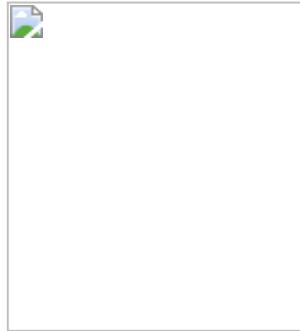


THE 1998 STATE BUDGET SPEECH
BY
Y.B. THE MINISTER OF FINANCE OF SABAH
DATUK ABDUL GHAPUR HJ. SALLEH
AT THE STATE LEGISLATIVE ASSEMBLY
NOVEMBER 17, 1997



Tuan Speaker,

1. I am indeed privileged and honoured to have the opportunity to present the 1998 State Budget to this Honourable House, this being the second time since taking over the Finance portfolio last year. The State Budget for next year will continue to shoulder the State Government's commitment to strenghten the State's economy, while fulfilling its obligations to improve the general well-being of the people of Sabah.
2. Our national economy is now entering an era of adjustment. Various uncertainties are now posing a challenge to the direction of our national economy which is further exacerbated by the recent turmoil in the currency market that weakened the value of the Malaysian ringgit. We in Sabah too are experiencing the effects of this turmoil. Nevertheless, endowed with good planning and able leadership at both the Federal and State level, this turmoil has instead provided us an opportunity to strenghten the management of our State's finance and at the same time helped us to realign our strategies so as to enable the State's economy to continue to develop. Despite our State's economy coming under tremendous pressures from these challenges, I am confident that members of the public service will continue to play an effective role in their respective areas by maintaining discipline and enhancing productivity. At the same time, I am also confident that the strong support and close cooperation from my Cabinet colleagues will further enhance our efforts to develop the State.

The Economic Scenario

3. Based on forecasts, the global economic growth rate for 1997 is expected to increase to 3.7% from 3.3% last year with the surge in real GDP coming from the United States, Western Europe and Latin America. The Asian economies are also projected to grow at a rate of 3.8% in 1998 and 4.0% in 1999. Faced with the currency crisis several Asian governments took quick pragmatic steps which aimed to check and stabilize the financial and property markets. These, coupled with solid export gains in recent months, are positive indicators that this growth trend will continue.
4. The depreciation of the ringgit and the downturn in the Kuala Lumpur Stock Exchange do not necessarily indicate that the Malaysian economy is weak. In fact, the Malaysian economy has strong fundamentals. The low rate of inflation, strong foreign reserves, the pre-payment of debts, high saving rates, full employment, an attractive

investment climate and political stability are testimony to this. The able leadership of the present National Government in formulating sound and prudent economic policies to avert any potential economic crisis in Malaysia has generally been acknowledged by the public at large. All these will help the nation to rise above the present uncertainty which is only deemed temporary. Among the many measures introduced are the moves to avoid wastage; the emphasis on judicious spending; the proposed prudent regulations on hedge funds; pre-emptive measures in the property sector; the government's austerity drive; and measures to reduce the current account deficit.

5. In view of the current economic circumstances in the region, the national GDP is likely to be about 8.0% for 1997 which is a downward revision of the earlier forecast of 8.2%. For 1998, the real GDP growth is forecasted to be 7.0%.

The Sabah Economy.

6. The State's economy has been undergoing a period of transformation in the last few years and is positioning itself towards a new paradigm through the Outline Perspective Plan for Sabah (OPPS). The State's economy is shifting away from its traditionally over-reliance on the export of a small band of primary commodities to more diversified, further downstream and higher value-added goods. This encouraging shift is fundamentally essential for the State before it can leap forward into a high growth and sustainable economy.

7. In 1996, Sabah recorded an estimated real GDP growth of 4.2% as compared to 3.1% in 1995. The improved growth was largely due to the consolidating healthy world economy, political stability in the country and the continued strong growth of the Malaysian economy especially in the manufacturing, agriculture and livestock sectors fuelled by the favourable global commodities related prices and export volume. As Sabah's economy is an open economy, the depreciation of the Malaysian Ringgit would momentarily work in favour of the State's economy, increasing its earning from exports. However, the depreciated ringgit will have a negative impact on the State's economy in the long run, as it will disrupt the smooth economic transformation in Sabah and reduce production efficiency and further down-stream ventures. Therefore, it is important for the State's economy to ensure sustainable growth and prevent overheating arising from any sudden high growth. In view of the uncertainty of the ringgit, Sabah's real GDP is projected to be maintained around 4.36% for 1997 and 4.0% for 1998.

