RAM RATINGS

Media Release

RAM Ratings reaffirms Brunei's $_gA_1$(pi) rating on sturdy sovereign balance sheet

RAM Ratings has reaffirmed Brunei's respective global and ASEAN-scale ratings of $_gA_1$(pi)/stable/$_g$P1(pi) and $_{sea}$AAA(pi)/stable/$_{sea}$P1(pi), mainly premised on the country's solid net assets position, backed by sizeable sovereign reserves (around three times the size of its GDP) which have provided a strong buffer against fiscal and external deterioration in recent years. "Brunei's sturdy sovereign balance sheet is a significant anchor to counter the energy sector's volatilities, considering the country's heavy reliance on hydrocarbons for its fiscal and external performance," notes Esther Lai, RAM's Head of Sovereign Ratings.

The government's wide fiscal deficit is forecasted to have reduced slightly to 13.9% of GDP in FY 2017 (FY 2016: 15.8%), and is likely to narrow further in the coming years in view of a sustained but gradual recovery in energy prices which will lift hydrocarbon revenue, along with a stabilised expenditure level. Brunei's fiscal shortfalls will continue to be financed through the drawdown of sovereign reserves, which will accordingly keep total outstanding government debts at a very low level (2.9% of GDP in FY 2016). Brunei's external position is still very healthy, despite the country's current-account surplus having declined to a forecasted 6.1% of GDP in 2017 from previously robust levels. While the country's current account is expected to narrow further, driven by increased imports due to the faster implementation of large-scale capital projects, its foreign reserve holdings of 30.6% of GDP as at end-2016 continue to provide nine months' coverage of current-account purchases and five times coverage of total external debt.

Brunei's economy remains highly concentrated in the hydrocarbon sector and exposed to its cyclicality and price volatility – as seen during the period of economic recession since 2013 – dragged down by production disruptions at its maturing oilfields. The country avoided further contraction in 2017, largely supported by slight growth recovery in the non-hydrocarbon sectors. Brunei's economy is anticipated to continue to recover, albeit very gradually, and is forecasted by the IMF to expand a marginal 0.7% in 2018. Nonetheless, the pace of economic diversification is still slow and near-term growth will continue to be driven by further development of its downstream hydrocarbon industries. Brunei has made considerable progress in improving its ease of doing business ranking to 56th globally in 2018 from 101st in 2015. This would help to attract much needed FDI to develop new industries and

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hasten the economy's diversification away from hydrocarbons, considering Brunei's structural constraints such as the shortage of domestic skilled workers and a small domestic market.

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