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OECD Capital Market Review of Portugal 2020

Mobilising Portuguese Capital Markets for Investment and Growth

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SOBRE ESTA AVALIAÇÃO

Na sequência da crise financeira mundial de 2008 e da subsequente crise da dívida soberana na área do euro, o Governo português tomou medidas importantes para relançar a economia, abordando a capitalização das empresas e a recuperação do investimento. No entanto com uma dependência ainda elevada em relação aos empréstimos bancários, um número decrescente de empresas cotadas, a ausência de novas cotações e a escassa presença de investidores institucionais, os mercados de capitais portugueses não alcançaram o seu potencial pleno. Por conseguinte, a economia portuguesa beneficiaria fortemente de novos esforços para desenvolver mercados de capitais mais diversificados e integrados, que permitiriam que poupanças privadas financiassem eficazmente investimentos na economia real e, simultaneamente, proporcionariam novas oportunidades de investimento às famílias.

Neste contexto, a Comissão do Mercado de Valores Mobiliários (CMVM) apresentou um pedido de apoio à Direção-Geral do Apoio às Reformas Estruturais (DG REFORM) da Comissão Europeia para proceder a uma avaliação exaustiva dos mercados de capitais em Portugal. A OCDE foi nomeada como parceiro para a execução do projeto. As recomendações de política apresentadas no presente relatório visam fornecer orientações aos decisores políticos e às autoridades nos seus esforços para criar um quadro regulamentar em que os mercados de capitais possam apoiar a dinâmica do setor empresarial. Uma agenda que só se tornou mais urgente com o início da atual crise do COVID-19, em que a recuperação económica dependerá, em grande medida, da capacidade de reforçar os balanços das empresas e de proporcionar às empresas acesso a "capital paciente" para a realização de investimentos prospetivos.

Embora a avaliação do presente relatório se baseie em dados anteriores ao surgimento do COVID-19, foi acordado com a Comissão Europeia e as autoridades portuguesas que continuará a identificar os pontos fortes e fracos estruturais relevantes e prevalecentes do setor empresarial português e as condições de financiamento no mercado de capitais. Tendo em conta o papel central que os mercados de capitais terão de desempenhar na recapitalização das empresas portuguesas afetadas pela crise do COVID-19, a avaliação ajudará também as autoridades portuguesas a adotar medidas que melhorem a capacidade de os mercados de capitais apoiarem a recuperação.

ABOUT THIS REVIEW

Following the 2008 global financial crisis and the subsequent sovereign debt crisis in the euro area, the Portuguese government took important steps to relaunch the economy by addressing the capitalisation of companies and the recovery of investment. However, with a remaining high dependence on bank loans, a decreasing number of listed companies, lack of new listings and scant presence of institutional investors, Portuguese capital markets have not developed to their fullest potential. The Portuguese economy would therefore greatly benefit from further efforts to develop more diversified and integrated capital markets. Such efforts would enable private savings to effectively finance investments in the real economy and at the same time provide households with new investment opportunities.

Against this background, the Portuguese Securities Market Commission (CMVM) submitted a request for support to the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission to undertake a comprehensive review of capital markets in Portugal. The OECD was designated as implementing partner for the project. The policy recommendations offered in this report aim at providing guidance to policy makers and authorities in their efforts to create a regulatory environment where capital markets can support business sector dynamics. An agenda that has only become more urgent with the onset of the current COVID-19 crisis, where economic recovery to a large extent will depend on the ability to strengthen corporate balance sheets and provide businesses with access to patient capital for forward looking investments.

Although the analysis in this report is based on data before the outbreak of COVID-19, it was agreed with the European Commission and Portuguese authorities that it still identifies relevant and prevailing structural strengths and weaknesses of the Portuguese corporate sector and the conditions for capital market financing. Given the central role that capital markets will need to play in recapitalising Portuguese companies hit by the COVID-19 crisis, the review will also help Portuguese authorities to adopt measures that improve the ability of capital markets to support the recovery.

Como primeiro passo e com base num inquérito às empresas portuguesas realizado em 2019, a OCDE publicou, em junho de 2020, dois relatórios intitulados "*Improving Access to Capital for Portuguese Companies*: *A Survey of Unlisted Companies*" e "*Understanding Delistings from the Portuguese Stock Market*".

A avaliação integra a *OECD Capital Market Series* que fornece informações aos debates de política sobre a forma como os mercados de capitais podem desempenhar o seu importante papel de canalizar os recursos financeiros das famílias para investimentos produtivos na economia real.

Para preparar a *Avaliação do Mercado de Capitais de Portugal*, o Secretariado da OCDE realizou um inquérito exaustivo a empresas não cotadas, efetuou investigações de fundo, coorganizou a reunião do Círculo Empresarial Português e levou a cabo várias missões de recolha de informações em Portugal. O Secretariado beneficiou grandemente de consultas com representantes das autoridades portuguesas competentes, organizações empresariais, executivos de empresas e outros intervenientes. O Anexo contém uma descrição pormenorizada das fontes de dados e da metodologia para a recolha e análise de dados, incluindo a realização do inquérito às empresas não cotadas.

A avaliação foi preparada por uma equipa liderada por Mats Isaksson, Chefe da Divisão de Governação e Finanças Empresariais da Direção dos Assuntos Financeiros e Empresariais da OCDE, constituída por Serdar Çelik, Adriana De La Cruz, Alejandra Medina, Tugba Mulazimoglu e Yun Tang. O relatório foi elaborado com a assistência financeira da Comissão Europeia através da Direção-Geral de Apoio às Reformas Estruturais (DG REFORM).

As first steps and based on a survey of Portuguese companies conducted in 2019, the OECD released in June 2020 two reports on "Improving Access to Capital for Portuguese Companies: A Survey of Unlisted Companies" and "Understanding Delistings from the Portuguese Stock Market".

The Review is part of the OECD Capital Market Series, which informs policy discussions on how capital markets can serve their important role to channel financial resources from households to productive investments in the real economy.

To prepare the *Capital Market Review of Portugal*, the OECD Secretariat conducted an extensive survey of unlisted companies, undertook substantive research, co-organised the meeting of the Portuguese Companies' Circle and conducted several fact-finding missions to Portugal. The Secretariat has greatly benefitted from consultations with representatives of relevant Portuguese authorities, business organisations, corporate executives and other stakeholders. A detailed description of data sources and the methodology for data collection and analysis, including the execution of the unlisted company survey, are provided in the Annex.

The Review was prepared by a team led by Mats Isaksson, Head of Corporate Governance and Corporate Finance Division within the OECD Directorate for Financial and Enterprise Affairs, composed of Serdar Çelik, Adriana De La Cruz, Alejandra Medina, Tugba Mulazimoglu and Yun Tang. The report was produced with the financial assistance of the European Commission via the Directorate-General for Structural Reform Support (DG REFORM).

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ACRONYMS AND ABBREVIATIONS

AEM	Associação de Empresas Emitentes de Valores Cotados em Mercado
AUM	assets under management
CEO	chief executive officer
CFO	chief financial officer
CIS	collective investment vehicle
CIT	corporate income tax
CMVM	Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission)
CRA	credit rating agency
CSPP	corporate sector purchase programme
CVM	Código dos Valores Mobiliários
DLRR	Dedução por Lucros Retidos e Reinvestidos
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation and amortisation
EC	European Commission
ECB	European Central Bank
EDC	European Data Cooperative
EFAMA	European Fund and Asset Management Association
ELTIF	European long-term investment fund
ESMA	European Securities and Markets Authority
EU	European Union
GAAP	Generally Accepted Accounting Principles
GDP	gross domestic product
IAPMEI	Agência para a Competitividade e Inovação, I.P.
ICFR	Internal Control over Financial Reporting
IFD	Instituição Financeira de Desenvolvimento
IFRS	International Financial Reporting Standards
IPCG	Instituto Português de Corporate Governance
IPO	initial public offering
JOBS Act	Jumpstart Our Business Startups Act
M&A	mergers and acquisitions
MSCI	Morgan Stanley Composite Index
MTF	multilateral trading facility
NPL	non-performing loan
NPV	net present value
OECD	Organisation for Economic Co-operation and Development
PE	private equity
PPP	purchasing power parity
PSI	Portuguese Stock Index
QE	quantitative easing
R&D	research and development
REIT	real estate investment trust

ROE	return on equity
SAFE	Survey on the access to finance of enterprises
SEC	Securities and Exchange Commission - United States
SME	small and medium-sized enterprise
SOE	state owned enterprise
SPAC	special purpose acquisition company
SPO	secondary public offering (follow-on offering)
SSR	short selling regulation
VCT	venture capital trust

SUMÁRIO EXECUTIVO

Portugal tem a ambição de diversificar a sua economia, melhorar a sua competitividade e atrair investimento estrangeiro. Tal não só criaria empregos de boa qualidade, como também reforçaria a resiliência económica do país. No entanto, essa transformação exige que as empresas portuguesas tenham acesso a um mercado de capitais que possa financiar investimentos de longo prazo, apoiar a inovação e facilitar o empreendedorismo. Um mercado de capitais nacional mais desenvolvido pode também ajudar as empresas a alcançar as necessárias economias de escala e a reforçar os balanços de empresas individuais. Com base na implementação bem-sucedida por Portugal de uma vasta gama de reformas estruturais e económicas ao longo da última década, a presente avaliação apresenta recomendações de política às autoridades portuguesas sobre a forma de melhorar as condições para os mercados de capitais financiarem as empresas de todas as dimensões e assegurar oportunidades de investimento aos aforradores. Embora as recomendações constantes no presente relatório se baseiem principalmente numa análise das condições estruturais, a sua aplicação continua a ser altamente relevante na sequência da atual crise do COVID-19, em que um melhor funcionamento dos mercados de capitais pode desempenhar um papel importante na recapitalização do setor empresarial e no apoio a uma recuperação dinâmica e sustentável.

Portugal foi duramente afetado pela crise financeira mundial de 2008 e pela subsequente crise da dívida da área do euro, mas registou uma forte recuperação. No final de 2019, o PIB regressou aos níveis anteriores à crise e a diminuição do desemprego foi uma das mais elevadas entre os países da OCDE, com um declínio de 10 pontos percentuais por comparação com o máximo registado durante o período de crise. Apoiado por condições económicas mundiais mais favoráveis, a implementação das reformas estruturais constituiu a base para a forte recuperação. Entre os desenvolvimentos mais importantes contam-se o processo de desalavancagem do sistema bancário, as reformas do mercado de trabalho e uma redução significativa da burocracia para as empresas. Mais importante ainda, a introdução de um sistema de reestruturação e insolvência das empresas mais eficiente foi fundamental para manter as empresas viáveis em funcionamento e facilitar a saída das empresas não viáveis.

Com base nestes resultados, Portugal dispõe de uma boa base para as reformas que podem ajudar a aumentar o crescimento da produtividade e colocar Portugal numa trajetória mais resiliente de crescimento sustentável no longo prazo. A capacidade de receber financiamento através de um mercado de capitais funcional é uma condição prévia para que as empresas invistam em investigação, desenvolvimento de produtos e competências que impulsionem o crescimento da produtividade, o empreendedorismo e as economias de escala. Os mercados de capitais desempenham também um papel importante, permitindo às empresas introduzir um mecanismo de remuneração variável para atrair e manter uma força de trabalho altamente qualificada. Em contrapartida, a dependência excessiva do financiamento da dívida de curto prazo, em especial sob a forma de empréstimos bancários, pode limitar significativamente a capacidade de o setor empresarial português ascender nas cadeias de valor mundiais e tornar-se mais orientado para o estrangeiro. É igualmente importante salientar que o volume de créditos não produtivos no setor bancário português continua a ser preocupante e pesa sobre a rendibilidade e a solvência dos bancos.

Não obstante as condições macroeconómicas globalmente favoráveis, nos últimos anos não se registaram melhorias significativas na utilização de financiamento baseado no mercado por parte das empresas portuguesas não financeiras. Com efeito, todos os anos desde 2008, o número de empresas que saíram do mercado acionista ultrapassou o número de novas inclusões, o que resultou numa diminuição do número total de empresas cotadas. No final de 2019 existiam apenas 47 empresas cotadas na Euronext Lisboa, o que representa apenas um terço do número de empresas cotadas em 1997. Embora se tenha observado uma tendência semelhante em vários países europeus, o mercado português tem sido um dos mais afetados. Ao mesmo tempo, a utilização de obrigações de empresas tem sido também bastante limitada com menos de dez empresas não financeiras a emitir obrigações de longo prazo nos últimos três anos. A situação não é diferente nos mercados de capitais privados. Em 2019, a quota portuguesa de investimentos em participações privadas na Europa foi inferior a metade da sua quota no PIB da UE. A quota portuguesa de atividades de mobilização de participações privadas na UE era ainda inferior e ascendia a apenas um décimo da quota de Portugal no PIB da UE.

Da perspetiva da oferta de capital, um obstáculo importante ao desenvolvimento dos mercados de capitais portugueses é o baixo rácio de poupança e a alocação limitada de poupanças a títulos do mercado de capitais. Desde 2000 que a poupança líquida agregada das famílias portuguesas é a mais baixa entre as economias europeias comparáveis. Mais importante ainda, nos últimos cinco anos, a poupança líquida foi negativa, o que significa que as famílias foram mutuários líquidos. Simultaneamente, as famílias alocaram quase metade das suas poupanças a depósitos bancários por comparação com apenas 33% em França, 37% em Itália e 41% em Espanha. Proporcionar às famílias oportunidades de investimento atrativas, diretamente ou através de instrumentos de investimento coletivo, dar-lhes-á um conjunto mais completo de opções para a gestão das suas poupanças e de participação na criação de riqueza do setor empresarial português.

Principais recomendações

Os mercados de capitais fazem parte integrante do ecossistema de uma economia e são fortemente influenciados por uma série de áreas de política, nomeadamente políticas fiscais, políticas de pensões, regulamentação financeira e direito das sociedades. Incluem também um vasto conjunto de diferentes intervenientes, tais como emitentes, investidores, intermediários e mercados, todos com as suas próprias funções e incentivos. Por conseguinte, os esforços para desenvolver os mercados de capitais devem ter um leque alargado de instrumentos de política à sua disposição que abranja diferentes domínios de política. A fim de assegurar a coerência entre as diferentes iniciativas e evitar consequências indesejadas, os decisores políticos e as autoridades devem coordenar os seus esforços com vista a assegurar a máxima eficiência e complementaridade. Com base numa análise abrangente do setor empresarial português e dos mercados de capitais, e beneficiando das consultas a um conjunto diversificado de participantes no mercado, a presente avaliação apresenta as recomendações de política às autoridades portuguesas e aos intervenientes relevantes sobre a forma de mobilizar o mercado nacional de capitais para o investimento, a resiliência e o crescimento. A orientação é dirigida para a promoção da utilização dos mercados de capitais por empresas não financeiras e o incentivo à participação de investidores nacionais e estrangeiros.

- **Promoção do acesso a fundos próprios através do mercado acionista:** Uma função económica fundamental dos mercados de capitais é conferir a um vasto leque de empresas a oportunidade de aceder a diferentes fontes de financiamento baseado no

mercado que podem utilizar para desenvolver e expandir os seus negócios. Considerando que os fundos próprios proporcionam um financiamento de longo prazo adequado a investimentos prospetivos em áreas como a inovação e o desenvolvimento empresarial, é muito adequado para financiar os esforços de Portugal de modernização da sua estrutura empresarial e de avanço no sentido de um setor empresarial competitivo, inovador e dinâmico. No entanto, nas últimas duas décadas, Portugal perdeu a maioria das suas empresas cotadas. Atualmente, o baixo nível de atividade e de liquidez no mercado acionista é considerado como um obstáculo importante para as empresas portuguesas que o podem utilizar para obter capital novo. Uma via para sair deste impasse de poucas empresas cotadas e de baixa liquidez poderia ser incentivar as empresas cotadas a emitirem ações adicionais através das chamadas ofertas de seguimento. O aumento dos atuais níveis baixos de ações livres no mercado português contribuiria para aumentar a quota do mercado português nos índices do mercado acionista e, consequentemente, ajudaria a atrair investidores institucionais. A Comissão do Mercado de Valores Mobiliários (CMVM) e outras autoridades portuguesas devem ponderar a realização de uma avaliação exaustiva das condições regulamentares e de mercado no que se refere às ofertas secundárias por parte de empresas já cotadas. A avaliação deve ser apoiada por contributos da bolsa de valores, de emitentes e de participantes nos mercados e visar a proposta de alterações jurídicas e regulamentares que promovam ofertas públicas secundárias. A CMVM e a bolsa de valores devem também considerar a introdução de um sistema de comissões de cotação e de supervisão para as empresas cotadas que favoreça as empresas com rácios mais elevados de ações livres.

Portugal tem também um número importante de grandes empresas não cotadas, incluindo empresas do setor financeiro – nomeadamente companhias de seguros – que não enfrentam quaisquer restrições de dimensão para a sua cotação. Mais importante ainda e ao contrário de muitos outros países europeus, nenhuma das grandes empresas públicas portuguesas está cotada. Para estimular o desenvolvimento do mercado de capitais, o governo pode incentivar a cotação das empresas públicas que são consideradas mais adequadas de um ponto de vista macroeconómico e estrutural, o que, por sua vez, ajudaria a obter uma dimensão e uma visibilidade críticas do mercado acionista junto dos investidores institucionais internacionais. A fim de aumentar a atratividade do mercado acionista nacional, o governo pode considerar a introdução de um sistema de crédito fiscal para os custos relacionados com as cotações iniciais, bem como as ofertas de capital secundário por parte de empresas já cotadas. Esse sistema permitiria às empresas deduzir os custos de cotação, incluindo quaisquer custos de serviços de consultoria, face ao imposto sobre o rendimento das pessoas coletivas a pagar até um determinado montante.

Muitas empresas e intervenientes no mercado consideram o desenvolvimento de requisitos de divulgação simplificados, procedimentos simplificados de cotação e um quadro regulamentar mais flexível em matéria de governação empresarial como passos cruciais para a criação de um ambiente de cotação em bolsa bem-sucedido. Para facilitar a utilização por parte das empresas do financiamento do mercado acionista, o governo pode considerar a modernização do quadro regulamentar, por forma a assegurar um grau de flexibilidade suficiente, tendo em conta a revisão do Código dos Valores Mobiliários realizada pela CMVM e beneficiando das isenções e opções previstas na legislação da UE. O governo também pode considerar quaisquer alterações ao Código das Sociedades que possam facilitar a cotação, incluindo a flexibilidade no que diz

respeito às estruturas de voto para dar resposta às preocupações generalizadas dos proprietários e empreendedores portugueses no tocante à perda do controlo das suas empresas, como as ações de fidelidade. A perceção das empresas portuguesas deve-se também, em parte, à falta de sensibilização no setor empresarial português para a flexibilidade efetiva disponível no quadro jurídico e regulamentar para a cotação, a divulgação de informações e a regulamentação em matéria de governação corporativa, bem como a disponibilidade de diferentes segmentos de mercado. Para apoiar as medidas acima mencionadas, a CMVM e a bolsa de valores, em cooperação com outras autoridades públicas, empresas e associações do mercado financeiro, devem envolver-se numa campanha de sensibilização dedicada e orientada à informação dos executivos das empresas e outros de intervenientes relevantes no mercado sobre as muitas oportunidades que existem de flexibilidade e sobre as novas iniciativas. Uma opção poderia ser institucionalizar o "Círculo Empresarial Português" sob os auspícios do recém-criado Banco de Fomento para servir de plataforma ao intercâmbio contínuo de tais informações.

Um longo período de baixa atividade de mercado enfraqueceu o ecossistema de mercado no que diz respeito aos serviços de apoio essenciais, como serviços de consultoria e investigação, serviços de subscrição e funções de criação de mercado. As empresas portuguesas dispõem, com frequência, de um acesso nacional insuficiente a estes serviços a nível nacional ou dependem de prestadores estrangeiros. As autoridades portuguesas devem considerar o apoio, incluindo através de apoio estatal indireto, como os incentivos fiscais às instituições ou a determinados produtos, bem como a investidores, à criação e à expansão de instituições nacionais de intermediação e de consultoria do mercado de capitais. Os incentivos fiscais, para além do sistema de crédito fiscal proposto para os custos de cotação e de consultoria, podem incluir isenções dos impostos sobre as mais-valias no caso de determinados veículos de investimento coletivo que investem predominantemente no mercado acionista nacional e visam os pequenos investidores. Poderiam também incluir uma certa isenção fiscal sobre os rendimentos decorrentes de atividades de subscrição e de criação de mercado. No que diz respeito à disponibilidade limitada de serviços nacionais de subscrição e de capacidade de criação de mercado, o governo pode considerar avaliar se existe âmbito para as instituições financeiras públicas, em particular o Banco de Fomento, intensificarem as suas atividades no mercado nacional. Outra consideração seria a de nomear uma instituição nacional, como o IAPMEI e o Banco de Fomento, para a realização ou o apoio a estudos de mercado sobre empresas de menor dimensão.

