Paper prepared for the pre-conference of session 82, ("Financial Crises and the Transformations of the Financial System since 1945") of the 16th World Economic History Congress, Stellenbosch 2012, at the European University Institute, in Florence, May 2-4, 2012.

A Quarter Century of Sovereign Debt Crises and the Destabilization of the Mexican Banking System and Structure, 1970-1995[1]

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Abstract in English:

In order to understand the causes and consequences of the impact of sovereign debt crises on domestic banking systems the present essay suggests the usefulness of study of the Mexican experience during the debt crisis of the 1980s and the financial crisis of 1995. The main point of this essay is to suggest that both crises were impelled simultaneously by a combination of irresponsible external debt policies and a set of equally dangerous policies regarding domestic bank policy. The two trends intersected, respectively, at the critical moments of August 1982 and December 1995 with catastrophic consequences for Mexican finance. The results were two very different debt crises, one prolonged that lasted through most of the 1980s and another short but very costly debt crisis in the years 1995-1997. Similarly, the banking crises were quite different but both implied extremely abrupt and disruptive changes in the Mexican banking structure. The paper concludes that an important future agenda of research consists in evaluating the costs of these catastrophic events for Mexican economic and social development.

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A Quarter Century of Sovereign Debt Crises and the Destabilization of the Mexican Banking System and Structure, 1970-1995

Youssef Cassis has convoked this meeting to help explore some of the historical/economic reasons which might explain the dramatic changes experienced in financial systems from 1945 to the present and, more specifically, to evaluate whether and why the world has passed from financial stability to instability. While most of the papers presented at this conference focus on international finance and Europe, with a look at South East Asia, in this paper I look at Latin America, but more specifically at Mexico, which has experienced two profound and destructive sovereign debt crises in a decade and a half. The first financial crisis in Mexico, which broke out in August 1982, opened the doors to the more general debt crises throughout Latin America during the so-called *lost decade* of the 1980s. The second financial crisis exploded in December, 1994, and preceded the numerous emerging markets crises of the late 1990s in both Latin America and Asia. The Mexican case is therefore both a special case and also paradigmatic of sovereign debt crises, but what is perhaps most striking is the way the Mexican banking system was destabilized by these events and became subject to extraordinary political manipulation which led to successive and drastic changes in structure and ownership. In recent years this has led to a marked reduction of bank lending to the private sector and therefore to very slow growth.

As is well known, in the European debt crisis of 2010-2012, concern with bank solvency has increased acutely due to their large bank holdings of sovereign bonds, particularly those of Greece, Italy, Portugal, Ireland and Spain. In this sense, reviewing the history of the destabilization of the banking system in Mexico after the sovereign debt crises in the 1980s and 1990s can prove illuminating to understand the complexity of the multiple impacts of such events upon domestic financial markets.

The evolution of Mexican finance between 1945 and 1970 was quite different from that of Argentina, Brazil or Peru because it was then much more stable, and this also can be said for its banking and monetary system. On the other hand, from the 1970s, Mexico was prone to the most acute and intense instability which affected its banking system in ways that were even more pronounced than most of the rest of Latin America. Why this was so is a central question to be explored in this essay, which places special emphasis not only on the impact of capital flows and debt crises but also on the complexities and vagaries of the political management of finance and the ways this affected both the dynamics and the institutional framework of the domestic banking system in

Mexico. These trends and events were impelled by extraordinary shifts in capital flows into and out of Mexico, both in the early 1980s and then again in the early 1990s, but were shaped equally so by the abrupt changes in public policies with regard to the domestic banking system.

In a sense, the purpose of the essay is to suggest the need for more *concurrent* research on medium and long-term consequences of international lending surges and sovereign debt crises as well as the evolution of domestic banking policies in countries like Mexico with traditionally underdeveloped financial markets. These two set of problems should be analyzed separately for methodological reasons but they are related in practice. An important reason that requires distinguishing between them resides in the fact that that the dynamics of international finance (in particular capital flows) are determined largely by factors external to the Mexican economy. On the other hand, the operation of domestic banking depends to a large extent upon the domestic institutional framework and upon domestic political and regulatory factors. As Stephen Haber has cogently argued, the banking system is embedded in the political system of a country. [i]

At different moments in time, however, international financial trends and domestic finance intersect with particularly intense consequences, as is the case in the Mexican crises reviewed here. Historical analysis can provide important conceptual bridges insofar as it takes into account the political and economic contexts which serve as backdrop to these events and thus help to explain the coincidence and/or real links between sovereign debt collapse and bank crises.[ii]

The majority of studies on sovereign debt tend to focus on lending surges and debt crises and on the nature of capital flows, on sudden stops and subsequent currency crises, financial panics and defaults. The main emphasis of many researchers is to explain the causes of financial disequilibrium as well as to suggest ways to anticipate crises in the future by explaining key elements that bring on financial collapse. A large literature has also blossomed on renegotiations and restructuring of sovereign debt crises, and the Mexican case has probably been more studied than any other.[iii] The historical literature on Latin America includes detailed studies of restructuring in different time periods, some of which use game theory to explain negotiations (particularly for the Mexican case) while at the same time there has developed a considerable legal literature on the types of contracts involved in debt restructuring. [iv]

On the other hand, less attention has been paid to relation between sovereign debt crises and domestic banking systems, although this was first identified as an important problem for comparative research as a result of the Asian financial crises of 1997, particularly in the cases of Thailand, Korea and Indonesia.[v] For example, in a pioneering study, 1999 Eichengreen and Rose studied one hundred episodes covering the last three decades which demonstrated a close link between abrupt and pronounced shifts in interest rates in the most advanced countries and the outbreak of banking crises in the so-called emerging markets. Subsequently, the literature on the subject has expanded rapidly and numerous studies have been published which offer analytical antecedents on the interplay between shifts in international finances and banking crises in emerging markets in recent, historical perspective. In a large number of historical cases, it has been argued that lending booms can make economies more prone to volatility and financial and balance of payments crises.

Though international lending surges and debt crises have been at the forefront of attention of researchers for some time, in recent years increasing attention has been devoted specifically to banking crises and domestic bank policies in emerging markets. A study by Stephen Haber and colleagues on Mexican bank policies over the last twenty years has provided perhaps the most penetrating, quantitative and qualitative analysis of the unexpected consequences of the contradictory incentive structure and poor regulatory structure adopted during the privatization of Mexican banking in the 1990s.[vi] Haber, in fact, argues that the banking collapse of 1995 would almost certainly have occurred even without the explosion of the peso crisis. This, however, is not the necessarily the point of view of other authors and actors. For instance, in Mexico, a number of studies have been published by Enrique Cardenas, who has led a massive research project on the oral history of the financial crises of 1982 and 1995 with special attention to banking collapses: there is abundant testimony found therein by key figures and analysts that links the Mexican bank panics to devaluations and capital flight in 1995. All major actors, political and financial, national and international, were interviewed, and the results have been published in a set of five volumes on financial events in Mexico in the

1990s, which also include important academic studies of these events and the political and financial policies adopted before, during and after the crisis. [vii]

To focus on Mexico is of special interest because this country is a prime example of the shift from long term financial stability from the 1940s to 1970, to a quarter century of instability that lasted until the end of the twentieth century, particularly with regard to the management of sovereign debt (domestic and international) as well as that of the banking sector. Stability had been the hall mark of Mexican public finance and of the evolution of the Mexican banking system for almost three decade years following the Second World War. However, from the 1970s there followed a period of extraordinary financial instability, which may be attributed in great measure both to the impact of stop and go external capital flows but also to the mismanagement of public finance and of the banking system between 1973 and the late 1990s. At present (2012), financial conditions in Mexico are relatively stable but the relations between banks and the productive economy have deteriorated, as can be seen in the fact that commercial banks have dramatically reduced their participation between 1995 and 2012 in credit allocation to the private sector- particularly to small and medium sized enterprises: this has contributed to overall slow growth of the Mexican economy, dominance of several dozen business oligopolies, lopsided and unequal income distribution and the emergence of the informal (and often illegal) economy as the major source of new employment for Mexicans. This is hence a study of failure, not of success, and a tale of transition from stability to instability.

In this paper we begin by reviewing the great lending surge of the 1970s which led to a marked increase in the Mexican foreign debt. We emphasize that most of the loans went to state enterprises and to banks (public and private), a fact which requires attention in order to understand the peculiar dynamics of the loan boom. A second section of the paper is devoted to the first sovereign debt crisis that began in August 1982: although there was not actually a default, the continuation of debt service was covered only with emergency bridge loans from the International Monetary Fund, the Exchange Stabilization Fund of the United States and private bank loans. Two devaluations took place in late 1982 and in early 1983, and at the same time the Mexican president nationalized the entire bank system as of September 1982. Our paper refers to the literature and debate on this nationalization and summarizes the changes in structure and ownership of the Mexican banking system at this time. We then move on to review of the process of privatization of the banks in the early 1990s, at a time of massive capital inflows to Mexico. The essay then looks at the subsequent bankruptcy of practically all Mexican banks during the financial crisis of 1995, and comments on the abundant and polemical literature that reviews the huge fiscal and financial rescues implemented. The oral histories and testimonies of the leading actors in both crises are documents of great importance which demonstrate how closely politics and finance are intertwined and why qualitative analysis is essential to complement quantitative studies on financial crises.

