

# MEXICO 2022

# TEN POLITICAL RISKS

January 11th, 2022

This report analyzes what we believe are Mexico’s main political risks for 2022. We define political risk as the actions, decisions or omissions of the government(s) that may adversely impact the expectation of return for investments, the profitability for businesses and/or the democratic stability of the Mexican State. Each risk covered in this report may have a direct or indirect impact in the country’s business environment. This analysis is based upon a methodology created by Integralia Consultants which quantifies the potential impact and the probability of occurrence<sup>1</sup> of each risk, based in quantitative and qualitative indicators.

## 1. President Lopez Obrador becomes more radical toward his main policy objectives

Very high probability

**This includes the referendum for his recall vote, the energy reform legislative discussions, electoral interventionism, budgetary and operational strangling of autonomous organizations, deepening of his social programs with clientelistic intentions, alongside with a political-electoral reform that intends to capture the autonomous electoral institute, among others. This increases the risks for concentration of power, legal uncertainty and governmental inefficacy.**

In 2022, there will be three priorities in the political agenda for the ruling party: a) recall vote referendum, b) electricity reform and c) a political-electoral reform, besides a series of other relevant matters. Each shall have its own electoral, political and legislative timeframe, but all will be used by president López Obrador to mobilize his followers, reinforce his narrative and polarize public discussion. Besides, he shall use them as arguments to weaken Mexico’s already thin opposition.

It is to be expected that the governing coalition intensifies its reputational attacks against those opposing its agenda. In the case of the referendum for a recall vote and the political-electoral reform, it's been the electoral authorities which have suffered reputational attacks that we expect will intensify during 2022. This is explained in greater detail in the next section of this report.

In the case of energy reform, the president will recur to social mobilization as a pressure mechanism over opposition legislators, in the search of the votes required to achieve a constitutional majority. Likewise, he will intensify his nationalistic rhetoric about fighting "the abuses of neoliberalism and private companies". For AMLO, this reform is a centerpiece of his historic legacy and an instrument of political positioning towards 2024.

All of this shall contribute to a flaring up of political polarization in 2022, which can wear down some institutions (the electoral institute and Mexico’s Congress) and increase the risks of legal uncertainty, power concentration and government inefficacy.

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<sup>1</sup> Levels of possibility of occurrence: low, medium, high, very high.

Diagram I. Polarization as a political instrument



## 2. Increasing attacks against the National Electoral Institute (INE)

Very high probability

Three high profile events: a) The recall vote referendum, b) the 2022 state elections and c) the political-electoral reform.

President López Obrador and the ruling coalition have used a negative rhetoric against the INE as a means to weaken the reputation of the electoral referee alongside with blaming the Institute for his defeats or legal omissions.

This trend shall accelerate in 2022 along four key moments in the recall vote, the referendum in which Mexicans will vote if they want Lopez Obrador to continue as president for the remainder two years of his presidency:

Chart I. Key moments in the process for the recall vote

<p><b>1. Verification of signatures</b></p>	<p>It's foreseeable that the requirements established by law to activate the recall vote (3% of the electoral list nationwide, or 2.7 million signatures) will be achieved; nevertheless, during verification--which may extend till February 4th--, the electoral authority will identify irregularities in the collection of supporting signatures which the ruling party will use to condemn the institute.</p>
<p><b>2. Budgetary conflict</b></p>	<p>During the following weeks, the president will criticize the lack of "austerity" of the</p>

	electoral institute while the INE will continue to argue they have a lack of resources to organize the recall vote. In any event, the confrontation will intensify.
<b>3. Promotion of the referendum</b>	Once the announcement for the recall vote is issued (February 4th, at the latest), INE will be the only entity authorized to promote the participation of citizens in the April vote. Nevertheless, it is likely that the President and his party will try to encourage campaigns in favor of it, which shall open a new front of confrontation with the electoral authorities. Likewise, Morena will say that INE isn't doing enough for people to participate.
<b>4. Low participation on April 10th</b>	It is foreseeable that the recall vote will have a low rate of participation (below the necessary 40% threshold for its results to be legally binding). Because of this, the ruling party will, on one hand, sustain that "the people" ratified the president's mandate as he is likely to receive a very high percentage of positives and, on the other, will blame the electoral institute for the low turnout.  As a result of all this, the president will announce the need for an electoral reform.

In sum, these elements shall contribute to an environment of greater political polarization and a flaring up of the conflict between INE and the official coalition, which in its way, will encourage a greater concentration of power in the hands of the president--especially if the reform is approved or if the legitimacy of the Institute is seriously harmed--, alongside with greater legal uncertainty related with the Mexican electoral system.

### 3. Organized crime intervenes actively in the 2022 electoral process

**Very high probability**

In 2021, we saw a greater intervention of organized crime in elections, including diverse acts of political violence: Integralia counted 239 incidents of the sort, which left 179 deadly victims, including 36 candidates to popular election posts.

