

## Mexico: June Mid-Term Elections Guide and Economic Implications

- The upcoming mid-term elections on June 6 will be critically important for the future of several important initiatives launched by the López Obrador administration, including reforms to the fiscal framework, electricity sector, and pensions.
- Polls imply that Morena and its allies should retain an absolute majority (50% +1) in both Congress' Chamber of Deputies and the Senate, but will likely lose its qualified majority (two-thirds of seats) in the Lower House.
- At the state level, Morena is expected to become a more dominant political force by taking about half the governorships up for grabs.

### WHAT'S AT STAKE

Mexico's mid-term elections scheduled for June 6, 2021 have been described as one of the most consequential off-cycle set of votes in the country's modern history. Two key factors underpin this assessment: (1) a historically large number of positions (i.e., 21,368 posts) are being contested at the polls run by the National Electoral Institute (INE, in Spanish); and (2) the results could consolidate or undermine President López Obrador's political project, which he has marketed as Mexico's "fourth transformation"—the first three being independence in 1821, the Reform Laws—the most important amongst them being the separation of Church and State—between 1858 and 1861, and the Revolution during 1910–20.

**At the federal level, all 500 seats in the Lower House of Congress are up for grabs under a parallel voting system.** Of the total cohort of Deputies, 300 will be elected through a simple plurality (i.e., "relative majority" or "first past the post") in single-member electoral districts, while the remaining 200 seats will be filled through a proportional representation system (i.e., "largest remainder method" under which parties are awarded seats in five multi-state, 40-seat constituencies).

**At present, the President's Morena party and its allies hold a qualified majority (i.e., more than two thirds) in the Chamber of Deputies and an absolute majority (50% + 1 vote) in the Senate.** This control of both Houses of Congress has allowed the President and his allies to pass bills and amendments to the constitution in an expeditious manner.

**At the regional level, a wide range of posts are also set for votes in June.** These include:

- Governors of 15 states;
- Legislatures in 30 states, which are comprised of 642 deputies elected on relative majorities and 421 elected under proportional representation;
- Some 1,926 municipal mayors; and
- Representatives for 17,864 seats on community boards and councils.

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The full sweep of the June elections is summarized in table 1. See appendices 1 and 2 for keys to state name and party abbreviations.

**RECENT POLLING INDICATIONS**

According to the **Federal and Local Elections 2021** report published on April 12 by Integralia Consultores, **“Morena will receive the most votes of any party, but the electoral tsunami of 2018 will not be repeated.”**

In the Chamber of Deputies, Integralia projects that **“Morena and its allies will lose the qualified majority (2/3), but will achieve an absolute majority (50%+1),”** and with this, President López Obrador **“will lose the ability to amend the Constitution”** with the support of his current coalition. Constitutional changes would require support from two-third of the members in both chambers of Congress, respectively.

The latest available **Poll of Polls on the Lower House elections (as of Friday, April 23, 2021)** compiled by Oraculus, also anticipates that the **Morena party will lose some support, as shown in charts 1 and 2.** However, some of Morena’s allies could gain seats in the Chamber.

In our view, voting intentions remain fluid and will depend on two key factors: progress on rolling out vaccinations and continued gains in the economy’s rebound.

At the state level, April 8 polls on the 15 gubernatorial elections set to take place in June put Morena in the lead in 10 of these contests, as noted in table 1. As chart 3 shows, if Morena converts these polls into wins, it would represent a net gain of nine state governors’ offices. The aforementioned Integralia Consultores report predicted that, of these races, Morena **“would win between 7 and 8 [and] would become the most relevant regional force with 13 or 14 governorships”**, thereby surpassing the PRI, which currently governs in 12 states (see table 1, again).

