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Flores Zendejas, Juan

FACULTÉ DES SCIENCES DE LA SOCIÉTÉ
Paul Bairoch Institute of Economic History

UNIVERSITÉ DE GENÈVE

Economic History Working Papers | No. 2/2022

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Juan Flores Zendejas

Paul Bairoch Institute of Economic History, University of Geneva, UniMail, bd du Pont-d'Arve 40, CH-1211 Genève 4. T: +41 22 379 81 92. Fax: +41 22 379 81 93

WHEN IT RAINS, IT POURS:
MEXICO'S BANK NATIONALIZATION AND THE DEBT CRISIS OF 1982[1]

Juan Flores Zendejas

This draft: October 2022

Abstract

How are expropriations related to governments' debt defaults? The literature has shown that expropriation episodes and debt defaults have rarely coincided, suggesting that each event resulted from a different set of factors. The aim of this article is twofold. First, I analyze expropriation-default relationships in the years previous to the debt crisis of 1982. I show that while expropriation and default episodes did not always coincide, countries that expropriated at least once during the period were also those that defaulted more often. I observe that countries that expropriated had worse macroeconomic indicators than countries that did not. Second, I focus on the case of Mexico, when its announcement of a debt moratorium in August 1982 was followed, less than one month later, by the nationalization of its banking system. Both events were outcomes of an acute economic crisis. The nationalization announcement aggravated the crisis, because an agreement with the IMF seemed increasingly uncertain. I provide evidence from the largely overlooked bond market (on which the government never defaulted) that shows that investors reacted negatively to the bank nationalization. Finally, I present original, published, and unpublished primary sources to demonstrate that commercial banks, as well as international organizations, expressed misgivings about the bank nationalization. This fact may have hindered the country's economic recovery through the deterioration of public confidence and a decline in foreign investment.

JEL codes: N16, N20, N26

Keywords: sovereign debt crises, expropriations, IMF

[1] Juan Flores Zendejas is Associate Professor of the Paul Bairoch Institute of Economic History at the University of Geneva and Professor by courtesy at the Centro de Investigación y Docencia Económicas. Contact Email: juan.flores@unige.ch. I am particularly thankful to archivists at the Banco de México, at the Bank of England and at the International Monetary Fund. The author is grateful to the participants at the Business History Conference in Mexico City, 7-10 April 2022, where a preliminary version of this article was presented. Sebastian Alvarez kindly shared contemporary press articles with me. Research assistance by Raul Antonio Tirado Cossío and Benjamin Elam Rodriguez Alcaraz was particularly helpful. Financial support from the Swiss National Science Foundation is gratefully acknowledged. The usual disclaimer applies.

Introduction

The literature on sovereign debt has analyzed the links between sovereign defaults and expropriations. In a nutshell, both kinds of government policies are grouped into the broad concept of "sovereign theft", where a government decides unilaterally to reduce investors' returns.[2] While scholars have developed theoretical models and established broad statistical correlates, we know less about how these kinds of events have been interlinked historically. In this paper, I revisit Mexico's debt crisis of 1982. I show that the loss in terms of reputation in financial markets due to the banks' expropriation was higher than previously assumed and affected the gravity of the crisis. Using archival material, contemporary press articles, and bond prices, I find that the government's negotiations with the IMF were delayed, resulting in an upsurge in default risk which may have had an impact on investment and, therefore, on the country's economic recovery.

Mexico's debt crisis occupies a prominent role in the history of financial crises. On August 20th 1982, Mexico's finance minister Jesus Silva-Herzog publicly announced a three-month moratorium on all amortization payments due on bank loans to the public sector. Mexico's government had been a major borrower in international capital markets during the 1970s. According to the literature, the government's fragile debt position was largely unanticipated.[3] The announcement prompted a significant reaction from the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the US government, who adopted measures to avert a crisis which had the potential to severely affect the US and, by extension, the world banking system. Furthermore, while averting a unilateral default in Mexico became urgent, several other developing countries had begun experiencing difficulty in repaying their debts.[4]

Mexico's macroeconomic indicators in the years prior to the crisis were dissimilar. While the country experienced high rates of economic growth, this performance was accompanied by external imbalances, high inflation rates and increasing fiscal deficits. The government maintained expansionary fiscal policies despite worsening external conditions, which translated into a decline in oil prices —oil was the country's main export commodity — and deteriorating borrowing conditions. As the currency was devalued and capital flight increased, the government was obliged to negotiate an IMF loan and attempted to reschedule its debt service with international bankers. As these negotiations were taking place, the government decided to expropriate domestic banks and impose exchange controls.

There is a contentious issue in the literature about the reasons behind the President's decision to expropriate the banks. One straightforward reason is related to the economic crisis, as some government staff members blamed the banks for promoting capital flight, thus putting further pressure on the exchange

[2] See in particular Tomz and Wright (2010) and Eden, Kraay, and Qian (2012).
[3] It should be argued, nevertheless, that borrowing terms had been deteriorating since at least 1981. For a recent literature review on risk evaluation previous to the debt crisis, see (Altamura and Flores Zendejas 2020). On a long-term history of country risk analysis, see Gaillard (2012).
[4] This crisis has been deemed as a Latin American debt crisis. Nevertheless, Eastern European countries had experienced a crisis one year before, while countries in Africa and the Philippines also defaulted. See Sachs and Williamson (1985), Bartel (2017) and Mourlon-Druol (2020).

rate. Political scientists have favored political reasons, thereby emphasizing the conflicting position between Mexico's government and its banking sector.[5] Authors supporting this view posit that the government sought to impose its vision on development, to expand the role of the State in the economy and to exert its power against an elite whose activities ran counter to the government's social goals.

These explanations leave barely any room for external factors. In cases where the literature has analyzed the role of external factors, it has focused on the interbank market as a major motive for the government's nationalization of its banks. Certain scholars claim that Mexico's bargaining power during the debt negotiations was weak because Mexican banks were heavily exposed to massive withdrawals through the interbank-market (Kraft, 1984; Alvarez, 2018). Furthermore, as the literature on sovereign defaults argues, Mexican banks had been very active participants in the bank syndicates that were established to lend to Mexico's private and public borrowers. Therefore, a default could have triggered a major banking crisis. (Alvarez 2019) argues that the bank nationalization served to support Mexico's banking system which was on the brink of collapse. This author suggests that international bankers considered this to have been a policy welcomed by foreign creditors as the government would take charge of the banks' debts.

This article adopts a different perspective. We depart from the existing literature on sovereign theft, wherein it is posited that the likelihood of an expropriation during a debt crisis increases when a government's reputation is lost to foreign investors. According to this literature, the decision to default considers the costs and benefits of such a decision, among which is reputational damage in international financial markets. A sovereign default might trigger an exclusion from capital markets and a rise in interest rates for future loans. Nevertheless, once a government defaults, the marginal losses from expropriation decline. This relationship can also be reversed. In the context of an economic crisis, a government might, out of desperation, be tempted to resort to the expropriation of private assets, but might decide against this if the costs in terms of reputation are sufficiently high.

In the case of Mexico, even if the decision to nationalize the banks was not strongly influenced by the potential loss of reputation, such a policy prompted the government to avert at any cost a unilateral default. The sense of urgency further weakened its bargaining position with the IMF. Contrary to the prevailing claim that international markets welcomed the bank nationalization, I show that the event was perceived as an attack against private property, running contrary to the creditors' beliefs on the kinds of policies that were needed to boost economic recovery. Therefore, bankers and international organizations should have reacted negatively to the bank's nationalization. This, in fact, is what we observe.

In order to analyze the relationship between the nationalization and the debt default, I establish a relationship between expropriation and default episodes for a sample of countries in the years previous to the crisis. These figures show that expropriating countries were also those that defaulted more often. Moreover, I divide the sample between countries that expropriated and those that did not, and compare the

[5] A literature review is provided in section II.

main macroeconomic indicators during the years prior to the crisis. I demonstrate that expropriating countries performed worse in most variables. In a sense, expropriation and defaulting are two sides of the same coin, whereby both variables reflect deeper problems in terms of institutional quality and economic management.[6]

I then analyze the effects of nationalization on Mexico's country risk by looking at the bond market, one that has barely been contemplated until now.[7] Strikingly, Mexico's government did not default on its bonds, allowing us to link the country's macroeconomic and political evolution with the evolution of bond yields. A government bond risk premium can be interpreted as a benchmark value for the cost of external borrowing for firms and individuals. A rise in sovereign risk premia could produce a negative impact on the economic recovery given the decline in the levels of foreign investment (Bedendo and Colla .2015; Augustin et al., 2018).

I measure country risk as the spread between the yield of a long-term government bond denominated in pounds sterling, and a similar bond issued by the UK government.[8] Looking at its daily performance at the time of the debt crisis, I show that spreads had been rising in the months before the default but reached new heights when nationalization took place. Archival evidence shows that debt negotiations between the government and its creditors were interrupted when the nationalization was announced. However, this disruption was not revealed to the public. Another source of tension concerned the struggles between two different groups of Mexican representatives. This internal strife was particularly relevant because negotiations coincided with a distinctive moment in Mexican politics when a lame-duck President —remaining in office three months after the nationalization move— was taking decisions that did not necessarily correspond with the new government's goals. Furthermore, while some of Mexico's economic representatives favored a more radical approach and contemplated a refusal of the conditions for accessing IMF's loans, others preferred a more conciliatory approach. The uncertainties emerging from these circumstances had an impact on the way outsiders —public opinion, press, and market observers— perceived the risk of a disorderly default and the effects of this on the Mexican economy.

