

Portugal: A new Socialist government in the making

António Costa's Socialist party will be the largest party in the Portuguese parliament but still fell short of an absolute majority. We think the new government will probably be more fiscally prudent than the last



Portuguese Prime Minister and secretary general of the Socialist Party, António Costa, celebrates after winning the legislative elections in 2019

Source: Shutterstock

The Portuguese Socialist party won the country's general election on Sunday evening with 37% of the votes, which implies they increased their share of seats from 86 to 106, but this is still 10 seats short of an absolute majority. The party's rival, the centre-right Social Democrats came in second place winning 28% of the votes (77 seats)

The Left bloc kept its 19 seats (10% of the votes), while the Portuguese Communist party together with the Greens obtained 12 seats (6% of the votes), which implies a loss of five seats.

We expect there will be more focus on fiscal prudence compared to the previous government

Given the Socialist party hasn't been successful in winning a majority, António Costa will have to look for a partner to find a majority in parliament. He has already indicated his preference to continue the previous constellation - a PS government supported by the Left bloc and the Communist party, but this would all depend on the negotiations.

This time around, Costa only needs one left-wing party, whereas in 2015 he needed both, which makes the government formation process slightly easier. Furthermore, the PS won more seats than the right-wing parties combined, which increases political stability. This also implies that some far-left parties that might abstain in parliamentary votes without putting the survival of a minority PS government at risk.

One issue that could complicate matters is Costa's focus on fiscal prudence. During the election campaign, he argued that Portugal needs to stay on the path of fiscal consolidation to be strong for when a storm arrives. This focus on fiscal prudence might make it more difficult for the Left bloc or Communist party to support the new government.

The election results were not really a surprise. Our base case is a PS government led by António Costa supported by at least one left-wing party. We expect more focus on fiscal prudence compared to the previous government, which should improve the fiscal picture even more, with lower spreads as a consequence.

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