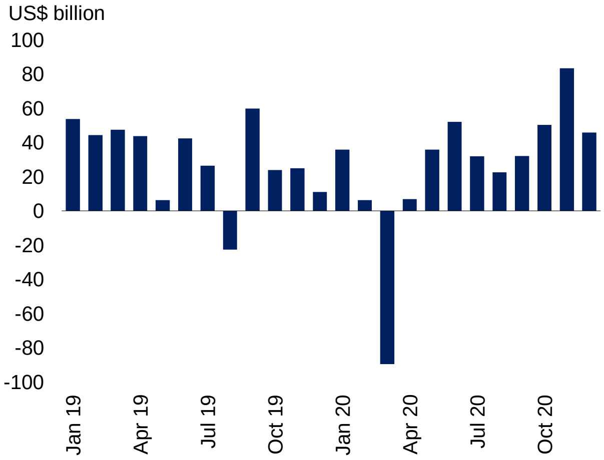


Figure 8. Portfolio flows into emerging markets



Source: International Institute of Finance, MSCI
Note: t=0 is September 15, 2008 for the global financial crisis, and January 30, 2020 for the COVID-19 pandemic.

Oil prices have recovered but remain below pre-pandemic levels

Metal prices have recovered from the nadir in April and have surpassed pre-pandemic levels, largely reflecting robust demand from China and supply disruptions in Latin America (Figure 9). Agriculture prices have also remained resilient. The recovery in oil prices, however, has only been partial as continued impediments to international travel kept demand subdued. Oil prices averaged US$41.3 per barrel in 2020, a 33 percent decline from 2019, despite historically large production cuts among OPEC+ (Figure 10).

Figure 9. Commodity prices

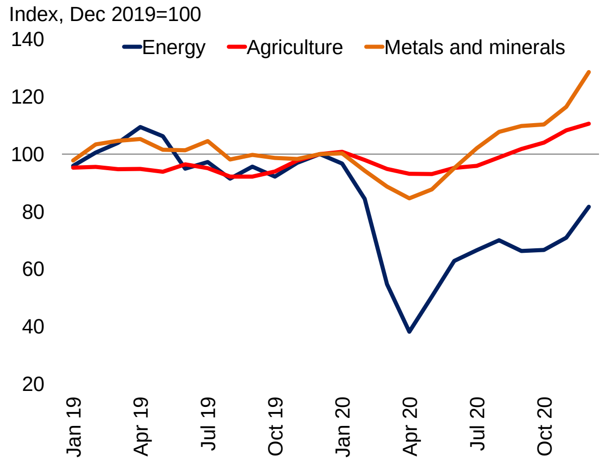
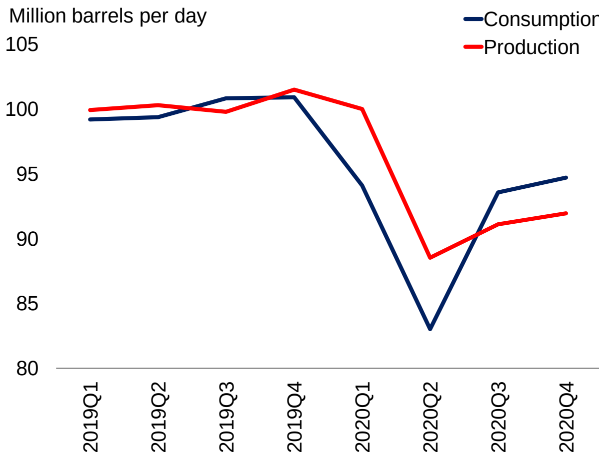


Figure 10. Global oil consumption and production



Source: International Energy Agency, World Bank

Unprecedented policy stimulus has supported economic recovery

Policies have played a vital role in supporting the global economy. Many countries, particularly advanced economies, have implemented unprecedented fiscal stimulus to protect lives and livelihoods (Figure 11). Expectations of prolonged accommodative monetary policy have helped to stabilise financial markets (Figure 12). The recovery has been swifter in countries that prioritised pandemic control, such as increasing testing and tracing capacity and enforcing compliance with social distancing and masking.

Figure 11. Announced fiscal stimulus

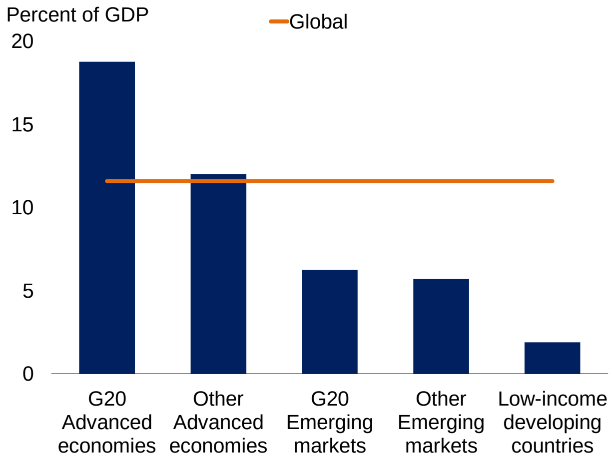
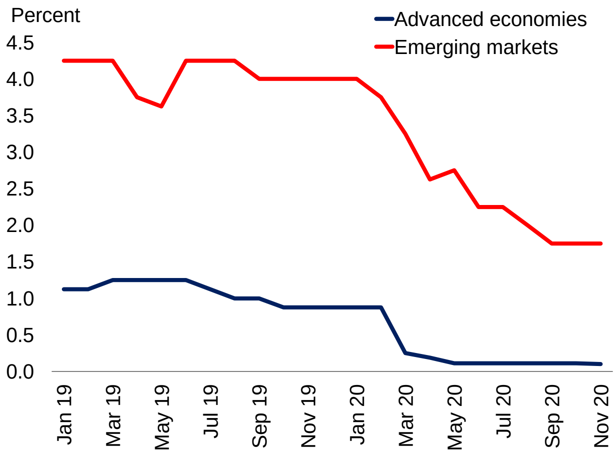


Figure 12. Policy interest rates



Source: Bank for International Settlements, International Monetary Fund

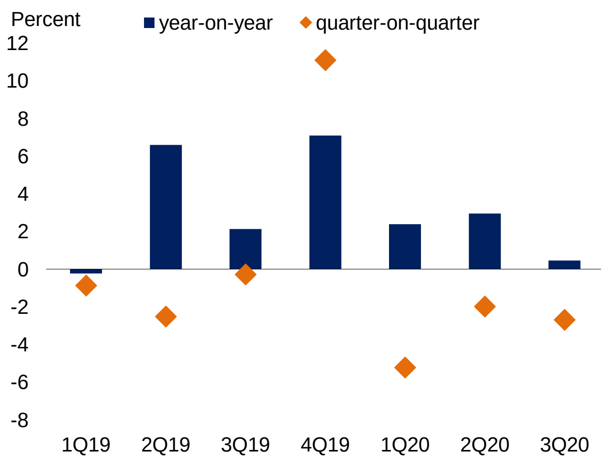
Brunei's economy slowed in 2020, with growth largely supported by the downstream oil and gas sector

Brunei's economy slowed markedly to 0.5 percent y/y in Q3, after growing by 2.4 percent and 3.0 percent in Q1 and Q2, respectively (Figure 13). On a quarter-on-quarter (q/q) basis, the economy contracted by 2.7 percent in Q3. Growth has been largely supported by the downstream oil and gas sector since the commencement of a new refinery and petrochemical plant in November 2019, which boosted growth to 7.1 percent in Q4 2019. Despite the COVID-19 outbreak and public health measures that restricted economic activity, growth remained robust in H1 2020 with the downstream sector contributing five percentage points of GDP growth. However, production of refined petroleum and petrochemical products declined in Q3 due to a fall in external demand, which led to the recent slowdown.

For the whole of 2020, the economy is estimated to have expanded by 0.7 percent. This outturn is substantially lower than in 2019, when GDP growth registered 3.9 percent.

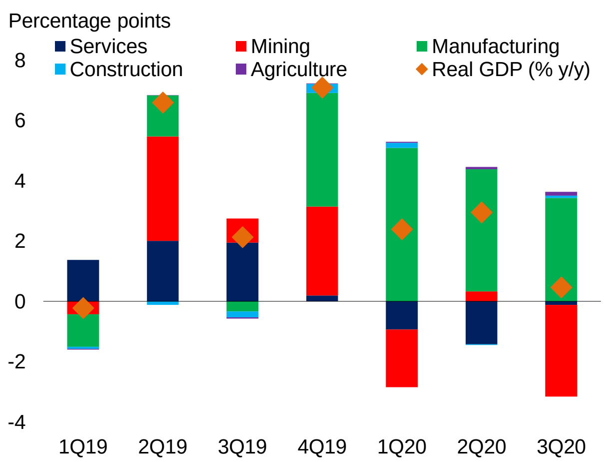
Activity in the services sector broadly recovered in Q3 after COVID-19 containment measures were eased considerably (Figure 14). The government's successful management of the outbreak enabled a quick resumption of most social activities (Box 2). Services growth recorded a smaller contraction of 0.3 percent y/y in Q3 (-2.5 percent in Q1; -3.6 percent in Q2). The mining sector contracted by 7.0 percent in Q3 due to a sharp reduction in oil and gas production. Although manufacturing of refined and petrochemical products declined in Q3, other manufacturing activities experienced an increase, such as food and beverage products. Construction expanded by 2.1 percent in Q3, supported by several projects under the National Development Plan. The agriculture sector expanded by 15.6 percent in Q3, supported by increased production of livestock and poultry (beef, chicken, and egg), paddy, and aquaculture (shrimp and fish).

Figure 13. Real GDP growth



Source: CSPS, Department of Economic Planning and Statistics

Figure 14. Contribution to real GDP growth by economic sector



Source: CSPS, Department of Economic Planning and Statistics

The oil and gas sector contracted due to lower production

The oil and gas sector, which comprises oil and gas mining and manufacturing of liquefied natural gas (LNG), contracted by 5.7 percent y/y in Q3, following a decline of 2.6 percent in H1. Crude oil production fell to 101 thousand barrels per day (tb/d) in Q3, the second lowest quarterly output on record. Meanwhile, LNG production dropped to 833,570 million British thermal units per day (mmbtu/d).

Crude oil production has been on a declining trend since 2006 (Figure 15). Unanticipated disruptions in production due to mature oil and gas fields have hampered the sector's growth. Maintenance and rejuvenation works of ageing offshore facilities have helped restore a gradual increase in production in recent years. However, a prolonged period of low oil prices could weaken the commercial viability to further increase production.

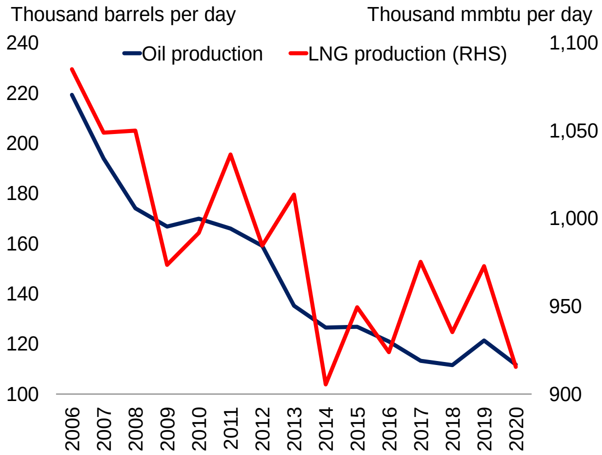
Supply disruptions have also affected manufacturing of LNG and methanol, which depend on consistent supply of natural gas for their production activities.

Air transport and hotels were badly hit by COVID-19

The COVID-19 pandemic has drastically affected travel and tourism globally. Containment measures, including outright travel bans, domestic lockdowns, and mandatory quarantines, have led to the collapse of the industry. Tourist arrivals to Brunei, which had been trending upwards, fell by more than 70 percent in March y/y (Figure 16). Since April, there have been only a handful of tourist arrivals as borders remain closed. In September, Brunei and Singapore established a green lane reciprocal arrangement for short-term business and official trips. As of end December, less than 10 percent of flights to and from the Brunei International Airport were in operation compared to a year ago. The air transport sub-sector contracted by 92.1 percent y/y in Q3, following a 60.2 percent decline in H1.

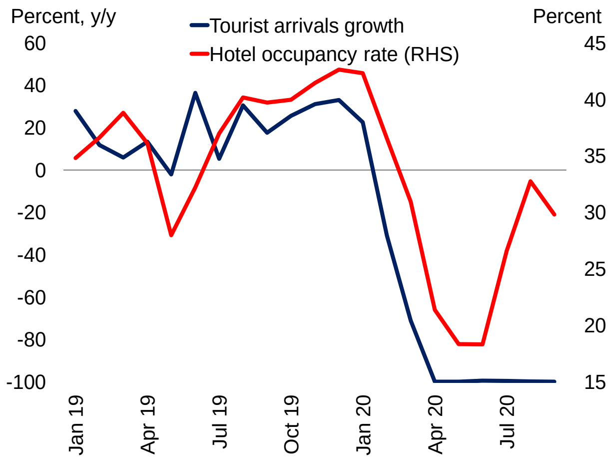
The hotels sub-sector has also suffered considerably, declining by 12.3 percent in Q3 after a sharp contraction of 21.5 percent in H1. Hotel occupancy rates plunged to 18.3 percent in June but subsequently recovered partially. Staycation promotions have helped sustain demand in recent months.

Figure 15. Crude oil and liquefied natural gas production



Source: CSPS, Ministry of Energy
Note: 2020 data based on average production from Q1 to Q3.

Figure 16. Tourist arrivals and hotel occupancy



Source: CSPS, Ministry of Primary Resources and Tourism

Services demand for retail trade and ICT remain robust

COVID-19 has induced a shift in consumer demand, as seen in increased purchases of groceries, pharmaceutical and medical supplies, telecommunications services, and electronic products. In Q3, the retail trade and telecommunications sub-sectors grew 3.7 percent and 23.9 percent y/y, respectively (Figure 17). This reflected the impact of public health interventions, including school closures and work-from-home arrangements. Residential electricity use increased about 10 percent y/y from March to May, but consumption growth has moderated since June. By contrast, commercial electricity use has rebounded sharply since July following the easing of restrictions. Online transactions for banking services and retail purchases have also increased, partly due to temporary fee waivers.

On the other hand, economic activity in several sub-sectors declined in H1 when restrictions were in place, such as restaurant dine-ins, land transport, and education services. However, they have somewhat recovered in Q3.

