

from 16 per cent of the federal government's operating budget in 1982 to 29 per cent in 1987 as a result of the serious economic recession of 1985-87. The federal deficit, which stood at \$US2.7 billion in 1987 declined to \$US1.9 billion in 1988. However, with the recent rapid economic growth, government expenditures have again increased substantially, leading to new increases in the federal deficit.

The country's external debt is being effectively reduced through appropriate fiscal and financial policies. The debt service ratio will have been gradually reduced from 16.2 per cent in 1987 to less than 10 per cent in 1989, with this trend expected to continue in 1990. In this context, the Fifth Malaysia Plan provided for a 40 per cent reduction in public expenditures. It also proposed an ambitious program of privatization while placing the onus on the private sector as the engine of future growth.

Announced in March 1986, the Plan is designed to guide the government's economic policies until 1991. The 10-year Industrial Master Plan, also initiated in 1986, is designed to broaden Malaysia's economic base away from its dependence on the primary sector. Its focus is on diversification and

shifting resources to value-added and technology-intensive activities. In parallel, the Malaysian government is focusing its efforts on the implementation of a New Economic Policy (NEP) aimed at eradicating poverty and restructuring society effectively to increase the economic development of the Malay population.

Rising private consumption, strong external demand and investments from abroad (principally Japan, the U.S., Singapore and Taiwan) are expected to contribute to a GDP growth rate in 1990 in the neighborhood of 7 to 8 per cent. The manufacturing sector will likely maintain its position as largest single sector of the economy with the result that depressed commodity prices should not seriously impair the economy. The weakness of domestic investment, the level of unemployment (8 per cent in 1989), inflation (4 per cent in 1989, up from 2.5 per cent in 1988) and the management of the public sector deficit are key issues for the Malaysian government to address in the short-term.