

MNI POLITICAL RISK ANALYSIS-Portugal Election Preview

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Portugal holds a snap legislative election on 18 May following the successful parliamentary vote of no confidence against the minority government of Prime Minister Luís Montenegro in March. A fractured political landscape makes one party winning a majority in the Assembly of the Republic an unlikely scenario. As such, the formation of a coalition or minority government after the election is set to be required. There is significant focus on the post-election negotiations, given the prospect that the right-wing Chega is involved in supporting a minority administration for the first time.

In this preview we include a brief background on why the snap election is taking place now, an explainer on the main political parties contesting the vote and how the electoral system works, analysis of post-election scenarios with assigned probabilities, an outlook for financial markets, and a chartpack of opinion polling and betting market data.

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Election Background

This will mark the third snap election in three years in Portugal and is the second ([after the 2023 vote](#)) to come about due to allegations of influence-peddling/conflicts of interest involving the prime minister. This time, the focus has been on a data protection consultancy firm, Spinumviva, founded by Montenegro in 2021 when he was a businessman rather than an active politician. In 2022, as he moved into frontline politics, Montenegro shifted ownership to his wife and son. Despite shifting ownership, as the firm was founded after his marriage, the income to his wife counts as joint income. As such, Montenegro was indirectly earning money from a business that advised firms on laws that his government was implementing, resulting in accusations of conflicts of interest. Indeed, the EUR4,500/month contract with casino and hotel chain Solverde at the same time as the Montenegro government decided on concession rights for the casino drew particular attention.

The emerging scandal led to the nationalist Chega demanding Montenegro's resignation and calling an (unsuccessful) confidence motion. After *Expresso* reported on the Solverde link, the far-left Portuguese Communist Party called another no-confidence vote in the Montenegro government on 1 March. The centre-left Socialist Party, which had enabled the

passage of the 2025 budget just months earlier by abstaining on the vote, abstained once again. With a parliamentary inquiry set to be formed to investigate the case, Montenegro announced a confidence vote in the government to take place on 11 March. This vote failed by a margin of 137 against to 87 in favour. Following meetings with political parties on 12 and 13 March where he tried (and failed) to broker an agreement, President Marcelo Rebelo de Sousa announced the dissolution of the Assembly of the Republic and set elections for 18 May.

Electoral System

The political system is a semi-presidential one where the prime minister sits as head of the government while the president is the head of state. The prime minister is the main political figure in Portugal and the de-facto chief executive. The president has the power to appoint the prime minister and cabinet, dissolve parliament and call early elections, and veto legislation (although this can be overridden by a vote in parliament).

Portugal has a unicameral legislature, the 230-seat Assembly of the Republic, that runs for four-year terms with the age of suffrage set at 18. The country is divided into 22 constituencies: 18 of these represent the country's mainland districts, two the autonomous regions (Azores and Madeira), and two for Portuguese abroad (Europe and the rest of the world). The distribution of MPs among the constituencies is determined by the number of voters in each constituency (apart from the Portuguese abroad districts, which have two MPs each). The most populous district, Lisbon, is represented by 48 MPs, falling to two for the sparsely populated Portalegre district. While members are elected in each constituency when taking office, the constitution states that they represent the entire nation, not just their specific region.

Voting takes place both on election day and via early voting on 11 May. During the registration period between 4 and 8 May to cast a ballot on 11 May, a record 333,347 Portuguese voters requested the early voting option, well above the 208k that registered to vote early in 2024.

Seats are allocated to parties based on the proportion of votes received nationally, calculated via the d'Hondt method with no set electoral threshold. Once the number of seats allocated to each party has been established, they are distributed among the electoral districts based on the percentage of votes received by each party in each district. Given that Portugal uses a closed-list system, the order of preference of candidates is decided pre-election by parties, rather than set by voters.

After the allocation of seats, the president invites the leader of the largest party to seek to form a governing coalition or gain enough support for a minority administration. In order for a government to be formed it must win a confidence vote in the Assembly of the Republic. Should the vote fail the second-largest party can seek to form a government if it so wishes. In the event no potential government wins a confidence vote parliament can be dissolved and snap elections called.

