" . . . is the debt crisis over? The answer is that the international financial system is no longer at risk but much remains to be done."[1]

1. Introduction

It has been almost 12 years since the international financial community was shocked by Mexico's announcement that it would be unable to honour its international commercial debt obligations. Thus began the LDC debt crisis. Subsequently, the international community introduced a number of debt-restructuring and debt-reducing strategies designed to decrease the debt burden of developing countries, while enhancing the ability of these countries to pay back remaining obligations.

Despite the use of debt and debt-service reduction mechanisms, the LDC debt issue is still with us, although reshaped with a different regional focus and considerably less threatening to the international financial system. The current external debt position of developing countries as a group has, in fact, continued to worsen in absolute terms, and also as a proportion of the export revenue of these countries. The nominal stock of developing country external debt increased from US $658 billion in 1980 to US $1,662 billion in 1992. By the end of 1993, the total stock of external debt was expected to increase further to US $1,770 billion, an increase of 169% since 1980 (see Table 1). Aggregate net real resource flows to the developing world have increased since the mid 1980s, the worst point of the debt crisis, ironically adding to the overall debt stock of the developing countries.

Within the group of LDCs, however, experiences have not been uniform. Some countries have had their debts reduced and have introduced reform measures which have resulted in a reduction of their overseas financial burden, as well as their successful return to private international capital markets. The continuation of appropriate domestic economic policies makes it likely that these countries will use new resource flows primarily for productive investments which will further assist in helping these countries grow out of their debt problems. Other countries, however, have been unable to reduce the stock of debt effectively, have been less

[1]International Monetary Fund (1993), p. 73.