**Graph I. Electoral impact of political violence events:**

**Percentage of municipalities in which the party of the victim won the election for mayor, in the 2021 electoral process.**



Source: Integralia

As can be observed in the previous graph, there is information that suggests that political violence was a relevant factor in different electoral outcomes. Besides, in some states, there were victories for candidates with alleged links with criminal organizations.

It is worth mentioning that political violence is just one of the mechanisms that criminal organizations use to have incidence in electoral results, since they also participate in financing campaigns, they interfere in candidate selection processes, and they commit acts of intimidation, co-opting or extorting candidates, political operators and voters.

In the 2022 electoral process, election posts will be contested in entities relevant for the operations of organized crime, be it as a part of drug transport routes towards the United States (for example, Tamaulipas and Durango) or as important hotspots for drug dealing and extortion (like Quintana Roo).

In view of what happened in the 2021 elections, it is highly possible that once more, organized crime seeks to have electoral as to guarantee the triumph of people with affinity to their interests, which implies a greater territorial control over local governments to dominate the routes for drug transport, participating in the construction of public works, extorting governments and businesses, and even regulating different activities, like the sale of alcoholic beverages or local festivities.

## 4. Morena in route of becoming a semi-hegemonic party at a regional level

High probability

**Morena will win four or five out of six governorships, which would increase concentration of power and territorial domination of the ruling coalition.**

In 2022, there will be elections for governorships in Aguascalientes, Durango, Hidalgo, Oaxaca, Quintana Roo, and Tamaulipas. Two of them are governed by PAN alone, two by a PAN-PRD coalition, and two by PRI. These six entities represent 12% of the national population, with a weight on GDP close to 10%.

Campaigns start in early April. As of now, pre-campaigns have already started, and this is the local political context in the six states being contested:

- **Aguascalientes:** PAN has very high possibilities of retaining the state. The coalition "Va Por México" (PAN-PRI-PRD) will have Tere Jiménez as candidate, former mayor of the capital city, and current federal representative; Nora Rubalcava, on the other hand, a former coordinator of the social programs of the federal government in the state, will be Morena's candidate, but without support from PVEM and PT.
- **Durango:** this is the closest race of the ones being contested, although the "Juntos Haremos Historia" coalition (PT-PVEM-Morena) starts off with a slight advantage over the "Va Por México" (PAN-PRI-PRD) coalition.
- **Hidalgo:** the only registered coalition was "Va Por Hidalgo" made up of PAN, PRI and PRD, whereas Morena and its allies decided to go together with a common candidate. There are high possibilities of Morena seizing this state from PRI.
- **Oaxaca:** the triumph of Morena is practically guaranteed. The coalition "Juntos Haremos Historia" (PT-PVEM-Morena-Unidad Popular) is the only one registered before the local electoral organism. PRI will compete without an alliance.

- **Quintana Roo:** PRI has declared that they will contend alone, which contributes to split the opposition vote, and reinforces possibilities for Morena to win.
- **Tamaulipas:** Whereas the PAN-PRI-PRD coalition has been consolidated at a state level, and a different candidate to the governing group is envisioned, it's most likely for Morena to win, given the citizen disaffection with the current gobierno Francisco García Cabeza de Vaca's government, and the mobilization and attraction power of president López Obrador.

**Chart II. Morena candidates for the contested governorships**

			Age	Experiencia in public office	Legislative Experience	Private sector	Political Origins
	Aguascalientes	Nora Ruvalcaba	54	✓	✓	✗	
	Hidalgo	Julio Menchaca	62	✓	✓	✗	
	Durango	Marina Vitela	56	✓	✓	✗	
	Oaxaca	Salomón Jara	62	✓	✓	✗	
	Quintana Roo	Mara Lezama	52	✓	✗	✓	
	Tamaulipas	Américo Villarreal	63	✓	✓	✗	

Source: Integralia.

Under these conditions, it's likely for the ruling coalition to obtain victories in at least four (and possibly, five) of the six contested states. With this, Morena would govern between 20 and 21 federal entities starting 2022, which increases a risk of power concentration, since the territorial domination of the ruling party will be consolidated, and checks and balances to the Federal Government will be reduced. It's probable for president López Obrador to have a high level of influence over these state administrations to seek for the replication of the main commitments of his government agenda at a local level. Also expect a highly interventionist president during the campaigns.

Graph II. Governors of the president's party, 1998-2022



Source: Self-elaboration using state government data.

## 5. Electrical reform discussions will be long and draining

High probability

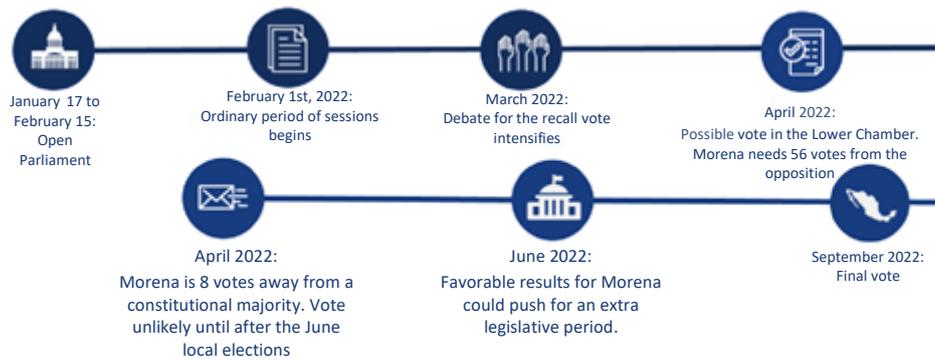
**This is likely to generate a climate of uncertainty and distrust from the business sector, discouraging private investment in the electricity sector and ramification into other sectors of the economy.**

