**Periodical Part**

# Brunei economic outlook ... / Centre for Strategic and Policy Studies. 2024

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# BRUNEI ECONOMIC OUTLOOK

2024

CSPS BRUNEI DARUSSALAM
ڤوست کاجين ستراتيجيک دان داسر
Centre for Strategic and Policy Studies

# BRUNEI ECONOMIC OUTLOOK 2024

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# Acknowledgements

The *Brunei Economic Outlook* is an annual flagship report of the Centre for Strategic and Policy Studies (CSPS).

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

The design and publication were handled by Rina Sidek and Nisa Zaini.

The *Brunei Economic Outlook* is accessible on CSPS website http://www.csps.org.bn/publications/economic-outlook/.

# Foreword by the Chairman

I am delighted to introduce the 2024 edition of the Brunei Economic Outlook, a flagship publication of the Centre for Strategic and Policy Studies. Its contribution to providing independent and grounded analyses of recent key macroeconomic developments, potential risks, developmental obstacles and future prospects for Brunei Darussalam is greatly appreciated, and I am confident that this report will provide plenty of useful insights for policymakers, industry players, investors, academics, civil society, and the general public.

Many of the challenges faced by the Brunei economy in 2022 have persisted into 2023. The enduring effects of the pandemic, as well as ongoing disruptions to oil and gas production and the downstream sectors, have slowed economic development, particularly in the first half of 2023. However, these challenges eased in the second half of 2023 and there is optimism that they will ease further in 2024. Furthermore, the non-oil and gas business has continued its positive performance for an outstanding 20 quarters, with the services sector rising steadily as it recovers from the residual impacts of the pandemic. This demonstrates the nation's ceaseless attempts to diversify the economy. Inflation has fallen to pre-pandemic levels and is expected to remain stable in 2024 with the projected normalisation of global trade.

Global economies have managed to address decades-high inflation with relative success while maintaining strong growth and job numbers. However, inflation still remains a policy concern for many countries and 2024 will likely see global economies treading a balance between further arresting inflation and addressing the growing concerns posed by geopolitical risks, climate change and technological transformation. The situation could potentially become more difficult with the lagged effects of monetary tightening that largely defined 2023. But as a whole, inflation is projected to maintain its declining trajectory, with the anticipation of further moderation in food and energy costs in 2024.

As we strive in our ongoing diversification efforts towards achieving Wawasan Brunei 2035 and beyond, it is important to maintain or even double down on our recent successes in the non-oil and gas sector. Attracting foreign direct investments into untapped industries, improving the business environment, modernising the economy, supporting micro, small and medium enterprises (MSMEs), and prudent fiscal spending will all play an important role in this endeavour.

In addition, in the face of structural transformation and the digitalisation of our economy, it is vital that our development efforts remain both adaptable and inclusive to avoid excessive job losses and to ensure gainful employment for all. Brunei also needs to continue building resilience against external shocks, threats, and uncertainties.

Looking forward, we remain optimistic but grounded that the Brunei economy will achieve sustainable development, driven by the resurgence of the non-oil and gas sector and the continued recovery of the oil and gas industry. As such, CSPS forecasts that GDP growth will accelerate in 2024, picking up from the positive growth achieved in 2023. However, it is crucial to note that Brunei's economy is undergoing extraordinary structural changes. Challenges are unavoidable, and understanding and effectively planning for them is an important first step towards overcoming them.

In this regard, I am confident that the *Brunei Economic Outlook* will prove to be an immensely valuable resource. It is hoped that the insights generated will act as a guide to the nation as we navigate through new waters of economic change. Lastly, I would like to extend my thanks to the staff of CSPS for their commitment and perseverance in writing this report.

**Yang Berhormat Dato Seri Setia Dr. Awang Haji Mohd Amin Liew bin Abdullah**

Minister at the Prime Minister's Office and Minister of Finance and Economy II

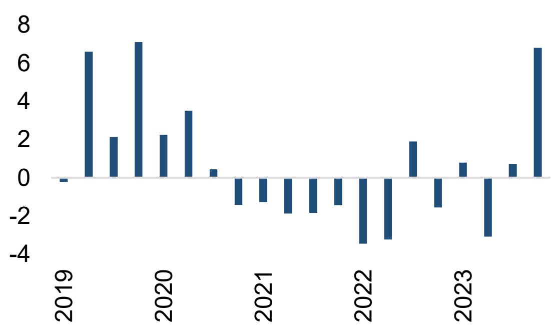
as Chairman of the Board of Directors of the Centre for Strategic and Policy Studies

# Summary

**The Brunei economy grew in 2023 after two consecutive years of contractions.** GDP expanded by an impressive 1.4 percent in 2023, the second fastest annual growth rate in the past decade (Figure 1). This is however lower than the 2.6 percent growth forecasted in the Brunei Economic Outlook 2023 as some of the risks to growth that were identified had materialised. In particular, the first half of the year experienced continued disruptions to domestic oil and gas production and a protracted slowdown in downstream activities led to the lower than projected growth.

**Figure 1.** Real GDP growth

Percent y/y



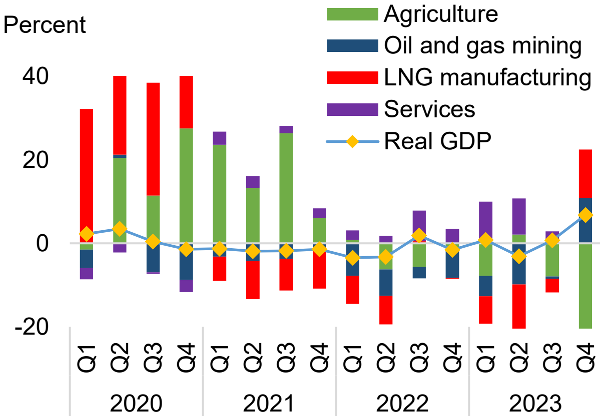

Source: CSPS; Department of Economic Planning and Statistics

**Impressive growth in Q4 of 2023 offset the deep contraction in Q2 of 2023.** The oil and gas mining sector as well as certain segments of downstream activities experienced a sharp decline in Q2 of 2023 leading to a deep contraction in overall GDP. The decline bottomed out in Q3 of 2023 with the completion of rejuvenation and maintenance activities and GDP bounced back in Q4 of 2023 with a strong growth of 6.8 percent. In addition, the full global reopening amidst the fading effects of the COVID-19 pandemic has helped boost private consumption and the services sector, especially air travel.

**Significantly, the non-oil and gas sector (which includes the downstream activities) continued its expansion relative to the oil and gas sector (in terms of contribution to nominal gross valued added) in 2023** whereby its contribution climbed to 53 percent which is the largest relative difference observed in recent data. This reflects the structural transition that the economy is undergoing which is expected to increase further in the coming years.

**Services led by finance, air transport, and communication were a key contributor to the non-oil and gas sector and grew faster than the overall economy.** This is due to the normalisation of economic activities after the prolonged pandemic slowdown (Figure 2).

**Figure 2.** Real GDP growth rate by economic sector




Source: CSPS; Department of Economic Planning and Statistics

**Overall retail sales however have been sluggish but retail spending on food and beverages has grown rapidly** (above 5 percent per quarter on average). This can be attributed to the full reopening of global borders as well as the normalising of consumer activities back to pre-pandemic levels.

**The agricultural sector, particularly livestock & poultry and fisheries, experienced a steep decline in 2023** due to weather challenges, labour shortages and higher cost of inputs. With the ongoing El Nino phenomenon, which is expected to last until the middle of 2024, agricultural output is facing a continued risk of a contraction.

**On the expenditure side of the economy, growth in household consumption accelerated further in 2023 but is starting to normalise.** Household consumption grew rapidly in the first two quarters of 2023 due to base effects (i.e. household consumption in the first two quarters of 2022 were lower than average) but slowed markedly in the subsequent quarters of 2023 as it shows signs of normalising back to pre-pandemic levels. High global interest rates may further put a brake on household consumption as households find it more attractive to save rather than spend. Average 12-month bank deposit rates are almost three times as high as their lows in 2022.

**Investments marginally increased in 2023 and new downstream projects in 2024 could provide a boost.** The marginal increase in investments in 2023 can be fully attributed to the out-of-trend increase in Q2 of 2023. This coincided with the slowdown in oil and gas and downstream activities as production was slowed while investments were made for rejuvenation and maintenance activities. The boost in investments could be seen contributing to production in 2024. In addition, investments are likely to increase in 2024 as work commences on the Pulau Muara Besar (PMB) Phase 2 Development Project with Hengyi Industries.

**Total trade fell in 2023 as both exports and imports decreased.** The decline in exports was almost entirely due to lower exports of mineral fuels and chemicals while the decline in imports was due to less mineral fuel imports, which are key inputs to the downstream industries. Nevertheless, exports of mineral fuels picked up substantially in Q4 of 2023 and the trade and current account balance for the year remained in a healthy surplus.

**The unemployment rate increased slightly to 5.2 percent in 2022 but remained below the pre-pandemic level of 6.8 percent.** This is a notable achievement especially in view that the unemployment rate was 9.0 percent in 2017 and 7.3 in 2020. The private sector continues to lead as the new source of jobs for both local and foreign workers. Significantly, the gap has continued to widen since 2020, when the private sector first overtook the public sector as the main source of employment in Brunei. There is also an observable localisation of jobs as the number of foreign workers decreased by approximately 13,000 between 2019 (before the pandemic) and 2022 while employed locals increased by 6,000. Even after the reopening of borders, the localisation of jobs, particularly in services where the ratio of local to non-locals employees increased from 2.6 in 2019 to 4.0 in 2022, has continued.

**The improving but still uncertain global inflation environment will likely lead to global monetary conditions to hold firm or even slightly loosen.** As such, it is expected that monetary conditions in Brunei will follow suit. However, any loosening is likely to be marginal and will not significantly affect domestic demand and investments through lending despite the strong growth in domestic lending in 2023.

**Inflation will be marginally higher in 2024 but remain low at 0.8 percent compared to 0.4 percent in 2023.** With food and supply chain issues addressed, inflation has already fallen in line with the pre-pandemic levels. Effective government management of subsidies and price controls along with Brunei's currency peg to the Singapore dollar will ensure that inflationary pressures will remain in check.

**Fiscal deficit is expected to deepen slightly in FY 2024/25 as growth in government expenditure outstrips revenue.** Expenditures are expected to grow by 5 percent to BND 6.25 billion, as tabled in the 20th Legislative Council session. Meanwhile, revenues are projected to grow by 1 percent. This will result in a modestly larger deficit of BND2.99 billion in FY 2024/25 compared to BND2.70 billion in FY 2023/24. However, if the ongoing decline in global oil and liquified natural gas (LNG) prices accelerates further in 2024, this will certainly strain the revenue and fiscal position of the government.

**Assuming the oil and gas sector and the downstream segments can maintain their output close to the levels seen in Q4 of 2023, the Brunei economy is forecasted to grow by a stronger 2.7 percent in 2024.** The non-oil and gas sector is expected to continue its modest expansion into 2024 and help further diversify the economy despite a forecasted contraction in services. However, the largest expected contributor to GDP growth in 2024 remain to be the oil and gas sector as well as the downstream segments as they revert to their growth trajectory after shrinking in 2023. The forecast is in line with the forecasts by the International Monetary Fund (IMF), the Asian Development Bank (ADB), and the ASEAN+3 Macroeconomic Research Office (AMRO).

**Overall, 2023 proved to be a mixed year for the Brunei economy despite posting positive growth.** Continued challenges with exploration, development and maintenance activities of the oil and gas industry and the downstream segments led to a lower-than expected contribution from these sectors at the beginning of the year. As key industries, this negatively affected growth in the overall economy. However, these challenges eased in the second half of the year and with the non-oil and gas sector continuing its robust growth, 2023 ended on a more optimistic note. In addition, the softening of global supply chain problems allowed for the decades-high inflation – a key policy concern in 2023 – to ease from 3.7 percent in 2022 to 0.4 percent in 2023.

**Behind the positive growth are significant signs of structural change and economic diversification.** The non-oil and gas sector outstripped the oil and gas sector in 2023 and the gap was at its largest in recent history. Moreover, the positive growth of the non-oil and gas sector has stretched an impressive 20 quarters. Over the medium to long term, this shift in the economic structure will require continuous monitoring to ensure that economic transitions are adequately handled while also being further nurtured as Brunei further diversifies.

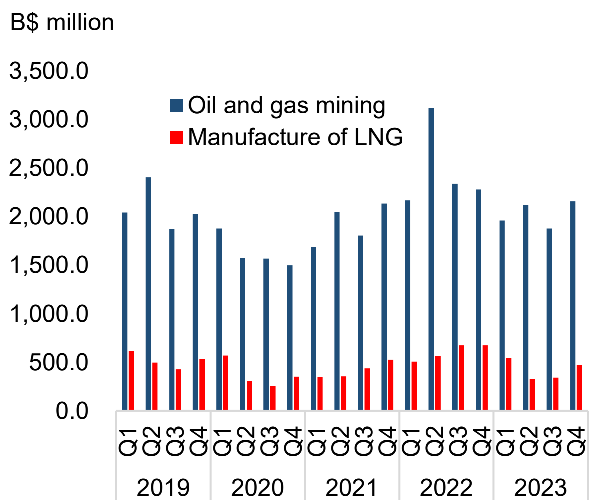
# Source of Growth

## Oil and Gas

The oil and gas sector remains the dominant driver of the economy, making up close to half of nominal GDP in 2023.

