MIRANDA INTELLIGENCE

Public Affairs Chatter

Does Claudia control Monreal and Adan Augusto?

Last week Morena played hardball. After Judge Nancy Juárez ordered President Claudia Sheinbaum to repeal the decree on judicial reform, Morena leaders Ricardo Monreal and Adán Augusto López hastily presented a reform initiative termed "constitutional supremacy."

Photo of the Week – Cuartoscuro

This proposal blocks any legal challenges, such as *amparo* trials, constitutional controversies, or actions of unconstitutionality against constitutional amendments. The timing and nature of this measure seem strategically designed to shield newly approved constitutional reforms by the ruling majority in Congress. These include the election of judges, which has already been suspended twice by federal judges, and other pending reforms, like eliminating autonomous bodies. This comes amid relentless accusations that the Judiciary is corrupt and partial.

With the new proposal seeming to conflict with the President's more conciliatory tone during the CEO Dialogue, analysts were left wondering. Was this a power grab by Monreal and Adán Augusto, neither of whom is considered loyal to Sheinbaum, or is the President more likely simply communicating mixed messages to different audiences, hoping to soothe private sector anxieties while moving ahead with Morena's radical agenda? Hitherto observers were concerned that Sheinbaum would not be able to govern independently of former President Lopez Obrador: but what if she lost control of Congress, where many are (or were) loyal to AMLO, but others (like Monreal) have their own power-driven goals?

Thursday night, the Senate approved this reform with 85 votes from the ruling coalition of Morena, PT, and PVEM, reaching the qualified majority. The approved text asserts that the changes are intended to “clarify, for those who today believe that a constitutional reform is challengeable,” that the current Mexican constitutional framework does not permit this.

The opposition has denounced that this reform "destroys the Constitution to prevent its excesses from being challenged, in addition to creating legal uncertainty and weakening the rule of law”. Marko Cortés Mendoza, the national leader of the National Action Party (PAN) and a senator himself, announced that their lawmakers would file complaints with international bodies to expose the "violations" of the law and the erosion of checks and balances following the passing of the so-called "constitutional supremacy" reform.

The reform began its review in the House of Deputies' committees this Sunday and is expected to be approved in the plenary session on Tuesday. For many experts, by effectively insulating its constitutional reforms from scrutiny, Morena's government is crossing a line. Justified as “clarifications,” expose a broader agenda prioritizing consolidating power over safeguarding democratic principles.

Despite all this sound and fury, once Morena controls the judiciary by 2027 or before, this latest reform will become somewhat irrelevant, as the Supreme Court will likely not rule against the executive in any case.

Raising the Stakes: Afores on Infrastructure and Riskier Assets

In what should be positive for Mexico’s private equity industry and FIBRAs, the National Commission of the Retirement Savings System (Consar) has altered the investment regime of Afores to expand the investment limits for four types of assets: Fibras (Real Estate Investment Trusts), structured instruments (private equity), currencies, and conditional value for equities. With these changes, the financing capacity of the Pension Funds for domestic investment will be strengthened to engage in various nearshoring infrastructure projects, expanding Afores' involvement across a wide range of asset classes, explained Julio César Cervantes, the Commission’s president.

While the aim is to achieve higher returns and fuel national development, the increased stakes also bring greater responsibility—and scrutiny—on how these new freedoms will be managed.

Cervantes highlighted that the increase in the limit for structured instruments is significant since these are primarily focused on providing resources for infrastructure, energy, private credit, and venture capital projects. Guillermo Zamarripa, president of the Mexican Association of Afores (Amafore), emphasized that this will facilitate financing for key infrastructure projects. The changes aim to grant more flexibility and efficiency in using workers' savings, ultimately maximizing returns and supporting the country's economic development.

One notable adjustment is the increase in the investment limit for structured instruments from 20% to 30% of managed assets, representing a significant opportunity for Afores to channel more capital towards national strategic projects. Moreover, the investment limit in Real Estate Investment Trusts (Fibras) has been raised from 10% to 12.5%. These modifications also introduce more flexibility in the limits for currency-denominated instruments and an update in the risk levels that Afores can assume in their investments.

Zamarripa underscored that increasing the investment limit for structured instruments is the most crucial change. This boost in investment capacity allows Afores to support essential infrastructure projects vital to the country's economic growth. He also highlighted that the new regulations would pave the way for more public-private partnerships (PPPs) during this administration.

Ticking Clock: Investors Demand Clarity on Mexico's 2025 Budget Amid Growing Fiscal Pressures

Investors are holding their breath on the presentation of Mexico's 2025 expenditure budget by Novmember 15th, and the clock is ticking. Despite the urgency, it was only this Thursday that the commission responsible for its analysis was formally established in the House of Deputies. Investors are closely watching as this budget will signal the government's commitment to fiscal discipline and economic stability amid mounting external pressures.

Investors are hoping for a budget deficit of around 3.5% to 4% of GDP in 2025, from 6% of GDP in 2024, based on reasonable assumptions, with anything higher than 4% of GDP sure to cause a negative reaction. The November 5th US election may drive the government's hand, with a Trump victory likely to require a more austere budget closer to a deficit of 3.5% of GDP due to market uncertainty on his policies to USMCA, and a Harris victory providing more additional headroom to the 4% of GDP deficit higher limit.

Representative Alfonso Ramírez Cuéllar (from Morena), the Finance and Budget Committees secretary, said that there will be an open-door discussion involving all parliamentary forces, mayors, and governors. He listed the priorities and criteria for next year's budget allocation: "We are determined to fulfill and honor our word by reducing the deficit to 3.5%. This was a commitment made by former President López Obrador, and it is now being confirmed and reaffirmed with a very responsible financial management approach, increasing discipline and reducing the deficit to 3.5%, as Sheinbaum has been announcing."

He emphasized that another priority is to guarantee all the rights established in Article Four of the Constitution, representing social policies, such as support to primary sectors through guaranteed prices. The three new programs he claims will define the current administration are early childhood care, a national care system, and providing a basic income for children and adolescents in primary, secondary, and preschool education. "Here, we will have a flow of investment in social policy of almost 600 to 700 billion pesos for 2025," he projected.

However, extraordinary judicial elections will create additional financial pressure beyond social programs, albeit not especially relevant compared to the cost of social programs. The National Electoral Institute (INE) is preparing a precautionary budget of 13 billion pesos to organize the election. This preliminary figure, set aside for electing over 800 judges, is only 50 million pesos lower than the 13 billion pesos the INE requests from the House of Deputies as its baseline budget for operational expenses.

It raises the question: Can the government genuinely balance expansive social investments with fiscal discipline in the face of mounting expenditures? The answer remains uncertain, and the promise of “responsible financial management” may clash with the complex numbers that demand more transparency and a realistic financial strategy.

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