

The Mexican Banks of Issue (Bancos)

by William H. McDonald



Colonial Mexico

THE Royal Treasury (Real Hacienda) was established in Mexico in 1522 A.D. by the appointment of certain officials to perform the required functions on behalf of the Royal Treasurer. This marked the first financial organization in the New World. The establishment of mints followed but it was not until the late 18th century that banks, or similar institutions, appeared. Hacienda owners made loans and provided rudimentary banking facilities. Banker-brokers ("rescatadores") served the mining industry and merchants and traders were often money lenders.

Early Bank Activity (Late 18th Century)

The earliest banks active in Mexico were The Bank of San Carlos, Madrid, Spain, and The Mining Loan Bank (The Banco de Avio de Minas), Mexico, DF. **The Bank of San Carlos**, a Spanish bank with Head Office in Madrid, was established June 2, 1782. Some of the capital was raised in Mexico. Operating

in the new Colony, it funded public works, loaned money to the Government and assisted with the administration of Mexico's foreign commercial activities. The Bank of San Carlos withdrew from Mexico after a few years and in 1829, merged with the Bank of San Fernando. Both Banks issued bank notes and it is likely some circulated in Mexico, but there is no evidence either Bank made special issues exclusively for use in Mexico.

The Mining Loan Bank, was set up under a new mining law passed in 1783. It made loans to the mine-owners and otherwise assisted in the early development of the mining industry. At its peak, the Bank had capital of 4 million pesos. It issued no currency and disappeared in the aftermath of the War of Independence.

The National Monte De Piedad. On June 2, 1774 a Royal Decree authorized Pedro Romero de Terrehos, later the Conde de Regla, to establish a financial institution — The **Monte De Piedad** in

Mexico City. Terrehos had made a fortune from a mining venture in Pachuca. He later became a benefactor, supporting schools and the Church. He established the Monte de Piedad as more or less a charitable institution designed to assist low income workers and peasants. The institution was successful and achieved a special status in the eyes of the ordinary people of Mexico.

War of Independence

With "El Grito de Dolores" from the steps of his Parish Church in 1810, Father Hidalgo with his famous "cry" started the War of Independence. It was the beginning of what turned out virtually to be a century of turmoil, unrest and revolution.

In 1823, the self-proclaimed Emperor Augustin de Iturbide unsuccessfully floated Republican Mexico's first fiat paper currency — 4 million Pesos. Many of these notes have survived and are the oldest Mexican Government paper currency available. With one exception, no commercial banking activity

is known from this period. British merchant banks reportedly were active; however, none of their fiscal paper has survived.

The exception mentioned was: **The Commercial and Agricultural Bank of Texas.** On April 30, 1835, while Texas was still part of Mexico, Samuel M. Williams, a Texas merchant, obtained a bank charter from the Governor of the State of Coahuilla and Texas to establish a bank at Columbia. The capital of 100,000 Pesos was subscribed during 1835 and '36 but because of the political crisis and the cessation of Texas from Mexico in 1837, the bank never opened its doors as a Mexican institution. (The bank was later established as a Texas, USA Bank, but that's another story.)

Bank note plates were engraved in denominations of 1, 2, 3, 5, 10 and 20 pesos and some notes have survived, all scarce or rare. Unissued uniface sheets of notes were used during the U.S. Civil War by the State of Louisiana to print state Notes.

The next event of significance took place on May 16, 1854, a Code of Commerce was adopted by the Mexican Congress. This was the first serious attempt to regulate financial institutions in Mexico, and it signalled the ushering in of the Mexican commercial banking era.

Early Mexican Banks: 1854 - 1897

During the next thirty years, there were a number of attempts to establish banks in Mexico, not all of them successful. Two of the earliest are interesting:

Bank of Mexico (El Banco de Mexico). A petition dated July 1, 1857 was presented to President Ignacio Comonfort to establish a commercial bank in Mexico City to be called The Bank of Mexico. It was to be privately owned, have 5 million pesos capital and operate as a bank of deposit, discount and emission. Although a legislative decree was passed, the project did not go ahead, the reason is unknown — and the Bank is not recorded as ever having operated.