The essay closes with summary reference to the subsequent sale of the largest Mexican banks to foreign global banking companies, in particular Citibank, Santander, BBVA, HSBC and Scotiabank. By the early 21st century

Mexican banking was basically foreign-owned, a remarkable about/shift from the past.

The lending boom of the 1970 and Mexican banks

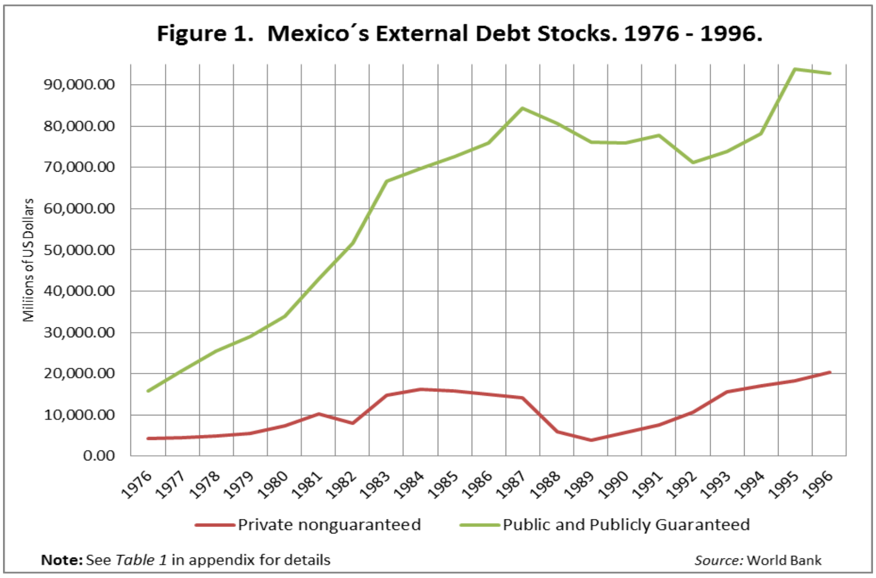
During the 1970s the volume of capital available for loans on international financial markets increased phenomenally as a result of the twin phenomena of the recycling of petrodollars and the prolonged European economic recession. International bankers began to funnel capital to Latin American on an unprecedented scale but the nature of this loan boom was relatively new for as Albert Fishlow suggested in a classic study:

> "This new capital market was quite different from the old. Loans were shorter-term and variable in their interest-rates; syndicates of commercial banks held the loans in their portfolios rather than channeling them to ultimate holders; and specific enterprises, usually public, rather than governments themselves were the borrowers, masking the extent to which they were sovereign balance of payments commitments." [viii]

Indeed the 1970s can be qualified as the golden age of *state-led capitalism* although somewhat paradoxically it was financed mainly by international private capital flows and international bank loans. During this period, practically all Latin American states pushed forward with the creation of many public enterprises, especially in the fields of energy, steel, aluminum and other metals, communications and transport (telephones, shipping, aviation), but also in many light industries, commercial firms and agricultural/commercial entities. The Mexican case stands out not only because it was a pioneer in field of public enterprise, but also because of the number of state-owned companies that came to the fore in the 1970s. During the postrevolutionary years of 1920-1940 a total of 36 public enterprises were created in Mexico, many of them development banks. By 1954 there were 144 state enterprises operating, and by 1970 that figure reached 272. However between 1970 y 1982 the grand total came to 1155, although it should be noted that over two hundred of these were state agencies or fiduciary entities (rather than companies) of the Mexican government.

The links between state enterprise and foreign finance began in the 1940s and 1950s with the channeling of numerous Exim Bank loans to Nacional Financiera, a government development bank that promoted industrial development. In the 1960s this function was fulfilled by the World Bank and the Interamerican Development Bank, but it was in the 1970s that the money really came rolling in, mainly from private international banks from the United States, Europe and Japan. The consolidated external public debt of Mexico rose from approximately 7 billion dollars in 1970 to 14 billion in 1974, 29 billion in 1977 and then skyrocketted to more than 60 billion dollars in 1982. At the same time, the private sector external debt also was rising, but the proportions remained fairly stable during the 1970s; after 1982 it was the public debt that grew while the private external debt dwindled, largely as a result of government rescue programs that helped large private firms reduce their external exposure. The World Bank figures registered in Figure 1 reflect the lowest estimates of external debt since they are based essentially on the *World Bank Debt Tables* of that time, which systematically underestimated total loans because of information limitations, particularly with regard to debt of state enterprises and banks as well as private companies.[2]

[2] In the 1970s most studies estimate that the relative



A review of the principal entities that contracted foreign loans between 1970 and 1982 (data collected by the Secretaría de Hacienda) indicates that by 1981 almost half of the gross external debt was taken by public enterprises, while close to 20% was owed by public banks. The federal government itself held about 14% of the total, but would later scale up significantly after the debt crisis. Three major debtors were the state petroleum company, Pemex, the state electrical concern, Comisión Federal de Electricidad, and a state development bank, Nacional Financiera, as can be seen in Figure 2.

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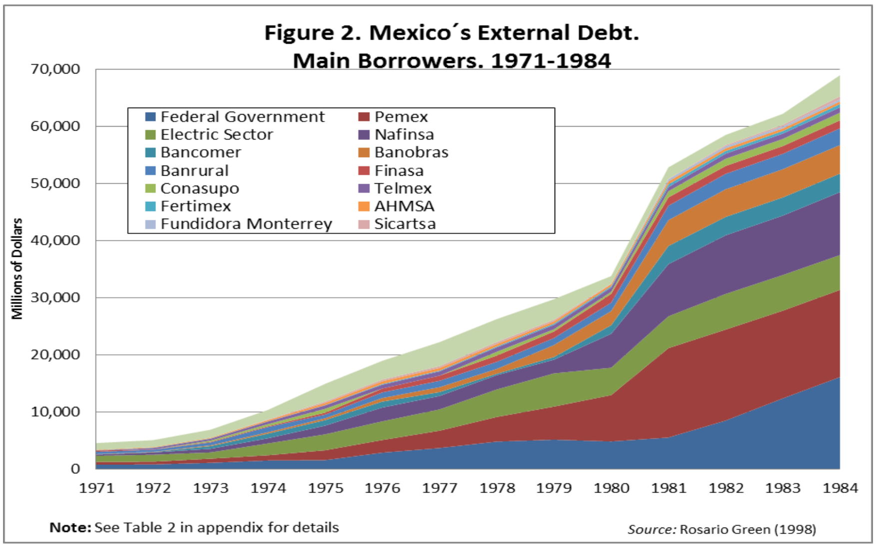
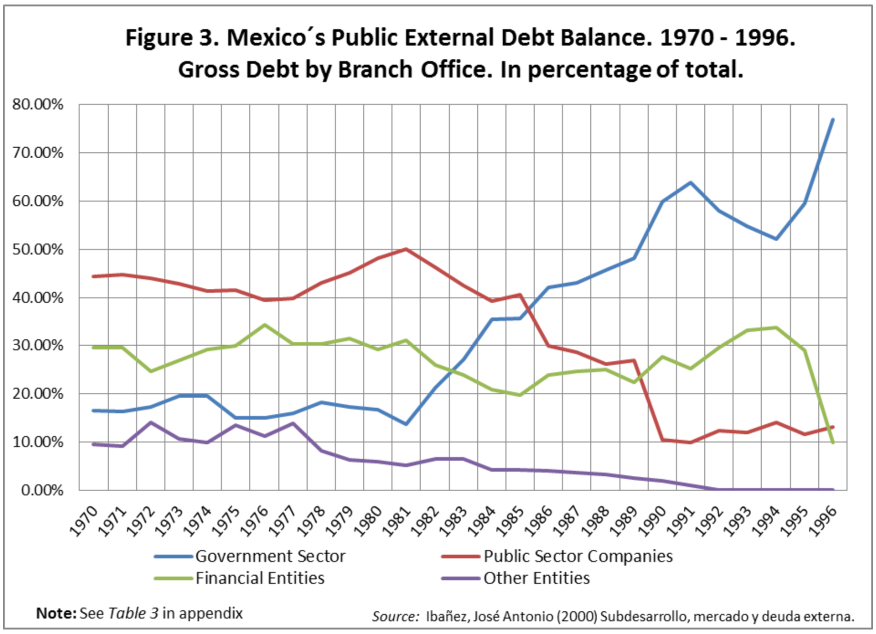
proportion of external debt was 30% private and public 70%. An important set of studies are Rosario Green (1988 y 1998).



