

MEXICO

POLITICAL RISK

EXECUTIVE SUMMARY

RISKS: 2019

In this report Integralia identifies risks and opportunities for businesses, investors and political actors as a result of the beginning of the new administration. A risk does not imply a certainty of occurrence, but rather a scenario with a certain likelihood and a given degree of impact. The risks – which depend on events and decisions taken by the new government – are segmented into three categories: economy, governance and democracy, and have a six-month outlook.

LEVEL OF RISK

LOW

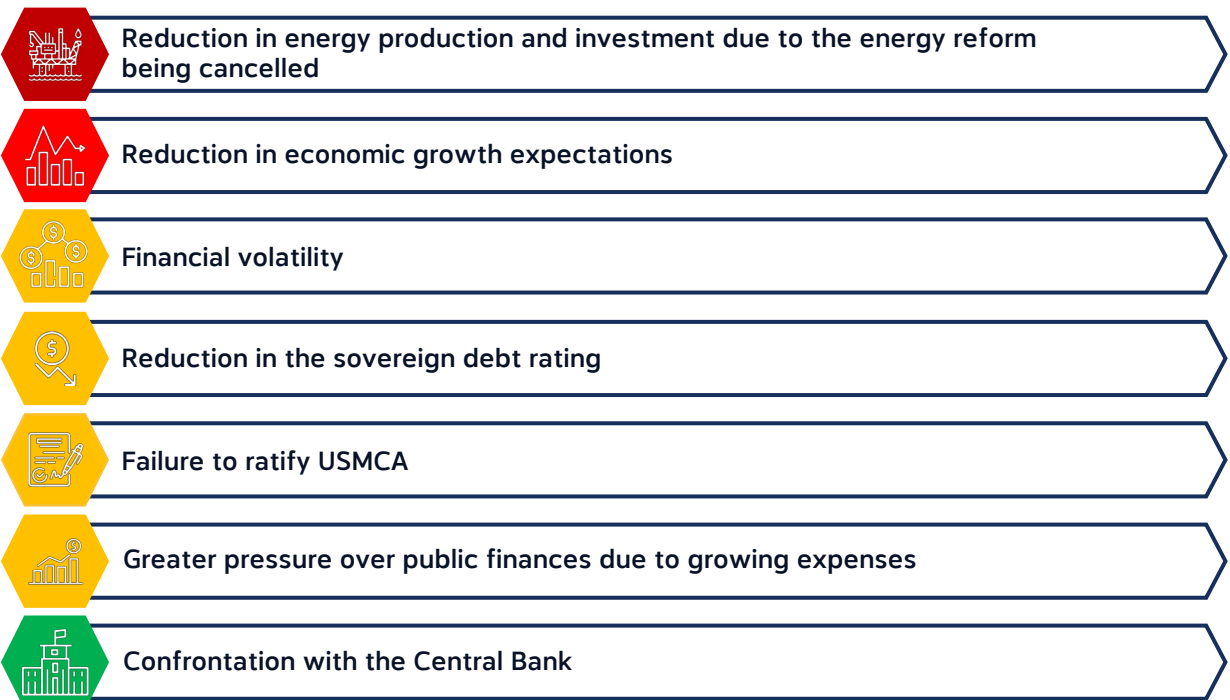
MEDIUM

HIGH

VERY HIGH








ECONOMIC RISKS

The risk of lower economic growth has increased, in line with the downgraded forecast made by national and international financial institutions over the past few months. Additionally, the country's energy security faces a rising risk as a result of the uncertainty surrounding the new government's ability to increase oil production, and a likely lack of electricity in a context of suspended calls for tenders in the electricity and hydrocarbons sectors. Similarly, the risk of a downgrade of Pemex's credit rating persists, which could directly affect the sovereign rating. Finally, there's a risk that the process of ratifying the USMCA treaty might get complicated.