The second attempt was for a bank by the same name:

Bank of Mexico (El Banco de Mexico). Head Office: Mexico, D.F. On January 2, 1864 the Mexican Congress passed a decree authorizing the establishment of a privately-owned bank of deposit, discount and issue. It was to have 10 millions capital and be the government's fiscal agent; also to have a monopoly on the issue of currency. There was immediate opposition to the project and Emperor Maximilian refused to sanction the grant of charter before he left Paris for Mexico, and the project died. Bank notes were printed in Paris in anticipation of being issued when the Bank opened for business. One or two of these have survived.

The third attempt to establish a bank was successful and the first Mexican commercial bank became a reality:

London Bank of Mexico and South America The London Bank of Mexico and South America was established under the management of William Newbold on June 22, 1864 by a decree

from the Tribunal of Commerce. It was a bank of deposit, discount and issue with the few limitations to which it was subject under the 1854 Code of Commerce being of a general nature. It would operate throughout Mexico from branch offices. It issued bank notes first in February 1865 and again in 1878, 1883 and 1887. Denominations were 2, 5, 10, 20, 50, 100 and 500 pesos.

The London Bank was caught in a controversy upon the passing of the 1884 Code of Commerce as to whether or not it should be subject to the more stringent requirements of the Code. In order to avoid any difficulty it acquired the Charter of the Commercial Bank on August 27, 1886 with whom it, in effect, merged, without changing its name or giving up its corporate status. The Commercial Bank had been chartered originally under the name The Employees Bank (El Banco Empleados) on June 12, 1883. Among its powers, it had the right to issue bank notes for three times its metallic reserves. No record exists that the Commercial Bank issued notes. The Employees Bank released at least one issue and specimens have survived. No other information is available.

The London Bank grew and prospered becoming the largest bank in the Republic. The handwriting was on the wall, however, and it decided to become wholly a Mexican Bank. On July 1, 1889, it changed its name to the Bank of London and Mexico and re-organized with a new charter as a Mexican bank.

(continued on next page)



The English bank remained the largest shareholder.

Under the new name the bank issued bank notes of only one design but with various dates and domiciled at a number of its branches up to and during the Constitutional Revolution. It survived and today as the Banca Serfin is one of the largest banks in Mexico.

Early Chihuahuan Banks

In the 1870's a number of banks were established in the state of Chihuahua. In several of them American citizens were involved, due no doubt, to the fact that Chihuahua bordered on the U.S.A.

The Bank of Santa Eulalia. The Bank of Santa Eulalia was amongst the earliest — July 1875. It had the right to issue notes for up to 100,000 pesos. It was chartered by the State and had few restrictions on its operations.

The new Code of Commerce passed by the Mexican Congress in 1884 required that all banking henceforth must be under the control of the Federal Government and be subject to the new Code. The Bank of Santa Eulalia negotiated a new charter which was approved March 15, 1889. At the same time, it changed its name to The Commercial Bank of Chihuahua. It remained small and prior to the enactment of the General Banking Law of 1897 merged with the Mining Bank.

The Bank issued notes under both its names but few have survived. They are rare since the succeeding bank re-

deemed all the notes that were presented for payment. Another very early bank, started in 1874 as a private bank was The Bank of Chihuahua. Its state charter of 1875 was converted to a federal charter with the 1884 Code of Commerce. This charter, among other things, limited its issues to 3 times the metallic reserves but allowed for small denominations including 25 and 50 centavo notes. Competition in the State of Chihuahua was severe and in the face of the pending General Banking Law of 1897, it went into voluntary liquidation early in 1896.

The Bank had two issues of notes which it redeemed as presented when it wound-up its affairs. They are rare today.

The Mexican Bank (also called The Mejicano Bank). The Mexican Bank was chartered as a state bank in March 1878. Its charter was revised under the 1884 Code of Commerce. It remained small and finally was taken over by the Mining Bank in January 1896. Notes were issued using the two spellings for the name. They are all rare as the Mining Bank was required by law to redeem all the notes of the Mexican Bank within two years.

The Bank of Hidalgo, Hidalgo del Parra, State of Chihuahua. The Bank of Hidalgo, another state chartered bank operating in Chihuahua was established by a group led by Samuel Miller as a private bank about 1880. It was chartered in January 1883.