Weak external demand weighed on growth in Q3

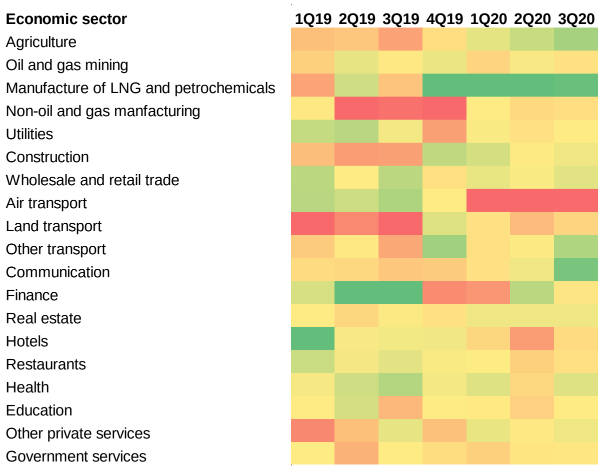
Domestic demand grew by 6.0 percent y/y in Q3, driven by improvements in consumption and investment after an easing of containment measures and resumption to near-normal economic activity (Figure 18). The increase in household spending, by 14.1 percent y/y, was reflected in higher retail sales during the quarter.

Gross fixed capital formation increased by 9.5 percent y/y in Q3, a sharp reversal from the double-digit decline in the first half. The increase was due to a jump in private investment of 12.2 percent, whereas public investment fell by 55.1 percent.

By contrast, net exports fell substantially by 128.3 percent y/y in Q3. The marginal increase in exports by 0.3 percent only was more than offset by the surge in imports by 26.1 percent.

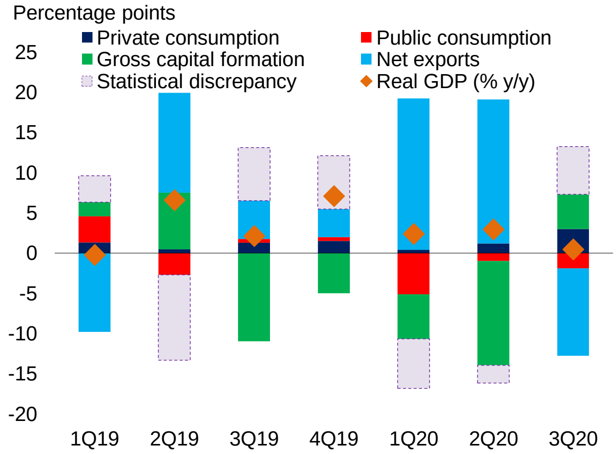
However, due to the large statistical discrepancy in the GDP by expenditure approach, some caution should be taken in interpreting trends.

Figure 17. Growth heat map of economic sectors



Source: CSPS, Department of Economic Planning and Statistics
Note: Colour intensity depicts the pace of year-on-year growth, with red (green) representing the greatest output declines (increases) in the quarter.

Figure 18. Contribution to real GDP growth by expenditure component



Source: CSPS, Department of Economic Planning and Statistics

The trade balance fell into deficit in Q3 as exports declined and imports increased steeply

A decline in exports and a surge in mineral fuel imports led to a trade deficit in Q3 (Figure 19). Exports of refined petroleum and petrochemical products have fallen since April due to weak external demand amid a structural overcapacity globally. Travel restrictions enforced worldwide led to lower demand for jet fuel, diesel, and gasoline. The global aromatics market has also been affected as manufacturing activity slowed. Brunei's exports to China declined significantly in Q3 due to a slowdown in petrochemical demand (Figure 20). Softer demand was reflected in weak spot prices, which were further hampered by new capacity in China that came online. Although downstream oil and gas exports have gradually increased since the trough in June, their Q3 values were substantially lower than in Q1.

Exports of crude oil and LNG in Q3 were similar to Q2 levels, which have been supported by a recovery in prices. After plunging to nearly US$20 per barrel in April, crude oil prices stabilised at above US$40 per barrel in Q3. However, oil and gas exports in Q3 remained less than half their values in Q1.

The jump in imports was due to the use of mineral fuels as feedstock for the production of refined and petrochemical products. To diversify supply sources, crude oil imports have increasingly come from the rest of the world, such as Nigeria and the United Arab Emirates (Figure 21). A similar import surge was observed in Q4 2019 when the new refinery began operations.

Figure 20. Gross exports to key markets

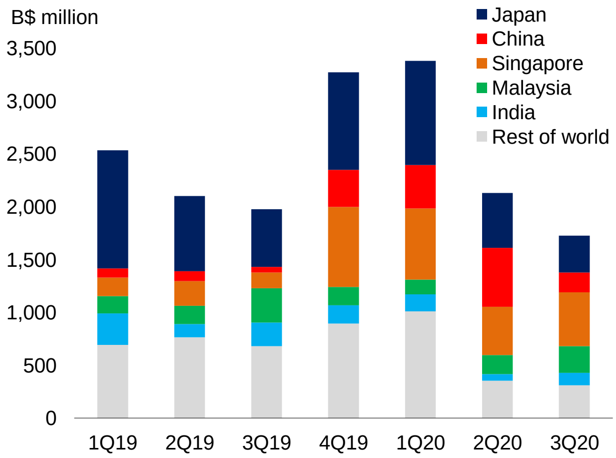
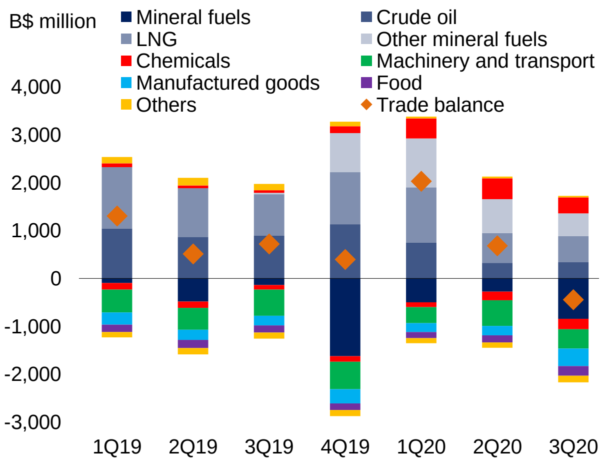
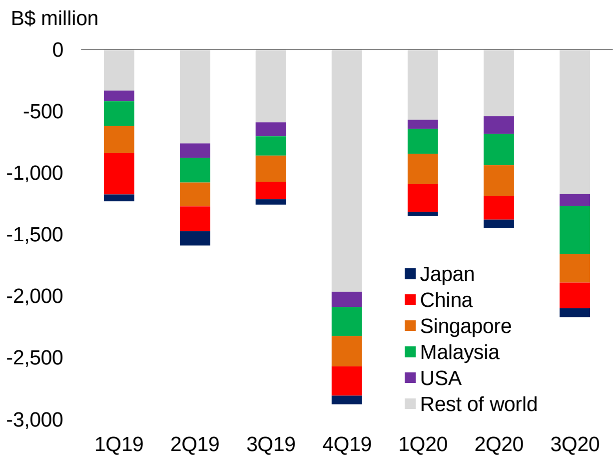


Figure 19. Merchandise trade by product



Source: CSPS, Department of Economic Planning and Statistics
Note: Exports (imports) indicated by positive (negative) values.

Figure 21. Gross imports from key markets



Source: CSPS, Department of Economic Planning and Statistics
Note: Exports (imports) indicated by positive (negative) values.

FDI inflows remain resilient, largely in the manufacturing sector

Foreign direct investment (FDI) inflows remain resilient despite the pandemic, largely concentrated in the manufacturing sector (Figure 22). As of Q3, manufacturing accounted for about two-fifths of the total stock of FDI, a significant increase compared to about 12 percent in 2016.

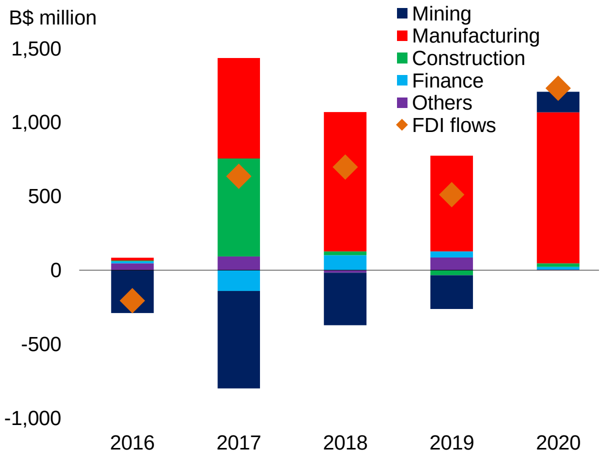
The government's efforts to attract more FDI companies have begun to pay off. The FDI Action and Support Centre was established in 2015 to facilitate FDI by coordinating with relevant agencies to streamline regulatory and business environment issues. Since then, there has been a flurry of FDI activity, mainly in the downstream oil and gas and food sectors (Box 3). The largest FDI projects, by investment value, are Hengyi Industries (integrated refinery and aromatics cracker; operational in 2019), Brunei Fertilizer Industries (ammonia and urea production; expected to be operational in 2021), and Brunei Methanol Company (methanol production; operational in 2010).

Brunei's currency has stabilised after weakening markedly in Q1

In line with most regional currencies, the Brunei dollar weakened sharply against the US dollar in Q1, largely reflecting substantial non-resident portfolio outflows from the region and increased investor demand for US-dollar denominated assets (Figure 23). The BND/USD exchange rate depreciated by 5.3 percent between January and April. The Brunei dollar has gradually recovered its strength, with the BND/USD exchange rate averaging 1.35 in November.

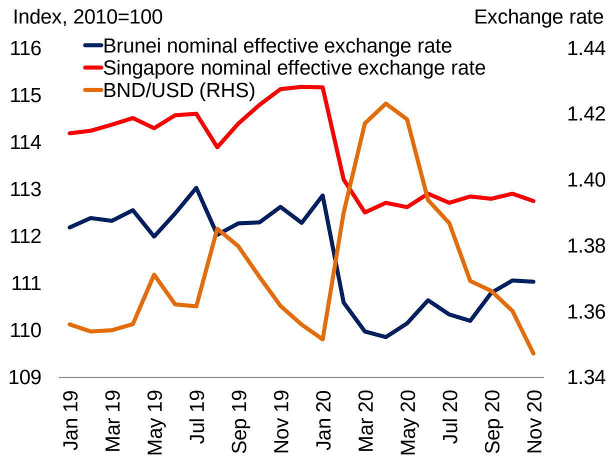
Brunei's monetary policy is based on a currency board arrangement, in which the Brunei dollar is pegged at par to the Singapore dollar. In March, the Monetary Authority of Singapore pursued an accommodative monetary policy stance amid deteriorating macroeconomic conditions, and has continued with this policy in October. The sharp depreciation in Q1 is reflected in the movements of both Singapore's and Brunei's nominal effective exchange rate (NEER), a trade-weighted currency index.

Figure 22. Foreign direct investment flows by economic sector



Source: CSPS, Department of Economic Planning and Statistics
Note: 2020 data based on total FDI flows from Q1 to Q3.

Figure 23. Exchange rates



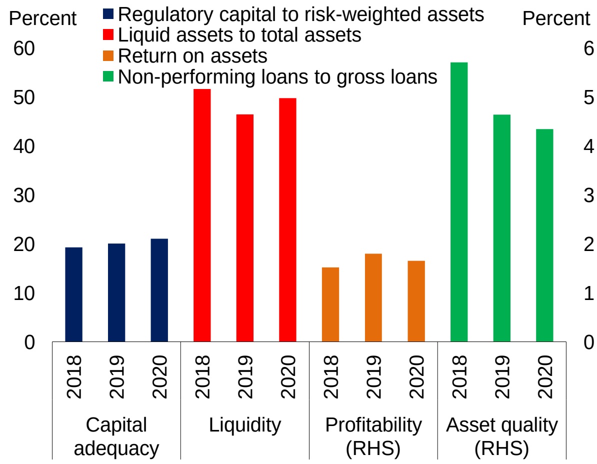
Source: Autoriti Monetari Brunei Darussalam, CSPS, Monetary Authority of Singapore
Note: A higher (lower) nominal effective exchange rate index indicates an appreciation (a depreciation).

The financial sector continues to be 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 (CAR) stood at 21.1 percent in Q3, well above the regulatory minimum requirement of 10 percent and the minimum requirement of 8 percent under Basel II (Figure 24). The CAR has trended higher since 2017. Banks also have ample liquidity, with the liquid assets to total assets ratio at around 50 percent.

Gross non-performing loans (NPLs) to total loans declined to 4.4 percent in Q3. Deferment of loan and financing repayments has given households and firms breathing space. However, NPLs are expected to rise when the moratorium ends. Banks are profitable with the return on assets at 1.7 percent, despite a low level of intermediation as reflected in the loan to deposit ratio of 40 percent. The main source of gross income is interest income from lending activities. Although the spread between lending and deposit rates has declined slightly, it remains relatively high.

Figure 24. Banking system financial soundness indicators



Source: Autoriti Monetari Brunei Darussalam, CSPS
Note: Data for 2020 as of end Q3.

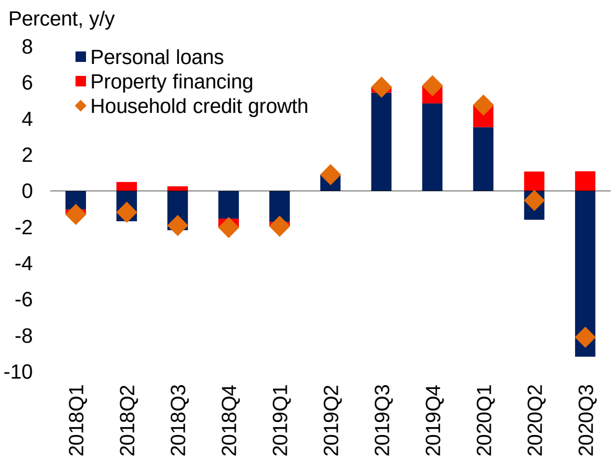
Credit to households declined sharply in Q3

Domestic lending fell in Q3, the fourth consecutive quarterly decline. The decline has been due to reduced credit to households, whereas credit to businesses remained broadly stable. Household sector credit growth dropped 8.1 percent y/y in Q3 owing to a sharp decline in personal loans, which includes loans and financing for general consumption, credit cards, home improvement, vehicles, and consumer durables (Figure 25). The decline in household credit, along with an increase in savings and a fall in incomes, appears to be at odds with the surge in household spending and retail sales.

Although aggregate domestic credit to the business sector has remained robust, lending to some sub-sectors fell sharply in Q3, such as commercial property development (-59 percent y/y) and transportation (-22 percent y/y).

Lending to non-residents increased significantly in Q3, accounting for 11 percent of total loans outstanding, up from 3.6 percent in 2018 and 9.4 percent in 2019.