This paper is organized as follows. In the first section, I introduce the concept of sovereign theft, and argue that after defaulting, the probability of expropriation increased, given both the poor economic performance of the country and because of the costs in terms of external reputation. In section II I provide a brief overview of the literature on Mexico's debt crisis and the bank nationalization. I show that previous research has not adequately analyzed the consequences of nationalization on Mexico's risk premium and on the debt crisis. In section III I analyze the relationships between expropriation episodes and sovereign defaults internationally. I pursue a set of statistical tests to show that the macroeconomic performance of

[6] Originally, this was suggested by the New Institutional Economics literature (see for instance North and Weingast, 1989). On institutions, expropriation risk and economic growth, see Acemoglu, Johnson, and Robinson (2002). The relation between expropriation risk and foreign direct investment in Latin America has been analyzed in Biglaiser and Staats (2010)

[7] Exceptions are Folkerts-Landau (1985) and Edwards (1986).

[8] Original source is the *Financial Times Historical Archive*. Details are provided in section IV.

expropriating and non-expropriating banks was dissimilar. In section IV I provide evidence of the impact of nationalization on negotiations with the IMF and on default risk. Section V concludes.

I. Sovereign theft: a theoretical framework

Historical evidence has shown that episodes of expropriations and sovereign defaults have rarely coincided.[9] According to Eden, Kraay, and Qian (2012), nevertheless, countries with a past record of expropriations have a higher likelihood of future expropriations and defaults. These authors also posit that expropriations are prone to take place during "good times". This is not necessarily true in the case of sovereign defaults.[10] These results are rather puzzling once the reasons for defaulting and expropriating are considered. One might assume that both kinds of government decisions, either to default or to expropriate, respond to a rational decision where costs and benefits are contemplated. A major question concerns the role of retaliation, from foreign creditors (in the case of a default), from foreign investors (in the case of an expropriation), and whether this retaliation is shared across creditors and investors Tomz and Wright (2007).

Consider first the benefits of defaulting. The resources that a government saves from retained debt servicing can be used for other purposes. According to Bértola and Ocampo (2013), this was why many governments in Latin America decided to default at the onset of the Great Depression, as they could invest in domestic infrastructure and in the provision of credit to boost economic activity. Generally, a decision to default is dependent upon economic and political factors. A government could be incentivized to divert the resources devoted to servicing its external debt to boosting economic activity, thereby increasing the probability of its reelection (or increasing its social base). In this regard, the proximity of elections has been identified as a variable positively related to sovereign defaults.[11]

Nevertheless, sovereign defaults are costly.[12] A government that defaults is excluded from capital markets and faces higher borrowing costs in the future (Suter, 1992; Tomz, 2007; Catão and Mano, 2017). Other types of costs include a decrease in international trade and, in an extreme case, a loss of sovereignty through the establishment of supervisory mechanisms or through the use of gunboat diplomacy.[13] The capacity to sanction depends upon the identity of the lender and whether their coordination mechanisms can exclude a government from accessing new funds. Amador (2004) argues that unstable countries are less capable of evading the costs of default through increased savings and thus a minor need to borrow

[9] This section is largely inspired by Tomz and Wright (2010).
[10] Tomz and Wright (2007) have shown that countries default during bad times, even though this relationship has been historically weak.
[11] Hatchondo and Martinez (2010).
[12] For a literature review, see Panizza, Sturzenegger, and Zettelmeyer (2009)
[13] Cases of gunboat diplomacy were particularly relevant for the US as a creditor country during the early 20th century. See Mitchener and Weidenmier (2010) and Pénet and Zendejas (2021) for a different perspective.

externally. Therefore, and rather counterintuitively, these countries would be more prone to avoiding default.

It is noteworthy that in the literature on sovereign defaults, reputation plays a key role. A default may have a negative impact on a government's creditworthiness, which implies that borrowing could become more costly in the future (Catão and Mano, 2017). One may ask how these elements differ from the decision to expropriate. Under the assumption of information incompleteness, foreign investors do not know ex-ante the preference of governments. An expropriation may have an impact on their perception of the value that a government grants to future loans. Foreign Investors interpret an expropriation as a government's least favorite preference for maintaining good relations with them. These perceptions may in turn have a negative effect on the expected value of potential future projects, thereby triggering a decline in the levels of a country's foreign investment.

Overall, the kind of cost-benefit calculation behind a government's decision to default does not entirely differ from the decision to expropriate. Two major benefits can be extracted from expropriations. In cases of equity contracts, expropriations can be directly related to business cycles. On the one hand, recessions can be propitious periods to expropriate. In these cases, a government may decide to expropriate out of "desperation" when public revenues decline and the need to increase spending mounts. On the other hand, an upward trend in the business cycle can also raise the temptation to expropriate. In those cases, "opportunism" may lead a government to expropriate, as the amount to be gained from expropriation is at its highest level. Finally, a government can gain control over operations and projects and transfer factors of production from foreign investors to the host country (Tomz and Wright, 2010). Nevertheless, there may be risks if a firm is vertically integrated with other firms internationally, which might raise other difficulties.

A final question concerns the timing of expropriations and sovereign defaults, and whether they should coincide or be spaced out. Either action may trigger a negative perception of a government, which would then be qualified as "unreliable". (Cole and Kehoe 1998) introduce spillover effects to show that a debt default can have effects on other arenas. These authors illustrate their theoretical model with the 1985 decision of Peru's President Alan García to default and to pursue a series of nationalizations during his stay in office. After defaulting, he expropriated foreign oil companies and, a couple of years later, banks and insurance companies. Peru's initial reputation was severely damaged and capital flight reacted very rapidly, so the cost of expropriation, along with foreign investment, declined sharply as investors were relocating their assets abroad. The basic message from this model is that a government might minimize its costs if it decides to simultaneously default and expropriate. The reverse narrative also holds. A government that loses its reputation by expropriating may see a rise in borrowing costs or be excluded from capital markets. Therefore, such a country might be tempted to default. A major question that emerges is whether these models can be applied to Mexico's 1982 crisis.

II. Mexico's debt crisis of 1982 and its banking nationalization

Mexico's debt crisis has been analyzed in a more general perspective within Latin America and in the context of increased financial integration.[14] Broadly speaking, the literature has provided three major categories of reasons behind Latin America's debt crises. A first group of reasons is related to the functioning of international financial markets. Scholars favoring this explanation posit that the years preceding the crisis had high international liquidity and increasing current account problems in developed countries, prompting Western commercial banks to increase their lending to developing countries via the Eurodollar market.[15] This perspective has been echoed by various scholars, including Kahler (1985), Wellons (1985), Devlin (1989) and Altamura and Flores Zendejas (2020), who situate the role of politics and the existence of creditor countries' implicit support for their banks as the main factors boosting the 1970s lending boom.

A second group of explanations focuses on the macroeconomic imbalances in Mexico and more generally, in Latin America. Cline (1983) emphasizes the general increase observed in debt levels, differentiating between non-oil and new oil exporters, such as Mexico.[16] This group of theories has been challenged by scholars such as Sachs (1985) or Bértola and Ocampo (2013) because these imbalances only increased in the year before the crisis. Furthermore, these authors claim that macroeconomic variables do not accurately differentiate countries that defaulted from those that did not. A final group of theories, which analyzes the relationships between Northern and Southern countries, argues that changes in world economic conditions, including declining terms of trade and a general rise in interest rates, lie at the heart of Latin America's debt crisis (Diaz-Alejandro, Krugman, and Sachs, 1984).[17]

How is the debt crisis related with the bank nationalization in Mexico? For certain protagonists having published their experiences, Mexico's bank nationalization was a consequence of the economic and debt crises.[18] However, this deteriorating macroeconomic context was not the only factor behind the decision, and scholars have provided other, personal and political reasons.[19] The decision by President López Portillo to blame the banks for Mexico's economic crisis – summarized in the now infamous phrases —"They have looted us. Mexico is not finished. They will not loot us again"— has been studied from

[14] See in particular Marichal, (2010; 2014); Alvarez (2019) and Sgard (2022).
[15] On the origins of the Eurodollar market, see Roberts and Arnander (2001). The increase in lending was also accompanied by an increase in trade finance and the role of export promotion agencies. See Wellons (1987) and Alvarez and Flores 2014)
[16] Other scholars that analyze the role of macroeconomic fundamentals in the path to the crisis include Frieden (1987), Fernández (1983) and Barandiarán and Hernández (1999).
[17] Using a long-term perspective, Reinhart, Reinhart, and (Trebesch 2016) have shown that historically, commodity prices and capital outflows precede sovereign defaults.
[18] See for instance, González (2005), and Phillips Olmedo (2005).
[19] For a comprehensive literature review see Del Angel, Bazdresch Parada, and Suárez Dávila (2005) and Del Ángel and Martinelli Montoya (2009). In Espinosa Rugarcía, Cárdenas, and Centro de Estudios Espinosa Yglesias (2008), the testimonies of the main protagonists are provided. Regarding the use of the term "nationalization", some scholars might not find its use as the most appropriate in this case, as the government expropriated domestic banks and not foreign banks. Other terms could be "statization" or simply "expropriation. The first authors referred to above present an interesting discussion on these distinctions and its appropriateness to use it for this case.

different angles.[20] One concerns the roots of the government's decision. A perspective from the inner circle of economists advising the President is provided by Carlos Tello, who has emerged in the literature as both a scholar and a major protagonist having become the head of the central bank in the aftermath of nationalization. Tello (1984) describes the need for nationalization given the necessity of ending the high concentration of the banking sector, deemed as being strategic from a developmentalist perspective.