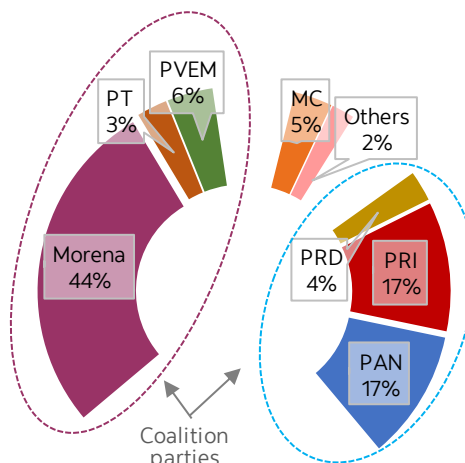
**Table 1**  
Mexico: 2021 National, state, and local elections

State	Governor			Lower House		Mayors	Community board & council seats	Total
	Elections	Current	Leading	RM	PR			
Federal elections								
National				300	200			500
Local elections								
State Legislatures								
Local	15			642	421	1,926	17,864	20,868
Ags		PAN		18	9	11	98	136
BC	1	Morena	Morena	17	8	5	68	99
BCS	1	PAN	PAN	16	5	5	53	80
Camp	1	PRI	Morena	21	14	13	262	311
Chis		Morena		24	16	123	979	1,142
Chih	1	PAN	PAN	22	11	67	781	882
CDMX		Morena		33	33	16	204	286
Coah		PRI				38	476	514
Col	1	PRI	Morena	16	9	10	104	140
Dgo		PAN		15	10		0	25
Méx		PRI		45	30	125	2,054	2,254
Gto		PAN		22	14	46	470	552
Gro	1	PRI	Morena	28	18	80	665	792
Hgo		PRI		18	12			30
Jal		MC		20	18	125	1,589	1,752
Mich	1	PRD	Morena	24	16	112	986	1,139
Mor		PES		12	8	36	202	258
Nay	1	PAN	Morena	18	12	20	217	268
NL	1	Independent	PRI	26	16	51	526	620
Oax		PRI		25	17	153	1,232	1,427
Pue		Morena		26	15	217	2,027	2,285
Qro	1	PAN	PAN	15	10	18	184	228
QR		PRI				11	128	139
SLP	1	PRI	PAN	15	12	58	451	537
Sin	1	PRI	Morena	24	16	18	171	230
Son	1	PRI	Morena	21	12	72	558	664
Tab		Morena		21	14	17	68	120
Tams		PAN		22	14	43	465	544
Tlax	1	PRI	Morena	15	10	60	709	795
Ver		Morena		30	20	212	845	1,107
Yuc		PAN		15	10	106	687	818
Zac	1	PRI	Morena	18	12	58	605	694
<b>Total</b>	<b>15</b>			<b>942</b>	<b>621</b>	<b>1,926</b>	<b>17,864</b>	<b>21,368</b>

Sources: Scotiabank Economics, with data from INE and Integralia Consultores.

Chart 1

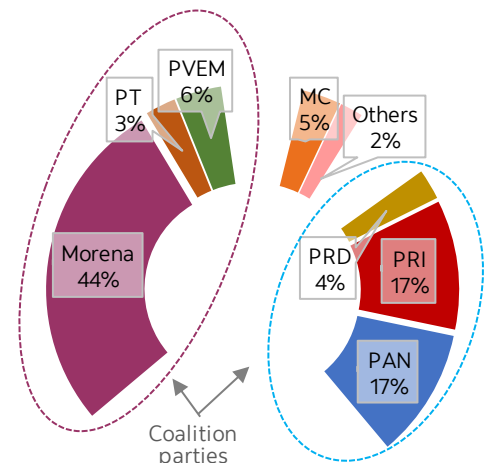
Mexico: Lower House Forecast, Oraculus, April 23



Sources: Scotiabank Economics, Oraculus.

Chart 2

Mexico: Lower House Forecast, Oraculus, April 23



Sources: Scotiabank Economics, Oraculus.

## IMPLICATIONS: MORE BALANCE

This year's mid-term elections have the potential to facilitate a turnaround in Mexico's economic policies in the second half of the current six-year presidential stint. Depending on the elections' results, they could produce greater counterweights and balancing forces between the Legislative and Executive branches. In the 2018 elections, the Morena party obtained large majorities in the legislative branches at the federal, state, and municipal levels, which allowed President López Obrador to make significant policy changes and to consolidate and move forward on many of his national projects.

