

## Mexico's midterm election: Another twilight of Democracy?

- We are approaching the midterm election that will work as a widespread accountability mechanism for the first half of AMLO's administration.
- It has been nearly two and a half years so far of the so-called "Fourth transformation," following an ambitious legislative agenda that has covered an extensive scope of topics.
- From public security issues to energy policy controversies, AMLO has prompted an active agenda that has had effects throughout several macroeconomic policies and the outcome of its implementation.
- Several aspects have prevented AMLO from going even more profound in pursuing legal and constitutional changes despite his enormous political support. Due to check and balances forces, constituent to a democratic state, the government has realized the spillover of policies affecting many citizens and its political cost.
- We expect AMLO to endure its struggle to continue changing the policy environment in the second half of his administration. Still, the scope to pursue even more significant changes depends hardly on the midterm election's outcome.
- Next June 6th, Mexican citizens will elect nearly 21 thousand political positions at all state levels, including the renewal of the Lower House, 15 out of 32 governor seats, and 30 out of 32 state congresses. Those are pivotal to assess the political grounds for AMLO to approach the legal changes to follow, and thus if he will advance in taking power over the central counterbalancing autonomous bodies to go along with his transformation.

**Jessica Roldán Peña**

Chief Economist

[jroldan@finamex.com.mx](mailto:jroldan@finamex.com.mx)

+ 52 (55) 5209 2056

**Víctor Gómez Ayala \***

Senior Economist

[vgomez@finamex.com.mx](mailto:vgomez@finamex.com.mx)

+ 52 (55) 5209 2151

**Montserrat Aldave Hoyo**

Economist

[caldave@finamex.com.mx](mailto:caldave@finamex.com.mx)

+ 52 (55) 5209 2029

**Pablo Mendoza Icaza**

Economist

[pmendoza@finamex.com.mx](mailto:pmendoza@finamex.com.mx)

+ 52 (55) 5209 2169

**Ana López Velasco Del Pino \***

Economist

[alvdelpino@finamex.com.mx](mailto:alvdelpino@finamex.com.mx)

+ 52 (55) 5209 2080

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We are approaching the midterm election that will work as a widespread exercise for the first half of AMLO's administration. The interlinkages of the midterm election with the public arena have multiple axes, and it is worth highlighting how they interact with the macroeconomic environment:

1. The outcome will have implications for the path that the policy agenda that AMLO has pursued over his first three years in office.
2. Historically midterm elections in Mexico seem to be negligible in terms of risk perception dynamics, as opposed to the increased levels of risk perception observed during presidential election years.
3. As any accountability device, it can reinforce or restrain AMLO's political motivations to take over several autonomous bodies that have worked as a meaningful counterbalance to its power in the past 2.5 years, renews their leaderships in the following months.

#### *A policy agenda recap*

It has been nearly two and a half years since the so-called "Fourth transformation" (4T for its Spanish acronym) began an ambitious legislative agenda that has covered a significant scope of topics. Morena leaderships at the Lower House and the Senate have fostered different proposals to reform the Constitution and several secondary laws. Many of them under a pretty draconian approach fueled several episodes of increased concern among the public.

From public security issues to energy policy controversies, AMLO has prompted an active agenda that has had effects either throughout the put in place of several macroeconomic policies or through their implementation. His primary strategy has consisted of proposing an aggressive change, forcing the incumbents to negotiate under a disadvantageous position, and eventually getting a bill passed in the direction of the first proposal.

The set of policies discussed is twofold. First, those that got eventually approved, with the participation of the private sector in some cases. Second, the remaining share stuck in the legislative process as those proposals created significant concerns on the harm they would represent for the strength of various institutions and its political cost.

Within the first set of legal reforms, we should include the pension reform enacted in 2020, the outsourcing reform recently approved, the new rules for minimum wage setting, and the changes to the energy industry at the electricity and hydrocarbons branches (see Figure 1). The pension reform approved last year aims to address the challenges that the transition regime will create over the following years. The difference in replacement rates between the preceding and the current pension regime is sizable.

**Figure 1. Approved reforms**

Topic	Main features
Outsourcing	<ul style="list-style-type: none"> <li>• Forbids most varieties of outsourcing for firms.</li> <li>• Modifies the outsourcing requirements of specialized services.</li> </ul>
Minimum Wage	<ul style="list-style-type: none"> <li>• Setting rules to increase the minimum wage above inflation.</li> <li>• Seeks to preserve purchasing power of low-income families.</li> </ul>
Pensions	<ul style="list-style-type: none"> <li>• Increases government contributions to lower income employees.</li> <li>• Reduces the number of weeks workers are required to contribute to their pensions actively.</li> </ul>
Electricity	<ul style="list-style-type: none"> <li>• Changes the dispatch rules in the wholesale electrical market.</li> <li>• Allows regulator to cancel agreements with the private sector preceding the 2013 energy reform.</li> </ul>
National Guard	<ul style="list-style-type: none"> <li>• Provides rules for the participation of the army in public security tasks.</li> <li>• Specifies the responsibilities of civilians within the body.</li> <li>• Aims to address Mexico's security crisis.</li> </ul>
Judiciary	<ul style="list-style-type: none"> <li>• Changes the structure of federal courts and oral trials.</li> <li>• Increases the presidential term of the Justice heading the Supreme Court.</li> </ul>
Hydrocarbons	<ul style="list-style-type: none"> <li>• Seeks to modify free competition rules in oil derivatives imports and storage.</li> <li>• Grants Pemex the monopolistic control in the wholesale market.</li> </ul>

Source: Finamex Economic Research with data from approved reforms.

Although the pension reform moved in the right direction, it included changes to the population to access retirement benefits. The amendment could increase the AUM for the local pension funds. Still, it faces the challenge of accounting for the spillovers of the COVID-19 crisis into the reallocation of formal and informal workers within the labor force.

Primarily, the composition will likely change, as 1.8 million workers remain to be absorbed by the labor market (0.4 million people from the formal sector coupled with another 1.4 million in the informal branch left the labor force between January 2020 and March 2021). Potentially, those workers will return to the labor force as the economic recovery also advances. Yet, the reallocation between the formal and the informal sectors will impact the fiscal cost accordingly.

AMLO's agenda has nurtured two central policies on the labor market side: creating explicit rules to minimum wage setting and the reform to outsourcing schemes. Although many of the changes implemented on this front seem aligned with the guidelines derived from the implementation of USMCA labor chapters into Mexican legislation, they still have created concerns amid the pandemic. The decline in job creation accumulates 464k positions since January 2020, according to INEGI, and the non-negligible upward pressure on underemployment and discourage rates create further challenges for the proper functioning of these policies.

The creation of the National Guard, a public security force aimed to rank civil power above that of the military forces, has had several implications for different economic events. Amid the economic activity downturn, the counter-cyclical behavior of felonies has resulted in increasing figures of femicides, theft, extortion, and kidnapping. Still, the National Guard and the army have accumulated tasks aside from public security. Namely, but not limited to a) the COVID-19 vaccination program, b) building and management of the New airport; c) cracking down of fuel theft; d) stopping of migration flows from Central America; e) the management of crucial social policies (i.e., growing trees and granting first employment to youth); f) the building of development banks' offices, and g) the building and administration of the Maya Train.