- **Criar um ambiente propício ao crescimento das empresas:** O domínio das pequenas empresas com baixa produtividade limita a capacidade de Portugal continuar a evoluir no sentido de uma produção e competitividade baseadas em conhecimentos de elevado valor acrescentado. Para incentivar o crescimento das empresas, o aumento do conjunto de empresas disponíveis para investimento e a facilitação do seu recurso aos mercados de capitais, o Governo português pode considerar a avaliação do atual sistema de tributação das sociedades, de modo a criar os incentivos apropriados para as empresas expandirem os seus negócios e conquistarem uma escala crítica. Em particular, a eficácia das regras relativamente desfavoráveis relacionadas com a amortização do *goodwill* que resulta das aquisições de empresas, as taxas legais do imposto sobre as sociedades comparativamente elevadas para as empresas de maior dimensão e os efeitos das taxas marginais progressivas de tributação devem ser avaliadas com vista a eliminar eventuais efeitos adversos para as estratégias de crescimento das empresas.

Mercados de capitais mais ativos podem desempenhar um papel importante na facilitação deste processo de consolidação e de crescimento. Um aspeto adicional a considerar seria, por conseguinte, o apoio público a uma iniciativa privada, liderada ou apoiada por organizações empresariais e orientada para a melhoria das condições de consolidação das empresas que aumente a produtividade e torne as empresas portuguesas mais competitivas. A iniciativa poderia incluir uma plataforma para que as empresas em crescimento pudessem interagir entre si, os investidores e prestadores de serviços e alguns serviços necessários a fusões e aquisições, como a gestão de negócios, o dever de diligência e a análise pós-fusão. Na sequência de alguns exemplos de sucesso em outros países, tal poderia igualmente fazer um uso avançado dos desenvolvimentos das Fintech modernas.

- **Facilitar o financiamento de dívida de longo prazo baseado no mercado:** Desde a crise financeira mundial de 2008 e da subsequente crise da dívida soberana na área do euro, o setor bancário português registou uma mudança estrutural que conduziu também à desalavancagem no setor empresarial. Embora esta evolução tenha proporcionado uma oportunidade para desenvolver alternativas de financiamento da dívida com base no mercado, a utilização e a disponibilidade de financiamento através de obrigações de empresas continuaram bastante limitadas. Tendo em conta a dependência da dívida de curto prazo no setor empresarial português em relação a outras economias avançadas, um recurso mais alargado ao financiamento através de obrigações de empresas poderia ajudar a prolongar os prazos de vencimento, a aumentar a resiliência e a facilitar os investimentos de longo prazo. Tendo em conta a situação atual do mercado de obrigações de empresas em Portugal e os desafios que as empresas enfrentam no acesso ao financiamento de longo prazo, a concretização deste objetivo exigirá uma abordagem holística. O governo deve considerar a elaboração de um plano estratégico para o desenvolvimento dos mercados de obrigações de empresas portugueses. Tal poderá incluir a criação de um mecanismo de notação de crédito apropriado, em especial para as empresas de média dimensão que não têm acesso a agências de notação internacionais. Os modelos, como aqueles em que os bancos centrais desempenham um papel fundamental na prestação de serviços de notação, podem ser considerados como um mecanismo credível e fiável. O plano estratégico deve também considerar a introdução de um quadro especial para as colocações de obrigações privadas por empresas de menores dimensões na sequência de exemplos bem-sucedidos em outros mercados europeus. Um exemplo promissor para o mercado português poderia ser o quadro de mercado de mini-obrigações que prevê um processo simplificado em que as empresas de menores dimensões podem emitir obrigações apenas a investidores qualificados através de vendas diretas ou de veículos para fins especiais de titularização. Esta iniciativa poderia ser apoiada com benefícios através da criação de um segmento dedicado na Bolsa de Valores de Lisboa para a cotação de obrigações cuja negociação só fosse permitida a investidores qualificados.

  O plano estratégico pode igualmente prever medidas para promover a emissão de obrigações de empresas públicas e a sua cotação no mercado nacional, o que contribuirá para reforçar o mercado e aumentar a liquidez. A fim de melhorar a coordenação entre as autoridades relevantes e assegurar a implementação eficiente das tarefas, o plano deve atribuir claramente responsabilidades e funções ao Banco de Portugal, à Comissão do Mercado de Valores Mobiliários e a outras autoridades públicas. Para reconhecer e incentivar o envolvimento dos participantes da indústria no desenvolvimento do mercado nacional de obrigações de empresas, o plano pode também incluir uma proposta para a

criação de um organismo do setor privado que represente exclusivamente os bancos de investimento, operadores do mercado de obrigações e outras instituições financeiras ativas no mercado português de rendimento fixo. Um passo positivo adicional poderia ser proporcionar flexibilidade aos emitentes de obrigações com um prospeto, bem como aos emitentes de obrigações admitidas à negociação num mercado europeu no tocante aos critérios de autonomia financeira impostos pela legislação comercial portuguesa.

- **Aumentar a participação de investidores institucionais tradicionais:** A nível internacional, os investidores institucionais tradicionais, ou seja, fundos de pensões, companhias de seguros e fundos de investimento, desempenham um papel cada vez mais importante tanto nos mercados de participações públicas como nos de obrigações de empresas. Consequentemente, a conceção, a aplicação e a eficiência do quadro jurídico, regulamentar e institucional que determina as suas operações têm implicações importantes para a formação de capital, a alocação de capital e o investimento. Desempenha igualmente um papel essencial ao disponibilizar às famílias melhores oportunidades para diversificar as suas poupanças e partilhar a criação de riqueza do setor empresarial nacional. No entanto, a indústria portuguesa de investidores institucionais não respondeu plenamente às alterações nos mercados de capitais mundiais. Um passo importante para facilitar esta transformação seria aumentar a cobertura e a confiança no sistema privado de pensões, tendo em conta as recomendações do documento da OCDE intitulado "*Pension Review*" com vista a assegurar um conjunto de regras fiscais aplicável a todos os regimes e a todos os tipos de contribuições para o regime de pensões, restringindo as regras para os levantamentos de planos privados com vista a melhorar o seu caráter de poupança de longo prazo e apoiar o recurso a planos de pensões profissionais.

  Tendo em conta a alocação relativamente baixa das participações públicas, estes esforços poderiam ser apoiados com benefícios por um incentivo fiscal ao investimento no mercado acionista e pela introdução de um programa de educação financeira para melhorar a compreensão das famílias sobre os riscos relativos de longo prazo e os rendimentos provenientes de diferentes alocações de ativos. A medida destinada a aumentar a participação das famílias no mercado de capitais português através de fundos de investimento pode também incluir a introdução de um quadro especial para as contas poupança que, em determinadas condições, beneficiam de vantagens fiscais, tais como isenções do imposto sobre as mais-valias, se o investimento for detido durante um certo período de tempo. O requisito de que estes fundos especializados aloquem um montante mínimo dos seus ativos a títulos de participação e de dívida cotados de empresas de menor dimensão poderia facilitar o financiamento de longo prazo das PME portuguesas.

  Para contribuir ainda mais para o desenvolvimento dos mercados de capitais portugueses e ajudar os investidores a beneficiar da inovação que a nova tecnologia financeira comporta, a indústria dos fundos de investimento deve dispor de incentivos apropriados para a aquisição de economias de escala suficientes que possam, elas próprias, ajudar a reduzir as comissões de gestão de ativos e apoiar a liquidez nos mercados secundários de participações e de obrigações. Os principais desafios incluem não apenas a baixa alocação a fundos de investimento por parte dos fundos de pensões e das companhias de seguros portugueses, mas também a elevada percentagem de ativos geridos por mandatos discricionários com baixas alocações a participações. A Comissão do Mercado de Valores Mobiliários pode ponderar a criação de um grupo de

trabalho que inclua representantes do setor da gestão de ativos e outros peritos, a fim de identificar os principais fatores que impedem uma maior alocação a veículos de investimento coletivo e propor alterações que melhorem o funcionamento do sistema.

- **Aumentar a disponibilidade e incentivar o recurso a financiamento alternativo:** Ao longo das últimas décadas, os investidores institucionais alternativos, como os fundos privados de participações e os fundos de capital de risco, tornaram-se importantes fornecedores de capital nos mercados mundiais. Esta tendência não foi impulsionada apenas pela procura de rendimento entre os investidores tradicionais, que utilizam um veículo de investimento alternativo para investir em segmentos de rendibilidade de alto risco do mercado de capitais. Foi também apoiada por iniciativas de política que visam facilitar o acesso a capital a empresas não cotadas, em particular, empresas de média dimensão e outros investimentos alternativos, tais como infraestruturas. No entanto, em Portugal, a dimensão das atividades de mobilização de fundos e de investimento nos mercados de capitais privados é bastante inferior às médias europeias. Mais importante ainda, por oposição a outros mercados avançados, os investidores institucionais tradicionais e os pequenos investidores desempenham um papel insignificante comparativamente aos bancos enquanto investidores em fundos privados de participações e fundos de capital de risco. Uma vez que os investidores institucionais tradicionais, como os fundos de pensões e as companhias de seguros, podem desempenhar um papel importante como prestadores de capital nos mercados privados, o governo pode considerar a avaliação dos atuais regimes de investimento e de requisitos de capital para os investidores tradicionais, com vista a aumentar a sua participação nos mercados privados. Alguns países introduziram regimes que proporcionam aos pequenos investidores incentivos fiscais que fomentam a sua participação em fundos privados de participações.

  A ausência de um sistema funcional para identificar investidores individuais qualificados e de um ecossistema que incentive os seus investimentos nos mercados privados de capitais contribui ainda mais para o problema da mobilização de fundos em mercados privados portugueses. A Comissão do Mercado de Valores Mobiliários pode considerar a avaliação da eficácia do quadro atual para investidores individuais qualificados, com vista a incentivar e a facilitar que os intermediários financeiros reconheçam os pequenos investidores elegíveis como investidores qualificados. Uma vez que os fundos privados de participações operam como parte do ecossistema global do mercado de capitais, a escala limitada de fusões e aquisições e as atividades do mercado primário de participações públicas reduz as opções disponíveis para os fundos privados abandonarem os seus investimentos. Uma situação que cria uma barreira adicional ao crescimento dos compromissos de participações privadas. Quaisquer esforços de reforma no que respeita ao funcionamento global dos mercados de capitais devem, por conseguinte, ter em conta o potencial impacto no desenvolvimento dos mercados privados e envolver os intervenientes no mercado privado de capitais. O governo deve também considerar a introdução de um quadro regulamentar para os veículos de aquisição de fins especiais que ofereçam um modelo de investimento híbrido de mercados privados e públicos aos investidores e que proporcione uma forma simples e eficiente para a cotação de empresas de menores dimensões sem seguir o processo tradicional de cotação. Uma consideração adicional deve ser a de promover a utilização do FEILP como um instrumento importante para facilitar a participação em mercados privados de participações por investidores institucionais tradicionais, como companhias de seguros e pequenos investidores.

EXECUTIVE SUMMARY

Portugal has the ambition to diversify its economy, improve its competitiveness and attract foreign investment. This would not only create good quality jobs, it would also strengthen the country's economic resilience. However, such a transformation requires that Portuguese businesses have access to a capital market that can finance long-term investments, support innovation and facilitate entrepreneurship. A more developed domestic capital market can also help corporations to achieve the necessary economies of scale and strengthen the balance sheets of individual firms. Building on Portugal's successful implementation of a wide range of structural and economic reforms over the past decade, this Review offers policy recommendations to Portuguese authorities on how to improve the conditions for capital markets to finance corporations of all sizes and provide investment opportunities to savers. While the recommendations in this report are primarily based on an analysis of structural conditions, their implementation remain highly relevant in the wake of the ongoing COVID-19 crisis where better functioning capital markets can play an important role in recapitalising the business sector and support a dynamic and sustainable recovery.

Portugal was hit hard by the 2008 global financial crisis and the subsequent euro area debt crisis but made a strong recovery. At the end of 2019, GDP was back to pre-crisis levels and the drop in unemployment was one of the highest among OECD countries, with a 10 percentage point decline compared to its peak during the crisis period. Supported by more favourable global economic conditions, the implementation of structural reforms provided the basis for the strong recovery. Among the most important developments was the deleveraging process in the banking system, labour market reforms and a significant reduction in red tape for businesses. Importantly, the introduction of a more efficient firm restructuring and insolvency system was instrumental in both keeping viable companies in business and facilitating the exit of non-viable ones.

Building on these achievements, Portugal has a good basis for reforms that can help increase productivity growth and put Portugal on a more resilient path of long-term sustainable growth. The ability to receive financing from a well-functioning capital market, is a prerequisite for companies to invest in research, product development and skills that drive productivity growth, entrepreneurship and economies of scale. Capital markets also play an important role in enabling companies to introduce varying mechanism for remuneration to attract and maintain high skilled labour force. In contrast, excessive reliance on short-term debt financing, in particular in the form of bank loans, can significantly constrain the Portuguese corporate sector's ability to move up in global value chains and become more outward oriented. It is also important to note that the stock of non-performing loans in the Portuguese banking sector remains a concern and weighs on banks' profitability and solvency.

Despite broadly favourable macroeconomic conditions, there have not been noticeable improvements in non-financial companies' use of market-based financing over the recent years. Indeed, every year since 2008 the number of companies that leave the stock market has surpassed the number of new listings, resulting in a decline in the total number of listed companies. By the end of 2019, there were only 47 companies listed on Euronext Lisbon, which is only one-third of the number of companies that were listed back in 1997. Although a similar trend has been observed in several European countries, the Portuguese market has been one of the most affected ones. At the same time, the use of corporate bonds has also been quite limited with less than ten non-financial companies issuing long-term bonds over

the past three years. The picture is not different for private capital markets. In 2019, the Portuguese share of European private equity investments was less than half of its share in EU GDP. The Portuguese portion of EU private equity fundraising activities was even lower and only one tenth of Portugal's share in EU GDP.

From the perspective of supply of capital, an important impediment to the development of Portuguese capital markets is the low saving ratio and limited allocation of savings to capital market securities. Since 2000, the aggregate net savings of Portuguese households have been the lowest among comparable European economies. More importantly, over the past five years net savings were negative, which means that households were net borrowers. At the same time, households allocated almost half of their savings to bank deposits compared to only 33% in France, 37% in Italy and 41% in Spain. Providing households with attractive capital market investment opportunities directly or through collective investment vehicles will give them a more complete set of options for managing their savings and to share in the wealth creation of the Portuguese business sector.

Key recommendations

Capital markets constitute an integral part of an economy's ecosystem and is highly influenced by a range of policy areas, including tax policies, pension policies, financial regulation and company law. It also includes a large set of different actors, such as issuers, investors, intermediaries and market places, that all have their own roles and incentives. As a consequence, efforts to develop capital markets should have a broad range of policy tools at their disposal spanning across different policy domains. To ensure consistency between different initiatives and to avoid unintended consequences, policy makers and authorities should co-ordinate their efforts in order to ensure maximum efficiency and complementarity. Building on a comprehensive analysis of the Portuguese corporate sector and capital markets, and benefitting from consultations from a diverse set of market participants, this Review offers policy recommendations to the Portuguese authorities and relevant stakeholders on how to mobilise the domestic capital market for investment, resilience and growth. The focus is on promoting the use of capital markets by non-financial companies and encouraging the participation of both domestic and foreign investors.

- **Promoting access to equity capital through the stock market:** A key economic function of capital markets is to give a broad range of companies the opportunity to access different sources of market-based financing that they can use to develop and grow their businesses. Considering that equity provides long-term financing that is suitable for forward looking investments in areas such as innovation and business development, it is well-suited to fund Portugal's efforts to upgrade its business structure and progress towards a competitive, innovative and dynamic business sector. However, Portugal during the last two decades lost most of its listed companies. Today, the low level of activity and liquidity in the stock market is seen as a major barrier to those Portuguese companies that may use it to raise new capital. One avenue to get out of this impasse of few listings and low liquidity could be to encourage already listed companies to issue additional stocks through so-called follow-on offerings. By increasing the current low levels of free-float in the Portuguese market, this would contribute to increasing Portuguese market's share in stock market indices and, as a consequence, it would help attract institutional investors. The Portuguese Securities Market Commission (CMVM) and other Portuguese authorities should consider undertaking a thorough assessment of the regulatory and market conditions with respect to secondary offerings by already listed companies. The assessment should be supported by inputs from the stock exchange,

issuers and markets participants, and aim at proposing legal and regulatory changes that will promote secondary public offerings. The CMVM and the stock exchange should also consider introducing a listing and supervisory fee system for listed companies that favours companies with higher free float ratios.

Portugal also has an important number of large unlisted companies, including companies from the financial sector – notably insurance companies – that do not face any size constraint for being listed. Importantly, and in contrast with many other European countries, none of the large Portuguese state-owned enterprises are listed. To stimulate capital market development, the government may encourage listing of state-owned enterprises that are deemed most appropriate from a macroeconomic and structural perspective, which would again help to obtain a critical stock market size and visibility among international institutional investors. In order to increase the attractiveness of the domestic stock market, the government may consider introducing a tax credit system for costs related to initial listings as well as secondary equity offerings by already listed companies. Such a system would allow companies to deduct the listings costs, including any advisory service costs, against the corporate income tax payable up to a certain amount.

Many companies and market actors see the development of simplified disclosure requirements, simplified listing procedures and a more flexible corporate governance regulatory framework as crucial steps towards creating a successful stock exchange listing environment. In order to facilitate companies' use of stock market financing, the government may consider modernising the regulatory framework to ensure a sufficient degree of flexibility by taking into account the CMVM's review of the Securities Code, and benefitting from the exemptions and options provided in EU law. The government may also consider any changes in the Companies Code that may facilitate listing, including providing flexibility with respect to voting structures to address widespread concerns among Portuguese owners and entrepreneurs with respect to losing control of their companies, such as loyalty shares. The Portuguese companies' perception is also partly due to a lack of awareness in the Portuguese corporate sector of the actual flexibility that is available in the legal and regulatory framework for listing, disclosure and corporate governance regulations as well as the availability of different market segments. To support the abovementioned measures, the CMVM and the stock exchange, in cooperation with other public authorities, business and financial market associations, should engage in a dedicated and targeted awareness campaign to inform the corporate executives and other relevant actors in the market about the many opportunities for flexibility that exist and the new initiatives. An option could be to institutionalise the "Portuguese Companies Circle" under the auspices of the newly created Banco de Fomento to serve as a platform for a continuous exchange of such information.

A long period of low market activity has weakened the market ecosystem with respect to essential support services, such as advisory and research services, underwriting services and market making functions. Portuguese companies often have insufficient domestic access to these services and/or rely on foreign providers. The Portuguese authorities should consider supporting, including through indirect state support such as tax incentives for institutions or certain products as well as investors, the creation and scaling-up of domestic capital market intermediary and advisory institutions. The tax incentives, in addition to the proposed tax credit system for listing and advisory costs, could include exemptions from capital gains taxes for certain collective investment vehicles that

predominantly invest in the domestic equity market and are targeted at retail investors. It could also include a certain tax exemption on income derived from underwriting and market making activities. With respect to the limited availability of domestic underwriting services and market making capacity, the government may consider whether there is scope for state-owned financial institutions, in particular for Banco de Fomento, to scale up their activities in the domestic market. Another consideration would be tasking a domestic institution, such as IAPMEI and Banco de Fomento, to provide or support market research on smaller companies.

