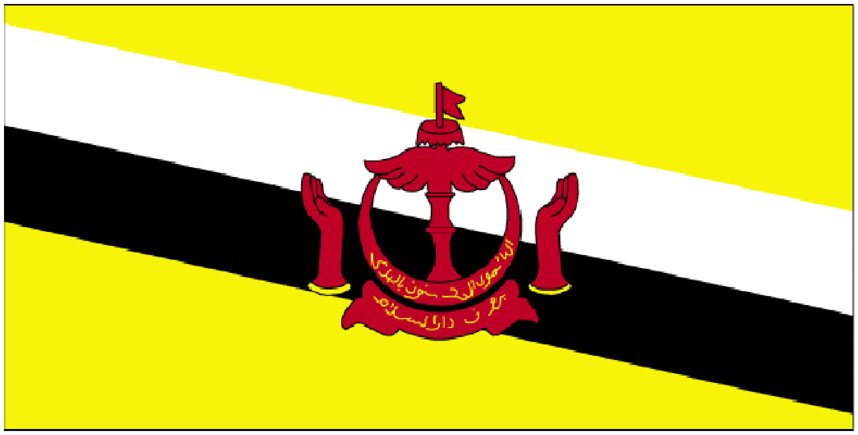
Country report

BRUNEI



Summary
The prosperous country of Brunei derives its wealth from an abundance of oil and gas resources. The economy contracted 1.8% yoy in 2009 and is estimated to have grown over 1% in 2010, on the back of higher global commodity prices. The largest risk to sustainable growth is the oil-dependency of the country. Economic policy is directed towards diversifying the economy and reducing the size of the public sector. The political and social situation is very stable as the ruling sultan lets the population live of the oil wealth. As such, the median income is high and unemployment low. Even so, the sultan sees the need to introduce a limited degree of democracy, but so far no real change has occured. The balance of payments and external position are in good shape due to substantial hydrocarbon exports.

Things to watch:

- Diversification efforts of the economy
- Volatility in global oil and gas prices
- Government efforts to introduce a limited degree of democracy

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Brunei Darussalam

National facts	
Type of government	Constitutional sultanate
Capital	Bandar seri Begawan
Surface area (thousand sq km)	5,770
Population (millions)	0.4
Main languages	Malay (official)
	English
Main religions	Muslim, official (67%)
	Buddhist (13%)
	Christian (10%)
Head of State (sultan)	Sir Hassanal Bolkiah
Head of Government (prime-minister)	Sir Hassanal Bolkiah
Monetary unit	Brunei dollar (BND)

Economy (2009)		
Economic size	*bn USD*	*% world total*
Nominal GDP	15	0.02
Nominal GDP at PPP	19	0.03
Export value of goods and services	8	0.00
IMF quotum (in mln SDR)	215	0.10
Economic structure	*2009*	*5-year av.*
Real GDP growth	-1.8	2.6
Agriculture (% of GDP)	1	1
Industry (% of GDP)	74	68
Services (% of GDP)	25	31
Standards of living	*USD*	*% world av.*
Nominal GDP per head	30586	383
Nominal GDP per head at PPP	50419	508
Real GDP per head	18496	240

Social and governance indicators	rank / total
Human Development Index (rank)	37 / 169
Ease of doing business (rank)	112 / 183
Economic freedom index (rank)	n.a.
Corruption perceptions index (rank)	38 / 178
Press freedom index (rank)	142 / 178
Gini index (income distribution)	n.a.
Population below $1 per day (PPP)	n.a.

Foreign trade (2009)			
Main export partners (%)		*Main import partners (%)*	
Japan	38	Singapore	38
Indonesia	26	Malaysia	19
Korea	14	Japan	7
Australia	7	China	5
Main export products in 2008 (%)			
Fuel			96
Manufactures			3
Ores and metals			0
Food			0
Main import products in 2008 (%)			
Manufactures			79
Food			17
Fuel			2
Ores and metals			1
Openness of the economy in 2008			
Export value of G&S (% of GDP)			71
Import value of G&S (% of GDP)			25
Inward FDI (% of GDP)			n.a.

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Due to insufficient (reliable) data availability, the figures presented in this evaluation should be interpreted with caution.