Finally, changes to energy laws have raised concerns regarding AMLO's stance towards the private sector participation in the industry. In the first case, the new direction of the Electric Industry opposed the free competition principles granted in the Constitution, causing the judiciary to stop its entry into force until the Amparo trials promoted by several private firms conclude. Moreover, in a double-down strategy to support the SOEs, Congress already approved another reform to the Hydrocarbons sector to restrain private sector participation in the downstream branch. The Senate will likely approve complementary changes to this law, whose implementation will eliminate the asymmetric regulation imposed on Pemex and allowed greater private participation in the sector.

All the legislation concerning the energy sector will likely face a legal jumble as it creates detrimental rules for private participants, which, in turn, violates the Constitution. For instance, COFECE, the antitrust commission, already presented an unconstitutional action opposing the electricity branch reform, and it may do the same with the new rules approved in the downstream sector. The Supreme Court will have the final verdict.

**Figure 2. Reforms under discussion or not enacted**

Topic	Main features
Hydrocarbons (Approved by Lower House, in discussion at the Senate)	<ul style="list-style-type: none"> <li>• Seeks to modify free competition rules in oil derivatives imports and storage.</li> <li>• Grants Pemex the monopolistic control in the wholesale market.</li> </ul>
Central Bank's reserves (Approved in the Senate, on hold in the Lower House)	<ul style="list-style-type: none"> <li>• Seeks to eliminate asymmetric regulation imposed to Pemex in the fuels market.</li> <li>• Creates unfavorable treatment to private participants in the retail market.</li> </ul>

Source: Finamex Economic Research with data from laws initiatives.

There is another set of amendments, one that did not succeed, and two more that Congress recently approved. The Senate approved a proposal to force the Central Bank to integrate dollars in cash whose origin cannot be verified into international reserves. However, the Lower House put it on hold after a meaningful pushback from Banxico to prevent such change. Most recently, Congress also approved a judiciary reform that will require a thorough implementation process, which, according to the President, needs the leadership of Arturo Zaldívar, current Justice heading the Supreme Court. For that purpose, the reform includes a proposal to extend Zaldívar's term for two years, in clear opposition to the Constitution (see Figure 2).

This legal change that extends Zaldívar's term violates the Constitution will follow an intricate back and forth period. Starting with the opposition forces within Congress, there is a chance that one-third of any chamber could promote an unconstitutional action in the Supreme Court. If that scenario eventually materializes, the plenum of the Supreme Court will require a qualified majority of 8 out of 10 Justices to nullify such change. The latter since Justice Zaldívar have to excuse himself from voting.

Although fiscal discussion at Congress has advanced relatively smoothly during the budget discussions, it also remains to be determined what will surely be the defining element for fiscal policy in 2022: the tax reform presentation.

In this regard, it is necessary to recognize that the midterm election, and its impact on the configuration of the Lower House as of September, will determine the possibilities of the fiscal authorities to modify the tax framework. More vast majorities would endow fiscal officials with more ample room for maneuver to amend current laws. Lower representation for MORENA in Congress will prove otherwise.

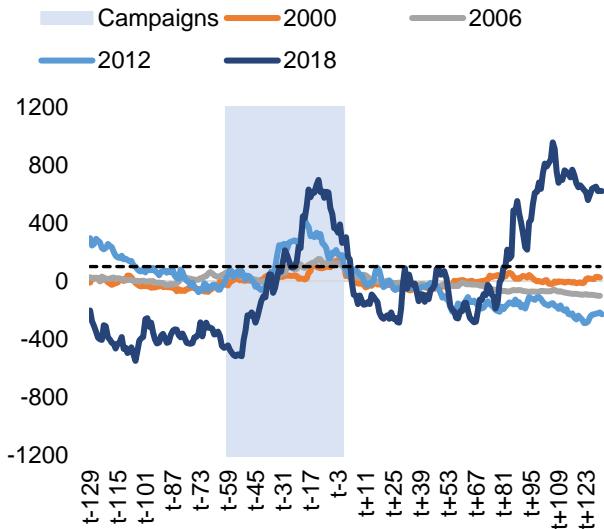
### *Risk dynamics*

In principle, in any democratic environment, electoral institutions work to translate social unrest into public representation. If social unrest tends to be high, such political tension might heighten uncertainty in election periods. In the Mexican case, the empirical evidence suggests that risk dynamics differ across presidential and midterm elections. We built a risk metric using leading financial indicators to analyze risk-off episodes. They tend to occur around Election Day, when Mexican citizens chose a new president every six years (see Figure 3a), but not around midterm elections (see Figure 3b).

Moreover, uncertainty concerning economic policy also tends to increase during presidential elections (see Figure 4a) but does not seem to vary significantly during midterms (see Figure 4b). This pattern could imply the dominance of the Executive branch Congress throughout the entire presidential term if the President concentrates excessive power. Still, as it occurred in Mexico between 1997 and 2018, a divided Congress, or the prospects of separated management following the election, constrain the risk of the election's outcome significantly as the implementation of the economic policy gets somehow denied to the check and balances prevailing the relationship of Congress and the President.

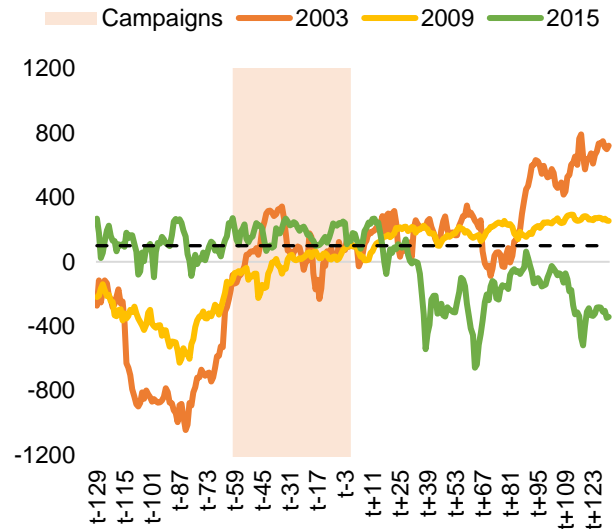
This year, uncertainty surrounds the evolution of the pandemic and the vaccination strategy that can put an end to it. However, several other forces also play at the internal level and align depending on the outcome. The midterm election will be decisive for the composition of the Lower House and the architecture of political representation at the state level for the MORENA ruling party and the primary opposition parties. As a result, the alternatives for AMLO to continue its makeover strategy depend heavily on such outcomes.