It was quite small and decided not to

try to meet the more stringent conditions of the 1884 Code of Commerce. It was taken over by the Mining Bank in 1885.

The Bank of Hidalgo issued notes only in 1883 — the denominations were 25 and 50 Centavos and 1, 5 and 10 Pesos. They were printed by the Homer Lee Bank Note Company of New York. The relatively few notes which this bank issued were redeemed after the merger with the Mining Bank. Any that survived are rare and consist mainly of specimens or proofs.

The Mining Bank, the best known of the Chihuahua banks. The Mining Bank began in 1882 as a state chartered bank owned by the prominent Creel family. It received a new charter on June 1, 1888 under the Code of Commerce. The Bank grew and prospered absorbing all the smaller Chihuahua banks. It met the requirements of the General Banking Law of 1897 and by the eve of the Constitutional Revolution the Bank's assets stood at over 18 million Pesos.

The fate of the Mining Bank is typical of most of the Mexican banks of issue. Caught up in the politics of the Revolution, it was forced to support the government faction in power — later when a change of government occurred by force of arms, the new regime considered it an enemy of the state for having supported the previous regime. The Mining Bank, along with most other banks, was forced to exceed its charter terms by issuing notes to fund the forced government bond issues of General Victoriano Huer-





ta who had seized power in February 1913. The Carranza regime, when it took power in July 1914, declared that all banks must bring their metallic reserves within the requirements of their Charters. The Mining Bank refused to submit to examination and on December 15, 1915 its charter was cancelled. The government liquidated the bank and while it was listed in the Treasury report of October 1923 with deposits of 4,976 Pesos it, thereafter, disappeared.

The Mining Bank issued several different series of bank notes. They include: 1882 - Issue of notes in name "The Chihuahuan Mining Bank (El Banco Minero de Chihuahuaense).

1897 - New issue under the law of 1897.

1910 - A commemorative issue marking the 100 year anniversary of the War of Independence.

ca 1913-14 - Revolutionary "forced Huerta issue" including small denominations and locally printed (in Mexico) issue.

The early notes, since they were redeemed and exchanged for new notes, are rare. June 30, 1889 was the last date for redemption, by law. The Revolutionary issues are relatively common, except the larger denominations. A number of the banks purchased some of their notes for cancellation and the banks that voluntarily liquidated their business redeemed some notes. Those

banks which survived may also have made arrangements to redeem some notes. Others were unable to. The circumstances vary bank to bank but it is safe to say that all pre-revolutionary notes extant for this group of banks and all issued high denomination notes are scarce to rare.

Federal Banking Activity

Reverting again to the pre-revolutionary period, the early 1880's — contemporary with the development of the Chihuahuan banks, two banks were formed that would play significant roles in the development of the banking industry and the history of Mexican bank notes: The Mexican National Bank and The Mercantile, Agricultural and Mortgage Bank.

The Mexican National Bank, was granted a federal charter on November 16, 1881 as a bank of issue with full and very broad banking powers. The petition by Edward Noetzlin was on behalf of the Franco-Egyptian Bank. The bank was to have a special relationship with the government and its charter was a milestone in Mexican bank evolution.

Economic difficulties in 1883 and the suspension of the National Monte de Piedad resulted in a run on the Mexican National Bank, and a catastrophe was avoided only by the intervention of the London Bank of Mexico and South America and the Mercantile, Agricultural and Mortgage Bank.

The Mercantile, Agricultural and Mortgage Bank, usually referred to on-

ly as the Mercantile Bank, was chartered by the Mexican Congress in April, 1882. It was both a bank of issue and a mortgage bank. It was well-managed and prospered. Out of the crisis with the Mexican National Bank, there developed a close relationship which led to a merger of the two banks. The new organization's charter was approved by Congress May 31, 1884 under the name:

The National Bank of Mexico. The charter of the new bank included not only the rights of the predecessor banks but, since the government needed financial support which it looked to the Bank to furnish, it got additional privileges. These included a virtual monopoly on the issue of bank notes — although it was not enforced. The bank became the government's fiscal agent and with its large capital (7 million pesos paid in) soon dominated the banking scene.