During 2021, the Lopez Obrador administration sought to undermine the bases of the 2013 energy reform, through reforms to the Electrical Industry Law, the Hydrocarbons Law and, finally, the presentation of the initiative of constitutional reform in energy matters, which intends to turn the Federal Electricity Commission (CFE) in a monopoly and monopsony, cancelling all permits for electricity generation and disappearing the regulatory bodies of the sector.

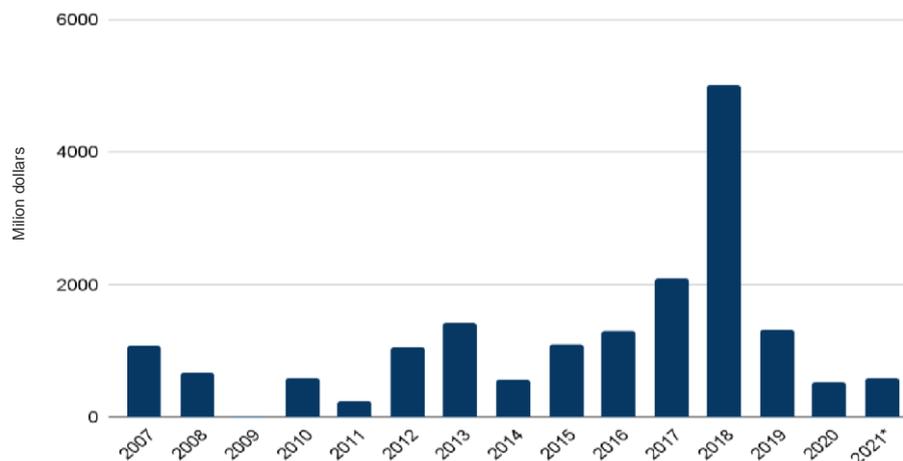
We expect the government will double down on its bet of changing the rules of the electricity sector. For president Lopez Obrador, this reform is critical to enhance his legacy so he will use the legislative discussions as a propaganda tool to mobilize his base. Current possibilities of approval remain low but they are far from zero. In the environment of a weakened opposition and polls showing support for the reform, some PRI legislators could vote in favor making it a tighter vote.

Since the voting for this reform will extend probably beyond the June elections, legal uncertainty will prevail, negatively impacting not only the energy sector, but the business environment in general. It is to be highlighted that the lack of trust has already manifested itself in a drop of private investment in the sector, which hasn't been compensated with greater public investment.

**Diagram II. Chronology of the legislative process for the energy reform.**



**Graph III. Direct foreign investment in generation, transmission and distribution of electricity (millions of dollars)**



Source: Self-elaboration using data from the Secretary of Economy. \*Until the third quarter of 2021.

In parallel, we expect regulatory and administrative obstacles by authorities will continue and are likely to intensify, not only with a lack of new permits for the different activities of the sector, but also with revocations and suspensions. An increase in reputational attacks against private enterprises are likely.

Also in 2022, the Supreme Court of Justice is likely to solve controversies and actions of unconstitutionality promoted against reforms to secondary laws in energy matters. If the Court's lack of clarity were to be prolonged, this will add to the climate of legal uncertainty in the sector.