Main Political Parties/Alliances

AD – PSD/CDS Coalition – *AD – Coligação PSD/CDS* – AD – Component Parties: Social Democratic Party (PSD), CDS-People's Party (CDS-PP), Earth Party (MPT) – Leader: **Luís Montenegro** b. 1973 (Prime Minister 2024-, Leader of the Opposition 2022-, President of PSD 2022-, President of the PSD Parliamentary Group 2011-21, Member of Assembly 2002-18) – **Centre-right**, liberal conservatism, economic liberalism, Christian democracy, conservatism – Founded: 2024 (PSD, CDS-PP 1974, MPT 1993) – Seats: 80/230

Socialist Party – *Partido Socialista* – PS – Leader: **Pedro Nuno Santos**, b. 1977 (Leader of the Opposition 2024-, Secretary-General of Socialist Party 2024-, Minister of Infrastructure and Housing 2019-23, Secretary of State for Parliamentary Affairs 2015-19, Member of Assembly 2005-15, 2019-) – **Centre-left**, social democratic, pro-EU – Founded: 1973 (legalised 1975) – Seats: 78/230

Enough! – *Chega!* – Leader: **André Ventura** b.1983 (President of Chega 2019-, Member of the Assembly 2019-, Member of Loures City Council 2017-18) – **Right-wing**, nationalism, populism, anti-immigration, social conservatism – Founded: 2019 – Seats: 49/230

Liberal Initiative – *Iniciativa Liberal* – IL – Leader: **Rui Rocha** b.1970 (IL President 2023-, Member of the Assembly 2022-) – **Centre-right**, liberalism, right-libertarianism, social liberalism – Founded: 2017 – Seats: 8/230

Left Bloc – *Bloco de Esquerda* – BE – Leader: **Mariana Mortágua** b.1986 (BE National Coordinator 2023-, Member of the Assembly 2013-) – **Far-left**, democratic socialism, left-wing populism, euroscepticism, feminism, anti-capitalist – Founded: 1999 – Seats: 5/230

Unitary Democratic Coalition – *Coligação Democrática Unitária* – CDU – Component Parties: Portuguese Communist Party (PCP), Ecologist Party 'The Greens' (PEV) – Leader: **Paulo Raimundo** b.1976 (PCP General Secretary 2022-, Member of the Assembly 2024-) – **Far-left**, communism, eco-socialism, euroscepticism – Founded: 1921 (PCP), 1982 (PEV), 1987 (CDU) – Seats: 4/230

FREE – *LIVRE* – L – Figurehead: **Rui Tavares** b. 1972 (Left Bloc MEP 2009-11, Independent MEP 2011-14, LIVRE Co-Founder 2014, Member of Lisbon City Council 2021-, Member of National Assembly 2022-) – **Centre-left/left-wing**, green politics, progressivism, social democracy, pro-EU, liberal socialism – Founded: 2014 – Seats: 4/230

People Animals Nature – *Pessoas-Animais-Natureza* – PAN – Leader: **Inês Sousa Real** b. 1980 (PAN president 2021-, Member of National Assembly 2019-) – **Centre-left**, environmentalism, animal rights, ecofeminism – Founded: 2009 – Seats: 1/230

Scenario Analysis

AD Forms Minority Government Relying On Bill-By-Bill Support, Sustained Instability – 45% Probability – As has been seen in a number of other EU member states with proportional electoral systems, the rise in support for right-wing populist parties over the past decade has made the formation of majority coalitions or stable minority governments involving moderate parties increasingly difficult.

In Portugal the PSD has historically (prior to the formation of the AD alliance) relied on the backing of the conservative CDS-PP to garner a majority, while the PS has gained the support of the Left Bloc or the CDU. However, Chega winning a record number of seats in the 2024 election has diluted the number of moderate centre-left or centre-right lawmakers in the Assembly. With the cessation in hostilities between the AD and PS coming to an abrupt end in the March confidence vote, there is the strong prospect that the AD, which looks likely to emerge as the largest party in the election, will have to govern as a minority without a confidence and supply agreement.

