

**Table 3.6
Federal Government Finance**

	RM billion		% change	
	2005 ^p	2006 ^B	2005 ^p	2006 ^B
Revenue	106.3	114.6 ¹	6.9	7.8
Operating expenditure	97.7	101.2	7.1	3.6
Current account	8.6	13.3		
Gross development expenditure	30.5	33.5	5.8	9.7
Loan recoveries	3.3	0.7		
Overall balance	-18.7	-19.4		
(% of GDP)	-3.8	-3.6		

¹ Includes net revenue loss of RM1 billion arising from the tax measures announced in the 2006 Budget.

^p Preliminary

^B Budget

Note: Numbers may not add up due to rounding.

was given to both the economic and the social sectors in an effort to reduce income disparities between the rural and urban areas. In addition to improving the efficiency and effectiveness of the

public delivery system, the Government introduced several measures to stimulate private investment, including enhancing the business-friendly environment through wide-ranging tax and non-tax measures to improve business competitiveness; diversify sources of growth into new areas that have high growth potential; augment human capital development; further develop the capital market as well as strengthen the development of small and medium-sized enterprises. Key measures announced in the 2006 Budget are summarised in the white box.

The Government's primary objective for fiscal policy continues to be to ensure a sound and sustainable Federal Government financial position over the medium term. The focus would be on maintaining the fiscal deficit at an appropriate level where a balance between sustaining economic growth and preserving long-term fiscal sustainability is achieved.

Key Measures Announced in the 2006 Budget	
First Strategy: Implementing Proactive Government Measures to Accelerate Economic Activity	
Policy area	Measures
Improving further the Government's delivery and procurement systems	<ul style="list-style-type: none"> • Allow financially autonomous statutory bodies to determine their own schemes of service. • Expedite the issuance of visas, particularly for knowledge workers and professionals in the fields of ICT and financial services. • Expand the use of ICT to facilitate dealings between the public and Government. • Introduction of new modalities of the Government procurement system in efforts to reduce cost, enhance transparency and ensure value for money.
Second Strategy: Providing a Business-Friendly Environment	
Reducing cost of doing business	<ul style="list-style-type: none"> • Provide group relief to all locally incorporated resident companies. • Allow accumulated losses and unabsorbed capital allowances during the pioneer period be carried forward. • Treat income of investment holding company listed in Bursa Malaysia as business income. • Allow estimated losses on low-cost houses to be offset against estimated profits of other real property development projects.
Strengthening the capital market	<ul style="list-style-type: none"> • Exempt stamp duty and real property gains tax on mergers and acquisitions of companies listed on Bursa Malaysia. • Allow tax deductions on legal, valuation and consultancy expenses incurred in the establishment of Real Estate Investment Trusts. • Allow tax deductions for discounts on an accrual basis until the maturity of the bonds for corporate issuing bonds.

Modernising the agriculture sector	<ul style="list-style-type: none"> • Increase Fund for Food by RM300 million. • Establish a new company to develop forest plantations commercially. • Khazanah Nasional to establish the National Agriculture and Food Corporation with a capital of RM500 million.
Developing the ICT and biotechnology sectors	<ul style="list-style-type: none"> • Set up the Malaysian Life Sciences Capital Fund, with RM100 million from the Government. • Extend tax incentives to qualifying companies operating outside MSC.
Others	<ul style="list-style-type: none"> • Reduction of 50% for stamp duty charged on loans of up to RM1 million taken by small and medium-sized enterprises (SMEs). • SME Bank to set up a venture capital fund of RM1 billion to finance SMEs. • Establish Bumiputera property trust foundation, Yayasan Amanah Hartanah Bumiputera with an initial capital of RM2 billion.
Third Strategy: Developing Human Capital	
Intensifying human capital development	<ul style="list-style-type: none"> • Automatic child relief for each child studying in local or recognised institutions of higher learning. • Extend the child relief to disabled child pursuing tertiary education. • Extend the scope of individual tax relief of RM5,000 for further education to professional courses, accountancy and law. • Allow tax deductions on expenses incurred for development and regulatory compliance of new courses by IPTS. • Double deduction to public listed companies on the allowances paid to participants under the Unemployed Graduates Training programme.
Fourth Strategy: Enhancing the Well-Being and Quality of Life of the Rakyat	
Reducing financial burden of Malaysians	<ul style="list-style-type: none"> • Reduction of road tax by 40% for private diesel vehicles exceeding 1,600 cc, except in Sarawak.
Others	<ul style="list-style-type: none"> • Allow husband and wife to each claim one property for exemption of Real Property Gains Tax. • Increase tax rates on liquor and cigarettes. • Extend tax incentives to companies providing energy conservation services.

FINANCIAL SECTOR POLICY IN 2006

Against the background of ongoing evolution and developments that are shaping the financial landscape and challenges brought about by economic and financial liberalisation, the thrust of policies for the financial sector in 2006 will focus on further strengthening the role, capacity and contribution of the financial sector in the

economic transformation and, hence, the successful realisation of strategies outlined in the Ninth Malaysia Plan. Specifically, policies will be geared towards preserving the stability that has been sustained over the years by further strengthening institutional and systemic resilience and competitiveness, maintaining an efficient and effective financial infrastructure, and promoting a conducive regulatory and supervisory environment that