- **Creating an enabling environment for corporate growth:** The dominance of small firms with low productivity holds back Portugal's ability to move further towards high value-added knowledge-based production and competitiveness. In order to encourage corporations to grow, increase the pool of investible companies and facilitate their use of capital markets, the Portuguese government may consider evaluating the current corporate tax system so that proper incentives are created for corporations to expand their business and obtain a critical scale. In particular, the effectiveness of the relatively unfavourable rules related to the amortisation of goodwill that arises from corporate acquisitions, the comparatively high effective statutory corporate tax rates for larger companies and the effects of the progressive marginal tax rates should be assessed with a view to removing any adverse effects on corporate growth strategies.

  More active capital markets could play an important role to facilitate this process of consolidation and growth. An additional consideration would therefore be to provide government support to a private initiative that is led or supported by business organisations and focuses on improving the conditions for corporate consolidation that will increase productivity and make Portuguese firms more competitive. The initiative could include a platform for growth companies to interact with each other, investors and service providers and some services necessary for mergers and acquisitions, such as deal management, due diligence and post-merger analytics. Following some successful examples in other countries, this could also make advanced use of modern fintech developments.

- **Facilitating market-based long-term debt financing:** Since the 2008 global financial crisis and the subsequent sovereign debt crisis in the euro area, the Portuguese banking sector has experienced a structural change that has also led to deleveraging in the corporate sector. Although this development has provided an opportunity to develop market-based debt financing alternatives, the use and availability of corporate bond financing has remained rather limited. Considering the dependence on short-term debt in the Portuguese corporate sector relative to other advanced economies, more extensive use of corporate bond financing could help lengthen maturities, increase resilience and facilitate long-term investments. Given the current state of the corporate bond market in Portugal and the challenges that companies face in accessing long-term financing, achieving this will require a holistic approach. The government should consider developing a strategic plan for the development of Portuguese corporate bond markets. This could include creating an appropriate credit rating mechanism, in particular for mid-sized companies who do not have access to international rating providers. Models, such as the ones where central banks play a central role in providing rating services, could be assessed as a credible and reliable mechanism. The strategic plan should also consider introducing a special framework for private bond placements by smaller companies following successful examples in some other European markets. A promising

example for the Portuguese market could be the mini-bond market framework that provides a simplified process where smaller companies can issue bonds only to qualified investors through direct sales or special purpose vehicles for securitisation. This initiative could usefully be supported by creating a dedicated segment in the Lisbon Exchange for the listing of bonds whose trading is only permitted to qualified investors.

The strategic plan may also consider steps to promote state-owned enterprises' bond issuance and listing on the domestic market, which will help scale-up the market and improve the liquidity. With a view to enhance coordination among relevant authorities and ensure efficient implementation of the tasks, the plan should clearly assign responsibilities and functions across Banco de Portugal, the Securities Market Commission and other public authorities. In order to recognise and encourage the engagement from industry participants for developing the domestic corporate bond market, the plan may also include a proposal to create a private sector body that exclusively represents investment banks, bond dealers and other financial institutions that are active in the Portuguese fixed income market. An additional positive step could be to provide flexibility for issuers of bonds with a prospectus as well as issuers of bonds that are admitted to trading on a European market with respect to the financial autonomy criteria dictated by the Portuguese commercial law.

- **Increasing participation of traditional institutional investors:** Internationally, traditional institutional investors, i.e. pension funds, insurance corporations and investment funds, play an increasingly important role both in the public equity and corporate bond markets. As a result, the design, implementation and efficiency of the legal, regulatory and institutional framework that dictates their operations have important implications for capital formation, capital allocation and investment. It also plays an important role in providing households with better opportunities to diversify their savings and to share in the wealth creation of the domestic corporate sector. However, the Portuguese institutional investor industry has not responded fully to changes in global capital markets. An important step to facilitate this transformation would be to increase the coverage and confidence in the private pension system by considering the *OECD Pension Review*'s recommendations to ensure one set of tax rules applies to all schemes and all types of pension contributions; tighten the rules for withdrawals from the private plans to improve its long-term saving character; and support the use of occupational pension plans.

  Considering the relatively low allocation to public equity, these efforts could usefully be supported by a tax incentive to invest in the stock market and also introducing a financial education programme to improve households' understanding of the relative long-term risks and returns from different asset allocations. Measures to increase households' participation in the Portuguese capital market through investment funds may also include introducing a special framework for saving accounts that under certain conditions benefit from tax advantages, such as exemptions from capital gains tax if the investment is held for a certain period of time. Requiring these specialised funds to allocate a minimum amount of their assets to listed equity and debt securities of smaller companies could facilitate long-term financing for Portuguese SMEs.

  In order to further contribute to the development of Portuguese capital markets and help investors benefit from the innovation that new financial technology brings, the investment

fund industry should be provided with proper incentives to achieve sufficient economies of scale that may itself help reduce the asset management fees and support liquidity in secondary equity and bond markets. Key challenges include not only the low allocation to investment funds by Portuguese pension funds and insurance corporations, but also the high share of assets managed by discretionary mandates with low allocations to equity. The Securities Market Commission may consider establishing a working group including representatives from the asset management industry and other experts to identify the key factors that hamper higher allocation to collective investment vehicles and to propose changes that will improve the functioning of the system.

- **Increasing the availability and encouraging the use of alternative financing:** Over the past decades, alternative institutional investors, such as private equity and venture capital funds, have become key providers of capital in global markets. This trend has not been driven only by the search for yield among traditional investors that use alternative investment vehicle to invest in the high-risk-return segments of the capital market. It has also been supported by policy initiatives that aim at facilitating access to capital for unlisted, in particular mid-sized, companies and other alternative investments such as infrastructure. However, in Portugal, the size of both fundraising and investment activities in the private capital markets are well below the European averages. Importantly, as opposed to other advanced markets, traditional institutional investors and retail investors play an insignificant role compared to banks as investors in private equity and venture capital funds. Since traditional institutional investors, such as pension funds and insurance companies, can play an important role as capital providers in private markets, the government may consider evaluating the current investment and capital requirement regimes for traditional investors with a view to increasing their participation in private markets. Some countries have introduced schemes that provide retail investors with tax incentives that encourage their participation in private equity funds.

  The lack of a well-functioning system for identifying qualified individual investors and an ecosystem that encourages their investments in private capital markets further contributes to the problem of raising funds in Portuguese private markets. The Securities Market Commission may consider evaluating the effectiveness of the current framework for qualified individual investors with a view to encourage and facilitate for financial intermediaries to recognise eligible retail investors as qualified investors. Since private equity funds operate as part of the overall capital market ecosystem, the limited scale of M&A and primary public equity market activities reduces the available options for private funds to exit their investments. A situation that creates an additional barrier to the growth of private equity engagements. Any reform efforts with respect to the overall functioning of capital markets should therefore consider the potential impact on the development of private markets and involve private capital markets actors. The government should also consider introducing a regulatory framework for Special Purpose Acquisition Vehicles (SPACs) that offers a hybrid investment model of private and public markets to investors and provide a straight-forward and efficient way to list smaller companies without following the traditional listing process. An additional consideration should be to promote the use of ELTIF as an important tool to facilitate the participation in private equity markets by traditional institutional investors, such as insurance companies and retail investors.

KEY CAPITAL MARKET INDICATORS: PORTUGAL

Overview of Economy									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP growth (%)	1.7	-1.7	-4.1	-0.9	0.8	1.8	2.0	3.5	2.4
Employment growth (%)	-1.4	-3.2	-4.1	-2.6	1.6	1.1	1.2	3.3	2.3
Labour productivity growth (%)	3.2	1.3	1.0	1.2	-0.9	0.0	0.1	-0.6	0.1
Multifactor productivity growth (%)	1.8	-0.2	-0.9	0.3	-0.6	0.3	0.3	-	-
Gross public debt to GDP (%)	100.2	114.4	129.0	131.4	132.9	131.2	131.5	126.0	122.2
Non-performing loans to total lending (%)	-	-	-	-	-	17.5	17.2	13.3	9.4

Source: OECD Economic Outlook 106 database 2019/2, OECD Productivity Statistics, Banco de Portugal.

	Banks	Insurance companies	Investment funds	Pension funds
Total assets, as end of 2018 (billion EUR)	385	36	28	20

Source: Banco de Portugal, ECB.

Non-Financial Corporate Sector							
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Number of companies[1]	59 426	57 225	55 795	54 839	55 582	58 749	62 670
Return on equity (%)	12.9	3.9	0.3	4.4	3.1	6.2	7.3
Annual sales growth (%)	5.2	-4.1	-2.2	-2.4	2.5	2.5	1.0
Leverage (%) [2]	34.3	35.9	37.0	36.7	34.8	34.2	33.3
Share of loss making firms (%) [3]	34.4	38.6	42.1	37.3	34.8	32.7	31.7

Source: OECD-ORBIS Corporate Finance dataset.

Public Equity Market		(as of end 2019)
	# of listed companies	Market capitalisation (million EUR)
Listed companies (excl. investment funds)	**47**	**63 107**
Euronext Lisbon	38	62 949
Euronext Access Lisbon	8	133
Euronext Growth Lisbon	1	25

Source: Euronext, CMVM.

Public Equity Market									(proceeds in 2018 EUR million)
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Non-financial companies									
Number of IPO	-	1	1	1	1	-	-	-	1
Total proceeds of IPOs	-	4	5	561	150	-	-	-	1
Number of SPO	2	4	1	4	7	5	2	3	1
Total proceeds of SPOs	126	230	505	1 798	2 175	696	619	391	36
Financial companies									
Number of SPO	1	1	3	1	3	-	1	1	-
Total proceeds of SPOs	94	293	1 836	840	3 721	-	217	1 294	-
Listings and delistings in the stock market									
New listings	1	-	2	2	1	-	1	-	3
Delistings	2	1	5	3	1	-	2	2	5
Total net listings	-1	-1	-3	-1	-	-	-1	-2	-2

Source: OECD Capital Market Series dataset, CMVM, OECD-ORBIS Corporate Finance dataset, Refinitiv.

Corporate Bond Market									(proceeds in 2018 EUR million)
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Non-financial companies									
Number of issues	1	3	7	7	11	9	5	6	5
Amounts issued	230	651	2 643	2 787	2 308	1 910	1 851	1 086	537
Financial companies									
Number of issues	15	3	3	4	7	2	1	6	3
Amounts issued	13 326	4 936	1 820	2 973	7 394	2 116	18	5 262	1 238

Source: OECD Capital Market Series dataset, Refinitiv, Bloomberg, FactSet.

Private Equity Market									(amounts in 2018 EUR million)
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Amounts raised	157	623	833	208	100	63	29	24	105
Amounts invested	284	700	405	403	334	299	388	407	532
Amounts of divestment	33	115	189	158	102	451	158	326	366

Source: Invest Europe / EDC.

EU benchmarking									
Portugal's share in EU…	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP (%)	1.40	1.33	1.25	1.25	1.23	1.21	1.24	1.27	1.28
IPO proceeds (%)	-	0.03	0.06	2.66	0.33	-	-	-	0.01
Non-financial (%)	-	0.04	0.09	3.74	0.47	-	-	-	0.01
Financial (%)	-	-	-	-	-	-	-	-	-
SPO proceeds (%)	0.22	0.57	2.97	2.09	4.24	0.51	0.98	1.26	0.05
Non-financial (%)	0.22	0.51	1.02	2.68	2.70	0.82	1.00	0.50	0.06
Financial (%)	0.23	0.61	6.25	1.42	6.36	-	0.93	2.31	-
Stock market capitalisation (%)	1.07	0.66	0.63	0.61	0.48	0.45	0.51	0.53	0.59
Corporate bond issuance (%)	1.11	0.49	0.36	0.51	0.74	0.39	0.17	0.58	0.17
Private equity (%)									
Fundraising (%)	0.55	1.44	2.77	0.33	0.17	0.11	0.03	0.02	0.11
Investment (%)	0.59	1.35	0.93	0.94	0.66	0.52	0.64	0.53	0.66

Source: Eurostat, OECD Capital Market Series dataset, ECB, Invest Europe / EDC.

[1] See Annex for details.
[2] Total financial debt over total assets.
[3] The percentage of Portuguese firms with negative net income in the total number of firms.

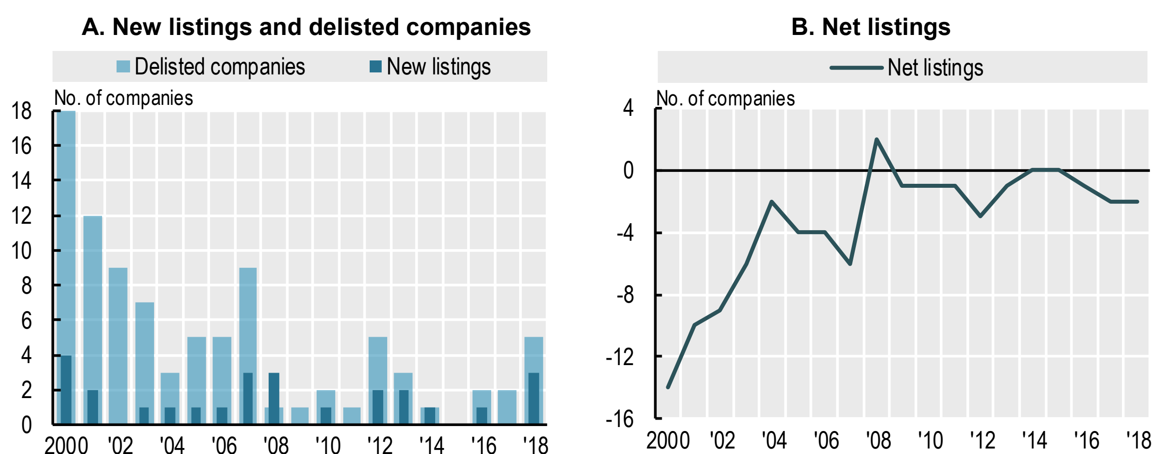
PART I

ASSESSMENT AND RECOMMENDATIONS

1. Promoting access to equity capital through the stock market

By the end of 2019 there were 47 companies listed on Euronext Lisbon.[1] This represents only one-third of the number of companies that were listed back in 1997. While many European countries shared a similar declining trend in the number of listed companies, this trend has been more pronounced in the Portuguese stock market (see Chapter III and Chapter IV). In Portugal, the decrease in the number of listed companies can be explained by the net effect of fewer new listings and a significant number of delistings (Figure 1, Panel A). Since 2000, the annual number of delisted companies has surpassed the number of new listings, with the exception of 2008 (Figure 1, Panel B). In the past 20 years, there has been on average only one new listing per year. Despite the more favourable macroeconomic conditions during the last years, the stock market capitalisation in 2018 accounted for only 0.6% of the total EU market capitalisation. In 2010, the same ratio was 1.1%.

Figure 1. Number of listed and delisted Portuguese companies



Source: OECD Capital Market Series dataset, CMVM, Euronext Factbook, see Annex for details.

To understand how non-financial Portuguese companies use and perceive market-based financing, the OECD conducted an extensive survey of large unlisted companies and some smaller companies that were considered to have growth potential. The OECD Survey on Access to Finance in Portugal (hereafter OECD Survey) also intended to explore, among other things, the reasons behind the low level of activity in the Portuguese public equity market. According to the survey results, although remaining private to keep control was mentioned by the vast majority of the companies (69% of the respondents), more than half of the respondent companies also indicated IPO (54%) and compliance costs (53%) as barriers to enter the public equity market. In addition, the low liquidity in the stock market and the complexity of regulation were also mentioned as significant factors to stay private by almost 50% of the companies (see Chapter II).

The OECD Survey also captured a group of large unlisted companies that pro-actively had collected information about the listing process but stopped the process before concluding the IPO. Among those firms, the main reasons to stop the process were the complexity of regulation (83% of the respondents), high corporate governance and compliance costs (78%) and the low liquidity in the Portuguese market (77%) (see Chapter II, section 2.6). Likewise,

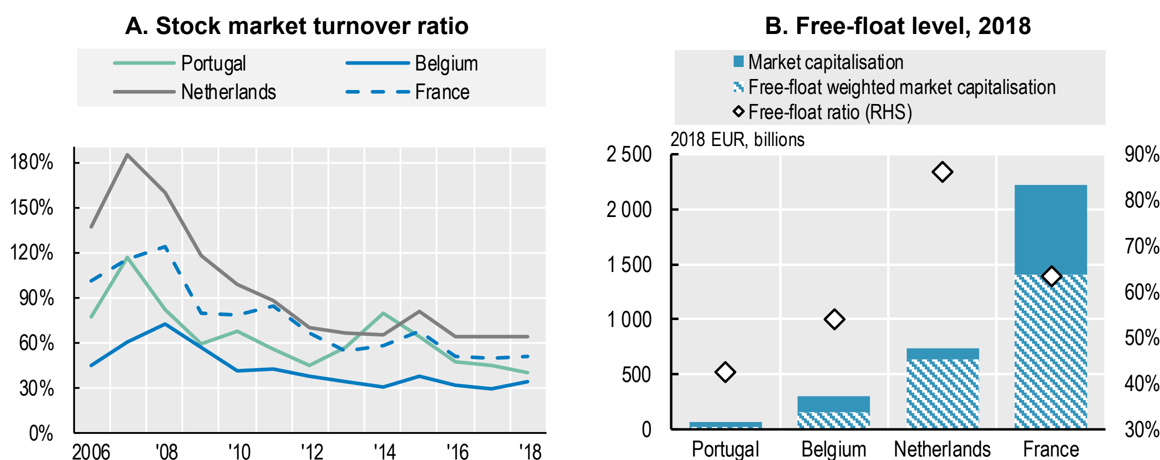
[1] Excluding Euronext and REITs

60% of the 30 companies that stopped the listing process considered themselves too small to become a listed company. Another category of respondent companies identified was delisted companies. Importantly, only one firm mentioned financial distress as a reason for delisting, whereas the low liquidity in the Portuguese market was the main reason for 10 of 14 delisted firms. The insufficient investor interest and recognition, as well as compliance costs were also determining factors in the delisting decision (see Chapter IV, section 4.5).

Evidently, as frequently cited by Portuguese companies and market participants, an important barrier to the use of equity financing is related to the functioning of the secondary public equity market, in particular the low liquidity levels. As shown in Panel A of Figure 2 the Portuguese stock market liquidity – measured by the turnover ratio – has been lower than the two other Euronext markets in Paris and Amsterdam, but higher than Brussels. It is important to note that there were no listings on the regulated market in Brussels over the past three years. Also, while the turnover ratio in Paris (52%) and Amsterdam (64%) were higher than Lisbon (41%) in 2018, their liquidity levels were also modest compared to other stock markets in advanced economies, such as Germany (92%), Japan (119%) and the United States (108%).

The low liquidity observed in the Portuguese stock market is not only explained by the low market capitalisation, which is 5 times lower than in Belgium and 12 times lower than in the Netherlands, but also due to the low levels of free-float. By the end of 2018, the market weighted free-float ratio, the ratio of shares available for trade, in Portugal was 43%. This is by far the lowest ratio among Euronext exchanges (Figure 2, Panel B). Importantly, only 7 Portuguese companies have more than 50% of their shares available for trade.

Figure 2. Stock market capitalisation and turnover ratio across Euronext markets



Note: The sample contains information for all listed companies on EU regulated markets and exchange regulated MTFs as of end 2018. It excludes all types of funds, trusts and SPACs.
Source: OECD calculations based on data from Thomson Reuters Eikon, Euronext Factbook.

Low market capitalisation and low free-float levels also hamper the attractiveness of Portuguese stocks for institutional investors. In Portugal, only 23% of the stock market capitalisation is in the hands of institutional investors compared to 28% in France, 30% in Germany and 28% in Italy. Moreover, institutional ownership is to a large extent concentrated

among a few large companies that are included in the main stock index PSI 20.[2] While the stocks included in the PSI 20 have on average 24% institutional investor ownership, the average institutional ownership for the remaining companies is only 5%. This is a level even well below that of most emerging markets. The small size of the stock market together with low free-float levels result in limited presence of Portuguese companies in regional stock market indices. For instance, while Belgium, France and the Netherlands account for approximately 4.6%, 18.1% and 8.5% in the MSCI Europe Index, Portugal weighs only 0.25%. This in turn limits the participation of global institutional investors, which increasingly rely on index-based passive investment strategies.