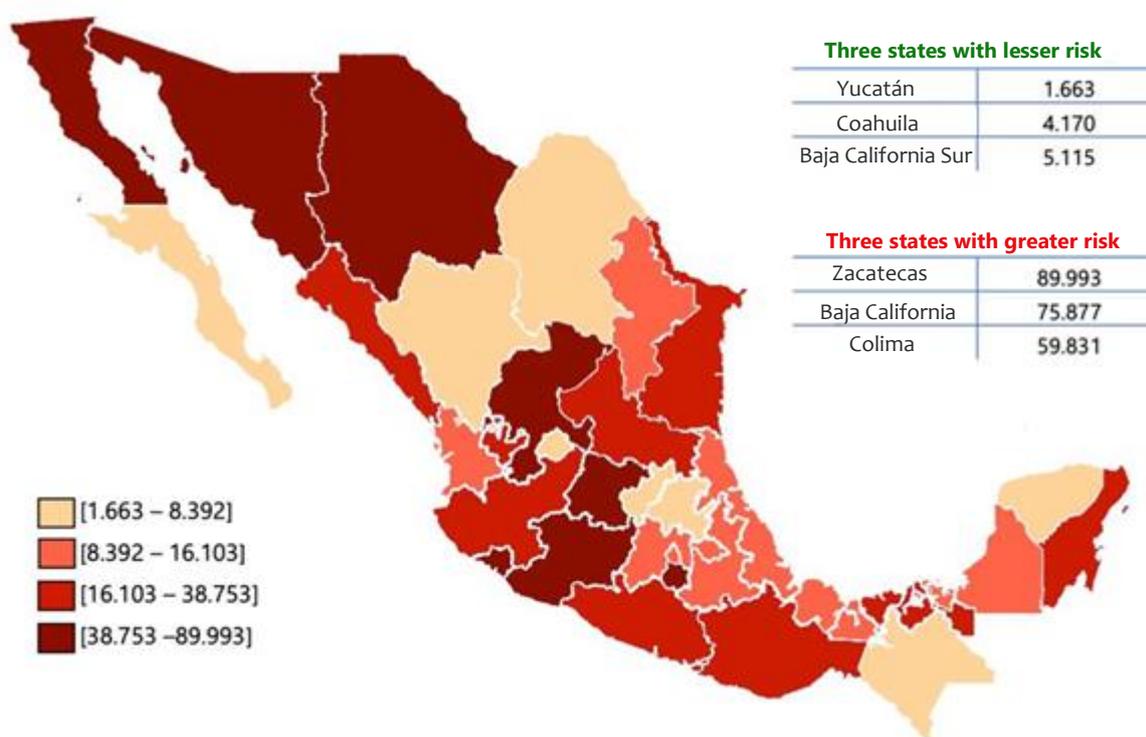
## 6. High rates of criminal activity continue.

High probability

**Mexico faces a complex criminal environment and a lack of a comprehensive federal security strategy.**

In the first three years of president Lopez Obrador's government, 102,830 victims of murder were accounted in Mexico, an annual rate close to 26 victims per 100,000 inhabitants. During 2021, the rate of murders increased in eleven states, most notably in Zacatecas (+60%), Nayarit (+28%) and Sonora (+25%) compared to 2020. Likewise, from the beginning of this administration, the amount of extortion victims has increased consistently, without there being any specific policies announced or implemented to confront it. Finally, despite theft registering a consistent reduction in 2020 and 2021, probably as a result of shelter-in-place measures, there are signs of spikes in certain categories, including burglary, vehicle theft and theft in businesses. In fact, in 2021, the total theft rate increased in seventeen entities by comparing to the same period the previous year, with significant increases in Campeche (+50.21%), Colima (+25.23%), Tlaxcala (+14.24%) and Sinaloa (+13.07%).

**Map I. Rate of intentional murder victims per 100,000 inhabitants (January-November 2021)**



Source: Self-elaboration using SESNSP data.

By now, it is clear that the federal government won't modify its current public safety strategy. This has been characterized with a lack of concrete objectives, clear metrics and sufficient resources. In general terms, the federal government has adopted reactive actions in emergency situations, but has not designed nor implemented integral or focalized policies for the prevention of crime, social readaptation and an improvement in the justice procuration system. As proof of this, there is the

creation of a Touristic Police in Quintana Roo after shootouts happened in tourist resorts which caused the death of national and foreign people; or the presence of Army and National Guard elements in Zacatecas after an increase in violent clashes between organized crime groups.

The agenda of the federal government in terms of public safety has been centered in strengthening the role of the National Guard, concentrating the design, implementation and coordination of operatives in the Secretary of National Defense. The indispensable task of professionalizing state and municipal police corps has been set aside, many of whom suffer from element insufficiency, budgetary and technological resources, and a lack of training in attention to victims.

It is apparent that Mexico's Armed Forces have received instructions from the National Palace, to avoid intervening directly in violent operatives against organized crime groups, or capturing high-level drug dealers. This has derived in a more defiant attitude from the main criminal organizations operating nationally, which have strengthened their intervention in government structures, especially at a municipal level.

Therefore, it is considered likely that in 2022, high criminal rates are maintained in several impact crimes, especially intentional murder, extortion, theft for carriers, which in their latest instances could be harmful for business environment, and the attractiveness of private investment in some regions of the country.

## 7. The number of faculties, responsibilities and budget (different from national security) assigned to Armed Forces keeps increasing

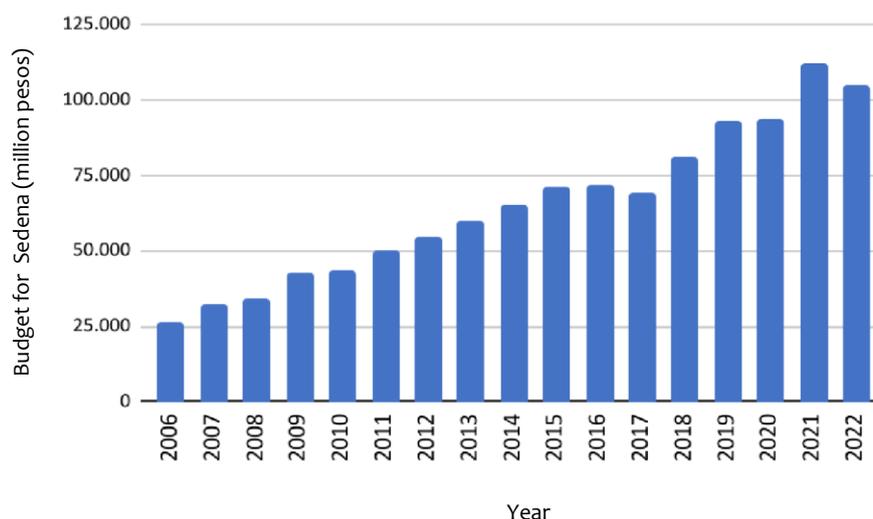
High probability

**This brings an imbalance to civilian-military relation and increases the likelihood of corruption within the Armed Forces.**