This scenario could unnerve markets, not due to the risk of erratic policy making, but due to sustained political uncertainty engendered by the lack of certainty of whether the government can pass key legislation such as budgets. Passing the 2024 budget was [difficult enough](#), only succeeding due to the abstention of the PS. There is no guarantee that such a scenario would occur again post-May election.

This situation could prove even more unsettling for markets given that, due to the stipulations of the Portuguese [Constitution](#), another election will not be possible before late April 2026. Under Art. 172, the Assembly cannot be dissolved within six months of the last election. This would normally set the date for the next possible dissolution as 18 October. However, Art. 172 also states that the President cannot dissolve the Assembly during the last six months of his term in office. Incumbent President Marcelo Rebelo de Sousa's second and final term ends on 9 March 2026, meaning he cannot dissolve the Assembly after 9 September 2026.

With the new president set to come to office on 9 March, the incoming head of state could dissolve the Assembly immediately. Article 113 stipulates that an election must take place within 60 days of the dissolution of the Assembly. However, a quick-fire election would also be out of the question as Article 125 states that presidential elections and Assembly elections cannot take place within 90 days of one another, pushing the earliest date for a snap legislative election to 25 April 2026. Almost a full year of political paralysis would risk key legislation failing to pass and impede the government's ability to respond to crises that may arise.

AD Emerges with a Plurality, Forms Minority Gov't Supported by Chega – 30% Probability – PM Luís Montenegro has previously stated that he would neither form a government with, nor rely on the parliamentary support of, the right-wing. However, should the AD retain a plurality in the election and no stable agreement be possible with other parties, a deal with Chega may prove necessary. This scenario would likely offer greater stability than a minority government without outside backing but could lead to a backlash from moderates within the AD and leftist parties.

In past years, the involvement of a right-wing nationalist party in government (even in a C&S agreement) could have seen [criticism or backlash from the EU](#). However, given the number of member state governments involving parties from the right this is unlikely to prove as large a political issue now. Chega is now an established political force in Portugal, winning a record high number of seats in the 2024 election (49) and holding two of Portugal's 21 seats in the European Parliament.

Montenegro has consistently pushed back against the prospect of working with the right-wing nationalist Chega. The Robert Schuman Foundation [quoted](#) Montenegro saying *"Governing with Chega is impossible for three reasons. First, this party is unreliable in its thinking, it behaves politically like a weathervane that changes its mind repeatedly and is not suited to governing," the prime minister said. He accused André Ventura of 'having an eminently destructive tendency to speak ill of everything.' Finally, according to him, Chega has demonstrated that it lacks the maturity or decency necessary to exercise governmental functions."*

However, with the former experiment of relying on the PS having failed, Montenegro may change his previous stance and acquiesce to some form of deal with Ventura's party. Indeed, the government's decision announce [plans to expel around 18,000 illegal immigrants](#) has been seen by some as an effort to either win over voters on the right wavering between the AD and Chega, or open the path to an agreement with the nationalists post-election. Alternatively, the AD could look to replace Montenegro with a figure more amenable to a deal with Chega should the prime minister prove the main obstacle to a deal on a stable government.

AD Wins Plurality, Forms Minority Gov't with PS/IL Support – 20% Probability – Given Portugal's electoral system, minority governments are not a rarity, with both the PS and PSD having been involved in minority administrations in recent decades. With opinion polling indicating that a majority government is an extremely unlikely outcome of the election, some form of dealmaking post-vote is set to prove necessary.

Should Montenegro again refuse to work with Chega, as was seen after the 2024 election, then the clearest way to a minority government after the election would be for the PS or IL to support the AD in a confidence and supply agreement. The collapse of the AD-PS agreement and the escalation in tensions between the centre-right and centre-left in the wake of the Spinumviva scandal means any cooperation will be very hard to reach. In the event that the two sides can come to some form of agreement, as was the case at the 2024 election, we think it unlikely that the agreement could last a full parliamentary term. A more comfortable ally for the AD would be the liberal IL. However, it appears unlikely that these two together will secure the 116 seats required for a majority.