**Figure 3a. Risk dynamics\* during Mexico's presidential elections (Index, election day=100)**



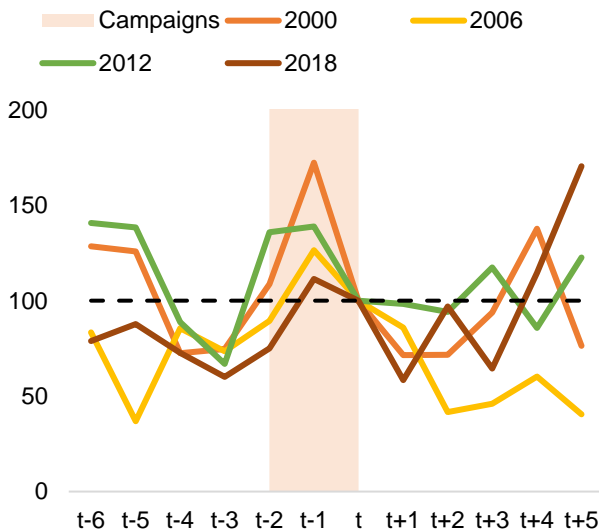
\* PCA using FX, 5Y sovereign CDS, 5y Pemex CDS, MEXBOL equity index, and 1-month FX volatility. For 2000, CDS indexes are not available. t refers to the Friday preceding the election day each year. Source: Finamex Economic Research with data from Bloomberg.

**Figure 3b. Risk dynamics\* during Mexico's midterm elections (Index, election day=100)**



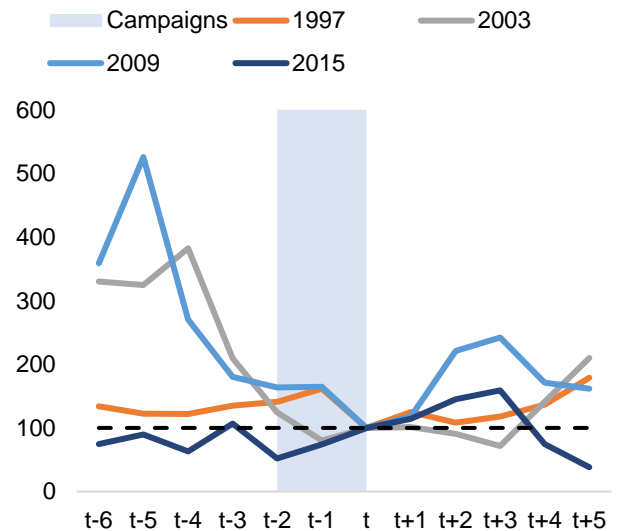
\* PCA using FX, 5Y sovereign CDS, 5y Pemex CDS, MEXBOL equity index, and 1-month FX volatility. For 2003, Pemex CDS is not available. t refers to the Friday preceding the election day each year. Source: Finamex Economic Research with data from Bloomberg.

**Figure 4a. Economic policy uncertainty\* in Mexico during presidential elections (Index, election month=100)**



Source: Finamex Economic Research with data from Economic Policy Uncertainty.

**Figure 4b. Economic policy uncertainty\* in Mexico during midterm elections (Index, election month=100)**



Source: Finamex Economic Research with data from Economic Policy Uncertainty.

### *The midterm election*

Next June 6th, Mexican citizens will elect nearly 21 thousand political positions at all state levels, including 1) the renewal of the Lower House, 2) 15 out of 32 governor seats, and 3) 30 out of 32 state congresses. Following the 2013 electoral and political reform, state elections have progressively aligned to the federal ones. As a result, this year, 15 states will elect a new governor simultaneously as the midterm election for the first time in history.

Mexico concluded its transition from a hegemonic party system to democracy in 2000, when the change of party in the presidency added to the plural arrangement of Congress, at a time rules of democratic representation and autonomous electoral bodies were under execution. Since then, the electoral laws have suffered meaningful changes, creating a wide-ranging set of accounting rules for parties. Many of them were promoted by AMLO after he contested and lost in the presidential elections of 2006 and 2012. He lost but alleged fraud in those two chances —his party led essential changes to the electoral rules and scrutinized public resources allocated to political parties.

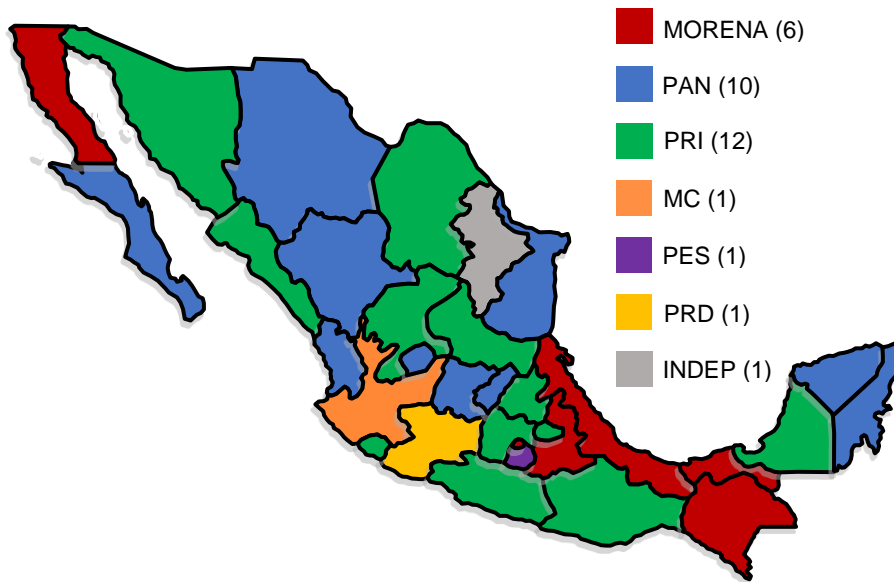
The most recent changes to the electoral legal framework are applicable for the first time and set the ground for Mexico's history's most relevant election process. Power allocation at all state levels can change significantly after the midterms and explain why the National Electoral Institute (INE) role in coordination with state electoral authorities is critical. Moreover, as parties seek alternatives to avoid fair competition rules, the claims from several parties, including the incumbent, have increased the social unrest towards the non-partisan role of INE only as a referee.

The first pivotal axis of the election comprises state-level voting. In 15 out of 32, governorships will change, and in 30 out of 32, the state congresses. In the first case, the present-day political landscape portrays quite divided forces across parties. PRI (center) party currently heads 12 governorships, PAN (right) party leads 10, and MORENA (left) party 6, including the capital Mexico City. PES party, MORENA's ally, MC, and the non-party-affiliation governor of Nuevo León hold the remaining three states (see Figure 5).

Midterm elections in 15 of those states represent a critical opportunity for AMLO to increase its influence in local politics through an even more extensive power of his party. Seventeen states will not have elections this year, so the MORENA-PES coalition will maintain its control in 6 states and the opposition parties (PAN, PRI, and MC) in the remaining 11 (see Figure 6).