From 2006 on, a trend of growing participation of military members in public security tasks has emerged, reason for which budgetary assignments and political importance of the Army and Navy have increased. In this administration, however, this phenomenon acquired a new dimension, since president López Obrador has been assigning Armed Forces with multiple government and public administration tasks, which aren't of their own nature.

The National Defense Secretary (SEDENA) been two great winners in the federal budgets in times of "republican austerity". According with a study by "Mexicanos Contra La Corrupción y la Impunidad", between 2017 and 2020, the budget assigned to SEDENA went from 0.30% to 0.46% of the GDP. The National Guard's own budget will increase 70% for 2022. It's worth specifying that, as shown in the next graph, SEDENA suffered from a slight budget cut in 2022, but it's compensated by the important increase the National Guard.

**Graph IV. Budgetary growth of SEDENA (2006-2022)**



Source: Integralia with data from expense budgets of the Internal Revenue Secretary.

According to the national inventory of militarized topics (source: Drug Policy Program from CIDE), the current government has transferred the following civilian responsibilities to the military: construction and administration of public works, like airports and railroads; safekeeping customs offices and borders; the delivery of fertilizer, textbooks and other social programs; the distribution of vaccines against COVID-19; the construction of bank branches of “Banco del Bienestar”; the operation of reforestation programs, among others. Additionally, the National Guard, which sprang as a civilian-oriented security corps with military participation, has actually been SEDENA's arm for public safety work. According to research by *Animal Político*, seven out of every ten elements of the National Guard are part of the military.

In 2022, it's likely that the trend of assigning resources and functions to the Armed Forces will intensify, since President López Obrador will turn to them to finish the projects he promised to conclude before the end of this administration. The military's participation allows him to avoid administrative, legal or accountability roadblocks, which he can speed up by overpassing the normal administrative procedures.

In the medium term, this implies three great risks for Mexican democracy:

**Chart III. Risks due to the growing military participation in government work**

<p><b>Imbalance in the civilian-military relationship</b></p>	<p>The growing military participation in government works, without the appropriate institutional counterweights and accountability mechanisms, is causing an imbalance in the civilian-military relationship, especially considering that the Army's loyalty to the current government and its submission to civilian power is more based in political arrangements and historical factors than in legal and institutional dispositions. This represents a grave risk for Mexican democracy.</p>
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<b>Corruption</b>	<p>Protected by the umbrella of national security, military corps aren't subject to the same requirements of transparency and accountability as civilian authorities are. Besides, military institutions were not accustomed to handle with ballooning budgets and managing infrastructure works. Both can encourage the proliferation of corruption schemes within the Armed Forces.</p>
<b>Government Inefficacy</b>	<p>Giving functions to Armed Forces encourages government inefficacy due to four factors. Firstly, members of the military aren't trained with, nor have the necessary technical knowledge for the tasks they're performing. On second place, so many tasks have already been assigned to Armed Forces, that no institution, regardless of their discipline and professionalism, may efficiently attend so many issues simultaneously. Thirdly, military participation in government work removes space for capable civil servants to work, and undermines the opportunity for new framework creation. Fourth, Military participation in public safety issues has been an incentive for state and municipal governments to invest less time, resources and efforts in constructing capable civilian police forces; the same could happen with the other government tasks being performed by the military.</p>

