Mexican elections in 2018:

What to expect when you're expecting?

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- The upcoming electoral process of 2018 in Mexico is one of the geopolitical risks to the outlook
- We believe that it is still too early to call the electoral result
- In fact, polls still show a high degree of indecision among the population
- We expect a tight race, albeit with a limited impact on the markets
- This election is particularly important since it will be one of the first times many of the new laws enacted as part of 2014's electoral reform will be carried out, although some will come into effect later:
  1. Senators and Representatives elected in 2018 might be reelected;
  2. Possibility of coalition governments and independent candidates;
  3. Changes in the regime of political parties;
  4. New provisions for the National Electoral Institute (INE); and
  5. Provisions regarding popular consultations
- There are mechanisms established in case of a contested election
- In addition, at the end of this year there are also two important processes:
  1. The transition of power in Banxico; and
  2. 2018's budget process
The electoral process in Mexico is one of the geopolitical risks for the scenario of the coming year. After the delivery of the 2018 fiscal budget on September 8th, the 2018 electoral process will now be the center of attention with parties already taking some steps in this direction. This includes nomination of candidates and the formation of possible coalitions among parties or even the nomination of independent candidates. In our opinion, it is still too soon to tell who will win the election, given the uncertainty around candidates. We expect a tight race, albeit with a limited impact on the markets.

In next year’s election, taking place on July 1, a new President, 128 Senators and 500 Representatives will be elected. Moreover, 30 states will carry out local elections for governors, municipal presidents and deputies of the local Congress. We highlight the elections in the states of Chiapas, Guanajuato, Jalisco, Morelos, Puebla, Tabasco and Veracruz, as well as the head of Mexico City’s government.

Elections in 2018 comprise most of Mexico’s population. In addition to the presidential and congressional elections at the federal level, elections will be held in 30 states, including 2,777 positions, such as: 8 governorships, the head of Mexico City’s government, local congresses, city halls and municipal boards, as shown in the map below.

**Federal and State elections in 2018**

Source: Banorte with data from the INE
Federal and State elections in 2018

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<tr>
<th>State</th>
<th>% of GDP</th>
<th>Population</th>
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Source: Banorte with data from INEGI

No clear trend from poll yet. Given that there are still no official candidates, surveys are conducted regarding parties and match-ups between the probable candidates, but with no conclusive results. Moreover, some surveys even include preferences within candidates in each party. In this document, we take the results from the following polls: (1) Consulta Mitofsky (August 2017); (2) Parametría (August 2017); and (3) Breumen & Asoc. (August 2017). These surveys show very different results; although the common denominator is that all of them shows that almost a third of the population still do not have a defined preference (see chart in the following page).
Regarding name recognition, Andrés Manuel López Obrador (AMLO) from Morena leads the polls, although it must be taken into account that he has participated in the last two presidential elections (2007 and 2012), as well being the Head of Government of the Federal District (2000). According to Parametria (August 2017), AMLO is followed by Miguel Angel Mancera (currently Mexico City’s head of government), Marcelo Ebrard, Miguel Angel Osorio Chong (PRI), Minister of the Interior, and Margarita Zavala of PAN (see chart below).

Moreover, Mitofsky’s survey (August 2017) includes polls regarding internal parties’ processes. In the PRI, polls are led by Miguel Angel Osorio (50.3%) - Minister of the Interior-, Eruviel Avila (18.1%) –Governor of the State of Mexico–, and in third place, the Minister of Finance, Jose Antonio Meade (6.8%). In the PAN, the candidacy could be decided between Margarita Zavala (43.4%), Ricardo Anaya (43.4%), the current president of the party, and Rafael Moreno Valle (21.2%), former governor of the state of Puebla. For PRD, the polls are leaded by Miguel Angel Mancera (56%), followed by the Governor of Michoacan, Silvano Aureoles (9.7%), and the Governor of Morelos, Graco Ramírez (8.8%), as shown in the following chart.
Voters’ sentiment regarding the possibility of an alliance between the PAN and the PRD, as measured by Mitofsky’s survey shows that 40.3% of people surveyed believe that they should not form a coalition. However, this percentage declines to 30.9% among PAN voters (56.3% favor the alliance), while it rises to 45.5% for PRD voters. Berumen and Associates poll shows that 39.2% pf people surveyed support the alliance.