The Pemex debt tripled between 1979 and 1981 as did the outstanding external debts of the principal banks. The state development banks Nacional Financiera, Banrural and Banobras increased their debts to almost 20 billion dollars, while the private bank Bancomer had an external debt of over 3 billion dollars by 1982. Nacional Financiera financed literally hundreds of manufacturing enterprises by providing them with medium sized credits which it obtained by taking out low cost foreign loans from international banks. This was a high risk business because very few of these companies exported and therefore could not provide the development bank with hard currency to pay back debts which in practice were foreign liabilities. A similar situation occurred with *Banrural*, the state bank devoted to agricultural enterprises and peasant organizations: this financial entity provided money for quite a number of productive activities but also was engaged in a complex network of complicity and corruption which involved thousands of rural leaders who were closely tied to functionaries of the state dominant party, the Partido Revolucionario Institucional (PRI). Money from Banrural went directly into the pockets of these individuals for private enrichment as well as to buy votes for elections. Not surprisingly Banrural went bankrupt by 1990 and its history and archives remain a closely guarded secret. In the case of the Banco Nacional de Obras Publicas (Banobras) – devoted to the finance of roads and infrastructure- it was also unable to cover its foreign debts which were absorbed by the federal government in the 1980s, as can be seen in the trends described by Figure 3.



The increasingly active role of the state banks and of their rising foreign debt during the 1970s was due in good measure to the demands of both private and public enterprises (large and small) which could not obtain sufficient short or long term finance for two main reasons. The first reason was that the Mexican stock exchange was very underdeveloped at the time, as it had been for decades. The second was that Mexican commercial banks could not increase credit at a time of economic expansion because (as economist José Quijano argued in the best study of finance in the 1970s) the Mexican government raised the bank reserve ratios to be held in the central bank in order to finance government deficits: as a result the private banks had less funds for private placement. In such circumstances, many government officials and bank directors advocated and promoted the contracting of foreign debt because they considered that the low international interest rates of the 1970s made foreign loans cheap and allowed for profits by relending to domestic clients who had to pay much higher rates.

Another key reason which explains the rise in foreign debts was the increased flow of income from oil exports that assured international investors that the country was in a position to pay back its debts. However, despite rapidly rising petroleum rents after the discovery of the Cantarell giant oil and gas field in 1977, the Mexican finance ministry could not avoid burgeoning deficits because it was not able to generate sufficient revenues to cover skyrocketing public expenditures caused both by rising ordinary expenses as well as by sustained expansion of infrastructure and urban investments. The deficits were also the result of the long-term failure of the government to put in place adequate fiscal reforms: as a result Mexico remained (and remains) the weakest tax state of all large Latin American states, relying very heavily on petroleum rents to cover chronic shortfalls in public revenues from the late 1970s the present.

Despite the growing public deficits, a broad range of international private banks came calling to offer loans to the Mexican government, states enterprises and banks in the 1970s and particularly in the years 1977-1981. According to the detailed studies by Rosario Green, the internationalization of Mexican debt began largely as a result of the role of United States banks, which controlled 47% of the public external debt in 1977. But by 1980, banks from other countries also took front stage: at that time banks from the United Kingdom were responsible for 24% of the issue of Mexican bonds abroad, a sum similar to that handled by

United States banks in that year. In addition, Japanese, German, French, Canadian and Swiss banks –in that order- jumped on the Mexican loan bandwagon.[3] Nonetheless, in the final crazy debt euphoria in 1981-1982, the percentage of short term loans provided by United States banks rose sharply; these were used basically to refinance government debt, as international interest rates began to go through the roof as a result of the new monetary policies pushed by the Federal Reserve Bank under the leadership of Paul Volcker.

The financial collapse of 1982: a simultaneous debt, currency and banking crisis

As is well known, the Mexican crisis broke on August 20, 1982, when the Secretary of Finance, Jesús Silva Herzog, announced to the international banking community that the government was no longer capable of covering the entire service of the external debt, because of the abrupt increase in international interest rates and the enormous capital flight that was leaving Mexico. According to James M. Boughton, oficial historian of the International Monetary Fund (IMF), the directors of this multilateral organization had been previously alerted to the imminence of financial collapse in Mexico.[4] From early August, the Mexican financial authorities had advised the IMF that there only remained 180 million dollars in the Bank of Mexico reserve accounts, but that there were pending payment of 300 millions de dollars to diverse international bank creditors on August 23. The dangers of a devaluation or debt moratorium were clear. It was incredible, that Mexico -as the largest emerging markets debtor- should have had such low international reserves, in the midst of such a delicate and volatile

[3] Green (1998).
[4] Boughton (1998), p. 285-86.

international financial situation. This indicated that not only had the Mexican public and central bank authorities been playing with fire but that the IMF did not fulfill its role as international advisor. Indeed, it is generally be argued that the general failure of the IMF to anticipate the Mexican and other Latin American debt crises can be explained because of inept and bungling analysis and policy recommendations.[5] A more cynical ex/post review of the institutional operational strategy could go so far as to suggest that the IMF benefited much less from adequate policing of debtor states before the crisis than by intervening as a kind of fireman or lender of last resort after the crisis.

At the end of August, 1982 total external debt had reached approximately U$S 87 billion, of which almost $60 billion was public sector debt, $19 billion was private sector debt and $8.5 billion was commercial bank debt. Mexico was the talk of the town among the hundreds of bankers and high-level technocrats who met in the IMF/World Bank meetings at the end of September, 1982, and there was much fear of the fallout this situation would create for world financial markets.

The situation of Mexican finance was complicated enormously by the fact that on September 1, 1982 the Mexican president José López Portillo, decided to nationalize the entire private comercial banking system. The executive authorities presented this measure to the general public and to the legislature (completely controlled by the PRI) as part of a new nationalist strategy to save the country from speculators engaged in capital flight. But to all intents and purposes it would appear that López Portillo and his closest advisors believed

[5] Rosario Green (1998), p.52.

that they were engaged in a great game of political and financial poker that they could win if they played aggressively enough. The measure had been planned with anticipation, as a secret commission was named in February 1982 to study the possibility of a bank nationalization: the economist in charge, Carlos Tello, had exchanges with economists advising the government of Francois Mitterand who proceeded to a similar bank nationalization in France precisely in February of that year. The Mexican president was obsessed with the problem of capital flight but did not appear to understand that it was necessary to reduce the public deficit to reduce uncertainty. Rather he saw a conspiracy of bankers and rich investors as responsible for the situation and he called for investigation of the leading individuals or firms that had deposited funds abroad. The minister of finance Silva Herzog estimated that 25 billion dollars had left the country in the last semester of 1981 due to fear of a devaluation, and the response of the government was to contract a huge amounts of short-term debt, using Pemex and its oil revenues as a mortgage guarantee in each contract. [ix] Nonetheless, López Portillo maintained secret his intention of nationalizing banks and did not adopt this radical measure until the government was bankrupt. [x]

At the same time as the Mexican president nationalized the commercial banks, he also declared nationalization of all bank deposits in dollars within the Mexican banking system (almost twelve billion dollars). In fact these measures did not in any way affect the very wealthy who had placed huge sums abroad but it did affect tens of thousands of small savers who had opened small dollar accounts inside Mexico and lost most of their savings as a result of this arbitrary measure. On the other hand, Mexican firms which had similar dollar deposits were guaranteed reimbursed by the government and by the new central bank director, Carlos Tello. This particular story is quite complicated and therefore we do not go into the details.

Another key indication of the madness of López Portillo was his dismissal of the director of the state petroleum company (PEMEX) at this time as well, arguing that he had been unable to keep selling oil at the previous high international prices. In fact, oil prices had been falling for months and therefore there was no possibility of sustaining income at the previous levels. Moreover, it was well-known that López Portillo had been using a special decree that allowed him personally to receive a commission of one dollar per each barrel sold on the spot market between 1977 and 1981, a policy which led to his personal enrichment on a huge scale.

In any event, the bank nationalization and other measures caused enormous uncertainty among investors and capital flight accelerated. The Mexican crisis and possibility of default began to cause panic among the international bankers who were creditors to the government and state companies on a large scale. As a result, the United States government, the IMF and other multilateral agencies began an international financial rescue operation, which was the antecedent to many others over the following two decades. At the time the majority of the sources on the Mexican crisis were journalistic including a large number of articles in the international financial press as well as several detailed books. [xi]

Despite the fallout of the bank nationalization, by November, 1982 the key actors – Mexican technocrats and international bankers and U.S. Treasury Department officials- reached agreement on an 8 billion dollar package to rescue Mexican public finance, approximately the sum Mexico needed to service its debt in 1982 and early 1983: the IMF would provide 4,500 million dollars from its extended drawing facilities to help guarantee debt service payments on the Mexican debt; the Bank of International Settlements (BIS) would extend 1,850 million dollars in credits; and the Commodity Credit Corporation and the Exchange Stabilization Fund of the United States Treasury would each provide 1,000 million dollars in additional short-term funds. [xii]

Subsequently, negotiations were begun to *restructure* a large part of the external debt held by the international private banks. In the spring of 1983 two groups of commercial banks provided an additional $ 7 billion in credits to Mexico in order to stretch out the November rescue package and to guarantee interest payments for the rest of 1983. [xiii] There followed an intense sequence of negotiations during several years which allowed for a series of renegotiations, although no definite solution. Despite the initial intervention of the multilaterals, it was the private international banks who took the drivers' seat and negotiated, rescheduled and then securitized and/or sold their stakes in Latin American loans. Walter Rhodes of the Citibank was the paradigm of the debt negotiator, heading a great many of the banker teams that negotiated with the Latin American governments in the 1980s. In the case of Mexico he headed the Bankers' Steering Committee, which represented the 530 international banks that had interests in Mexican debt.