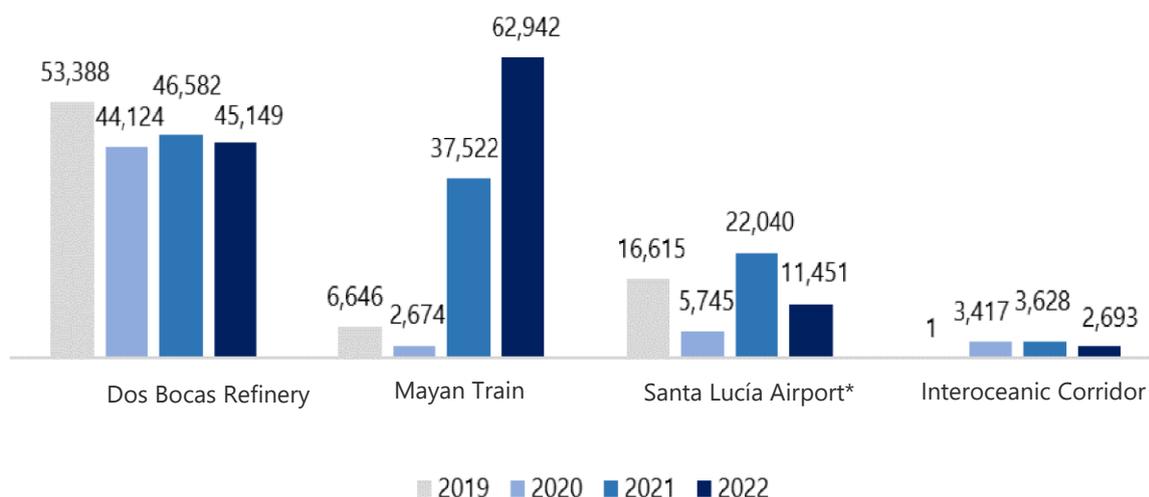
## 8. Fragile public finances prevail

Medium probability

**The combination of a) increasing risk of lower income than expected; b) greater costs of landmark infrastructure works, c) higher spending in priority social programs, d) no more stabilization funds, increases the vulnerability of public finances.**

For the last two years, public finances have shown a greater resilience than expected, thanks to revenue efforts by the Tributary Administrative Service (SAT) and the use of financial resources coming from different public funds and trusts. Despite this, for three years in a row, Mexico's central government revenues have fallen. For 2022, the vulnerability of public finances is likely to grow. Five main reasons: 1) The forecast for public revenues in 2022 is sustained in a quite optimistic economic growth scenario, which is likely to be revised down. 2) Higher spending pressures as president Lopez Obrador social spending promises will intensify -particularly in old-age pension support-, without a stable source of additional income 3) The "success" of tax authority during the past two years is showing increasing signs of wearing down. 4) The "extra" resources that president Lopez Obrador inherited from the previous administration are basically gone. 5) The main landmark infrastructure projects of the administration, as well as the Pemex rescue, are likely to need higher budgetary allocations in 2022. As shown in the next graph, resources assigned to said works have been increasing, and estimated costs have risen. In this sense, additional financial requirements for 2022 can't be discarded.

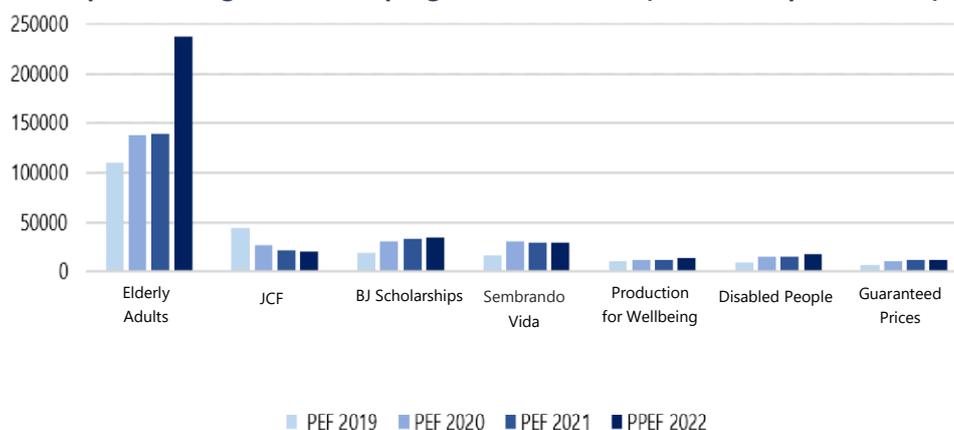
**Graph VI. Budget for priority infrastructure projects (millions of pesos, 2022)**



\*In 2019, the budget was indirectly assigned. Source: Self-elaboration using SHCP data.

Finally, social spending has increased considerably during the first three years, mainly as a result of tripling the allocation for the universal pension for elderly adults. However, president Lopez Obrador continues to make new spending commitments that are putting increase pressure on public finances.

**Graph VII. Budget for social programs 2018-2022 (millions of pesos, 2022)**



Source: Self-elaboration using SHCP data.

\*In 2018, the budget for Elderly Adults Pension was 48,185 million pesos (2022 prices). For the remainder of aforementioned programs it's not possible to have a comparison made, since they were created in the current administration.

In conclusion, public finances will face pressure both on the income side as in the expense side, which, in case of happening, would force the government to perform additional budgetary cuts in "non-priority" areas, or accepting a greater deficit (less likely).

## 9. The inexperience of the new leader of the Bank of Mexico puts into question the response capability of the institution

Medium probability

**The new governor of the central bank will have face a complex inflationary and external scenario. Her lack of experience both in monetary and financial matters increases the risk of an erratic response.**

Victoria Rodríguez Ceja has had a decent career in the public sector, but lacks complete experience in monetary policy and financial matters. She poses no imminent risk for Banxico's autonomy, but she will be closely watched by financial markets.

Rodríguez Ceja shall face a complex domestic and international scenario during her first year at the helm of Banxico. Nationally, inflationary pressures could extend for several more months, forcing the central bank to react more aggressively. Internationally, financial markets discount at least three increases in the interest rate of the US Federal Reserve, which will add greater pressure for emerging markets central banks to react consequently.