A predominant perception of the bank nationalization emphasizes political struggles —influenced also by ideological disputes— within a context of an economic crisis. Elizondo Mayer-Serra (2005) identifies three major dimensions behind the president's move. The first dimension was ideologic and concerned the role of the state in the economy and the need to continue the direction established during the Mexican Revolution, when banks had been considered an enemy. A second dimension is financial, where capital flight could only be averted by the bank nationalization and the imposition of exchange controls. Domestic banks had been blamed for fostering capital outflows in the months prior to the crisis, thereby contributing to the devaluation of the currency. Finally, Elizondo Mayer-Serra (2005) identifies a political (and personal) dimension, whereby the President's intention was to show that he remained in power and, therefore, was still able to act against those who had originally speculated against the currency.

In a longer-term perspective, Elizondo Mayer-Serra (2001) and (Haber 2006) underscore the negative impact of an economy with poorly defined property rights on the performance of the banking sector. In the same vein, Del Ángel and Martinelli Montoya (2009) argue that even if ex-post the decision to nationalize might have been a mistake, it was not irrational. These authors posit that relations between the government and the banks had been tense since at least the early post-revolutionary period. As a result, the government was able to eventually expropriate without costs. The question is why, given the vulnerability of the banks, the expropriation did not take place earlier. According to these authors, the banks' expropriation served to consolidate the power of an authoritarian regime such as the one prevailing in Mexico. One reason why banks had not been expropriated before was because the government could extract rents from the private banking sector, but once this was no longer the case, such a policy could be implemented because other social groups also perceived it as necessary to confronting the crisis.

Maxfield (1990) also emphasizes the conflict between the government (in particular, the national populists) and a bankers' alliance, which encompassed a financial-industrial conglomerate that had profited from increased integration with the world economy, thereby hindering the state's capacity to allocate bank credit. For this scholar, the President was "acorralado por los hechos" (cornered by events) and undertook a "defensive, last-resort measure" (Maxfield 1990, 142). She perceives the nationalization and exchange control policies as a failure as they did not break the power of the financial-industrial conglomerates and they did not solve the state's financial situation.

[20] This citation was published in *The Financial Times*, "Mexico's private banking system is nationalised," September 2 1982.

Among the reasons for nationalization, one has been that it was a government's reaction to a looming banking crisis (Del Ángel, 2005). Such a claim is not surprising given the extent to which sovereign defaults and banking crises have been interlinked in the literature on sovereign debt. Scholars such as Reinhart and Rogoff (2011) have argued that domestic banks may be particularly exposed to the risk of default by their own governments, as this would severely affect their portfolios. However, Haber (2006) posit that this was not the case in Mexico, as the central bank bought the treasury issued bonds. The banks might have been rather affected by the devaluation of the currency. In fact, currency crises could have also a negative effect on banks who have been exposed to currency risk through international transactions.[21]

Various scholars have supported the idea that bank nationalization was an attempt by the Mexican government to bailout its banks. Elizondo Mayer-Serra (2001, 179) posits that international bankers received the news with "relief," as the government would be responsible for the banks' debts. According to Alvarez (2019), Mexico's banking system was in a fragile condition in the months before the crisis. To a large extent, this was not so different from the position of other banks in Latin America —including Brazil and Chile— that would experience a severe shock during the debt crisis. Mexico's government adopted a supportive attitude towards its banks, particularly those with foreign branches and who had been active in the interbank market. Furthermore, these banks also had a large exposure to the country's public debt. Alvarez (2019, 185) reported that the largest commercial banks had foreign loans that represented from three to ten times their total capital. This condition weakened Mexico's bargaining position in its quest for a debt rescheduling. Alvarez (2019) suggests that foreign creditors did not necessarily see the Mexican nationalization as a problem because the banks' liabilities would become part of the government's public debt. This new landscape would reduce the risk of exclusion from interbank credit and facilitate the negotiations with the IMF.

While Mexican bankers complained that their international counterparts did not raise their voices to show solidarity with such an arbitrary policy, this perspective needs to be qualified, to say the least.[22] First, Tello (1984, 126) himself admitted that he did not expect the decision to be popular amongst the international financial community, nor to the US government. Second, contrary to the supposed "relief" by international bankers, Boughton (2000, 301) reports that there was a panic in the interbank market on September 7th , as international banks were refusing to roll over lines of credit to Mexican banks, severely undermining their position. Third, President López Portillo himself declared that the plan to nationalize the banks was not intended to rescue the bankers or to guarantee the repayment of Mexico's private debt, but, rather, to reduce the speculative bubble of the early months of 1982 (López Portillo 2008, 266). Finally, the government could have committed to guarantee the banks' debts, as it eventually did, without nationalizing

[21] Del Ángel, (2005). Currency mismatches became recurrent in the crises of the 1990s, and in particular in Mexico's crisis of 1994. See for instance Wilson, Saunders, and Caprio (2000) and Musacchio (2012)

[22] Espinosa Yglesias (2008, 45). Espinosa Yglesias, owner of one the most important banks in the country, complained that international banks did not support their Mexican counterparts as oil would serve as guarantee for the banks' debts of which the government would be taking charge.

the banks. As we will demonstrate, evidence from the press, from the IMF and from bond risk premia, show a negative reaction to the nationalization.

III. Expropriations and debt defaults, 1966-1982

What is the empirical evidence on default and expropriation episodes for the year before the crisis? Figure 1 depicts the relationship between frequency of defaults and frequency of expropriations between 1966 and 1982.[23] Figure 1 shows countries where frequency of defaulting and frequency of expropriation are highly correlated.[24] Given the fact that past expropriation episodes increase the probability of expropriation in the future, this has a direct impact on expropriation risk. It is noteworthy that dividing the sample between countries that expropriated at least once and those that did not, we observe that the first group (expropriators) defaulted 7% of the time, compared to the second group (non-expropriators), which defaulted 2%. A Welch two sample t-test shows that the means' difference is significant.[25]

<Figure 1 around here>

Figure 1 also shows a set of countries with a higher number of expropriations, including Algeria and Peru. Mexico did not lag far behind. How does the Mexican case conform with the theoretical literature? Default and expropriation took place at the onset of a downturn in the business cycle. The country had been experiencing a decline in growth rates and a squeeze in public finances. The loans contracted by the government had a variable rate and were adjustable every six months. Therefore, in a period of rising interest rates in the world economy, the debt burden increased and the incentive to default escalated.[26] This condition also coincided with a decline in commodity prices, particularly oil, which strongly reduced public revenues. The crisis accelerated after an initial devaluation in February 1982, and with a continuous fall in the level of international reserves. Therefore, given the sequence of events, the default should have increased the probability of an expropriation as a "desperation" reaction.

[23] Frequencies are represented as ratios of defaults or expropriation events in a given year compared to the total number of years reported. Data on expropriations are from Tomz and Wright (2010), who adopt a definition of expropriation that includes nationalization of foreign firms, coerced sales, interventions or requisitions and renegotiations, on which a government compels direct investors to "accept substantial changes in a contract or negotiations" (p.98). Data on (external) defaults are from the Online Appendix of Catão and Mano (2017). They define a default as "a unilateral interruption of repayment of interest and/or principal on contractual debt obligations by a sovereign government" (p.94). This data was complemented with Reinhart and Rogoff (2011), who use the same definition of default. We begin from the year 1966, because expropriation data is almost complete after that year.

[24] A correlation analysis between both variables show a correlation coefficient (ϱ value) of 0.39 and a t-test value of 13.84 with a confidence interval between [0.33 0.44] at 95% confidence interval.

[25] The value of the t test is 4.22, and the p-value is 0.00 (the difference in the means' confidence interval at 95% is [0.02 0.06]. We repeated the same analysis with subsamples (1970-1982) and 1976-1982). Results do not strongly differ (available upon request).

[2626] See Devlin (1989) and Rockerbie (1993).

When we focus on the years previous to the crisis (1977-1982), the difference between countries that expropriated at least once and those that did not involves other macroeconomic indicators.[27] We compared the means of a group of representative indicators and pursued a mean equality test (t-test) between both groups of countries for the following variables: economic growth (real per capita GDP growth), level of public debt (debt to GDP ratio), budget balance (as a ratio to GDP), current account balance (to GDP), level of public investment (to GDP), inflation, a reserve to money supply ratio, average nominal exchange rate depreciation (percentage changes of domestic currency to the US dollar) and risk premia of syndicate bank loans.[28]

<Table 1 around here>

Results are shown in Table 1. On average, expropriating countries display lower levels economic growth, higher levels of debt, lower levels of public investment, higher inflation rates and experienced higher fiscal deficits. Their currencies also exhibit higher levels of depreciation to the US_dollar. The means differences of reserves, exports and current account balance were not statistically significant. Figure 2a-c presents the evolution of each indicator divided between expropriating countries (Group 1) and the rest (Group 0). It is noteworthy that the differences of most indicators are persistent and even widen in certain cases between both groups of countries (in particular, inflation, exchange rate depreciation and public investment levels).