In effect, the Mexican sovereign debt crisis united an international constellation of institutions which served as a kind of international (informal) lender of last resort: according to Altimir, Devlin and Wellons, this mechanism constituted an informal alliance of the governments of the G7 group of countries, some of the big international commercial banks and the principal multilateral lenders, especially the IMF. The decentralized axis of this mechanism was found in the governments of the G-7 nations, but the leadership role in the rescue operation generally was delegated to that nation which has the strongest political and commercial ties to the country or region in crisis, in this case the United States.[xiv] [6]

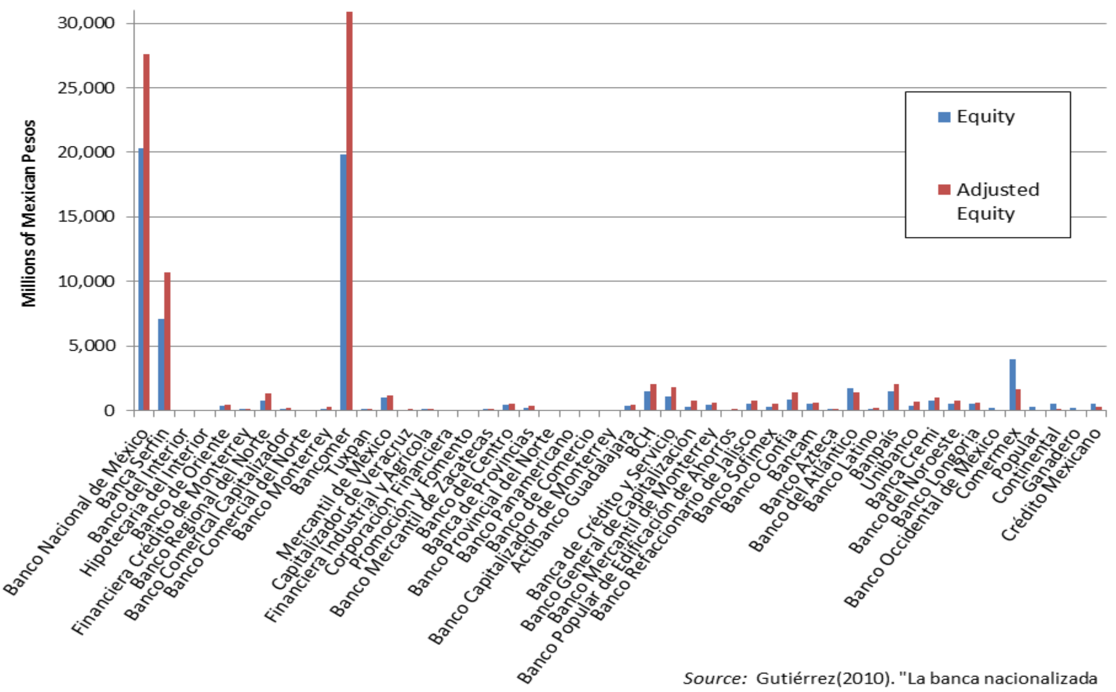
As may be observed, the resolution of the external debt situation of Mexico proceeded on one path while the banking crisis was resolved in a different and essentially domestic path. Even today, there continues to be a major debate on the short and long-term consequences of the bank nationalization of 1982 on both the Mexican economy and society. For some authors and ex/functionaries- particularly those who were involved in the nationalization- taking over the banks was virtually inevitable given the enormous capital flight and given the fact that some private commercial banks had assumed a considerable amount of short term external debts between 1978 and 1982. However, there is not much evidence of this fact, except in the case of the firm Bancomer. Actually, those banks that had assume largest external debts were the public development banks, Nacional Financiera, Banobras and

[6] Altimir y Devlin, Moratoria de la deuda en América Latina, p.13-14, who cite Philip Wellons, Passing the Buck: Banks, Governments and Third World Debt, Boston, Harvard Business School Press, 1987.

Banrural, which already belonged to the government and which were backed up by the Ministry of Finance.

The owners of the private commercial banks nationalized were offered packages of government bonds known as BIBS, (payable in ten years) in exchange for their shares. [xv] These bonds were distributed to a universe of some 25,000 stockowners of 66 banks. The shareholders of the biggest three banks, Bancomer, Banamex and Serfin, received the bulk of these securities but the biggest owners considered that they had been paid much less than the banks were worth. According to the Carlos Sales, who was in charge of the subsecretariat of banking of the Mexican Ministry of Finance, from 1982 to 1988, the total cash payment was equivalent to 970 million dollars (67 billion pesos). According to the same functionary, the sums paid were generous because they surpassed in many cases the market equity values at the time of the bank shares.[xvi] See Figure 4. There is considerable debate on this issue but there is a lack of serious economic studies which could demonstrate whether such assertions are valid. The same functionary affirms in his retrospective essay that he believes the documents are in the archives of the National banking commission, but the fact is that no scholar has as yet been given access, as far as I know.

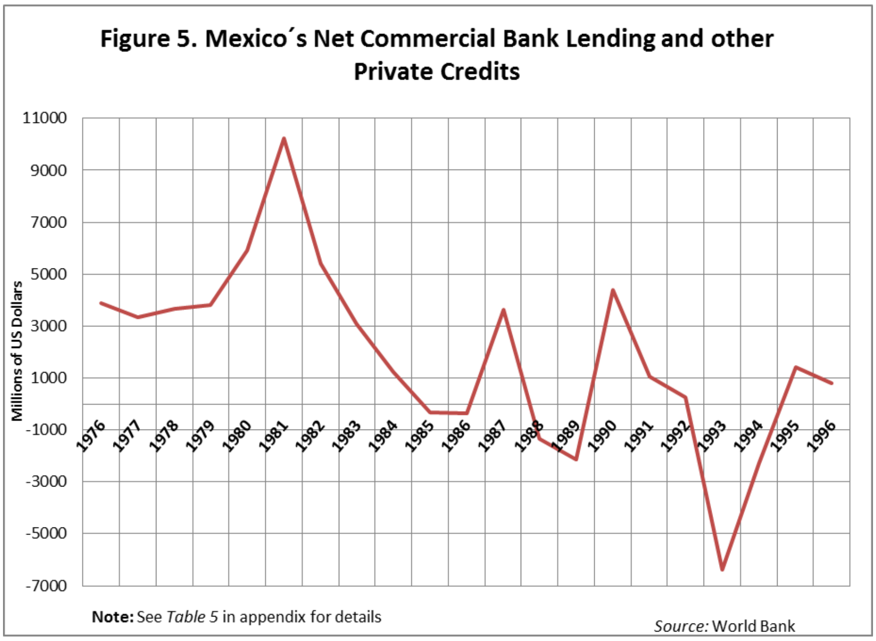
Figure 4. Official Value Assesment of the Nationalized Institutions at August 31, 1982.



Source: Gutiérrez(2010). "La banca nacionalizada y la regulación bancaria" in La nacionalización bancaria, 25 años después. La historia contada por sus protagonistas. Presidentes y altos

Note: See *Table 4* in appendix for details

The government named a series of functionaries as directors of the nationalized banks, some of whom were fairly efficient professionals. On balance, the few studies of the administration of the nationalized banks suggest that they were managed adequately despite the enormous economic difficulties of the 1980s.[xvii] Nonetheless, it is clear that nationalized banks did not provide the same level of credit to the private sector as previously, and therefore the Mexican economy suffered the consequences. (See Figure 5.) At the same time, it is also true that the nationalization of the commercial banks allowed the Mexican government to access a great new source of credit to cover its short term deficits.



Despite the nationalization as well as the radical reduction of salaries of public servants all over Mexico after 1982, the government accounts continued to display large deficits, year in and year out. The Finance Ministry had recourse in these years to the sale of short term domestic debt which carried huge interest rates given the high inflation and lack of confidence in the government. This was the time when a new group of private financiers who set up stock market firms ("los casaboleros") were able to reap millions by lending to the government at extremely high interest rates. These same financiers would soon participate in the privatization of the banks, but this only became possible when the economic situation improved, largely as a result of the final restructuring of the Mexican foreign debt with the Brady bond agreements of 1988.

Brady bonds, the lending surge of the early 1990s and bank privatization

In 1988, with the establishment of the Brady Plan- beginning first with Mexico- it became evident that the United States Treasury had decided to take an *increased* role in the resolution of the debt crisis in order to stabilize world financial markets and assure the banks that they would recover most of their money. Following new restructuring agreements with the international commercial banks, a series of proposals made by successive secretaries of the United States Treasury, James Baker and Nicolas Brady, served as the basis for a more long-term resolution of the Mexican debt crisis in the year 1988. The basic accord was based on the exchange of the old bonds for new so-called *Brady* bonds, which were Mexican debt long-term debt instruments but with a US Treasury guarantee. The net result was a limited discount of the total capital owed to the international banks and a small reduction in debt service payments. [xviii]

The Mexican debt restructurings reflected the success of the alliance of the IMF, the U.S. Treasury, and the international private banks in assuring continued debt service payments by the Mexican government and at the same time impelling a dramatic restructuring of the public sector, including privatization of state enterprises and liberalization of foreign trade. This set of policies which were, in part, the offspring of the debt crisis and which were applied in many developing nations came to be known as the *Washington Consensus*.[xix]

The initial stages of what would become the Brady plan had been negotiated by the Mexican president Miguel de la Madrid (1982-1988), but the new debt program was actually put in place by his successor, Carlos Salinas de Gortari (1988-1994). The Brady plan thus became operative for Mexican debt in 1989, serving as the basic model for subsequent financial arrangements in most other Latin American nations.[xx] Furthermore, the Brady plan was key in launching the age of *equity finance* in the Third World.[xxi] Much of the money that began to pour into Mexico in early 1990 attracted by the privatization of numerous state-owned industrial and communications firms which were auctioned off. –much of the money came from foreign owned pension or mutual funds but large amounts were also by Mexican plutocrats who had stashed away billions of dollars in the United States or in off-shore banking accounts. A major attraction for the return of these funds to Mexico was the privatization of numerous state-owned Industrial and banking firms.

