



MARKET MAYHEM · RESEARCH SHEET · EPISODE 08

The Dominoes Begin

The Latin American Debt Crisis and the Lost Decade

Latin America · 1982 · v1.0 · July 2026

In August 1982, Mexico told its creditors it could no longer pay. Within months the same words spread across Latin America, and a continent that had borrowed cheap dollars through the 1970s discovered what happens when the interest rate on that debt triples. The result was a lost decade.

Key Facts

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| Event | The Latin American Debt Crisis — sovereign defaults that began a “lost decade” |
| Location | Mexico, Brazil, Argentina and much of Latin America |
| The Trigger | August 1982 — Mexico declares it cannot service its foreign debt |
| The Cause | 1970s petrodollar recycling flooded the region with cheap floating-rate dollar loans |
| The Detonator | US interest rates raised toward ~20% under Paul Volcker to break inflation |
| The Resolution | The Baker Plan (1985), then the Brady Plan (1989) and Brady Bonds |

By the Numbers

US interest rates pushed toward ~20% — exploding the cost of floating-rate debt

Mexico's external debt around \$80 billion; regional debt well over \$300 billion

Roughly a decade of lost growth, high inflation and austerity across the region

Much of the borrowing was short-term and floating-rate — hidden leverage on a national scale

Petrodollars In, Then the Rate Shock

After the 1970s oil shocks, banks awash with petrodollars lent them to Latin America at low, floating rates, and the region borrowed enthusiastically. When Volcker's Federal Reserve raised US rates toward 20% to kill inflation, the interest bill on all that floating-rate debt exploded at the same moment commodity prices fell. The borrowers had not changed; the price of their debt had, and it was fatal.

“ Floating-rate debt is a leverage bomb with a fuse held by someone else's central bank. ”

How It Happened

Through the 1970s, Western banks recycled the surplus dollars of oil exporters into loans to developing nations, especially in Latin America. Credit was cheap, plentiful and, crucially, tied to floating US interest rates.

Governments borrowed to fund growth and infrastructure. On the surface the region boomed. Underneath, it had taken on an enormous, unhedged bet that US rates would stay low.

They did not. To break American inflation, Paul Volcker's Fed raised rates dramatically. The cost of servicing Latin America's floating-rate debt soared just as a global slowdown cut the commodity revenues that were supposed to repay it.

The Collapse

In August 1982 Mexico announced it could no longer meet its debt payments. The admission shattered confidence, and lending to the entire region froze almost overnight.

Country after country followed. Cut off from new credit and unable to service the old, governments turned to the IMF, accepting harsh austerity in return for rescue financing.

The result was the “lost decade”: years of recession, currency collapses, high inflation and falling living standards. It was only resolved late in the decade by the Brady Plan, which restructured the debt into tradable Brady Bonds.

Timeline

| | |
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| 1973–79 | Oil shocks flood banks with petrodollars, recycled as loans to Latin America |
| Late 1970s | The region borrows heavily at low, floating US rates |
| 1979–81 | Volcker's Fed raises US rates toward 20% to break inflation |
| Aug 1982 | Mexico declares it cannot service its debt — the crisis begins |
| 1982–89 | The “lost decade” — recession, austerity and inflation across the region |
| 1985 | The Baker Plan attempts to restart lending |
| 1989 | The Brady Plan restructures the debt into Brady Bonds |

Mind · Method · Money — What This Means for You

MONEY · Floating-rate debt is hidden leverage

A loan whose interest rate can triple is a leveraged bet on rates staying low. Latin America took that bet at national scale and unhedged. Whenever your obligations can grow while your income cannot, you are carrying leverage even if you never used the word.

METHOD · Cheap credit masks underlying weakness

For a decade, easy dollar loans made fragile economies look strong. The borrowing hid the imbalances rather than fixing them. Ask what a boom is actually built on: real productivity, or simply the availability of cheap money that can vanish.

MIND · The lender's euphoria is as dangerous as the borrower's

The banks recycling petrodollars were as caught up in the mania as the governments taking the loans. When credit is flowing freely and everyone assumes it always will, both sides of the trade stop pricing the risk that it stops.

Modern Parallels

The template recurs wherever cheap foreign-currency credit meets a rate shock: the emerging-market crises of the 1990s, and any economy that funds long-term ambitions with short-term, floating-rate money. When the world's reserve central bank tightens, the most leveraged borrowers on the planet are the first dominoes to fall.

Read & Listen

Read the full write-up and listen to the episode: [The Latin American Debt Crisis, 1982 \(EP08\)](#)

Related Research

Previous episode: [EP07 · Souk Al-Manakh \(1982\)](#)

Next episode: [EP09 · Black Monday \(1987\)](#)

The next one forming: [The Next Market Crash — 5 Scenarios](#)

Sources & Further Reading

Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*

IMF and World Bank historical accounts of the 1980s Latin American debt crisis

Market Mayhem: When Greed Meets Gravity, *The Complete Trader's Edge*

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FROM THE BOOK

This crash is dissected in full in **Market Mayhem: When Greed Meets Gravity** — 22 chapters, four centuries of bubbles, one repeating blueprint.

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