<Figure 2a-c around here>

Are there any spillover effects from expropriations to default risk? An expropriation might lead to worsening government borrowing terms if the government's reputation to foreign investors affects the debt market. While an international panel analysis on sovereign risk premia goes beyond the scope of this article, Figure 3 provides a preliminary overview. Countries with more frequent expropriation events tended to have higher spreads in 1981, the year previous to the crisis. While the positive correlation is weak and hardly conclusive, Figure 2 serves to situate Mexico's case in a broader, international context. As previously stressed, the risk premia attached to the Eurobank loans granted to its government lie on the lower half of the sample. In this regard, and in line with previous findings, up until 1981 the country was considered safe.[29]

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[27] The sample of countries is reduced due to data availability. Countries included in this analysis are the following: Algeria, Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cyprus, Ecuador, Gabon, Greece, Hungary, India, Ivory Coast, Jamaica, South Korea, Malaysia, Mauritius, Mexico, Morocco, Niger, Nigeria, Pakistan, Panama, Papua, Peru, Philippines, Poland, Portugal, Romania, South Africa, Spain, Thailand, Tunisia, Uruguay, Venezuela and Yugoslavia.

[28] Indicators included in the analysis were based on data availability. Our data comes mainly from World Bank (1987), which published the data for developing countries. Missing data was completed with (*International Financial Statistics Yearbook, 1986* 1986). Spreads are from Rockerbie (1993), who provides a weighted, yearly (average) spread measure that considers interest rate, amount and maturity of each loan. Original source is *the Euromoney Magazine*. For a discussion on spreads in this period, see Negrete Cárdenas (2000).

[29] *The Euromoney Magazine* published a ranking based on conditions under which each borrower contracted a loan in dollars or deutsche marks, using the London Interbank Offered Rate (LIBOR) as a reference rate. In the ranking of

<Figure 3 around here>

Nevertheless, neither the press nor the markets seem to have anticipated the move. One might wonder how external costs were considered in the decision to default and to expropriate. As previous literature has shown, Mexico's government representatives intended to minimize the costs of the moratorium through the design of a strategy aiming to obtain the support of the US Treasury, the IMF and commercial banks.[30] While the moratorium mainly affected the government's banking loans, the government decided not to interrupt payment on its bonds, nor on its trade-related credits. Regarding the expropriation, the government repeatedly insisted that it only entailed domestic banks. This differentiated treatment (averting a negative effect on other sectors) might have been motivated by the relevance of foreign investment for the economy. Even then, as we shall see in the next section, we posit that the expropriation affected the country's reputation beyond the damage caused by the default.

IV. Mexico's risk perception

In this section, we provide evidence showing that the decision to nationalize worsened the levels of country risk as demonstrated by the sharp increase in the yields of a Mexican bond being quoted on the London Stock Market.[31] We will complement the results with an overview from the international press to show that the nationalization was unexpected and generated a negative perception. We will then present archival evidence on the debt negotiation process that shows that the nationalization interrupted and delayed an agreement to obtain an IMF program and a debt rescheduling. This interruption was not reported in the press. We can only speculate on a counterfactual case where the effects of the nationalization on the negotiations were known, and whether this would have had a stronger effect on the exchange rate and the risk premia.

Risk assessment

During those years, rating agencies did not publish their sovereign ratings (Altamura and Flores Zendejas 2020; Gaillard 2012). Nevertheless, certain publications disclosed relevant information on the economic and financial conditions of a large group of countries. Moody's annual reports on Mexico provided a description of the financial system and the bonds that the Mexican government had issued. Its

1981, Mexico was placed 27 (out of 69 countries), better than countries such as Italy and South Korea (both non-defaulters). *The Euromoney Magazine*, "The Country Risk League Table, February 1982, 47-51. The BIS reported that creditor banks had maintained their Mexican exposure due to the country's oil wealth and its importance "to the lending banks as a source of balance-sheet growth and of profits". (Bank for International Settlements 1983, 128)

[30] According to Kraft (1984, 4), some advisors to Silva-Herzog were favorable to a declaration of unilateral default, something that was rapidly excluded as it was considered as a defy to creditors with effects similar to an atom bomb.

[31] In this article, I define country risk as the default risk of sovereign external debt, even though the literature has provided a more comprehensive definition of country risk (for a discussion on these terms, see Gaillard (2020). I utilized the yields reported by the *Financial Times* for the only Mexican bond quoted on the London Stock Market, with interest rate 16 1/2&% and maturity 2008. For the UK, I used the Treasury 7 ¾% with maturity between 2012 and 2015. For details on the Mexican bond, see Moody's Investors Service (1983).

annual report of 1982 disclosed the number of banks nationalized: 47 deposit banks, 30 multiservice banks, 27 financial banks, 3 credit mortgage institutions, 7 capitalization credit banks.

Moody's 1983 report also listed the bonds that were quoted in different markets. This information is presented in Table 2. It displays the bonds listed at the end of 1982, and the outstanding amounts in early 1983. While most of these bonds were denominated in US dollars, other included marks, yen, pounds, francs, and Swiss francs bonds. The maturities of these bonds were variable, and, in some cases, they could be extended. It is interesting to note that it was unclear whether these bonds would be excluded from the moratorium. Kraft (1984) posits that there was considerable disagreement between European and US banks about their treatment, as Europeans aimed to exclude them. As these bonds had different currency denominations and had had been issued in different countries, it might have been more difficult to find a common ground for equal treatment in the event of a moratorium or a default.

<Table 2 around here>

We use this information and analyze two risk indicators. One is the Mexican government bond yields, and the second is exchange rates. These measures show how the new policies were perceived by the market. If investors and banks believed that nationalization could have been beneficial for Mexico's debt capacity, we should observe a decrease in the yield premia and a reevaluation of the Mexican peso. Bonds were secondary to the volumes in terms of bank loans. Alvarez (2019) reports that around 81% of the government's external debt was owed to commercial banks, while bonds were less than 5%.[32] For this paper's purposes, it is interesting to note that the yields of such bonds allow us to assess the impact of Mexico's policies on country risk.

Figure 4 shows the daily evolution of the risk premia of a bond that was issued in pounds sterling. While the spread shows a slight increase since July, a first relevant upward movement can be observed around the 8-10th of August, the moment when Silva-Herzog began his communications with the US government. In the first two days after the nationalization announcement, the yield increased from 879 basis points to 947; an increase of around 8%. While this value stabilized in the next weeks, by the end of the month it had climbed again to more than 1000 basis points. Clearly, the state of the negotiations and the economic policies implemented did not contribute to a decline in the risk perception of the government.

<Figure 4 around here>

A structural break test allows us to identify which shocks might have affected investors' risk perception. The risk premia series has a unit root for the sample (Table 3), permitting us to test for the existence of a structural break using the Zivot-Andrews and Lee-Strazicich LM tests (Table 4).[33] In

[32] Furthermore, the quotation of these bonds on stock markets would later help to find a solution under Brady. See Buckley (1998).

[33] Zivot and Andrews (2002) considers three types of breakpoints. First, the changes in the level of the time series (a change in the intercept). Second, a change in the growth rate (change in the trend) and third, changes in the level and in the growth rate. Lee and Strazicich (2003) propose a two break minimum Lagrange Multiplier unit root test.

accordance with the tests, we cannot reject the null hypothesis that the series has a unit root with structural change on the trend for 9/03/1982 and 8/18/1982 and on the intercept for 8/18/1982 and 8/20/1982. The date for the structural breaks on the 18 August corresponds to the first day trading after the news went public on the negotiations between Mexico's government and the US government.[34] The second break corresponds to the second day of the bank nationalization. The structural changes that I identified correspond to spreads' increases. Using a breakpoint regression (Bai and Perron 2003), I estimate the difference in the parameters that arise from a structural change. In Table 5 I present the parameters associated with trend and intercept for two key periods of the sample, showing a rise in both cases.

<Table 3 around here>

<Table 4 around here>

<Table 5 around here>

A more general picture can be observed in Figure 3. It represents the evolution of Mexico's exchange rate since the end of 1981 and during the whole of 1982 as reported by the central bank's annual report of 1982. The fixed exchange rate shows a first devaluation in February of about 74%, and then its maintenance until July 1982.[35] A first major increase in the price of US dollar can be observed on the 6th August (which continued until the 9th) and then the major peak took place on the 19th. These increases correspond with those observed for the yields. After the 1st September, when exchange controls were implemented, the prices then reported are those of a "controlled" market (which shows 50 – 70 pesos per dollar) and then a free market, first reported in October, which shows how the depreciation of the peso continued until the end of the year.

Reactions in the press

It has been argued that the international press regarded the announcement positively (Elizondo Mayer-Serra 2001, 179; Basáñez and Camp 1984, 203). Nevertheless, this characterization is not entirely accurate. An overview of the press —from more than 300 articles in English— shows that the general view was one of uncertainty and surprise.[36] Admittedly, I found articles with titles such as "Takeover pleases US Banks" or "Mexico backs Banks' Debts".[37] Nevertheless, the first article recognized that banks had been shocked and that, in the long run, nationalization could reduce confidence in the Mexican banking system.

[34] See Kraft (1984, 17), and *Financial Times*," $4bn drawing rights for Mexico", 18 August 1982.
[35] Figure 2 shows, selling and purchase prices of dollars (number of pesos per dollar). Source is Banco de México (1983).
[36] I used the databases Fativa and Nexis Uni for the first week of September 1982. I added the *Financial Times Historical Archives* and *The Economist Historical Archives*. I added the October number of *The Euromoney Magazine*, then the main magazine reporting on commercial banks' lending.
[37] "New York Times, 2 September 1982, "Takeover pleases US Banks" and The American Banker, 7 September 1982, "Mexico Backs Banks' Debts."

The second article reproduced a telex, signed by Silva-Herzog, where the government announced that it would guarantee the debts of the banks that had been nationalized, something that remained unclear.