This election is particularly important since part of the 2014 electoral reform will be applied. These changes include: (1) Senators and Representatives elected in 2018 might be reelected in further elections; (2) possibility of coalition governments and independent candidates; (3) changes in the regime of political parties; (4) new provisions for the National Electoral Institute (INE); and (5) provisions regarding popular consultations.

(1) Legislative reelection. The senators and representatives, elected in 2018, will have the possibility of being re-elected for two consecutive periods in the first case and for up to four periods in the case of the representatives. To this end, they must be nominated by the same party, unless they have renounced their militancy before the middle of their term (article 59). In the case of states, these shall regulate the reelection of municipal presidents as well as the municipal boards, who may be reelected for a consecutive period, provided that the term of their term does not exceed three years, under the same conditions as in the case of congressmen at the federal level.

In terms of potential candidates for presidential candidacy, Article 82 of the Constitution establishes the following: (1) To be a born Mexican citizen, in full enjoyment of his rights, son or daughter of a Mexican father or mother and to have resided in the country at least for twenty years; (2) be at least 35 years old at the time of the election; (3) have resided in the country for the entire year prior to election day;
(4) not to belong to the ecclesiastical state or be a minister of some religion; (5) not be in active service, if they belong to the Army, six months before the day of the election; (6) not to be Secretary or Undersecretary at a Federal Level, Attorney General of the Republic, nor holder of the executive power of any state, unless he or she leaves his post six months before the election day; and (7) not be included in any of the causes of incapacity established in Article 83 (having been President of the Republic, either by popular election or by interim or substitute, among others). This implies, among other things, that Secretaries at a Federal level considering a candidature would have to resign no later than the beginning of 2018, as shown at the end of the document.

(2) Possibility of coalition governments and independent candidates. The 2014 reform establishes a system of coalitions for federal and local electoral processes. The most important change is the introduction of flexible coalitions and the modification of the definition of the partial coalition. Flexible coalitions will be used to nominate at least 25% of the candidates in the same federal or local electoral process, under the same electoral platform. A partial coalition will be understood as that established by political parties to nominate at least 50% of the candidates in the same federal or local electoral process, also under the same platform.

Regarding independent candidates, it is established that citizens who meet the requirements, conditions and terms will be entitled to participate as independent candidates to occupy the positions of popular election: (1) President, and (2) Deputies and Senators of the Congress of the Union by the principle of relative majority. In no case shall the independent candidacy be based on the principle of proportional representation.

(3) Changes in the regime of political parties. Among the most important changes is that, for parties to keep their registration—which entitles parties to keep receiving money to run themselves and for campaigns—they need to have at least 3% of the valid vote issued in any of the elections held for the renewal of the Executive Branch or the Chambers of the Congress. Likewise, according to the reform, any political party that reaches at least 3% of the total valid vote cast for the regional lists of multi-member constituencies will have the right to be allocated Deputies according to the principle of proportional representation. In addition, it should be mentioned that the reform imposes on the political parties the obligation to guarantee gender parity that lists should be integrated with 50% men and 50% women in the nomination of candidates to federal and local legislators.

(4) New provisions for the National Electoral Institute (INE). Perhaps one of the most important changes in political reform relate to electoral authorities, whose structure and distribution of organizational power changes substantially. First, the reform created the National Electoral Institute (INE), whose basic function is to organize federal elections, although it is also given powers of supervision and establishment of guidelines for the development of local elections.
In addition, this new institute will be able to organize the elections of the leaders of the political parties, at their request and will oversee the requisites to carry out the popular consultations, as well as the organization, development, computation and declaration of results. Moreover, it will be tasked with supervising the finances of the parties at both the federal and local levels.

An important element introduced by the new reform is the modification of the INE’s faculties regarding sanctions and its procedures. The Institute will be in charge to investigate infractions for alleged violations of the regulations regarding media access and propaganda, to integrate the file and submit it to the Federal Electoral Tribunal (TEPJF).

The INE may impose, among other precautionary measures, the order to immediately suspend or cancel the radio and television transmissions, in accordance with the provisions of the law.

The General Council of the INE has now among its powers: (1) To assume the activities of local electoral bodies; (2) delegating electoral organization to local electoral bodies; and (3) bring to their attention any matters within the competence of local electoral bodies. In addition, the number of electoral councilors increased to 11 and the appointment procedure of the General Council changed. The new procedure provides for an evaluation by a technical committee, although the appointment will be by the vote of two-thirds of the members present in the Chamber of Deputies.