Perhaps the best known of such privatizations was the acquisition by Carlos Slim Helú of the Mexican telephone monopoly, TELMEX, which became the linchpin of a huge business empire in years following. Privatization had actually begun a few years before: by the year 1986 over two hundred small firms and entities had been sold off, with the result that there remained 737 state owned enterprises of the over 1,000 existing in 1982. By 1990 there only remained 280 public entities in operation and by 1993 213 entities, of which only 93 were really state companies. [xxii]

According to the International Monetary Fund, between 1990 and 1993 Mexico received $91 billion, or "roughly one fifth of all net inflows to developing countries."[xxiii] Of this sum, portfolio inflows amounted to $ 61 billion while foreign direct investment was only $ 16.6 billion.

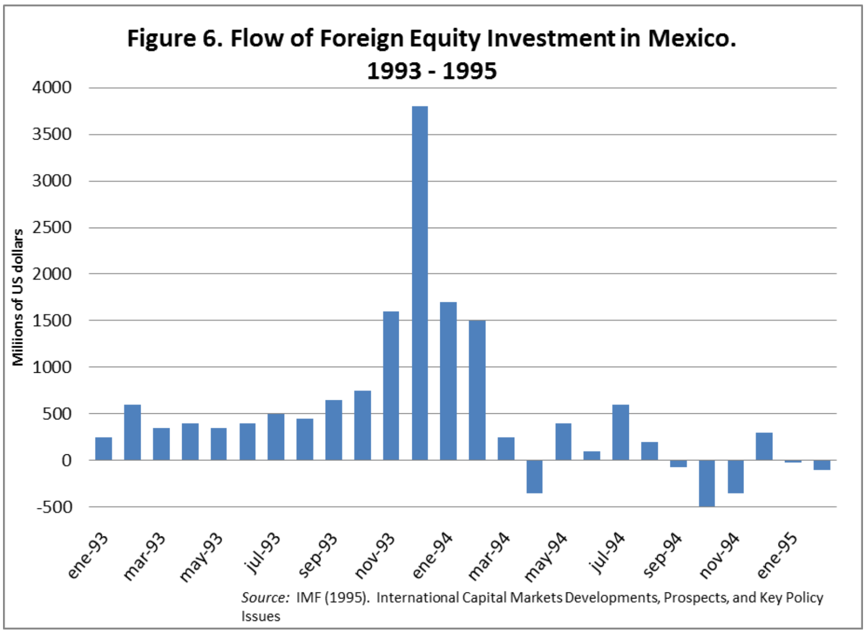


Figure 6. Flow of Foreign Equity Investment in Mexico. 1993 - 1995

Source: IMF (1995). International Capital Markets Developments, Prospects, and Key Policy Issues

The huge inflow of capital caused a steady rise in the Mexican stock exchange carefully nurtured by the Mexican Central Bank and the Finance Ministry with the stability of a pegged exchange rate. In these circumstances of financial bonanza, bank privatization became an attractive option for the Mexican government. This strategy was implemented in the years 1991-1993, and 18 commercial banks (controlled previously by the state) were quickly privatized.

The majority of outside experts and academics who have analyzed the privatization have coincided that the sales of the banks were successful in terms of the revenues generated for the government, which reached 11.4 billion dollars. But there is great debate on the methods used to sell the banks and the consequences for the adequate and safe management of the same in the years 1992-1994.

The bank privatization has been the subject in recent years of a considerable number of studies, as has been the later bank crisis in 1995 and subsequent rescue program, but the broadest and most balanced is that of the five volume project headed by Enrique Cardenas titled *Privatización bancaria, crisis y rescate del sistema financiera: la historia contada por sus protagonistas*, published in late 2011. These volumes include the testimonies of most of the principal actors involved in the privatization in 1992-1993 or the bank bailout in 1995-1998, including former president Carlos Salinas, ministers Pedro Aspe, Jaime Serra Puche and José Angle Gurría, subsecretary Francisco Gil Díaz, the head of the commission on banking and securities, Patricia Armendariz Guerra, a large number of Mexico bankers, international bankers like Robert Rubin, the exdirector of the IMF, Michel Camdessus, the great banking superviser of Spain, Aristóbulo de Juan, and numerous economists who produced important policy recommendations or subsequently academic studies of the financial dilemmas of the period.

The testimony of Aristóbulo de Juan, the leading Spanish expert in banking supervision and privatization, is especially important as he was an outside observer invited by the World Bank to help the Mexican government evaluate how to proceed. He argued that after careful review of the books of the banks (with information supplied by the Mexican Banking Commission), he reached the conclusion that the prices asked for the banks were too high in relation to the real value of the companies as it was most difficult to accurately evaluate the large menu of problems confronted by the commercial banks run by the state for almost a decade. Regulation had been entirely lax during the 1980s and althought it appeared that the nationalized banks had performed with certain efficiency, they were actually in much worse shape than presumed. This was in part because as a result of the state regulation in the 1980s, the banks had been devoted primarily to provide the government with loans and secondly to offer 70% of their credit to specific industrial, agricultural or transport sectors. The whole concept of risk tended to disappear: bank managers had become technocrats with little idea of how to run a bank in a volatile environment and with new financial technologies.

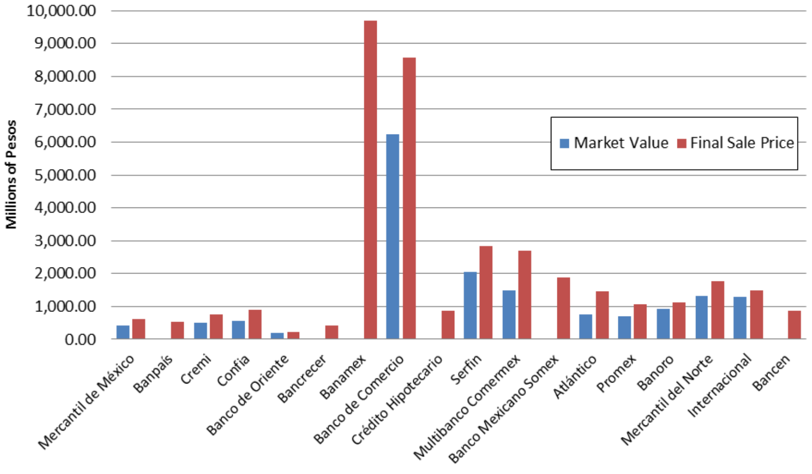
The lack of hard information on the real state of the banks was complicated by lack of information from the banking commission and by the auction process adopted which tended to stimulate bidders to compete ever large amounts of money to be able to obtain the remaining banks, even when they had severe problems.

A second problem was that then president Salinas refused to allow the old experienced commercial bankers to bid for their original banks. In addition, foreign banks were not allowed to bid for control- these were specific instructions of president Salinas and minister Aspe- with the result that most of the banks were sold basically to wealthy Mexican stock market financiers and some powerful groups of industrialists, neither of whom had any experience in running commercial banks.

In addition, to finance their acquisitions, the buyers operated in a risky fashion as they obtained a large part of the funds to pay the government by taking out related loans, that is loans from other bankers who used the newly bought banks in the early stages of the auctions to finance these activities. This was due to the lack of supervision by the government committee in charge known as the "Comité de Desincorporación." Economist Enrique Cardenas has put together a great deal of information in his research that demonstrates that medium-sized banks like Promex, Bital and Atlántico used a great quantity of loans from the banks to finance their own acquisition.

Once the banks had been privatized, the majority began to expand credit on a large scale, a fact not unrelated to euphoria generated by the entry of vast quantities of foreign capital into the Mexican stock market and government securities between 1990 and the end of 1993. The types of credit that grew fastest were mortgage, consumer credit and credit cards. In all cases the margins on the loans were extremely high, indeed, among the higher in the world. The result was that the banks incurred in highly risky loan business and began to accumulate a growing proportion of nonperforming loans.

Figure 7. Bank Privatization in Mexico in 1991 and 1992.
Market Value and Official Sale Price



Note: See *Table 6* for details

Source: Aspe, Pedro (2011)"La Privatización Bancaria" en México in Espinoza, Amparo and Cardenas, Enrique (Eds) Privatización bancaria, crisis y rescate del sistema financiero. La historia contada por sus protagonistas.