Economic structure and growth

Brunei is a small country bordering the South China Sea and Malaysia. Brunei became a British protectorate in 1888 and almost a century later, in 1984, it gained independence. The country became a constitutional monarchy and is ruled by sultan Hassanal Bolkia Mu'izzaddin. Brunei is very prosperous as it enjoys a vast presence of oil and gas resources. It has a very low unemployment rate of 3.7% and it is one of the wealthiest countries in Asia, with a nominal GDP per capita of USD 50,300 in 2010. As the source of its wealth is its massive hydrocarbon resources, the industrial sector dominates the structure of the economy with 74%. The services sector follows with 25%, while the agricultural sector is negligible with 1%. Hydrocarbon production accounts for about 50% of GDP and 90% of exports and government revenue, which highlights that the economy is fully dominated by the oil and gas sector. The government plans to diversify into Islamic banking and the IT-sector. Even investing in the development of only two sectors will very much improve the country's prospects, given the fact that the labour force is very small with 188,800. As it is now, the public sector employs the majority of the population. The government is further trying to privatize several public sector enterprises. However, progress is slow regarding economic diversification and privatization as the government takes a gradual approach. If no new oil and gas fields are found though, the country will run out of oil in 20-30 years, thus speeding up diversification progress is advisable.
At the time of writing, the economic data of 2010 are not yet released. Brunei does not maintain a regular schedule of economic data releases, and is notoriously late with any data releases. The full

year economic data of 2009 were published only in September 2010. The data shows that GDP contracted by 1.8% yoy in 2009. Contributing to the decline were lower global oil and gas prices, combined with 4.6% lower output in the hydrocarbon sector. The non-hydrocarbon sector expanded by 0.9% yoy. While this is a good sign, it must be noted that the non-hydrocarbon sector, many of which is state linked, is financed ultimately by oil and gas revenues. This means Brunei is still a long way from achieving a more balanced economic structure. Domestic consumption grew in 2009. Private consumption rose by 4.7% yoy and government consumption 5.3% yoy. Exports fell by 5.3%, mostly as a result from lower oil production and lower global oil prices. Brunei's main trading partners are other Asian countries such as Japan, Indonesia, Singapore and Malaysia.
Economic growth of 1-2% is estimated for 2010, but economic data is expected to be released by the Brunei government not before September 2011. For 2011, at least 2% GDP growth is expected. Mostly, as Brunei's main trading partners have experienced an economic recovery, this has resulted in sustained external demand. Obviously, the level of global oil and gas prices in 2011 also plays a large role. In the longer term, the sustainability of economic growth depends on the success of the country's diversification efforts.

Political and social situation

The political situation is very stable in Brunei and no significant change is expected in the coming years, as the ruling family intends to maintain its hold on power and has not allowed any genuine opening of the political process. The country is ruled by sultan Hassanai Bolkiah Mu'zaddin since 1967.. The sultan is very powerful as he has full executive power. He acts as the prime minister and also as defense and finance minister. The sultan's strong grip on power has resulted in a high degree of political stability. He favors a moderate form of Islam and is very popular. While the legal system is based on British common law, for Muslims Shari'a law supplants civil law in some areas. Despite the sultan's absolute power and disproportionate amount of wealth, the social situation is stable. The government keeps the population content by providing free education up to university level, free social security, subsidizing housing and rice. Furthermore, no income tax is levied and the public sector is the favorite employer. To a certain extent, the entire population is living of the country's oil wealth.
The sultan did announce in 2004 to shift from an absolute monarchy to a parliamentary democracy. To this end, the sultan revived the parliament, known as the legislative council. However, since then, no real change has occurred in the political scene. Plans were that 15 of the 45 member body would be directly elected but this has never come into fruition. The parliament remains incomplete with 30 government-appointed members. Even these members do not have any genuine legislative or scrutinizing abilities as requests from members for more details on government finances have been rejected out of hand in recent years. Slight risk is a growing disenchantment by the population of the extravagant lifestyle of the royal family. However, as the population also benefits significantly from the oil wealth and no real opposition has emerged, we expect the social and political situation to remain stable in the coming years.
Relations with Malaysia have improved last year. A border dispute concerning an oil and gas rich maritime area has been resolved, as the countries have agreed to engage in joint exploration of the area.

Economic policy

The latest statistics concerning government finances stem for FY 2008/09, in which the budget surplus was USD 4bn, equivalent to 25% of GDP. For FY 2010/11, the fiscal position is expected to remain strong due to substantial oil and gas export revenues. While the strength of the fiscal

position is certain, detailed analysis of government finances is not possible as the figures are untimely and spending categories are vague and too broadly defined. Even so, as long as hydrocarbon reserves hold up, similarly large budget surpluses are expected to continue.
General economic policy is directed towards diversification away from the hydrocarbon sector and reduction of the size of the public sector. Key areas are IT and Islamic banking, but progress is expected to be gradual. Other plans include upgrading the labor force, strengthening the banking and tourist sectors and increasing agricultural production. Increasing agricultural production was defined by the government as a key policy point to reduce imported food-dependency. The country intends to reach 60% self-sufficiency by 2015.
While this might also reduce imported inflationary pressures, inflation has historically not been a problem in Brunei. Inflation averaged 1.8% yoy in 2009 and is estimated at 0.4% in 2010, which are very low levels. The government's policy of price controls means no alarming inflationary pressures are expected this year.
Brunei installed a central bank just last year, known as the Brunei Darussalam Monetary Authority. It is handed the tasks of monetary policy and supervision of the financial sector. It has already taken measures to curb a credit bubble in the household sector.
The Brunei dollar is fixed via a currency board with the Singapore dollar at parity. The currency peg has served Brunei well, as the Singapore economy is well-managed. It has prevented erratic exchange rate fluctuations and has successfully contained imported price pressures.