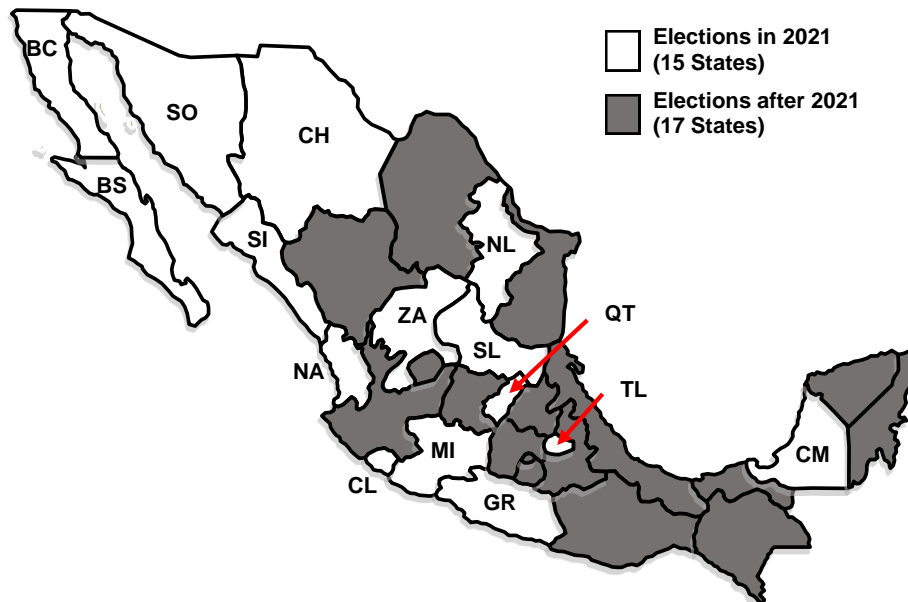


**Figure 5. Mexico's present-day political landscape of governor seats**



Source: Finamex Economic Research with data from local governments.

**Figure 6. 2021 Mexican states facing midterm elections in governorships**



Source: Finamex Economic Research with data from INE.

The attention concentrates first on the 15 states having governor elections this year. We gathered information from four publicly available polls conducted across the 15 states regularly, namely, Massive Caller, Poligrama, El Financiero, and Demotecnia, and classified them into three categories. First, those that are apparently "decided." I.e., those states where the four polls predict the same winner, and the difference between the front runners and second place excess the margin error. Second, the states where the election is "almost decided," as the three out of four polls project the same winner, distancing from the second place by more points than the margin error. Third, the "battleground states," where the winner varies across polls, and the differences between the first and second places are too narrow.

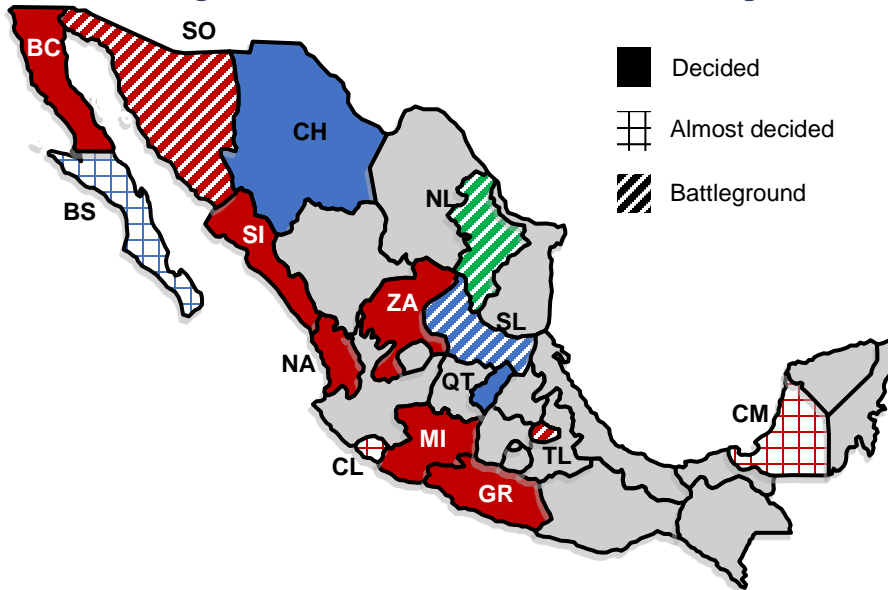
Following this methodology, we identify eight states in the "decided" category. 6 where the odds are in favor of MORENA (Baja California, Sinaloa, Nayarit, Zacatecas, Michoacan, and Guerrero), and 2 more where PAN is ahead (Chihuahua and Queretaro). Moreover, three additional elections seem near to be decided. In this case, MORENA has the lead in two (Colima and Campeche), and PAN in one (Baja California Sur). Finally, our methods signal four battleground states Nuevo León, San Luis Potosí, Sonora, and Tlaxcala (see Figure 7).

Using Massive Caller as a predictor in those battlegrounds, the most likely winners as of today in the latter states would be PRI in Nuevo León, PAN in San Luis Potosí, and MORENA in Tlaxcala and Sonora. Such configuration will result in a new arrangement of political power by the end of the year, where MORENA could emerge as the big winner and PRI as the most weakened political force (see Figure 8).

The reallocation of power at the state level would imply that MORENA and its ally PES can have half of the governorships by the end of the year, strengthening the political force of the President in different states. In seven states, MORENA would gain the control directly over PRI (Sonora, Sinaloa, Zacatecas, Colima, Campeche, Tlaxcala and Guerrero). In one MORENA would advance over PAN (Nayarit), in another over PRD (Michoacan), and in Baja California, it would validate its control.

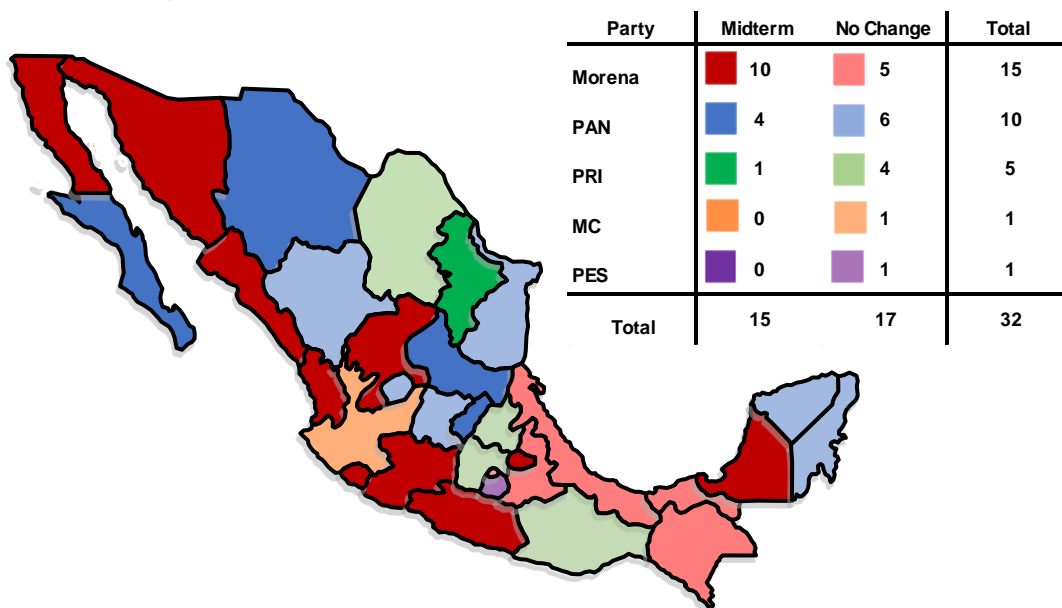
Along with the changes in governor seats that will occur this year, the renewal of state congresses is another aspect to assess the forthcoming rebalancing of power. According to INE, 30 out of 32 states will renew their local Congress, implying that within the 17 states that are not changing governor, 15 of them may change the allocation of parties' power in Congress.