Beyond the problems in the banking sector, the apparent growth and stability of the early 1990s was not based on solid economic fundamentals, for by early 1994 Mexico had accumulated a cumulative commercial deficit of over $ 100 billion both as a result of adoption of the General Agreement on Trade and Tariffs (GATT) in 1984 and the subsequent negotiation of the North American Free Trade Agreement, ratified in November, 1993. Commercial deficits were mainly covered by the inflow of portfolio (hot) capital flows. But the money could as easily leaves as it had entered. This instability would soon contribute to the most severe financial crisis in recent Mexican history.

<u>The Mexican financial collapse of 1994/95: who was the lender of last resort?</u>

William Cline, a prestigious economist long at the Institute for International Economics in Washington, D.C. published a book titled *International Debt Reexamined*. In this extremely detailed work Cline announced the end to the debt crisis in Latin America as of early 1995.[xxiv] However at the moment that the author had prepared the publication of this study, the Mexican financial crisis broke out and he was forced to postpone the distribution of the book until he could add an additional chapter in which he argued that despite its severity the Mexican crash did not affect his essential conclusions about the demise of the great debt crisis which had devastated Latin America in the 1980s.

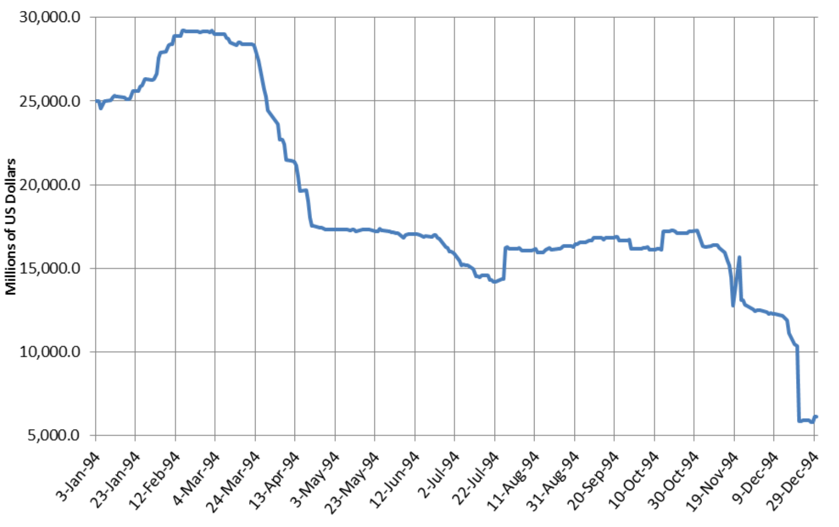
In many ways William Cline was right, for the Mexican financial debacle of 1994/1996 was in fact something new, in several regards. It did not originate in the inability to service old debts that had been originally issued in the late 1970s, for indeed those obligations had been restructured in 1988 under the so-called Brady Plan. But between 1990 and 1994 Mexico was able to accumulate a new, additional external debt of large proportions and of much shorter term. The bulk of the obligations were initially accumulated by large Mexican companies which sold stock and bonds abroad (Telmex and Cemex were the leaders) as well as the largest of the recently privatized banks (Banamex, Serfin, Bancomer). However in the years 1992-1994 a large number of medium-sized Mexican firms and banks also entered the fray and took loans abroad, taking advantage of the low interest rates in the industrialized countries, particularly in the United States and Japan.

Although the private external debts and capital flows to Mexico increased at extremely high rates in the years 1990-1994, it was the extraordinary jump in the public external obligations in 1993/1994 that made the problem insoluble. The origins of the increased indebtedness were two-fold. On the one hand virtually all the state-owned banks (Nacional Financiera, Banobras, Banco Nacional de Comercio Exterior, Banrural) took enormous amounts of dollar, yen and markdenominated debt abroad to benefit from differential between the low interest rates abroad and the higher interest rates at home.

From March 1994, the central bank (Banco de México) convinced the Ministry of Finance that it could prove wise to issue new financial instruments known as *Tesobonos* (short-term debt indexed to the dollar) in order to anticipate and counter a possible flight of capital during an electoral year (1994) fraught with risks. The assassination of the presidential candidate Luis Donaldo Colosio in March 1994 caused an exodus of around ten billion dollars from Mexico. See Figure 8. But it later would become apparent that the issue of the *Tesobonos* was perhaps the biggest mistake of finance minister Pedro Aspe and indeed can be considered among the most serious errors committed by any finance minister in the history of Latin America. The main public debt instruments of the Mexican government in 1993 were still CETES, which were payable in pesos. However, as political instability increased in late 1993 and early 1994 and capital outflows began (steadily and in large volumes from March, 1994) minister Aspe decided to authorize the issue of increasingly large numbers of the *Tesobonos* allowing holders of CETES to sell their securities and hedge against the devaluation risk that was emerging, but without taking the money out of Mexico.

A large volume of *Tesobonos* were also sold abroad allowing for a dollar inflow to compensate for the capital outflow which surpassed $8 billion in the weeks following the assassination of presidential candidate Luis Donaldo Colosio (March, 1994). Other government currency reserves were also used to stem the flow, caused by the capital flight conducted not only (or mainly) by foreign investors but by wealthy Mexican investors who were covering themselves by putting their money in New York and other financial centers.

Figure 8. Mexico´s International Reserves in 1994



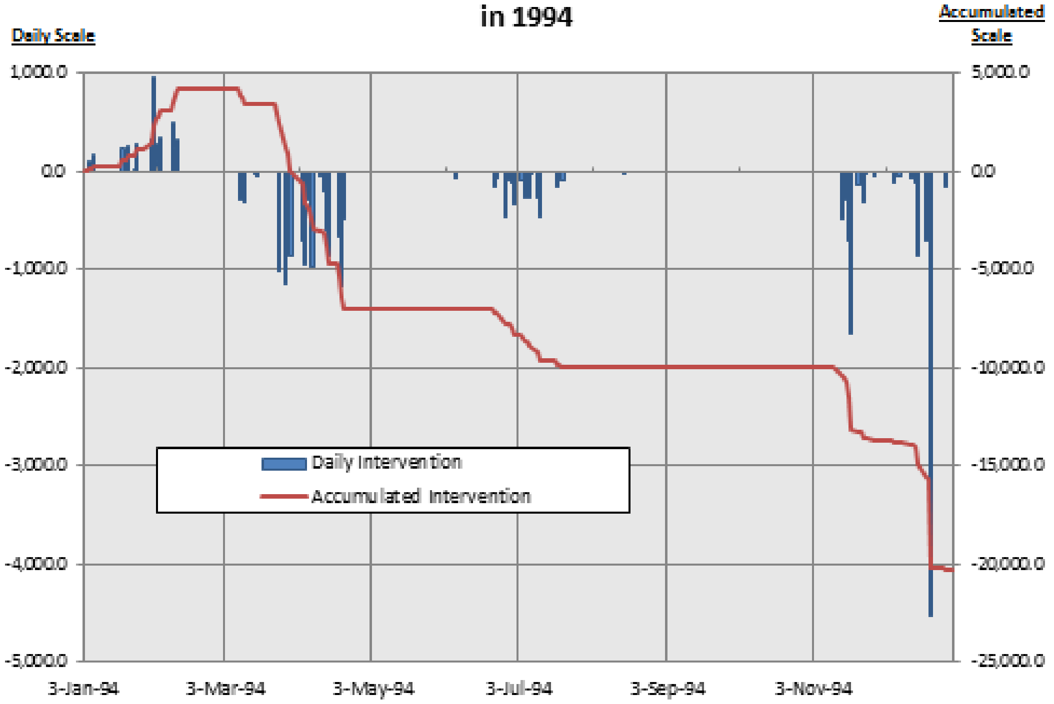
Note: See *Table 7* in appendix for details *Source:* Bank of Mexico. Annual Report 1994.

But progressively the problems only got worse and the administration of Carlos Salinas de Gortari did not defuse the pressure but allowed all the political and economic pressure to build up steam simultaneously until the change in presidential administration in early December. At this point, Miguel Mancera, head of the Banco de México, committed the cardinal sin which a central banker should not. He began sending messages to privileged players in the market that he was going to devalue. The Banco de México bought back some 2 billion dollars in *Tesobonos* in the first two weeks of December, and the largest financial companies (compañías de bolsa) followed suit. The result was that dollar reserves declined and the pressure for a devaluation built up. [xxv] [7] On December

[7] See information in a careful study published in La Jornada, February 7, 1995, based on analysis of stock exchange and public debt transactions registered.

20, 1994 the new Finance minister, José Serra Puche, and the director of the Mexican central bank, Miguel Mancera, resolved to move to a more flexible exchange rate, allowing for a15% devaluation. However they had made an enormous blunder by not devaluing further, and this gave the opportunity for the leading Mexican bankers who moved in for the kill on the following day: on December 21- and in the space of five hours- bought some $8 billion dollars, virtually wiping out the last reserves of the central bank. Subsequently there was no alternative but to allow for a complete devaluation which provoked a free fall for the peso.

Figure 9. Exchange Market Interventions by the Bank of Mexico in 1994



Note: See *Table 7* in appendix for details

Source: Bank of Mexico. Annual Report 1994.