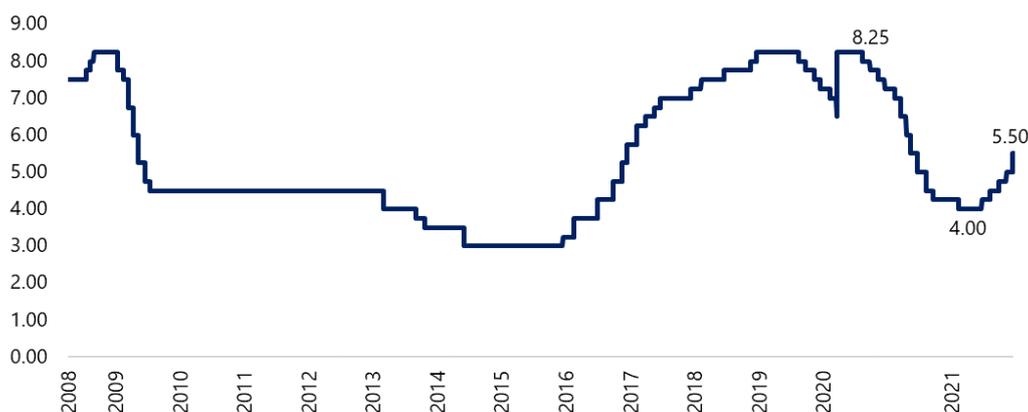
Domestically, inflation remains far outside the goal range for Banxico (3-4%). The 7.36% annual rate inflation for 2021 is the greatest level in twenty years, which has led Banxico to raise rates for five times in a row, the last one by 50 basis points.

Graph VIII. Annual inflation



Source: Self-elaboration using INEGI data.

Graph IX. Interest Rates for Banco de México



Source: Self-elaboration using Banxico data.

Under these conditions, there is a medium risk that the Governing Board at Banxico will be less forceful facing this complex inflationary and more financial volatility from abroad.

## 10. Higher probabilities of pro-government Supreme Court Justice decisions

Medium probability

**Specifically in key matters for the Lopez Obrador's government administration, including the militarization of security, "austerity" measures, disappearing trusts, education reform, electricity and hydrocarbons reforms, among others.**

During 2022, the Supreme Court is likely to decide upon several key matters of the government's reformist efforts.

Despite there being not sufficient elements currently to affirm that Supreme Court members have been co-opted by the Federal Executive, there are mounting worries that this could be the case. The arrival of Loretta Ortiz Ahlf -the fourth Minister Lopez Obrador has been able to propose- could tip the scale in favor of president Lopez Obrador's positions, since the probability of obtaining the eight necessary votes to declare unconstitutionality in general norms and other legal acts is today less likely.

If any of these pending matters is to be discussed in the following months, ministers Loretta Ortiz Ahlf, Margarita Ríos Farjat, Yasmín Esquivel Mossa, Juan Luis González Alcántara Carrancá and Arturo Zaldívar will be forced to show whether they truly are independent from the Executive power or not.

**Table IV. Pending matters for the Supreme Court of Justice of the Nation\***

Unconstitutionality Actions	Constitutional Controversies
<ol style="list-style-type: none"> <li>1. Federal Remunerations Law for Public Servants</li> <li>2. Reforms for the Organic Law of APF (Creation of "Superdelegates")</li> <li>3. National Guard Law</li> <li>4. National Law for the Detentions Registry</li> <li>5. General Law for the Career System for Teachers</li> <li>6. Federal Republican Austerity Law</li> </ol>	<ol style="list-style-type: none"> <li>1. Federal Remunerations Law for Public Servants</li> <li>2. Federal Expense Budgets for fiscal years 2019, 2020, 2021 and 2022</li> <li>3. Reforms to Fiscal Coordination Law</li> <li>4. Republican Austerity Law</li> <li>5. Agreement for the "militarization" of public security (National Guard)</li> </ol>

<ul style="list-style-type: none"> <li><b>7.</b> New Federal Copyright Law</li> <li><b>8.</b> Federal Penal Code Reforms in terms of piracy</li> <li><b>9.</b> Decree for reform on several laws regarding the extinction of trusts</li> <li><b>10.</b> Reform to maintain disposal taxes for menstrual management products</li> <li><b>11.</b> Reform on the militarization of ports (customs)</li> <li><b>12.</b> Reform for several laws in terms of officious preventive prison</li> <li><b>13.</b> Reforms for the Electric Industry Law</li> <li><b>14.</b> Biometric Data Census (PANAUT)</li> <li><b>15.</b> Law for the Republic's General Prosecutor's Office</li> <li><b>16.</b> Reforms for Hydrocarbon Law</li> <li><b>17.</b> Organic Law for the Mexican Army</li> <li><b>18.</b> Federal Law for Referendums</li> </ul>	<ul style="list-style-type: none"> <li><b>6.</b> Reform decree on several laws in terms of extinction of trusts</li> <li><b>7.</b> Decree for the elimination of fiscal times in radio and TV</li> <li><b>8.</b> Reforms for the Electric Industry Law</li> <li><b>9.</b> Declaration of provenance of the governor of Tamaulipas.</li> <li><b>10.</b> Biometric Data Census (PANAUT)</li> <li><b>11.</b> Law for transparency in hiring publicity</li> <li><b>12.</b> Agreement on infrastructure, national security and public interest</li> </ul>
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\*Enunative, not limitative list. Matters considered relevant by Integralia regarding general normativity and other judicial acts issued from September 1st, 2018, on, are included.