An additional illustrative example from the Canadian *Globe and Mail* newspaper qualified the nationalization as "an abrupt move that stunned economic analysts".[38] It claimed that the announcement would have a negative effect on foreign confidence in Mexico's ability to face its economic crisis. The same article quoted an interview with a US business representative that predicted panic withdrawals from Mexican banks. The article mentioned that the move cast some doubts on the likelihood that the government would reach an agreement with the IMF, with which it was negotiating a three-year $4 billion loan. It speculated on the kind of conditionality that the IMF was requesting, which included policies such as the reduction of public expenses through denationalization and reduced restrictions on currency trading.[39]

Other articles emphasized the relevance of the event. *United Press International* reported that the bank nationalization was seen as threating catastrophe by the financial community.[40] *The New York Times* (NYT) compared the event with Mexico's expropriation of foreign oil companies. Even so, the NYT continued, central banks from 10 Western nations had approved a $1.85 billion loan to the country.[41] The *Financial Times* reported that it was unclear whether Citibank would be affected by the nationalization move. It quoted international bankers who predicted that the move would have only minimal impact on the banks' operations as the sector had always been tightly controlled by the central bank. It was also reported that the US Treasury Secretary had not been notified in advance of Mexico's nationalization plans. The article reported that the Mexican peso had depreciated in the New York foreign exchange market.[42] In a similar vein, *The Associated Press* reported that stock, bond and precious metals soared as investors worried about the stability of foreign governments and currencies sought "safe harbors for their money." It stated that there could be more nationalizations of banks in Latin or South America. [43]

The uncertainty also concerned the assets held by Mexican banks as many of them were shareholders in several companies. The magazine *Euromoney* reported that the political party in power had always opposed the nationalization of Mexican private banks, something that had been proposed by the Unified Socialist Mexican Party. Even so, the magazine reported that the measure had received high popular support, despite the President's poor image as a "discredited politician who had brought his country to the verge of ruin".[44] The article indicated that the government planned to sell the companies owned by the nationalized banks. However, the article quoted a banker asking "Who will want to buy these companies?

[38] *The Global and Mail*, 2 September 1982, "Mexico takes over private banks".
[39] *The Global and Mail*, 2 September 1982, "Mexico takes over private banks".
[40] United Press International, 2 September 1982, "Mexican stockbrokers and bankers fuming".
[41] *The New York Times*, 5 September 1982, "Mexico's bank seizure".
[42] *Financial Times*, 2 September 1982, "Mexico's private banking system is nationalised".
[43] *The Associated Press*, 2 September 1982, "Stocks, Bonds, Precious Metals Rally; Retail Sales Reports Poor." El Universal quoted journalists and politicians from Colombia, Nicaragua, Venezuela and Argentina who favored banks' nationalization in their own countries following Mexico's example. *El Universal*, 4 September 1982, "Ofrece México un ejemplo a América Latina, afirman en Bogotá." Repositorio Digital CIDE, Nacionalización Bancaria.
[44] *Euromoney*, October 1982, "Portillo Pockets the Banks." Basáñez and Camp (1984) also report an overwhelming public opinion favorable to the nationalization.

Who can say the government won't step in and nationalize them?" *The Economist* also reported that leftist political parties and trade unions had been delighted, but emphasized the uncertainty created by the President's speech.[45]

Negotiations with the IMF

While Silva-Herzog had been having frequent contacts with the IMF since early 1982, he asked the IMF to send a mission to Mexico that started on July 23rd. On August 13th, he entered into formal negotiations to obtain an IMF loan (Kraft 1984, 10; Boughton 2000, 289). Before an agreement could be reached, the Mexican government needed to find the necessary resources to continue servicing its debt. As part of the emergency support received, there was a US$700 billion swap with the Federal Reserve; a US$1 billion advance payment for purchases of Mexican petroleum; and a US$1 billion in loans from the Commodity Creditor Corporation. Finally, the BIS had granted a US$1.5 billion credit line to Mexico's central bank. According to Anthony Salomon, President of the Federal Reserve Bank of New York, these loans would allow the government the necessary time to reach an agreement with creditor banks and with the IMF for an extended arrangement.[46]

The success of the negotiations of Mexico's government with the IMF was dependent upon the willingness of commercial banks to maintain their credits to Mexico during the period requested (90 days) and on the government's capacity to convince bankers that the measures to be undertaken would be sufficient to redress the economic crisis. The bankers had been informed about the IMF mission and the possibility of obtaining a three-year Extended Fund Facility (EFF) program.[47] At the end of August, the IMF Executive Directors were waiting to learn the position of the banks before deciding on the nature of the program and the size of the loan, even though they remained skeptical about whether the conditions initially announced by the Mexican government would be met. A positive assessment was provided by the fact that commercial banks had initially reacted positively to the meeting with Silva-Herzog. Overall, optimism as to the finding of an optimal solution was still on the minds of the IMF officials.[48]

Therefore, the announcement of Mexico's bank nationalization came as a dampener to the negotiations. Silva-Herzog had been uncertain about whether he would be continuing the negotiations, and the IMF decided to send a new mission after the 20th September to evaluate the policies announced by the Mexican President. The IMF also became pessimistic as to whether an agreement could have been reached before the taking of office by the new administration. It was not only that it had been difficult to include members of the new administration in the negotiations, but also that "changes in the direction of certain

[45] *The Economist*, 4 September 1982, "Lopez Portillo's revenge."
[46] Official Memorandum from Manuel Guitián to the IMF Managing Director and the Deputy Managing Director, 23 August 1982, IMF Archives, WHDAI Country Files, Box 129, "Mexico (1979-1983)". In the same document, other, additional credits are mentioned, included a US Treasury Stabilization loan of US$300 million and a set of swaps agreements of the Bank of Mexico with other central banks.
[47] The mission arrived in Mexico one week thereafter. See Memorandum, "Mexico: Executive Directors' Briefing: Monday, August 23, 1982", IMF Archives, WHDAI Country Files, Box 129, "Mexico (1979-1983)."
[48] Ibid, p.3.

policies that followed announcements made by the President on September 1 obviously complicated the process."[49]

The announcement had an immediate impact on negotiations for the EFF program. According to IMF documents, not only did the Director General of Mexico's central bank resign, but officials with whom the IMF had been negotiating "expressed shock and surprise about the measures announced by the President." The author of the memorandum also seemed to confirm that the President did not appear to accept any blame for what had happened. However, the breakdown of the negotiations was not supposed to be made public. Furthermore, the new Director General of the Bank of Mexico, Carlos Tello, apparently needed time to implement the new policies. IMF officials had been well aware that he had been hostile to the IMF in the past, and therefore, "may not have any interest in continuing the negotiations." It seemed nevertheless, that while the outgoing administration would not continue, the Finance Minister would push to reach an agreement if he remained in his post.[50]

In a Memorandum on the annual meeting between the IMF and the World Bank in Toronto, Nigel Carter —then Personal Assistant to the Managing Director— described how Ted Beza (IMF Managing Director) recalled that Mexico's nationalization and exchange controls took place while the Fund's mission was in Mexico. According to Carter, Beza then forecasted that such measures would delay the negotiations since the IMF needed to assess the impact of those measures and to understand how they could affect the program that the IMF was designing. He also outlined the program as discussed with Silva-Herzog, including the need for adjustment.[51]

Banks from different countries had been following Mexico's negotiations with the IMF and also reacted negatively to the nationalization and to its potential effects. In certain cases, nevertheless, banks felt less concerned by the crisis and the outcome from the negotiations. This was the case of Swiss banks. As the Swiss National Banking Association (SNB) reported, it did not see the need to initiate an investigation, as foreign participation in the Mexican banking sector had been forbidden since 1932. At the time, only City Bank was allowed to stay.[52] For the SNB, the only factor that needed to be monitored in Mexico was Swiss banks' exposure to Mexico's public debt. However, the report expressed some misgivings about the political and macroeconomic evolution of the country.

A very different case was British banks. At the Bank of England (BoE), the Sovereign Risk Committee had been following the position of Mexico's banks very closely. It is interesting to note that British commercial banks did not necessarily share the views of their US counterparts, which they considered as too optimistic. One of the reports of the same meeting in Toronto, a note addressed to

[49] Note on Mexico by E. Walter Robichek, 20 September 1982 to The Manager Director and The Deputy Managing Director. IMF Archives, WHDAI Country Files, Box 129, "Mexico (1979-1983)."
[50] (Secret) Memorandum by S.T. Beza to the Managing Director, "Mexico – Negotiation of an EFF Agreement, WHD Division Country Files, Box 205, Mexico 1982-1983.
[51] Memorandum dates 19 October 1982, "Mexico: Briefing Meeting for Executive Directors, Toronto: September 5 1982. IMF Archives, WHD Division Country Files, Box 205.
[52] Association suisse des banquiers (1983, 176).

Anthony Loehnis —then Executive Director of External Finance— and members of the "Mexican Task Force", reported that David Ardron (in charge of the Sovereign Risk Committee) said that "US banks seemed very relaxed" and were keeping their existing levels of deposits with Mexican banks. However, the author of the report seemed to favor a more cautious attitude.[53] Some days later, the position of the BoE seems to have become more positive. In an unsigned Memorandum addressed to the BoE governors, the author praised the Mexicans for having successfully achieved their first and overriding objective, namely, to gain prompt and close control over their net external payments. The report then continued:

"Whatever misgivings may be felt about the nationalization of Mexican banks and the change of personnel at the top of the central bank, the whole situation would by now have been a lot worse if the Mexicans had simply allowed things to drift out of control, with a spiraling depreciation of the peso and growing internal disorder. The example they have in practice set is quite a good one".[54]

Regarding the interbank liabilities of the Mexican banks, nevertheless, the report stressed that

"the Mexicans themselves did not fully appreciate the special nature of these liabilities, and their special importance for Mexico's future credit standing and for the credit standing of other major creditors in the international markets. However, they were soon made aware of this special importance and agreed to exclude these liabilities from the moratorium. Once again, the action was a correct response to a developing emergency".[55]

The report then stressed the different options ahead to avert major withdrawals of interbank deposits from Mexican banks —still an unsolved issue—and provide further liquidity to Mexico's central bank, and have being capable in providing support to its banks. In other words, nationalization did not seem to have provided any kind of solution —though exchange rate controls helped— but remained an international coordination challenge between creditor central banks, the IMF and the BIS. If anything, it increased the uncertainty to the outcome of the crisis.