The 1884 Code of Commerce affected the National Bank very little in contrast to the General Banking Law of 1897. Under the latter, which instituted the new principle of the "First Banks" of each state, with full right of emission, it lost its monopoly on the right to issue bank notes (although as mentioned, this had not been enforced). It nevertheless went on to become the largest and most prosperous bank in Mexico, surviving the revolution in better shape than most other banks. Today it still is the largest Mexican banking institution.

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The Bank released only one major or distinctive issue of notes. These were first released January 1, 1885 and consisted of 1, 2, 5, 10, 20, 50, 100, 500 and 1000 pesos. The notes were dated, as issued, from over forty-five different branches, with the Branch name overprinted on each. This continued up to the Revolution when a 50 centavo note, together with a re-issue of the one and two peso notes were released. These low denomination notes had been prohibited after the 1897 Banking Law was passed but a special decree authorized an issue because of a war time shortage of small change.

The National Bank, in addition, had several emergency issues drawn on it during the Revolution.

As in the case of other banks of issue, the National issued notes, as late as the end of 1913, to cover its purchase of General Huerta's forced bond issues which accounts for the large number of 1913 dated notes extant. Some of these were later redeemed but many survived. Bank notes issued before the Revolution, and the higher denominations are, on the other hand, quite scarce or rare.

Several other banks of historic interest that issued bank notes during this era were:

The Bank of Patricio Milmo. This bank, a private family-run organization, operated on a local basis prior to 1884. It issued bank notes of which a few specimens (remainders) have survived but very little is known about the bank.

The Bank of Vera Cruz. A charter was granted August 14, 1889 to operate a bank at Orizaba, Vera Cruz. Under the 1884 Code of Commerce, it had authority to issue cash bonds which may have circulated locally as a substitute for currency. Any that have survived are rare.

National Monte de Piedad. After the first century of operation, the Directors of the National Monte de Piedad became more venturesome and looked to the developing banking activity as a new source of revenue. On October 6, 1879, the Monte applied for and was granted a bank charter with the right to issue bank notes up to 9 million pesos. The notes were acceptable in Federal offices in payment of all obligations — tantamount to making them legal tender. By early 1884, the Monte had over 4 million pesos in circulation but its assets were illiquid and its cash reserve stood at less than 2½ million pesos. Political disorder compounded the public's growing lack of confidence, a run occurred and the Monte de Piedad suspended on April 29, 1884. The Federal Government and the other banks gave enough support to avoid a failure but the Monte realized banking was not its forte. It gave up its banking charter and today is a pawn shop in Mexico City.

The Monte de Piedad, as a Bank, issued only one series of notes. After the crisis it redeemed all notes that were presented for payment and only a few signed and issued notes have survived. They are rare. A few years ago a horde

of "remainders" was discovered and they are common except for the larger denominations.

General Banking Law of 1897

Jose Y. Limontour, Secretary of the Treasury, under General Porfirio Diaz, devoted considerable energy to the unification and modernization of the banking system which had become fractured over the years. The result was the General Banking Law of 1897. Under this Law, approved March 19, there was to be three classes of banks:

1. Banks of Emission.
2. Mortgage Banks.
3. Development Banks (Refraccionarios).

The first Banks of Issue to be chartered in each state were to have a monopoly on banking business in their state including note issues. They were to be exempt from taxation and allowed to open branches. The "national" banks with head offices in Mexico City continued to have the right to operate throughout the Republic.

The mortgage and development banks were restricted and very few charters were issued. An important one, however, was the Mexican Central Bank which became owned by and performed certain functions as a clearing bank for most of the Banks of issue. It did not emit notes.

Under the new banking law the terms and conditions for issuing bank notes were liberal. The circulation could be up to three times paid in capital provided a



metallic reserve was held of 50 percent of its notes in circulation plus demand and three day notice deposits. The bank notes, though not legal tender, were redeemable at the head office or where they were issued, which gave rise to the practice of overprinting some with a branch name. The only denominations allowed by the 1897 Law were 5, 10, 20, 50, 100, 500 and 1000 pesos. A government official (interventor del Gobierno) was permanently assigned to each bank to supervise the issuing of notes and was required to sign each note. A stamp duty was extracted as notes were issued. Evidence of it having been paid can be found in the special stamp on the back of each note legally issued under the Act.