As for the TEPJF, the reform maintains all its faculties, adding a new one: that of resolving matters that the INE submits for the imposition of sanctions for violations related to political, electoral and governmental propaganda, carrying out anticipated acts of campaign and media access.

(5) Provisions regarding popular consultations. Beginning with the 2014 reform, the Constitution establishes certain basic rules regarding popular consultations, which may be called by either the President, 33% of the members of the Senate or the Chamber of Deputies (although in such cases it would require the approval of both houses), or 2% of the citizens registered in the voting list. The organization of the consultations will be carried out by the INE and will take place the same day of the federal election. Its results will be binding when citizen participation is greater than 40% of the registered voters list (article 35, section VIII).

It should be noted that the Constitution itself establishes the subjects that cannot be subject to consultation such as: human rights; democratic principles, electoral matters, the revenue and expenditure of the State, National security and the organization, functioning and discipline of the Armed Forces. On other cases, the Supreme Court of Justice of the Nation will determine if an issue can be submitted to a popular consultation (article 35, section VIII).
There are mechanisms established in case of a contested election. As we previously mentioned, although we think it is still too early to talk about a definite trend in the presidential election, what we can say is that it will believe that it is going to be a close one. It should be noted that the Constitution, as of 2012, establishes mechanisms in the case of a contested election. Article 85 establishes that, if the election does not happen or has not been declared valid, the acting President will conclude his term and Congress will appoint an interim President. In addition, “...if at the beginning of the Constitutional period there is an absolute lack of the President of the Republic, the President of the Senate will provisionally assume the office, while Congress appoints the acting President ...”.

In addition, if the President-elect cannot be sworn in in front of Congress –as was the case in Felipe Calderon’s swearing in in 2006– it is established that he can do so before the main Committees of both Chambers of Congress. If this is also not possible, it can be done before the Supreme Court of Justice.

What will not be applied this year of electoral reform? There are some provisions in the reform that will not be applied in this election, which include: (1) Changes in the election process of both the President of the Republic and members of Congress; and (2) ratification of the cabinet and preparation of the National Development Plan.

In the first subject, there are several changes, one changes the date for the election day –from the first Sunday of July, to the first of June–, and the swearing-in of the president-elect from December 1 to October 1 . These changes will not apply until the 2024 election. In the case of the Congress, it will begin the sessions on September 1 of each year, except in the year in which the presidential period begins, in which case the session will begin on August 1.

Regarding the approval of cabinet members and preparation of the National Development Plan, the 2014 reform establishes that the Chamber of Deputies will have to ratify the appointment of the Minister of Finance, unless a coalition government is chosen, in which case the whole cabinet must be ratified by the Senate (Article 76 II of the Constitution).
Additionally, it establishes that the Senate must ratify the Minister of Foreign Relations and the ambassadors. However, this provision will enter into force until 1 December 2018 and therefore will not apply to the Ministers of the new administration.

Moreover, the reform requires that Congress approve the National Development Plan, as well as the programs and public policies derived from it. Additionally, it is established that the federal government must propose to Congress the basis for the integration of a long-term strategic development plan. It should be mentioned that this provision will also be in force as of December 1, 2018.

Finally, it should be noted that at the end of this year there are also two important processes. Parallel to the electoral process, in this second half of this year we will be attentive to two issues that are fundamental for the Mexico towards 2018: (1) The transition of power in Banxico; and (2) the budget process of 2018. In the first case, it should be noted that the current governor, Agustin Carstens, was appointed at the end of last year as General Manager of the Bank for International Settlements (BIS), a position he will occupy in early December, leaving the leadership of Banxico at the end of November. There is still uncertainty as to who will fill the vacancy, although in our view the institutional framework of the Mexican monetary authority is sound and the transition will be orderly.

Regarding the budget process, the Law of Budget and Fiscal Responsibility clearly defines the timeline. On September 8, the government submitted to Congress its budget proposal consisting of: (1) General Criteria for Economic Policy (CGPE); (2) the Income Law (LIF 2018); and (3) the spending budget. Now the Lower House must approve the first two points - the CGPE and LIF 2018- by October 20, while the Senate must approve them by October 31. Finally, the spending budget must be ready on November 15. (For more information about the 2018 budget proposal see our document here: <PDF>).

It should be mentioned that in the year in which a new administration enters, the outgoing government must prepare the budget package including the recommendations of the President-elect and deliver the budget package no later than November 15 of the year in question.

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