V. Conclusions

In this paper, I have placed Mexico's debt crisis in a broader, international context. My analysis suggests that Mexico was not unique. In the late 1970s and early 1980s, countries that were prone to default were also those that had experienced an expropriation episode at least once during the same period. Countries that expropriated also had worse macroeconomic fundamentals, thereby increasing their likelihood of defaulting.

[53] Note for Record, Sovereign Risk Committee: 16 September, 17 September 1982, Bank of England Archives, 6A.246/1, "CLCB Sterling Committee on Sovereign Risk Lending". This committee was established to consider commercial banks management of Sovereign Risk Lending.
[54] "The International Credit Structure", Unsigned Memorandum to the Governors, 23 September 1982. Bank of England Archives, 6A.248/1, International Division Files: International Debt Problems, 1 September 1982 to 14 February 1983.
[55] Ibid, p.2.

Mexico's debt crisis and bank nationalization corresponded to the government's reaction to an adverse macroeconomic context, as was the case in other countries even if not necessarily within such a short time frame.

Second, I have shown that financial markets did not welcome the decision to nationalize. An overview of the international press, and the reactions of the bond and exchange markets show that the decision was perceived as negative. My analysis of the risk premia on Mexico's government bond shows that markets reacted negatively to the move, a trend that contradicts the argument on the supposedly positive assessment of the nationalization on the Mexican debt position. While the literature on the Mexican government moratorium does not analyze its relationship with the banks' expropriation, I use the concept of "sovereign theft" to show that the bank's nationalization increased the probability of default given the negative spillover on its reputation.

Finally, the attempts by Mexico's government to obtain an IMF loan were affected by the expropriation, thereby delaying the agreement and increasing the uncertainties in the political management of the economy. Fortunately, the nationalization did not fully affect the final outcomes of negotiations which largely concerned public actors, mainly central banks, governments and international organizations, all of which were willing to avert a major international crisis. While foreign investment fell considerable in the years following the crisis, this rapid, multilateral mitigated the effects of an expropriation on Mexico's government reputation, as it would have been involved in a market-driven framework.

Archival Resources

IMF Archives

Bank of England Archives

Repositorio Digital Centro de Investigación y Docencia Económicas, Nacionalización Bancaria.

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Tables and Figures

Table 1. Mean equality tests, macroeconomic indicators.

Variable	0	1	Mean Equality test Ho: $\overline{X}_i = \overline{X}_j$
$Growth$	1.94	0.46	-1.95 (0.05)*
$Debt$	81.12	136.27	3.75 (0.00)***
$Spread$	0.98	1.15	1.90 (0.06)*
$Exports$	26.56	27.50	0.51 (0.60)
$Investment$	27.68	24.69	-2.41 (0.01)**
$Current\ Account$	-4.43	-5.37	-1.25 (0.21)
$Inflation$	19.39	31.51	1.99 (0.05)**
$Budget\ balance$	3.38	-9.08	-2.62 (0.01)**
$Reserves$	25.12	26.67	0.58 (0.55)
$Exchange\ rate$	11.35	29.40	1.73 (0.08)*

Notes: The p-value in parentheses.
(*) Significant at the 10%; (**) Significant at the 5%; (***) Significant at the 1%. and (no) Not Significant.

Table 2. Bonds reported in the Moody's International Manual, March 1983

Interest rate	**Issue year**	**Maturity Year**	**Currency**	**Outstanding 31 March 1983 ('000 dollars)**
8.5	1972	1987	US Dollar	20,800.00
8.125	1972	1997	US Dollar	24,220.00
7.25	1973	1988	Deutsche marks	22,867.00
7.9	1973	1985	Yen	25,125.63
8.75	1973	1991	US Dollar	18,750.00
10	1975	1990	US Dollar	14,298.00
9.5	1976	1981	US Dollar	686.00
8	1976	1983	Deutsche marks	41,576.58
7.75	1977	1984	Deutsche marks	41,576.58
9	1977	1986	Yen	37,688.44
7	1977	1987	Yen	83,752.09
14	1980	1985	French francs	20,798.67
15	1981	1988	US Dollar	100,000.00
16.5	1981	2008	Pound sterling	73,750.00
15.5	1981	1986	US Dollar	100,000.00
11	1981	1988	Deutsche marks	41,576.58
18.5	1982	1997	US Dollar	175,000.00
17.5	1982	1997	US Dollar	130,000.00
8.5	1982	1987	Swiss Francs	48,042.28
16.45	1982	1992	Multicurrency, mainly US dollars	58,000.00

Sources: (Moody's Investors Service 1983).

Table 3. Unit root test table

Phillips–Perron Test

		Spread	Δ(Spread)
With Constant	t-Statistic	-0.2407	-10.411
	Prob.	0.92	0.00***
With Constant & Trend	t-Statistic	-2.7628	-10.3335
	Prob.	0.21	0.00***
Without Constant & Trend	t-Statistic	3.1099	-9.1816
	Prob.	0.99	0.00***

Augmented Dickey–Fuller test

	At Level		
		Spread	Δ(Spread)
With Constant	t-Statistic	-0.3011	-10.4004
	Prob.	0.9191	0.00***
With Constant & Trend	t-Statistic	-2.6567	-10.3225
	Prob.	0.2573	0.00***
Without Constant & Trend	t-Statistic	2.852	-9.1365
	Prob.	0.99	0.00***

Notes: H_0: The variable has a unit root. We reject the null hypothesis with a significance of 10% (*);5% (**); and 1% (***).

Table 4. Crash and Break tests

Test			*Benchmark*	
			Statistic	Date(s)
Zivot-Andrews (4 Lags)		Intercept	-3.90	8/14/1982
		Trend	-3.04***	9/03/1982
		Both	-3.89	8/14/1982
Lee-Strazicich LM (8 Lags)	One	Crash	-3.82 (-3.48)**	8/18/1982
		Break	-4.23 (-4.34)*	8/18/1982
	Two	Crash	-4.06 (-3.56)**	8/18/1982 8/20/1982
		Break	-4.90 (-6.28)	8/16/1982 9/04/1982

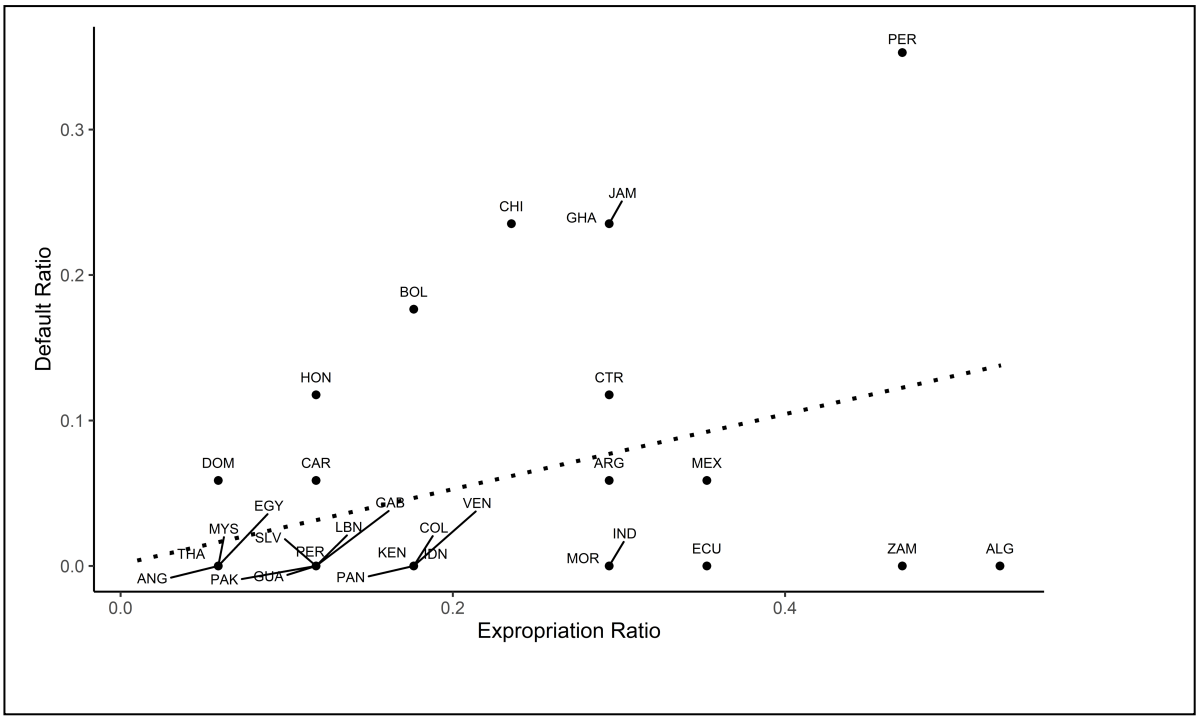
Note: Ho: ∃ unit root with structural change on the intercept, trend or both.
*** indicates there is no statistical evidence to reject Ho at 99% confidence, ** at 95% and * at 90%.
Note: In parentheses it is the critical value of the test. The Crash and Break at the Lee-Strazicich, refers to the intercept and the trend, respectively; one & two refers to the number of structural breaks that the test allows.
Source: Own estimations.