Balance of Payments

The surplus on the current account has always been substantial in Brunei, fully attributable to the trade balance. In 2009, the trade surplus was USD 4.6bn, lower than the USD 8.6bn recorded in 2008. This fall reflects the fall in global oil and gas prices in that year. The value of exports fell by 30% in 2009. Oil exports fell by 37% yoy and gas prices by 24%. The only other significant export product, textile and garments, fell by a whopping 53% yoy, as competition in this industry from its neighbouring countries is fierce. Imports fell only slightly, by 4.3%. The import of animal and vegetable oil fell by 26% and imports of machinery and transport equipment by 13%. Brunei's imports stem mostly from ASEAN with 52%. Smaller import partners are the US with 13% and the EU with 10%. The country's largest export partners are Japan and South Korea, with which Brunei has long-term supply agreements.
The large surpluses on the current account mean no external financing is required. Nevertheless, the sustainability of these surpluses relies on the availability of hydrocarbon resources.

External position

The external position of Brunei is very healthy. External debt is estimated to be very low and stems almost entirely from the private sector. FX-reserves are managed by the Brunei Investment Agency. Its assets are estimated at USD 30bn and it holds a portfolio mainly consisting of corporations, real estate and currencies. The value of most of these assets has surely been affected by the global crisis. However, these are long-term investments and the value of these investments should have rebounded at least partially along with the global economic recovery.

Brunei Darussalam

Selection of economic indicators	2003	2004	2005	2006	2007	2008	2009
Key country risk indicators							
GDP (% real change pa)	2.9	0.5	0.4	5.1	0.4	-2.0	-0.5
Consumer prices (% change yoy)	0.3	0.9	1.1	0.2	0.4	0.8	1.0
Current account balance (% of GDP)	47.7	48.6	52.8	55.9	57.3	56.5	56.1
Total foreign exchange reserves (mln USD)	376	385	431	460	625	n.a.	n.a.
Economic growth							
GDP (% real change pa)	2.9	0.5	0.4	5.1	0.4	-2.0	-0.5
Gross fixed capital formation (% of GDP)	15.0	13.4	11.4	10.4	n.a.	n.a.	n.a.
Household consumption (% growth)	10.6	3.1	8.3	18.7	n.a.	n.a.	n.a.
General government expenditure (% growth)	-2.6	4.1	-1.0	12.8	n.a.	n.a.	n.a.
Exports of goods and services (% of GDP)	69.3	68.8	70.2	71.2	n.a.	n.a.	n.a.
Imports of goods and services (% of GDP)	36.0	31.8	27.3	25.0	n.a.	n.a.	n.a.
Economic policy							
Primary balance (% of GDP)	8.9	9.5	18.2	20.6	26.2	29.6	n.a.
M2 growth (% change pa)	4.0	16.0	-4.5	2.2	-0.7	n.a.	n.a.
Consumer prices (% change yoy)	0.3	0.9	1.1	0.2	0.4	0.8	1.0
Exchange rate LCU to USD (average)	1.70	1.63	1.66	1.53	1.44	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	3129	3827	5032	6462	7101	8440	8580
Trade balance	3167	3721	4836	6026	6605	7180	n.a.
Export value of goods and services	4421	5057	6249	7608	8289	8970	n.a.
Import value of goods and services	1254	1336	1413	1582	1684	1800	n.a.
Services balance	-594	-530	-494	-468	-440	-440	n.a.
Income balance	845	944	1067	1308	1398	1650	n.a.
Transfer balance	-290	-309	-376	-404	-416	-440	n.a.
Net direct investment flows	100	700	200	200	200	200	200
Net portfolio investment flows	100	0	0	0	0	0	0
External position (mln USD)							
Total foreign debt	400	500	600	600	800	800	900
Short-term debt	100	100	200	200	200	300	300
Total foreign exchange reserves	376	385	431	460	625	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	48.3	47.3	50.7	52.1	n.a.	n.a.	n.a.
Current account balance (% of GDP)	47.7	48.6	52.8	55.9	57.3	56.5	56.1
Foreign debt (% of GDP)	6.1	6.4	6.3	5.2	n.a.	n.a.	n.a.

Source: EIU