the face of high interest rates, and a slump in exports made matters worse. Finally in August 1982, a crisis situation erupted when Mexico was forced to announce a moratorium on service of its debt. It was simply unable to borrow enough to make payments on the interest and principal on loans coming due. Mexico's total debt exceeded $80 billion at the time and almost 30 per cent was due within one year. It was but one of many developing countries in a similar predicament. By 1983, 47 debtor countries were involved in negotiations with banks and official creditors to reschedule their debt due to inability to meet their obligations.

The Mexican declaration of August caused shock and consternation, and was followed by an almost immediate freeze on bank lending to Latin American countries and to many Eastern European countries. For many private banks, loans to debtor countries represented a dangerously high proportion of their portfolio and the amounts at risk when viewed in terms of their total capital were cause for alarm.

The Low-income Developing Countries

In the period prior to 1982, external pressures similar to those faced by the middle-income borrowers were also experienced by the low-income countries: the two commodity booms of the 1970s, the two oil shocks that led to manifold increases in the price of oil, the sluggish economies of the industrialized countries, the growth of inflation, and finally in 1981 and 1982 the severe global recession.

Faced with higher energy import costs after 1973, these countries had sought new sources of funds to sustain the growth that had been stimulated by the expanded commodity exports of 1971. Official development assistance (ODA), a traditional source of funding, was not keeping up with their needs. According to a Commonwealth study, while ODA disbursements to these countries rose by 54 per cent between 1975 and 1982, in real terms ODA flows actually declined. In their search for funds from sources other than ODA, multilateral institutions and some private investment in resource development, the low-income countries looked increasingly to export credits and to those commercial banks that were seeking to recycle the OPEC surpluses. Like the middle-income borrowers, they found borrowing from the banks attractive in a period of negative real interest rates. As a result, in the years between 1972 and 1982 — although the absolute numbers were not large — a striking shift toward capital market and non-concessional debt occurred in the low-income countries, including those in sub-Saharan Africa. According to a World Bank study, for countries of sub-Saharan Africa, borrowings from the private financial markets increased tenfold — from $1 billion to $10 billion — between 1972 and 1979, at an annual rate of 40 per cent. By 1982, they had reached $18 billion, a sum which represented 36 per cent of the total borrowings of these countries.

Although the mix of their loans was different, with bank debt comprising a smaller proportion, the low-income countries were hit just as hard as the large debtor countries by the second oil price hike and the subsequent recession. While a comparatively larger portion of their overall debt involved loans from ODA or multilateral institutions at low, concessional, fixed interest rates, repayment of both this debt and the bank debt from private financial markets presented a major difficulty for countries with a limited range of exports, which consisted mainly of commodities. Both the volume and revenue of exports of these countries declined