In the first three quarters of 2023, the sector continued to be affected by production disruptions prolonged by the pandemic that carried over from 2022 – a key downside risk identified in the Brunei Economic Outlook 2023. Considerable effort was put into completing ongoing maintenance and rejuvenation activities though it constrained production. Quarterly output fell on average by 20 percent for oil and by 28 percent for LNG, compared to the same quarters in the previous year (Figure 3).

**Figure 3.** Oil and gas




Source: CSPS; Department of Economic Planning and Statistics

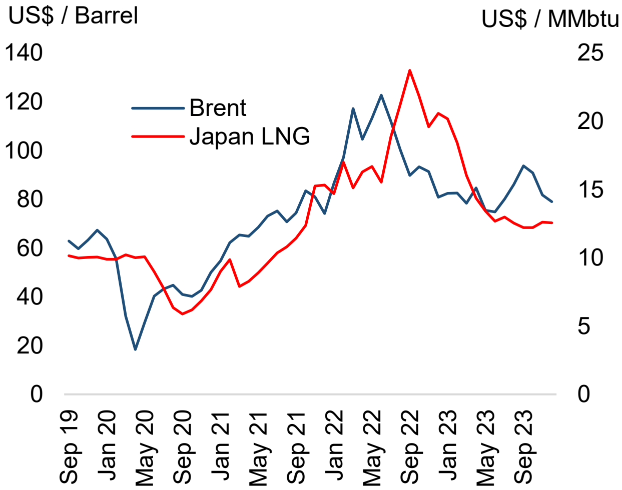
Output bounced back in Q4 of 2023, recording an impressive growth of 11.1 percent, as the maintenance and rejuvenation activities were completed and production was raised closer to its capacity.

However, it was not enough to make up for the contractions in the first three quarters and the oil and gas sector contracted by 2.0 percent for 2023 as a whole.

Oil and gas prices also declined significantly in 2023 as the world maneuvered around the impacts of the war in Ukraine and conflicts in the Middle East.

In particular, the EU as one of the largest markets of LNG has limited its orders amidst replenishing its buffer stocks for the western hemisphere winter. Annual oil prices have fallen by 23 percent in 2023 and LNG by 18 percent. Thus, the contribution of the sector in nominal terms was affected both by the decline in output and in prices (Figure 4).

**Figure 4.** Global benchmark prices of key




Source: CSPS; CEIC

Nevertheless, there are signs of optimism for the oil and gas sector coming into 2024. The investments put into maintenance and rejuvenation activities over the past several years are starting to bear fruit as evidenced by the strong rebound in output in Q4 of 2023 (Table 1). Barring any unplanned maintenance or disruptions, the sector is expected to continue to reap the benefits of its investments and grow by 3.1 percent in 2024.

**Table 1**. Oil and Gas Sector

(in constant prices)

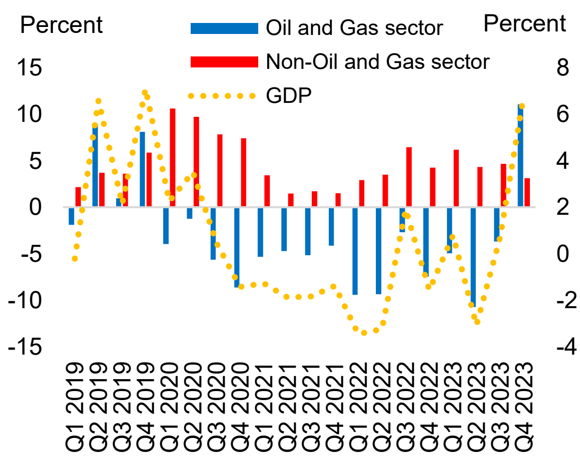
| *Oil and Gas* | *2022 Q1* | *2022 Q2* | *2022 Q3* | *2022 Q4* |
|---|---|---|---|---|
| *Oil and Gas Mining* | 1,751.7 | 1,822.0 | 1,755.7 | 1,829.0 |
| *Growth Rate (YoY)* | -7.8 | -6.4 | -2.8 | -7.0 |
| *Manufacture of LNG* | 528.9 | 454.2 | 490.3 | 504.5 |
| *Growth Rate (YoY)* | -14.5 | -19.6 | -2.5 | -9.2 |
| *Sector Growth Rate (YoY)* | ***-9.0*** | ***-9.3*** | ***-2.7*** | ***-7.5*** |
| *Oil and Gas* | 2023 Q1 | 2023 Q2 | 2023 Q3 | 2024 Q4 |
| *Oil and Gas Mining* | 1,665.9 | 1,642.7 | 1,746.1 | 2029.0 |
| *Growth Rate (YoY)* | -4.9 | -9.8 | -0.6 | 10.9 |
| *Manufacture of LNG* | 501.5 | 388.9 | 417.3 | 562.4 |
| *Growth Rate (YoY)* | -5.1 | -14.4 | -14.8 | 11.5 |
| *Sector Growth Rate (YoY)* | ***-5.0*** | ***-10.7*** | ***-3.7*** | ***11.1*** |

Source: CSPS; Department of Economic Planning and Statistics

# Non-Oil and Gas

The decline in output in the oil and gas sector in 2023 was compensated by strong growth in the non-oil and gas sector (Figure 5). The non-oil and gas sector grew by 4.5 percent in 2023, a slight increase from the 4.3 percent growth in 2022. This helped to avert a third consecutive year of negative GDP growth.

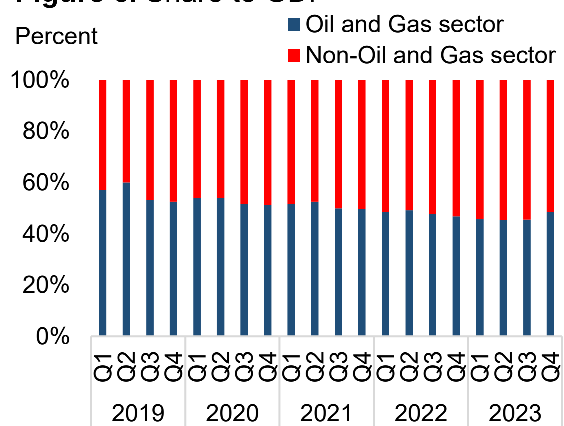
**Figure 5.** Growth of key sectors and GDP




Source: CSPS; Department of Economic Planning and Statistics

The non-oil and gas sector overtook the oil and gas sector as the main contributor to the economy with a total contribution of 53 percent in 2023 (Figure 6). The non-oil and gas sector reached similar heights in 2020 and 2021 but the current gap between the sectors is the largest seen in recent data reflecting the structural change occurring in the Brunei economy. This could potentially mark a critical turning point in the economic structure of the country and a progress in diversification away from oil and gas.

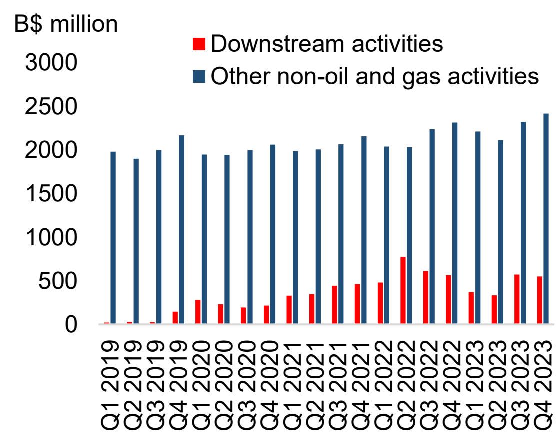
**Figure 6.** Share to GDP




Source: CSPS; Department of Economic Planning and Statistics

A major contributor to the non-oil and gas sector was the downstream activities which comprised 16.8 percent of total non-oil and gas nominal GVA (Figure 7).

**Figure 7.** Non-oil and gas




Source: CSPS; Department of Economic Planning and Statistics

The downstream activities started to contribute significantly from Q4 of 2019 and its contribution peaked in Q2 of 2022. For 2023, output from downstream activities declined in the first two quarters but recovered towards the end of the year. Nevertheless, it experienced a contraction for the year as a whole (Figure 8).

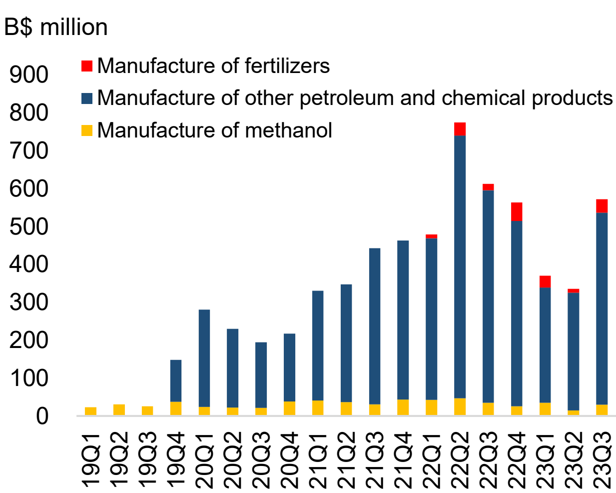
Overall growth in the non-oil and gas sector still managed to remain in the green and shows the robustness of the growth of the non-oil and gas sector. Downstream activities are expected to post positive growth in 2024 as maintenance activities that took place in 2023 have largely been completed.

# Services

The biggest sectoral contributor to the non-oil and gas segment is the services sector. In fact, services contribute more than 40 percent to total output. It posted strong growth of about 6 percent for 2023. In terms of share, the government services are the largest with about 26 percent of total, followed by finance with 18 percent and wholesale and retail trade with 12 percent.

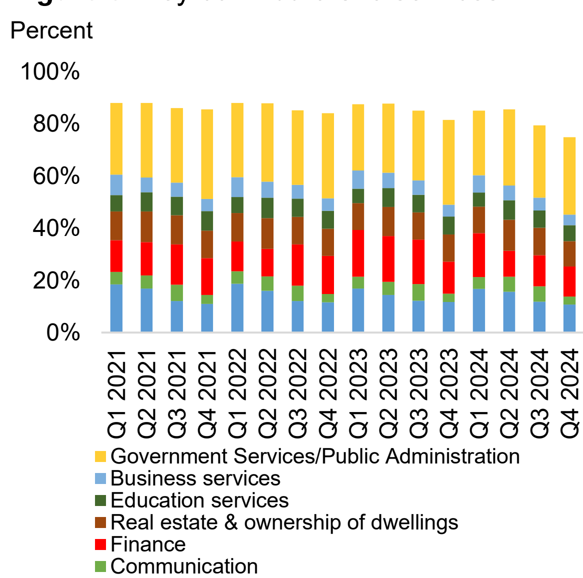
In terms of growth, the fastest growing contributors were finance, communication, business, health, and air transport (Figure 9). The healthy expansion in finance is attributed to the high interest rate environment.

**Figure 8.** Downstream activities




Source: CSPS; Department of Economic Planning and Statistics

**Figure 9.** Key contributors to services




Source: CSPS; Department of Economic Planning and Statistics

Meanwhile, the normalisation of economic activities after the pandemic is reflected in the strong growth of communication and business activities.

Air transportation, meanwhile, continues to grow as mobility restrictions have been removed around the globe. International arrivals were estimated to have increased by 65 percent compared to 2022 to roughly 60,000.

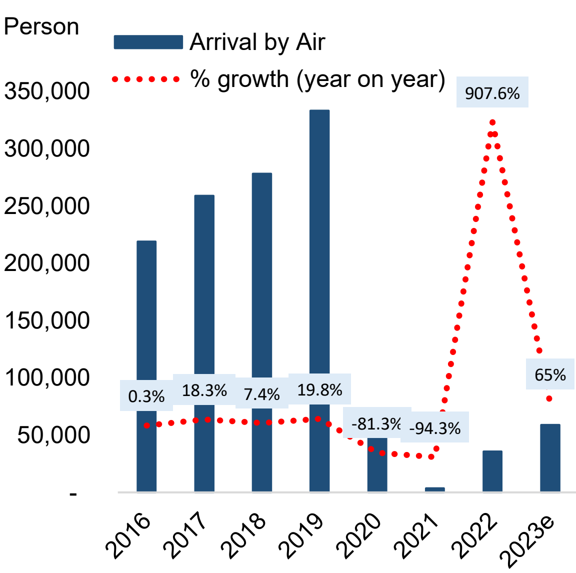
This is still below the pre-pandemic level of 333,000. The large increases in 2022 and 2023 were primarily due to base effects. Once the number normalises, growth rates will be around 10 to 20 percent annually (Figure 10).

# Food and Beverage

Another key service activity is the food and beverage services sector. For 2023, the sector performed slower than 2022 but still sustained positive growth. The sustained growth of the index is reflective of the overall reopening of the economy allowing more people to eat out amidst increased mobility.