**Figure 7. Mexico's midterm elections' voting intention**



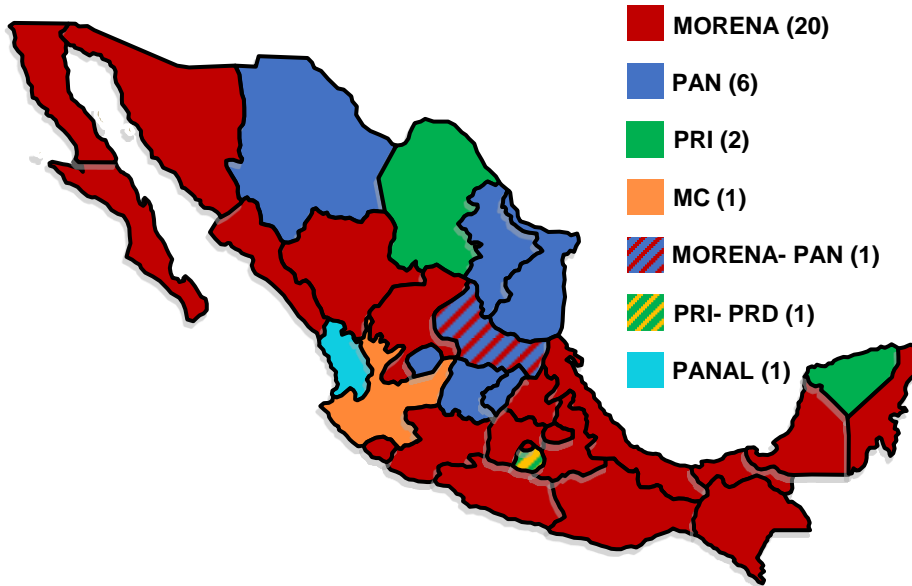
Source: Finamex Economic Research with data from publicly available polls: Massive Caller, Poligrama, El Financiero, and Demotecnia. The four polls project the same winner in decided states, and it distances from second place by more than the error margin. In almost-decided cases, one of the polls projects a different winner but the difference criterion preserves. Battlegrounds include those states where the winner is not consistent among various polls, and the differences respect the second place is smaller than the error margin.

**Figure 8. The potential political landscape by the end of 2021**



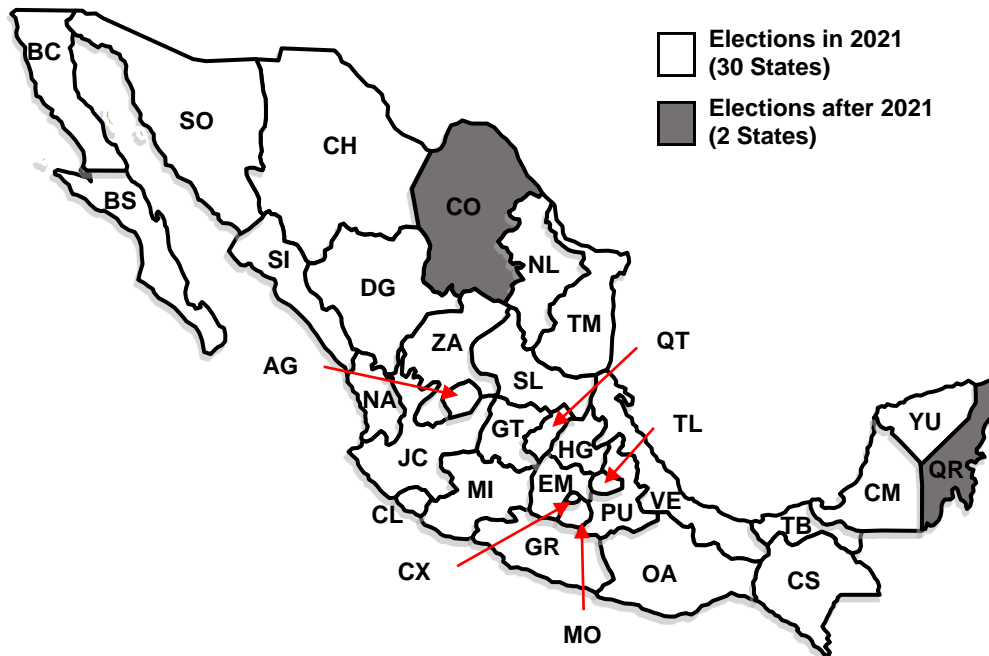
Source: Finamex Economic Research with data INE and projections from different polls. Predictions from Massive Caller are used in the *battle grounds* to deem the winner.

**Figure 9. Mexico's present-day political landscape of majoritarian party in state congresses**



Source: Finamex Economic Research with data from state congresses.

**Figure 10. 2021 Mexican states facing midterm elections of state congresses**



Source: Finamex Economic Research with data from INE.

Currently, MORENA holds most of the state congresses' majority (20) and shares the majority in one more state with PAN, whose majoritarian representation extends in other six states. The other four parties (PRI, PRD, PANAL, and MC) hold majorities in the remaining five states (see Figure 9). Such configuration can change or be validated after the midterm election, as 30 states will vote to choose new local representatives, and only 2 (Coahuila for PRI and Quintana Roo for MORENA) will retain the majorities they already have (see Figure 10). Full disclosure of all the seats having local elections in the midterms appears in Figure 11 (see Annex 1 for more details).

**Figure 11. Summary of the midterms at the state-level**

State	Abreviation	Governorship	Local Congress	Majorships	Other local positions	Extraordinary	Total seats to be elected
Aguascalientes	AG	✗	✓	✓	✓	✗	136
Baja California	BC	✓	✓	✓	✓	✗	99
Baja California Sur	BS	✓	✓	✓	✓	✗	80
Campeche	CM	✓	✓	✓	✓	✗	311
Chiapas	CS	✗	✓	✓	✓	✗	1142
Chihuahua	CH	✓	✓	✓	✓	✗	882
Ciudad de México	CX	✗	✓	✓	✓	✗	286
Coahuila	CO	✗	✗	✓	✓	✗	514
Colima	CL	✓	✓	✓	✓	✗	140
Durango	DG	✗	✓	✗	✗	✗	25
Estado de México	EM	✗	✓	✓	✓	✗	1302
Guanajuato	GT	✗	✓	✓	✓	✗	552
Guerrero	GR	✓	✓	✓	✓	✗	796
Hidalgo	HG	✗	✓	✗	✗	✓	61
Jalisco	JC	✗	✓	✓	✓	✗	1769
Michoacan	MI	✓	✓	✓	✓	✗	1139
Morelos	MO	✗	✓	✓	✓	✗	239
Nayarit	NA	✓	✓	✓	✓	✗	268
Nuevo León	NL	✓	✓	✓	✓	✗	620
Oaxaca	OA	✗	✓	✓	✓	✗	1427
Puebla	PU	✗	✓	✓	✓	✗	2285
Querétaro	QT	✓	✓	✓	✓	✗	228
Quintana Roo	QR	✗	✗	✓	✓	✗	139
San Luis Potosí	SL	✓	✓	✓	✓	✗	537
Sinaloa	SI	✓	✓	✓	✓	✗	230
Sonora	SO	✓	✓	✓	✓	✗	664
Tabasco	TB	✗	✓	✓	✓	✗	120
Tamaulipas	TM	✗	✓	✓	✓	✗	544
Tlaxcala	TL	✓	✓	✓	✓	✗	795
Veracruz	VE	✗	✓	✓	✓	✗	1104
Yucatán	YU	✗	✓	✓	✓	✗	818
Zacatecas	ZA	✓	✓	✓	✓	✗	694
<b>Total</b>							<b>19946</b>

Source: Finamex Economic Research with data from INE.

