

What to expect from Mexico's upcoming midterm elections

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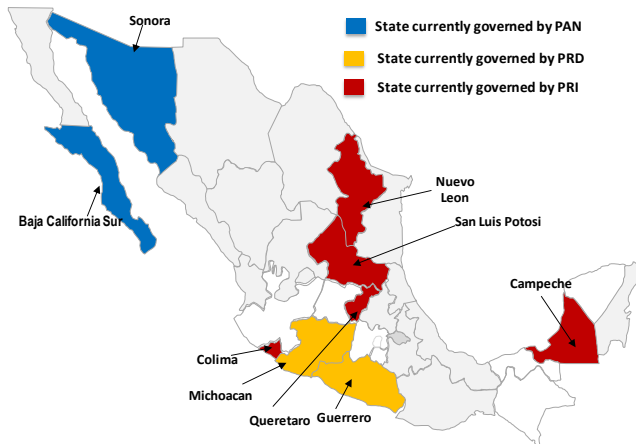
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- **This Sunday (June 7th), midterm elections will take place in Mexico**
- **In our opinion, this will be the most important midterm electoral process in Mexican history, because of two reasons:**
 - (1) **As a result of the most recent political reform, only two electoral processes now take place in Mexico: presidential and midterm elections; and**
 - (2) **Local representatives and municipal heads elected this Sunday, will be eligible for the first time to be re-elected for another term**
- **Moreover, we believe there are six key issues in this election:**
 - (1) **The composition of the Lower House;**
 - (2) **Elections in Guerrero, Oaxaca and Michoacan;**
 - (3) **Possible violations of the new laws;**
 - (4) **Political parties that could lose its registry and the consolidation of other ones;**
 - (5) **The participation rate; and**
 - (6) **State governorships and independent candidates**
- **Judging by the results of recent polls, we believe that the composition of the Lower House will remain roughly the same, while no serious problems would be observed in the elections of Guerrero, Oaxaca and Michoacan states**
- **In this context, we do not believe that this political event will be a market event**

The most important midterm elections in Mexico's history. Next Sunday (June 7th) important midterm elections will take place. We believe that this is a very important process because of twofold: (1) In contrast with what used to happen in the past –in which every year there was an election in one or several states-, as a result of the most recent political reform, only two electoral processes now take place in Mexico: presidential and midterm elections; and (2) after years of stigmatizing the reelection of any public office, local representatives and municipal presidents elected this Sunday, will be eligible for reelection to another term in office. Moreover, we believe that these elections will be of particular concern because they will be the first ones organized by the newly created *Instituto Nacional Electoral (INE)*, along with new regulations, especially in terms of spending limits for campaign, and the participation of independent candidates.

State governor's elections



Source: Banorte-Ixe

One thousand nine hundred ninety six seats to be chosen. Governor elections will take place in nine states (Baja California Sur, Campeche, Colima, Guerrero, Michoacán, Nuevo Leon, Queretaro, San Luis Potosi and Sonora), along with the renewal of the Lower House at a federal level (500 federal deputies: 300 elected by relative majority and 200 by proportional representation). In addition, 600 local deputies and 871 municipal presidents in 16 states as well as 16 delegates in Mexico City, will be elected. All these public posts tally up to 1,996 positions in total (refer to the table and the map below).

Elections 2015

State	Governor	Federales deputies	Local deputies	Municipal presidents	Total
Total	9	500	600	887	1996
Federal	--	500	--	--	500
Baja California Sur	1	--	21	5	27
Campeche	1	--	35	11	47
Colima	1	--	25	10	36
Mexico City	--	--	66	16	82
Guanajuato	--	--	36	46	82
Guerrero	1	--	46	81	128
Jalisco	--	--	39	125	164
Mexico	--	--	75	125	200
Michoacan	1	--	40	113	154
Morelos	--	--	30	33	63
Nuevo Leon	1	--	42	51	94
Queretaro	1	--	25	18	44
San Luis Potosi	1	--	27	58	86
Sonora	1	--	33	72	106
Tabasco	--	--	35	17	52
Yucatan	--	--	25	106	131

Source: National Electoral Institute (INE)

Six key issues in this election. In addition to the amount and the relevance of the positions, we believe that there are six key issues in this election: (1) The composition of the Lower House; (2) the elections in Guerrero, Oaxaca and Michoacan; (3) possible violations of the new laws; (4) political parties that could lose its registry and the consolidation of others; (5) the participation rate; and (6) state governorships and independent candidates.

(1) Similar composition of the Lower House. Recent surveys on the Lower House election suggest that the political party coalition conformed by *PRI-PVEM-Panal* (centrist PRI, the green party PVEM and teacher’s union-supported PANAL) will retain the majority, while the second force is likely to remain the right-wing PAN, and the third force between the left-wing *PRD* and *Morena*. In particular, the latest survey published by *Mitofsky* –conducted in April 24-27-, gives the PRI a 40% of vote intention (currently *PRI* has 43%). For the *PAN* vote intention is in the area of 23% (unchanged from current % of votes); while 8% goes to the *PVEM* (currently 5%), around 18% to the *PRD* (currently 20% of the votes in the Lower House); 4.8% to *Morena* (currently 3%) and 2.5% to *PANAL* (currently 2% of the seats), as shown in the table below.