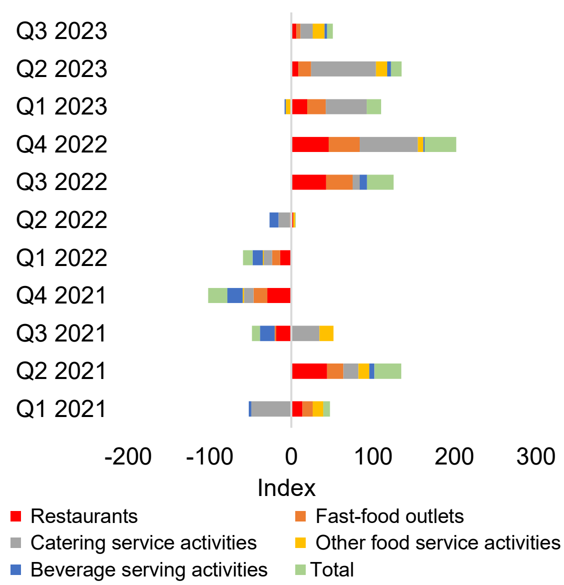
It may be worth noting that the global opening may also have prompted significantly more cross-border spending, not only on food and beverage but also other retail sectors as well. The food and beverage index is expected to normalise in the coming quarters as the economy settles down from low base growth in 2021 and 2022. It is expected that the index growth will normalise at about 5 percent per quarter year on year (Figure 11).

**Figure 10.** International arrivals by air




Source: CSPS; Ministry of Primary Resources and Tourism

**Figure 11.** Food and beverage Index




Source: CSPS; Department of Economic Planning and Statistics

# Retail

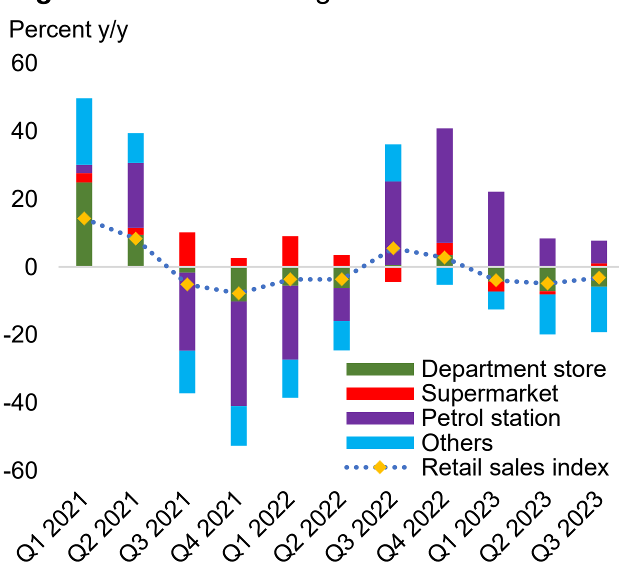
Retail sales continue to be sluggish with the retail sales index declining year on year during the first three quarters of 2023. The modest recovery in 2022 was not sustained as consumer demand failed to get back to pre-pandemic levels. The decline was most pronounced in pharmaceutical products, watches and jewelry, and textiles and wearing apparels. Meanwhile, significant growth was reflected in food, petrol, and computer equipment. These suggest a shifting in spending to basic consumer items. Large contributors to retail sales, namely department stores and supermarkets, saw a decline of 5.8 percent and a growth of 1.0 percent, respectively leading to an overall decline of -3.2 percent for Q3 of 2023 (Figure 12).

# Agriculture

The agriculture sector, meanwhile, shrunk by 9.0 percent in 2023 as it grapples with changing weather conditions, labour shortages, higher cost of inputs such as fertilizer, and farm related diseases (Figure 13).

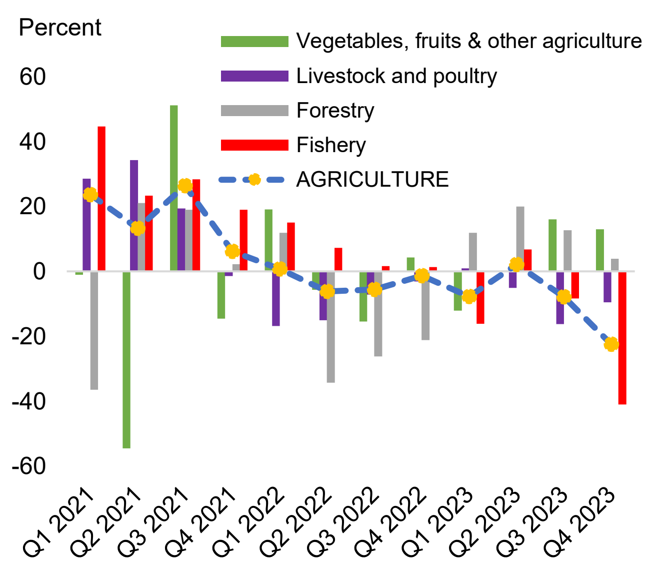
Its weak growth pattern is made even more vulnerable by climate change, especially the El Nino episode that is affecting countries in the Southeast Asian region. This could further hamper growth potential for 2024 and beyond.

**Figure 12.** Retail sales growth




Source: CSPS; Department of Economic Planning and Statistics

**Figure 13.** Agriculture performance

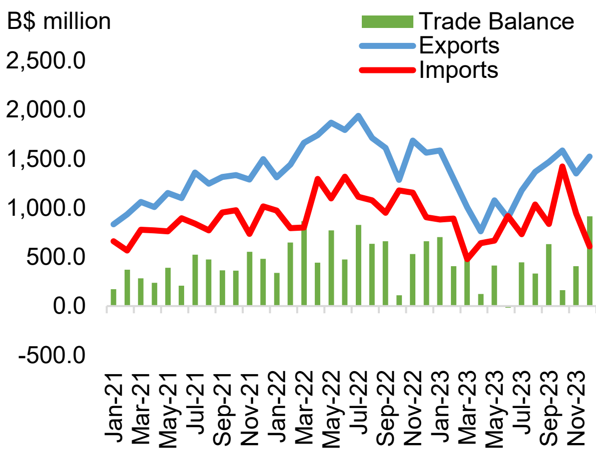



Source: CSPS; Department of Economic Planning and Statistics

# Trade

The country's trade performance was sluggish for most of the year. Exports and imports mostly contracted compared to 2022 (Figure 14).

**Figure 14.** Trade performance

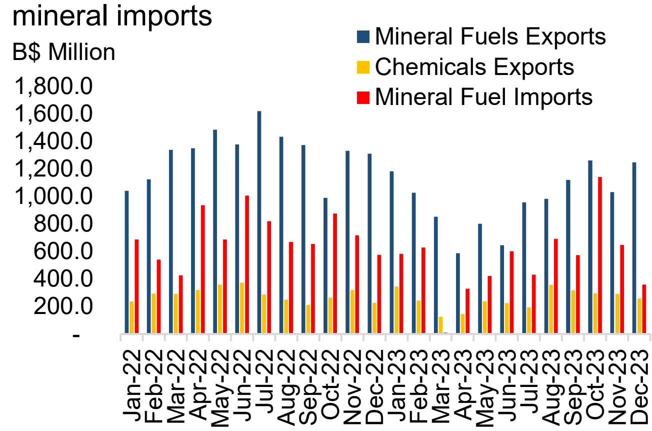



Source: CSPS; Department of Economic Planning and Statistics

The decline in trade was largely due to the fall of mineral fuel imports and exports which declined by an average of 40 percent from 2022 as oil and gas mining plants continued their refurbishment and maintenance activities.

Chemical exports also dragged down overall trade, particularly in the first half of 2023, as petrochemical plants including Hengyi Industries slowed down production to carry out maintenance. This in turn dampened imports of mineral fuels which are key inputs for the chemical exports (Figure 15).

**Figure 15.** Mineral and chemicals exports and mineral imports



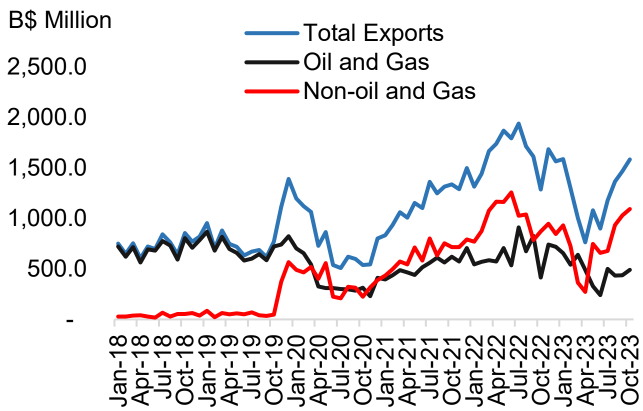

Source: CSPS; Department of Economic Planning and Statistics

Nonetheless, activities partially recovered in Q3 and Q4, with mineral fuel exports matching values a year ago. Mineral fuel imports also rebounded with the highest values in the last 20 months.

With these, trade performance is expected to be stronger in 2024 especially as the plants increase their production outputs.

It is also critical to note that non-oil and gas exports, which include downstream petroleum and gas products, have been outpacing oil and gas exports consistently (Figure 16).

**Figure 16.** Exports




Source: CSPS; Department of Economic Planning and Statistics

It is now the major driver of exports with 61 percent share in total exports. This pattern emerged in 2020 and has since continued.

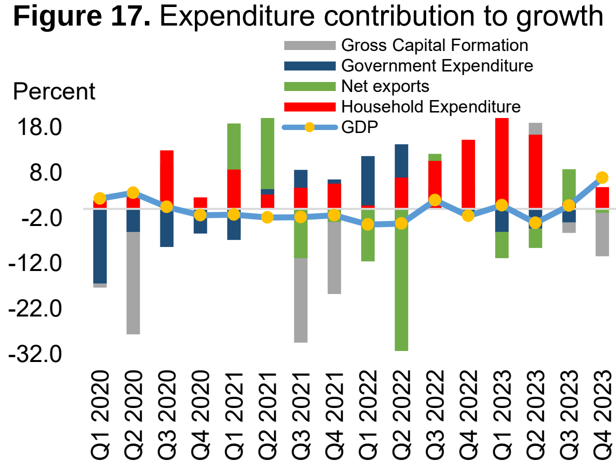
This is consistent with the diversification of the economic structure where non-oil and gas has also overtaken oil and gas output as the major source of growth for the economy. Much of this shift is attributed to the emergence of the downstream petroleum and chemicals.

The temporary operation adjustments for the petrochemical plants at the start of 2023 appears to have ended towards the end of the year and trade volume is expected to increase in 2024.

# Expenditures

On the other side of the output equation, components of the expenditures side especially household expenditures have reflected declines to their contribution to the economy. Consumer spending has exhibited a slowing down from growth of over 15 percent during the first two quarters of 2023 to only 1.3 percent in Q3 and 4.8 percent in Q4, which is aligned with its pre-pandemic trend (Figure 17). This confirms that consumers have adjusted back to their pre-pandemic spending pattern as also reflected in the retail sales index.

**Figure 17.** Expenditure contribution to growth




Source: CSPS; Department of Economic Planning and Statistics

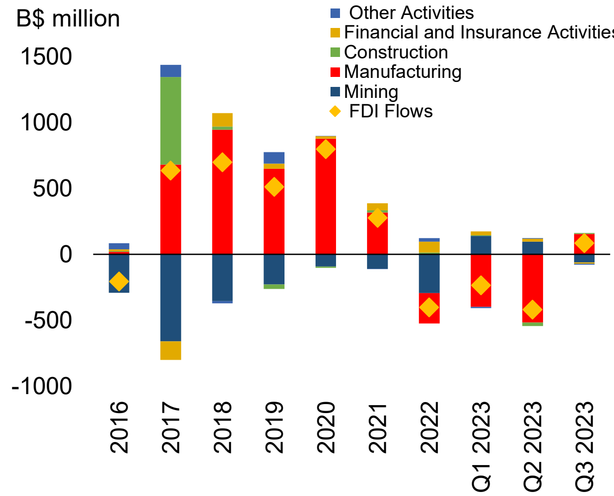
Trade as discussed previously partially recovered in Q3 and Q4 of 2023 but ended the year with negative growth. The recovery is expected to continue, positively contributing to output for 2024 and beyond.

Investments, on the other hand, showed an outside trend growth of 19.0 percent for Q2 2023. This was the highest positive growth of investments since 2020 and coincided with the slowdown in oil and gas and downstream activities due to rejuvenation and maintenance.

This boost in investments could be seen contributing to production in 2024. In addition, the recent signing of the Pulau Muara Besar (PMB) Phase 2 Development Project with Hengyi Industries is expected to boost investments even further once construction begins. Phase 2 is expected to go online by 2029 creating job opportunities for 2,000 workers contributing to the further expansion of the downstream activities of the country.

In regard to foreign direct investments (FDIs), the flow of new investments continued to be erratic in 2023. FDI flows were negative in Q1 and Q2 of 2023 due to outflows in the manufacturing sector. This reversed in Q3 as FDI flows into manufacturing turned marginally positive. Overall, FDI remained flat for 2023 (Figure 18).

**Figure 18.** Foreign direct investment




Source: CSPS; Department of Economic Planning and Statistics

In terms of FDI stock by country of origin, the United Kingdom, Hong Kong SAR, and the Netherlands remain as the top investors in the country. Other major contributors are Japan, Singapore, and Malaysia in order of stock of investments. It can be observed that all these major origin countries of FDI have been exhibiting a slowing down of their FDI stock in the last 7 quarters. Concurrently, there is a noticeable but marginal increase in the FDI stock of other countries suggesting that sources of FDI are becoming more varied (Table 2).