Figure 25. Household sector credit growth



Source: Autoriti Monetari Brunei Darussalam, CSPS

M2 growth has been driven by a surge in demand deposits

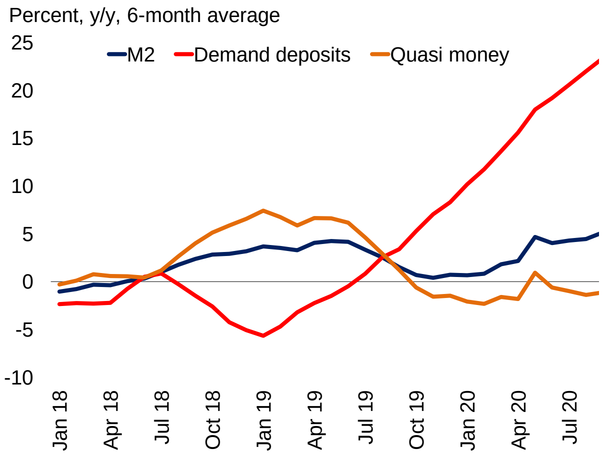
Monetary aggregates have expanded significantly in recent months, similar to developments in many advanced economies, in contrast to the easing of domestic credit growth. Money supply growth has been largely driven by a sharp increase in holdings of demand deposits (Figure 26).The observed surge in deposits could be due to several factors. First, high uncertainty about the pandemic and future economic prospects may have increased precautionary saving, discouraged investment, and purchase of durable goods. Second, spending on certain services, such as international travel, restaurants, and public events, has been curtailed by containment measures, which led to higher aggregate savings. Third, preferences for holding cash may have increased to avoid liquidity shortfalls. This may have been due to temporary crisis-related measures undertaken by the government such as tax exemptions, rental and utilities discounts, and loan repayment deferrals, which helped households and businesses set aside money to meet future obligations.

Deposit interest rates have fallen to record lows

Domestic interest rates fell to record lows in Q3, mirroring the developments in Singapore (Figure 27). The 3-month deposit rate declined to 0.148 percent in October, while the 12-month deposit rate dropped to 0.309 percent.

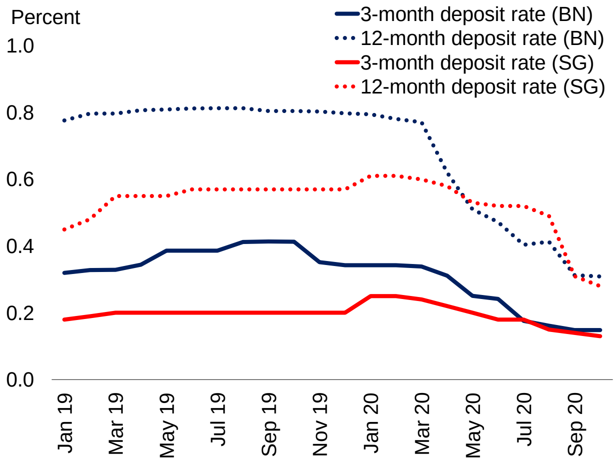
Interest rates are expected to remain low for some time, given the continued accommodative monetary policy of major central banks to support economic recovery. In August, the US Federal Reserve adopted a new monetary policy framework, indicating that it would maintain an accommodative monetary policy stance until inflation averaged 2 percent.

Figure 26. Money supply growth



Source: Autoriti Monetari Brunei Darussalam, CSPS

Figure 27. Deposit interest rates in Brunei and Singapore



Source: Autoriti Monetari Brunei Darussalam, CSPS, Monetary Authority of Singapore

Consumer price inflation moderated in Q3 but remains historically high

Headline inflation, measured by the y/y percent change in the Consumer Price Index (CPI), declined to 1.9 percent in Q3 from 2.3 percent in Q2 (Figure 28). Inflation in June was at 2.5 percent—the highest since October 2008—but moderated to 1.5 percent in September. Nonetheless, it remains historically high (average inflation during 2000-19 is 0.3 percent). Inflation movements are reflected in the number of items in the CPI basket that recorded price changes (Figure 29). In June, 95 of the 150 CPI items (63 percent) saw a price increase, but in September the number went down to 72 (48 percent).

The price increase observed in 2020 has been largely due to higher prices of insurance premiums, air transport, jewellery, vegetables, beverages, and textiles (Figure 30). Insurance premiums were about 18 percent higher than in 2019. Air transport rose 13 percent due to price hikes of air tickets to cover costs of lower operations caused by COVID-19. Jewellery prices jumped about 27 percent due to higher precious metal prices.

Prices of imported fresh vegetables surged by up to 30 percent due to limited supply from exporting countries. Meat products, particularly beef, lamb, and mutton, as well as mineral water and soft drinks increased by about 6 percent.

On the other hand, price declines were reported for accommodation services, package holidays, household services, and financial services.

Figure 29. Year-on-year price changes of items in the CPI basket

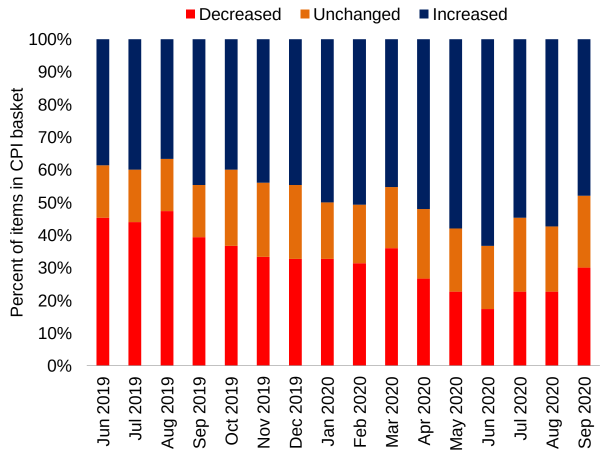
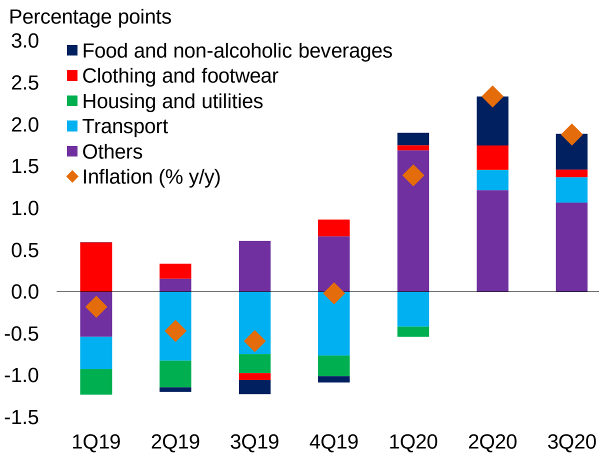
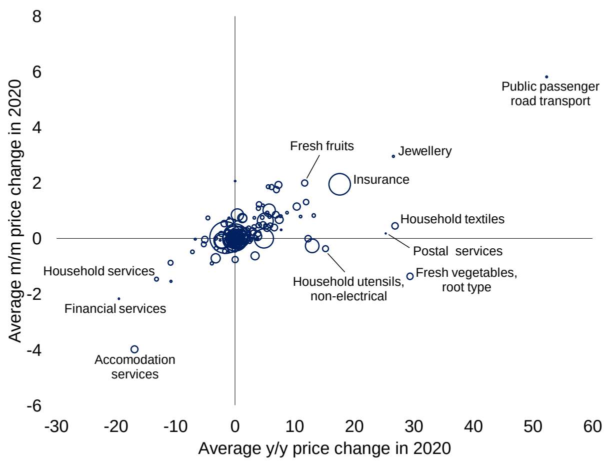


Figure 28. Contribution to consumer price inflation by category



Source: CSPS, Department of Economic Planning and Statistics

Figure 30. Consumer price inflation by item



Source: CSPS, Department of Economic Planning and Statistics
Note: Based on 150 CPI items. Size of bubbles corresponds to weights in the CPI basket.

The unemployment rate has declined steadily in recent years, but COVID-19 is expected to have caused dislocations

The labour market remains segmented, with the public sector almost wholly occupied by locals while foreign workers are employed primarily in the private sector (Figure 31). Following the 2014-15 collapse in oil prices, public sector hiring has slowed and locals have been encouraged to seek jobs in the private sector.

Several initiatives have been implemented in recent years to address the high unemployment rate, particularly amongst the youth. These include the i-Ready paid apprenticeship program to provide graduates with industry experience, JobCentre Brunei to improve job matching, upskilling and reskilling programs aligned to industry needs, and labour policies aimed at increasing the share of locals in the private sector, among others.

These measures have led to a decline in the overall unemployment rate to 6.8 percent in 2019 (9.3 percent in 2017), while the youth unemployment rate fell to 21.3 percent (28.9 percent in 2017).

The number of unemployed remains high, including those with a tertiary qualification (Figures 32 and 33). One of the government's main priorities has been to secure jobs for locals during the COVID-19 outbreak. However, it is expected that the labour market experienced some dislocations. In particular, job losses among foreign workers are expected to be highest in the travel-related sectors.

Figure 32. Unemployment

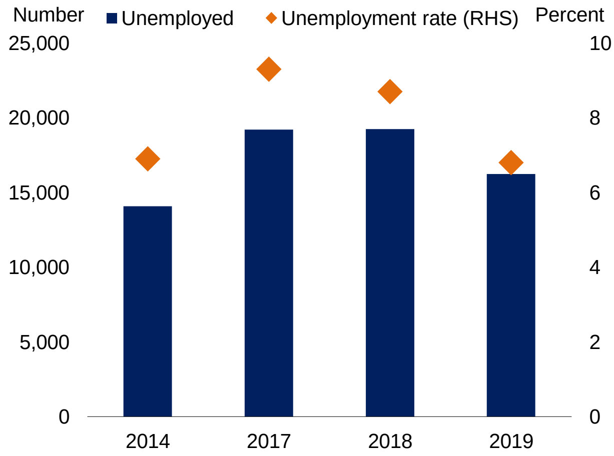
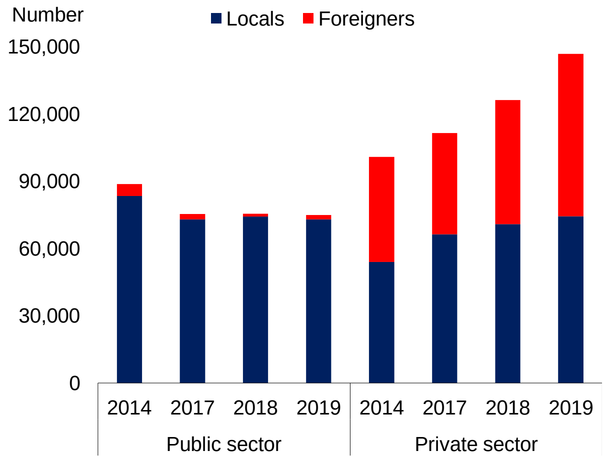
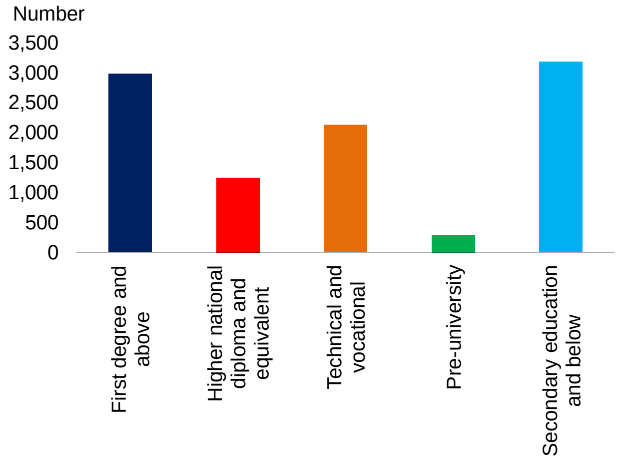


Figure 31. Employment by citizenship and sector



Source: CSPS, Department of Economic Planning and Statistics

Figure 33. Number of unemployed JobCentre Brunei registrants by education level



Source: CSPS, Department of Economic Planning and Development, JobCentre Brunei
Note: Number of registrants with JobCentre Brunei identified as unemployed as of December 2020.

The fiscal deficit widened following a sharp decline in oil and gas revenue

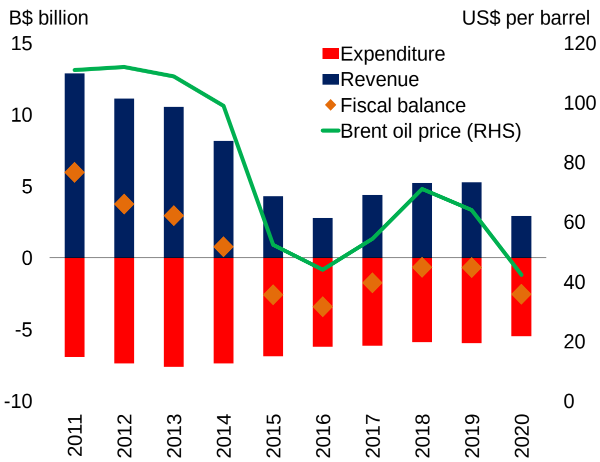
Despite a reduction in government expenditure, the fiscal position deteriorated in 2020 due to a sharp decline in revenue (Figure 34). The fiscal deficit is expected to have reached 15.1 percent of GDP in 2020. Oil and gas revenue was almost three-fifths lower than in 2019 as oil prices plummeted to US$42 per barrel (US$69 per barrel in 2019) and oil production dropped to 111 tb/d (121 tb/d in 2019). Non-oil and gas revenue also declined due to a weaker non-oil and gas sector. Crisis-related measures to support the economy, such tax and duty exemptions, also contributed to lower receipts.

Budget pressures have been mounting since 2014-15 when oil prices plunged from US$110 per barrel in June 2014 to US$30 per barrel in January 2016. In response, the government undertook efforts to enhance the efficiency of fiscal spending and diversify revenue sources. This includes a performance budgeting system and a fiscal consolidation program, as well as introducing new excise duties. The fiscal position improved from 2017 to 2019, supported by a recovery in oil prices.

In line with fiscal consolidation efforts, the government's budget has been trending lower. A budget of B$5.86 billion was approved for FY2019/20 and FY2020/21. Previous announced budgets were B$5.3 billion in FY2018/19 and FY2017/18, B$5.6 billion in FY2016/17, B$6.3 billion in FY2015/16, and B$7.3 billion in FY2014/15.

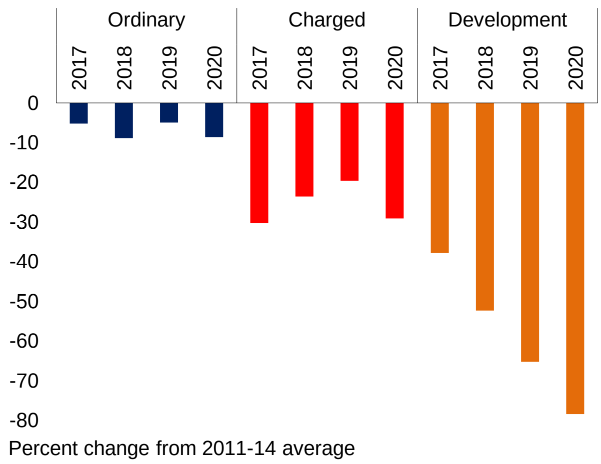
Capital spending on development projects under the National Development Plan has been trimmed substantially, whereas cuts to current spending, which includes wages, salaries, pensions, allowances and other benefits, were limited (Figure 35). The public wage bill remains high at more than 30 percent of government expenditure. Nonetheless, there have been significant efforts at containing wage growth, which has been largely stagnant since 2015. Wages and salaries of public sector employees grew rapidly by 5.4 percent during the oil price boom in 2000-08, but slowed to 2.4 percent during 2009-14.