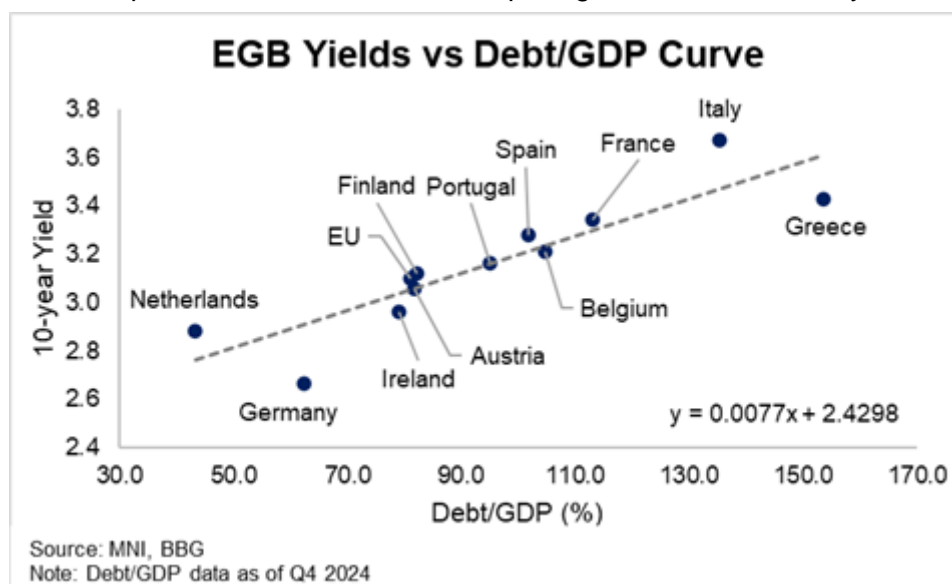
PS Wins Plurality, Able to Govern Propped Up by PSD or Leftist Parties – 5% Probability – Opinion polling shows the PS consistently trailing the AD, but according to a small number of surveys, the Socialists emerging as the largest party in the Assembly of the Republic would not be outside the margin of error. A major outperformance by the PS and the parties of the left could lead to a repeat of the *Geringonça* or 'contraption' minority government formed by then-PS leader Antonio Costa with the support of the Left Bloc and CDU following the 2015 general election.

The PSD could theoretically prop up the PS on a vote-by-vote basis. However, this would be widely opposed by the right of the party and could lead to internal divisions, thereby limiting the longevity of any such agreement. This scenario could also prove market negative, with a greater say for parties of the far left potentially derailing Portugal's effective fiscal management in recent years, or the inherent instability of a PS-PSD agreement unnerving investors.

Financial Markets Outlook

PGB traders have pushed aside the latest bout of political risks, with Portugal's improving fiscal trajectory insulating government debt from meaningful spread widening and participants well accustomed to Portuguese elections.

Spreads mechanically widened in late Feb, owing to a 10-Year benchmark PGB roll. The spread to Bunds then widened further in April as U.S. tariff risks escalated, before a retrace back towards mid-March levels as the U.S. dialled down its tariff threats. Meanwhile, the 10-Year PGB/SPGB spread has closed in a sub-4bp range since late February.