At the time, economists Steven Radelet and Jeffrey Sachs argued that panic explained this collapse. They stated:

> "In December 1994, the Mexican government was unable to roll over its short-term dollar-denominated debts (Tesobonos). The government was thrown to the brink of default. An emergency lender of last resort operation led by the U.S. government and the IMF provided the Mexican government with up to $50 billion to repay the short-term debts. The Mexican government avoided default, repaid the emergency loans early, and resumed economic growth in 1996. Ex post, it is difficult to understand the market's failure to roll over $28 billion in Tesobonos due in 1995 as anything other than *panic in the face of a currency devaluation*." [xxvi]

Despite the blithe summary by Sachs, the results of the devaluation were a financial crisis followed by a short but violent economic depression which was among the worst in the Mexican twentieth century. The errors of the financiers (public and private) of Mexico proved very costly as more than one million people lost their jobs in 1995, a large number of banks entered into technical bankruptcy (being saved only by government intervention) and the national gross product dropped eight per cent in one year.

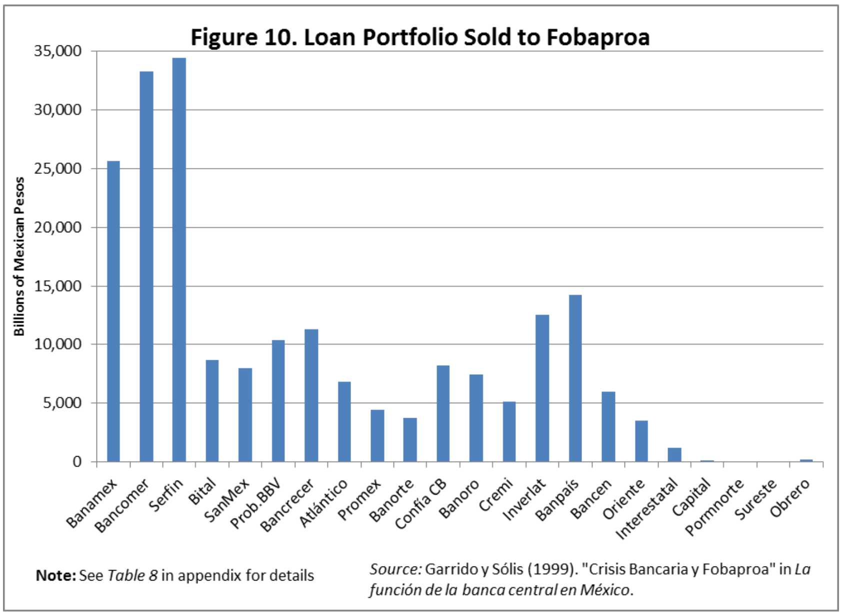
The financial catastrophe was so ominous that before the lenders even began to mobilize, the United States Treasury headed by Robert Rubin organized an extraordinary emergency financial package in February 1995 which initially involved a guarantee of almost $50 billion dollars for Mexico, the largest sum ever to be provided to one individual country. The total actually disbursed during the years 1995 and 1996 was closer to $40 billion, including $12.5 billion dollars provided by the US Treasury (using the Monetary Stabilization Fund), plus slightly over $17 billion disbursed by the International Monetary Fund, plus some $4 billion from the World Bank and the Interamerican Development Bank, important sums from the US EXIMBank and lesser amounts from private commercial banks. The potential danger of a Mexican moratorium was perceived by the financial and political elite in the United States to be so serious that emergency measures were considered indispensable to impede a breakdown of world financial markets. It was deemed necessary to demonstrate immediately to the increasingly volatile global financial markets that there was an international lender of last resort mechanism which would operate with force to detain the crisis and impede its transfer to other countries. [xxvii]

But what happened with the lenders who actually advanced the money that built up the huge volume of short-term external debt in 1990-1994? The majority of lenders who bought *Tesobonos* did not lose money for they got their funds back in dollars; in fact, Mexican investors who bought huge quantities of these instruments with pesos in the weeks before the devaluation made enormous profits afterwards as the peso value of these peculiar securities doubled. In effect, the US/IMF financial rescue package allowed for a huge transfer of funds to Mexico and guaranteed that these lenders got their money as the Mexican government paid off each of the successive amortizations on time during 1995. It was the Mexican taxpayers and the state oil company that were expected and indeed forced to pick up this expensive bill.

In summary, the recent Mexican financial collapse was a new type of debt crisis and it would be a mistake to think that there are very close parallels with that of the 1980s. However, if one compares the mechanisms used to attempt to deal with both crises- that of 1982 and 1995- in its initial stages then it is clear that there are some significant parallels, especially with respect to the *international mechanism of lender of last resort*.

The peso and debt crisis helped spark a major crisis in the the domestic bank system in early 1995 which was prolonged by the slow actions of the government and bank regulators to adequately gauge the depth of the problems faced by the banks and the need to restructure quickly. On the contrary, what occurred was a relatively slow motion bank rescue which raised the final fiscal costs and allowed most of the old bank owners and directors to disengage gradually and in many cases to recoup bad loans and in some cases to make a lot of money out of the resale of the banks.

On the one hand, the government designed a program to capitalize the banks ("Programa de capitalización de la banca") but took a long time about deciding which banks deserved capital injections, to be paid with funds from the bank deposit insurance agency (FOBAPROA). However, this program was not made obligatory and therefore quite a number of banks did not participate as they saw it as dangerous for their continued control of their firms. In the second place, from 1995 the Mexican government began simultaneously to put in place a major bank bailout, but very slowly and with quite special characteristics. Essentially what it did was to transform the bank deposit insurance agency (FOBAPROA) into something akin to a bad bank, which was to take on board all kinds of bad loans held by the banks. This was done through the "Programa de Capitalización y Compra de Cartera". The latter took the bank loans and the banks were given ten year promissory notes, which provided them with a stream of interest payable annually. This money was derived from tax income and, in fact, continues to be paid to the banks today (2012) and continues to provide them with important guaranteed revenues.



The debates on the lack of transparency of Fobaproa and the costs of this bailout have been subject of an investigating commission appointed by the Mexican Congress, as well as numerous books and articles. The conclusions of most of these studies are that Fobaproa did not function well as a crisis manager as it allowed bankers to transfer loans step by step, under the illusion that the banks had problems but were all essentially solvent. It became clear that this was not so, and though some banks did actually restructure and return quickly to normal operations, others went bankrupt and , in some cases, the bankowners absconded, such as the infamous Carlos Cabal Peniche who fled to Australia, with close to a billion dollars of ill gotten gains, it was later said.

Evidently, it is extremely difficult to be precise about the degree of corruption, but Enrique Cardenas and other authors have provided important information on the differences between the relative costs incurred upon taxpayers by the different banks. Basically there were three banks which turned out be in worst shape, Serfin, Unión and Bancrecer, each of which required about 15% of the total fiscal cost of the bank bailout, for a total of close to 45%. The total costs-included some support to debtors of banks, mortgage holders and so forth, who received assistance to the tune of 168 million pesos. On the other hand, the bank bailout cost over 1 billion pesos a much larger figure. [xxviii]

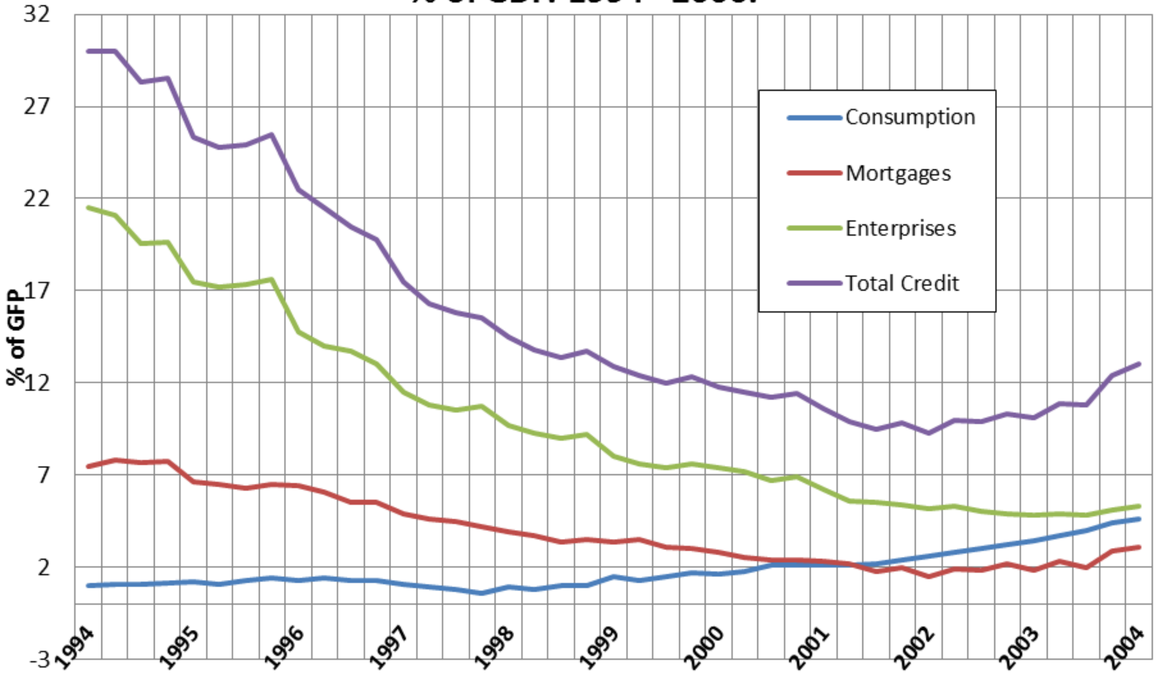
In summary, the short, medium and long term costs and consequences of the crisis of 1995 in Mexico have been dramatic although most studies that speak to the evaluation of quantitative costs, limit themselves to an estimate of bank rescues of 1995-1996 (calculated at 20% of GNP). However, the impact of the combined debt and banking crises have actually been much graver than suggested by the econometric studies, which generally tend to concentrate on statistical correlations between a few variables and adopt understatement as their style of argument with regard to the multiple consequences of financial collapse. The study of such costs would appear to be a subject worthy of further quantitative study.

