governments can agree to a moratorium much more readily than can the banks. For the sub-Saharan African countries recently granted a moratorium on interest payments by Canada, this distinction was clearly important. (see page 41)

For most Asian debtor governments the situation is considerably less serious. Table 5 compares the same debt ratios for Asian developing countries with those for other regions' developing countries in order to illustrate the difference in their situation. While there are exceptions, including the Philippines which has a major debt problem, many low-income Asian countries currently have better ratios than they did ten years ago, and with those that have deteriorated, the change has been relatively minor. According to experts whom the Committee met in New York, an important factor in the generally more favourable Asian situation was the more market-oriented economies and the more active entrepreneurial systems that prevail in many Asian developing countries than in the other two regions. Part of the explanation also lies in the diversity of exports from the countries of this region including more manufactured exports than from either Latin America or Africa. The particular mix of exports in Asian countries has meant they were less vulnerable to the global recession and particularly to the commodity price slump. However, they may be more vulnerable to protectionist measures in the OECD countries, the most promising market for exports of their manufactured goods.

Position of the Creditor Banks

At the time of the Mexican moratorium in 1982, there were widespread fears that a default or repudiation by large borrowing countries could lead to bank collapses or a widespread undermining of the stability of the international financial system. Several major banks were especially exposed in Latin America in 1982; loans made to Mexico by the nine largest U.S. banks, known as the "money centre banks", were equivalent to 44 per cent of the combined capital of those banks.

Overall, however, the position of the commercial banks in OECD countries has improved since 1982. Concerted efforts have been made by banks in all developed countries to increase their capital base so as to improve their capital-to-assets ratio. At the same time they have increased their loan loss reserves, while reducing their lending to Third World countries. The Canadian Finance Minister told the Committee that, while practices differed from country to country and from bank to bank, "the effect has been to strengthen the positions of the financial institutions and the system as a whole against possible defaults". (14:8)

The rate and degree of improvement has reflected several factors which highlight the fact that differing regulatory environments affect the way bank debt is handled. These include:

- the extent to which the capital-to-assets ratios of banks had been run down in the 1970s, a rather general phenomenon;
- differing tax treatment of provisions, which helps to explain why European banks are more heavily provisioned, Canadian and Japanese banks more moderately so and U.S. banks rather sparsely provisioned;