BRUNEI DARUSSALAM

Brunei Darussalam’s economic freedom score is 66.6, making its economy the 57th freest in the 2021 Index. Its overall score is unchanged, with an improvement in the government spending score partially offsetting a decline in property rights. Brunei Darussalam is ranked 11th among 40 countries in the Asia–Pacific region, and its overall score is above the regional and world averages.

Although economic freedom has declined slightly in Brunei over the past five years, the country’s economy remains firmly in the moderately free category. The major factor holding back Brunei in the Index of Economic Freedom continues to be its very low score on the fiscal health indicator. The government should continue to expand the financial sector by establishing a bond market and stock exchange.

IMPACT OF COVID-19: As of December 1, 2020, three deaths had been attributed to the pandemic in Brunei Darussalam, and economic growth was forecast to decline to 0.1 percent for the year.

BACKGROUND: Brunei consists of two enclaves surrounded by Malaysia on the northern coast of Borneo. The sultan serves as prime minister, minister of defense, foreign minister, and minister of finance and appoints several advisory councils including a Legislative Council and Privy Council. The sultan’s 2019 decision to implement certain provisions of Sharia (Islamic) law was met with international condemnation. Oil and gas production, which provides 90 percent of government revenue and 90 percent of exports while generating few jobs, accounts for more than half of GDP. Most people work directly for the government. Economic growth has stagnated because of lower global oil prices and OPEC production caps. Brunei has little manufacturing capacity and imports most of its manufactured goods and food.

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Although property registration has improved, protections for private property are not strong. Only citizens may purchase land. The constitution does not provide for an independent judiciary, but the court system operates without government interference in practice. Brunei is one of the world’s last remaining autocracies, and the sultan wields nearly absolute power. The level and extent of corruption are relatively low.

Brunei has no personal income tax. The top corporate tax rate is 18.5 percent for most companies and 55 percent for oil and gas companies. The overall tax burden equals 20.6 percent of total domestic income. Government spending has amounted to 32.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 8.2 percent of GDP. Public debt is equivalent to 2.5 percent of GDP.

Business freedom is largely unchanged from last year. The labor force speaks English and is well-educated. Brunei has made progress in promoting growth led by the private sector, but more can be done. The government continues to provide heavy subsidies for such basic goods and services as fuel, power, food, health care, and education.

Brunei Darussalam has eight preferential trade agreements in force, and its trade-weighted average tariff rate is 0.2 percent. One formal nontariff measure is in place, but other impediments to trade flows persist. State-owned enterprises distort the economy, and foreign ownership of land is restricted. The small financial sector remains dominated by banks. Islamic financial services have grown in recent years.