



Canning House

Mexico Intelligence Report – 8th January 2016

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**GRUPO ATALAYA**

### Three talking points for Mexico in 2016

**Regional elections:** 2016 will bring an intense amount of political activity as 13 states will hold elections to choose their next governors as well as their local congresses –with 388 seats up for grabs. Moreover there will also be elections for 548 local councils across eleven states.

There are likely to be two great themes underpinning these contests, namely, the continued rise of independent candidates and the degree to which the right wing party PAN and the left wing PRD join forces against their long standing rival and President Enrique Peña Nieto’s party the PRI.

Regarding the former, following on from the success of Jaime Calderon “El Bronco” (the Wild Stallion) who became the first independent candidate to win a governorship in the 2015 mid-term elections, there are at least 11 potential independent candidates that might compete in nine states. One of these, José Luis Barraza, the former Chairman of the Mexican Employers Association, has a strong chance of repeating El Bronco’s success in the state of Chihuahua, given his strong support from the private sector.

Furthermore on-going negotiations between the PAN and the PRD will be crucial. Firstly, Mexico’s political landscape has become increasingly fragmented. Up till now has benefitted the PRI, which has the strongest voter base. If the PAN and PRD secure their alliance they will not only stem this trend, but in the PAN’s case bolster the party’s chances in the 2018 presidential elections. In the case of the PRD, securing wins in 2016 is crucial if the party is to remain a relevant political force, in light of the rise of a new left wing party Morena which is led by the former PRD member and strong contender for 2018 Andres Manuel Lopez Obrador. Yet at the time of writing the alliance looks shaky due to infighting in the PRD.

**Economy:** 2016 is likely to bring more of the same as last year for the Mexican economy, namely, lacklustre growth with the peso continuing to fall against the dollar. The World Bank recently cut its estimated of growth for this year from 3.2 per cent to 2.96 per cent, as did the IMF which reduced it’s forecast for the year from 3 per cent to 2.8 per cent.

Two positive notes throughout 2015 were the fact that inflation (2.21% year on year) reached historic lows despite the peso’s plunge vs the greenback, as well as strong performance in domestic consumption, as proven by the fact that auto sales grew by 19 per cent year on year. Regarding the latter, it should be noted that consumption bounced back from trough due to the 2013 fiscal reform. And in regards to monetary policy Mexico’s Central Bank (Banxico) is likely to shadow the Fed so as to leave interest rates at 4 per cent by the end of the year, as shown in Banxico’s latest survey of expectations from private sector analysts.

**Security and corruption:** 2015 saw the first increase in the number of homicides year on year after a long decreasing trend that started in 2011. Moreover the murder of a recently elected in mayor in the state of Morelos has served as yet another reminder institutional weakness at the local level of government in addition to continued corruption and impunity are the crucial structural factors behind violence in Mexico. In this sense, the two main themes to keep an eye on are the debate as to whether state level police forces should supplant those at the municipal level and the drafting of secondary legislation for the National Anticorruption System. Whatever outcome may come from both discussions it is key to remember that the challenge in Mexico is not so much in the design of policies but in their execution.

### Pages

- ▶ [Home](#)
- ▶ [About](#)
- ▶ [Corporate Membership](#)
- ▶ [Upcoming events](#)
- ▶ [Reports and analysis](#)
- ▶ [Education](#)
- ▶ [News](#)
- ▶ [Contact us](#)

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