

## Portugal: No big shifts in political power expected

Polls show that the Socialist Party should become the largest party in Portugal. A continuation of the Socialist government, led by António Costa, supported by other left wing parties is our base case



Source: istock

### How did we get here?

After the 2015 elections, the Socialist party (centre-left) formed a government, led by António Costa, which was supported by other leftwing parties, notably the Left Bloc (BE) and the Portuguese Communist Party (PCP). The Socialist Party needed the support of these leftwing parties as they only gained 86 seats, which was 30 seats short of an absolute majority. The Social Democratic Party (centre-right) lost its absolute majority, but still remained the largest party in parliament with 89 seats.

Once in office, the Costa government ended some of the austerity measures which were part of the bailout programme. Together with positive effects from the structural measures taken during the bailout programme and external factors, such as loose monetary policy, strong global growth and a tourism boom, the Portuguese economy took off. Portugal also tried to attract wealthy foreigners to counter the emigration flow that started during the crisis, for example via a golden

visa. A side effect of these policies, however, was, and still is, soaring house prices.

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These developments improved public finances further. The 2018 deficit of 0.5% of GDP was the smallest deficit since democracy was restored in 1974. Portugal's debt level is also declining, although it remains the third highest in the eurozone, after Italy and Greece. The three big rating agencies raised their ratings to investment grade while Costa was in office. Recently, Moody's upgraded its outlook from stable to positive.

## What was the campaign about?

In 2015, the Socialist Party focused on the anti-austerity sentiment. But now, in better times, they are focusing on fiscal prudence. Costa said that Portugal needs to stay on the path of fiscal consolidation in order to be stronger for potential storms ahead. The Social Democrats, which were in power during the austerity programme, are now campaigning for big tax cuts. Indeed, a clear reversal by the two largest parties compared to the 2015 elections.

**38%** Election votes  
6% increase from 2015  
Better than expected

## What do the polls say?

According to the polls, the Socialist party will become the largest party with about 38% of the votes. Compared to the 2015 elections, this would imply an increase of about 6 percentage points. The leftwing parties that supported the Costa government would keep the same number of votes. The second largest party would be the Social Democratic Party with about 25% of the vote, implying a loss of about 7 percentage points compared to the 2015 elections.

There is of course always uncertainty about polls, but in this case there is even more due to the ongoing Tancos case. In June 2017, military material was stolen in Tancos, central Portugal. The military minister at that time had to resign and is now facing charges for his alleged role in the cover-up of the theft. Traditionally, the military is a stronghold of the Social Democrats and so this could impact voting. Very recent polls show that the Socialist score is indeed lower, while the Social Democrats are edging upwards.

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Assuming that the Socialists win around 38% of the vote, the Socialist party could obtain a majority in parliament (116 seats out of 230). If they do not, they will have to find another partner or partners. We expect that the Socialists will not obtain an absolute majority and that the current arrangement will continue.

There is, however, an important risk to our outlook. The focus of the Socialist Party on fiscal prudence could make that support more difficult to obtain. If they do not get it, then the country risks becoming ungovernable. A scenario to that seen in Spain, where the PSOE (the main socialist party in the country) needed and ultimately failed to secure the support of smaller leftwing party Podemos, then becomes a reality.

All in all, we do not expect big shifts in political power after the elections. A continuation of a Costa government supported by other leftwing parties is our base case. A possible shift towards more fiscal prudence could improve the fiscal picture even more, resulting in lower bond spreads.