**Source:** Self-elaboration starting from data from the SCJN's website and hemerographic review. Data by December 16th, 2021.

## Other relevant matters for 2022

	<p><b>(mis) Management of the pandemic</b></p>	<p>The increasing number of cases of new COVID-19 variants contrasts with the federal government's relaxing attitude, which insists that the pandemic is under control. Even when the budget approved for 2022 includes an increase of 26,500 million pesos vis-à-vis 2021 for vaccination, most of these resources will be used to pay debts or acquiring additional doses to vaccinate the adult population in 2022. Nevertheless, budgetary assignment reflects that the government's priorities don't include vaccination of children below 15 years of age, or the attention of patients with COVID-19 and its long-term effects. This all could derive--for the third consecutive year--in a challenging scenario for the healthcare system in Mexico.</p>
	<p><b>Intermediate elections in the US.</b></p>	<p>Polls suggest that in the November elections, republicans could win one or both Congressional chambers, which could be a forewarning of a return of Trump to the White House in 2024. This would paralyze the administration of president Biden in many ways, since there are no political conditions in Washington for an efficient divided government. Jointly, these factors would sharpen polarization in the US even more, and would hinder institutional credibility and that of democracy. All these conditions could have a negative impact on Mexico.</p>
	<p><b>Factious use of justice institutions</b></p>	<p>There is a lack of political will perceived regarding a transition to a truly autonomous Prosecutor General of the Republic. Thus, it's likely that a scheme of selective justice will continue, since political profitability to discredit opposition figures and parties will be sought, especially in the context of governorships being contested in 2022.</p>

	<p><b>Increase in corruption</b></p>	<p>Contrasting with the triumphant rhetoric regarding the 'end of corruption', available indicators for perception, occurrence and institutional capabilities suggest that the structural problem of corruption prevails and that in some aspects, it can be greater due to the lack of control regarding the handling of public resources (such as social programs), a lack of planning and contract-assignment instruments, and due to a lack of efficient vigilance both internally and in the Mexican Congress.</p>
	<p><b>Union activism and labor disputes</b></p>	<p>Unions have until May 2023 to comply with the legitimization of Collective Bargaining Work Contracts (CCT); but, at the end of 2021, out of the over 500 thousand CCTs existing in the country, only 0.51% was legitimated. The year 2022 will be fundamental in this regard, especially for unions related with USMCA, in which the US has shown special interest. Additional risks are that the Mexican labor authorities may be overwhelmed in verifying these legitimations. This could cause social conflictivity with an impact in the business environment.</p>
	<p><b>Legislative surprises</b></p>	<p>Even though it's foreseeable that the Executive's legislative priorities will be the three constitutional reforms in electric, electoral and National Guard affairs, new legislative surprises can't be ruled out. A persistent risk of appearance of uproarious initiatives by Morena legislators on the road to the 2024 presidential election cannot be disregarded.</p>

	<p><b>Financial and political pressures from migrant caravans</b></p>	<p>Economic and insecurity problems in Central America have caused an increase in the amount of people trying to reach the United States, using Mexico as a transit country. In 2022, the presence of migrants in Mexico could worsen a the "Stay In Mexico" program reactivates. As a result: i. Financial pressure in border states is likely, and ii. Conflictivity episodes in which migrants demand attention and resolution of documentation issues by Mexican authorities, alongside with potential violent clashes with security forces which will try to stop them.</p>
	<p><b>Weakness of the opposition</b></p>	<p>The opposition lacks an attractive narrative which harms their capacity to present themselves as a united block to face controversial actions and legislative bills presented by the President. Moreover, the lack of a unified opposition weakens its chances for the upcoming governorship elections and the presidential elections in 2024, for which no strong opposition candidate is yet to be foreseen.</p>

## Political risk in Mexico at the start of 2022

Integralia has been measuring political risk in Mexico for the past four years through an analytic model based in six risk factors: government inefficacy, power concentration, legal uncertainty, public insecurity, social conflict and economic deterioration.

During 2021, Mexico’s political risk level remained at a “high” level. Current trends suggest it is likely to remain high and probably increase during 2022.

Risk factor	Risk level 2018	Risk level 2019	Risk level 2020	Risk level 2021	Trend 2022
 Power concentration	Low	Medium	High	High	○○○▶
 Government Inefficacy	Medium	High	High	High	○○○▶
 Legal uncertainty	Low	Medium	High	High	▲ ○ ○
 Public insecurity	High	High	High	High	○○○▶
 Social conflictivity	Medium	Medium	Medium	Medium	○○○▶
 Economic deterioration	Low	Medium	High	Medium	▲ ○ ○

The scale of risks goes from low to very high.-



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