Portuguese companies refrain from using public equity markets due to, among other things, the low liquidity level, which hampers efficient price discovery and makes the market more susceptible to large fluctuations. On the other hand, the lack of new listings precludes the market from reaching a desirable liquidity level. In order to overcome this impasse, a two-pronged approach could be developed. First, is implementing measures to increase the free-float levels of already listed companies, such as incentivising secondary public offerings. Second and more importantly, identifying companies or company clusters that have the potential to issue public equity without being constrained by their small size and having the need for significant adjustments to be compliant with the regulatory framework for listed companies.

Looking at the unlisted company universe to see whether there is a considerable number of companies that pass the size threshold to become listed is an important initial step to assess the potential for stock market listings. A comparison in terms of size of the listed and unlisted companies in Portugal shows that there is a substantial number of unlisted companies with similar or even larger size than the ones listed on Euronext Lisbon. According to data from the OECD-ORBIS Corporate Finance dataset (see Chapter I), while only 44 companies were listed by the end of 2016, there were an additional 405 non-financial firms that were classified as large unlisted companies. Out of these 405 companies, 67 had assets that exceeded the median assets of Portuguese listed companies.

While the industry distribution of this group of potential listed companies is broad, 8 out of the 67 largest ones are state-owned enterprises (SOEs). Indeed many countries have been using listing of SOEs as a means for developing the domestic capital market. SOE listings have helped countries scale up stock markets to reach sufficient economies of scale to operate effectively and increase liquidity in the secondary market. At the same time as the listing of SOEs would give access to capital, the very process of listing will also provide incentives and opportunities to align the corporate governance of the SOEs with best practices. Such a benchmark can be found in the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* that provide guidance for SOEs to function in an efficient, transparent and accountable manner (OECD, 2015a). By the end of 2018, there were 30 wholly or partially state-owned enterprises in Portugal,[3] excluding Government Agencies and healthcare public providers (Ministério das Finanças, 2019). Out of these 30 SOEs, none of them are listed.

[2] The PSI 20 is a benchmark stock market index of companies that trade on Euronext Lisbon. The index tracks the stock prices of the 20 listed companies with the largest market capitalisation. Companies are weighted in the index based on free-float adjusted market capitalisation. The PSI 20 was established in December 1992 and started functioning in 1995 with 20 companies. Since 2014 the index has been comprised of 18 companies after Espiritu Santo Group and BES left the market.

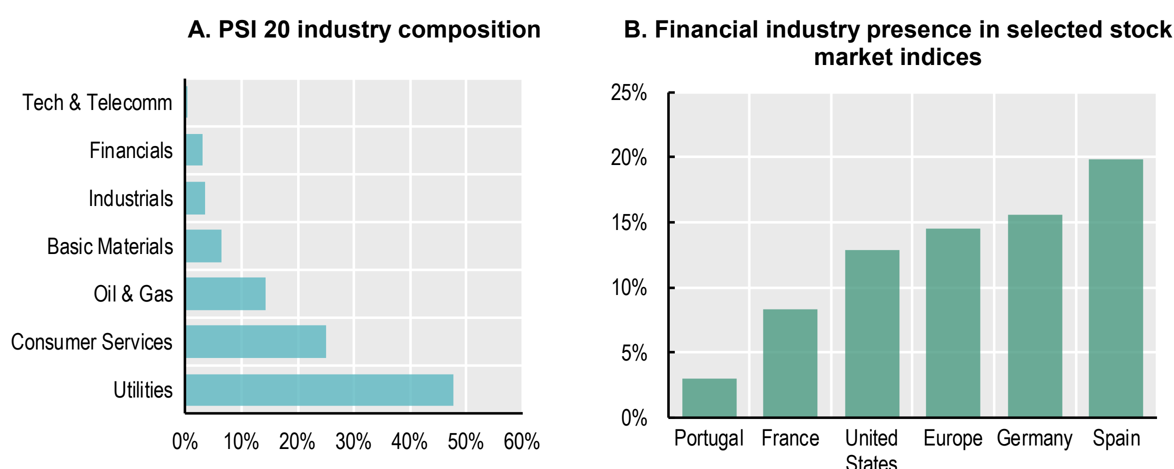
[3] An SOE is defined as a company in which the Government owns more than 20% of the capital stock.

When compared to listed companies, 8 SOEs – mainly from the industrials sector – have larger assets than the median assets of the listed companies.

In addition to listing of SOEs, many markets have also benefited from the listing of companies operating in more regulated sectors to further gain from economies of scale necessary to provide cost effective services while improving the overall stock market liquidity conditions. Of particular importance is the listing of financial sector companies (Figure 3, Panel B), for which the costs related to adopting operational, compliance and accounting procedures, and practices to the regulatory framework for publicly traded companies should be limited compared to most non-financial companies.

Since the PSI 20 index and the stock market in general show a low presence of financial companies, there is considerable scope for the Portuguese financial companies, notably insurance companies, to join the stock market. There are only 4 financial firms listed on the main market of the Euronext Lisbon. Similarly, there are only two financial firms, one bank and one specialty finance company, in the PSI 20 accounting for only 2.96% of the index. As shown in Panel A of Figure 3 the index is dominated by companies from the utilities sector (47.7%), and followed by consumer services (24.9%) and oil & gas (14.4%) sectors. In a cross country comparison, financial companies' presence in the Portuguese market is very low as, for example, they account for more than 15% of the DAX index in Germany and IBEX 30 in Spain (Figure 3, Panel B). Listing of financial sector companies will not only help the overall market to reach the needed size, but will also facilitate financial firms' efforts to strengthen their balance sheets. This is particularly true for periods when there is distress in the financial sector. Experiences from the 2008 global financial crisis demonstrate that for already listed financial companies, raising equity capital through new stock offerings was a major source of recapitalisation. In 2009 alone, the capital raised through such secondary public offerings reached over USD 1 trillion worldwide and half of that money went to financial companies (OECD, 2019a).

Figure 3. PSI 20 industry composition and financial industry presence in stock indices



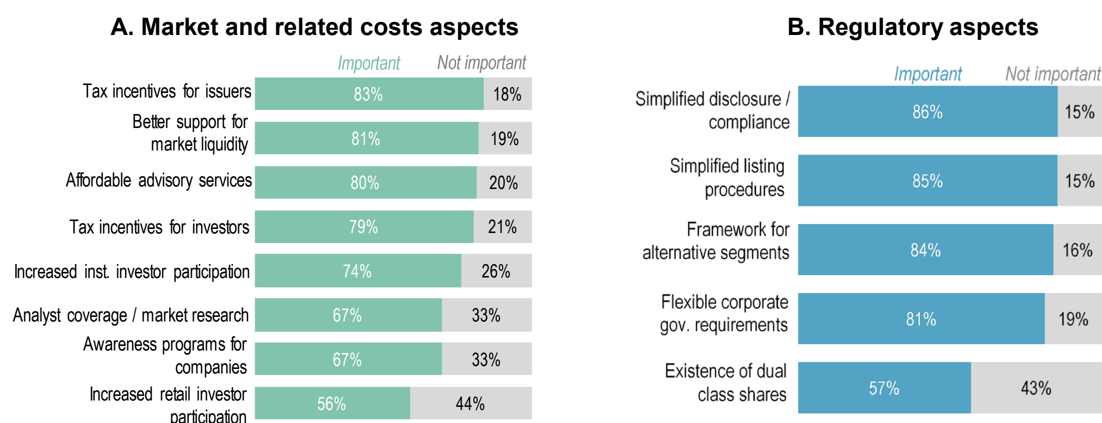
Source: OECD calculations based on data from Thomson Reuters Eikon.

Liquidity in the stock market can also be supported by promoting more active participation of certain market actors, including market makers. By providing buying and selling prices at any point in time that generate liquidity and ensure the existence of a two-way market, market makers play an important role in quote-driven financial instruments such as stocks. This function they serve is of particular importance for smaller less liquid stocks that do not trade

frequently. In general, to have a balanced portfolio market makers hold both long and short positions in the same stocks (Schwartz and Francioni, 2004). In Europe, to allow market makers to operate more freely, they can be exempted under the Short Selling Regulation (SSR) from disclosing short positions as required for all other market participants (EU Regulation No 236/2012A). An indicator of their limited presence in the Portuguese market is the fact that no market maker has applied to benefit from the exemption provided under the SSR (ESMA, 2020a). Since the Portuguese stock market is characterised by having relatively small companies and a low level of secondary market liquidity, a well-functioning market making practice could be instrumental in overcoming the liquidity constraint.

Another key objective of the OECD Survey and consultations with companies and market participants was to understand their perspectives and priorities in developing a successful stock exchange listing environment in Portugal. In line with the responses about their listing and delisting decisions, more than 80% of the companies indicated better support for market liquidity as an important factor. Other related factors, such as increased participation of institutional and retail investors as well as market research, were also mentioned as important factors to create a supportive listing environment (Figure 4, Panel A). Likewise, having affordable advisory services was also pointed out as an important factor. The high cost of advisory services might be particularly relevant for relatively small companies. The lack of affordable advisory services and market research is not a unique challenge to Portugal. In fact, recent technological developments such as the automated trading have made trading more efficient at a lower cost. However, these developments have also driven many smaller European brokers, analysts and advisers that help build the demand for smaller IPOs out of the market (European Issuers, EVCA, FESE, 2015).

Figure 4. Factors for creating a successful stock exchange listing environment



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The OECD survey also covered different aspects of the legal and regulatory framework for creating a successful listing environment. In particular, simplified disclosure and compliance requirements, simplified listing procedures, a framework for alternative segments and flexible corporate governance requirements were mentioned as important factors by more than 80% of the companies (Figure 4, Panel B). Simplified disclosure procedures can support the entry of new participants to the Portuguese stock market, especially small and medium-sized companies that perceive the IPO process as cumbersome and costly. When properly designed, scaled disclosure requirements can enable a higher listing rate without hampering the investor protection in the public equity market. To this effect, the SEC has recently amended the JOBS Act in order to reduce excessive burdens on smaller issuers by, among

others, lifting the revenues threshold from USD 75 to 100 million that moves companies into the accelerated filer status. Companies under that threshold are not required to provide an attestation of their ICFR (internal control over financial reporting) from an external auditor and face longer deadlines for filing annual and quarterly reports (SEC, 2020).

Fiscal incentives, such as tax credits and subsidies, are often seen as important policy instruments to promote companies' use of long-term market-based financing. Therefore, it is not surprising to see that respondents to the OECD Survey identified tax incentives for issuers as the most important market related factor for creating a successful stock exchange listing environment in Portugal (Figure 4). Companies also indicated the need for affordable advisory services for stock market listing. An approach used by some countries to address similar expectations has been to provide a tax credit equal to a certain percentage of advisory costs with an upper nominal limit. Making it conditional on the completion of the listing process, this could significantly help, particularly smaller companies, to overcome the costs associated with listing and increase the attractiveness of the domestic public equity market.

In most countries, the stock exchange industry has experienced important changes since the mid-1990s. Most traditional stock exchanges have either been acquired by another exchange or became part of a stock exchange group. Indeed, the Lisbon Stock exchange was acquired by the Euronext group in 2002. The group operates multiple exchanges across seven European countries. Since the structure of the stock market is important in designing policies directed to improve the functioning of capital markets, stock exchanges should take into account the country specific factors while applying rules and designing trading venues. By the end of 2019, the two alternative listing segments in Portugal, Euronext Growth and Euronext Access, had only 9 listed companies. Euronext Growth had 1 listed company with a market capitalisation of EUR 25 million and Euronext Access had 8 companies with a combined market value of EUR 133 million. For instance, the market capitalisation of the Euronext Growth segment in Paris is EUR 12 billion with 206 listed companies and EUR 9 billion for Euronext Access with 160 companies.

The requirements both for new listing and already listed companies are broadly the same in the Lisbon Exchange and in the other Euronext alternative markets in Brussels, Dublin and Paris. The only difference in Portugal is an exemption from issuing an EU Regulated Prospectus if the value of the issue is less than EUR 5 million, according to the Article 111 of the CMVM Securities Code (ESMA, 2020b). For the alternative markets in Paris and Brussels the threshold for such exemption is set at EUR 8 million. Thus, considering the dominance of smaller companies in the Portuguese economy, additional country specific requirements aiming to attract new issuers could be implemented. For instance, as the Euronext Growth market in Lisbon only has one listed company, the required 2 years of financial audited statements could become optional as in the Euronext Access market.

Public companies in Portugal have to comply with the Portuguese Companies Code, the Portuguese Securities Code, CMVM Regulation no. 4/2013 and can follow the recommendations included in the Corporate Governance Code of the Portuguese Corporate Governance Institute (IPCG). The Portuguese regulatory framework encompasses a set of endorsements including the organisational structure of the company but also remuneration, risk management, auditing, among others (Global Legal Insights, 2019). According to the *G20/OECD Principles of Corporate Governance*, policy makers should establish a framework with the sufficient degree of flexibility allowing companies that operate under different circumstances to meet their needs. For instance, in Israel, the Law for Facilitating the Capital Market was introduced (Legislation Amendments, 5774-2014) establishing flexibility

mechanisms for smaller companies such as a longer transition period (up to 36 months) for companies conducting an IPO to implement the appropriate corporate governance rules (OECD, 2018; Anidjar, 2018).

According to the results of the OECD Survey, many companies and market actors in Portugal see the further development of simplified disclosure requirements, simplified listing procedures and a more flexible corporate governance regulatory framework as crucial steps towards creating a successful stock exchange listing environment. An important step towards modernising the regulatory framework for the Portuguese stock market has been the comprehensive review of the Portuguese Securities Code by the CMVM, which was submitted to the Ministry of Finance for their consideration. It is also important to note that the perception in the Portuguese corporate sector is *partly* driven by the lack of awareness of the actual flexibility and proportionality that is available in the legal and regulatory framework for listing, disclosure and corporate governance regulations as well as the availability of different market segments.

An important factor in effective functioning of capital markets is the presence of well-established investment banks. Their involvement is fundamental as they are accountable for providing advice and support to issuers and investors. In Portugal, since 2003, the most active investment banks in equity underwriting are foreign, either based in other European countries or in the United States. Although the annual average share of Portuguese investment banks in total underwritten volume was almost 80% between 2000 and 2002, between 2003 and 2016 it shrank to 18%. Since 2017 not a single Portuguese bank participated in equity underwriting in Portugal (see Chapter III, section 3.6). According to the OECD Survey, when companies were asked if any of the market actors contacted them to provide them with information or encourage them to start a listing process, one-fourth of the respondent companies answered to the question and only around 49 out of 300 were contacted at some point in time (see Chapter II, section 2.9).

Companies that indicated in the OECD Survey that they are planning to list on a stock exchange were also asked why they intended to become a publicly listed company. The most frequent response was better visibility and prestige. An important prerequisite for visibility in stock markets, is that the company is subject to market research and analyst coverage. By supporting market liquidity, market research improves both the attractiveness of listing for smaller companies and the attractiveness of smaller growth companies as an investment. There have been concerns that market research covering smaller companies has significantly declined over the recent years following the regulatory changes related to separating research costs in MiFID II. The Directive requires that the research cost should be separated from trading commissions paid to brokers, which has substantially reduced asset managers' demand for research. This has been particularly true for smaller listed companies (CFA Institute, 2019). In order to mitigate the impact of such changes on smaller companies, some countries have created programmes to provide research coverage on smaller companies. For instance, in Spain the stock exchange has introduced a programme to provide research on smaller listed companies in a standardised format.

Well-functioning capital markets should also promote opportunities of communication among stakeholders, so that practical solutions to the corporate financing challenges can be shared among peers. In this respect, the CMVM offers communication channels to market participants. In addition to holding conferences and public consultations regarding regulations, the CMVM also receives investor complaints. In 2018, the CMVM published for the first time statistics from the investors' complaints, most of them related to financial intermediaries

(CMVM, 2019a). Moreover, at the company level, the Companies Circle initiative was created in the context of the OECD project "Mobilising Portuguese Capital Markets for Investment and Growth" funded by the European Commission at the request of the CMVM and with the support of the Financial Institution for Development (IFD). In October 2019, the OECD organised together with the IFD, the first Portuguese Companies Circle meeting among leading practitioners and experts to identify policies that will help support capital market development in Portugal. The first Companies Circle meeting brought together a group of companies, the stock exchange, industry representatives, securities issuers' representatives, the Bank of Portugal and representatives from the CMVM in Lisbon.

Recommendation: A key economic function of capital markets is to give a broad range of companies the opportunity to access different sources of market-based financing that they can use to develop and grow their businesses. Considering that equity provides long-term financing that is suitable for forward looking investments in areas such as innovation and business development, it is well-suited to fund Portugal's efforts to upgrade its business structure and progress towards a competitive, innovative and dynamic business sector. However, Portugal during the last two decades lost most of its listed companies. Today, the low level of activity and liquidity in the stock market is seen as a major barrier to those Portuguese companies that may use it to raise new capital. One avenue to get out of this impasse of few listings and low liquidity could be to encourage already listed companies to issue additional stocks through so-called follow-on offerings. By increasing the current low levels of free-float in the Portuguese market, this would contribute to increasing Portuguese market's share in stock market indices and, as a consequence, it would help attract institutional investors. The Portuguese Securities Market Commission (CMVM) and other Portuguese authorities should consider undertaking a thorough assessment of the regulatory and market conditions with respect to secondary offerings by already listed companies. The assessment should be supported by inputs from the stock exchange, issuers and markets participants, and aim at proposing legal and regulatory changes that will promote secondary public offerings. The CMVM and the stock exchange should also consider introducing a listing and supervisory fee system for listed companies that favours companies with higher free float ratios.

Portugal also has an important number of large unlisted companies, including companies from the financial sector – notably insurance companies - that do not face any size constraint for being listed. Importantly, and in contrast with many other European countries, none of the large Portuguese state-owned enterprises are listed. To stimulate capital market development, the government may encourage listing of state-owned enterprises that are deemed most appropriate from a macroeconomic and structural perspective, which would again help to obtain a critical stock market size and visibility among international institutional investors. In order to increase the attractiveness of the domestic stock market, the government may consider introducing a tax credit system for costs related to initial listings as well as secondary equity offerings by already listed companies. Such a system would allow companies to deduct the listings costs, including any advisory service costs, against the corporate income tax payable up to a certain amount.

Many companies and market actors see the development of simplified disclosure requirements, simplified listing procedures and a more flexible corporate governance regulatory framework as crucial steps towards creating a successful stock exchange listing environment. In order to facilitate companies' use of stock market financing, the government may consider modernising the regulatory framework to ensure a sufficient degree of flexibility

by taking into account the CMVM's review of the Securities Code, and benefitting from the exemptions and options provided in EU law. The government may also consider any changes in the Companies Code that may facilitate listing, including providing flexibility with respect to voting structures to address widespread concerns among Portuguese owners and entrepreneurs with respect to losing control of their companies, such as loyalty shares. The Portuguese companies' perception is also partly due to a lack of awareness in the Portuguese corporate sector of the actual flexibility that is available in the legal and regulatory framework for listing, disclosure and corporate governance regulations as well as the availability of different market segments. To support the abovementioned measures, the CMVM and the stock exchange, in cooperation with other public authorities, business and financial market associations, should engage in a dedicated and targeted awareness campaign to inform the corporate executives and other relevant actors in the market about the many opportunities for flexibility that exist and the new initiatives. An option could be to institutionalise the "Portuguese Companies Circle" under the auspices of the newly created Banco de Fomento to serve as a platform for a continuous exchange of such information.

A long period of low market activity has weakened the market ecosystem with respect to essential support services, such as advisory and research services, underwriting services and market making functions. Portuguese companies often have insufficient domestic access to these services and/or rely on foreign providers. The Portuguese authorities should consider supporting, including through indirect state support such as tax incentives for institutions or certain products as well as investors, the creation and scaling-up of domestic capital market intermediary and advisory institutions. The tax incentives, in addition to the proposed tax credit system for listing and advisory costs, could include exemptions from capital gains taxes for certain collective investment vehicles that predominantly invest in the domestic equity market and are targeted at retail investors. It could also include a certain tax exemption on income derived from underwriting and market making activities. With respect to the limited availability of domestic underwriting services and market making capacity, the government may consider whether there is scope for state-owned financial institutions, in particular for Banco de Fomento, to scale up their activities in the domestic market. Another consideration would be tasking a domestic institution, such as IAPMEI and Banco de Fomento, to provide or support market research on smaller companies.