**Table 2**. Foreign direct investment stock by country

| B$ million | 2022 | | | | 2023 | | |
|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| ***ASEAN:*** | **944** | **696** | **709** | **669** | **629** | **518** | **601** |
| *Malaysia* | 272 | 226 | 234 | 233 | 226 | 167 | 239 |
| *Singapore* | 672 | 470 | 475 | 431 | 403 | 352 | 362 |
| *Others* | 1 | 1 | - | 5 | - | 0 | 0 |
| ***EU:*** | **1171** | **906** | **1001** | **913** | **649** | **707** | **734** |
| *Germany* | 16 | 18 | 16 | 10 | 10 | 11 | 10 |
| *Netherlands* | 1132 | 866 | 962 | 873 | 626 | 681 | 712 |
| *Others* | 23 | 23 | 23 | 30 | 12 | 15 | 11 |
| ***OTHERS:*** | **7523** | **8173** | **7736** | **7610** | **7313** | **6974** | **7114** |
| *UK* | 3052 | 3256 | 3154 | 2840 | 2957 | 3087 | 2991 |
| *Hong Kong* | 2986 | 3389 | 3048 | 3223 | 2880 | 2386 | 2407 |
| *Japan* | 357 | 458 | 490 | 413 | 343 | 363 | 329 |
| *U.S.* | 26 | 5 | 5 | 25 | 25 | 25 | 25 |
| *Others* | 1103 | 1064 | 1039 | 1110 | 1108 | 1114 | 1363 |
| ***Total*** | **9639** | **9776** | **9447** | **9192** | **8591** | **8200** | **8449** |

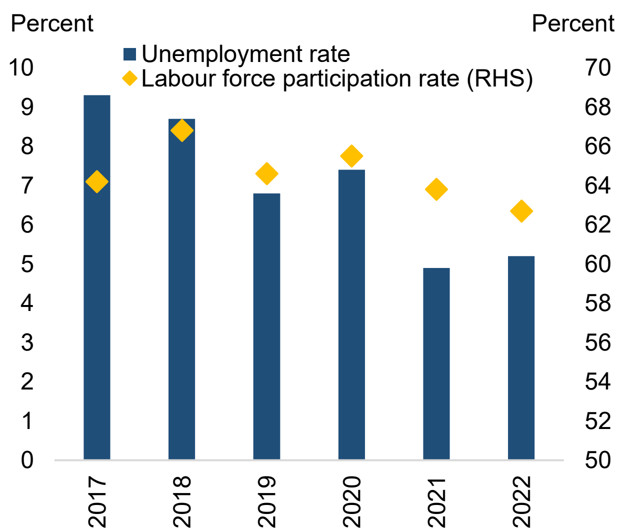
Source: CSPS; Department of Economic Planning and Statistics

# Labour Market

The unemployment rate in Brunei increased slightly in 2022 to 5.2 percent from 4.9 percent in 2021. Positively however, this has continued to remain below the pre-pandemic level of 6.8 percent. This is a notable achievement especially in view that the unemployment rate was 9.0 percent in 2017 and 7.3 in 2020.

The labour force participation rate, however, has declined from about 68 percent in 2018 to 63 percent in 2022 (Figure 19). With less members of the labour force participating, the economy is experiencing a tighter labour market which could potentially create inflationary pressure moving forward if wages rise. As the economy reopened post-pandemic and more foreign workers have started to return, there seems to be a shift in focus by locals towards more professional

**Figure 19.** Unemployment and labour force




Source: CSPS; Department of Economic Planning and Statistics

jobs such as IT, health, education, among others.

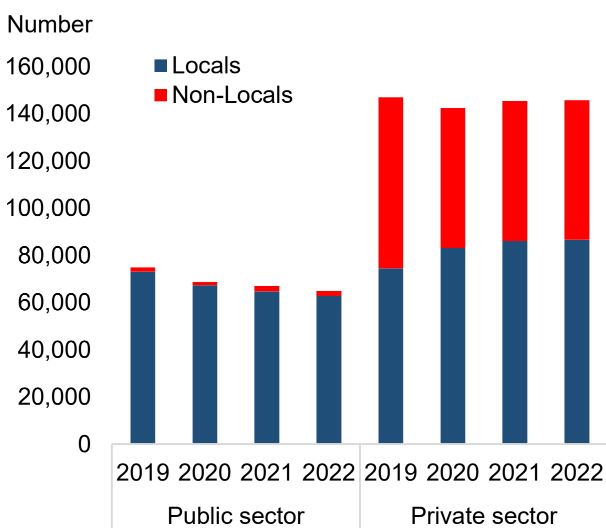
It can be observed that public sector employment has been decreasing since 2019 by approximately 3,500 jobs per year, while the number of private sector jobs have remained relatively constant. There is also a notable increase of locals taking private sector jobs. Nonetheless, foreign workers continue to play an important role in the labour market (Figure 20).

Changes in employment by economic sector is also observed to have closely followed changes in the structure and performance of the economy in the last 2 years. The transition of shifting the economy towards non-oil and gas activities is seen in the sharp decline in manufacturing jobs largely occupied by foreign workers.

There is also a shifting of local workers aways from wholesale and retail trade towards accommodation, education and health, and business services. Public sector employment showed declines in both local and foreign workers reflecting the reduced hiring by the government as they continue their fiscal consolidation efforts.

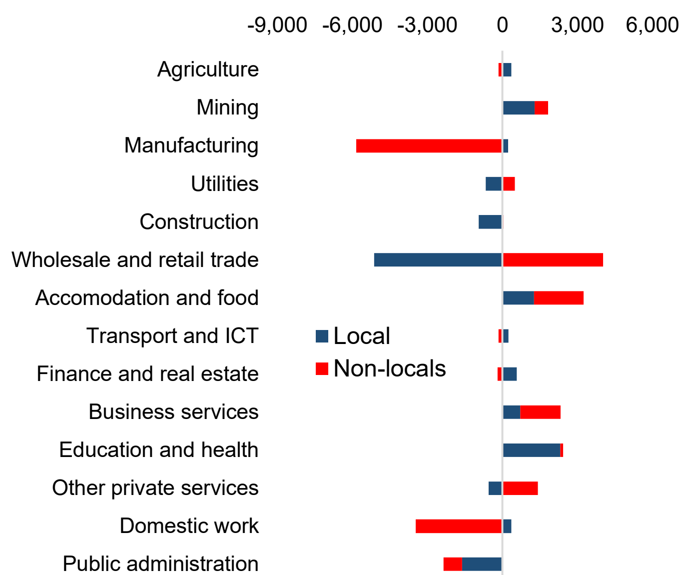
Foreign workers, meanwhile, dominate in service activities such as wholesale and retail trade, accommodation, business services, and other private services. Overall, Brunei is seeing a rebalancing of the workforce, where local workers are moving to professional type work, while the foreign workers fill in the basic services (Figure 21).

**Figure 20.** Employment by citizenship




Source: CSPS; Department of Economic Planning and Statistics

**Figure 21.** Change in employment by economic sector between 2021 and 2022

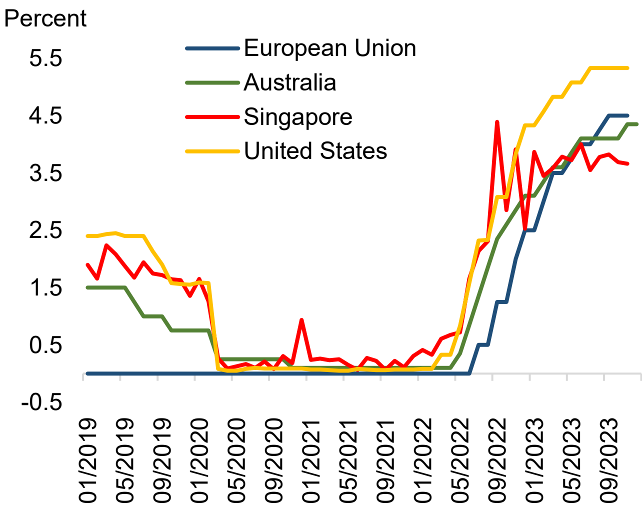



Source: CSPS; Department of Economic Planning and Statistics

# Monetary Policy

The finance sector is one of the most consistent sources of growth in the services sector and for the economy as whole. Its share in services output averages about 12 percent and its growth is consistently higher than the overall growth of the economy, averaging 5 percent average growth over the last 10 years. For 2023, it grew by an impressive 37.4 percent reflecting robust financial activities in the economy. This was boosted by rising interest rates globally (Figure 22).

**Figure 22.** Global interest rates

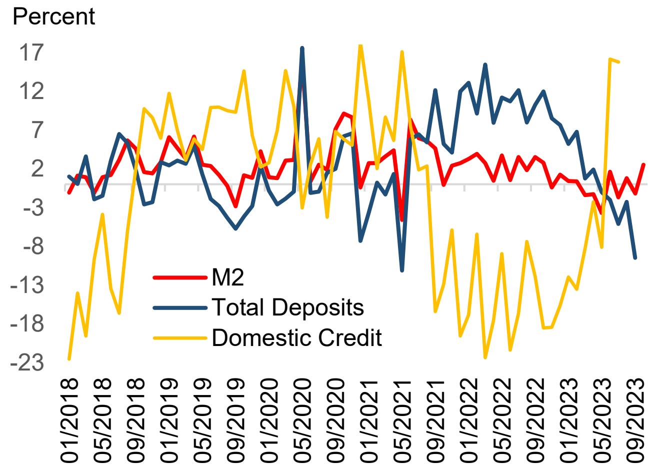



Source: CSPS; CEIC

The strong growth of the sector was also supported by prudent money supply growth which had been growing a little higher than GDP growth at about 2 percent.

The increase of interest rates globally is likely to have attracted domestic savings towards the high-rate environment in the global markets leading to declines in total deposits. What is surprising is the unusually high domestic credit growth in Q3 2023 amidst the high interest rate environment (Figure 23).

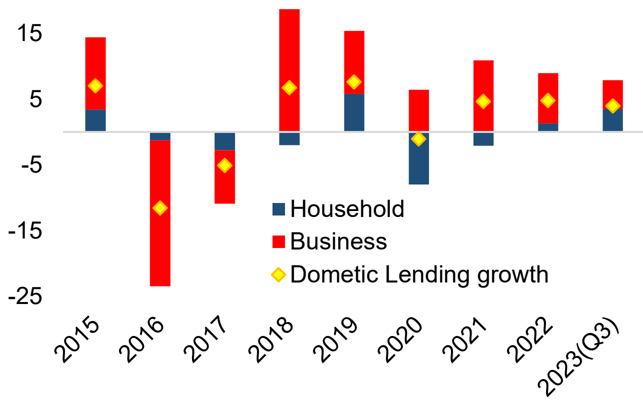
**Figure 23.** Money supply and domestic borrowing




Source: CSPS; Brunei Darussalam Central Bank

Domestic lending has been increasing for both households and businesses but more so for households. The increase in household credit is due to increases in residential loans rather than increases in personal loans (Figure 24).

**Figure 24.** Contribution to credit growth



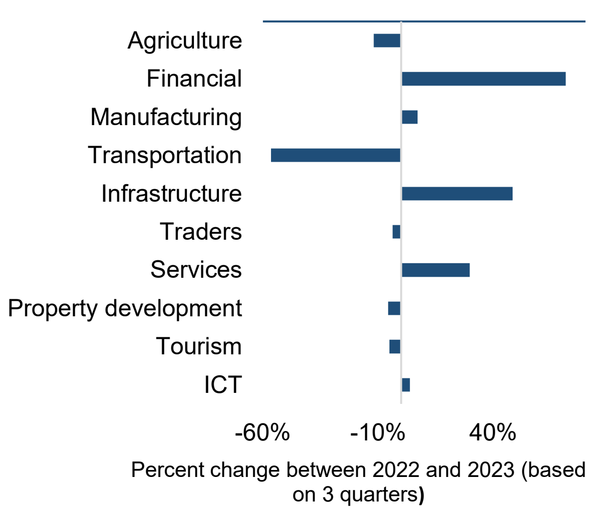

Source: CSPS; Brunei Darussalam Central Bank

On the business front, the economic restructuring also affected the operations and performances of enterprises. Above 20 percent growth rates of lending were shown in finance, infrastructure, and business services in 2023. These can be considered as business expansions that are expected to bear fruits in the coming years (Figure 25).

It is also important to note that a large part of the credit growth is due to increasing participation of foreign lending into the Brunei economy. Foreign lending as a share to total loans was only about 4 percent in 2019. It has now quadrupled to roughly 16 percent in 2023. This indicates confidence in the future prospects of the economy as it continues to restructure and move towards new engines of growth.

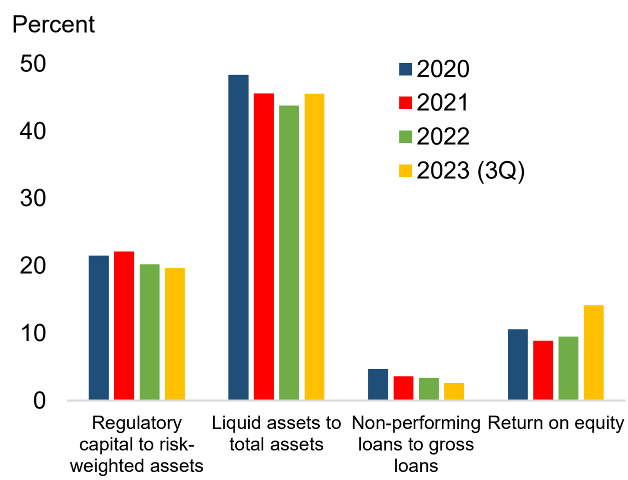
These positive developments are validated by the strong numbers posted by the banking system. Specifically, return on equity for 2023 was 14 percent, much higher than the lending rate of 4 percent. Similarly, nonperforming loans continued to fall. Finally, the liquidity level of the system remains above 40 percent assuring that the banking system is sound and resilient (Figure 26).

