

Mexico midterm elections: Everybody wins, including Morena

Weekly - Regional View Emerging Markets

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On 6 June, three years after President Andres Manuel Lopez Obrador's landslide victory, a highly politicized Mexico held the largest election in its history. We analyzed the early results in our *Investing in Mexico* report "[Restoring counterweights](#)." As the title suggests, a more balanced distribution of power emerged from the election, which, together with a constructive external environment, is positive for the outlook of Mexican assets, in our view. To complement our analysis, on Thursday we hosted a webinar with leading Mexican political analysts Javier Tello and Carlos Ramirez, whose views we summarize below.

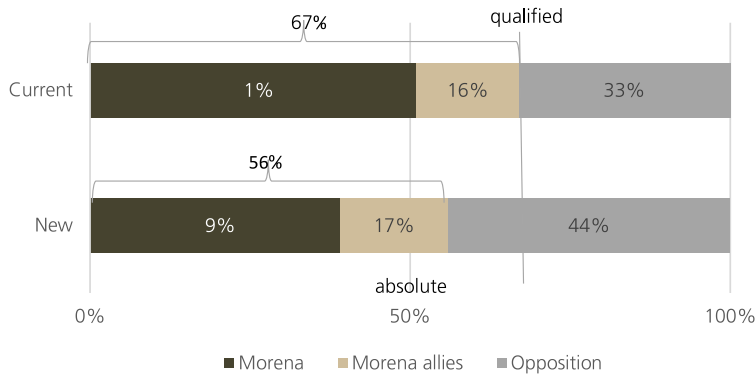
The speakers highlighted that voters handed Lopez Obrador mixed results: The ruling Morena coalition will maintain an absolute majority in the lower house, but lose the two-thirds qualified majority it needs to enact constitutional changes (Fig. 1). This can be interpreted as a triumph of the opposition, as united they lessened Morena's dominance in Congress. Nonetheless, the victory could also have to do with low expectations, as the opposition bloc's main objective was to prevent the Morena-led alliance from retaining qualified majority in the lower house. Tello and Ramirez noted, however, that Morena could still reach an agreement with lawmakers from the PRI or any other party to achieve the qualified majority.

Tello and Ramirez emphasized that Morena on its own will lose the absolute majority (50% + 1 vote) it currently enjoys in Congress. To secure an absolute majority, it will now count on its allies, particularly the Green Party, one of the biggest winners of the Sunday vote. Green Party leaders had said they might reconsider remaining in the coalition, suggesting they could increase their demands in return for their support, making Morena's absolute majority more fragile. Yet, according to both speakers, in a baseline scenario Morena and its allies should still be able to pass laws relatively easily and control the legislative agenda, including the budget; it is therefore unlikely that Morena's setback in Congress will alter the overall political direction in the near term.

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Fig. 1: Morena coalition lost ground in the Lower House

Current and new Lower House composition (% of seats)



Note: Uses the midpoint of the range provided by the electoral authority. Source: National Electoral Institute quick count, UBS, as of 11 p.m., 6 June 2021

At a regional level, Tello and Ramirez said Morena's resilience is remarkable considering that the elections took place amid one of the most challenging economic backdrops on record for Mexico. While the coalition lost nine out of 16 mayoralties in Mexico City—the bastion of the Mexican left—preliminary results show it won in 11 states out of the 15 governorships up for grabs in the rest of the country. Morena would now control 17 out of 32 states, twice the number in the hands of PAN, the second-biggest political force. According to Tello and Ramirez, Morena's consolidation at a nationwide level is worth watching, especially ahead of the 2024 presidential race. They noted it was no surprise that Lopez Obrador and the Morena leadership accepted the early election results without hesitation, and that preexisting tensions with electoral authorities had been under control in recent days.

In both experts' view, another big winner was the Movimiento Ciudadano (MC) party, which is vying to become an alternative to Mexico's two largest political coalitions. The party will now control Nuevo Leon and Jalisco, two of the most important states in terms of contribution to national GDP. Tello and Ramirez also highlighted that no triumph makes Mexicans more proud than the high voter participation rate and successful functioning of the democratic process, which boosted the legitimacy of the country's electoral body.

Finally, both speakers noted that tax reform will be a key topic to monitor. In a baseline scenario, they think it will likely be largely administrative in nature, aiming to simplify tax payments, closing loopholes, improving tax efficiency, and expanding the tax base. They added that tax authorities should continue to focus on tackling tax evasion to bring in additional revenue without increasing rates; moreover, although broadening the VAT base would strengthen revenue significantly, the government will likely avoid changing the VAT regime for obvious political reasons.

Appendix

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