Figure 34. Government finance and oil price



Source: CSPS, Treasury Department, World Bank
Note: Data for 2020 are CSPS projections.

Figure 35. Government expenditure by category

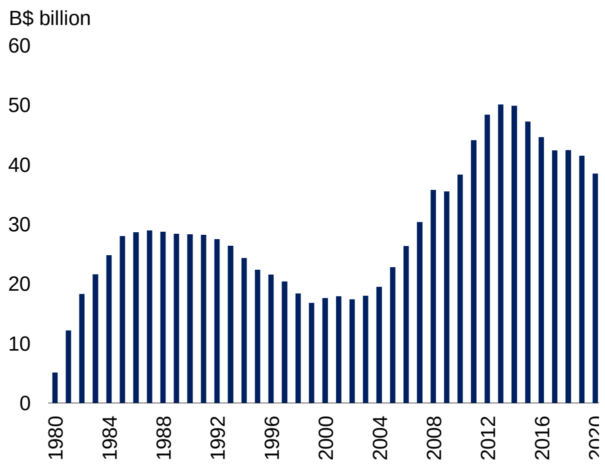


Source: CSPS, Treasury Department
Note: Data for 2020 are CSPS projections.

Fiscal buffers are still sufficient to cover deficits

Fiscal deficits have been recorded for six consecutive calendar years. The deficit widened from 14.5 percent of GDP in 2015 to 21.7 percent of GDP in 2016, in line with declining oil and gas revenue, but improved considerably from 2017 to 2019. Fiscal deficits have been financed by drawing down ample fiscal reserves. The government has been saving a fraction of oil windfalls, especially during the 2000s as seen in the rise in cumulative fiscal balances (Figure 36). This reflected intentions to accumulate assets to prepare for periods of low oil prices and saving for future generations. 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 mid-2014, and are estimated to be at slightly under B$39 billion at end 2020.

Figure 36. Cumulative fiscal balances



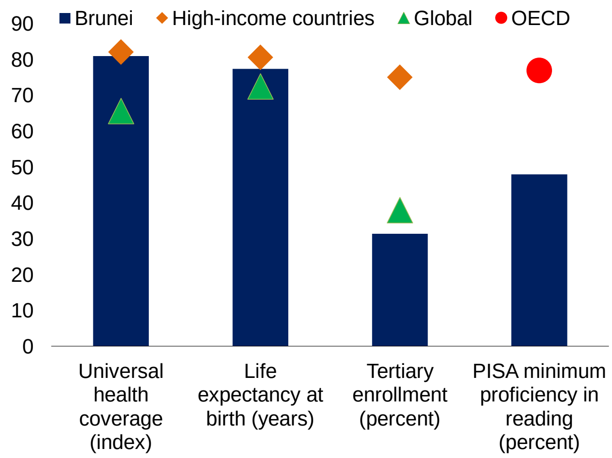
Source: CSPS, International Monetary Fund, Treasury Department
Note: Data for 2020 are CSPS projections.

Health outcomes are comparable to advanced economies, but education attainment lags

Brunei has met most of the global health targets and health outcomes are broadly comparable to advanced economies, including attaining universal health coverage (Figure 37). Quality and accessible healthcare are provided to citizens at a nominal fee of B$1. Vaccinations and antenatal programs have contributed to low maternal and child mortality rates. Brunei's life expectancy at birth was 77.4 years in 2019.

The government provides free and compulsory basic education. Adult literacy rate was at 97.2 percent in 2018. Although tertiary enrolment is low at 31.4 percent, it has increased in recent years. However, the number of tertiary graduates remains skewed, with twice the number of females than males. The latest PISA (Programme for International Student Assessment) results showed that students in Brunei fared less well compared to those in OECD.

Figure 37. Health and education indicators



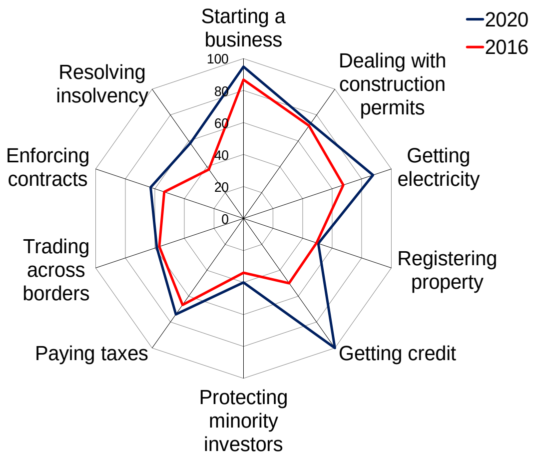
Source: CSPS, Department of Economic Planning and Statistics, Organisation for Economic Co-operation and Development, UNESCO Institute for Statistics, United Nations, World Bank, World Health Organization
Note: Universal health coverage index in 2017; life expectancy in 2018 except for Brunei (2019); tertiary enrolment in 2018; PISA in 2018.

Pace of improvement in doing business slowed in 2020

The pace of reform in improving the business regulatory environment slowed in 2020. Brunei has made significant progress in recent years, climbing from the 105th position in the World Bank's Doing Business survey in 2015 to 66th in 2020 (out of 190 economies). Within the East Asia region, Brunei is ranked ninth behind Singapore, Hong Kong, Korea, Malaysia, Taiwan, Thailand, Japan, and China.

Brunei ranks among the top in starting a business and getting credit (Figure 38). It took 5 days and 3 procedures to start a business in 2020, compared to 14 days and 7 procedures in 2016. Obtaining credit has been enhanced following the establishment of a credit bureau. However, there has been little progress made in other areas, particularly registering property and trading across borders.

Figure 38. Doing Business indicators



Source: CSPS, World Bank

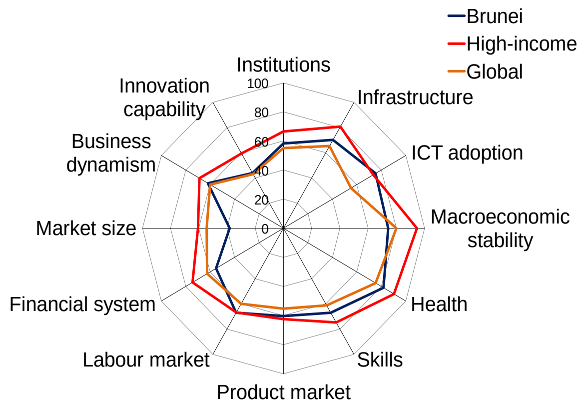
Gradual gains in competitiveness but impediments remain

Brunei has also improved its ranking in the World Economic Forum's Global Competitiveness Index, climbing six places to the 56th position in 2019 (out of 141 economies). Among the 12 pillars, Brunei scored highest in health, ICT adoption, macroeconomic stability, and infrastructure (Figure 39).

Internet access and mobile-cellular subscriptions are high on a per capita basis. About 95 percent of the adult population use the Internet daily in 2018. Utility infrastructure is good with near universal access to electricity, but the reliability and quality of water supply can be improved. Road connectivity and efficiency of air and seaport services are relatively good, but airport and liner shipping connectivity fared less well.

Brunei's small market size and comparatively weak innovation capability poses challenges to improving its global competitiveness. Other impediments include difficulty in hiring foreign labour and low entrepreneurial risk-taking.

Figure 39. Global competitiveness pillars



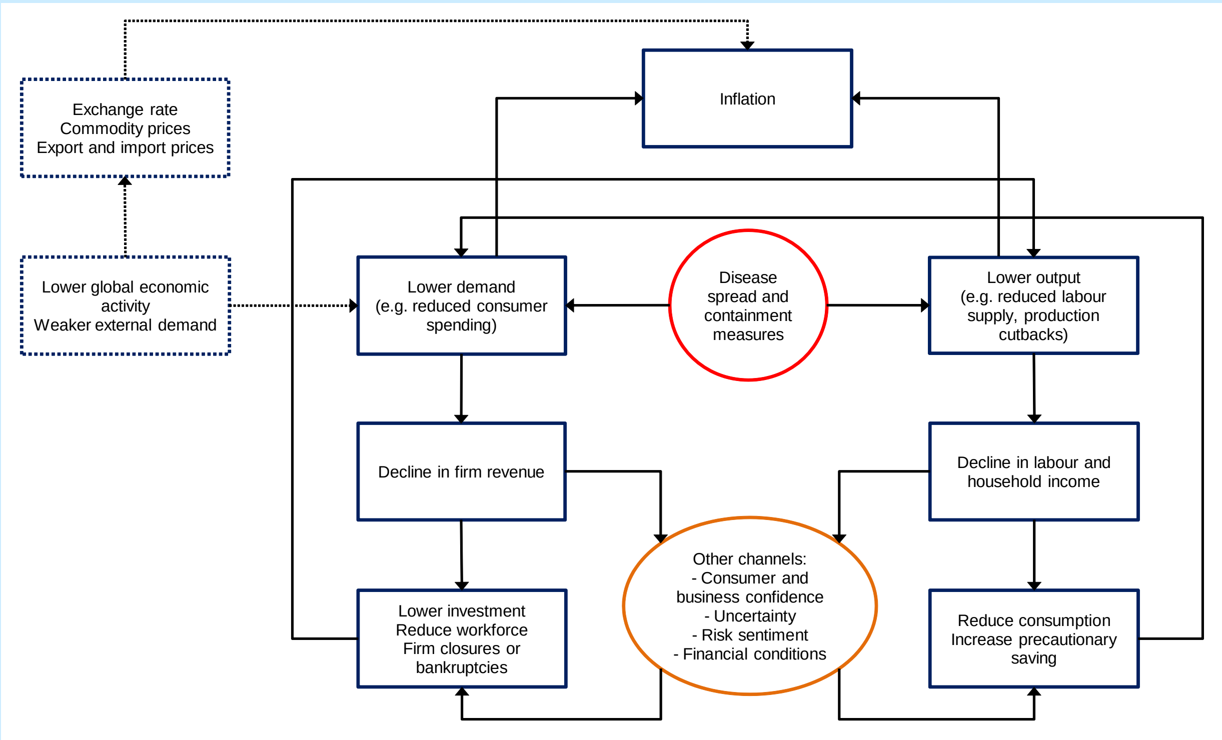
Source: CSPS, World Economic Forum

Box 1. How does COVID-19 affect the economy?[1]

Influenza pandemics and viral outbreaks can have significant economic effects. The Spanish flu caused an estimated 17 to 50 million deaths globally, resulting in an average GDP loss of 6 percent in affected countries during 1918-20 (Barro et al. 2020). More contained outbreaks have been associated with less adverse economic outcomes, such as SARS in 2002-03 and Ebola in 2014-16 (Lee and McKibbin 2004; World Bank 2014). The COVID-19 pandemic has claimed more than 1.8 million lives as of early January 2021. The economic effects have been severe, with the global economy projected to have contracted by 4.3 percent in 2020 (World Bank 2021). Without the exceptional fiscal and monetary support by policymakers in response to the crisis, the impact would have been far worse. Against this backdrop, this Box discusses the channels through which COVID-19 has affected the economy.

Governments worldwide have implemented a series of public health interventions to slow the progression of the disease, such as international travel restrictions, closure of schools and workplaces, bans or limits on public gatherings, and stay-at-home orders. The pandemic and the associated public health measures have inevitably caused significant disruptions to economic activity through supply, demand, and other channels (Figure B1).

Figure B1. The economic effects of COVID-19



With social distancing measures and lockdowns in place, firms have had to shutdown or significantly scale back operations. Labour supply has been reduced as workers fell ill, had to perform caring duties, or were furloughed and laid off. These led to disruptions to production and supply chains. For instance, production in China was substantially affected in Q1 2020 due to a lockdown in Hubei province, the epicentre of the COVID-19 outbreak. Hubei has a large industrial base that includes car and electronics manufacturing, iron and steel production, food processing, petrochemical industries, and textile factories. Production cutbacks have affected many manufacturing firms around the world that rely on raw materials

[1] This Box was prepared by Koh Wee Chian.

and imported intermediate goods from China. Supply chain disruptions were also evident in the shortage of masks, gloves, and other personal protective equipment. Concerns of drug shortages were reported when India, the world's largest producer of generic drugs, went into lockdown.

Household consumption declined as consumers spent less on activities that require person-to-person contact, such as eating out, overseas travel, recreation, and culture. Demand for transport fuel also fell due to travel restrictions and work-from-home arrangements. Although demand for essential items, such as groceries and medical supplies, may have increased, the higher spending at supermarkets and pharmacies is unlikely to offset the decline in spending elsewhere. Faced with weaker demand, firms' revenues have fallen, which led to retrenchment measures such as laying off workers, temporary closures, and even outright bankruptcies for severely affected businesses. In addition, external demand weakness has compounded the effects due to the global nature of the crisis.

The economic effects could be amplified through other channels. Consumer confidence has been eroded as households concerned about loss of earnings increased precautionary savings and postponed spending on durable goods, such as cars and home furnishings. Likewise, business confidence has been sapped and firms responded by forgoing or delaying investment amid elevated uncertainty. Financial conditions tightened substantially in March 2020, particularly in emerging markets, as equity prices plunged, credit spreads widened, portfolio flows reversed sharply, and currencies depreciated markedly. Investors' risk sentiment shifted to safe haven assets such as gold and highly liquid assets.

Changes in demand and supply have affected prices. The fall in demand appeared to have outweighed the fall in supply, which have kept global inflation muted and below pre-pandemic levels. For example, oil prices collapsed to about US$20 per barrel in April 2020 and remain substantially below pre-pandemic levels. Some countries have experienced persistent negative inflation during the COVID-19 outbreak. The risk of a deflationary environment could have adverse consequences, whereby firms respond to falling prices by slowing production and consumers delay spending in anticipation of lower prices in the future, leading to a feedback cycle and consequently a downward spiral of prices (Wu 2004).

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Box 2. Brunei's response to the COVID-19 outbreak[2]

The COVID-19 pandemic has profound health, economic, and social impacts. Governments around the world have been tackling the crisis in different ways, with varying results. Some countries have managed to contain the outbreak quickly, while in others new infections are still on the rise with severe impact on lives and livelihoods. Brunei's first positive COVID-19 case was identified on March 9, 2020, linked to an international super spreading event in Kuala Lumpur, Malaysia. Within 15 days, 100 additional cases were detected in Brunei (Figure B2). Since then, the number of new cases has declined substantially. The last community transmission case was reported in early May. As of January 5, 2021, a total of only 172 cases have been detected, with three deaths. Brunei's successful containment of the outbreak has enabled a swift return to normal activity. Against this backdrop, this Box discusses Brunei's response to the outbreak.