The combination of these two outcomes is critical to judge the prospects of AMLO's party to pursue constitutional reforms in the second half of his presidential term. Although the role of the newly elected governors will be decisive in generating a meaningful influence in the state congresses, the occurrence of divided governments in the states is widely shared. Currently, only in 12 states, the governor's party matches the party holding the majority in its state congress. In contrast, in the remaining 20 states, the executive and legislative powers are divided at least among two political parties (see Figure 12).

**Figure 12. Power allocation for governorship and majority in the state congress**

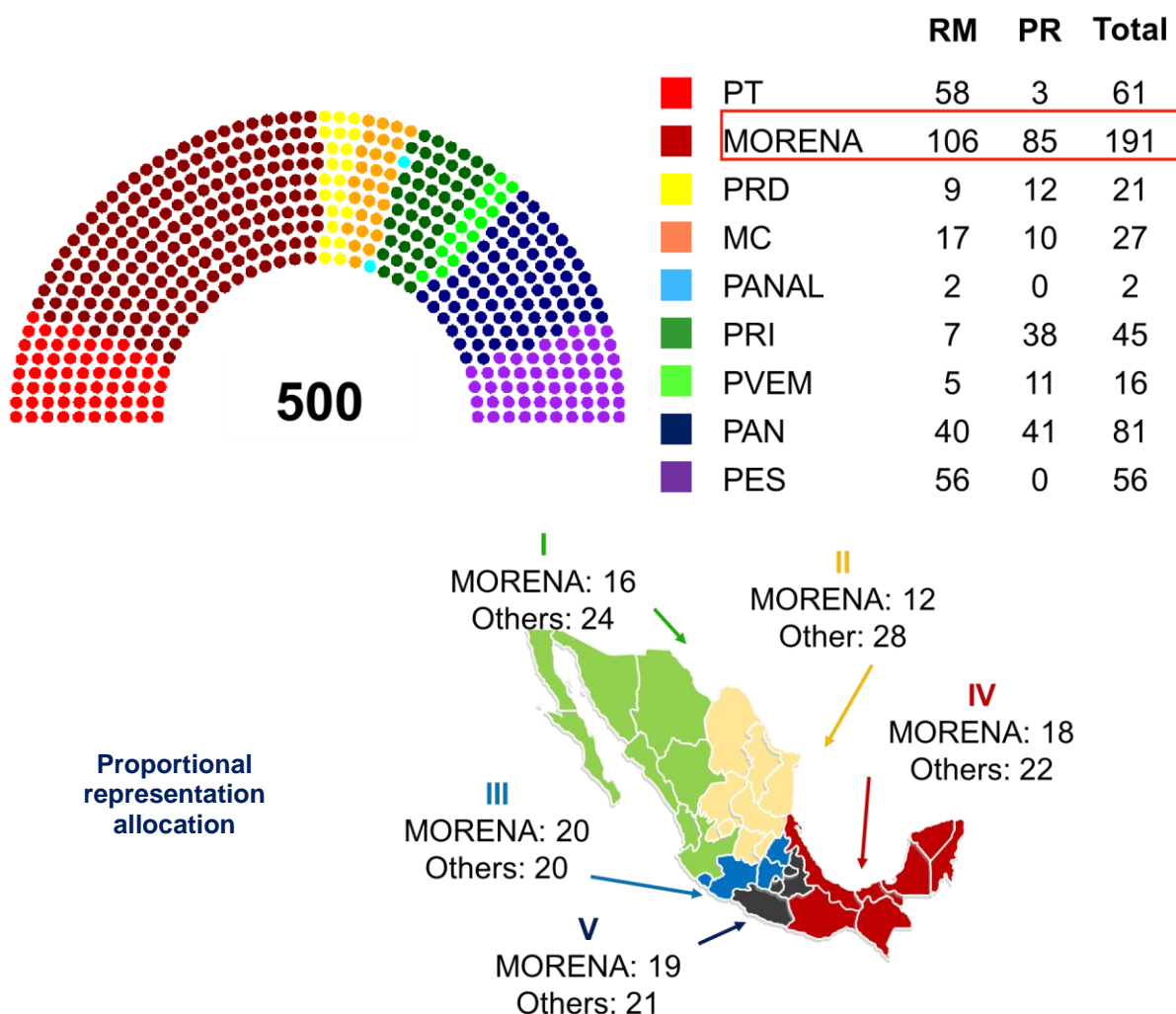


Source: Finamex Economic Research with data from INE and state congresses.

The second pivotal axis of the election rests at the federal level. The Lower House will change the composition of its 500 members, and the Senate will have an extraordinary election in Nayarit. In the case of the Lower House, Mexico uses a mixed rule: 300 seats are assigned using a relative majority principle, and 200 more get elected through a proportional representation formula. While the former 300 come from all across the country using a winner-takes-all rule, the 200 come from 5 different regions, whose voting patterns contribute to allocate proportionally 40 per region.

In 2018, when AMLO won the presidency, MORENA concentrated relevant support in both chambers of Congress. Right after the election, in August 2018, the INE granted 191 seats to MORENA following the hybrid representation system. Later on, when the new Congress started working, 56 representatives from PT and PES shift to MORENA. Finally, 5 additional representatives from PVEM also moved to MORENA, and this parliamentary group totals an absolute majority of 252 out of 500 seats (see Figure 13).