Possible composition of the Lower House by political party

Political party	Possible composition %	Current composition %	Difference
PRI	40.1	43.0	-2.9
PAN	23.2	23.0	0.2
PRD	17.7	20.0	-2.3
PVEM	8.1	5.0	3.1
Movimiento Ciudadano	0.8	2.0	-1.2
PT	2.8	2.0	0.8
Panal	2.5	2.0	0.5
Morena	4.8	3.0	1.8

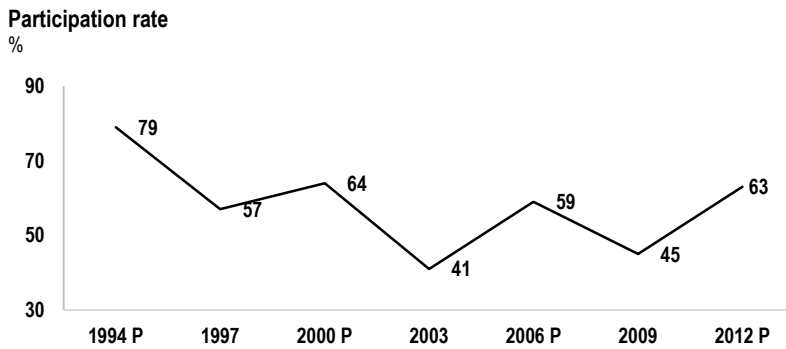
Source: Banorte-ixe with data from Mitofsky survey (from April 24 to 27)

(2) Elections in Guerrero, Oaxaca and Michoacan. There have been some credible threats that the elections in the states of Guerrero, Oaxaca and, to a lesser extent, Michoacan could be blocked. We highlight that in the post-revolutionary history of Mexico elections have always taken place, so any attempt to prevent processes from happening would be considered as a serious attack against the rule of law. In this regard, we believe that the probability of this scenario is very low, but it is certainly a key issue.

(3) Potential violations to the new regulation. The possible violation of the new laws -which are being implemented for the first time-, will be a very important issue to build trust among citizens. It is also relevant for political parties, as this is going to determine how they strategize future elections, particularly in terms of budget limits.

(4) Political parties that could lose its registry and the consolidation of others. Judging by the results of polls, we believe that it is unlikely that the two new political parties: *Partido Humanista* and *Partido Encuentro Social*, would reach the 3% of the vote required to maintain their registry –and thus, access public funds for political parties-, while *Morena* will probably consolidate as an alternative of the Mexican left.

(5) The participation rate. It is well known that the rate of participation in the midterm elections has always been lower than in presidential ones. In fact, participation has been around 48% on average, in midterm processes since 1997, while in presidential runs participation raises to around 60%, as shown in the chart below. In this regard, we believe that given the large number of governorships that are at stake, participation rate will be slightly higher than the average (*i.e.* more than 48%).



Source: National Electoral Institute (INE)

(6) State governorships and independent candidates. As was already mentioned, there are nine state government elections taking place next Sunday. We highlight that this states have a population of 24.4 million, representing 21.7% of the total population and contribute with 24.7% of GDP (refer to the table below). Moreover, this will be the first election with the participation of independent candidates. In this regard, the independent candidate who is calling more attention is Mr. Jaime Rodriguez, better known as "*El Bronco*", candidate for governor of Nuevo Leon. While there is a full range of polls for this process, there are some who give Mr. Rodriguez the first place. Such is the case of a phone survey conducted by a local newspaper called "*El Norte*", published two weeks ago, which placed "*El Bronco*" with 29.2% of the voting intentions, followed by the *PRI* with 27.5% and the *PAN* with 21.6% of vote intention. If Mr. Rodriguez –or other independent candidates-, gets elected, we believe that this would be a very important lesson in terms of the disillusion of population with political parties, thinking in particular in the upcoming presidential elections in 2018.

Mexico's GDP, population and territory by State

	% GDP		Population		Territorial coverage	
	National	Mill.	% Total	mi ²	% Total	
Mexico	100	112.3	100	741,719	100	
Baja California Sur	0.8	0.6	0.6	27,071	3.8	
Campeche	4.8	0.8	0.7	20,013	2.7	
Colima	0.6	0.7	0.6	2,106	0.3	
Guerrero	1.4	3.4	3.0	24,631	3.3	
Michoacan	2.3	4.4	3.9	23,114	3.1	
Nuevo Leon	7.3	4.7	4.1	24,925	3.4	
Queretaro	2.1	1.8	1.6	4,544	0.6	
San Luis Potosi	1.9	2.6	2.3	24,266	3.3	
Sonora	3.0	2.7	2.4	71,403	9.6	

Source: Banorte-Ixe; INEGI

Non-event for markets. Judging by the results of recent surveys, we believe that the party composition from the federal Lower House will be very similar to the current one while no serious problems would be observed in the elections of Guerrero, Oaxaca and Michoacan. In this context, we believe that this political event will have no impact on the financial markets.

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