Controlling transmission of the virus

An initial estimate of the reproduction number, R—the expected number of secondary cases generated by an index case—was 2.3 (Figure B3). This indicated that a sustained outbreak would be likely. Over a 10-day period from the onset of the first case, a series of social distancing measures was swiftly implemented: school closures, prohibition of mass gatherings, international travel restrictions, cinema and museum closures, prohibition of restaurant dine-ins, and unprecedented mosque closures (Koh et al. 2020a). These timely measures have been effective in limiting disease spread, bringing R to below one—suggesting that the outbreak is under control—in just over a week. Brunei's response accords with international evidence showing the importance of early implementation of a combination of social distancing measures to control viral transmission (Koh et al. 2020b).

Figure B2. Epidemic curve for the first 135 cases in Brunei

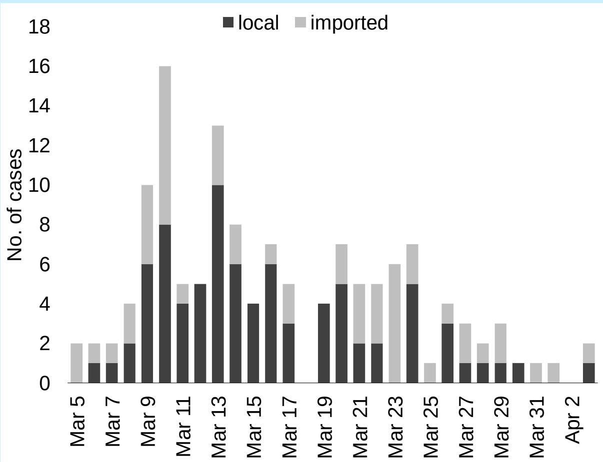
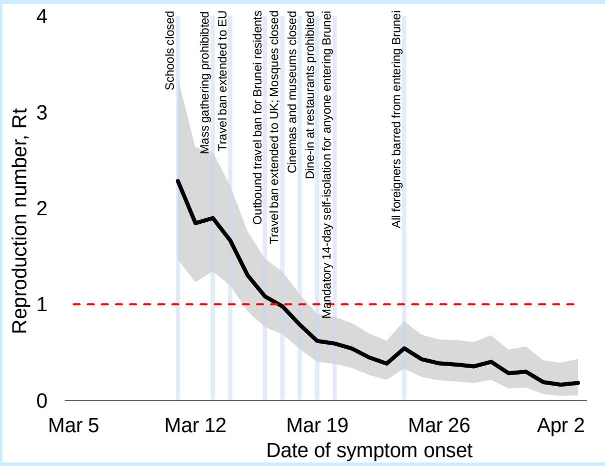


Figure B3. SARS-CoV-2 transmission and social distancing measures



Source: Ministry of Health, Wong et al. (2020a)

Note: Number of cases based on date of symptom onset (swab date for asymptomatic cases). The time-varying reproduction number, R_t, is the expected number of secondary cases generated by an index case at time t. The black solid line is the estimated median R_t and the grey areas are the 95% credible intervals. The red dashed line indicates R_t=1, below which suggests that a sustained outbreak is unlikely if control measures remain in place.

Public outreach and risk communications

The government recognised that providing updated and accurate information could prevent widespread panic and secure public cooperation, especially in compliance to social distancing measures, which is

[2] This Box was prepared by Koh Wee Chian.

essential to curbing transmission. The public communications strategy includes daily press conferences broadcast live on national television and social media channels (Wong et al. 2020b). These are led by the Minister of Health, and frequently joined by other ministers to address queries from the press and public. A dedicated 24-hour health advice line 148, a mobile application integrated with artificial intelligence and advanced data analytics (BruHealth), and a government Telegram channel have also been established. These platforms provide easy access to essential information such as the outbreak status, the government's response measures, and disease prevention regulations to enable the public to understand the rapidly evolving situation and to combat misinformation.

Diagnostic testing

Brunei is an early adopter of testing in the absence of symptoms. COVID-19 testing is mandatory under the Infectious Disease Act for all individuals with a travel or close-contact history, pneumonia, or second-time presentation for an influenza-like illness within a 14-day period (Chaw et al. 2020). Random testing is also conducted in community health centres and among the large foreign worker population. A sports complex has been converted into a testing facility and a new virology laboratory was built in two weeks to increase testing capacity from 240 to 1,000 specimens per day. As of January 5, 2021, Brunei's test-per-capita ratio was 183 per 1,000 people.

Surveillance and contact tracing

Enhanced surveillance and rigorous epidemiological investigations have played a key part in controlling transmissions. The surveillance system leverages on digital patient records in the national health information management system database (Bru-HIMS) that links all healthcare facilities with almost complete coverage of the population. Contact tracing is a time and resource intensive process that involves conducting interviews with the case patient for demographic characteristics, clinical symptoms, travel history, activity mapping, and contact history. This is then cross-checked against a variety of data sources, including medical records, video surveillance recordings, credit card transaction records, and mobile phone GPS data. The Infectious Disease Act provides the legal basis to request and receive relevant information from public agencies and private companies. All identified close contacts are tested and those who tested positive are admitted to the National Isolation Centre (NIC). An extension of the NIC was completed in three weeks to double the bed capacity. Persons who tested negative are required to undergo self-isolation for 14 days and their whereabouts are monitored daily, either through video or phone calls, an electronic tracking device, or spot checks. Failure to comply with the self-isolation requirement can result in fines and imprisonment.

Treatment and follow-up of patients

All confirmed case patients are treated and isolated at the NIC and monitored until recovery. Resources have been efficiently channelled to ensure patients receive the level of care that they need. All costs are borne by the government, allowing universal access to diagnosis and treatment. Discharged patients, after two consecutive negative tests at least 24 hours apart, are required to self-isolate at home for 14 days. They are tested again at day 11 post-discharge. With the extensive follow-up, Brunei was one of the first countries to recognise that recovered patients could re-test positive (Wong et al. 2020c). However, there was no observed infectivity in these patients.

Economic and financial support

Brunei has an extensive social protection system, provided through various programs such as welfare assistance, old age pension, Zakat distribution, subsidies for education, health, housing, utilities, and food, and other safety nets. During the COVID-19 outbreak, the government announced additional economic relief and stimulus measures estimated at B$450 million (3.2 percent of GDP), focusing on supporting the micro, small, and medium enterprises (MSMEs) in hard-hit sectors, ensuring job security for locals, and protecting the well-being of Brunei residents. The temporary measures included corporate income tax discounts, salary subsidies, discounts on utilities and rental rates of government buildings, deferment of social security contributions, exemption of customs and excise duties on selected products, deferment of loan principal repayments, expanding the i-Ready apprenticeship scheme (government-funded program for unemployed jobseekers to gain industry experience), and allowances for frontliners, among others. Increased use of e-commerce platforms, digital banking services, and online learning were also encouraged.

Institutional mechanisms

Although Brunei lacks experience in handling large-scale outbreaks, its robust institutional capacity has allowed for an effective response to COVID-19. Oversight for the COVID-19 response is with the National Disaster Council, a multi-agency group, while the Ministry of Health Emergency Operations Centre manages day-to-day issues with ad-hoc support from other agencies. The government also established a National Committee for the implementation of International Health Regulations (IHR) in 2018, and in October 2019 conducted a joint external evaluation of IHR core capacities with the World Health Organization to assess the country's capacity to prevent, detect, and respond to public health threats. Multi-agency collaboration and participation by local grassroots, including volunteers, have enabled a whole-of-nation approach in tackling the crisis. At the regional level, Brunei has benefitted from ASEAN-led initiatives, including technical exchanges and information sharing. Brunei's strong bilateral and multilateral ties have also helped secure imports of personal protective equipment, essential medical supplies, testing kits, medical equipment, and vaccine procurement.

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Box 3. Cluster development and economic diversification[3]

Economic diversification has been adopted as one of the key goals for national development since the 2nd National Development Plan (1962-66). In 2007, Wawasan Brunei 2035 recognised some of the challenges affecting the Brunei economy; in particular, the excessive dependency on the oil and gas sector and the enduring weakness of the local business community (*"unable to create the employment opportunities now required"*). Against this backdrop, this Box discusses the evolution of the prioritisation of clusters aimed at diversifying the economy.

Over the past 25 years, several studies, sponsored by different government departments and agencies, have highlighted a number of potential clusters and industries that could support economic growth and diversification in Brunei (Figure B4). Some industries—such as clothing, furniture, and construction materials—have disappeared from the recommendations, as their competitive advantage was dependent on a regulatory and trade environment that has changed since then. Other industries—such as biotechnology, pharmaceuticals, and the creative industries—entered the lists in later studies, under a variety of denominations.

Overall, most of the industries have been consistently included in the prioritisation outcomes of these studies, perhaps under different names and groupings. These industries can be classified as follows: Energy and downstream activities; High technology and ICT; Tourism and hospitality; Agrifood and halal; Logistics and transport; and Business and financial services.

Figure B4. Prioritised clusters in selected economic development and cluster studies

<table>
<tr><th></th><th>Manchester Business School for MIPR 1995</th><th>MIPR 1997</th><th>BDEC 1998</th><th>RKN8 2001</th><th>Monitor Group for BEDB 2003</th><th>RKN9 2007</th><th>CSPS land optimisation for MOD 2012</th><th>RKN10 2012</th><th>CSPS cluster development for PMO 2017</th><th>RKN11 2018</th><th>BEDB 2020</th></tr>
<tr><td>Energy and downstream</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Furniture</td><td rowspan="2">✓</td><td rowspan="2">✓</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Clothing</td><td></td><td rowspan="2">✓</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Construction materials</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Forestry</td><td rowspan="3">✓</td><td>✓</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Fisheries</td><td>✓</td><td></td><td></td><td></td><td></td><td></td><td></td><td rowspan="4">✓</td><td rowspan="5">✓</td><td rowspan="4">✓</td></tr>
<tr><td>Agriculture</td><td>✓</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Halal</td><td></td><td></td><td></td><td></td><td></td><td rowspan="2">✓</td><td></td><td></td></tr>
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<tr><td>Cosmetics and pharma</td><td></td><td></td><td></td><td></td><td></td><td rowspan="2">✓</td><td>✓</td><td rowspan="2">✓</td><td></td></tr>
<tr><td>Biotechnology</td><td></td><td></td><td></td><td></td><td></td><td>✓</td><td rowspan="3">✓</td><td></td></tr>
<tr><td>High tech and ICT</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Creative industries</td><td></td><td></td><td></td><td></td><td></td><td></td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>Business process outsourcing</td><td></td><td></td><td></td><td>✓</td><td>✓</td><td rowspan="2">✓</td><td rowspan="2">✓</td><td></td><td>✓</td><td rowspan="5">✓</td><td rowspan="5">✓</td></tr>
<tr><td>Financial services</td><td rowspan="3">✓</td><td></td><td>✓</td><td>✓</td><td>✓</td><td></td><td>✓</td></tr>
<tr><td>Construction-related services</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Aviation and MRO</td><td></td><td rowspan="2">✓</td><td></td><td rowspan="2">✓</td><td rowspan="2">✓</td><td rowspan="2">✓</td><td rowspan="2">✓</td><td rowspan="2">✓</td></tr>
<tr><td>Logistics</td><td></td><td></td><td></td></tr>
<tr><td>Tourism</td><td></td><td>✓</td><td>✓</td><td>✓</td><td rowspan="2">✓</td><td>✓</td><td>✓</td><td></td><td>✓</td><td rowspan="2">✓</td><td>✓</td></tr>
<tr><td>Medical tourism</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>✓</td><td></td></tr>
<tr><td>Education and knowledge</td><td></td><td></td><td></td><td></td><td></td><td></td><td>✓</td><td></td><td>✓</td><td></td><td></td></tr>
</table>

Source: Adapted and updated from Rizzo (2016)
Note: BDEC = Brunei Darussalam Economic Council; BEDB = Brunei Economic Development Board; MIPR = Ministry of Industry and Primary Resources; MOD = Ministry of Development; PMO = Prime Minister's Office; RKN = National Development Plan.

Despite the importance given to economic diversification, industrial development achievements have been mixed. The Brunei economy has remained largely dependent on the export of natural resources, with the oil and gas sector accounting for 56 percent of total gross value added (GVA), and crude oil and

[3] This Box was prepared by Giuseppe Rizzo.

LNG making up 83 percent of total exports in 2019. However, some progress within certain clusters should not go unnoticed.

The structure of the Energy and downstream cluster has changed significantly since oil was first discovered in Brunei. The gradual localisation of support services, the completion of the LNG plant in 1972, the completion of the methanol plant in 2009, and the recent launch of operations for the Pulau Muara Besar petrochemical complex have all contributed to the diversification of the activities within the cluster itself. In the first three quarters of 2020, crude oil and LNG respectively accounted for 19 percent and 32 percent of total exports only, whereas downstream products increased their combined share to 47 percent (Figure B5).

The downstream activities remain perhaps the most promising driver for further economic diversification, as more business opportunities are captured further down the value chain, such as the second phase of the petrochemical complex and the expected new production of fertilizers. This extension of the value chain is not only important in contributing to economic diversification, but also to ensure the long-term sustainability of the existing FDI projects, which are currently highly reliant on external market conditions. However, FDI in other clusters has remained comparatively low, with most of the inflow concentrating in the more mature energy cluster (Figure B6). Promising progress has been observed in the Agrifood cluster, with smaller FDI projects in the aquaculture and the food processing sub-clusters.

Figure B5. Energy and downstream exports

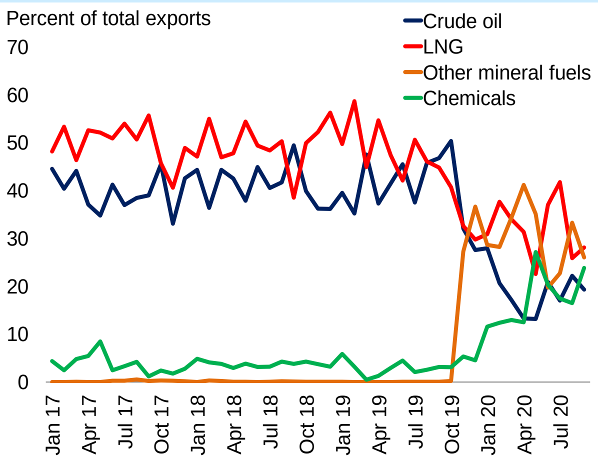
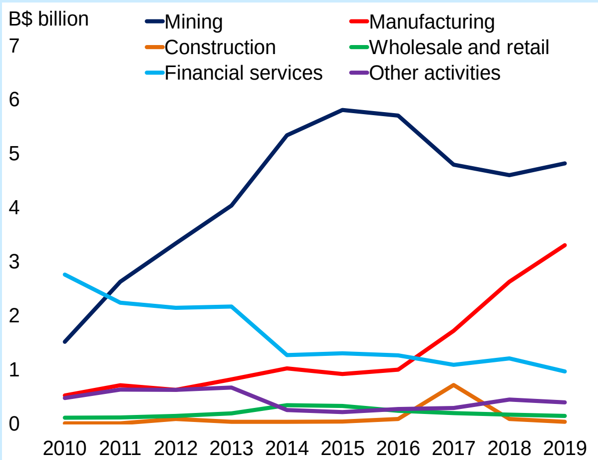


Figure B6. FDI stock by economic activity



Source: CSPS, Department of Economic Planning and Statistics

While the oil and gas sector remains the backbone of the Brunei economy, its growth has been stagnant with an annual growth rate of -1 percent between 2010 and 2019. The other identified clusters have all grown faster than the oil and gas sector and, with the exception of Agrifood growing at 1 percent p.a. (per annum), faster than the non-prioritised industries (Figure B7). The fastest growing clusters have been Tourism and hospitality (3.1 percent p.a.), Logistics and transport (2.6 percent p.a.), and Business and financial services (2.5 percent p.a.).