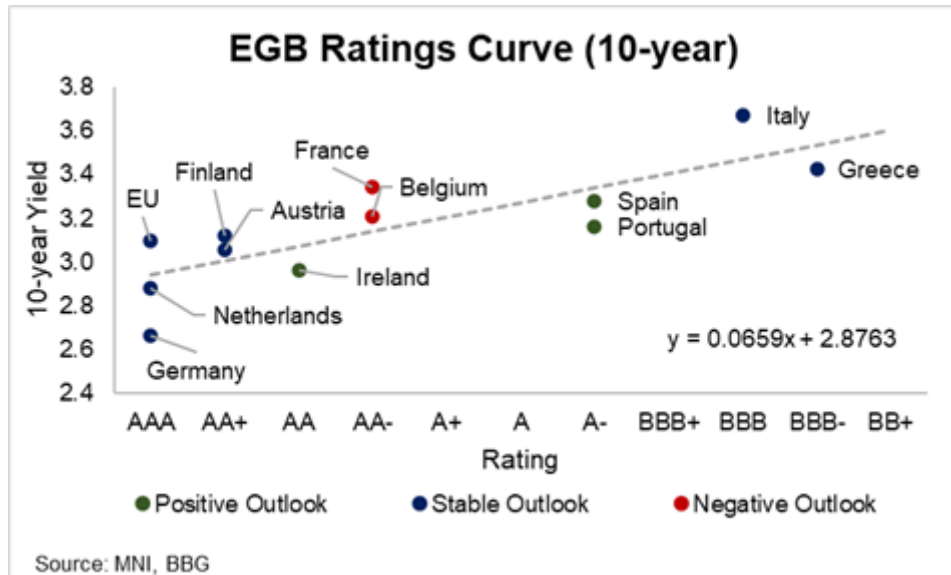


Zooming out, 10-Year PGBs trade in line with a simple regression based on national debt/GDP metrics within the Eurozone, but trade tighter than their sovereign credit ratings imply. The latter is largely a product of the country's trend of continued fiscal improvement and sovereign credit rating upgrade odds given outlooks at both Fitch and S&P, with the major agencies looking through short-term political noise.

Fitch affirmed Portugal at A-; Outlook Positive shortly after the election was called, noting "the Positive Outlook reflects the prospects for continued reduction in public and external debt and a degree of expected resilience in the Portuguese economy despite heightened external risks and uncertainty surrounding political developments".

S&P upgraded Portugal in the runup to the dissolution of the prior parliament, moving them to A; Outlook Positive. The choice to leave the country on a positive outlook was particularly noteworthy, as political uncertainty had already increased at that stage.

Meanwhile, Moody's issued a report noting that Portugal's "solid growth and debt reduction will continue despite increased political uncertainty" shortly after the election was called.



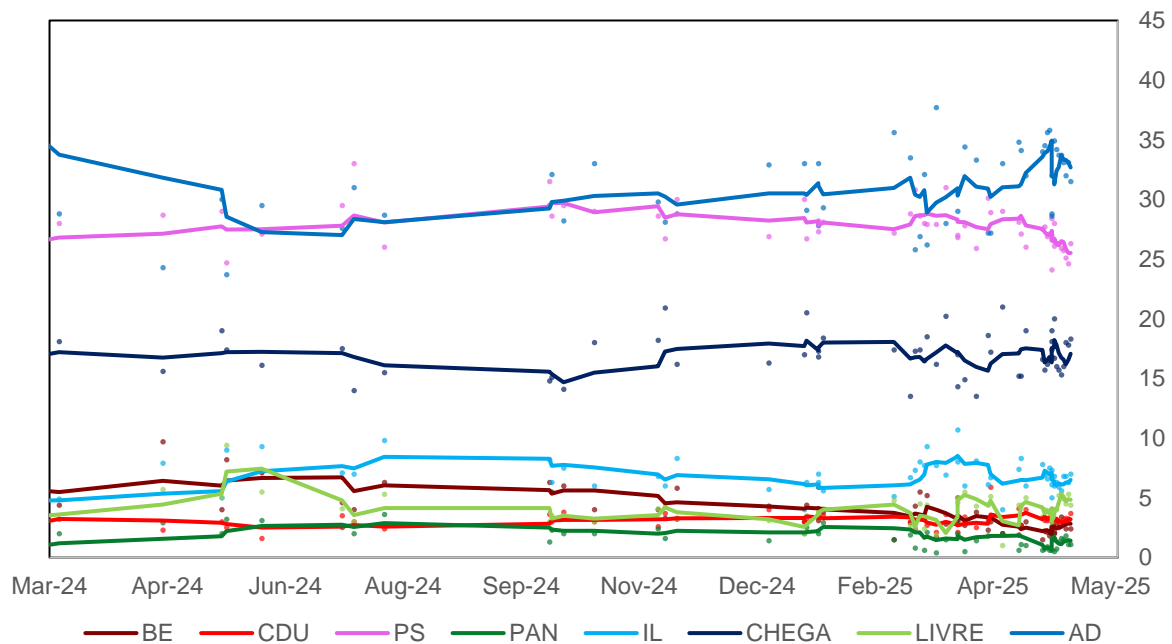
They are scheduled to issue a sovereign rating update on Portugal ahead of the election on Friday (current rating: A3; Outlook Stable). There seems to be room for positive action here (with the rating one notch below S&P's and with the other 2 major agencies having Portugal on a positive outlook).