2. Creating an enabling environment for corporate growth

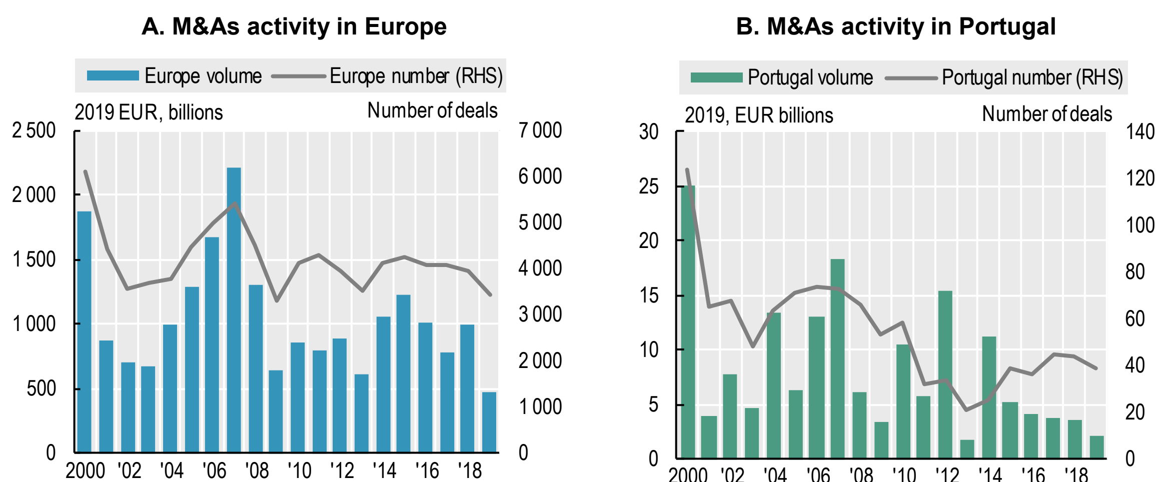
Representatives from the Portuguese financial and corporate sectors shared a common concern during OECD consultations that most Portuguese companies do not have the sufficient size and familiarity to access market-based financing. The results of the OECD Survey on Access to Finance in Portugal confirms this observation as 45% of the companies responded that they considered themselves too small for participating in the public equity market. Importantly, among the companies that at one point in time started collecting information about becoming a listed company, 60% responded that they stopped the process because they considered themselves too small to be listed. When interpreting these responses it is also important to note that most of the companies that responded to the OECD Survey are actually among the largest unlisted Portuguese companies.

An analysis of the data from the OECD-ORBIS Corporate Finance dataset also indicates that Portuguese companies are relatively small compared with their peers in other European economies. In Portugal, listed companies, large unlisted companies as well as SMEs are on average smaller in size than the same categories of companies in Italy, Germany, Spain and

France. For example, a listed company in Germany by the end of 2016 had on average assets equivalent to 2.4 times the assets of a listed company in Portugal. The 'size constraint' does not only limit a company's access to market-based financing but also inhibits their ability to reach economies of scale and increase productivity. While large companies in Portugal have on average a higher productivity level than smaller companies, their productivity is still well below that of large companies in other European economies (see Chapter I, Figure 22).

An important means for company growth and where capital markets can play a positive role is through mergers and acquisitions that create synergies and economies of scale. To explore the scope of mergers and acquisitions (M&As) activity in Portugal, Figure 5 looks at the transaction volume and numbers of M&As both in Portugal and Europe. Panel A shows the M&A deal volume and number of deals whenever the acquirer or the target is a European company and in Panel B shows the same numbers for Portuguese companies. In terms of volume, the M&A activity in Portugal has since 2000 been on average no more than 1% of the total European volume. In recent years the share of Portuguese M&As has further declined and was less than 0.5% of the European volume.

Figure 5. Mergers and acquisitions activity



Source: OECD calculations based on data from Thomson Reuters Eikon.

Better capital markets can support company growth through value creating M&As. By facilitating the issuance of equity or corporate bonds, capital markets can provide the long-term financing needed. Moreover, listed companies can also use their own shares as currency to pay for such transactions. Hence, the limited availability of market-based financing sources in Portugal, leaves companies with fewer options to grow their business through mergers and acquisitions and leaves them too dependent on the availability of internal funds.

The challenges that are associated with scaling-up the size of corporations through capital raising and M&As in Portugal may also be linked to the limited capacity and network of smaller companies to interact with each other, investors and service providers. To overcome this barrier and making advanced use of modern fintech developments, specialised private platforms facilitating SME mergers and acquisitions have been established in some countries. One example is the Elite Programmes of LSE and Borsa Italiana, where smaller growth companies meet with other companies and investors. In fact, in the Italian programme the number of small companies that engage in an M&A deal has been much higher than the companies that have listed on the stock exchange. Also, electronic platforms that combine all the features and functionality necessary for mergers and acquisitions including prospecting,

deal management, due diligence and post-merger analytics, have also emerged over the recent years. For example, Ansarada, an Australian based AI-powered platform provider focused on helping companies with M&A as well as other type of transactions, reports that it has concluded more than 30 thousand transactions on the platform since 2005.

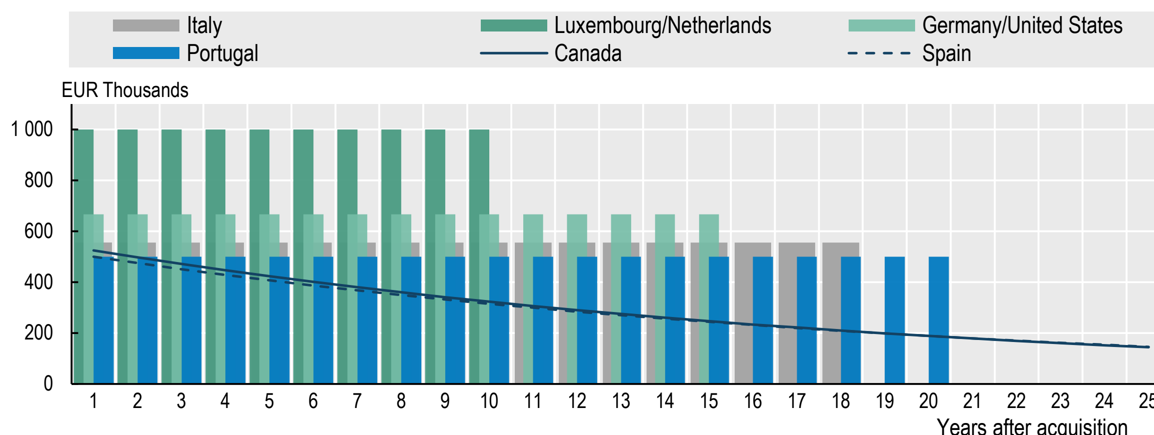
Another important determinant for M&A activity is the incentives provided by the tax system. Of particular importance is the tax rules related to goodwill, which is generally defined as an intangible asset that arises with the purchase of one company by another. Usually, goodwill is recorded when the transaction price is higher than the sum of the fair value of the identifiable assets purchased after deducting the liabilities assumed in the transaction. Differently from other intangible assets, goodwill normally has an indefinite life. However, under certain circumstances, the goodwill that is generated can be expensed and contribute to reducing the company's tax payments.

Of key importance is if the M&A transaction is structured as a stock sale or as an asset sale. If goodwill is generated through an acquisition structured as an asset sale, it is tax deductible and amortisable over a certain period. But if the goodwill is generated in an acquisition structured as a stock sale, it is non-tax deductible and non-amortisable. Hence, the possibility to structure the transaction as an asset sale that provides the ability to amortise it for tax purposes is comparatively more attractive for the acquirer as it will represent a tax deduction in the years following the acquisition. However, it is not the mere availability of the tax deductibility that affects the value proposition of an acquisition. Also of importance is the timeframe for which the amortisation is allowed.

In Portugal, goodwill acquired as a result of a taxable corporate restructure or business combination can be amortised for tax purposes over a default period of 20-years, except if related to shareholdings or related to the acquisition of intangible assets from associated enterprises. In Germany the tax-deductible goodwill can be amortised over 15 years whereas in Italy it is deductible for an amount not exceeding 1/18 of the cost in any year. In the Netherlands acquired goodwill may be depreciated over 10 years with a maximum of 10% per year, similar to Luxembourg where the practice is to write off goodwill over 10 years. In Canada, 75% of the amount paid for goodwill is deductible on a declining basis at an amortisation rate of 7%. In Spain goodwill can be amortised at a maximum annual rate of 5%, irrespective of whether or not the assets in question have been acquired from a company of the same corporate group (Tax summaries, PWC).

To illustrate the impact on a company's taxable income, it is assumed that as a result of the acquisition of an asset, the acquiring company has generated EUR 10 million in goodwill. According to the different amortisation rules described above, Figure 6 plots the amortisation schedule for each tax system. Because the yearly goodwill amortisation reduces the taxable income of corporations it helps reduce the tax bill in an amount equal to the goodwill amortisation multiplied by the tax rate. In fact, the earlier the goodwill can be expensed, the higher the present value of the tax savings for the acquirer. Having this in mind, a tax system that allows corporations to expense the goodwill earlier will be more favourable from the acquirer's perspective than a system that postpones it and spreads the amortisation over a longer period. From this perspective, the figure shows that Portugal has one of the least favourable regimes for amortisation of goodwill, which may discourage company growth through mergers and acquisitions that generate goodwill.

Figure 6. Amortisation schedule for 10 million generated in tax-deductible goodwill



Source: PWC Worldwide Tax summaries, OECD calculations.

The impact of a national tax system on corporate investment and growth is not limited to the treatment of goodwill. Another important factor that affects the decision of companies to expand their business is the design of the corporate income tax system, in particular the progressiveness of the tax rates. Corporate income tax represents an important source of revenue for most governments. In 2016, for example, the share of corporate tax revenues in total tax revenues was on average 13.3% across 88 jurisdictions analysed by the OECD (OECD, 2019b).

In Portugal, corporate income tax represented 3.1% of GDP compared to OECD average of 2.9% in 2018. Although the total corporate income tax revenue as percentage of GDP in Portugal is not significantly different than the OECD average, the design of the corporate income tax with increasing marginal statutory rates is relatively distinct. While the corporate income tax is set at 21%, companies also pay an additional local surtax of 1.5% and a state surtax ranging from 3% to 9% depending on their taxable profits (Table 1).

Table 1. Corporate tax rates in Portugal

Taxable income	Corporate income tax	Local surtax	State surtax	Top statutory corporate income tax
Between EUR 1.5 million up to EUR 7.5 million	21%	1.5%	3%	25.5%
Between EUR 7.5 million up to EUR 35 million	21%	1.5%	5%	27.5%
Over EUR 35 million	21%	1.5%	9%	31.5%

Source: PWC Worldwide Tax summaries

Since more profitable larger firms face a higher statutory corporate income tax rate in Portugal, there are concerns that the system may hamper corporate expansion and aggregate productivity growth (OECD, 2019b). The top marginal tax rate in Portugal (31.5%) is notably higher than the average combined rate of 21.4% in 2018 for 88 jurisdictions covered in the OECD tax statistics (OECD, 2019b). In fact, in 2018, Portugal rank 8th with respect to the statutory corporate tax rate. For illustrative purposes, Table 2 shows the number of non-financial companies (excluding those with less than 10 employees) that fall into each tax bracket. Since the information received by the tax authorities at the firm level is not available, taxable income is proxied by earnings before interest and taxes (EBIT) from the income statements reported under accounting rules. Despite using consolidated financial statements

when available, the number of companies that falls above the EUR 7.5 million threshold was 318 in 2016, not very different from the 2005-2015 average. Notably, the number of non-financial companies with EBIT above EUR 35 million was only 60 in 2016.

Table 2. Number of companies in each tax break

	Average number of companies (2005-2015)	2016
EBIT≤0	19 930	17 486
0≤EBIT≤1.5 Million	36 524	40 391
1.5 Million<EBIT≤7.5 Million	733	996
7.5 Million<EBIT≤35 Million	223	258
EBIT >35 Million	72	60

Source: OECD-ORBIS Corporate Finance dataset.

Considering the limited incidence of the higher statutory taxes rates, the benefits of the regime compared with the potential costs from impeding expansion of Portuguese firms should be assessed. A company might not engage in an investment that will not deliver the full return that is required to compensate for the additional taxes that the company will have to pay. And if this is the case, investment projects that are only feasible under a 25.5% tax rate will not be carried out if the company is already in the highest tax bracket and if smaller companies do not have the available capital to engage in such investments.

Recommendation: The dominance of small firms with low productivity holds back Portugal's ability to move further towards high value added knowledge-based production and competitiveness. In order to encourage corporations to grow, increase the pool of investible companies and facilitate their use of capital markets, the Portuguese government may consider evaluating the current corporate tax system so that proper incentives are created for corporations to expand their business and obtain a critical scale. In particular, the effectiveness of the relatively unfavourable rules related to the amortisation of goodwill that arises from corporate acquisitions, the comparatively high effective statutory corporate tax rates for larger companies and the effects of the progressive marginal tax rates should be assessed with a view to removing any adverse effects on corporate growth strategies.

More active capital markets could play an important role to facilitate this process of consolidation and growth. An additional consideration would therefore be to provide government support to a private initiative that is led or supported by business organisations and focuses on improving the conditions for corporate consolidation that will increase productivity and make Portuguese firms more competitive. The initiative could include a platform for growth companies to interact with each other, investors and service providers and some services necessary for mergers and acquisitions, such as deal management, due diligence and post-merger analytics. Following some successful examples in other countries, this could also make advanced use of modern fintech developments.

3. Facilitating market-based long-term debt financing

The level of leverage in the Portuguese corporate sector declined successively between 2012 and 2019. The indebtedness ratio[4] of non-financial companies dropped from 170% in 2012 to 123% of GDP in 2019 (Banco de Portugal, 2020a). The decline was mainly driven by the

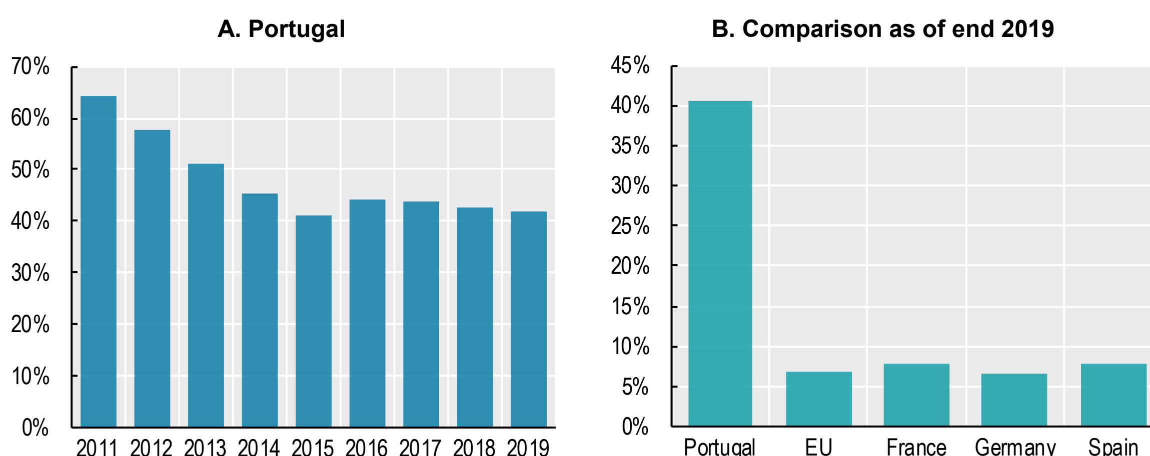
[4] Indebtedness ratio is measured as the sum of debt securities, loans and trade credits.

strong performance of the economy, the ongoing de-leveraging of the banking sector and the write-off of bank loans (IMF, 2019).

The overall deleveraging in non-financial corporations has been accompanied by a relative increase in foreign debt while the composition of debt has remained fairly constant. Aggregate data for non-financial corporations shows that the loans as a portion of total debt was 67% in 2011 and 66% in 2019 while the share of debt securities was 11% in 2011 and 10% in 2019. However, the share of loans extended by the domestic financial sector as a portion of total debt decreased from 42% in 2011 to 34% in 2019. Accordingly, the share of loans extended by foreign lenders to Portuguese non-financial companies increased from 25% in 2011 to 31% in 2019. Importantly, the share of longer term debt in both total loans and debt securities has increased since 2011. The share of long-term loans (over 1 year maturity) increased from 82% of total loans in 2011 to 88% in 2019. More strikingly, the share of long-term debt securities in total debt securities increased from 36% in 2011 to 58% in 2019 (Banco de Portugal, 2020b).

Despite this shift towards relatively longer term debt, Portuguese non-financial companies' reliance on short-term debt securities is still significantly higher than many other EU economies (Figure 7, Panel B). While they accounted for 41% of the total debt securities issued by the Portuguese non-financial companies at the end of 2019, they represented only 7% of total corporate debt securities on average at the EU level (ECB, 2020).

Figure 7. Share of short-term debt securities of non-financial corporations



Source: Banco de Portugal, ECB.

The same tendency towards short-term debt is observed when average maturities for corporate bond issuance are considered. Very few Portuguese companies issued long-term corporate bonds over recent years, and as a result, average maturities have remained relatively short. For example, in 2018 the average maturity of corporate bonds issued by Portuguese non-financial companies was 5.2 years, compared to an average of 8.8 years for European peers, 10.7 years for Japanese issuers and 13.1 years for US issuers (see Chapter V, section 5.2).

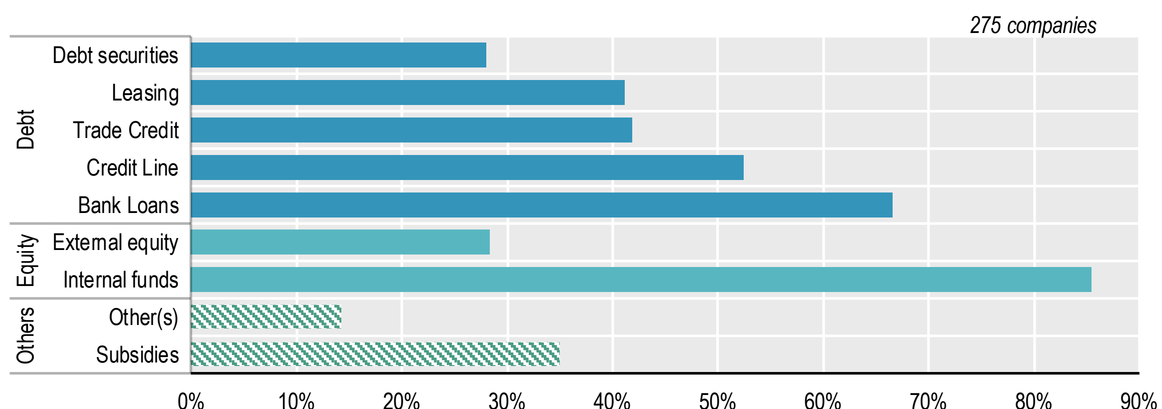
As a result, the capital structure of Portuguese firms is still too dependent on bank loans and shows low levels of capitalisation (see Chapter I, Section 1.6). This contrasts the international developments where corporate bond markets have become a significant source of capital for financial and non-financial companies following a significant reduction in bank lending to non-financial companies in the aftermath of the global financial crisis. Since 2008, the annual

global issuance of corporate bonds has averaged USD 1.8 trillion, which is twice the annual average amount for the period between 2000 and 2007. In Europe, the annual average amount went from EUR 213 billion between 2000 and 2008 to EUR 336 billion between 2009 and 2018. Companies from the United Kingdom, France and the Netherlands have traditionally been the largest users of corporate bonds in Europe, raising together on average 60% of all proceeds since 2000. They are followed by companies from Germany (9%), Italy (6%), Luxembourg (6%) and Spain (4%). The share of corporate bond proceeds raised by Portuguese companies in the same period was only around 0.6% (see Chapter V).

Portuguese companies' limited use of corporate bonds can also be observed in the results of the OECD Survey. As shown in Figure 8, when asked about the importance of different funding sources, 85% of the companies participating in the survey responded that internal funds is the most important source of financing followed by bank loans and credit lines, both granted by banks. Debt securities, including short-term commercial papers, were indicated as important by only around 30% of the companies.