The prioritised clusters have also generated growth in employment, with the exception of the agricultural activities (Figure B8). Indeed, most of the growth in these clusters was driven by employment growth rather than productivity growth, revealing one of the structural weaknesses of the Brunei economy. Stagnant productivity has long been identified as an important factor explaining the declining trend of growth rate in Brunei (Koh 2014). Another important implication of stagnant productivity growth is that wages have been stagnant in several industries (Figure B9). As expected by theory, real wages have increased more in those clusters with faster productivity growth.

Figure B7. Gross value added by cluster

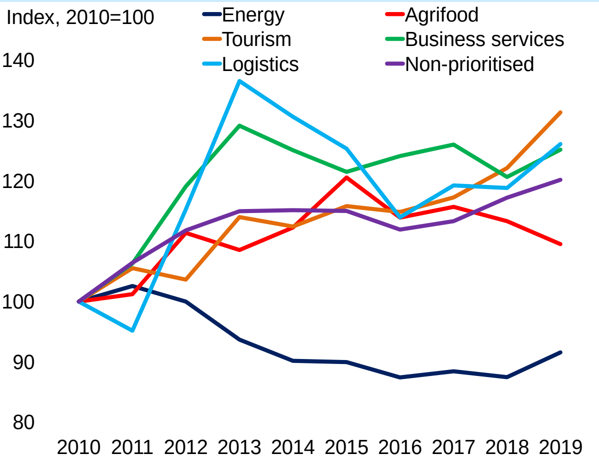
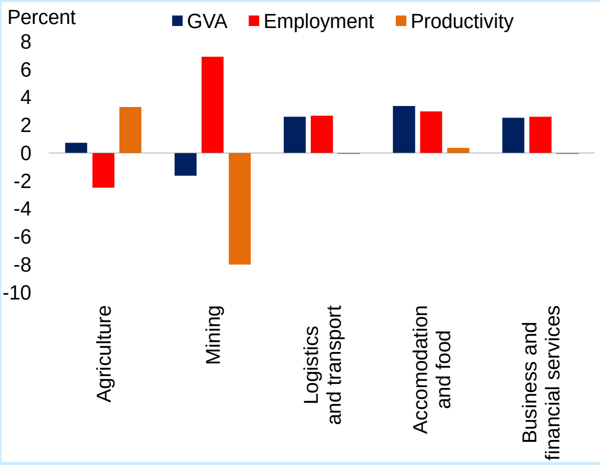


Figure B8. Gross valued added, employment, and productivity growth, 2010-19



Source: CSPS, Department of Economic Planning and Statistics

Figure B9. Productivity and compensation to employees growth, 2010-19

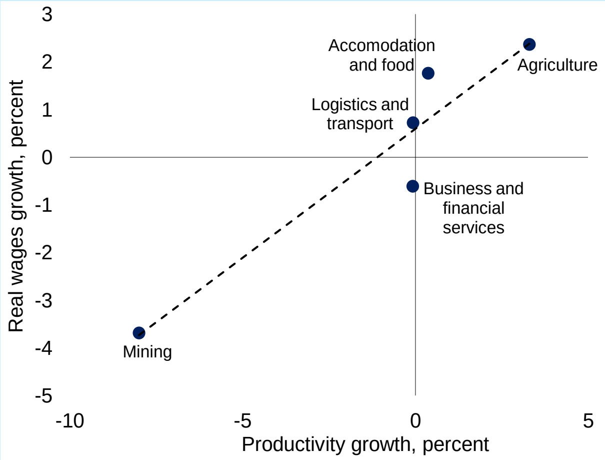
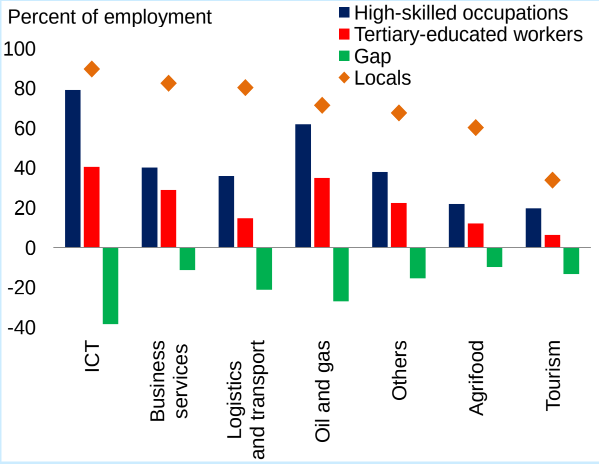


Figure B10. Qualification mismatch and local employment by industry, 2019



Source: CSPS, Department of Economic Planning and Statistics

The economic cluster development study, conducted by CSPS in 2016-17, analysed the main challenges and opportunities as faced by the players of each cluster. Availability of skilled manpower, market size and accessibility, regulatory framework, and lack of innovation are common challenges among most clusters (Rizzo 2019). Indeed, skills and qualification mismatch is an important issue affecting both the development of economic clusters in Brunei and the employability of the local workforce in the private sector (Cheong et al. 2009; Rizzo et al. 2016). Tertiary educated workers are fewer than the high-skilled occupations in every cluster, as well as in the non-prioritised industries (Figure B10). This has important implications for the innovation capacity and the overall competitiveness of the identified clusters.

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with ASEAN and GCC Countries. *CSPS Strategy and Policy Journal* 5: 1-12.
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PART TWO

Economic Outlook and Risks

Economic outlook and risks

The global economy is projected to grow by 4.0 percent in 2021, but the recovery would be uneven across countries and sectors

A gradual but uneven recovery in the global economy is projected in 2021. The World Bank forecasts global growth at 4.0 percent in 2021, after a sharp decline of 4.3 percent in 2020 (Figure 40). The collapse in global economic activity in 2020 is less severe than previously expected, due to a milder contraction in major advanced economies and a swift recovery in China. Since mid-2020, global forecasts have become slightly less pessimistic (Figures 41).

Figure 40. Global GDP growth

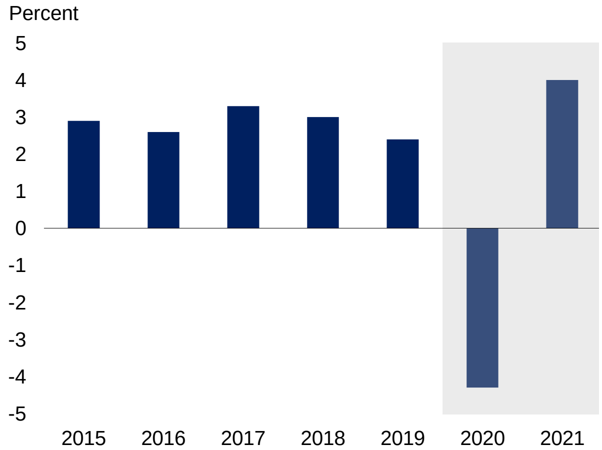
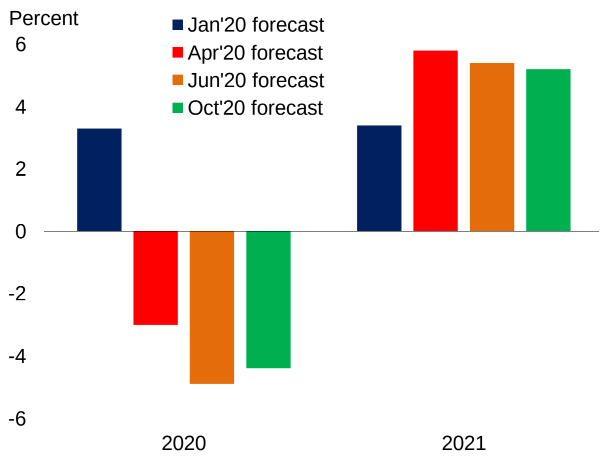


Figure 41. Global growth revisions by IMF



Source: International Monetary Fund, World Bank
Note: Grey shaded areas are World Bank projections.

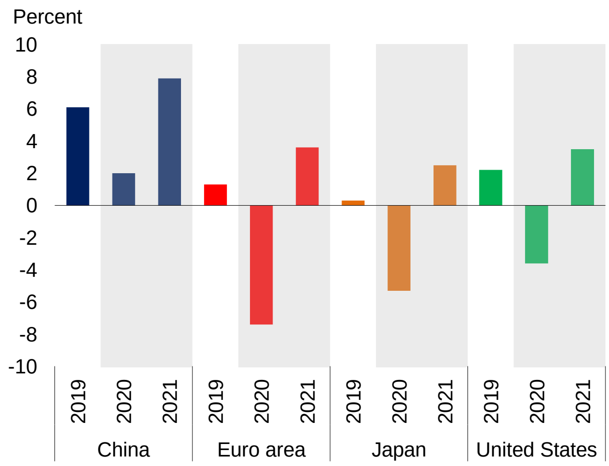
China's economy is forecast to grow by 7.9 percent in 2021, after slowing to 2.0 percent in 2020 (Figure 42). Economic activity rebounded quickly in Q2 last year, and has remained robust. GDP is expected to return to pre-pandemic levels by mid-2021.

Output in the United States is forecast to recover to 3.5 percent in 2021, after an expected decline of 3.6 percent in 2020. Large-scale emergency support boosted economic activity in H2 2020. Growth in 2021 is aided by ongoing vaccination and economic activity is expected to strengthen.

In the Euro area, growth is forecast to rebound to 3.6 percent in 2021, following a historic collapse of 7.4 percent in 2020. In Japan, growth is forecast to be subdued at 2.5 percent in 2021, after a sharp contraction of 5.3 percent in 2020.

Several service sectors and tourism in particular, are unlikely to recover unless confidence in person-to-person contact is restored. On the other hand, manufacturing is expected to firm.

Figure 42. GDP growth in major economies



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

Brunei's economy is forecast to expand by 2.8 percent in 2021, with broad-based growth across sectors

Brunei's real GDP is projected to increase by 2.8 percent in 2021, following an estimated growth of 0.7 percent in 2020 (Figure 43). The improved outlook in 2021 reflects broad-based growth across sectors, as external demand and domestic activity strengthen (Figure 44).

Figure 43. Brunei's GDP growth

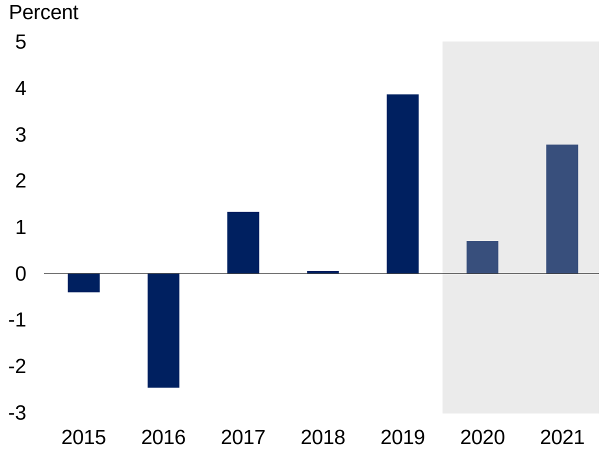
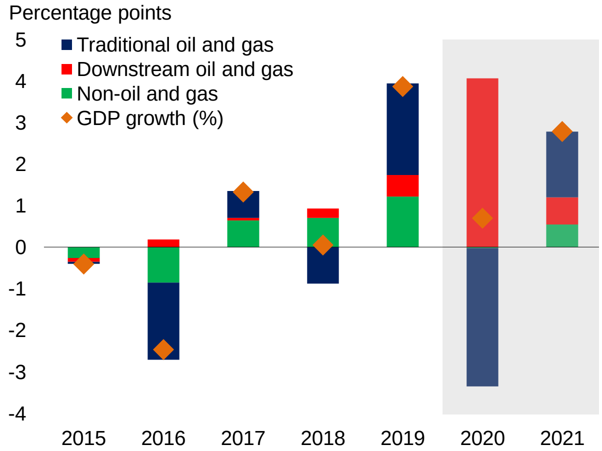


Figure 44. Contribution to GDP growth by major economic sectors



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 fertilizers and refined petroleum and petrochemical products. 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 3.0 percent in 2021, after contracting by 5.8 percent in 2020. The growth would be driven by an increase in supply, with crude oil production estimated at 114 tb/d and LNG production at 947 thousand mmbtu/d. Crude oil and LNG prices are also forecast to be higher in 2021, although they are likely to remain substantially below pre-pandemic levels, with Brent crude oil prices averaging US$50.8 per barrel and Japan LNG prices at US$8.9 per mmbtu (Box 4).

The downstream oil and gas sector, consisting of the production of fertilizers and refined petroleum and petrochemical products, is forecast to grow by 12.0 percent in 2021, following a 284 percent growth in 2020. The sector's growth has been largely supported by the production of refined and petrochemical products after the commencement of Hengyi Industries' operations in Q4 2019. Growth in 2021 reflects expectations of a pickup in demand for downstream products as the global economy recovers, after production had slowed since Q2 2020 due to weak external demand. This includes higher demand for methanol, the key product of Brunei Methanol Company. The start of Brunei Fertilizer Industries' production of ammonia and urea in mid-2021 will also boost the sector's output.

The non-oil and gas sector is projected to grow by 1.3 percent in 2021, after a marginal decline of 0.1 percent in 2020. Most service sub-sectors are anticipated to recover modestly after containment measures restricted certain economic activities in Q2 2020. However, the recovery in tourism and travel is likely to be hesitant, as impediments to international travel will remain until the COVID-19 pandemic is under control globally and effective vaccines can be distributed quickly and widely.