**Figure 25.** Change in non-household credit




Source: CSPS; Brunei Darussalam Central Bank

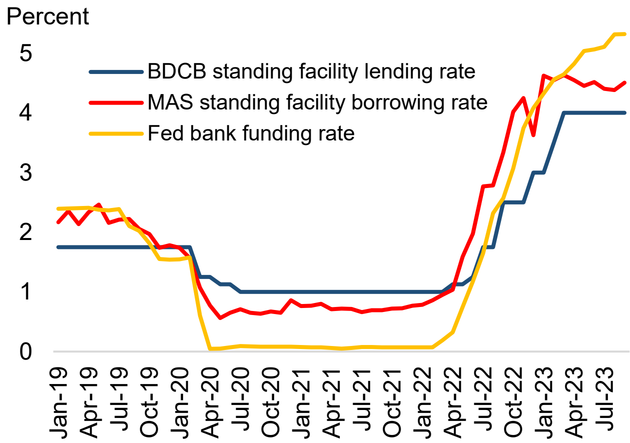
**Figure 26.** Banking system financial soundness




Source: CSPS; Brunei Darussalam Central Bank

These indicators give confidence that the monetary and financial sector can remain strong in 2024. As global inflation falls, it is also expected that global interest rates will fall. In such a scenario, interest rates in Brunei will also likely follow suit (Figure 27). However, central banks may choose to remain hawkish due to uncertainties stemming from geopolitical risks that could disrupt global trade.

**Figure 27.** B$, S$. and US$ interest rates




Source: CSPS; Brunei Darussalam Central Bank; Federal Reserve Bank of St. Louis; Monetary Authority of Singapore
Note: Last observation is September 2023.

# Challenges

## Global

The global economy in 2024 faces a balance between further inflation risks while mitigating the economic impact of geopolitical threats. Furthermore, global economies are facing disruptions from the impact of climate change with regards to food supply and agricultural production. This is concerning as the food and agriculture sector has only begun to recovery post-pandemic. The World Economic Forum lists the top 5 global risks for 2024 as shown in Table 3.

Brunei faces similar risks with many of the Southeast Asian economies and these need to be taken into consideration for the outlook in 2024. Brunei is not immune to these risks as experienced by the recent price increases that pushed inflation to decades high.

**Table 3.** Top Current Risks 2024

| ***Global Risks*** | ***Southeast Asia*** |
|---|---|
| *Extreme Weather* | Extreme Weather |
| *AI-generated disinformation* | AI-generated disinformation |
| *Societal and political polarization* | Cost of Living Crisis |
| *Cost of Living Crisis* | Societal and political polarization |
| *Cyberattacks* | Economic Downturns |

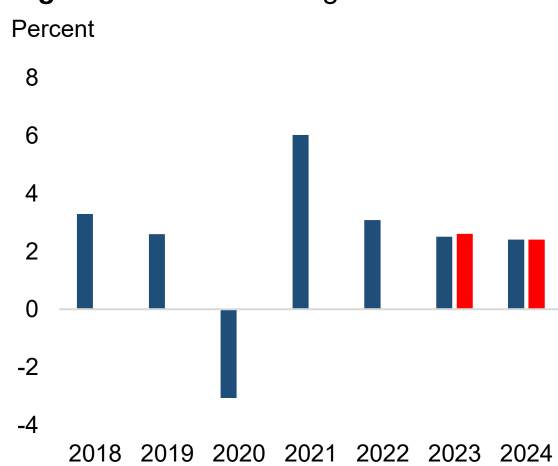
Source: World Economic Forum

In terms of the digital economy, the artificial intelligence driven digital landscape requires substantial investments in human and capital resources for cybersecurity and digital awareness. These risks can be costly if left unaddressed

Despite these risks, both the International Monetary Fund (IMF) and the World Bank (WB) expect to see global growth to remain the same for 2024 at 2.5 percent (Figure 28).

The estimates consider critical factors such as the slowdown of the Chinese economy and persistent inflation levels for many countries. Both the IMF and WB highlight that the risks are also compensated by the expected rebound in global trade and the peak of interest rate hikes.

**Figure 28.** Global GDP growth




Source: World Bank; International Monetary Fund

Global trade was at its slowest in 2023 owing to the slowdown of the Chinese economy and global production of goods. It is expected that 2024 will experience a modest recovery barring significant disruptions from geopolitical tensions (Figure 29).

Meanwhile, inflation expected to decline but will still likely remain an issue for many countries due to its persistent nature. Food and oil prices, are now seen to soften further in 2024 despite being the main drivers of persistent inflation in 2022. In addition, oil prices have gone down by 17 percent in 2023.

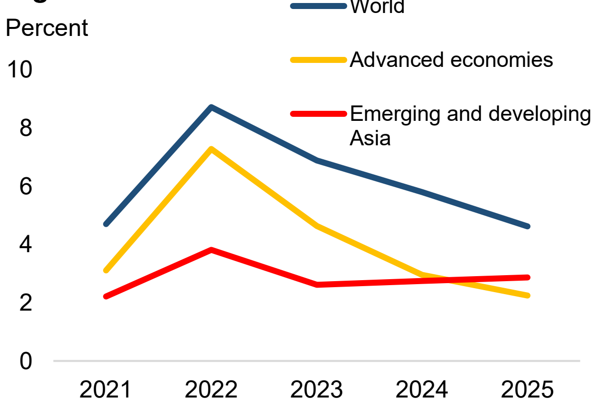
Production of food commodities, apart from rice, have continued to match demand, particularly grains. These will help global inflation to ease further in 2024.

Assuming no further escalation of the ongoing conflict in the Middle East and stability in global oil production, it is expected that prices will remain stable as well (Figure 30).

Additionally, natural gas prices are expected to weaken further in 2024, as demand in Europe has peaked in 2023. Gas inventories were above 90 percent of their storage capacities in the EU. With the world facing a potentially warmer winter, there is no significant push to increase prices.

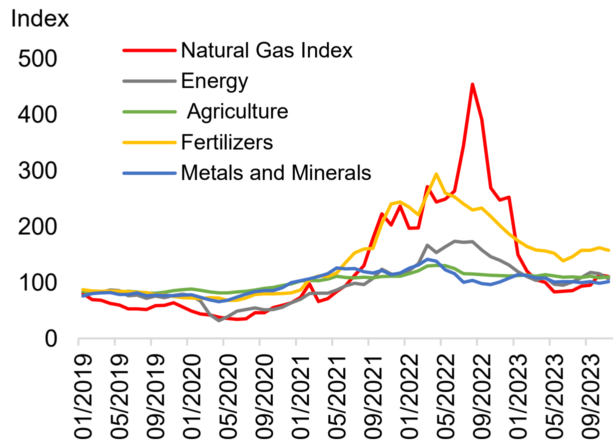
However, tight labour markets in many advanced countries may temper this expected easing. Moreover, there is still a strong possibility of high interest rates remaining until the middle of 2024, despite experiencing no significant upside to interest rates due to weakening inflation.

**Figure 29.** Inflation




Source: CSPS; International Monetary Fund

**Figure 30.** Consumer price indexes



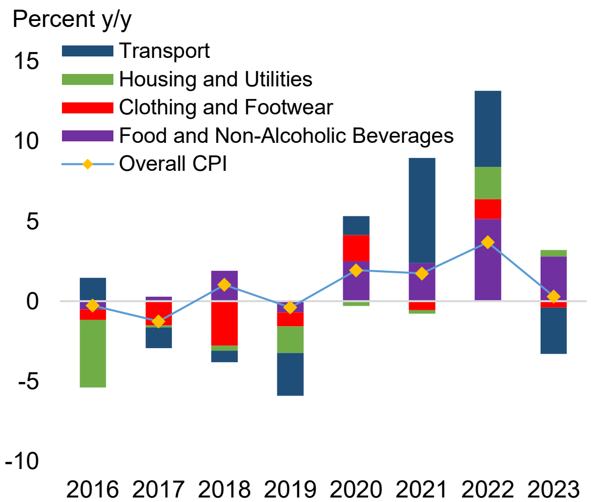

Source: CSPS; CEIC

# Inflation

Against the global backdrop, two key elements pose a challenge to the Brunei economy. These are inflationary pressures and the fiscal position.

Inflation in Brunei has relatively softened compared to the peak levels in 2021 (1.7 percent) and 2022 (3.7 percent), which were the highest in 27 years (Figure 31).

**Figure 31.** Contribution to consumer price inflation by category




Source: CSPS; Department of Economic Planning and Statistics

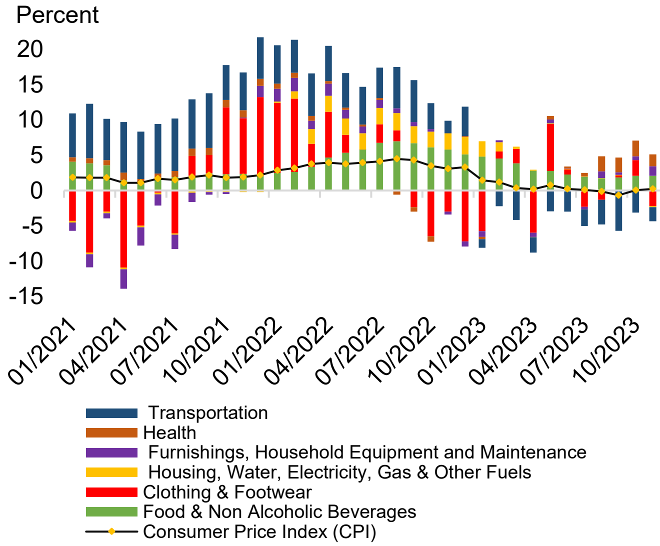
Availability of food products and lower prices of transport related goods have helped inflation come down from decades high levels in 2022.

Weaker oil prices have also helped in lowering the cost of transport and mobility. However, this affected the economy on the revenue side as lower oil prices put a dent into the oil and gas sector's nominal contribution to output.

Transport inflation started to decline at the beginning of 2023 and had experienced declines throughout the year.

Meanwhile, food inflation, peaked in August 2022 at 4.8 percent, and decelerated throughout 2023 with the lowest rate observed in November 2023 at 2 percent. (Figure 32).

**Figure 32.** Inflation and Selected Major Components




Source: CSPS; Department of Economic Planning and Statistics

As global trade continues to normalise, it is expected that commodity price levels will soften or remain at their current level; hence, increasing the possibility of inflation of just above zero. This assumes that the current El Nino will not create supply disruptions in food production domestically and internationally considering that 7 percent of imports is food products.

Other components of inflation that experienced increases are health, furnishing, and clothing. Considering that COVID 19 continues to impact the population through various but less lethal variants, the population has taken into consideration the need for more preventive measures for health, thus increasing the demand for health products.

On the other hand, furnishing and clothing are linked to supply chain issues that affected trade after the global reopening. As global trade is expected to normalise in 2024, prices of these goods are also expected to soften. Overall, this implies that inflation will most likely remain above 0 percent but less than 1 percent for 2024.

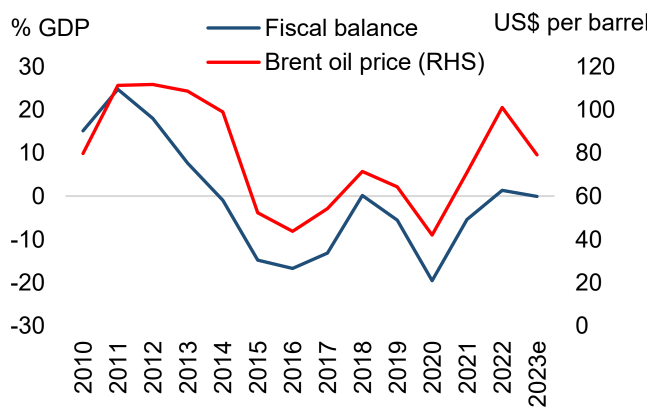
# Fiscal Position

The other challenge for the economy is the price of oil and gas. Despite the structural shift towards the non-oil and gas sector, the fiscal position of the government remains strongly connected with the price of oil and gas.

For 2023, oil and gas prices fell by 18 and 23 percent, respectively. Hence, the fiscal deficit of BND2.70 billion posted in FY 2023/24. The fiscal surplus registered in FY 2022/23 of about 1.6 percent of GDP was mostly due to windfall revenues due to higher global oil prices.

According to the IMF, 88 percent of fiscal revenues is attributable to the oil and gas sector. Figure 33 shows that the fiscal balance of the government follows the pattern of Brent price movement.

**Figure 33.** Fiscal balance and crude oil price




Source: CSPS; Department of Economic Planning and Statistics; CEIC

The downtime of the oil and gas fields also posed downside pressure to fiscal health. Though these pressures have somewhat eased, there is always a risk of unplanned disruptions to oil and gas production. As such, it is imperative that the diversification strategy of the economy starts to impact the fiscal position. There is a need to review other potential sources of revenue apart from oil and gas to help ensure fiscal sustainability (Table 4).

