Brunei Darussalam
CRT-4
August 22, 2017
Region: Asia
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

- Brunei Darussalam has moderate levels of economic, political, and financial system risk. Its economy is concentrated in the hydrocarbon sector and is vulnerable to fluctuations in global demand for oil and gas. The government is working to diversify the economy, which contracted by 3.2% in 2016, for a fourth consecutive year of economic decline. The country is projected to return to positive growth in 2018 and to experience rapid growth over the 2018-2022 period.
- A.M. Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4 or CRT-5. A notable exception is Singapore, a CRT-1 country.

Regional Summary: Southeast Asia
- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- To boost economic growth, most of the region’s countries are trying to implement structural changes to encourage inclusive and sustainable development. Priority areas for reforms include foreign direct investment growth; economic diversification; capital market development; improved competitiveness of small to medium-sized enterprises; a build-up of additional infrastructure; and improvements to educational systems.
- Downside risks for the region include volatile capital inflows; tightening of global financial conditions; China’s economic slowdown; political uncertainty; the growing likelihood of terror attacks; persistently low commodity prices; exchange rate volatility; and the potential for trade protectionism in major trading partners.
- The U.S. withdrew from the Trans-Pacific Partnership agreement (TPP) signed by 12 countries in early 2017. The agreement was intended to promote lower trade barriers and establish an impartial dispute settlement mechanism.
Economic Risk: Moderate

- The economy is highly dependent on hydrocarbon exports, contributing 50% to GDP. However, the country’s oil reserves are likely to be exhausted within 25 years, and its gas reserves are expected to last for only years, jeopardizing the economy’s long-term stability.
- The government has large fiscal buffers, but it has also pursued economic structural reforms aimed at further insulating the economy and encouraging long-term sustainable growth.
- Growth should turn positive in 2018, as foreign direct investment projects launch.
- The economy is supported by good infrastructure, a well-educated workforce, and a stable government. However, due to its small labor force, the country relies on foreign labor, which constitutes approximately 40% of its total workforce.

Political Risk: Moderate

- Brunei has an authoritarian political structure, with the sultan acting as head of state, prime minister, minister of defence, and minister of finance. The government is stable and civil unrest is minimal.
- Government revenues are vulnerable to low oil and gas prices. Since those revenues fund a generous welfare system and public sector employment, these systems are also threatened. However, the government has maintained a current account surplus for the past several years and is projected to continue doing so.
- The government has been focusing on fiscal consolidation, widening economic diversification, improving regulation, and supporting foreign direct investment.
- In 2015, corporate tax rates were lowered to 18.5% to further incentivize foreign investment. Brunei has no personal income tax.

Financial System Risk: Moderate

- The insurance industry is regulated by the Insurance/Takaful and Capital Market Supervision Division of the Monetary Authority.
- The opacity of the financial system casts some doubt on its overall status, and efforts to improve transparency should be supported.
- Government efforts to develop a banking sector contingency planning framework should help improve financial system’s stability.
- Enhancing the regulatory environment is a government priority and, if successful, should lower business’s operating costs.
- The Financial Intelligence Unit, formed by the Monetary Authority of Brunei, works to identify and thwart money laundering and terrorism funding.