In FX, risks to the single currency stemming from the elections appear muted. While the EUR's post-tariff strength has been built on collective support for counter-tariff measures across the European Union, the bloc's ability to sidestep opposition from the likes of Hungary means further steps against US tariffs (and, to a lesser extent, the Russian invasion of Ukraine) are unlikely to be impacted by the vote.

While the EUR/USD vol curve is still well supported in the short-end, considerably more subdued one-week implied vol in EUR/GBP and EUR/JPY shows that markets wager currency markets will remain contained.

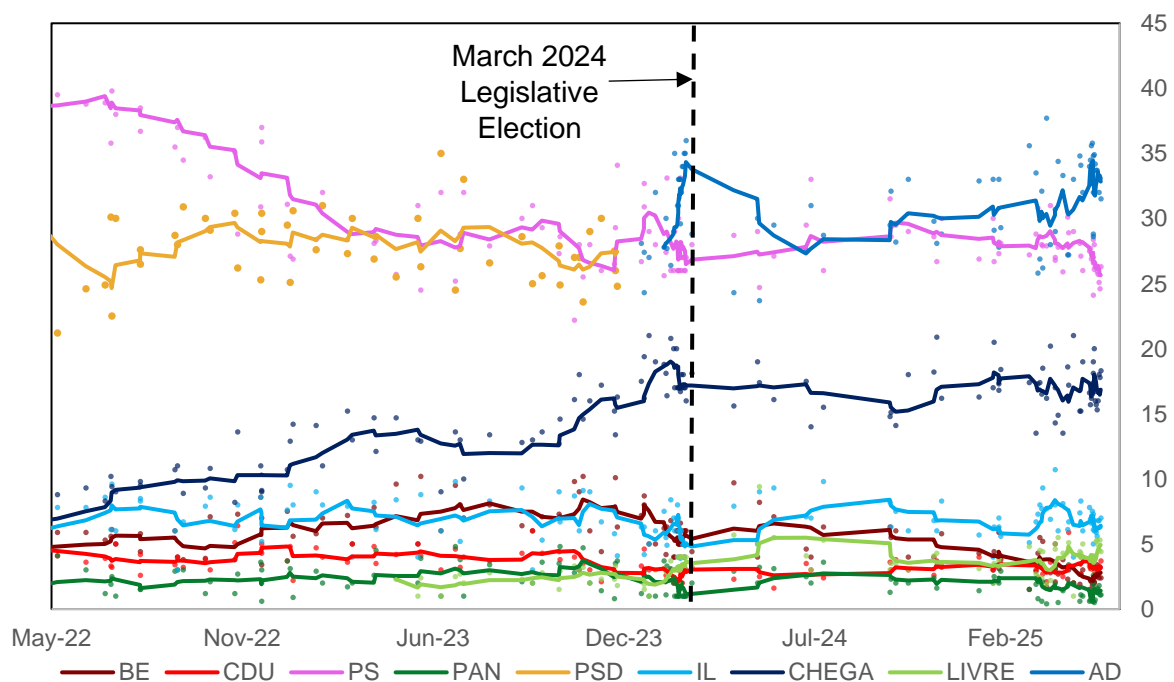
Opinion Polling Chartpack

Chart 1. Legislative Election Opinion Polling (Short-Term), % and 5-Poll Moving Average