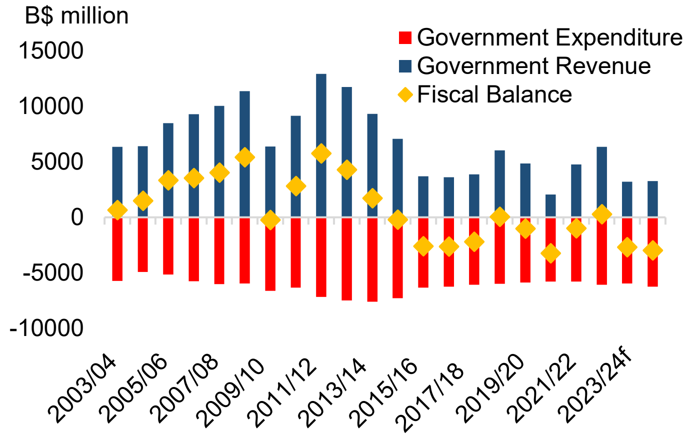
**Table 4:** Sources of Government Revenue

| *Sources* | *2018/19 (Apr18-Mac19)* | *2019/20 (Apr19-Mac20)* | *2020/21 (Apr20-Mac21)* | *2021/22 (Apr21-Mac22)* |
|---|---|---|---|---|
| *Oil and Gas Revenue* | 81% | 75% | 61% | 84% |
| *Revenue from Government Operations* | 17% | 16% | 34% | 14% |
| *Return from Investments and Savings* | 2% | 9% | 5% | 1% |

Source: CSPS; Department of Economic Planning and Statistics

For FY 2024/25, it is expected that revenue contributions from the oil and gas sector as well as the non-oil and gas sector, particularly downstream activities, will be higher. However, expenditure is expected to increase faster, and the fiscal deficit is projected to increase slightly to BND2.99 billion (Figure 34).

**Figure 34.** Government finance




Source: CSPS; Department of Economic Planning and Statistics

# Directions for 2024

The Brunei economy is expected to grow by 2.7 percent in 2024 after growing by 1.4 percent in 2023 (Figure 35). This accelerated growth will be driven primarily by the recovery of the oil and gas sector and the downstream sectors back to their historical trends, as well as the expansion of global trade.

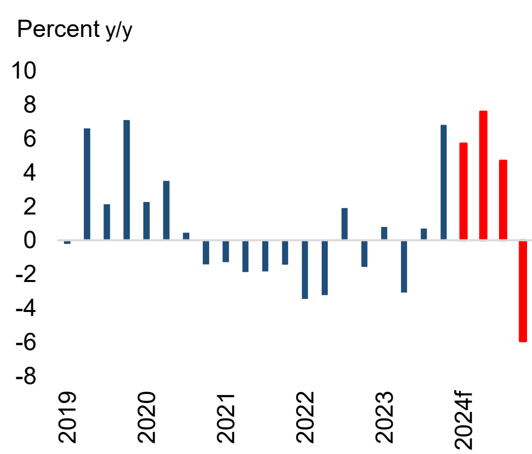
Growth will be pulled down by the services sector which is forecasted to contract by 2.8 percent. This is largely due to the phasing out of the low base effect from the pandemic as well as the finance sector returning to its long-term growth trend after experiencing explosive growth in 2023.

The services sector's contribution to GDP will marginally fall to 40.0 percent but it will still outstrip the contribution of oil and gas mining of 38 percent.

Meanwhile, the oil and gas mining segment is expected to pick up from its impressive growth in Q4 of 2023 and expand by 3.1 percent in 2024 (Figure 36). This expansion is attributed to the investments made into the revitalisation and maintenance of the oil and gas plants and infrastructure which are finally beginning to bear fruits. Similarly, LNG production and demand is expected to grow faster as global stocks, especially in the EU, are depleted. Production is also expected to increase from the downstream segments such as the fertilizer, petrochemicals, and chemical sector. This is particularly critical as they form the main export components from Brunei.

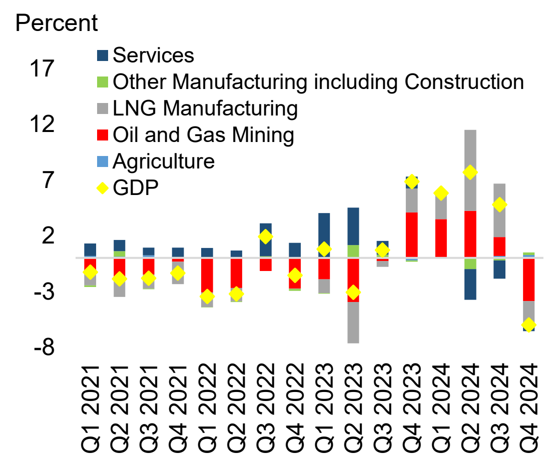
On a quarterly basis, it is expected that growth will increase dramatically in the first three quarters of the year due to the low base effects, but growth will fall below zero in Q4.

**Figure 35.** Real GDP growth




Source: CSPS; Department of Economic Planning and Statistics

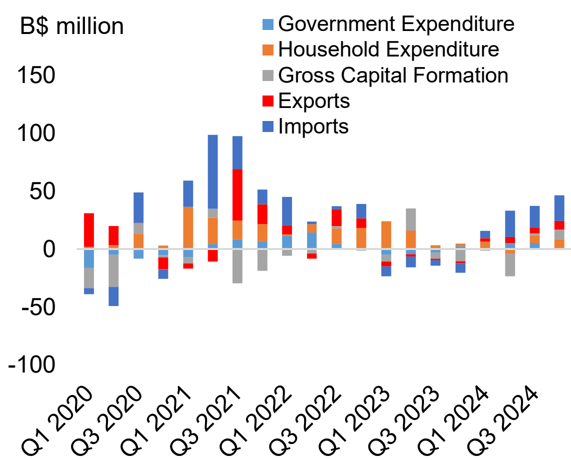
**Figure 36.** GDP and sectoral growth contribution




Source: CSPS; Department of Economic Planning and Statistics

On the expenditure side, consumer expenditure is expected to remain robust albeit growing at a slower but more sustainable pace, with an average growth of 6 percent for the year. This will provide support to the sustained expansion of the services sector for the production side (Figure 37).

**Figure 37.** Contribution to GDP growth by expenditure component

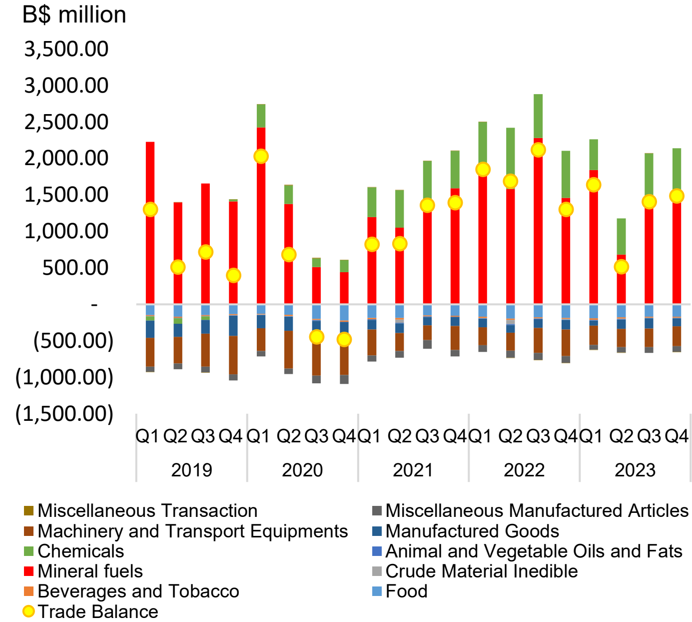



Source: CSPS; Department of Economic Planning and Statistics

Meanwhile, exports are expected to grow especially as the production of both upstream and downstream oil and gas products are increased. Note that the decline in output of oil and gas in Q2 2023 caused a dip in net exports.

Nonetheless, Q3 and Q4 of 2023 saw a reversal and is expected to follow a sustained positive trend going into 2024. Overall, exports are projected to grow by 2.2 percent, while imports are seen to grow by 5 percent due to the additional feedstock required for the petrochemical plants (Figure 38).

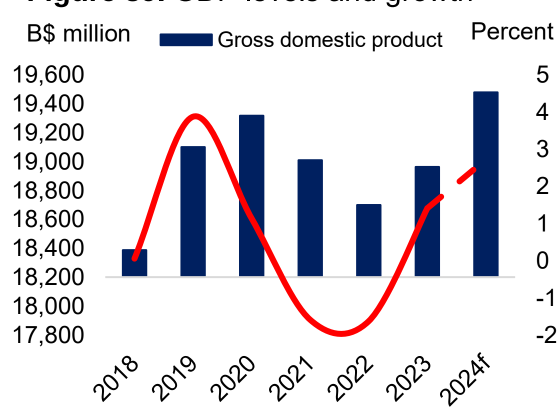
**Figure 38.** Net Trade




Source: CSPS; Department of Economic Planning and Statistics

The forecasted GDP growth for 2024 will see GDP rising to a multi-year high barring any unexpected disruptions to oil and gas production (Figure 39).

**Figure 39.** GDP levels and growth

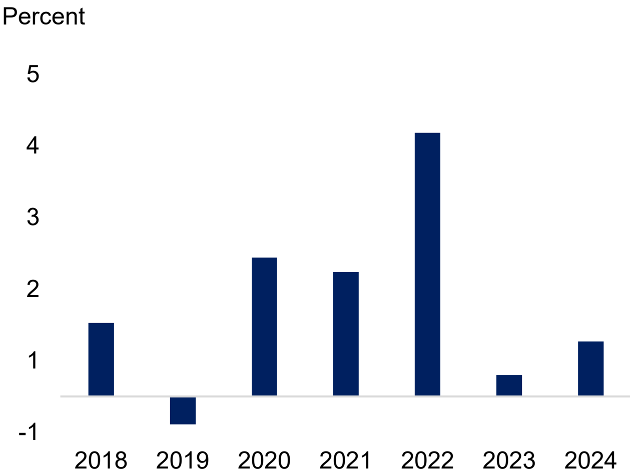



Source: CSPS; Department of Economic Planning and Statistics

# Inflation

Inflation will be higher in 2024 compared to 2023 but remains low at 0.8 percent. The low inflation of 0.4 percent for 2023 is a result of base effects as prices hit record highs in 2022 (Figure 40).

**Figure 40.** Brunei's inflation

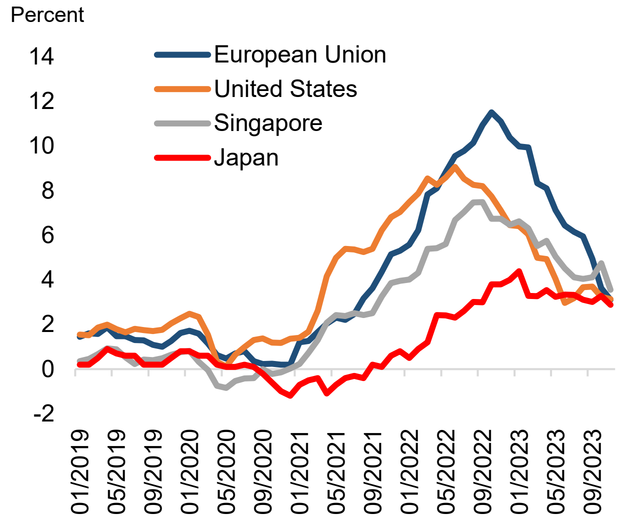



Source: CSPS; Department of Economic Planning and Statistics

Even as global prices are expected to soften as global trade recovers (Figure 41), inflation in Brunei is expected to remain at a healthy level.

Effective government management of subsidies and price controls will ensure that inflationary pressures will remain in check. At this rate, it will be back to pre-pandemic range of between -0.5 and 1 percent in the following years.

**Figure 41.** Inflation in selected countries

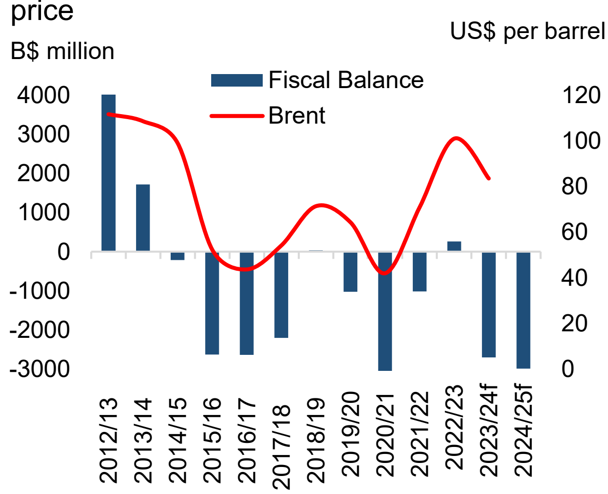



Source: CSPS; CEIC

# Fiscal Balance

The fiscal balance has shown a break from its strong correlation with oil prices. In FY 2022/23, the government achieved its first surplus since FY 2018/19 despite weaker oil prices. This suggests that the government has started to benefit from non-oil sources into its revenue flow, alongside prudent government expenditures (Figure 42).