There was no provision for a redemption fund — the security of the note issues was dependent on the solvency of individual banks and the acceptance of them by the public was dependent on the belief in such solvency, reinforced by faith in the government's supervision of each bank's reserves.

By the end of 1910 a total of twenty-seven banks of issue had been chartered under the General Banking Law of 1897, plus two mortgage banks and six development banks of which two had started as banks of emission and were converted. Included in these figures are the banks previously in business but brought within the new banking law requirements. By this date, the total resources of these banks exceeded 1.1 billion pesos. The circulation of the banks of issue was over 113 million (compared to June 1893 when Limontour was appointed Secretary, only 13 banks were operating in Mexico, with total resources of less than 83 million pesos).

There is insufficient room, in this article, to go into the details of all these banks. The following is a representative group:

Bank Name and Location	Year Chartered	Outcome
Bank of Aquascalientes Aquascalientes, AG	1902	Voluntarily wound-up its affairs prior to March 1916.
Bank of Coahuila Saltillo, Coahuila	ca 1897	Charter cancelled by government Dec. 5, 1915 and while it was still in existence in 1923, it ceased sometime before 1931.
The Bank of Durango, Durango, Dgo.	1890	Charter cancelled Dec. 15, 1915. Shortly thereafter its affairs were wound-up.
Bank of Guanajuato, Guanajuato, Guan.	1900	Charter cancelled by government Dec. 15, 1915. Ceased between 1923 and 1931.
Bank of Jalisco, Guadalajara, Jal.	1898	Charter cancelled Dec. 15, 1915 by government. In existence 1923 and reconstituted prior to 1931 as a development bank.
Mercantile Bank of Monterrey, Monterrey, Nuevo Leon	1899	Government cancelled charter March 8, 1916. Reorganized in 1924 as a development bank.
Mercantile Bank of Vera Cruz, Vera Cruz, V.C.	1898	Charter cancelled Dec. 14, 1916 when Carranza arbitrarily revoked all bank charters. Wound-up completely between 1923-1931.
Bank of Nuevo Leon, Monterrey, Neuvo Leon	1891	Charter cancelled Dec. 14, 1916 but the bank reorganized as a bank of deposit and discount (no right of issue) under new banking law of 1924.
Occidental Bank of Mexico, Mazatlan, Sinaloa	1898	Charter cancelled Dec. 14, 1916. Reorganized under the new banking laws of 1924 and 1926 as a development bank.
Bank of Sonora, Hermosillo, Sonora	1889	Charter cancelled Dec. 14, 1916. Reorganized as a development bank under the laws of 1924 and 1926.
Bank of Tabasco, San Juan Bautista (Villahermosa), Tabasco	1900	Charter cancelled Dec. 14, 1916. It disappeared soon after 1923.
Bank of Tamaulipas, Tampico, Tamaulipas	1902	Charter cancelled Dec 19, 1915. Revived and became converted to a development bank under laws of 1924 and 1926.
Bank of Zacatecas, Zacatecas, Zacatecas	1891	Charter cancelled Dec. 14, 1916. Tried to get reorganized as a development bank under banking law of 1926 but this was not successful. Thereafter it disappeared.

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(continued on next page)

There were also a number of banks chartered under the General Banking Law of 1897 which changed their status or merged with other banks. The effect of this activity on their outstanding note circulation is quite significant and some details about these banks may be of interest.

Bank of Campeche, Campeche, State of Campeche. Chartered prior to June 1901 as a bank of emission under the 1897 banking law. The Bank of Campeche converted to a development bank on March 1, 1909. Thereafter it redeemed its outstanding circulation. It wound up its affairs voluntarily, prior to June 1914. No cash bonds (bonos de caja) appear to have survived and the rarity of its bank notes suggest it redeemed most after it became a development bank and before it was wound-up.

Bank of Michoacan, Morelia, State of Michoacan. Another bank of emission which converted to development bank status was the Bank of Michoacan. It was established in 1901 and converted early in 1909. It remained small and obscure, winding up its affairs voluntarily prior to June 1914. The few surviving bank notes that were not redeemed after the conversion are quite rare.

The Bank of Chiapas, Tuxtla Gutierrez, Chiapas, commenced business in September 1901 as a bank of emission under the law of 1897. It remained small and in early 1909, merged with the Oriental Bank of Mexico, Puebla. Its outstanding notes were redeemed by the

merged bank and very few survived.