It has been claimed that the existence of a long-standing relationship between companies and their banks, the relatively higher cost of raising funds through corporate bonds for some companies and the low liquidity in the market can make corporate bonds less attractive for companies (EC, 2017). In fact, in the OECD Survey companies were also asked if they were planning to issue debt securities in the future and if not, the reasons behind their decision not to. Out of the 151 companies responding that they were not planning to issue debt securities within the next three years, 106 (68%) mentioned that bank financing was preferable. Companies also pointed out that low liquidity in the market, no need for external financing and lack of supportive environment were important factors behind their decision not to issue debt securities (see Chapter II).

Figure 8. Financing sources by importance



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

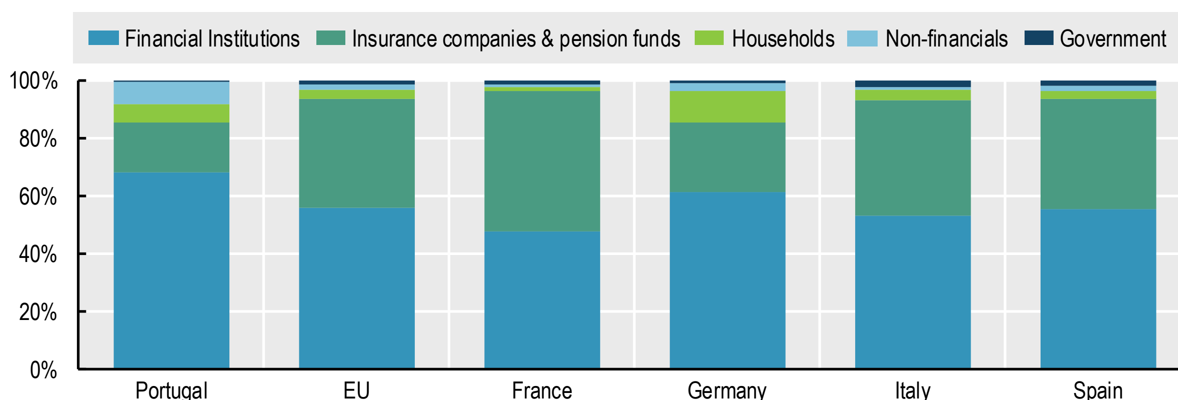
Some Portuguese state-owned companies have in recent years issued debt securities in foreign markets and listed their bonds on other exchanges than the Lisbon exchange. Similar to equity markets, issuance of debt securities by state-owned companies and utilities can play a positive role in scaling up the domestic corporate bond market in Portugal to reach sufficient economies of scale to operate effectively. Listing of SOE bonds in the Portuguese market could also help increase the liquidity in the secondary market and improve the attractiveness of the domestic market for both private issuers and investors.

In response to the 2008 financial crisis, major central banks, including the ECB, adopted expansionary monetary policies to lower short-term market interest rates and stimulate economic activity. As short-term interest rates approached zero, central banks also embarked on quantitative easing (QE) programmes to continue their support to the economy. As part of its QE programme, the ECB expanded its asset purchases and initiated a corporate sector purchase programme (CSPP). The eligible debt instruments, including commercial papers, are being purchased by six central banks on behalf of the ECB in both primary and secondary markets. While as of January 2019 just the principal payments from maturing securities held in the CSPP portfolio had been reinvested, in November 2019 the net purchases under the CSPP were again restarted. Among eligible debt instruments, corporate bonds are required to have an investment-grade or equivalent credit quality,[5] to be euro-denominated instruments and to be issued by non-bank corporations established in the euro area, among other requirements (ECB, 2016). By the end of 2019 the ECB held a total of EUR 185 billion of such corporate debt instruments. The ECB portfolio composition broadly mirrors the rating and country risk distribution of the universe of eligible bonds. In accordance with the rating distribution of the eligible CSPP bond universe, around 43% of the total holdings during the third quarter of 2019 fell under the BBB category, 45% under A and 11% under AA. French and German bonds account for the highest share in the eligible CSPP bond universe, and as a result the CSPP portfolio consist of 30% French bonds and 25% of German bonds. The share of eligible Portuguese bonds is very modest mainly due to the low activity in the bond market in Portugal and because few bonds meet the criteria set by the ECB. By the end of 2019 the eligible universe included just 22 bonds from 9 Portuguese companies of which 5 were SOEs. Out of the 22 eligible bonds, only 7 bonds were actually included in the CSPP portfolio which consisted of 1 271 bonds. Moreover, these 7 Portuguese bonds were issued by 3 companies of which 2 were SOEs. Overall, the Portuguese corporate sector does not seem to have gained substantially from the ECB purchase programmes.

The investor landscape for corporate bonds in Portugal is also distinctly different from most European peers. In Portugal, financial institutions held 68% of all long-term debt securities issued by non-financial companies at the end of 2019, followed by insurance companies and pension funds that together held 17% and households who held 6% (Figure 9). At the EU level, however, insurance companies and pension funds, who typically are frequent investors in long-term debt securities that help them match their long-term liabilities, held 38% of the total long-term debt securities (ECB, 2020).[6] In addition, their presence as bondholders also brings higher disclosure standards that help alleviate information gaps in the market (BIS, 2019).

[5] Investment grade refers to a minimum first-best credit assessment of at least credit quality step 3 (rating of BBB- or equivalent) obtained from an external credit assessment institution according to Guideline ECB/2014/60 which covers ratings issued by credit rating agencies registered in the Union and accepted by the Eurosystem.
[6] According to the ECB Securities Holders Data used in the figure, the most common types of debt security include bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, and similar instruments normally traded in the financial markets that serve as evidence of a debt. Long-term refers to the instruments having original maturity more than 1 year.

Figure 9. Holders of non-financial long-term corporate debt securities



Source: ECB.

As illustrated in Figure 9, retail investors' direct investments in corporate bonds are generally very low across markets. However, collective investment products can help broaden the investor base and enable retail investors to participate in the corporate bond market. In Portugal, by the end of 2019, there were 145 collective investment funds with a total of EUR 1.6 billion assets under management. While their overall portfolio includes a wide range of instruments, EUR 3.8 billion or 29% of the fund value was invested in domestic and foreign corporate bonds. Corporate bonds listed in Luxembourg, Germany and Ireland accounted for 23%, 19% and 17% of the total investments in bonds respectively. Only 3.4% (EUR 130 million) of the corporate bond investments were allocated to domestic corporate bonds. However, out of the funds invested in foreign bonds, about EUR 180 million (4.7%) were invested in bonds that Portuguese companies issued abroad (CMVM, 2020a).

During economic downturns credit dries up more rapidly for smaller firms than for large ones, which means that small and mid-sized companies tend to be more vulnerable to economic and financial shocks than large corporations (OECD, 2012; ECB, 2013). The survey on access to finance of enterprises (SAFE) in the euro area shows that since 2009 small and mid-sized companies have been negatively impacted by the tightening of credit standards and reduced availability of external financing. In light of more restrictive lending conditions, many countries have taken measures to overcome the funding gap of smaller companies (OECD, 2014). Portugal has also introduced several measures, including loan guarantee programmes and direct lending to SMEs. However, the Portuguese government noted in the Capitalizar Program the ongoing financing gap and the need to introduce new financing instruments for smaller companies (Capitalizar Program, 2017).

Beyond facilitating access to bank loans, many European countries have also implemented policies to promote smaller non-financial companies' use of non-bank financing options, such as mezzanine financing, crowdfunding, peer-to-peer lending and private placements. One recent and successful example for creating alternative financing options for SMEs is the Italian mini-bond market framework. In 2012, the Italian Government initiated the mini-bond framework for unlisted companies to enable them to issue corporate bonds. The mini-bond framework provides a simplified process where unlisted companies, except micro enterprises and banks, can issue bonds that are available only to qualified investors. Since its introduction, the mini-bond market has shown a steady growth as the number of issuances increased from 16 in 2013 to 171 in 2018. The cumulated proceeds during this period amounted to EUR 10.6 billion, of which 25% was raised in 2018. Moreover, mini-bonds have also been

securitised through special purpose vehicles, which have created a diversified pool of mini-bond issuers available for institutional investors (OECD, 2020a).

Underwriters in capital markets, such as investment banks, not only function as advisors to companies in preparing the necessary documentation and in pricing the securities. Through their professional networks, they also help companies to reach out to investors. In the OECD Survey, Portuguese companies were asked if in recent years they had been approached, for example, by an investment bank that encouraged them to issue debt securities. More than half of the 89 responding companies said that they had been approached by an investment bank and 15 said they had been approached by the stock exchange (see Chapter II). According to the investment banking league tables, investment banks from the United States and Europe underwrote 86% of all corporate bond issues in Portugal between 2000 and 2018. The participation of domestic investment banks was almost non-existent until 2006, with an annual average share of 1.8% of the total volume underwritten. Since 2007 their participation has increased to a modest 16% of the total underwritten debt issuance volume (see Chapter V).

Credit ratings play a crucial and increasingly important role in corporate bond markets by influencing the investment decisions and asset allocation of investors. Ratings also play an important role when they are used as references in regulations that impose quantitative limits with respect to securities of different risk categories or risk-based capital requirements. Credit ratings also dictate investment choices through self-defined investment policies by investors that focus exclusively or primarily on buying investment grade bonds, as in the case of the ECB. Moreover, many bond investment funds are also bound by rating-based indexes and investment mandates that are defined with reference to ratings. Importantly, cross-border investments in corporate bonds, which now constitute a significant share of the global market, are also likely to depend on rating- or index-based strategies (Celik, Demirtas and Isaksson, 2020).

Typically, large issuers targeting global markets rely on internationally recognised major rating agencies. The reputation and recognition of the rating agency could be of particular importance for cross-border issuances as global investors would normally have limited direct knowledge of the issuer’s business and performance. However, for issuers targeting domestic investors, the use of local rating agencies has been an accessible alternative, filling the information gap between insiders and outside borrowers. Indeed, it is estimated that, in addition to the three main global rating agencies, there are around 100 credit agencies worldwide (White, 2019). For example, local credit agencies have played an important role in fostering the use of corporate bond markets in People’s Republic of China (China), Indonesia, Malaysia, the Philippines and Thailand. In Japan, Korea and India, bond issuers are required to be rated by two certified credit rating agencies. This dual rating system not only improve the accuracy of the rating process, but also have prompted the rise of domestic credit rating agencies (CCRC, 2012).

Domestic credit rating agencies also play an important role in some European markets. The current European regulation asks credit rating agencies to be certified or registered with the European Securities and Markets Authority (ESMA) to be able to rate a European issuer. By the end of 2019, Germany had 9 credit rating agencies registered, of which 6 were not related to any of the large international agencies. As seen in Table 3, only one credit rating agency (CRA) has residence in Portugal. Good access to rating firms and familiarity with the rating process could significantly increase Portuguese companies’ ability to use long-term debt securities markets.

Table 3. CRAs certified or registered to operate in Europe

Country of residence	Non-related to international CRAs	Subsidiary of international CRAs
Germany	6	3
Italy	3	2
Poland	3	0
Spain	2	2
Portugal	1	0

Source: ESMA.[7]

Some countries have also developed alternative means of providing ratings to non-financial companies. A notable example is France, where the Banque de France has introduced the FIBEN system (Fichier bancaire des entreprises) that collects and integrates all available financial information about individual firms and provides a score for a fee.[8] The information is accessible for credit institutions, insurance companies and asset management companies among others. The bank also performs an independent risk analysis of French enterprises that allows lenders to assess credit risk of potential clients at low cost, which facilitates access to finance, in particular for small and mid-sized companies. Since the business sector in Portugal is characterised by a large number of relatively small- and medium-sized companies, alternative rating mechanisms, such as the one implemented by the Banque de France, could benefit the corporate sector by increasing their access to financing (Cahn, Girotti and Salvadè, 2020).

Another possible barrier to the use of the corporate bond market by Portuguese companies is the issue limit set out for joint-stock companies in the commercial code (Article 349, Diário da República no. 201/1986, Series I of 1986-09-02). In order to issue debt securities, companies should have the ratio between the company's own equity capital and current assets (financial autonomy) of at least 35%. Although some corporations are exempt from this requirement, such as companies listed on a regulated market, companies that issue other securities are not (AEM, 2016). Since issuers of debt securities with a prospectus as well as issuers of debt securities that are admitted to trading on a European market, are obliged to provide certain amount of information to the public, a more flexible system for quantitative limits for those issuers could be considered.

Recommendation: Since the 2008 global financial crisis and the subsequent sovereign debt crisis in the euro area, the Portuguese banking sector has experienced a structural change that has also led to deleveraging in the corporate sector. Although this development has provided an opportunity to develop market-based debt financing alternatives, the use and availability of corporate bond financing has remained rather limited. Considering the dependence on short-term debt in the Portuguese corporate sector relative to other advanced economies, more extensive use of corporate bond financing could help lengthen maturities, increase resilience and facilitate long-term investments. Given the current state of the corporate bond market in Portugal and the challenges that companies face in accessing long-term financing, achieving this will require a holistic approach. The government should consider developing a strategic plan for the development of Portuguese corporate bond markets. This could include creating an appropriate credit rating mechanism, in particular for mid-sized companies who do not have access to international rating providers. Models, such

[7] ESMA, information updated as of 14 November 2019: https://www.esma.europa.eu/supervision/credit-rating-agencies/risk

[8] For details visit https://www.fiben.fr/page-sommaire/analyse-du-risque.

as the ones where central banks play a central role in providing rating services, could be assessed as a credible and reliable mechanism.

The strategic plan should also consider introducing a special framework for private bond placements by smaller companies following successful examples in some other European markets. A promising example for the Portuguese market could be the mini-bond market framework that provides a simplified process where smaller companies can issue bonds only to qualified investors through direct sales or special purpose vehicles for securitisation. This initiative could usefully be supported by creating a dedicated segment in the Lisbon Exchange for the listing of bonds whose trading is only permitted to qualified investors. The strategic plan may also consider steps to promote state-owned enterprises' bond issuance and listing on the domestic market, which will help scale-up the market and improve the liquidity. With a view to enhance coordination among relevant authorities and ensure efficient implementation of the tasks, the plan should clearly assign responsibilities and functions across Banco de Portugal, the Securities Market Commission and other public authorities. In order to recognise and encourage the engagement from industry participants for developing the domestic corporate bond market, the plan may also include a proposal to create a private sector body that exclusively represents investment banks, bond dealers and other financial institutions that are active in the Portuguese fixed income market. An additional positive step could be to provide flexibility for issuers of bonds with a prospectus as well as issuers of bonds that are admitted to trading on a European market with respect to the financial autonomy criteria dictated by the Portuguese commercial law.

4. Increasing participation of traditional institutional investors

Over recent decades, institutional investors have come to dominate global capital markets. As of the end of 2017, they form the largest category of investors in public equity markets holding 41% of the global market capitalisation. In some individual markets it is considerably higher, standing at 72% in the United States and 63% in the United Kingdom (De La Cruz, Medina and Tang, 2019). Institutional investors also have a significant role in corporate bond markets holding in excess of half of the global outstanding stock. In the euro area, for example, they make up 66% of domestic corporate bond ownership (Celik, Demirtas and Isaksson, 2020).

There are two broad categories of institutional investors. The first is referred to as traditional institutional investors and consists of pension funds, insurance companies and investments funds. The second category is referred to as alternative institutional investors and mainly includes hedge funds, private equity funds, venture capital firms and sovereign wealth funds. Except in a few cases where sovereign wealth funds play an important role, traditional institutional investors is the major category of institutional investors with respect to total assets under management across markets. In the case of Portugal, they play a far bigger role than alternative investors. Table 4 provides an overview of total assets under management (AUM) by different types of traditional institutional investors in Portugal as of end 2019. Insurance corporations is the largest category among the traditional institutional investors managing EUR 58 billion. Pension funds is the second largest with EUR 37 billion and investment funds is the third largest with EUR 30 billion of assets under management.

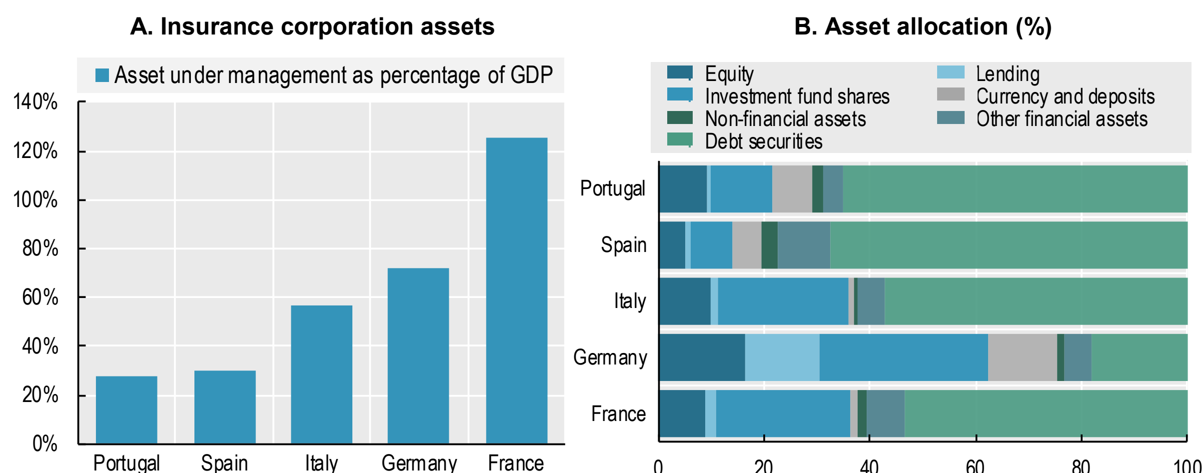
Table 4. Assets under management by traditional institutional investors in Portugal, end-2019

	Assets under management (EUR millions)
Pension funds*	36 884
Insurance corporations	58 488
Investment funds	30 016

Note: *The amount for pension funds is as of end 2017.
Source: ECB, OECD (2019d).

Despite the fact that insurance companies is the largest category among the traditional institutional investor in Portugal, their total AUM as percentage of GDP is relatively small compared with other European peer countries. As shown in Panel A of Figure 10, assets under management by insurance companies amount to 28% of GDP in Portugal, compared to 57% in Italy and 72% in Germany. There are also important differences with respect to their asset allocation (Panel B). In Portugal, insurance companies' investment allocations through investment funds account for only 12% of the total assets while debt securities represent over 65% of their holdings. In France and Italy, insurance corporations allocate 25% of the total portfolio to investment funds. Direct equity investments also vary across countries but to a lesser extent. However it is also important to note that most of the direct equity investments are in unlisted equity, whereas investments in public equity by European insurance corporations are mainly allocated through investment funds (EC, 2019). Therefore the limited allocation to investment funds by Portuguese insurance corporations is also a strong indicator of their low indirect investments in public equity markets.

Figure 10. Insurance corporations across countries, 2019



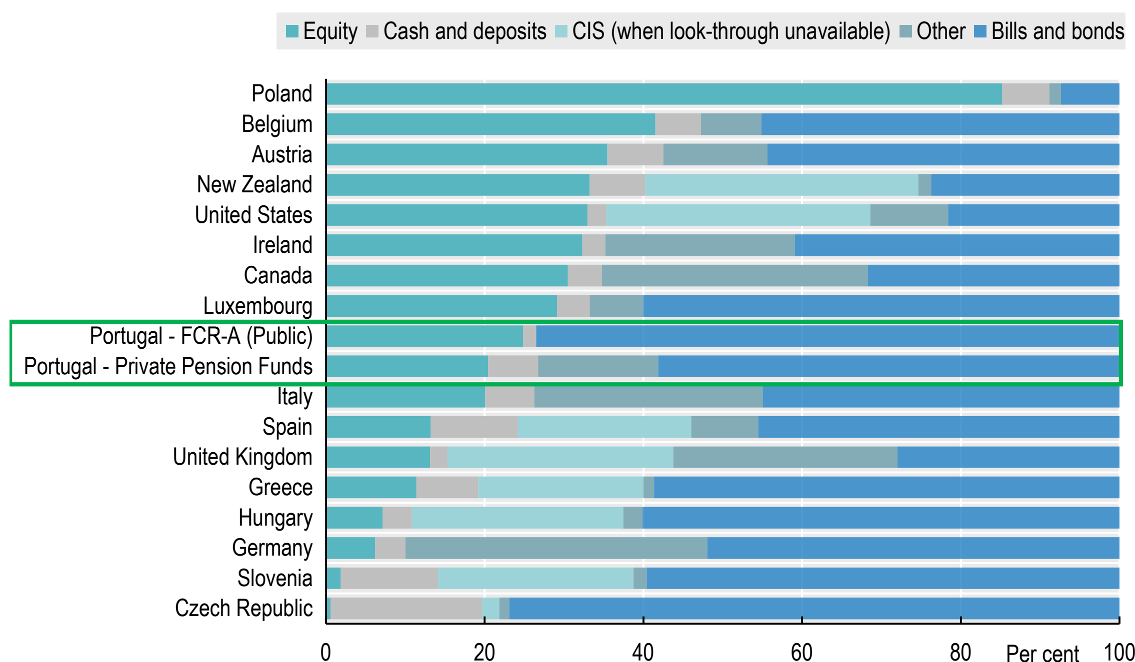
Source: ECB.