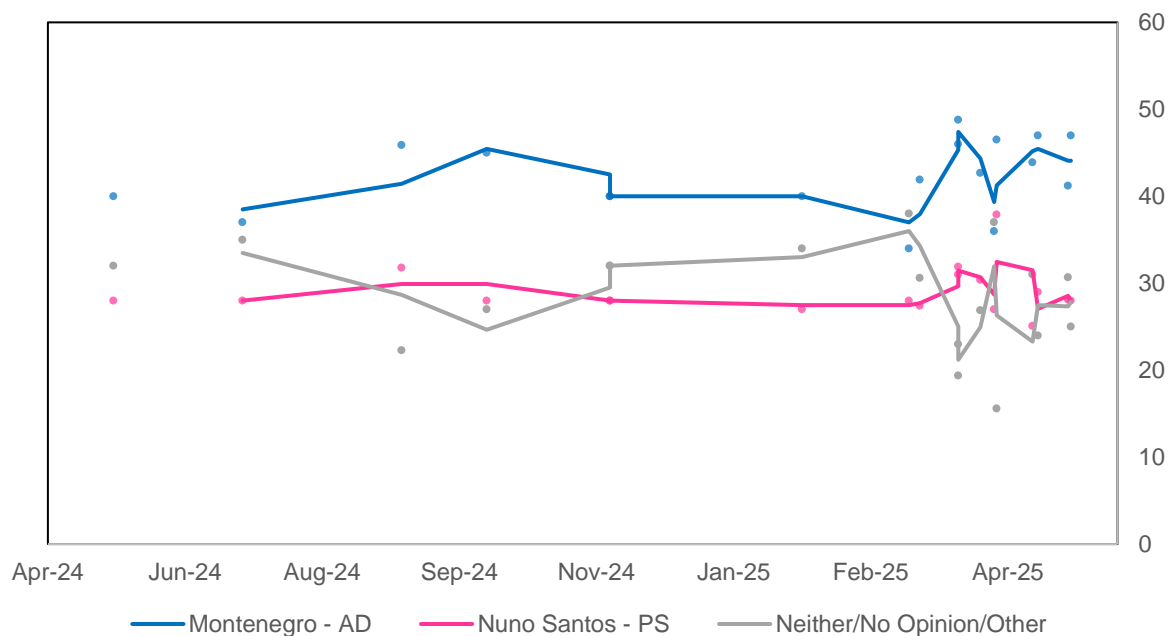
Source: Intercampus, Aximage, Consulmark, Pitagorica, CESOP-UCP, ICS/ISCTE, MNI

Chart 2. Legislative Election Opinion Polling (Long-Term), % and 6-Poll Moving Average



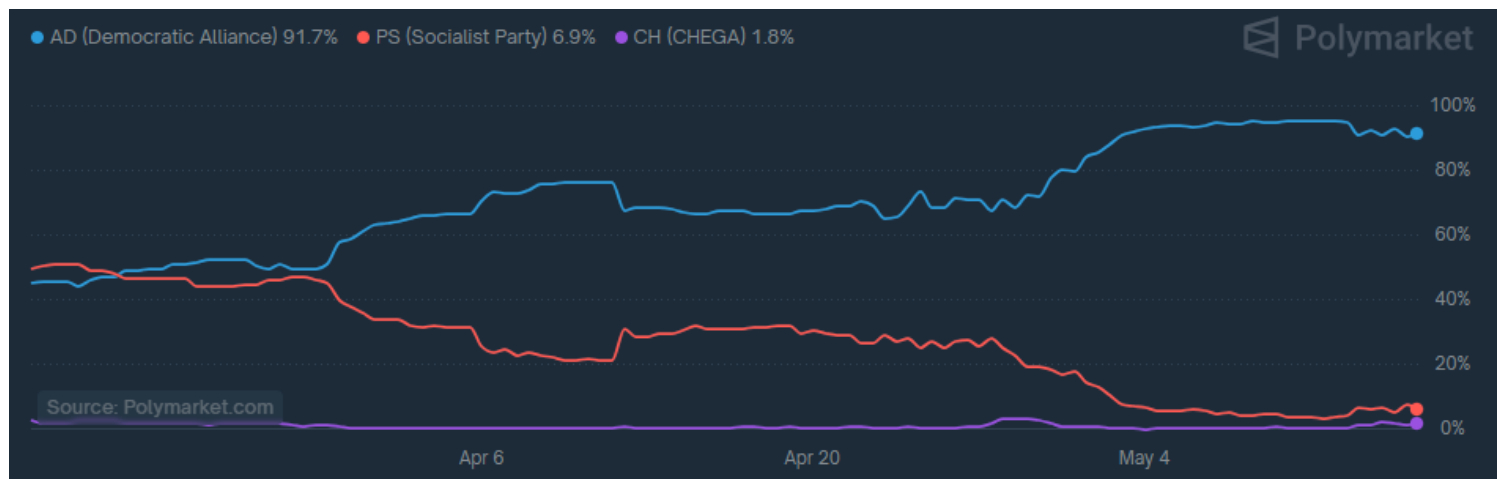
Source: Intercampus, Aximage, Consulmark, Pitagorica, CESOP-UCP, ICS/ISCTE, MNI