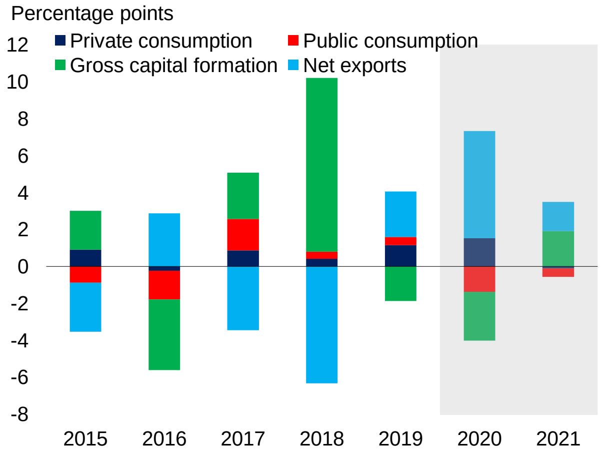
Net exports and private investment expected to drive growth

Net exports and private investment are expected to be the main drivers of growth in 2021, supported by fertilizers production coming online, new FDIs, and the large-scale expansion of an oil refinery and petrochemical complex (Figure 45). Household expenditure is projected to remain robust at around its 2020 level. On the other hand, government spending is expected to remain subdued as fiscal consolidation efforts gain pace. Investment will be bolstered by FDI inflows, particularly in the manufacturing sector. The government and Hengyi Industries are finalising an agreement to commence the expansion of the integrated oil refinery and aromatics cracker plant. The Phase II project is substantially larger, with an investment of US$13.65 billion compared to US$3.45 billion in the completed first phase. The expansion is projected to increase oil refinery capacity to 280 tb/d from the current 160 tb/d. Construction, expected to begin in 2021, will take three years to complete.

The current account surplus is projected to remain high due to a favourable trade balance

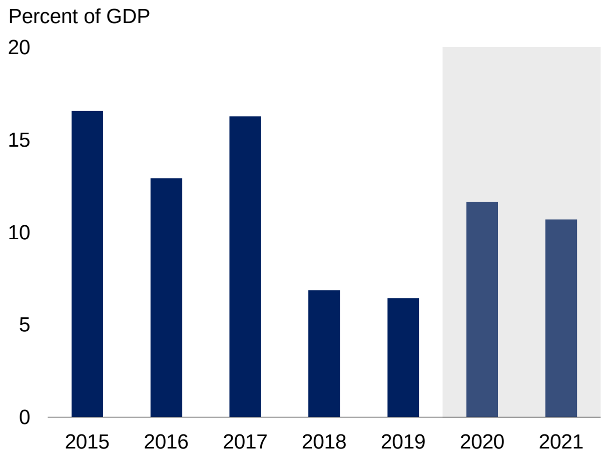
The current account surplus is projected to remain high at 10.7 percent of GDP in 2021, following an estimated increase to 11.6 percent of GDP in 2020 from 6.4 percent of GDP in 2019 (Figure 46). The marked improvement in 2020 has been driven by exports of petrochemicals, despite lower exports of crude oil and LNG. In 2021, downstream oil and gas exports, including fertilizers, are expected to continue to contribute to the current account surplus, in addition to higher crude oil and LNG export volume and prices. Increased non-oil and gas exports, especially aquaculture products, would provide an additional boost. Imports are projected to increase moderately in 2021 as the economy recovers. In particular, surges in mineral fuel imports, used as feedstock for the production of refined and petrochemical products, are expected. Overall, the trade surplus is projected to increase in 2021. The external position remains well-buffered, with international reserves covering 8.6 months of imports.

Figure 45. Contribution to real GDP growth by expenditure component



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

Figure 46. Current account balance

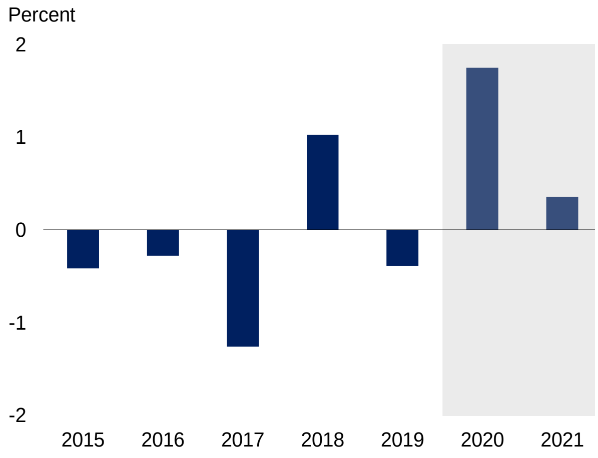


Source: CSPS, Department of Economic Planning and Statistics
Note: Grey shaded areas are CSPS projections.

Inflation to moderate but remain in positive territory

Consumer price inflation is projected to moderate in 2021 to 0.4 percent, after a steep increase to 1.7 percent in 2020 (Figure 47). The high inflation observed in 2020 was partly attributed to a sharp depreciation of the exchange rate in Q1 and limited supply of imported goods due to production cutbacks and supply chain disruptions, which resulted in sharply higher prices for some imported items, including face masks, hand sanitizers, disinfectants, as well as fresh vegetables and meat products. As mobility restrictions around the world gradually ease and production capacity utilization normalises, prices are anticipated to fall to near pre-pandemic levels. Brunei's exchange rate has strengthened to its pre-COVID-19 level, which should reduce inflationary pressures from imported items. Moreover, Brunei's currency peg to the Singapore dollar and price administration through subsidies and price controls should keep inflation in check.

Figure 47. Consumer price inflation



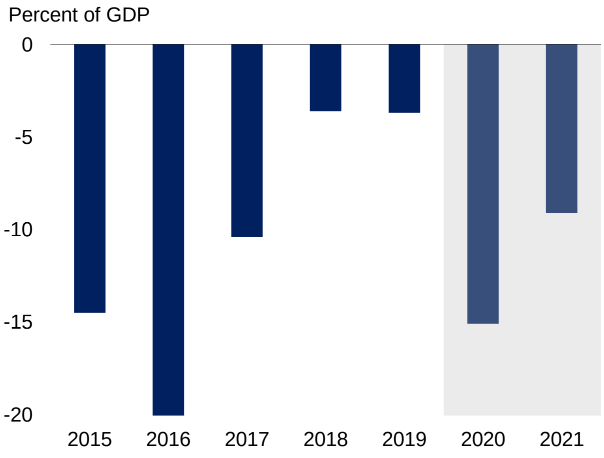
Source: CSPS, Department of Economic Planning and Statistics
Note: Grey shaded areas are CSPS projections.

The fiscal position is projected to improve but remain in deficit

The fiscal deficit is projected to narrow to 9.1 percent of GDP in 2021 from 15.1 percent of GDP in 2020 (Figure 48). The improvement is driven by an increase in revenue and a decline in expenditure. Nonetheless, the fiscal deficit remains large, especially compared to the significant improvements during 2017-19.

Oil and gas revenue is forecast to rise in 2021 on higher crude oil and LNG exports and prices. Non-oil and gas revenue is forecast to increase marginally as the non-oil and gas sector returns to growth. On the expenditure side, current spending is projected to fall in 2021 as fiscal consolidation efforts take hold after a temporary halt in 2020 to support households and businesses during COVID-19. By contrast, capital spending is expected to increase after some execution delays of the projects under the National Development Plan. On balance, total expenditure in 2021 is projected to be lower than a year ago, in line with the downward trend of government spending since 2014.

Figure 48. Fiscal account balance



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

Risks to the outlook are tilted to the downside, which includes a weaker-than-expected global recovery, unanticipated oil and gas supply disruptions, and delays in FDI projects

The baseline forecasts are conditional on several factors. The recovery in external demand for Brunei's key exports is dependent on the evolution of the COVID-19 pandemic and actions taken to contain disease spread, including the development, production, and rollout of a safe and effective vaccine (Box 5). New waves of infections will remain a risk, even with social distancing, masking, and other control measures in place, until effective vaccination or widespread immunity is achieved. Moreover, the first generation of vaccines could be of limited effectiveness, or their development or production could face technical problems. Reluctance to seek vaccination due to perceived safety issues could further delay the rollout. Vaccines are expected to begin to be deployed in the first quarter of 2021 for major advanced and emerging economies, and in the second half of the year for other countries.

A tightening of financial conditions would elevate global uncertainty, which could slow global growth and dampen energy demand. A weaker-than-anticipated global recovery also means that energy prices will remain lower for longer, dealing a double whammy to Brunei's exports and government revenue. This could adversely affect government spending, with negative spillovers to the non-oil and gas sector.

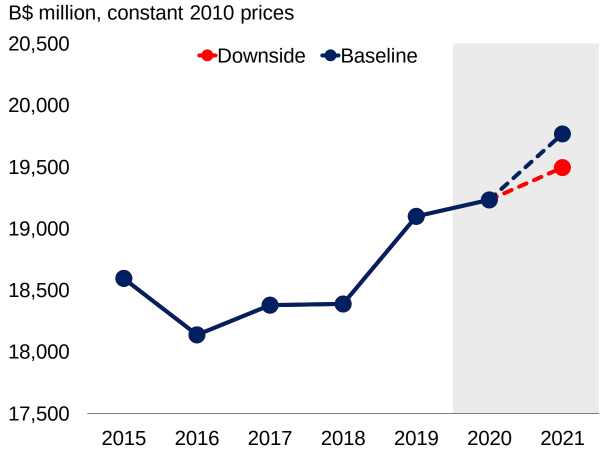
Unexpected disruptions to oil and gas production due to ageing fields are a major downside risk. The volatility observed in the production of LNG and methanol partly reflects supply disruptions of oil and gas, which are inputs to the manufacturing of downstream products. Other risks include delays in the commencement of large-scale FDI projects, particularly the production of fertilizers and the construction of the second phase of Hengyi Industries' petrochemical complex.

To illustrate the potential implications of the materialisation of these risks, we consider the following downside scenario in 2021:

- A reduction of petrochemicals demand by 10 percent relative to baseline
- Crude oil prices to average US$40 per barrel and LNG prices at US$8 per mmbtu
- Domestic crude oil production to average 110 tb/d and LNG production at 900 thousand mmbtu/d
- New fertilizer production to start at the end of Q3

Under this scenario, Brunei's GDP growth in 2021 is projected to be lower by one-half, at 1.4 percent (Figure 49). The current account surplus is projected to fall to 8.4 percent of GDP as net exports decline, while the fiscal deficit is projected to widen to 15.8 percent of GDP due to a reduction in oil and gas revenue.

Figure 49. Comparison of real GDP under baseline and downside scenarios



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

Immediate focus should be on prioritising public health, supporting vulnerable households and firms, rebuilding fiscal buffers, and accelerating structural reforms

The near-term policy priorities for Brunei should be to sustain the public health response, support affected and vulnerable households and firms to revitalise growth and jobs, strengthen the fiscal position, and advance structural reforms to boost human capital and productivity, improve the business environment to facilitate investment and reinvigorate the private sector, as well as increase food security (Figure 50).

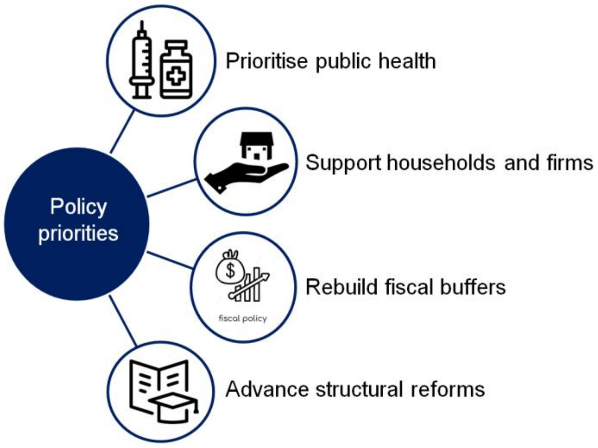
Brunei has done remarkably well in containing the COVID-19 outbreak by prioritising public health. Continued public trust in the government's outbreak control strategies is critical to fully restoring consumer and business confidence. This includes being ready to respond to a potential second wave of COVID-19 infections with sufficient capacity for testing, tracing, and treating, as well as early preparation for acquiring, approving, and administering a safe and effective vaccine.

Targeted support for affected and vulnerable households and firms should be maintained until their financial situations improve. It is important to identify those that require support, such as workers who have lost their jobs or worked reduced hours and businesses with temporary liquidity problems. This includes improving the targeting and adequacy of poor households that require social assistance.

On the fiscal side, rebuilding fiscal space to ensure long-term sustainability should be a primary focus. Fiscal buffers have deteriorated after several consecutive years of budget deficits. The revenue base needs to be expanded beyond oil and gas, which is expected to remain subdued over the short to medium term. 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 rising costs of the public wage bill, improving the targeting of social spending, and reviewing policies on blanket subsidies to make them more targeted.

The COVID-19 pandemic has likely induced several structural changes with long-term growth implications, including accelerating digitalisation adoption, global supply chain reconfigurations, changing consumer behaviour and the composition of spending, shifting investment preferences, and loss of human capital from unemployment, underemployment, and learning disruptions. It is vital to advance structural reforms to lift Brunei's potential growth to create jobs and raise incomes. The Brunei Darussalam Economic Blueprint and the associated industrial roadmaps and key sectors masterplans are a timely opportunity for the government to set strategic priorities and policy directions that enable bold structural reforms to seize new growth opportunities.

Figure 50. Recommended policy priorities



Source: CSPS

Annex 1. Selected economic indicators for Brunei

	2017	2018	2019	2020[e]	2021[f]
Output and prices					
Nominal GDP (B$ million)	16,748	18,301	18,375	16,833	17,918
Real GDP (B$ million, 2010 constant prices)	18,378	18,387	19,099	19,232	19,768
Real GDP (percent change)	1.3	0.1	3.9	0.7	2.8
Traditional oil and gas sector[1]	*1.1*	*-1.5*	*3.9*	*-5.8*	*3.0*
Downstream oil and gas sector[2]	*8.8*	*30.3*	*54.0*	*284.2*	*12.0*
Non-oil and gas sector	*1.6*	*2.1*	*3.9*	*-0.1*	*1.3*
Oil production (thousand barrels per day)	113	112	121	111	114
LNG production (thousand mmbtu per day)	975	935	973	905	947
Oil price (US$ per barrel)	55.9	73.2	68.6	42.3	50.8
LNG price (US$ per mmbtu)	8.3	10.5	9.1	8.3	8.9
Inflation (period average, percent change)	-1.3	1.0	-0.4	1.7	0.4
Balance of payments (B$ million)					
Exports of goods and services	8,302	9,504	10,648	9,900	10,338
Imports of goods and services	5,963	7,680	9,291	8,199	8,352
Trade balance	2,340	1,824	1,357	1,700	1,986
Net primary and secondary income	385	-569	-175	257	-70
Current account balance	2,724	1,255	1,181	1,958	1,916
In percent of GDP	*16.3*	*6.9*	*6.4*	*11.6*	*10.7*
Gross international reserves	3,488	3,407	4,273	4,346	4,452
In months of imports of goods and services	*9.0*	*6.2*	*6.9*	*8.8*	*8.6*
B$/US$ exchange rate (period average)	1.38	1.35	1.36	1.38	1.35
Nominal effective exchange rate (2010=100)	109.7	110.4	110.8	109.9	109.8
Real effective exchange rate (2010=100)	95.5	94.6	93.7	94.1	94.6
Public finance (B$ million)					
Total revenue	4,385	5,227	5,281	2,939	3,769
Oil and gas	*3,269*	*4,426*	*4,077*	*1,766*	*2,584*
Non-oil and gas	*1,116*	*802*	*1,204*	*1,173*	*1,185*
Total expenditure	6,128	5,887	5,960	5,479	5,400
Current spending	*5,341*	*5,284*	*5,520*	*5,207*	*5,100*
Capital spending	*787*	*603*	*440*	*272*	*300*
Budget balance	-1,743	-660	-679	-2,540	-1,631
In percent of GDP	*-10.4*	*-3.6*	*-3.7*	*-15.1*	*-9.1*

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 fertilizers and refined petroleum and petrochemical products.