The Portuguese pay-as-you-go public pension system is complemented by a voluntary funded pension scheme. There are two alternative voluntary schemes within the funded pillar: public and private schemes. The public scheme has only around 9 000 employees (equivalent to 0.14% of working age population), with half of them actively contributing on a monthly basis to the fund and EUR 40 million assets under management by the end of 2017. The contribution rate is 2, 4 or 6% of a base amount equivalent to the average gross wage used to calculate the social security contributions in the previous year. In 2017, 45% of the active members chose to make a contribution of 4% and one third selected 2%. The remaining 21% chose a contribution rate of 6%, which is only available to members over 50 years old. There is no funded system that has a mandatory character, such as the ones that require mandatory enrolment for employers (OECD, 2019d).

There is less information available about the private funded scheme but it is estimated that around 17.2%[9] (the equivalent of 1.1 million employees) of the working-age population has a private occupational and/or personal plan. Personal private pension plans cover between 14.7% to 17.2% of the working age population, while the private occupational pension plans cover only 2.5% (OECD, 2019d). The combined size of the funded, including both public and private system, was EUR 36.9 billion or the equivalent of 19% of GDP by the end of 2017. This is less than half of the OECD average.

As illustrated in Figure 11, bonds and equity are the two main asset classes in pension fund portfolios across the OECD countries. The public scheme in Portugal is among the most conservative funds in the sense that 73% of the assets are invested in bills and bonds. Also for the private scheme, allocation to bills and bonds is almost 60%. However it is important to note that the data are not fully comparable across countries due to the differences in reporting investments through collective investment vehicles (CIS). While for some countries pension funds' investments in CIS are re-allocated to related asset classes, for others only aggregate investments in CIS are available. Portugal is not among the countries with a high proportion of assets invested in equities even after including indirect investments through CIS. At the same time, while UK pension funds', for example, have 5 percentage points lower allocation to direct equity investments compared to private pension funds in Portugal, UK pension funds invested a significant share of their portfolios in CIS, thus their allocation to equity is likely to be higher.

Figure 11. Asset allocation of pension funds, 2017



Source: Reviews of Pension Systems in Portugal, OECD (2019d).

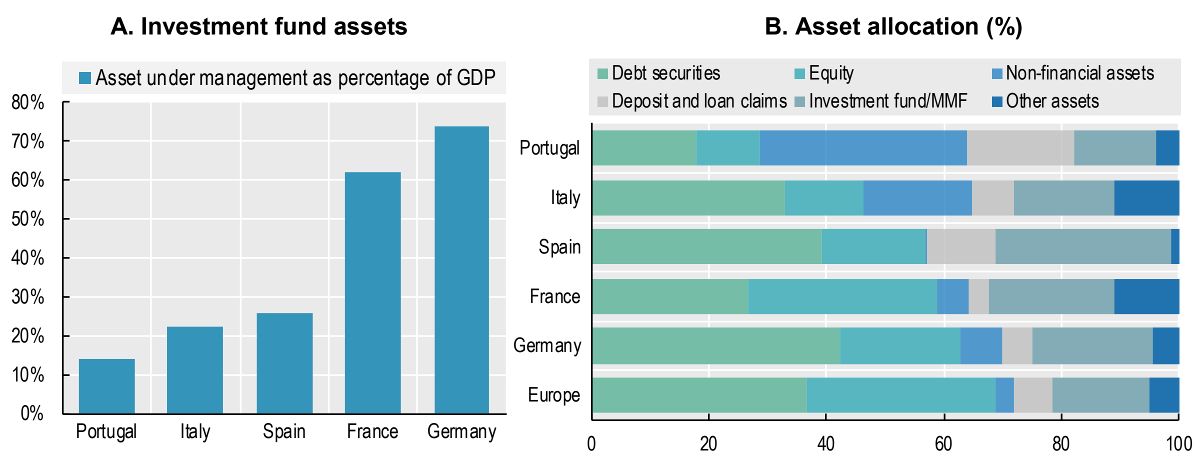
The OECD recommends that countries should diversify the sources of retirement financing and have funded private pension arrangements that complement public pensions. To further

[9] The equivalent to 1 143 648 persons using information about working-age population from 2017.

develop the funded voluntary pension pillars in Portugal will not only help diversify the sources of pension income, it can also play an important positive role in capital formation, financial intermediation and long-term investment. However, the current framework for the voluntary systems is not considered to be optimally designed to encourage employee participation and to improve markedly their retirement income. In order to increase coverage, ensure better saving outcomes and build confidence in the system, it therefore has been suggested that Portugal should simplify the tax system by establishing one set of tax rules that applies to all schemes and all types of contributions; tighten the rules for withdrawals from the private plans to improve its long-term saving character; and support the growth of occupational pension plan. It can also be useful to develop tools, such as dedicated financial education programmes, to improve households' understanding of relative risks and returns from different asset allocations and the potential long-term impact on returns from having less than the optimal allocation to equities (OECD, 2019d).

Internationally, the most important development with respect to the traditional institutional investors over the recent two decades has been the rapid relative growth of investment funds. According to the OECD Institutional Investors Statistics, investment funds have shown the fastest growth among the traditional institutional investors by more than tripling their assets under management since 2000 globally. Several factors explain this trend, including the impact of technology, which has facilitated the pooling of household savings through new investment vehicles. Importantly, investment funds are also increasingly used as an investment vehicle by the two traditional investor categories, pension funds and insurance companies. This helped both households and institutional investors to invest their money in large diversified portfolios that can take advantage of any economies of scale and enhance the risk-return relationship.

Figure 12. Investment funds across countries, 2019



Source: ECB.

The fact that the Portuguese investment fund industry has not been able to match the global trend constitutes a structural weakness in the domestic capital market ecosystem. Total assets under management by investment funds were EUR 30 billion at the end of 2019, which is below the pre-2008 global financial crisis level. Importantly, as shown in Panel A of Figure 12, compared with other European countries, Portugal has the lowest ratio of AUM in investment funds compared to GDP. For example, Spain whose GDP is six times the GDP of Portugal, has an investment fund industry ten times that of Portugal. Thus Spain's investment fund assets to GDP ratio is significantly higher (25.6%) than that in Portugal (14.1%).

One important reason behind the limited size of the Portuguese investment fund industry is the extensive use of discretionary investment mandates as opposed to collective investment vehicles. While asset management through collective investment vehicles represents 31% of total assets under management, the remaining 69% is managed by discretionary mandates. This can be compared with the rest of Europe, the average portion of assets managed with discretionary mandates is 46% (CMVM, 2020b; EFAMA, 2019). Discretionary mandates are explicit investment mandates delegated by an investor to an asset manager, who has the sole authority to buy and sell assets and execute transactions on behalf of the investor. At the same time, discretionary mandates typically have an investment strategy that is tailor-made to clients' needs. While collective investments vehicles are also offered to retail clients, discretionary mandates are typically designed for institutional clients. In Portugal, institutional clients account for 87% of investments through discretionary mandates. The dominance of discretionary mandates in Portugal is mainly attributed to the number of financial conglomerates that operate asset management companies using discretionary mandates (The Law Reviews, 2019).

Compared with other European countries, Portuguese investment funds also differ with respect to their asset allocation. For example, their holdings in debt securities and equity account for less than 30% of total assets in Portugal while they represent in other countries more than half of the assets (Figure 12, Panel B). In Germany and France these two asset classes together account for 63% and 59% of the investment fund's portfolios respectively. In addition, Portuguese investment funds overweight their asset allocation in non-financial assets compared to other countries. Portuguese investment funds allocate about 35% of their portfolios to non-financial assets. These non-financial assets mainly represent investments in real estate. In fact, at the end of 2019, REITS had EUR 10.5 billion under management in Portugal (CMVM, 2019c). It is important to note that the portfolio allocation to equity is even smaller in discretionary mandates as they tend to allocate a higher share to bonds. By the end of 2017, only 9% of the assets managed under discretionary mandates in Portugal were invested in equity, which is considerably lower than the European level at 22% (EFAMA, 2009; EFAMA, 2019).

With a view to increase the participation of retail investors in the capital market and facilitate smaller companies' use of market based financing, some countries have introduced special frameworks for household saving accounts. One such example is the individual saving accounts (piani individuali di risparmio – PIR) introduced in Italy in 2017. The PIR investors are fully exempted from capital gains tax (12.5% on government securities and 26% on corporate shares and bonds) and inheritance tax if they hold their investments for at least 5 years. At the same time, at least 70% of the PIR fund assets must be invested in financial instruments that are issued by resident companies in Italy or by EU companies that are permanently established in Italy. Out of this 70%, at least 30% should be invested in smaller Italian companies that are not included in the main index of the Italian Stock Exchange. In addition, at least 3.5% the of PIR total assets shall be invested in units or shares of Venture Capital Funds domiciled in Italy or in the EU or the EEA, and at least 3.5% the of PIR total assets shall be invested in financial instruments issued by SMEs listed in MTFs. There is also a maximum cap of EUR 15 million that PIR funds will be allowed to invest in any single company.

Similar to Portuguese households, Italian investors have traditionally preferred less risky financial assets. However, the introduction of PIR system has attracted a significant amount of retail savings to capital markets as the total fund size reached EUR 14.4 billion in two years after the introduction of the system.

Recommendation: Internationally, traditional institutional investors, i.e. pension funds, insurance corporations and investment funds, play an increasingly important role both in the public equity and corporate bond markets. As a result, the design, implementation and efficiency of the legal, regulatory and institutional framework that dictates their operations have important implications for capital formation, capital allocation and investment. It also plays an important role in providing households with better opportunities to diversify their savings and to share in the wealth creation of the domestic corporate sector. However, the Portuguese institutional investor industry has not responded fully to changes in global capital markets. An important step to facilitate this transformation would be to increase the coverage and confidence in the private pension system by considering the *OECD Pension Review*'s recommendations to ensure one set of tax rules applies to all schemes and all types of pension contributions; tighten the rules for withdrawals from the private plans to improve its long-term saving character; and support the use of occupational pension plans.

Considering the relatively low allocation to public equity, these efforts could usefully be supported by a tax incentive to invest in the stock market and also introducing a financial education programme to improve households' understanding of the relative long-term risks and returns from different asset allocations. Measures to increase households' participation in the Portuguese capital market through investment funds may also include introducing a special framework for saving accounts that under certain conditions benefit from tax advantages, such as exemptions from capital gains tax if the investment is held for a certain period of time. Requiring these specialised funds to allocate a minimum amount of their assets to listed equity and debt securities of smaller companies could facilitate long-term financing for Portuguese SMEs.

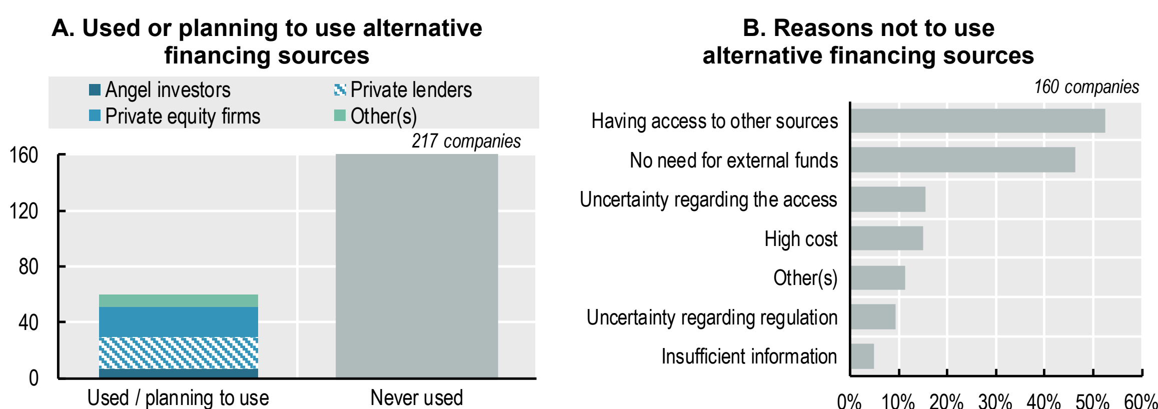
In order to further contribute to the development of Portuguese capital markets and help investors benefit from the innovation that new financial technology brings, the investment fund industry should be provided with proper incentives to achieve sufficient economies of scale that may itself help reduce the asset management fees and support liquidity in secondary equity and bond markets. Key challenges include not only the low allocation to investment funds by Portuguese pension funds and insurance corporations, but also the high share of assets managed by discretionary mandates with low allocations to equity. The Securities Market Commission may consider establishing a working group including representatives from the asset management industry and other experts to identify the key factors that hamper higher allocation to collective investment vehicles and to propose changes that will improve the functioning of the system.

5. Increasing the availability and encouraging the use of alternative financing

In addition to the growth of traditional institutional investors over the recent decades, the world's capital markets have also witnessed the emergence of alternative types of institutional investors that complement the traditional ones. These include private equity and venture capital funds; hedge funds and various types of private placement vehicles. Alternative institutional investors provide pension funds and insurance corporations with an opportunity to diversify their investments, and at the same time, non-financial companies with the option to diversify their financing sources. In particular for firms that are at early stages of development and have high-growth potential as they typically have a high risk profile and less collateral to pledge against traditional financing options such as bank loans.

In Portugal, the availability and use of alternative financing sources remains undersized and lacks sufficient capacity to support the growth of the corporate sector. As shown in Panel A of Figure 13, over three-quarters of large and mid-sized companies that responded to the OECD Survey on Access to Finance in Portugal have never used or are not planning to use alternative financing sources. Around half of the companies stated that they have not evaluated the use of alternative financing sources because they have access to other sources of financing and they do not need external financing. Around 15% of the respondents indicated that uncertainty regarding the use of alternative financing sources and high costs also have prevented them from using any of these sources.

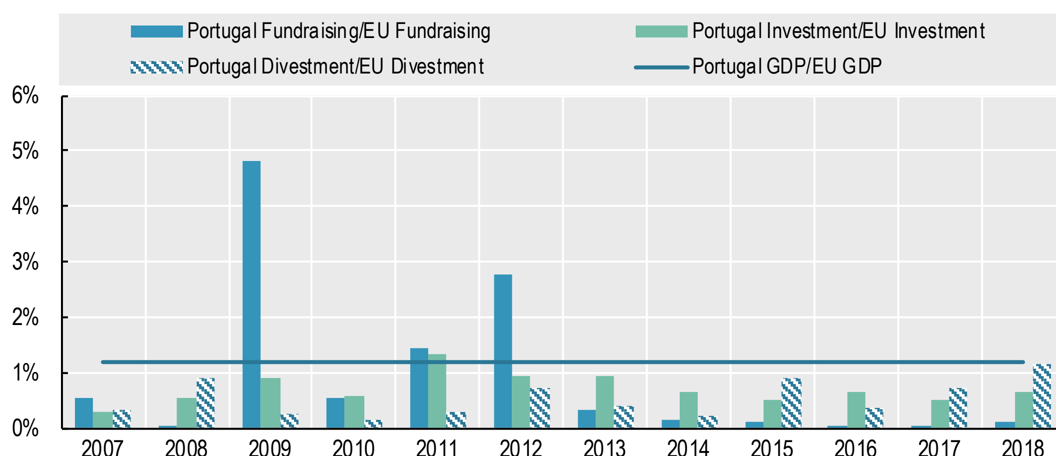
Figure 13. Usage and impediments to use alternative financing sources



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The responses from the companies in the survey are reflected in the overall trends in private equity activity, including venture capital, in the economy. The aggregate level of private equity activity in Portugal has generally been low compared to the European averages in all three stages: fundraising, investment and divestment. Figure 14 compares Portugal's share of different stages of private equity activity in Europe with its share in the total GDP of the region (1.2%). Regarding fundraising, since reaching almost 3% in 2012, the trend has been downward and Portugal's share was merely 0.1% of the funds raised in Europe for the last five years. Investment and divestment have also been sluggish, amounting to less than 1% of the European volumes over the last five years, with the exception of 2018 when divestment was 1.2%.

Figure 14. Private equity activity in Portugal in the context of Europe



Source: Invest Europe / EDC.

In Portugal, there are mainly two vehicles that can be used for private equity and venture capital investments: via private equity companies (*sociedades de capital de risco*) or private equity funds (*fundos de capital de risco*).[10] At the end of 2018, more than 95% of the assets under management were held in the form of funds and 5% in companies, together amounting to EUR 4.8 billion (Table 5). Income gained from the private equity funds is exempt from corporate income tax (CIT), which can avoid double taxation as invested companies are already subject to CIT. This characteristic makes private equity funds more appealing as a legal form to invest in unlisted companies.

Table 5. Assets under management by private equity \ venture capital companies and funds

	No.	Assets under management (EUR millions)	Share
Private equity companies	48	237	4.9%
Private equity funds	117	4 586	95.1%
Total	165	4 823	100.0%

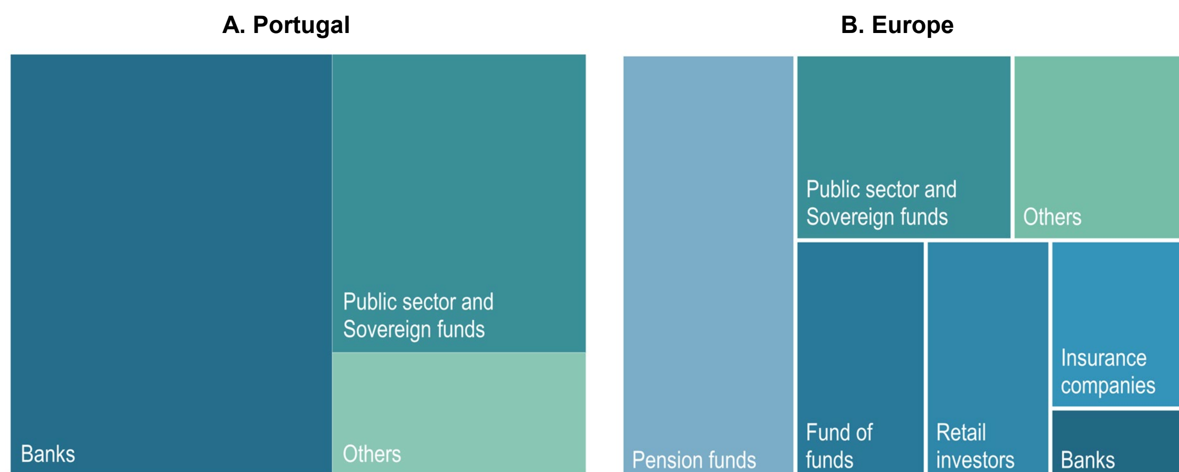
Source: CMVM (2019a).

Another distinction with respect to the private equity and venture capital funds between Portugal and other European peer countries is related to the average fund size. In Portugal the average fund is EUR 39.2 million, whereas the European average is EUR 68 million (CMVM, 2019d). Since fundraising activity has almost come to a halt since 2012 – only amounted to EUR 322 million in total –, the industry has not been able to scale-up its activities. Small fund size can be an impediment for private equity firms to grow as it is more difficult for smaller funds to achieve economies of scale and to diversify properly, which can drag down profitability.

Globally, the main category of investors in private equity funds are traditional institutional investors that typically use diversified portfolio investment strategies. Over the recent years, the public sector directly or through sovereign wealth funds has also engaged in private equity investments to support the development of a local ecosystem for private capital financing of corporate investment and innovation. As illustrated in Panel B of Figure 15, pension funds and insurance companies together with funds of funds are important investors in European private equity funds. In Portugal, however, more than half of the funds are provided by banks and the participation of traditional institutional investors is insignificant.