**Figure 42.** Fiscal balance and brent spot price



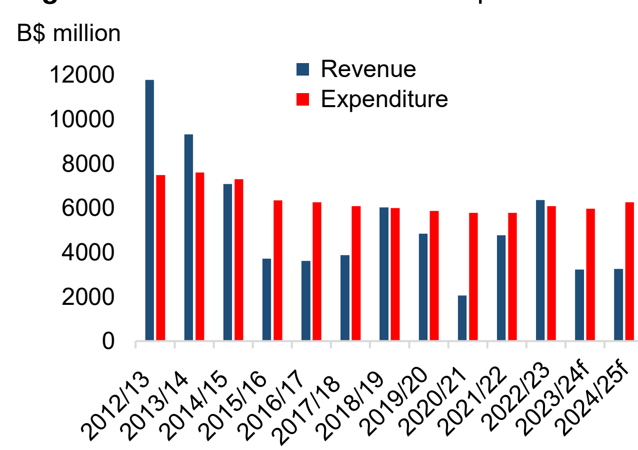

Source: CSPS; Department of Economic Planning and Statistics; CEIC

Expenditure has been trending downwards from FY 2014/15 up until the pandemic. The average increase of expenditure for the last 20 years is only 1 percent. However, a 9 percent and 3 percent increase were observed in FY 2021/22 and FY 2022/23 respectively. This was due to crucial government subsidies to support inflation measures, price stabilisation, and economic recovery from the pandemic.

Revenues have also been trending downwards due to substantial declines in oil prices, particularly during the period 2013 to 2017 in which oil prices hit a low of about USD 43/bbl.

For FY 2023/24, expenditures are estimated to have increased by 1.0 percent to BND5.96 billion. Revenues, on the other hand, are estimated to have fallen by almost half to BND3.22 billion from BND6 billion the previous financial year. The fall in revenue is likely due to a sharp fall in oil revenue as oil production and prices both fell in 2023 (Figure 43).

**Figure 43.** Brunei's revenue and expenditure



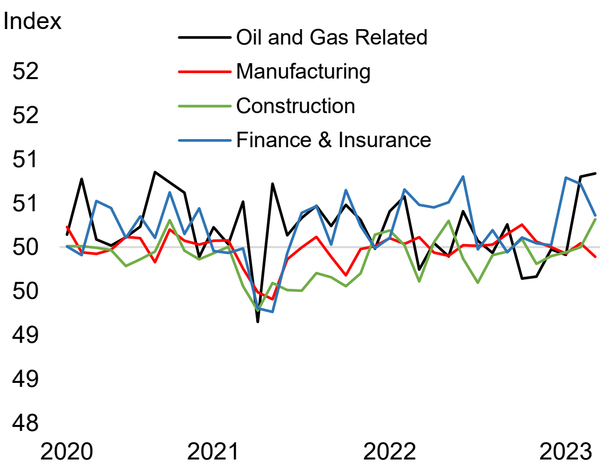

Source: CSPS; Department of Economic Planning and Statistics

For FY 2024/25, revenues are forecasted to grow by 3 percent with the anticipated increase in the output of the oil and gas sector and the downstream sectors, assuming oil prices remain at their current levels of around USD 85/bbl. Expenditure is expected to be set at BND6.25 billion as tabled in the 20th Legislative Council session. This will result in a modest increase in the deficit from BND2.7 billion to BND2.93 billion which is slightly lower than the BND2.99 billion deficit forecasted by the government.

# Risks to Growth

The baseline forecast assumes that the Brunei economy will largely experience trend reversions in 2024 except for the sustained recovery in the oil and gas and downstream sectors which breaks out of the downward trend seen in recent years. This assumption is backed by business sentiment, which points to stronger confidence in the sustained recovery of the oil and gas sector for 2024 (Figure 44).

**Figure 44.** Business sentiment index

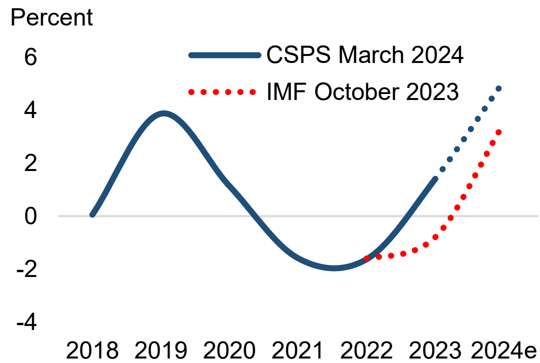



Source: CSPS; Brunei Darussalam Central Bank

It also assumes that global interest rate pressures will start to ease and inflation will normalise. In addition, the expected rebound of global trade is seen to benefit the Brunei economy particularly with regard to its exports.

As such, the forecasted growth for 2024 of 2.7 percent is higher than the estimated steady state growth rate[1] but lower than the IMF's projection of 3.5 percent (Figure 45).

**Figure 45.** Brunei's real GDP level




Source: CSPS; International Monetary Fund

A key risk to the forecast is unexpected disruptions to oil and gas production and to a lesser extent, downstream production. Unexpected disruptions have plagued the oil and gas sector in the past but reported business sentiment and consultations with industry players provide optimism that 2024 will be free from disruptions.

[1] Using steady state analysis, we estimate the long-term growth path of the Brunei economy to be 0.6 percent annually

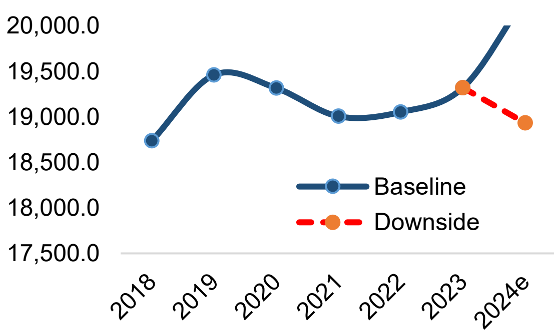
Another key risk is external factors that could delay global trade expansion and slow or even halt the reduction of global interest rates. These external factors include, among others, the ongoing conflict in the Middle East and Ukraine which could slow down or increase the price of logistics in trade particularly of oil.

Additionally, a the El Nino weather phenomenon is another external factor that affects a large section of Asia. The El Nino weather phenomenon, in particular, could lead to droughts and cause a significant rise in the price of rice and other basic food commodities. Both put into risk of higher inflation and worsening fiscal health for Brunei.

If these risks were to materialise, we forecast a downside scenario with Brunei's GDP falling by 4.7 percent instead of a growth of 2.7 percent for 2024 (Figure 46).

**Figure 46.** Comparison of real GDP under baseline and downside scenarios

B$ million, constant 2010 prices

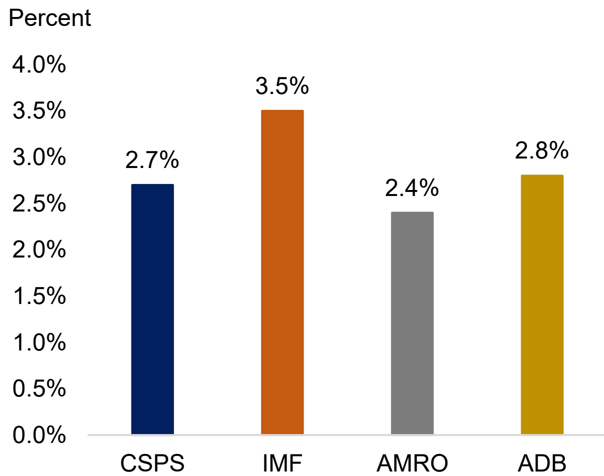



Source: CSPS

# Policy Imperatives

We forecast the economy to grow by 2.7 percent in 2024. The forecast is in line with other regional and international organisations which, at the time of writing, have not updated their forecasts with the latest economic data (Figure 47).

**Figure 47.** Brunei's GDP projections for 2024



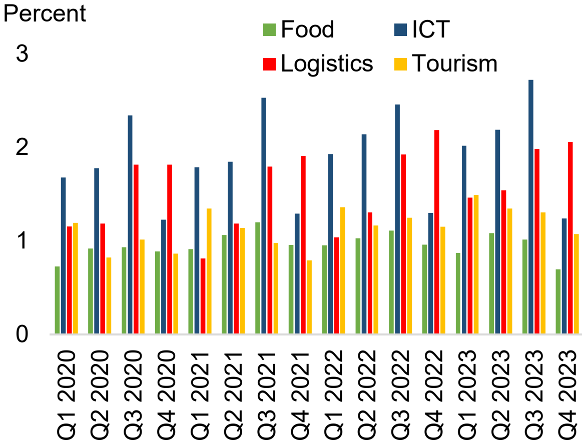

Source: CSPS; International Monetary Fund; ASEAN+3 Macroeconomic Research Office; Asian Development Bank

It is pertinent that the challenges and risks outlined throughout this report are taken into consideration by policy makers and industry players for our forecast to materialise.

The Brunei economy is in the cusp of structural transition. Despite the challenges of the COVID-19 pandemic, it has been able to work through the process of reducing dependence on oil and gas as the primary source of economic activity for the country. Importantly, the non-oil and gas sector has started to increase its share to GDP in Q4 2019 once the petrochemical plant became operational and has subsequently outstripped the contribution of the oil and gas sector in the economy. To sustain this structural transition, the Brunei economy must ensure that the contribution of the downstream industries continue to increase over time by actively pursuing and optimizing on new downstream products.

The success of FDIs in the downstream industries should also be replicated and learned from in other untapped areas, particularly the priority industries identified in the Brunei Economic Blueprint, namely food, tourism, ICT, and business services. The contribution of these sectors to GDP are still relatively small. Combined, they are less than 10 percent (Figure 48). In order for these sectors to play a bigger role, additional investments and support must be provided.

**Figure 48.** Share to GDP




Source: CSPS; Department of Economic Planning and Statistics

The food sector already benefits from the Brunei Food Authority (BDFA) through its benchmarking and competitive standards for food production. Similar arrangements can be made in the other sectors.

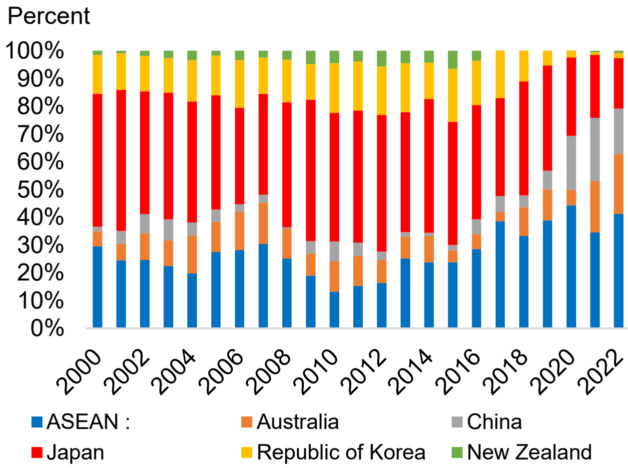
In terms of investments and loans, much is still concentrated in finance and infrastructure. While these are supporting industries for the priority sectors, a more deliberate program intervention may need to be set in place. In the latest census on enterprises (2022), 36 percent of firms were in wholesale and retail trade. The second and third sectors were accommodation and food services and manufacturing with roughly 10 percent each. Transport and ICT combined made up approximately 5.2 percent of all firms. Specific targeting mechanisms and industrial policy support needs to be identified for these sectors to catch up.

In terms of labour, Brunei has already embarked on improving the quality of the local workforce and reducing labour mismatches. This has led to marked improvements in the share of local workers over foreign workers. To ensure the momentum continues, the quality of education and training must dynamically adapt to the changing needs of Brunei's evolving economy. Greater impetus should be put into lifelong learning and the acquisition of future ready skills and knowledge to ensure that the current workforce remains relevant amidst the digital revolution brought about by artificial intelligence.

Finally, businesses should take advantage of the different trade agreements that Brunei has recently entered into such as the Regional Comprehensive Economic Partnership (RCEP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the ASEAN Free Trade Agreement (AFTA) and the Brunei – Indonesia – Malaysia- Philippines (BIMP) East Asia Growth Asia (EAGA). This could alleviate some of the headwinds created from the shrinking Japanese export market and the expected slowdown of China in 2024 (Figure 49).

Existing agreements such as the fish farm initiative with Singapore, the joint ASEAN project with Indonesia on electric vehicle supply chain, are good models to expand export opportunities and at the same time addressing the targeted sectors of growth.