The Oriental Bank of Mexico, Puebla, was chartered in 1898 as a bank of issue. By 1909, it had grown to become the fourth largest Mexican Bank. The bank was one of those involved in the turmoil of the revolution and on December 15, 1915 its charter was cancelled because it could not meet the metallic reserve requirements. It tried to re-establish itself in the mid-twenties and while it reached an agreement with the government, there is no evidence it succeeded in re-organizing. Many of its large issue of notes have survived.

The Bank of Oaxaca was established in 1901 as a bank of emission at Oaxaca. It remained small and early in 1909 merged with the Oriental Bank, Puebla. Its outstanding circulation was redeemed by the Oriental Bank as notes were presented and very few have survived. They all are rare.

The Mercantile Bank of Yucatan, with head office in Merida, was chartered September 18, 1889, as a bank of issue and discount. It conformed to the 1897 Banking Law and by 1901 was showing assets of over 16 million pesos and almost 3 million pesos circulation.

The Yucateco Bank, also in Merida, Yucatan, was established at almost the same time. It achieved "first bank" status under the general banking law of 1897. By 1901, it had total assets of over 24½ million pesos and notes in circulation of 5 million pesos.

The economic crisis of 1907 in the

United States and the disruptions that followed were felt in Mexico. The frailty of the Mexican economy soon became obvious and a number of banks suffered losses, including both Yucatan Banks. Each wrote off their entire reserve and surplus accounts in March 1908. The position of both banks was so tenuous that they decided to merge, which was effected in April 1909.

The Mexican Peninsular Bank was the named chosen for the merged institution. It grew and prospered but like most others was involved in the collapse of the banking industry during the revolution. Its charter was cancelled November 9, 1915 as it had insufficient metallic reserves. It survived, however, and was re-organized in 1927 as a development bank.

Bank notes of the two predecessor banks were overprinted with the new name and used after the merger. The earlier notes in each bank's own name were redeemed as presented to the Peninsular Bank. Since there were several years of successful operations of the latter, the present day scarcity of these early notes indicates that most were redeemed. The notes overprinted "Mexican Peninsular Bank" are more common than the notes of the predecessor banks but all are nevertheless scarce.

Destruction of the Banking System during the

Constitutionalist Revolution

An indication of what the banks were





subjected to has already been given. They were forced to issue currency illegally which later was the basis for cancelling most of their charters. Their treasuries were raided of specie by succeeding regimes in control, they were impelled to make loans to the military governments without hope of repayment. The President of one bank was jailed for not co-operating. In effect the old banking system was destroyed and the Bank's assets liquidated. The following comparison tells the story:

Bank of Mexico, Mexico, D.F.

The first step toward the formation of a central bank — a single bank of issue ("banco unico") was taken in the 1917 constitution which referred to a single bank of issue to be controlled by the Federal Government. It was not, however, until August 25, 1925 that the legislation establishing the bank was passed by Congress. It had the usual powers of a central bank notwithstanding it had public shareholders and the right to undertake a commercial banking

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"Old Banks of Issue" (24 banks)

	Dec. 31, 1910	Oct. 31, 1923*
Cash on hand (pesos)	87.7 million	14 million
Deposits	169.0 million	35.5 million

*These figures were after a few years of attempted recovery.

Most banking in the 1920's was being done by Mexican branches of foreign banks, i.e. Bank of Montreal and Canadian Bank of Commerce held 59% of the deposits and 40% of the cash in the whole Mexican banking system. Almost no paper money circulated. Recovery began in the early 1920's but it was slow.

New banking legislation was passed in 1924 and 1926 and as indicated a number of the old banks became re-established. The most significant event, however, was the establishment of the Bank of Mexico.

business. It changed over the years and is now exclusively a central bank.

The Bank of Mexico issued its first series of notes on September 1, 1925. Denominations were 5, 10, 20, 50, 100, 500 and 1000 pesos. It issued the first 1 peso note in 1936. The bank has continued as the only issuer of paper money in Mexico to this day.

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The foregoing article, originally delivered as a lecture, is but a small part of the fascinating story of the evolution