8. The main impetus to growth in 1997 and 1998 is projected to emanate from export-led sectors such as agriculture and livestock, manufacturing, tourism and service-related industries. The palm oil industry, the most significant contributor from the agriculture sector, will be given further push by the establishment of the palm oil clusters in Sandakan which will include a new palm oil refinery. Similarly, the manufacturing sector will continue to be strengthened with the implementation of several major infrastructure facilities such as the Kota Kinabalu Industrial Park (KKIP).

9. Tourism and service related sectors are expected to remain as an important growth sector for the State. Sabah will become a cheaper alternative destinations for foreign tourists to visit in terms of air fare, accommodation and tour packages with the depreciation of the ringgit. Moreover, the on going intense domestic tourism promotion by the Central Government to combat the national current account deficit will be an added stimulus for the sector.

10. A more competitive prices for sawn logs and crude petroleum in the international market due to the depreciated currency may improve the export earnings of these two

leading commodities of the State. However the State Government will continue to impose a strict log production quota to ensure Sabah attain the International Timber Trade Organization (ITTO) rulings on sustainable forest management which will come into effect by the year 2000.

11. The ringgit crisis will hamper sectors like construction, as most of the construction materials imported from overseas will increase construction costs and overheads. The import reduction measures taken by the Federal Government will also cause several development projects to be deferred. The State Government will scrutinize government and private sector projects and prioritize the smooth continuation of projects that will benefit the State's economy such as infrastructures and utilities, rural development and low cost housing.

12. Wholesale and retail businesses is anticipated to grow at a lower pace as the government encourages savings and discourages consumer spending on imported goods. On external trade, Sabah recorded a trade deficit of RM499.90 million during the first eight months of 1997 compared to a surplus of RM15.30 million during the corresponding period last year. This is largely due to the substantial growth in imports as against a lower increase in exports. I am confident however that the situation will come under control next year in view of the appropriate measures recently introduced in the National Budget to control import. The main export commodities for the State are palm oil, crude petroleum, sawn timber, plywood, paper and methanol; whereas import goods include vehicles, transportation equipment, machinery and food stuffs.

The 1998 State Revenue Estimates

13. The total State revenue for Sabah in 1998 is estimated to be in the region of RM1,727.35 million which is 13.6% higher than the revised revenue estimates of RM1,519.98 million for 1997. The increase is largely attributed to the deferment of the listing of one of the government agencies in the Kuala Lumpur Stock Exchange this year.

14. The forestry sector continues to be the major revenue contributor to the State Consolidated Fund. This sector is expected to contribute a sum of RM611.80 million or 35.4% of the total State revenue for 1998. More than 55.0% of this revenue is expected to be in the form of export royalty on logs. The depreciation of the Malaysian Ringgit as against the US dollar will bring in a higher return for export commodities. Collection from proceeds, dividends and interest amounting to RM549.81 million is the second highest contributor to our State revenue in 1998. The largest amount to be derived from this revenue item would be the proceeds from the deferred public listing exercise which is estimated to generate revenue of around RM500.00 million. The Government is confident that this listing exercise will take place next year.

15. Revenue from Custom Duties from petroleum products is expected to contribute 12.6% or RM218.05 million to the State Consolidated Fund. Although collection and rates on this items are under the jurisdiction of the Federal Government through the Department of Custom and Excise, the State Government is confident that with the full cooperation of the department concerned, the expected revenue from this item for next year will be realized.