**Figure 49.** Brunei's exports to regional partners



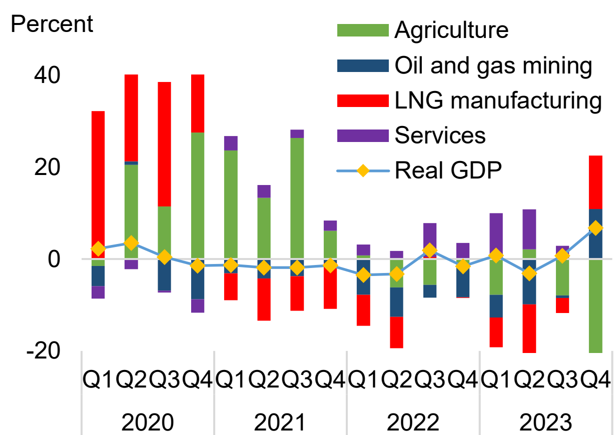

Source: CSPS; Department of Economic Planning and Statistics

# Global conditions and forecasts

## RECENT ECONOMIC PERFORMANCE

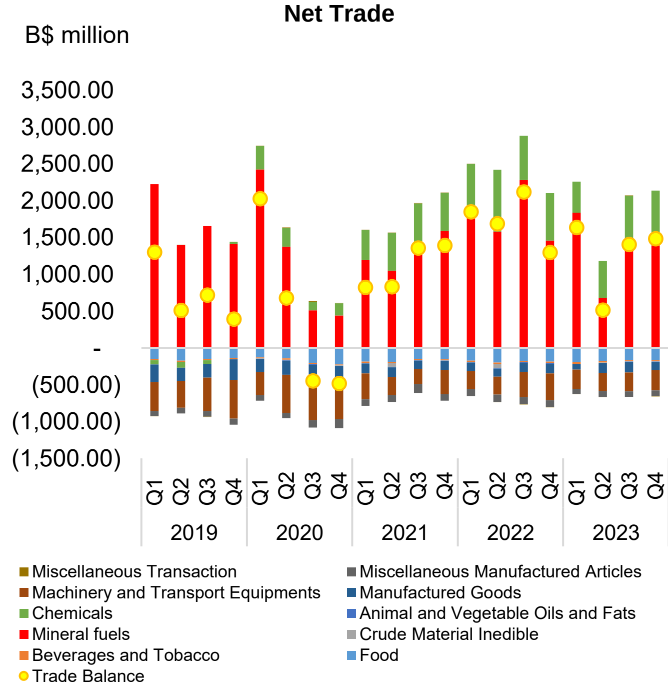
Brunei's economy grew by 1.4 percent in 2023 lead by the recovery of the oil and gas sector as well as the downstream sectors in Q4 of 2023.

**Real GDP growth rate by economic sector**




Net exports continue to be in surplus offsetting the imports of food and feedstock.

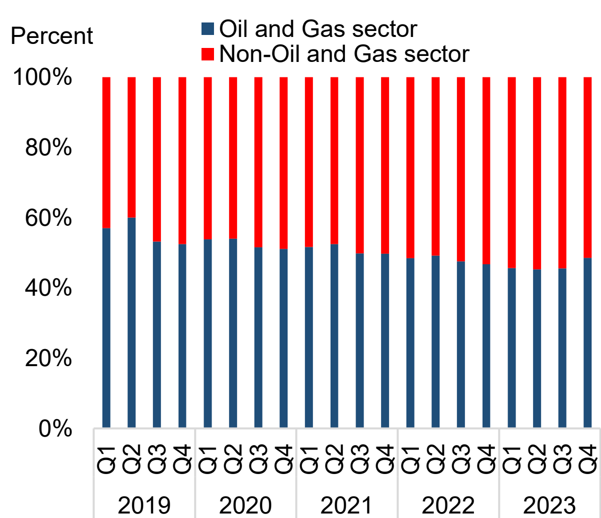
**Net Trade**



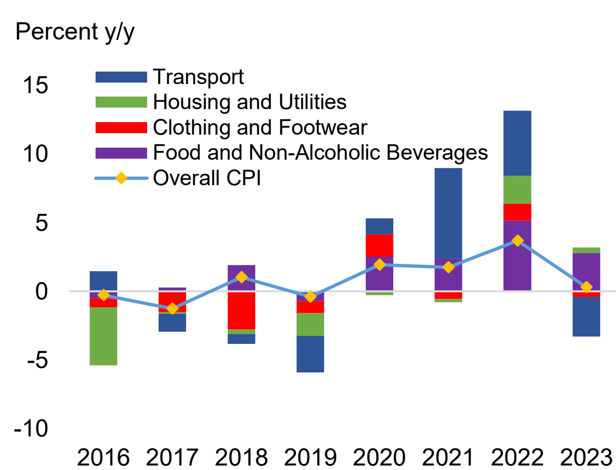

The non-oil and gas sector has outstripped the oil and gas as the major contributor to the Brunei economy successfully entering a structural transition.

Inflation has fallen from peaks in 2022 and is seen to soften further in 2024.

**Share to GDP**



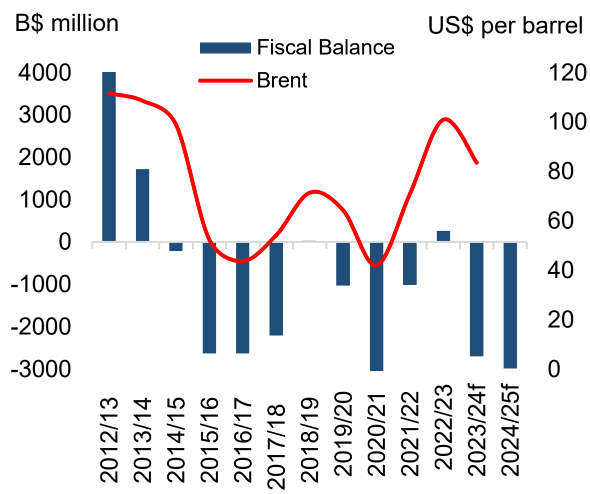

**Contribution to consumer price inflation by category**



# Global conditions and forecasts

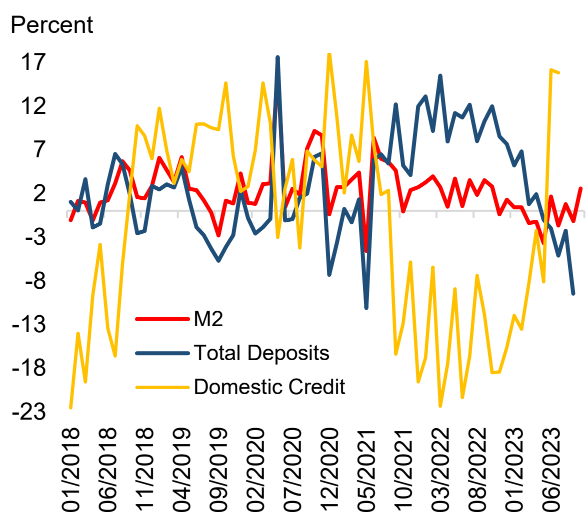
Fiscal position posted a large deficit in FY 2023/24 and it is expected to increase marginally in FY 2024/25.

**Fiscal balance and brent spot price**




Domestic borrowing increased in 2023 amidst higher interest rates validating confidence in the recovery of the economy in 2024.

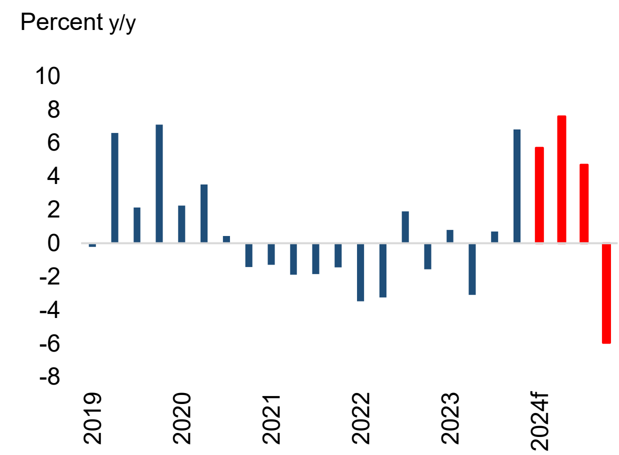
**Money supply and domestic borrowing**




**OUTLOOK FOR 2024**

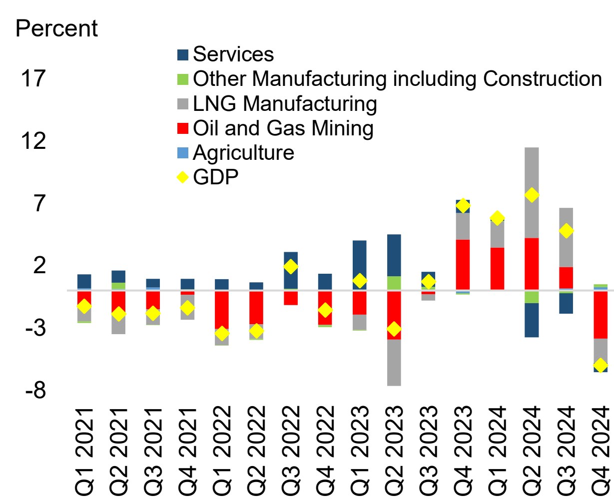
GDP for 2024 will increase by a 2.7 percent assuming no unexpected disruptions to oil and gas production.

**GDP growth**



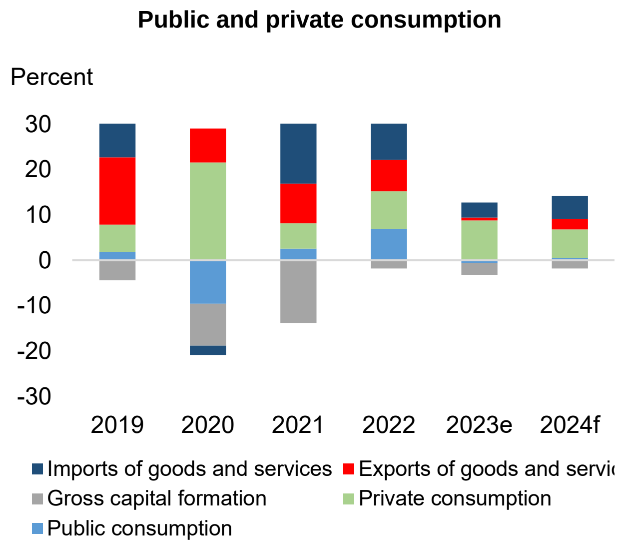

Growth will mainly be driven by the oil and gas sector which is benefiting from its previous investments into maintenance, exploration, and rejuvenation. Services will be a drag to GDP growth.

**GDP and sectoral growth contribution**

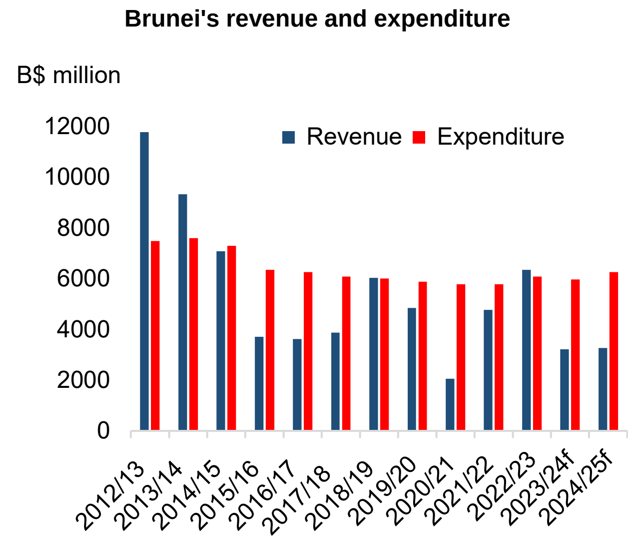


# Global conditions and forecasts

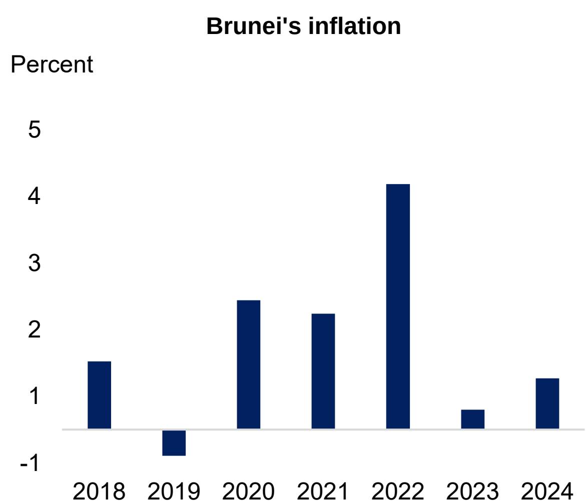
Public and private consumption growth will be supported by export expansion.



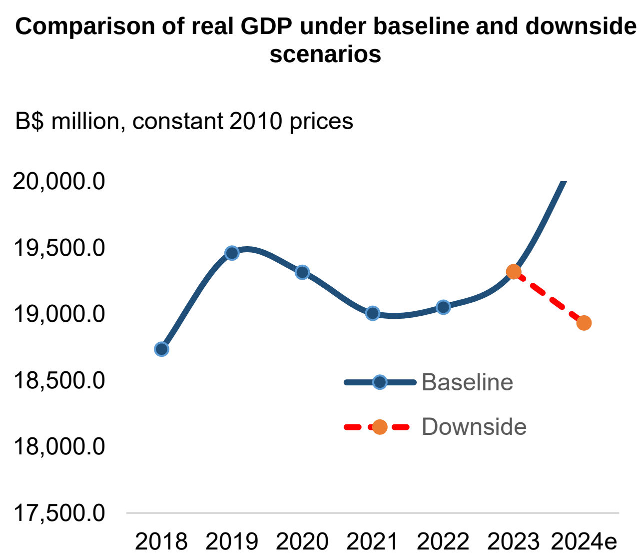

Fiscal balance will fall into a marginally deeper deficit for FY 2024/25 as expenditure growth outstrips revenue.




Inflation for 2024 will be higher than 2023 but will be within the pre-pandemic levels of below 1 percent.




Materialisation of the downside risks can pull the economy down by 4.7 percent.

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