Table 5. Bai-Perron tests

Breakpoint date	β_i	β_i	*Constant parameter*	*Wald Test* *Ho:* $\beta_i = \beta_i$
18/08/1982	$Intercept_i = \underset{(0.00)}{617.85}$	$Intercept_j = \underset{(0.00)}{682.39}$	Trend= $\underset{(0.00)}{4.08}$	-7.09 (0.00)
03/09/1982	$Trend_i = \underset{(0.00)}{5.64}$	$Trend_j = \underset{(0.00)}{5.33}$	Intercept= $\underset{(0.00)}{594.29}$	1.96 (0.05)

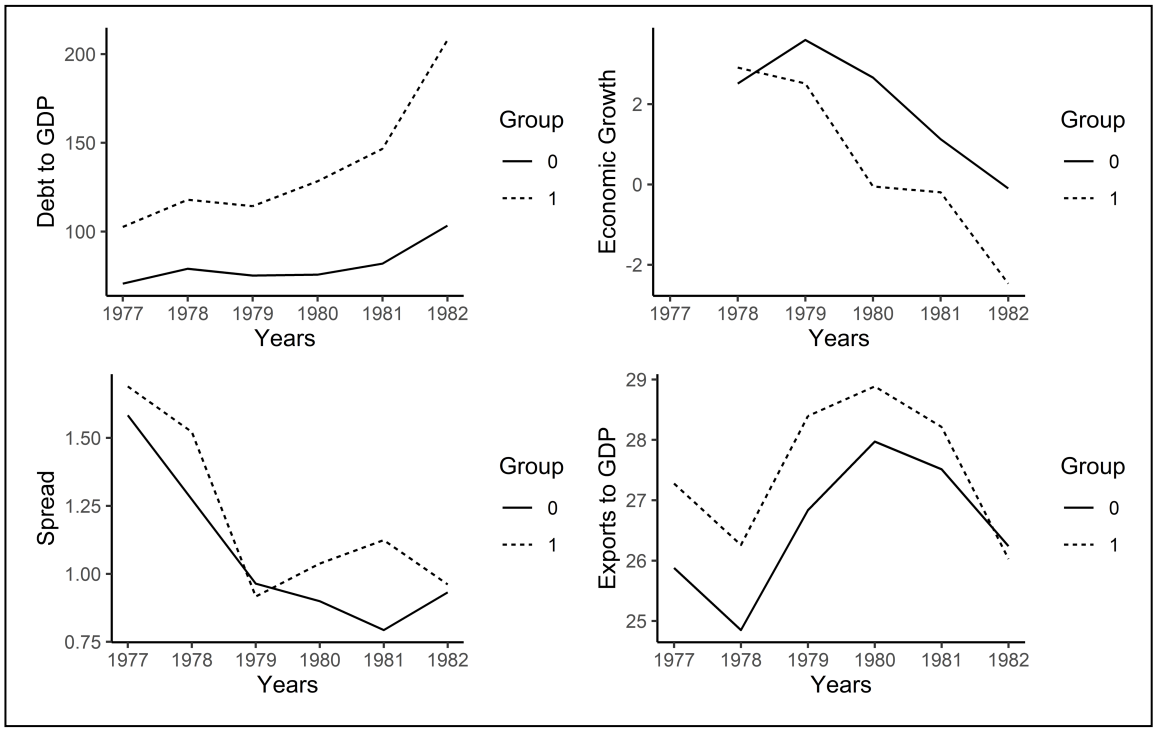
Note: the p-value is presented in parentheses. *Source*: Own estimations.

Figure 1. Default and Expropriation ratios



Source: See text.

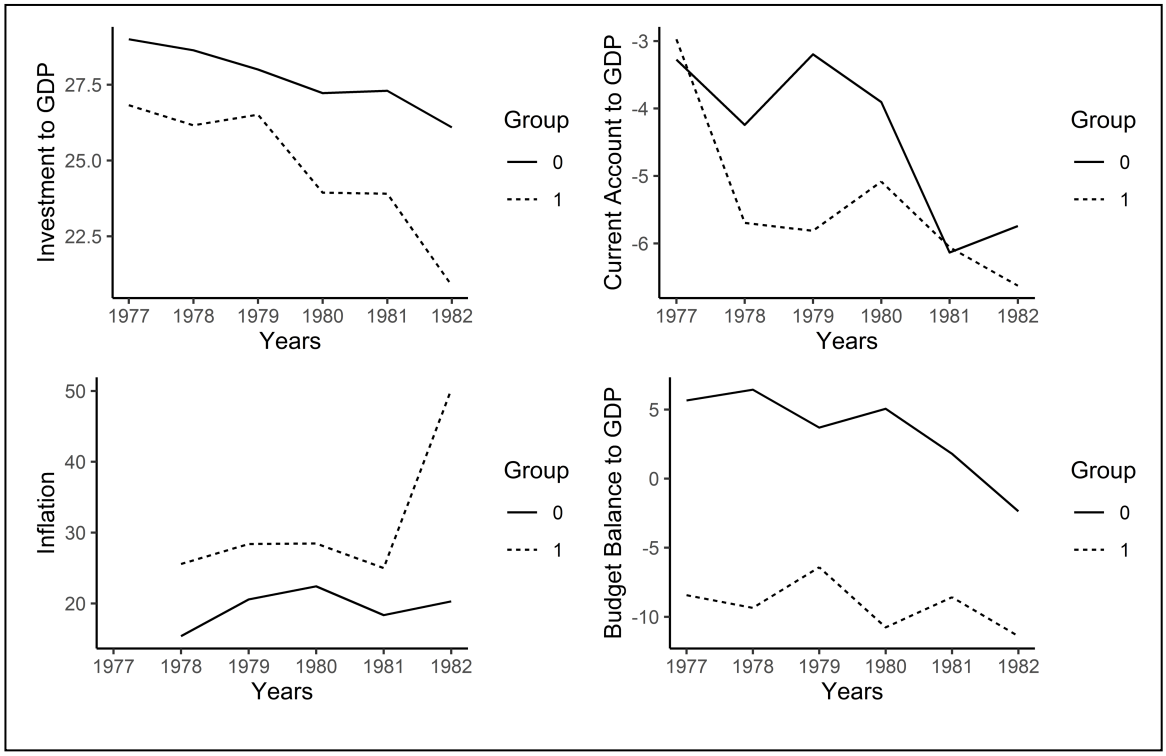
Figure 2a. Macroeconomic indicators



Source: See text. Figures reported as percentages.

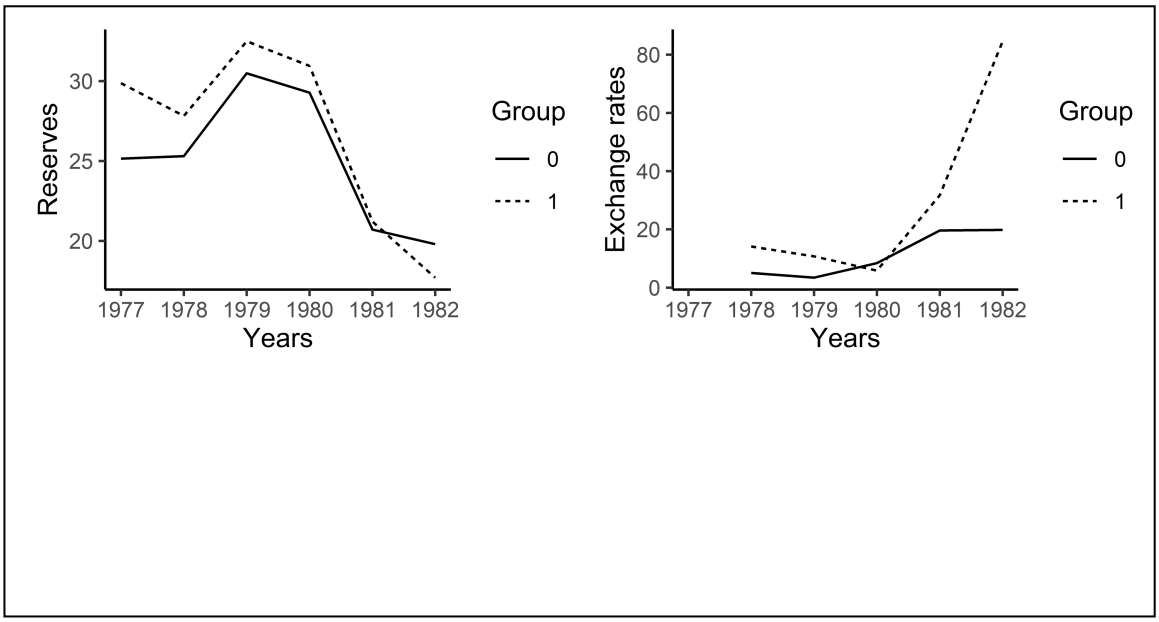
Figure 2b. Macroeconomic indicators.