**If Morena were to lose its qualified majority in the federal Lower House, but maintain its absolute majority, as several of the main polls so far imply could**

**happen, President López Obrador and the leaders of his legislative factions would still have enough power to continue advancing his budgetary and legislative projects—so long as they do not involve constitutional reforms or appointments that require a qualified majority vote.** The greater the losses in the Chamber of Deputies for the President's coalition, the bigger the hurdle AMLO could face in building consensus for any future constitutional changes, which would complicate some elements of his agenda. More specifically, if the governing coalition were to lose the two-thirds majority in the Lower House, we would likely see hold-ups and modifications in the government's fiscal, energy-sector, and pension reforms, as we discuss below. Mindful of this possible scenario, the opposition PRI-PAN-PRD parties have decided to form a broad coalition to contain Morena's control over the political system.

## LEGISLATIVE AGENDA FOR THE SECOND HALF OF THE AMLO ADMINISTRATION

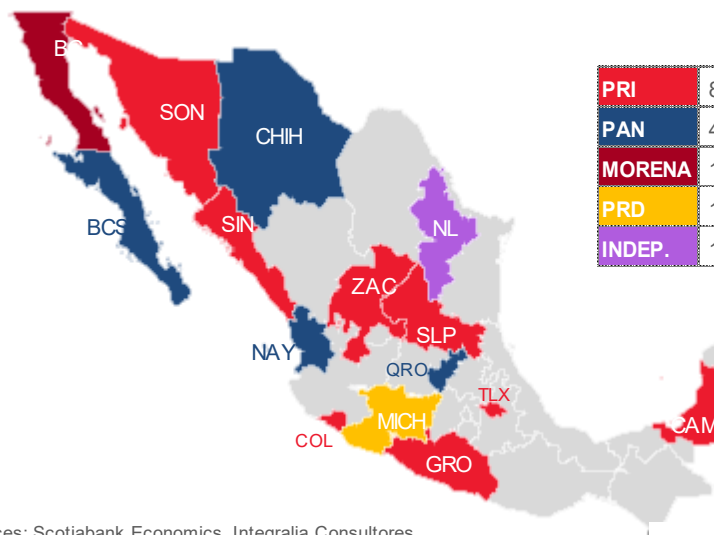
Some of the important reform proposals currently under discussion by the government and Congress could see their progress substantially altered by the results of the June elections. The main initiatives that could see changes as a result of the vote include:

- Tax reforms.** Since the 2018 presidential campaign, the AMLO Administration has indicated that a major package of fiscal reforms could be introduced in the second half of the current presidential term. The need for fiscal reform is becoming increasingly urgent as a result of the rise in the public debt-GDP ratio caused by the economic crisis of 2020. Action needs to be taken to shore up the country's investment-grade status. Our estimates and projections indicate that, to anchor the trajectory of public debt, a fiscal adjustment equivalent to around three percentage points of GDP would be needed, of which one point would be necessary to capitalize Pemex. This adjustment could be achieved through cuts to spending that expand the primary surplus or, alternatively, through an increase in public revenue via greater collection efficiency, a broadening of the tax base, the introduction of new taxes, or hikes in some existing taxes. Tax reforms would require only an absolute majority (i.e., 50% + 1 vote) in both chambers of Congress for ratification.

**The debate on how to increase public revenues has already begun, but there are differing views on how to do it.** Some suggest raising funds through improvements in tax collection under the current fiscal structure: the head of Servicio de Administración Tributaria (SAT), Raquel Buenrostro, as well as President López Obrador, both seem to support this idea. However, others, such as the Secretary of Finance, Arturo Herrera, favour a more ambitious tax reform. Some of the components of Mexico's tax burden are already heavy relative to those of countries with which Mexico competes to attract investment (table 2)—even more so if we adjust the tax base for the high rate of informality in the country (around 50%), which means that those who pay taxes already shoulder big responsibilities.

Chart 3

Mexico: Incumbents in June Gubernatorial Elections



Sources: Scotiabank Economics, Integralia Consultores.

In the current environment, in which investment remains the main source of weakness in the economy, it will be important to ensure that a potential tax reform is seen as balanced and friendly to the private sector. Achieving an increase in tax revenues close to 3% of GDP will not be easy without making adjustments to the VAT, such as eliminating the zero rate, raising the overall rate, and/or eliminating exemptions. Any of these changes could strike a blow to the government's popularity if it were to pursue them.

Table 2

Comparative tax structures, % GDP

	Mexico	Latam & Carib.	OECD
Personal income tax	3.5	2.1	8.2
Corporate income tax	3.5	3.7	2.9
Social security	2.1	3.4	9.2
Property taxes	0.2	1.0	1.9
VAT	3.7	6.6	6.8

Sources: Scotiabank Economics, OECD.