Chart 3. Preferred Prime Minister Opinion Polling, % and 2-Poll Moving Average



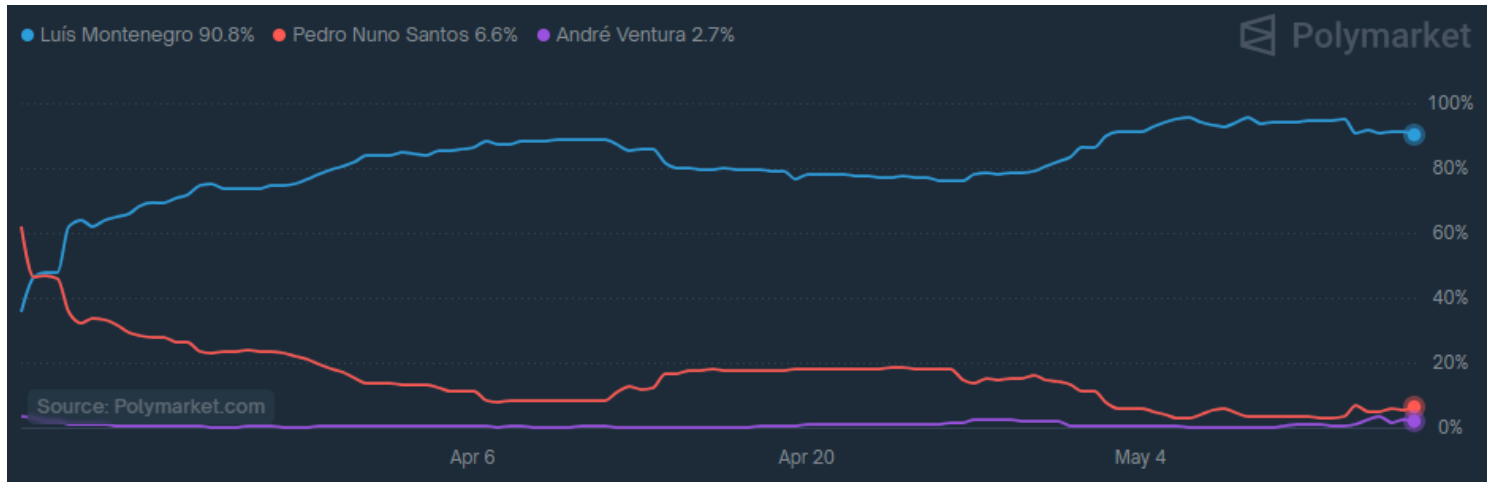
Source: Intercampus, Aximage, Consulmark, Pitagorica, CESOP-UCP, ICS/ISCTE, MNI

Chart 4. Betting Market Implied Probability, 'Which Party Wins The Most Seats?', %



Source: Polymarket

Chart 5. Betting Market Implied Probability, 'Next Prime Minister After The Election?', %



Source: Polymarket

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