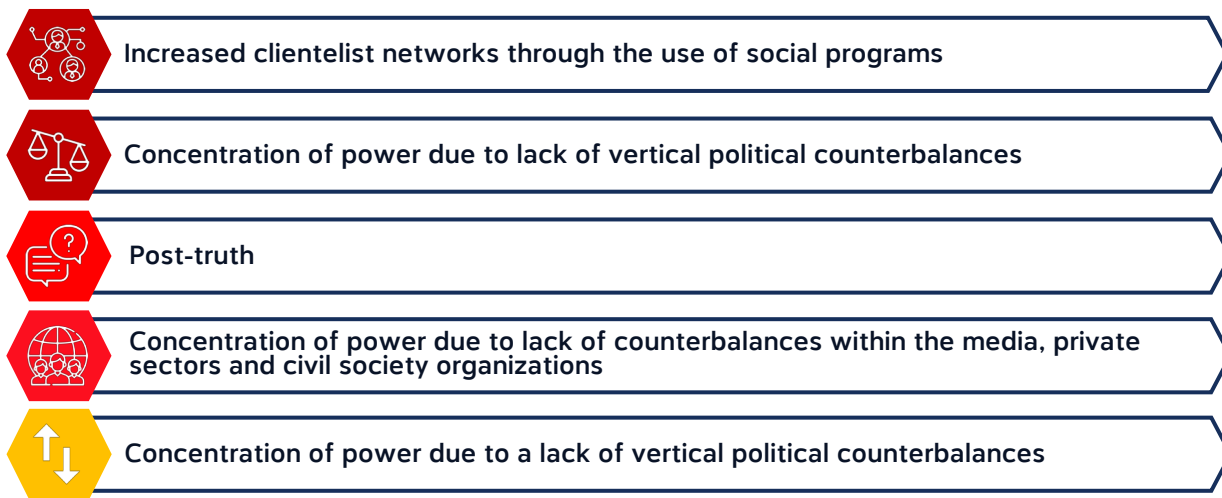
GOVERNANCE RISKS

Noteworthy are risks related to the quality of the bureaucracy, which could negatively impact the provision of public services and the decision-making process. The new government is guided by a logic where efficiency and quality are secondary to criteria such as social inclusion and ideological affinity. Thus, there has been an effort to implement the government's agenda rapidly while at the same time undergoing a process of de-professionalization. It is likely that the implementation of several programs will be difficult, as a result of a lack of resources and trained personnel. Additionally, there will likely be more union activism given the new government's less interventionist approach to collective negotiations, the creation of new labor unions, and changes to labor legislation. Similarly, there will likely be more social conflictivity resulting from the increased legitimacy of the social discourse, the strengthening of certain activist groups, and the new government's reticence to uphold the law to prevent blockades, signaling that the use of force and repression are synonymous. Finally, it is likely that, at least over the short run, insecurity levels will hold steady, since the new government lacks a concrete strategy that's different to what has already been implemented by previous administrations.

-  Lack of planning and evaluation in public policy design and execution
-  A disparate and unstable legislative agenda with no clear priorities
-  Prevalence of high corruption levels
-  Increased union activism and deteriorated employee-employer relationships
-  Deprofessionalization of the federal public administration
-  Prevalence of high insecurity levels
-  Social conflict

DEMOCRACY RISKS

Horizontal political checks-and-balances have been weakened as a result of Morena's (and its allies) political hegemony in Congress. Additionally, there have been attempts to weaken autonomous regulatory agencies, through a shrunken budget, pressure on its members, and even proposals to disappear them. Another institution at risk of being weakened is the Judicial Branch, as shown by the shortlist of candidates that AMLO submitted to the Senate with close links to the government and the belief that considerable pressure has been put on the Federal Electoral Court. It is also worth pointing out that the President has repeatedly criticized civil society organizations and signaled that his government will not work with them in the implementation of public policies. Finally, the new government will likely have a high degree of influence over the media, both public and private.



OPPORTUNITIES WITH THE NEW ADMINISTRATION



High degree of legitimacy



Increase of public trust in institutions



Greater social spending which would support consumption



Speedy implementation of decisions and projects



Channeling of public resources to neglected sectors and regions

KEY DECISIONS DURING THE UPCOMING SIX-MONTH PERIOD

- 1 Publication of the National Development Plan
- 2 Wage increases for teachers (May)
- 3 Hastened planning of Santa Lucia airport, Dos Bocas refinery and Mayan railway
- 4 Weakening of corporate governance at Pemex and CFE
- 5 Use of public consultations to define investment projects
- 6 Ratification of USMCA
- 7 Outcome of the Labor Law reform process
- 8 Government support to settle strikes and demonstrations by social groups
- 9 Approval of a recall referendum for 2021

This is an Executive version of the **Mexico Political Risk report**. The full version details opportunities and key decisions, and justifies every risk level and its trend outlook. For further information please contact:

Alejandro Aurrecoechea
Director of Analysis and Political Risk
alejandra.aurrecoechea@integralia.com.mx