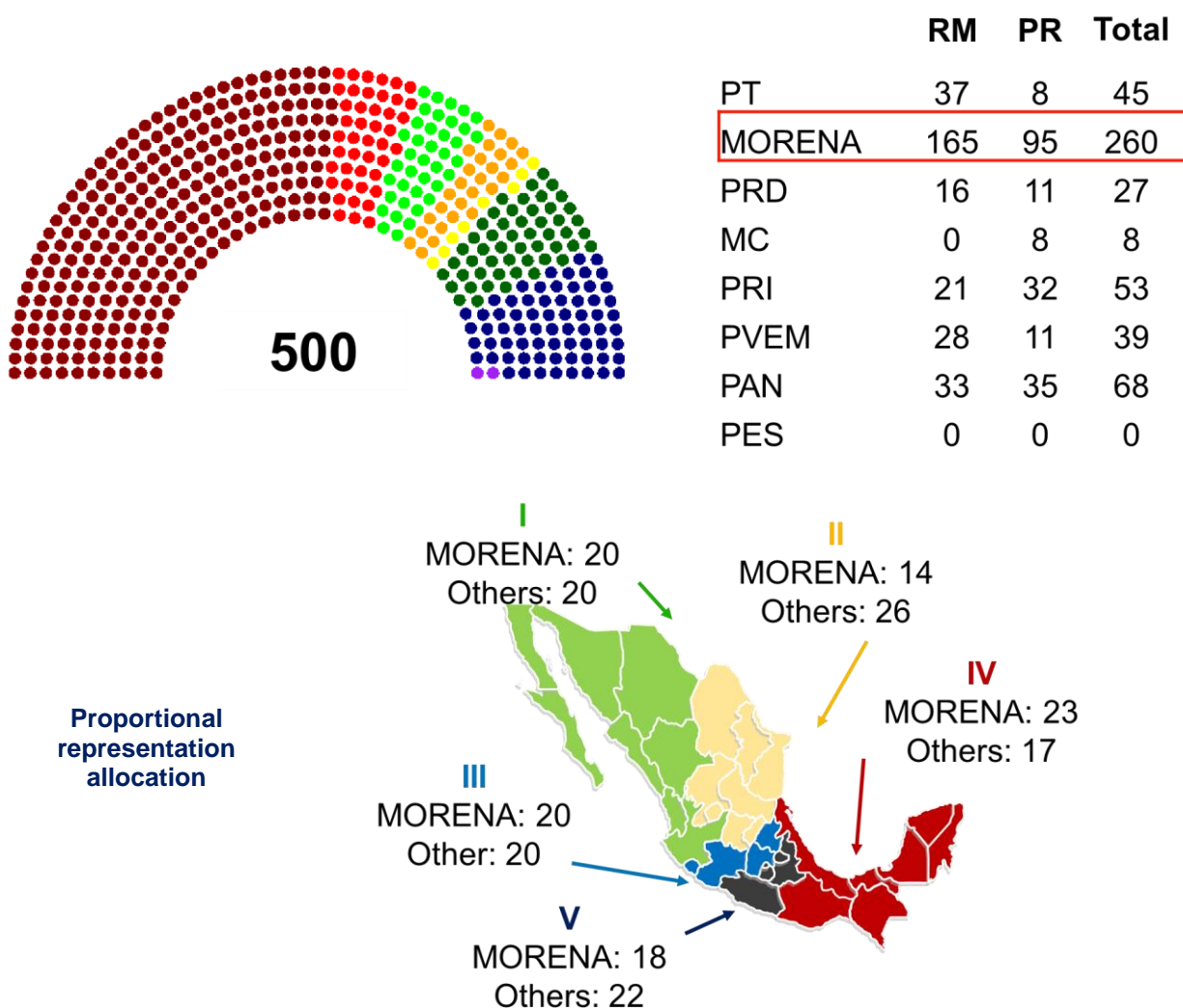
**Figure 13. Present-day allocation of Lower House seats (2018-2021)**



\*Source: Finamex Economic Research with data from INE and Lower House.

Although Mexico has a mixed electoral system, it also has an 8% over-representation clause. In 2018, MORENA eluded such rule positioning their candidates in other parties (PT and PES), but they wholly aligned to MORENA once in Congress. Over-representation is prohibited to single parties but not to coalitions. Moreover, to prevent swingers from running under different parties, the INE recently proposed an effective affiliation principle to identify the effective membership of the candidates.

**Figure 14. Projection for the allocation of the Lower House seats (2021-2024)**



\*Source: Finamex Economic Research with data from Buendía & Marquez's survey from February 24<sup>th</sup>, 2021.



MORENA and AMLO allege that the INE is changing the rules once the campaigns started, and after several interactions, the Electoral Court will have the final vote. In any case, the hybrid nature of the electoral system will be essential for MORENA to retain or lose its majority in the Lower House. Once accounting for the seats gained by their allies, they get the two-third qualified majority to authorize changes to the Constitution.

Most projections of the Lower House composition after the midterms anticipate MORENA and their allies are very likely to renew the absolute majority, but the primary question is if they will also succeed to consolidating its two-third qualified majority for the remainder of AMLO's term. When translating current voting preferences into representation using the already approved rules, Buendía & Marquez's survey anticipate that MORENA and its allies can revalidate their qualified majority in the midterms (see Figure 14).

However, these midterms incorporate changes that can create a noisy environment compared to previous election processes. First, it will be the first time that representatives can reelect, and then it will be critical to analyze if party identity works in their favor. Second, depending on the electoral court's final judgment, the membership rules can reduce the chances for MORENA to ignore the over-representation principle as they did in 2018 using their allies platform. Third, the increasing social support that MORENA has gained in the northern region, where left parties used to be quite unpopular. In this case, once considering the proportional representation formula, MORENA can get more seats through this mechanism than it did three years ago.

Yet, there remain 43 days to get to the midterm election on June, 6th and several factors can change the current configuration of the election's outcome prospects. There is room for political preferences from the citizenship to vary over the following weeks. Nonetheless, as time goes by and we approach the deadline, the space for meaningful changes in the current configuration of voting preferences shrinks significantly.

### *Scenarios and implications*

The political arrangement following the midterm election is pivotal to assess AMLO's political grounds to approach the legal changes to follow and determine if he will advance in taking power over the central counterbalancing autonomous bodies to facilitate his transformation.

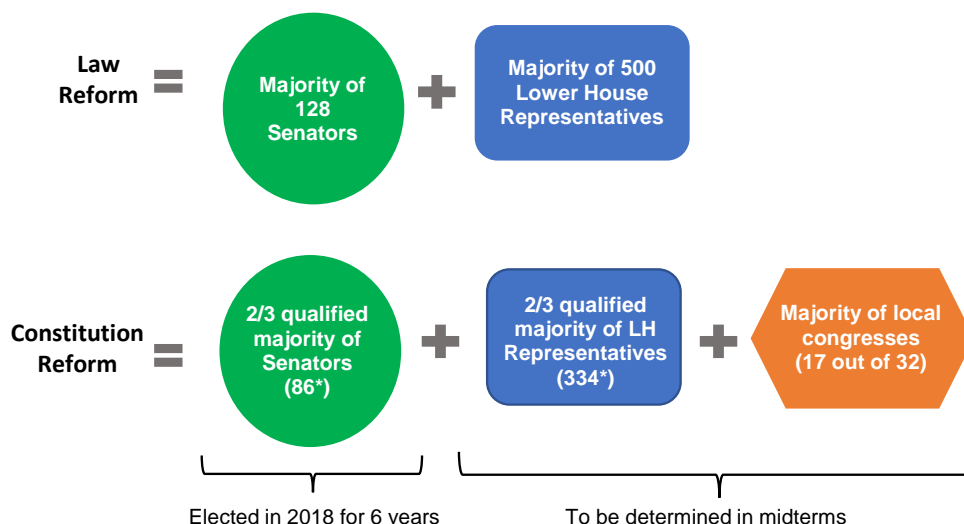
In Figure 15, we illustrate the legal requirements necessary to enact reforms to change current secondary laws or the Constitution. The chance to meet those sufficient conditions depends almost entirely on the midterm's election outcome. Hence, they will determine the majority MORENA and their allies have in the Lower House and how much control they win in state congresses.

AMLO has two main scenarios ahead. To promote reform to secondary laws, as much of his legislative agenda did over the first three years, MORENA needs a majority in the two chambers of Congress. The incumbent party will keep its majority in the Senate despite the election result, but his likelihood to pursue constitutional changes depends on more aspects.