Box 4. Oil market developments and outlook[4]

The COVID-19 pandemic has delivered an enormous shock to the global economy. The pandemic impacted commodity markets too, but its effect on commodity prices has been uneven. Prices for metals recovered quickly and have surpassed pre-pandemic levels, following a swift rebound in industrial demand from China, while agricultural and food prices have remained broadly stable. Oil prices, on the other hand, fell steeply and have recovered somewhat, but are still considerably lower than at the start of 2020. Against this backdrop, this Box discusses recent developments and the outlook in the oil market.

Recent developments

Oil prices have declined sharply amid the pandemic, reflecting a large drop in global demand as a result of lockdown measures and reduced mobility as well as a supply glut. Brent crude oil prices plummeted to a multi-year low of around US$20 per barrel in April 2020 (Figure B11). Other benchmark prices saw even more dramatic declines. The West Texas Intermediate (WTI) Cushing contract for delivery in May crashed to –US$37 per barrel on April 20 due to weak demand and limited storage capacity for physical delivery.

Disruptions to transport and travel have had a disproportionately large impact on oil demand as transport fuels account for about two-third of global oil consumption. Oil demand fell sharply in Q2 2020, especially in the United States and Europe. The fall in consumption was largely on transport fuels, particularly jet fuel as a result of the collapse in air travel (Figure B12). Diesel was less affected given its main use in transport by road and sea.

Figure B11. Brent and WTI crude oil prices

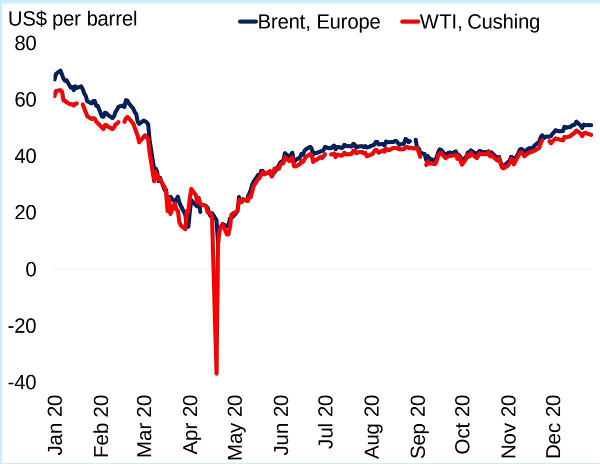
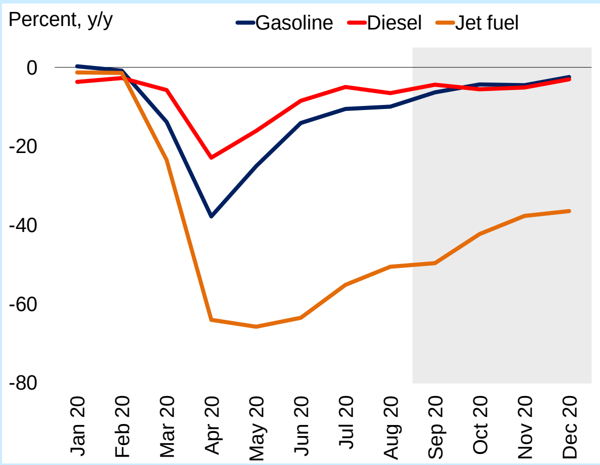


Figure B12. Oil consumption growth by product



Source: International Energy Agency, U.S. Energy Information Administration, World Bank
Note: Grey shaded areas are IEA forecasts. Oil consumption for OECD countries only.

Oil output initially surged after the breakdown of the OPEC+ production agreement in March 2020, with the supply glut exacerbating the fall in oil prices. OPEC+ reached a new agreement to cut oil production by 9.7 million barrels per day (mb/d) in May and June, with the cuts easing to 7.7 mb/d in the second half of 2020 and 7.2 mb/d at the start of 2021. The group was due to relax output reductions to 5.8 mb/d from January 2021 to April 2022, but agreed on incremental increases at the December 2020 meeting. The production cuts, combined with the lifting of lockdown measures in certain parts of the world, have

[4] This Box was prepared by Koh Wee Chian.

helped oil prices to recover from the April 2020 lows. Brent oil prices have recently moved above US$50 per barrel for the first time since March 2020.

Outlook and risks

According to the International Energy Agency (IEA), global oil consumption is expected to continue to recover in 2021, but it will remain 5 percent below its trend prior to the pandemic (Figure B13). Demand for gasoline and diesel is projected to return to 97-99 percent of their 2019 levels, but jet fuel consumption is expected to remain weak. Most of the improvement in oil demand is expected to come from China, while the outlook for OECD countries is bleak. On the supply side, OPEC+ is expected to ease its production cuts in January 2021, and non-OPEC production is also expected to increase. Demand is not expected to materially overtake supply until much later in 2021 due to high levels of inventories.

Average oil prices (WTI, Europe Brent, and Dubai Fateh) are forecast to rise to US$44 per barrel in 2021, according to the World Bank's *Commodity Markets Outlook* in October 2020, as the gradual rise in demand coincides with an easing of supply restraint among OPEC+. The IMF's *World Economic Outlook* in October 2020 projected average oil prices to be at US$46.7 per barrel based on futures markets. The December 2020 consensus forecasts—based on surveys of more than 40 commodity analysts—projected Brent oil prices in 2021 at US$50.34 per barrel (Figure B14). These forecasts are substantially lower than the average price in 2019 and projections made at the start of 2020.

Downside risks to the oil price outlook include a slower-than-expected pickup in demand, such as due to delays in the development and distribution of an effective vaccine, and a higher-than-expected oil output, particularly if there is non-compliance with cuts among OPEC+ producers. On the upside, weaker investment in exploration and production activities or a shutdown of oil wells could reduce future production capacity, which could lead to a sharper rebound in prices.

Figure B13. Global oil consumption forecast

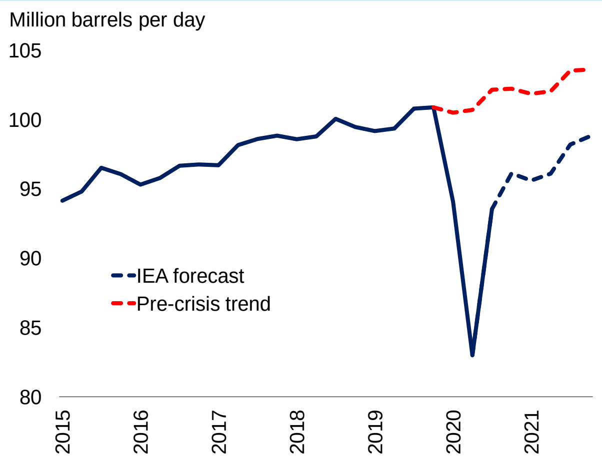
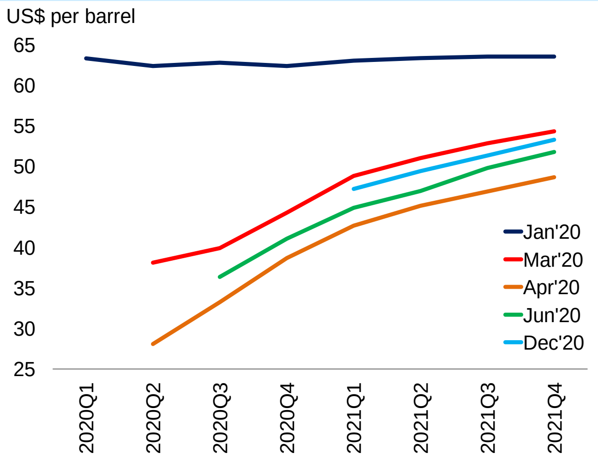


Figure B14. Brent oil price forecast



Source: Consensus Economics, International Energy Agency
Note: Mean consensus oil price forecast made in respective month of 2020.

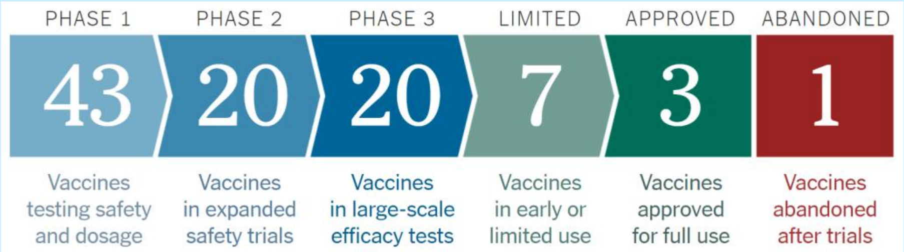
Box 5. COVID-19 vaccine progress update[5]

The rapid global spread of the SARS-CoV-2, the virus that causes COVID-19, is a daunting public health emergency. Governments around the world have instituted stringent non-pharmaceutical interventions to curb transmissions. However, these have inadvertently caused widespread disruption to economic activity. A safe and effective vaccine could allow lockdowns and social distancing to be relaxed, and ultimately a possible return to normal daily life. Large financial and human resources have been devoted to accelerate the development of vaccines and therapeutics. However, there remains substantial uncertainty surrounding their availability, safety, and effectiveness. Against this backdrop, this Box provides an update on the COVID-19 vaccine landscape.

The race to develop a COVID-19 vaccine

Scientists and researchers around the world are hoping to produce a safe and effective vaccine in record time. The first COVID-19 vaccine candidate entered human clinical testing on March 16, 2020, just two months after the genetic sequence of SARS-CoV-2 was published on January 11. As of January 5, 2021, 63 vaccines were in clinical trials on humans, 20 have reached the final stages of testing, and 10 have been approved for limited or full use (Figure B15). In addition, at least 85 pre-clinical vaccines are under active investigation in animals.

Figure B15. COVID-19 vaccine tracker



Source: New York Times, World Health Organization

Note: Data as of January 5, 2021.

Challenges to wide and equitable access

A critical challenge is to ensure that the right people get the right vaccine at the right time. Advanced economies have been able to procure large vaccine supplies from various manufacturers, while developing countries, especially low-income countries, are financially constrained and lack negotiation power. The COVAX facility, the vaccines pillar of the WHO Access to COVID-19 Tools Accelerator, is designed to ensure there is equitable access to vaccines globally. However, distribution requires careful preparation, given the unprecedented pace and global scale of the challenge. Moreover, there are associated logistical challenges, particularly freezer or refrigerated storage to preserve the vaccine and reaching those in remote and hard-to-reach locations.

Challenges to vaccine confidence

In an online survey of more than 13,000 adults from 15 countries conducted during December 17-20, between 40 and 80 percent of respondents said they would get a vaccine for COVID-19 if it were available (Figure B16). This represented a marked decline in vaccine confidence compared to similar surveys conducted in October and August. Vaccine intent declined in 13 of the 15 countries in the December survey, with sharp drops in South Africa, France, and South Korea. At the same time, strong intent to be vaccinated has risen by nine and five percentage points in the United States and the United

[5] This Box was prepared by Koh Wee Chian.

Kingdom, respectively, where vaccines have started to be administered. Experts estimate that at least 70 percent of the population will need to be immune to the virus to stop COVID-19 from spreading. Accomplishing this requires high public confidence in a vaccine. The current shortfall in vaccine intent could limit efficacy and be a stumbling block to containing the pandemic.

Among those who would not get vaccinated, between 57 and 80 percent were worried about the side effects (Figure B17). This concern was highest in South Korea (80 percent), Japan (76 percent), and France (72 percent). Between 17 and 45 percent thought that the vaccines were ineffective, 8 to 32 percent felt there is a low chance of contracting COVID-19, and 5 to 26 percent were opposed to vaccines in general. The survey results show that more work has to be done to increase confidence in vaccines around the world.

Figure B16. Vaccine intentions – If a vaccine for COVID-19 were available, I would get it

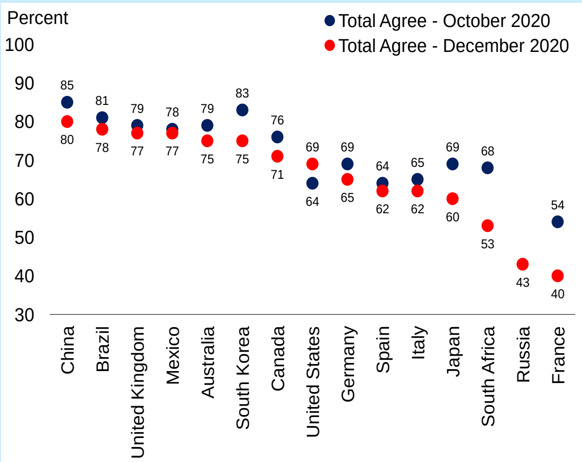
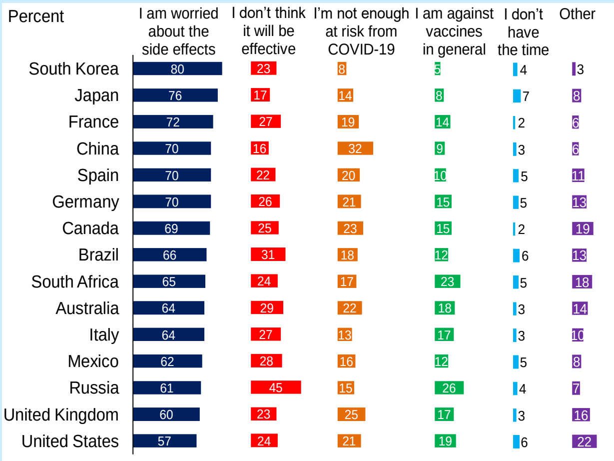


Figure B17. Reasons for not wanting a vaccine – Which best describes why you would not take a vaccine for COVID-19?



Source: Global Advisor, Ipsos, World Economic Forum
Note: Vaccine intentions based on 13,542 adults aged 16-74 across 15 countries; Reasons for not wanting a vaccine based on 4,654 adults who disagreed somewhat or strongly to get a vaccine if it were available.

Securing vaccines for the Brunei population

The government has signed on to COVAX, which will guarantee vaccine coverage for half of the population, and is in direct talks with other manufacturers to acquire another 20 percent. The first vaccine could be available in the country in the first quarter of 2021, and inoculations could begin as early as the second quarter. The vaccine will first be offered to frontline workers and high-risk groups such as the elderly and those with chronic diseases. Early planning to understand vaccine intentions among the population will be critical to a successful vaccination program.

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