- Electricity-sector reforms.** Following the determination by the courts that the government's [Electricity Sector Reform Law](#) is unconstitutional, there has been talk of making a constitutional amendment to allow the package of changes to move forward. This proposal is critically important for the future of the country, since it would be expected to establish a hierarchy for public entities in the sector (i.e., the CFE would have priority over the private-sector operators in feeding generated power into the grid system) and favour hydroelectric and hydrocarbon-generated energy over solar and wind. A constitutional amendment to allow these changes to go ahead would require the support of two-thirds of both chambers of Congress.
- Pension reforms.** The pension reform proposal seeks, among other changes, to gradually increase employer contributions to workers' retirement funds from the current 5.15% to 13.875% of annual incomes over a period of eight years. Additionally, this proposal would establish that government contributions would support only the pensions of low-income workers. The initiative would also make several changes that affect the replacement rates of the pension system, including a motion to increase these rates from 31% to 54% for workers earning five minimum wages and from 46% to 76% for workers earning three minimum wages. The minimum pension eligibility requirement would also be lowered from 25 to 15 years of work. To be approved, the reforms need the vote of an absolute majority in both legislative chambers.

In addition to the aforementioned reforms, at this time it is likely that both the bill that would limit the use of [outsourcing](#) by employers (which accounts for about 20% of formal employment in the country), as well as the proposed changes to the [Hydrocarbons Law](#) will be approved by Congress before the June elections.

The coming weeks could be turbulent, as the recent frictions between the President's party and the INE have already shown. After the INE ratified the cancellation of Morena candidates' registrations for state elections in Guerrero and Michoacán, the President announced that he would move to reform the INE after the June 6 voting processes are completed to make it truly independent and subject to tighter budget controls. Integralia warns that, "If the results favour the president, he could promote more drastic changes than those seen in the first three years"; however, if the opposite happens, "it is foreseeable that he will redouble his attacks against the opposition, in addition to using popular consultations to pressure Congress to approve the reforms he needs to make his 'mark' and go down in history, among them an energy reform, a political-electoral reform, and even call for a Constituent Assembly to rewrite the Constitution". In this context, they add, "Companies and investors must prepare themselves for an environment of greater risks and reputational attacks".

With so much at stake in the upcoming elections, and some battles between the contenders and the electoral authorities already heating up (e.g., the governor's race in Guerrero), this last month before the votes get cast will likely feature ongoing political controversy. Just as the campaigns intensify, will see important legislation affecting the rail sector, hydrocarbons, labour outsourcing and the judicial system moving through ongoing legislative processes. While this may induce some volatility in Mexican markets, investors have also increasingly come to look through temporary disturbances of this sort.

**Appendix 1. State name abbreviations**

Abbreviation	State name	Abbreviation	State name	Abbreviation	State name
Ags	Aguascalientes	Gto	Guanajuato	QR	Quintana Roo
BC	Baja California	Gro	Guerrero	SLP	San Luis Potosí
BCS	Baja California South	Hgo	Hidalgo	Sin	Sinaloa
Camp	Campeche	Jal	Jalisco	Son	Sonora
Chis	Chiapas	Mich	Michoacán	Tab	Tabasco
Chih	Chihuahua	Mor	Morelos	Tams	Tamaulipas
CDMX	Mexico City	Nay	Nayarit	Tlax	Tlaxcala
Coah	Coahuila	NL	Nuevo León	Ver	Veracruz
Col	Colima	Oax	Oaxaca	Yuc	Yucatán
Dgo	Durango	Pue	Puebla	Zac	Zacatecas
Méx	Mexico State	Qro	Querétaro		

**Appendix 2. Major political parties**

Abbreviation	Party name	Political tilt	Abbreviation	Party name	Political tilt
Morena	Movimiento Regeneración Nacional	centre-left	PES	Partido Encuentro Social	right
PAN	Partido Acción Nacional	right	MC	Movimiento Ciudadano	centre-left
PRI	Partido Revolucionario Institucional	centre-right	PT	Partido del Trabajo	left
PRD	Partido de la Revolución Democrática	left	PVEM	Partido Verde Ecologista de México	centre

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