16. The revised Revenue from land this year is estimated at around RM150.23 million which is an increase of more than 60% from the original estimate of RM90.35 million. The increased amount in the collection of land premium consequent to the increase in land alienations and in the conversion of land titles is an encouraging sign as regards to revenue that will be collected from land sources in the years to come. In 1998 the State Government expects to collect a sum of RM100.40 million which is a vast improvement compared to the estimates in previous years. The mining sector will be contributing a sum of RM78.85 million to revenue next year. Of this amount, RM75.66 million is from petroleum royalty and RM3.19 million from copper royalty. Nevertheless, the estimated revenue from this sector in 1998 is expected to be lower by 3.7% as compared to this year's estimates. The decrease is due to falling production.

17. The Federal Government is expected to contribute revenue amounting to RM89.01 million as compared to the revised figure of RM85.16 million this year - an increase of 4.5%. Of that amount, RM56.68 million will be in the form of Grants as provided for by the Federal Constitution. The balance of RM32.32 million is in the form of reimburseables which is subject to approval from the Federal Government. Nevertheless, I am confident that the Federal Government will fulfill its obligation and release the full amount next year.

18. The State Government will also concentrate its efforts in collecting revenue from sales of water which has been neglected for years. In this effort a computerized system has been installed to facilitate quick updating of records and issuance of bills. With the computerized billing system and a team of professionals specifically assigned to oversee the collection of this revenue, it is anticipated that an amount in the region of RM40.43 million will be collected in 1998 from sales of water as compared to the revised figure of RM21.51 million in 1997.

19. Apart from the above, there are other sources of revenue which are equally important: rentals on Government properties which are estimated to contribute RM19.19 million; miscellaneous revenue of RM12.89 million; licences and internal revenue amounting to RM2.25 million; receipts for and in-aid of specific Government services RM1.63 million; Ports and Harbours RM1.62 million; and finally revenue from Railway amounting to RM1.42 million.

The 1998 Supply Expenditure

20. For the year 1998, a sum of RM1703.00 million from the State Consolidated Fund is made available for expenditure. Of this amount, RM375.45 million is provided for Personal Emolument, RM358.88 million for Other Charges Annually Recurrent, while a sum of RM968.67 million is budgeted as Special Expenditure to meet essential services and requirements of the public service as well as contribution to the State Development Fund. The allocation of RM375.45 million for Emolument represents an increase of RM10.81 million as compared to the 1997 provision. The increase is considered necessary due to normal yearly salary increment, the upgrading of posts and the creation of new offices.

21. I do not wish to elaborate on the expenditure items allocated to the individual ministries as my colleagues in the Cabinet will have the opportunity to do so in this Honourable House later on. However, I feel obliged to highlight some of the major expenditure items. A sum of RM577.00 million is provided as contribution to the

Development Fund. An allocation of RM180.00 million will be set aside for water purchases and its related expenses. This amount represents about 80% of the total requirement for this item till the end of the year. This is consequent to the Government's proposal to corporatize the Water Department next year and if this proposal materializes the commitment of public fund for this expenditure item next year will be reduced. A sum of RM69.12 million is provided for Treasury General Services out of which RM20.00 million is provided for assistance to non-Muslim religious organizations and RM8.00 million is made available as grants to private schools. A sum of RM56.00 million is provided as grants to Statutory Bodies. An amount of RM40.00 million is set aside for the Statutory Loan Fund to be utilized for the development of KKIP. The government will continue to provide a sum of RM25.00 million as grants for the Social Services Programme and RM24.80 million as grants to the Local Authorities.

22. The distribution of allocations for the various ministries are provided below as follows:-

	RM (Million)	%
Ministry of Industrial Development	5.26	0.30
Ministry of Resource Development and Enterprise	22.08	1.30
Ministry of Culture, Youth and Sport	25.49	1.50
Ministry of Tourism and Environmental Development	22.98	1.35
Ministry of Rural Development	48.97	2.88
Ministry of Local Government and Housing	33.38	1.96
Ministry of Social Services	69.60	4.09
Ministry of Agriculture and Fisheries	136.45	8.01
Chief Minister's Department	219.32	12.88
Ministry of Communications and Works	383.63	22.53
Ministry of Finance	708.61	41.61
Charged Expenditures	14.57	0.85
Expenditures not included under Ministries	12.66	0.74