Suppose the plan for the President is to change the Constitution. In that case, MORENA has to meet three conditions:

1. A two-third qualified majority of the Lower House
2. A two-third qualified majority of the Senate
3. The majority of state congresses (17 out of 32)

**Figure 15. Legal requirements to enact reforms to laws and the Constitution**



Source: Finamex Economic Research with data from Mexican Constitution.

\* Majority rules apply to the representatives/senators present during the voting of the reform. Besides, quorum rules require an absolute majority (50% plus 1) of each chamber to allow a vote on the floor.

The first and third conditions will come directly from the midterm's results. In case they validate, it will be easier for AMLO to get the support of some Senators (other than his party allies) to get the qualified majority. In contrast, the chances would reduce if MORENA fails to vindicate its Lower House majority. In that case, the risk of the materialization of harmful changes to the Constitution reduces significantly.

*Is AMLO taking over the counterbalancing powers?*

Several aspects have prevented AMLO from going even more profound in pursuing legal and constitutional changes despite his enormous political support. Due to check and balances forces, a constituent of a democratic state, the government has realized the spillover of policies affecting many citizens and its political cost.

For instance, several autonomous bodies have meaningfully opposed AMLO's policy agenda. Worth remembering the solid position of Banxico when the Senate tried to invade its independence or COFECE (antitrust commission) strong opposition against the cancellation of private participation in the energy industry. As we noted before, the INE has also worked as a relevant counterbalance to punish explicit violations of the electoral laws. Finally, the Supreme Court and the judiciary have canceled implementing reforms that opposed the free-competitions principles that also aligned the commitments included in USMCA. Over the next year, all those institutions, coupled with other critical bodies, will change their leaderships or memberships as AMLO will have to propose their replacements (see Figure 16).

In our view, the midterm election outcome will have an indirect effect on all those replacement processes. An encouraging result for AMLO and MORENA would imply an explicit validation of the electorate to the current set of policies approved. In that case, the most likely scenario for the President is to advance in gaining control of those institutions by promoting people close to him to take over their leaderships, or even changing their laws, as MORENA has threatened in several cases.

**Figure 16. Forthcoming changes to autonomous institutions**

Institution	Member leaving	End of term
COFECE (antitrust commission)	Alejandra Palacios, President Commissioner	September-2021
Banco de México	Alejandro Díaz de León, Governor	December-2021
INEGI (statistics institute)	Julio Santaella, President	December-2021
Supreme Court	Fernando Franco, Justice	December-2021
IFT (antitrust in telecom)	Adolfo Cuevas, President Commissioner	February-2022
INE (electoral institute)	Lorenzo Córdova, President	April-2022

Source: Finamex Economic Research with data from Autonomous bodies.

The Supreme Court deserves special attention, as AMLO will have the chance to propose a Justice for the fourth time during his term. The latter is critical for the operation of the constitutional court, as the constitutional controversies and the unconstitutional actions require qualified majorities to get approved. For instance, all the legal struggles concerning the reforms to the energy industry will likely end in an unconstitutional step. In that case, 8 out of 11 justices have to validate the violation of constitutional principles, but AMLO would have chosen 4 of them when such a vote happens. Reducing the chances for the judiciary to continue working as a counterbalancing force to the President's power.

We expect AMLO to endure its struggle to continue changing the policy environment in the second half of his administration. Still, the scope to pursue even more significant changes depends hardly on the midterm election's outcome. One final aspect of incorporating in the assessment is the willingness of AMLO to assume the political cost of advancing changes to the Constitution. Especially if they opposed the principles, Mexico signed under USMCA and several investment-promotion agreements. In any case, the electorate's positioning towards his political project will be a striking piece in his final call.

**Annex 1**

**Figure A1. Complete details of State-level party representation and voting preferences for the midterm election**

State	Present-day majoritarian party in Local Congress	Present-day Governor's party membership	Governor & Congress majority by the same party?	Governorship elections?	Local Congress elections?	Leading party/coalition in governorship elections	Are MORENA and allies running ahead in governorship election?	AMLO's approval	Is AMLO's approval above 50%?
Aguascalientes	PAN	PAN	✓	✗	✓			39.3%	✗
Baja California	MORENA	MORENA	✓	✓	✓	MORENA-PT-PVEM	✓	65.8%	✓
Baja California Sur	MORENA	PAN	✗	✓	✓	PAN-PRI-PRD	✗	53.5%	✓
Campeche	MORENA	PRI	✗	✓	✓	MORENA	✓	58.0%	✓
Chiapas	MORENA	MORENA	✓	✗	✓			58.0%	✓
Chihuahua	PAN	PAN	✓	✓	✓	PAN-PRD	✗	45.3%	✗
Ciudad de México	MORENA	MORENA	✓	✗	✓			56.8%	✓
Coahuila	PRI	PRI	✗	✗	✗				
Colima	MORENA	PRI	✗	✓	✓	MORENA-PANAL	✓	40.6%	✗
Durango	MORENA	PAN	✗	✗	✓			48.4%	✗
Estado de México	MORENA	PRI	✗	✗	✓			54.5%	✓
Guanajuato	PAN	PAN	✓	✗	✓			43.5%	✗
Guerrero	MORENA	PRI	✗	✓	✓	MORENA	✓	69.2%	✓
Hidalgo	MORENA	PRI	✗	✗	✓			54.5%	✓
Jalisco	MC	MC	✓	✗	✓			40.7%	✗
Michoacán	MORENA	PRD	✗	✓	✓	MORENA-PT	✓	58.4%	✓
Morelos	PRI / PRD	PES	✗	✗	✓			60.3%	✓
Nayarit	NA	PAN	✗	✓	✓	MORENA-PT-PVEM-PANAL	✓	59.9%	✓
Nuevo León	PAN	INDEP	✗	✓	✓	PRI-PRD	✗	43.5%	✗
Oaxaca	MORENA	PRI	✗	✗	✓			69.0%	✓
Puebla	MORENA	MORENA	✓	✗	✓			60.7%	✓
Querétaro	PAN	PAN	✓	✓	✓	PAN-Querétaro Independiente	✗	52.7%	✓
Quintana Roo	MORENA	PAN	✗	✗	✗				
San Luis Potosí	MORENA / PAN	PRI	✗	✓	✓	PAN-PRI-PRD	✗	60.8%	✓
Sinaloa	MORENA	PRI	✗	✓	✓	MORENA-PAS	✓	66.9%	✓
Sonora	MORENA	PRI	✗	✓	✓	MORENA-PT-PVEM-PANAL	✓	58.9%	✓
Tabasco	MORENA	MORENA	✓	✗	✓			74.4%	✓
Tamaulipas	PAN	PAN	✓	✗	✓			60.7%	✓
Tlaxcala	MORENA	PRI	✗	✓	✓	MORENA-PT-PVEM-PANAL	✓	60.7%	✓
Veracruz	MORENA	MORENA	✓	✗	✓			60.3%	✓
Yucatán	PRI	PAN	✗	✗	✓			50.4%	✓
Zacatecas	MORENA	PRI	✗	✓	✓	MORENA-PT-PVEM-PANAL	✓	49.7%	✗

Source: Finamex Economic Research with data from INE, local Government and Congresses and publicly available polls.

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