



Mexico's experiments with bank privatization and liberalization, 1991–2003

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Abstract

During the 1990s Mexico conducted two experiments with its banking system. In the first experiment (1991–96) it privatized the banks. This experiment took place with weak institutions to enforce contract rights. It also took place without institutions that encourage prudent behavior by bankers. The result was reckless behavior by banks, and a collapse of the banking system. In the second experiment (1997–2003), Mexico reformed many of the institutions that promoted bank monitoring and it opened up the industry to foreign investment. It was less successful, however, in reforming the institutions that promote the enforcement of contract rights. The result was that bankers behaved prudently, but prudent behavior in the context of weak contract rights implies that banks are reluctant to extend credit to firms and households.

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1. Introduction

Over the past decade Mexico has conducted two experiments with its banking system. The first took place in 1991 when the government privatized the commercial

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