Total

1,703.00

100.00

23. The recent economic turbulence faced by the nation's economy has brought in various repercussions and uncertainties to the State economy as well. In line with the National Budget strategy to overcome these problems, the State Government will join hands in reinforcing prudent public spending. In respect of this I urge all Controlling Officers to be more conscientious and judicious in managing public funds so as to avoid unnecessary wastages. Members of the public service, as an elite and disciplined cadre, should always strive for efficiency and higher performance in their works to overcome rising costs. Any increase in expenditures in whatever forms should be avoided. As is required of them, members of the public service should be more responsible and must not be negligent while performing their duties. Appropriate actions including disciplinary actions or surcharge will be taken against those found to flout and break existing rules and regulations.

24. Various steps and actions will always be taken by the Government to control the spending of public funds. These would include determining the optimum size of the Civil Service and reducing excess staffing through the re-assignment of duties and responsibilities. This exercise will also involved the State Statutory Bodies. New rules will be introduced in respect of the administration of Statutory Bodies with the aim of improving accountability and also to rationalize the existing system to align it with Government objectives.

25. In respect of this, the Government proposes to strenghten its financial position through corporatizing some of its agencies. Without doubt, the corporatization of State Agencies and eventual direct listing will bring increased revenue to the State Government. Besides, direct listing will reflect the market value of the entities privatized and enables the State Government to raise money from the capital market to finance its development programme. The State Government has corporatized Sabah Energy Corporation and currently is in the process of corporatizing Sabah Ports Authority. These entities will be the vehicles to spearhead energy development and to improve infrastructure and port services. However, the State Government shall continue to maintain control over these agencies so as to achieve the Industrial Master Plan.

26. The State Government's strategy to compete in the global economy in the era of Information Technology has now taken shape with the establishment of the Science and Technology Unit and the Sabah Net. Besides being a catalyst in the development and expansion of our Information Technology industry it would also be capable of bringing about a major change in government administration through the world of multi-media technology. It cannot be denied that Sabah Net will play an important role in developing the economy of the State. Its establishment therefore has come at an opportune time where management has become more sophisticated requiring skills and knowledge.

27. Conservation and the protection of our environment will continue to get serious attention from the government. Our recent experience with the haze should remind us of the importance of treating the Earth as a sacred place for humankind to live in. Conservation and environmental awareness campaigns will be continued and intensified next year. Meanwhile, let us remind ourselves that it is our joint responsibility to respect and to abide by the existing laws and regulations on the Environment.

28. It cannot be denied that the contributions and dedication of the Civil Service in carrying out their duties and responsibilities have brought about success in our development and social programs. As an appreciation of their services the State Government has agreed to give a bonus of one month's salary to all members of the Civil Service under the Management and Professional group as well as the Support group and other groups in the same category with a minimum amount of RM700.00.

1998 Development Expenditures 1998

29. The twin objectives of the State under the Seventh Malaysia Plan and the Outline Perspective Plan of Sabah are to speed up the growth process and to eradicate poverty. This will be the basis and foundation for us to bring about a balanced development and to establish a society that is both just and competitive. Various strategies that will be adopted in order to achieve these objectives had been spelt out in the State Budget Policy speech delivered at the beginning of the Seventh Malaysia Plan period. Among them are, reducing the social and economic inequalities and imbalances in the State; making science and technology an integral component of socio-economic planning and development; promoting human resource development; protecting and maintaining the environment to sustain a high quality of life and the long term development of the State; and to ensure adequate provision of all necessary basic and physical infrastructures.

30. In our effort to pursue these objectives, a total amount of RM680.88 million is made available under the State Development Budget for 1998. Of this amount, RM577.57 million is from the State Fund, RM64.42 million in the form of Federal Loans, and RM38.89 million is Federal Reimburseables.

31. I am pleased to inform this Honourable Assembly that RM379.39 million or 65.7% is allocated to the economic sectors covering areas such as agriculture, rural development, transportation and physical infrastructures. This appropriation indicates clearly the Government's firm commitment towards implementing the strategies as contained in the Outline Perspective Plan of Sabah. The Social Sector, which covers areas such as training, housing and town development, culture, youth and sports, library and welfare services, is allocated a sum of RM134.42 million or 23.3%. The balance of RM63.76 or 11.0% is for the construction of government buildings and office premises to facilitate general development administration.

