RAM RATINGS

Media Release

RAM Ratings reaffirms Brunei's $_{g}A_{1(pi)}$ rating on sizeable sovereign reserves

RAM Ratings has reaffirmed Brunei's respective global- and ASEAN-scale ratings of $_{g}A_{1(pi)}$/stable and $_{sea}AAA_{(pi)}$/stable. The ratings reflect the country's solid net asset position (around 3 times the size of its GDP), backed by sizeable sovereign reserves, which provide a strong buffer against near-term fiscal and external deterioration stemming from sharply lower energy prices in recent years.

"Brunei's sturdy sovereign balance sheet is a strong anchor against output and price volatilities in the energy sector, considering its heavy reliance on hydrocarbons for fiscal and external performance," notes Esther Lai, RAM's Head of Sovereign Ratings. The government registered a substantial fiscal deficit of 16.9% of GDP in FY 2016, and projected to remain wide at 14.6% of GDP in FY 2017 in view of depressed hydrocarbon revenue and a still-high expenditure level. That said, fiscal reserves are estimated to hold up firmly at 303.6% of GDP as at end-FY 2017, after factoring in drawdowns to fund fiscal shortfalls. While Brunei's current account is expected to slip into a deficit of 4.1% of GDP in 2017 owing to lower energy export receipts and increased imports in relation to large-scale projects, its foreign reserve holdings (24.9% of GDP in 2015) are adequate to meet external liquidity needs.

The economy remains heavily concentrated in the hydrocarbon sector (comprises 58% of overall GDP) and exposed to its vagaries, as seen in economic recessions in recent years triggered by production disruptions in the sector. Non-hydrocarbon sectors, however, lack vibrance and are reliant on energy-related activities and public sector-driven investments.

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