Finding an Equilibrium

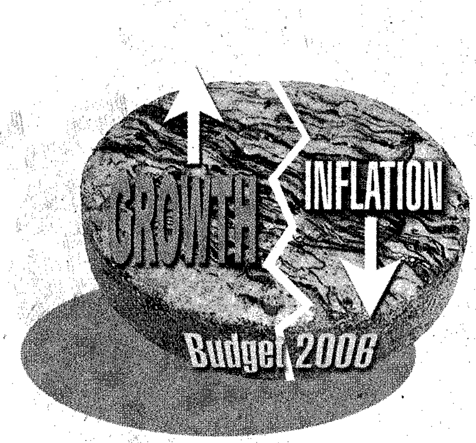
Budget 2006 offers a balance between promoting growth and containing inflation.

IT MUST BE a tough call for the Finance Ministry to put up a budget that will please everyone year in year out. The same applies to Budget 2006, announced by the Prime Minister on Sept 30, 2005.

Against a backdrop of high fuel prices and a slowly increasing Consumer Price Index (CPI), Budget 2006 provided an additional expenditure of 5% over the previous year. While it is expected that Gross Domestic Product (GDP) growth this year will be around 5% and next year around 5.5%, the balancing act between promoting growth and containing inflation is both necessary and challenging.

'Irritants' in doing business appear to have been smoothened out, especially in exempting stamp duties and the real property gains tax and the abolishment of Section 132G of the Companies Act to encourage more merger and acquisition activities. The lacklustre stock market condition these past few years with declining trading values badly needed the injection of such an incentive. There are at least 70 companies under the PN4 category (Practice Note 4 – near insolvent companies) still listed on Bursa Malaysia. This move may pave the way for interested white knights to rescue some worthwhile ones.

Group relief, which had been requested by the corporate sector for years, has finally been given, in which 50% of losses of a subsidiary may be offset with another under the same group. In light of the need for the private sector to venture into new unfamiliar territories, this incentive would spur such activities in the near future. Agriculture, for example, is a sector that the Government has tried to generate interest among the private sector to take up. Unfortunately, the response from the private sector has been lukewarm. An allocation of RM2.8 billion has been provided for agriculture development in this Budget, including the appointment of agricultural counsellors overseas.



A sum of RM400 million has been allocated for government-linked companies (GLCs) to act as catalysts in the commercialisation of the agricultural sector. A National Agriculture and Food Corporation with a capital of RM500 million will become a centre of excellence in agricultural supply chain management. Khazanah Nasional will establish the corporation. This will be a departure from the usual equity participation activities of the body and signals a new commitment from the Government.

Other incentives in reducing the cost of business include allowing accumulated losses and unabsorbed capital allowances during the pioneer period to be carried forward and be deducted from the post-pioneer income, and income from investment activities of investment holding companies listed on Bursa Malaysia to be treated as business income and, therefore, no longer restricting expenses of these holding companies for purposes of tax deduction.

Audit fees will be allowed tax deductions, companies will be allowed to estimate their tax payable at a level not less than 85% of the preceding year's tax estimate compared with 100% currently.

A constant grievance of losses on low-cost houses by developers has been addressed in this Budget by allowing losses on low-cost houses to be offset against profits of other real property development projects for purposes of tax.

Although corporate bonds are recognised as contributing 51% of the national bond market, which totalled RM363 billion in 2004, this amount is usually monopolised by financial institutions and there is hardly a secondary market for bonds. Investors in the stock market have little choice other than equities, with very few involved in futures. Bonds can be traded through the same mechanism or fitted into the trading platform of equities to offer opportunities for retail investors to diversify their investments.

An important move which should have been established a long time ago is the setting up of a Management Leadership and Directors Academy to provide for skilled managers and directors with integrity, especially for GLCs, in collaboration with world-class management institutions such as Insead, IMEDE, Harvard and Stanford. The disastrous experience of some GLCs in the late nineties should provide useful lessons for a new breed of managers and directors.

The 2006 Budget also places emphasis on developing human capital. A total of RM5 billion has been allocated for education and training under development expenditure. This includes allocation for pre-school, primary and secondary schools and matriculation, higher education, training and ICT, curriculum development, hostels and teachers' quarters.

The construction sector, which registered a negative 1% growth in 2005, is expected to grow by 3%. It received a boost of RM2.1 billion for 21,600 units of low-cost houses and RM2.5 billion for the police's three-bedroom quarters. In addition, Members of Parliament have been asked to identify the list of basic infrastructure needs in every Parliamentary constituency. Regionally, Sabah and Sarawak have received the sum of RM2.3 billion and RM2 billion respectively for numerous infrastructure projects.

Recognising the need to diversify sources of energy, the Government is currently formulating a policy to encourage widespread production and use of biofuel. It will set up, together with the private sector, three palm oil biodiesel commercial plants with a total capacity of 180,000 tonnes.

Perhaps, the group most pleased with the Budget would be the civil servants. Those with a salary of less than RM1,000 are to receive a one-and-a-half months bonus and those above, a one-month bonus. As this will definitely attract an increase in prices generally, a coordinated effort between the officers of the Ministry of Domestic Trade and Consumer Affairs and the Inland Revenue Board will be conducted to curb excessive profiteering.

A significant message of this Budget is that the high cost of energy should motivate the public to strive towards conservation and focus on quality spending.

The writer is the former president of the KLSE (now Bursa Malaysia).