32. The distribution of the development budget from the State Fund are as follows:

	RM (Million)	%
Ministry of Communications and Works	185.83	32.18
Ministry of Agriculture and Fisheries	122.24	21.61
Chief Minister's Department	72.44	12.54
Ministry of Local Government And Housing	64.01	11.08
Ministry of Rural Development	36.00	6.23

Ministry of Finance	25.00	4.33
Ministry of Tourism and Environmental Development	23.12	4.00
Ministry of Culture, Youth and Sport	16.10	2.79
Ministry of Industrial Development	14.64	2.54
Ministry of Social Services	10.62	1.84
Ministry of Resource Development and Enterprise	7.57	1.31
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	577.57	100.00
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The distribution of the fund next year shows that the Ministry of Communications and Works will get the largest share amounting to RM185.83 million or 32.18% of the total. This is because the Ministry is entrusted to play the major role in infrastructural development in the State.

33. Consistent with our objective to eradicate absolute poverty, the Ministry of Agriculture and Fisheries and the Ministry of Rural Development, which are directly involved in rural development, are provided a sum of RM158.24 million or 27.39% of the Development Fund. With this allocation, the government hopes that the poverty eradication programmes will be carried out more effectively in order to uplift the poor so that they may be able to sustain themselves and to enjoy a higher standard of living and a better quality of life.

34. I would also like to stress further that the RM14.64 million that is allocated to the Ministry of Industrial Development does not include the RM40.00 million loan fund in the supply Budget that has been set aside for the development of KKIP which I have mentioned earlier. Besides that, the government has also decided that as from next year onwards the Sabah Economic Development Corporation (SEDCO) is to be responsible for financing its own programme of shophouses development throughout the State. This approach is in line with making the government agencies stand on their own feet. Nevertheless, the government will continue to subsidize the infrastructure component of these programmes and for next year, a sum of RM3.20 million is set aside for this purpose.

Federal Assistance

35. In view of our cordial relationship, the State Government will continue to receive financial assistance from the Federal Government. Aside from the RM64.42 million Federal Loan and RM38.89 Federal Reimbursable Grant which I have mentioned earlier, the Federal Government has also earmarked another RM369.85 million for various development projects in Sabah under the Concurrent List. This allocation is for the following purposes:

	RM (Million)
	-
Forestry	8.32
Rubber Fund Board	1.00
Extension Services	0.70
Drainage and Irrigation	2.50
Fisheries	7.00
Roads and Bridges	297.93
Electricity	50.00
Water	2.40

	396.85

Conclusion

36. The year 1998 is the third year of the Seventh Malaysia Plan and we are now at the threshold of the 21st Century. Rapid economic transformations and the various obstacles and challenges presently abounding should encourage us to be more vigilant while keeping an open mind. At the same time it should inspire us all to be more determined and committed in developing the State. Restructuring the functions of various organizations and the realignment of development strategies are considered amongst the effective means of managing change.

37. Whatever preparation we wish to undertake we must always remember that discipline is the most important ingredient of success. To attain this, of course, requires close cooperation from all parties. Government agencies, the private sector and even the Opposition should adopt this approach and attempt to work together in supporting and strengthening Government policies especially those related to the economic development and well-being of Sabah. If there are lessons to be learned, let us learn together from our weaknesses, evade them in future but let us refrain from finger pointing.

38. For the sake of our State and for our future posterity, I urge that we re-orientate our thinking, develop a new mind-set and work together to find a way out of all this unnecessary political squabbles that bring no benefit whatsoever to this land of hope. Political stability and racial harmony among the people of Sabah should be maintained at all times as this will provide an excellent investment climate for the business sector. The growing confidence of the business community despite the prevailing economic situation is certainly a good indication of the future of the State's economy.

39. As we strive to uplift the State's economy, I am confident that the experience and wisdom of our National and State leaders will successfully guide and navigate the State economy to a higher plane.

Tuan Speaker, I beg to move.