Final observations

The great inflows of capital to Mexico from abroad in both the late 1970s and early 1990s certainly caused an acceleration of growth, but they also created an unhealthy euphoria among investors and bankers which led to the assumption of excess debts (public and private) with insufficient attention to risks. Private banks did not keep adequate ratios of capital reserves and the central bank of Mexico did not keep sufficient reserves of hard currency at times of growing speculation when capital outflows began to gain strength. In August 1982 and December 1995, two huge financial crises erupted. The devastating consequences on Mexican domestic finance led to great economic, social and political disruption in both periods. Both led to the virtual bankruptcy of the government which had to ask for international financial rescue. At the same time, the domestic Mexican banks suffered grave crises, although this paper suggests that much more research is needed to establish to what degree the sovereign debt crises and the domestic banking crises were actually linked or transpired simultaneously but rather independently.

The final paradox of this story is that while both the nationalization of banks in 1982 and privatization of the same in the early 1990s were intended to keep Mexican banks under the control of the national state or of national business groups, both policies eventually failed. The Mexican banking system is today owned overwhelmingly by global banks with headquarters in Spain, the United States, Canada and the United Kingdom. The selloff of Mexican banks took place between 1997 and 2003 and has been studied recently by Haber and Mussachio in a detailed paper. It is true that from 1997 new bank regulations were gradually put in place and the current banking and financial system is now more solid, although much more conservative. But the result is that banks in Mexico have reduced credit to the private sector systematically year by year over the last decade, with a large set of perverse consequences for growth. (See Figure 11.)

Figure 11. Mexico´s Banking Credit to the Private Sector as % of GDP. 1994 - 2006.



Source: Esquivel, Gerardo. (2012) Crisis y Modelo de Desarrollo en México. Conference at Colegio de México

The result of the financial crises of the 1980s and of the mid 1990s in Mexico has been reflected in a prolonged economic stagnation for most of the last thirty years, with a few brief upturns and a series of very severe downturns. Economic historian Leandro Prados has published a comparative historical/econometric study that suggests that in no period of the last century and a half did Latin America fall behind so rapidly with regard to the industrialized nations or the rapidly developing nations than from 1980 to 2000.[xxix] This suggests that financial breakdowns in those decades have had a disproportionately large effect on national economic growth rates.

[i] Stephen Haber, "Mexico´s experiments with bank privatization and liberalization, 1991–2003,"*Journal of Banking & Finance* 29 (2005) 2326: "All markets are embedded in political systems."

[ii] Carmen M. Reinhart and Kenneth S. Rogoff have produced a widely cited work *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, 2009, which has a great deal to say on this score and on Reinhart´s web site can be found some of the best data bases on the history of sovereign debt.

[iii] A vast bibliographical and quantitative review can be found in William Cline, *International debt Reexamined*, Washington, D.C. International Institute of Economics, 1995.

[iv] Vinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling,* Cambridge University Press, 1996.

[v] Among the first detailed studies which revealed the close links between large capital inflows and outflows and banking crises in 1997 is Steven Radelet and Jeffrey D. Sach, "The Onset of the East Asian Financial Crisis" in Paul Krugman, ed, *Currency Crises,* Chicago, University of Chicago Press, 2000, pp. 105 – 162.

[vi] Stephen Haber, "Mexico´s experiments with bank privatization and liberalization, 1991–2003,"*Journal of Banking & Finance* 29 (2005) 2325–2353; and Stephen Haber and Aldo Musacchio, Foreign Entry and the Mexican Banking System,1997-2007, *Harvard Business School, Working Paper*, 10-114, (2010).

[vii] See Enrique Cárdenas, and Amparo Espinosa, eds., *La nacionalización bancaria, 25 años después*, México, Centro Espinosa Iglesias, 2010, 3 vols., and E. Cárdenas and Amparo Espinosa, eds., *Privatización bancaria, crisis y rescate del sistema financiero: la historia contada por sus protagonistas,* México, Centro Espinosa Yglesias, 2011, 5 vols.

[viii] Fishlow (1990), p.24.

[ix] For a personal recollection of the financial events of the year see the essay by minister Jesús Silva Herzog, "Recuerdos de la nacionalización de la banca" in Gustavo del Ángel, Carlos Bazdrech, and Francisco Suárez Davila, eds., *Cuando el Estado se hizo banquero: consecuencias de la nacionalización bancaria en México*, México, Fondo de Cultura Económica, 2005, pp.95-105.

[x] Agustín Legorreta, one of the owners of Banamex, the largest bank nationalized, argued years later that he thought that the real reason of the nationalization was political. López Portillo was presiding a bankrupt government and needed an excuse to appear as less than a failure in this particular circumstance. His personal testimony is found in Enrique Cardenas, and Amparo

Espinosa, eds., *La nacionalización bancaria, 25 años después,* p. 84-112.

xi Darrell Delamaide, *Debt Shock, The Full Store of the World Credit Crisis*, New York, Doubleday, 1984,

xii Data from José Ángel Gurría, *La política de la deuda externa*, México, Fondo de Cultura Económica, 1993, and Secretaría de *Hacienda Deuda externa pública mexicana*, México, Fondo de Cultura Económica. (1988), final Appendix.

xiii Ibid. In March commercial banks provided $5 billion to Mexico and in June the Club of Paris advanced another $2 billion in the way of commercial credits.

xiv For an important study on the subject see Oscar Altimir and Robert Devlin, *Moratoria de la deuda en América Latina*, Mexico, Fondo de Cultura Económica, 1994, p.13-14, who also cite Philip Wellons, *Passing the Buck: Banks, Governments and Third World Debt*, Boston, Harvard Business School Press, 1987.

xv The exact title was B*onos del Gobierno Federal para el pago de la Indemnización Bancaria*.

xvi Carlos Sales Gutiérrez, "La banca nacionalizada y la regulación hacendaria," in E. Cárdenas and Amparo Espinosa, eds., *Privatización bancaria, crisis y rescate del sistema financiero,* pp. 420-450.

xvii This is the conclusion of most essays in the most important monograph on the subject, G. del Ángel, C. Bazdrech, and F. Suárez Davila, eds., *Cuando el Estado se hizo banquero*.

xviii The most detailed analysis of the origins and implementation of the Brady bonds can be found in William Cline*, International Debt Reexamined*, Washington D.C., 1995. A journalistic account of the 1987/88 negotiations between the Mexican negotiating team led by Ángel Gurría and the U.S. commercial bankers and government officials is found in Fernández Sotelo, "El último rescate", Tesis en ciencias y técnicas de la información, Universidad Iberomericana, 1994.

xix An interesting critique of the Washington Consensus is found in Paul Krugman, "Dutch Tulips and Emerging Markets", *Foreign Affairs* (July-August, 1995), 74, 4, pp.28-44.

xx William Cline, *International Debt Reexamined* is the basic source here.

xxi Again the concept is taken from Eichengreen and Fishlow, "Contending with Capital Flows", pp.47-60.

xxii Jacques Rogozinski, La *privatización en México: razones e impactos*, México, Trillas, 1997 provides the information on firms privatized until the end of 1993. He was the functionary in charge of supervision of the entire process.

[xxiii] International Monetary Fund, International Capital Markets, August, 1995, p.53.

[xxiv] Cline (1995).

[xxv] See information in a careful study published in La Jornada, February 7, 1995, based on analysis of stock exchange and public debt transactions registered.

[xxvi] Steven Radelet and Jeffrey D. Sach, "The Onset of the East Asian Financial Crisis" in Paul Krugman, ed, *Currency Crises*, Chicago, University of Chicago Press, 2000, pp. 111.

[xxvii] Michel Camdessus in interview with Enrique Cárdenas has emphasized this point. See E. Cardenas, ed., *Privatización bancaria, crisis y rescate*… vol.4, pp.17-33.

[xxviii] Enrique Cárdenas, *Privatización bancaria*… vol.4, chart 8, p. lxvi. Cárdenas has many other tables as do other authors in the five volume work.

[xxix] Leandro Prados de la Escosura, "When did Latin America Fall Behind" in Sebastián Edwards, Gerardo Esquivel and Graciela Márquez, eds., *The Decline of Latin American Economies, Growth, Institutions and Crises*, University of Chicago Press, 2007, pp.15-58.