Source: See text. Figures reported as percentages. Inflation is reported as average percentage increases in



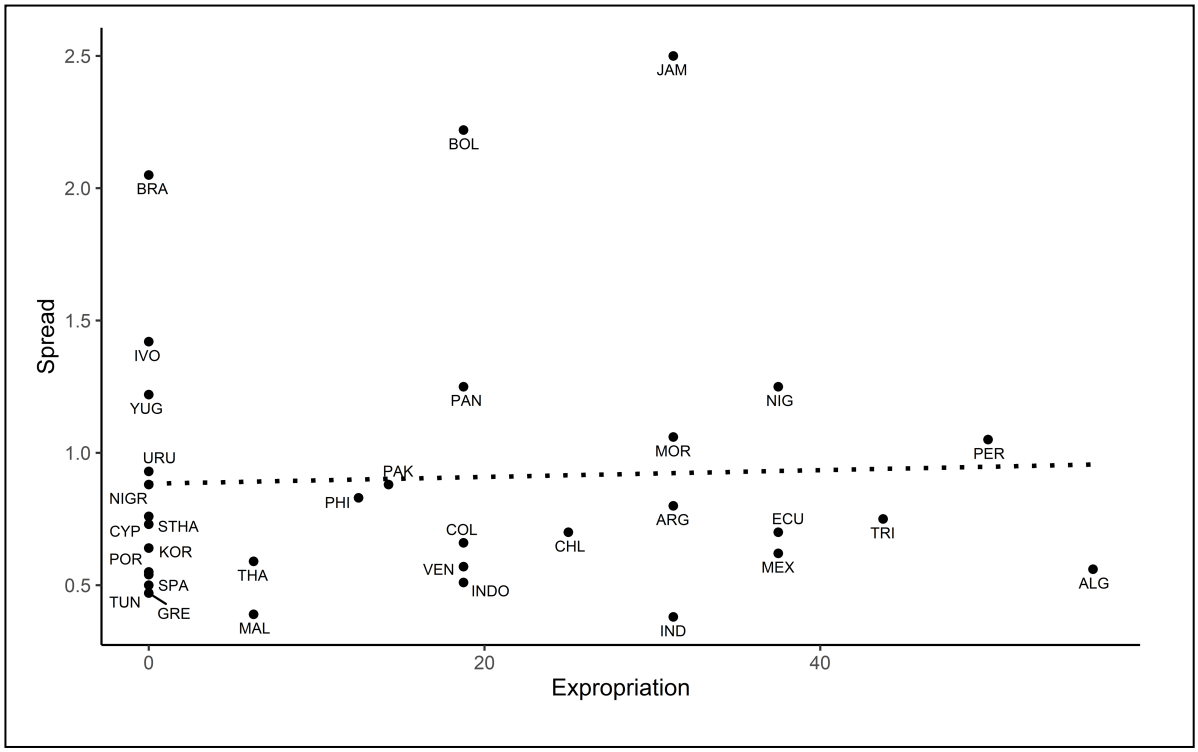
consumer prices.

Figure 2c. Macroeconomic indicators.



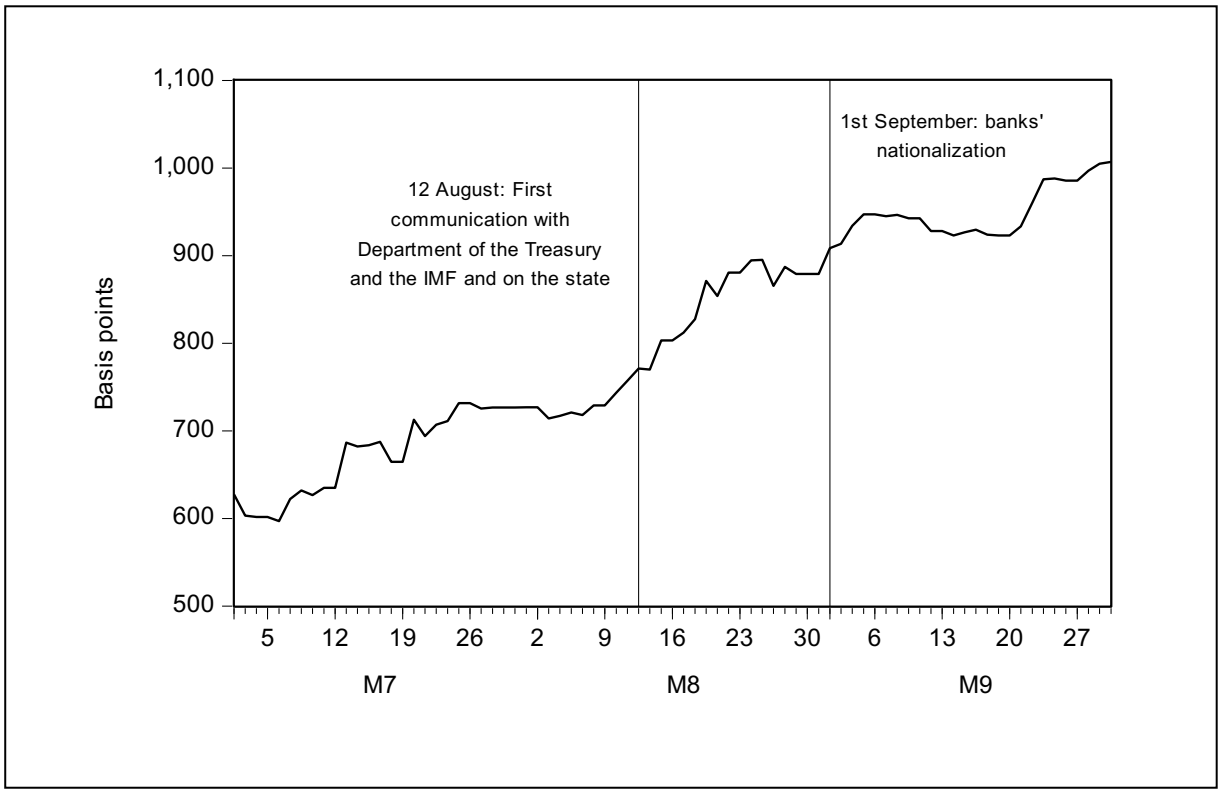
Source: See text. Figures reported as percentages. Exchange rate is average annual change, in percentage, of the nominal exchange rate between a currency to the US dollar.

Figure 3. Default risk and expropriation ratios, 1981



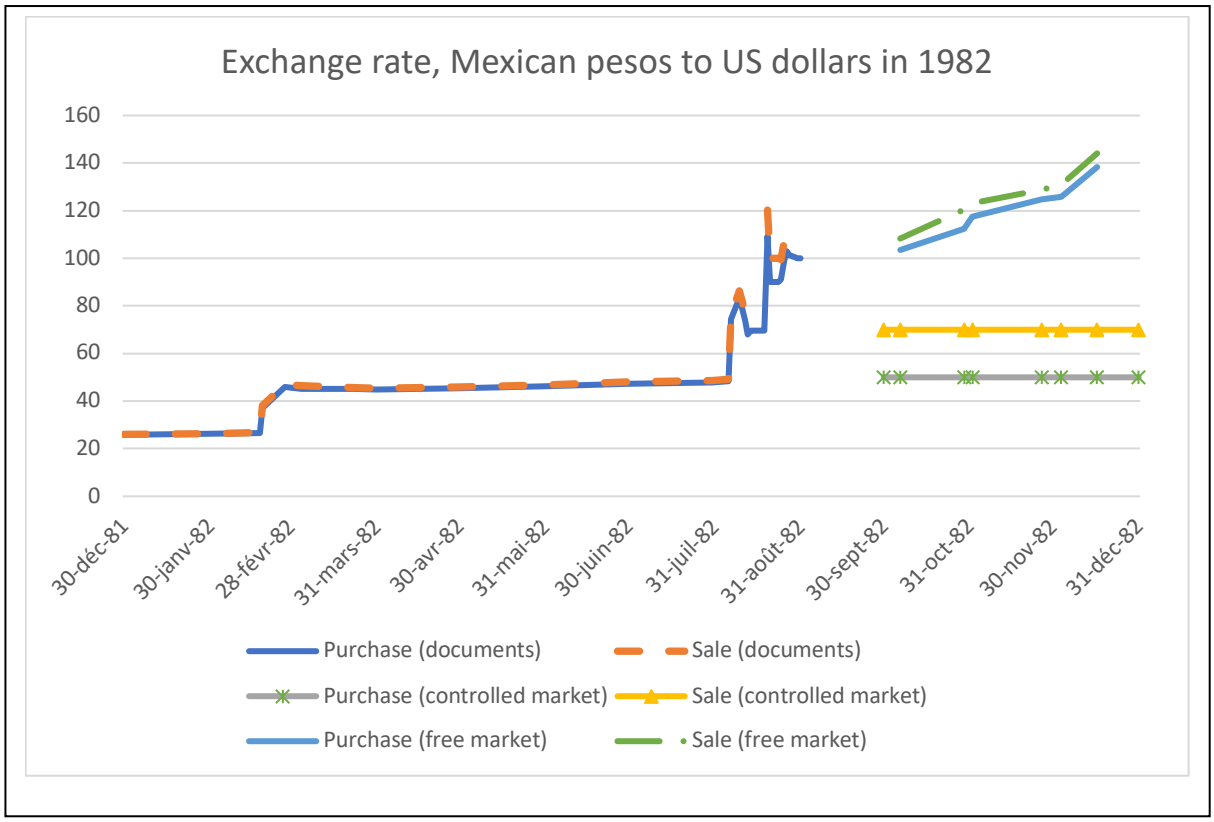
Sources: See text. Spreads and Expropriation ratios as percentages.

Figure 4. Yield spreads of a Mexico's government bond in 1982 (pound sterling denominated).



Source: Own computation from the *Financial Times*.

Figure 4. Exchange rate, Mexican peso – US dollar, 1982



Source: Banco de México, *Annual report*, 1982.