[10] In Portugal, the legal system does not distinguish between private equity and venture capital. The Portuguese expression *"capital de risco"* is generally translated as "venture capital" although it actually includes both private equity and venture capital.

Figure 15. Private equity fundraising by type of capital providers



Source: Invest Europe / EDC.

Retail investors in Portugal, including households and high net worth individuals, account for 24% for the total financial assets, which is close to the European average of 30% (EFAMA, 2019). However, only 1% of the private equity funds come from retail investors in Portugal, compared to 12% on average at the European level (Figure 15). Some countries have developed special schemes to encourage retail investors' participation in private equity and venture capital funds. One successful example is the UK's Venture Capital Trust Scheme, in which income tax relief is provided against retail investors' investment in Venture Capital Trust (VCT). This scheme allows up to 30% of the investment to be claimed back in income tax relief, giving incentives to retail investors to invest. Meanwhile, it also grants tax relief on capital gains and dividends. Since the introduction of VCTs, it has supported over GBP 8.3 billion of equity investment into unlisted firms. Following the changes in the system in 2019, Italian saving accounts that are held by individuals are required to invest at least 3.5% of their total assets in venture capital funds. The PIR accounts are fully exempted from capital gains tax and inheritance tax if they hold their investments for at least 5 years.

Another approach taken by countries to increase the participation of retail investors in private capital markets including private equity and venture capital investments has been using accredited or qualified individual investor frameworks to facilitate their participation. For private equity firms and other intermediaries in the private capital markets, dealing with qualified investors is typically preferable, or even required by regulation in many cases, as they are supposed to have the financial means and sophistication to invest in more risky asset classes. In Portugal, following the European regulatory framework, retail investors have the right to request from financial intermediaries to be categorised as professional investors. The financial intermediaries are responsible for carrying out an assessment to determine if the client has knowledge and experience related to financial markets, and if he has the capacity to make its own investment decisions and is aware of and understand the risks. To be classified as qualified, investors have to fulfil two of the three following requirements: (1) show significant transaction volume in securities with a minimum of 10 transactions on average per quarter over the past 4 quarters; (2) have a portfolio of securities exceeding EUR 500 thousand; (3) perform or have performed functions, for at least one year, in the financial sector in a professional position where knowledge about the services or transactions in question (Art. 30, Art. 317-B Securities Code; Regulation EU 2017/1129; Directive 2014/65/EU). However, there is no visible presence of qualified individual investors in the Portuguese capital market. It has also been stated by the representatives of the Portuguese financial sector

during the consultations conducted by the OECD team that there is very limited familiarity with such an option among both the intermediaries and investors.

With respect to the 'investment stage' of private equity activities, where a private equity firm uses the raised funds to invest in a company, it is important to look at the distribution of different type of funds. Table 6 provides a comparison between the types of private equity funds in Portugal and in some European peer economies. It shows that Portugal has the lowest share of buyout deals with 55.6% of the total investments. This is linked to both the small size of the industry and the small average size of funds as buyout deals are typically larger than other deals. It can also be linked to the overall mergers and acquisitions ecosystem in Portugal. As private equity firms are among the primary types of acquirers involved in M&A transactions through buyout deals, the landscape for M&A transactions also affects their operations. One potential weakness in the Portuguese ecosystem may be the lack of a system that supports communication between potential acquirers and target companies. Currently there are no specialised platforms in Portugal to provide such services including information gathering, deal management, post-merger analytics. It could be worth considering if such platforms can be created by either the industry independently or with the support of public authorities to facilitate the M&A process.

Table 6. Distribution of investment types (2014-2018)

	Portugal	Europe	Spain	Italy	Greece	France	Germany
Venture Capital	10.3%	9.1%	11.2%	2.0%	19.9%	7.7%	12.5%
Buyout	55.6%	69.6%	68.9%	76.6%	63.7%	61.8%	72.1%
Growth Capital	29.6%	17.8%	13.1%	13.8%	16.3%	29.0%	13.3%
Others	4.5%	3.5%	6.8%	7.6%	0.0%	1.5%	2.2%

Source: Invest Europe / EDC.

The lack of a dynamic M&A ecosystem in Portugal, not only limits investment and growth opportunities for private equity funds, but it also limits their ability to exit the investments. The so-called divestment stage mainly relies on an active M&A market both between private equity firms and with other potential acquirers. Another important factor for efficient divestment process is the existence of an active primary public equity market (Black and Gilson, 1998; Da Rin, Nicodano and Sembenelli, 2006). In Europe, around 15% of the divestments are carried out through public equity offerings, while there was no such deal in Portugal over the last decade. Creating a stock market ecosystem that encourages listing by innovative growth companies would also be instrumental in supporting the development of private capital markets.

In addition to more 'traditional' categories of alternative institutional investors, some new and hybrid models have also emerged over the recent years. Two notable examples are European Long Term Investment Funds (ELTIFs) and Special Purpose Acquisition Companies (SPACs). An ELTIF is an investment vehicle that collects and channels financial resources mainly to alternative asset classes and SMEs; and offers long-term investment opportunities to both institutional and retail investors. They are closed-end investment funds that have to invest at least 70% of their capital in listed companies with a market capitalisation of up to EUR 500 million, unlisted companies and real assets such as infrastructure. ELTIFs are of particular interest for the insurance industry, given that investments in ELTIFs benefit from more favourable regulatory capital treatment under Solvency II (Regulation (EU) 2016/467; Regulation (EU) 2015/35). Importantly, and under certain conditions, the regulatory framework also allows unqualified retail investors to invest in private markets through ELTIFs (Regulation EU 2015/760). A recent example is the fund created by a Spanish investment bank (Banca March) in partnership with a specialised investment group in energy transition that aims at

offering investment opportunities in private capital markets to both institutional and retail investors.

Although being common in the United States and the United Kingdom in the past, SPACs have recently re-emerged in these markets together with some new markets, such as Italy and Singapore. SPAC is a company that raises capital through public offering without having physical assets and its sole purpose is to find and acquire an existing unlisted company. It presents a straight-forward and efficient way to bring companies public through a less burdensome process compared to a traditional IPO. While their business model is similar to private equity firms, their main objective is to find an unlisted company that is willing to be listed on an exchange immediately. On the other hand, private equity funds typically keep the acquired company in their portfolios for a number of years before they exit the investment. From the perspective of divestments, however, the SPAC model provides an important exit opportunity for private equity funds. Currently there is no dedicated regulatory framework for SPACs in Portugal and no activity has been recorded.

Recommendation: Over the past decades, alternative institutional investors, such as private equity and venture capital funds, have become key providers of capital in global markets. This trend has not been driven only by the search for yield among traditional investors that use alternative investment vehicle to invest in the high-risk-return segments of the capital market. It has also been supported by policy initiatives that aim at facilitating access to capital for unlisted, in particular mid-sized, companies and other alternative investments such as infrastructure. However, in Portugal, the size of both fundraising and investment activities in the private capital markets are well below the European averages. Importantly, as opposed to other advanced markets, traditional institutional investors and retail investors play an insignificant role compared to banks as investors in private equity and venture capital funds. Since traditional institutional investors, such as pension funds and insurance companies, can play an important role as capital providers in private markets, the government may consider evaluating the current investment and capital requirement regimes for traditional investors with a view to increasing their participation in private markets. Some countries have introduced schemes that provide retail investors with tax incentives that encourage their participation in private equity funds.

The lack of a well-functioning system for identifying qualified individual investors and an ecosystem that encourages their investments in private capital markets further contributes to the problem of raising funds in Portuguese private markets. The Securities Market Commission may consider evaluating the effectiveness of the current framework for qualified individual investors with a view to encourage and facilitate for financial intermediaries to recognise eligible retail investors as qualified investors. Since private equity funds operate as part of the overall capital market ecosystem, the limited scale of M&A and primary public equity market activities reduces the available options for private funds to exit their investments. A situation that creates an additional barrier to the growth of private equity engagements. Any reform efforts with respect to the overall functioning of capital markets should therefore consider the potential impact on the development of private markets and involve private capital markets actors. The government should also consider introducing a regulatory framework for Special Purpose Acquisition Vehicles (SPACs) that offers a hybrid investment model of private and public markets to investors and provide a straight-forward and efficient way to list smaller companies without following the traditional listing process. An additional consideration should be to promote the use of ELTIF as an important tool to facilitate the participation in private equity markets by traditional institutional investors, such as insurance companies and retail investors.

PART II

CORPORATE SECTOR AND THE CAPITAL MARKET LANDSCAPE IN PORTUGAL

CHAPTER I. THE PORTUGUESE CORPORATE SECTOR

Capital markets are playing an increasingly important role in providing the corporate sector with access to capital. They finance not only established businesses but also new companies with high growth potential. To ensure that capital market structures and institutions serve this important role, it is necessary to understand the key corporate characteristics and the financing needs of the corporate sector in an economy. Based on firm-level data from the OECD-Orbis Corporate Finance dataset, this chapter of the review provides an overview of the Portuguese corporate sector's aggregate balance sheet structure, its main financing sources and size distribution. It also provides an analysis of firm performance across different sizes of companies.

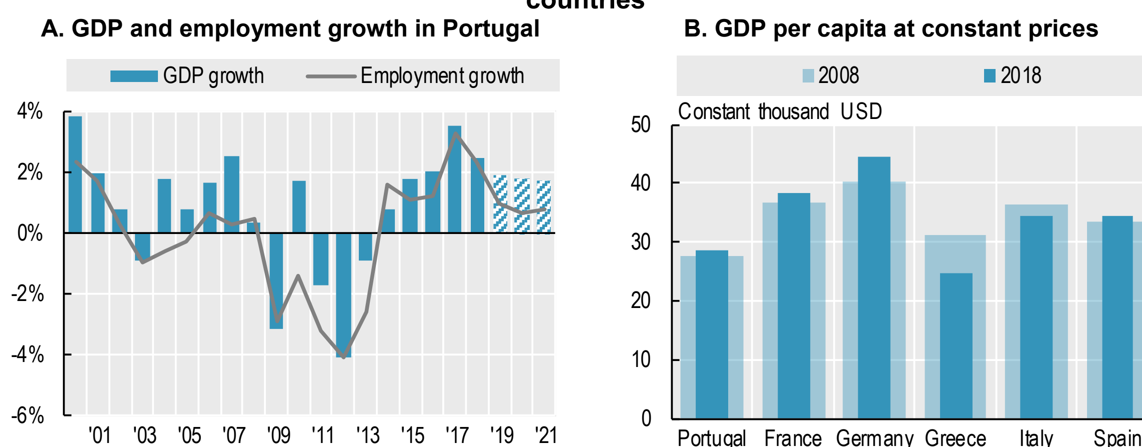
1.1. Overview of the Portuguese economy

The Portuguese economy was severely affected by the 2008 global financial crisis and the subsequent sovereign debt crisis in the euro area. The economy contracted in four of the five years between 2009 and 2013. In the following years, Portugal went through a dramatic economic adjustment. Thanks to structural reforms implemented and the more favourable global economic conditions, the economy markedly improved in recent years.

With a real growth of 3.5% in 2017 (Figure 16, Panel A), the GDP growth rate was back to its pre-crisis levels and above the euro area average (2.7%). The economy continued to grow in 2018, albeit at a slower pace than in 2017. The Portuguese economy is estimated to continue expanding at a stable pace with a ratio of around 2% in 2019 (OECD, 2019c). One of the key factors behind the recovery has been the strong export performance, mostly driven by the tourism sector.

Despite the recent improvements in GDP growth, per capita GDP levels are still far behind of other European countries. In fact, between 2008 and 2018 per capita GDP has slightly increased and continues to be the second lowest among European peers (Figure 16, Panel B). Only Greece exhibited lower levels in 2018.

Figure 16. GDP and employment growth in Portugal and per capita GDP in selected European countries

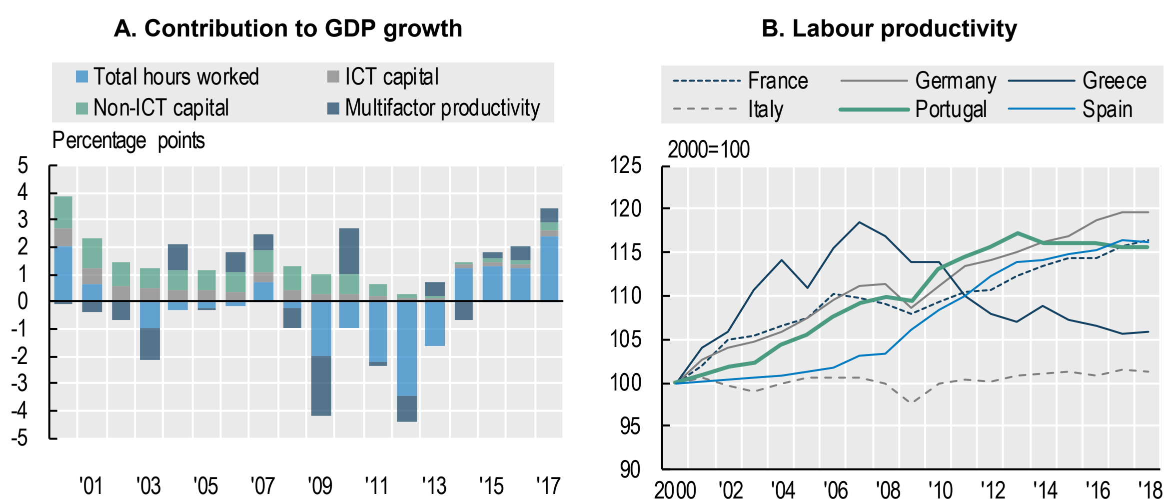


Note: GDP and employment values for the period 2019-2021 are estimations.
Source: OECD Economic Outlook 106 database, OECD National Accounts.

The labour market has also benefitted from the economic recovery, with headcount employment growing at 3.3% in 2018 (Figure 16, Panel A), reaching a historical peak since 1983 (OECD, 2019b). Unemployment rate has fallen from 16% in 2013 to 7% in 2018. However, in 2017, the long-term unemployment rate was 4.4%, which is 2.7 percentage points higher than the OECD average.

Panel A of Figure 17 decomposes the economic growth in Portugal into its drivers. It shows that the main driver of the growth over the recent years has been the increase in total hours worked. In other words, the growth has not been driven by productivity growth but by increased use of labour force. Despite structural reforms in the labour market, the labour productivity growth has slowed down considerably since 2013 (Figure 17, Panel B). At the same time, capital and multifactor productivity have barely contributed to the economic growth. Low levels of investment and low capital stock may partly explain the low productivity levels in the economy. The weak productivity dynamic in Portugal has been seen as a drag on long-term economic growth (Alves, 2017).

Figure 17. Factors contribution to GDP growth and labour productivity



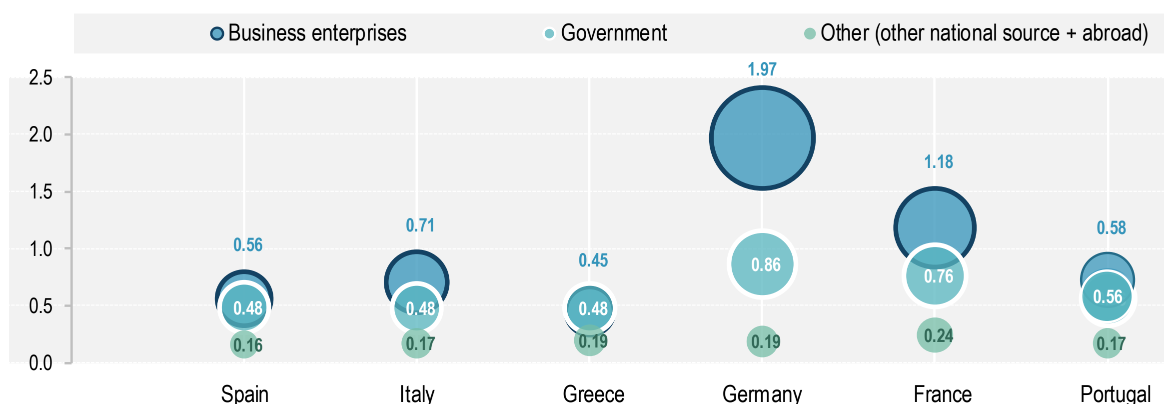
Note: Factors contribution to GDP is not available for 2018. ICT capital services in the OECD Productivity Database can be broken down into three types of assets: computer hardware, telecommunications equipment and computer software and databases. Non-ICT capital services can be broken down into five types of assets: transport equipment, other machinery and equipment and weapons systems, non-residential construction, research and development and other intellectual property products.
Source: OECD Productivity Statistics.

Many explanations have been offered for Portugal's low productivity growth, including misallocation of capital and labour towards less productive activities such as non-tradable sectors and\or unviable companies; the insufficient market orientation of R&D investments; low competitive pressure to innovate in non-tradable sectors; limited diffusion of knowledge and technology; strict regulations in some services sectors; judicial inefficiency, and low trust in public procurement among Portuguese firms (National Productivity Board, 2019; Alves, 2017; OECD, 2019b). It has also been argued that a large share of outstanding credit granted by the Portuguese banking sector is allocated to firms with low productivity. In fact, it was even argued that bank credit in Portugal is more skewed towards unproductive firms than the production factors, i.e. labour and capital (Azevedo, Mateus and Pina, 2018).

Research and development (R&D) expenditure is typically used as an indicator of an economy's investments in innovative activities and assets. It has been seen as one of the main drivers of long-term productivity growth and business sector dynamism. Figure 18 provides an overview of gross expenditures in R&D in Portugal and some European peer economies by source of financing. It shows that gross expenditure in R&D in Portugal is 1.3% of GDP, which is relatively low compared to 3% in Germany and 2.2% in France, but almost the same levels as in Italy, Spain and Greece.

Moreover, the contribution to R&D expenditure from business enterprises is only 44%, which is significantly lower than their contribution in Germany and France. At the same time, the government accounted for 43% of the R&D expenditure in 2016. Government support is implemented in Portugal either through direct funding or through R&D tax credits. Many economies, such as Germany and Spain, rely more on direct support from the government, while in Portugal, R&D tax credits outweigh the direct supports (Jens, 2015; OECD, 2017).

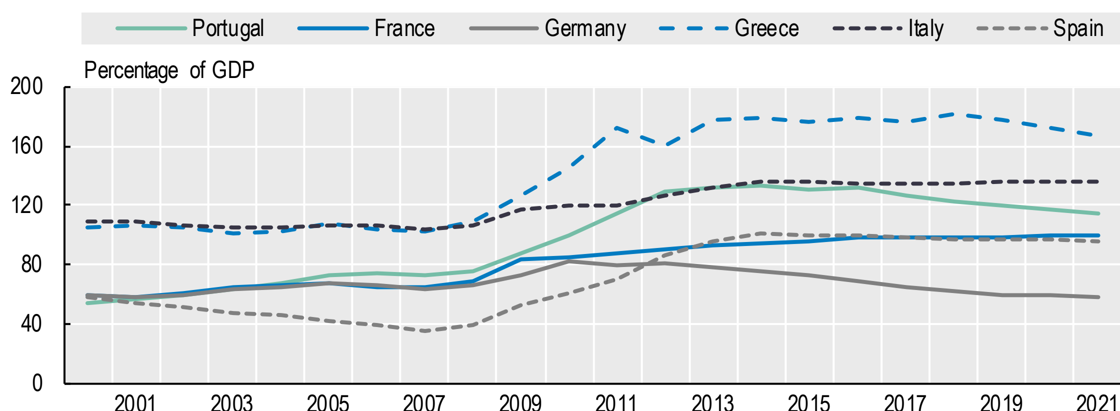
Figure 18. R&D expenditure by source of financing in selected European economies (2016 or latest year available, as percentage of GDP)



Source: OECD Main Science and Technology Indicators Database.

Another important development in Portugal since the 2008 global financial crisis has been a significant increase in public debt. As shown in Figure 18, public debt to GDP went up 62 percentage points between 2007 and 2014, and reached 130% by the end of 2014. Following improvements in fiscal balance in recent years, the debt-to-GDP ratio has declined and was 122% of GDP in 2018 (OECD, 2019b). As a result of the efforts to reduce debt levels, the observed economic recovery and increased robustness of the banking sector, Portuguese sovereign debt was upgraded in 2018 from non-investment grade to investment grade resulting in a decrease in interest rates. After peaking at 14% at the beginning of 2012, long-term interest rates on government bonds were below 0.5% as of end 2019.

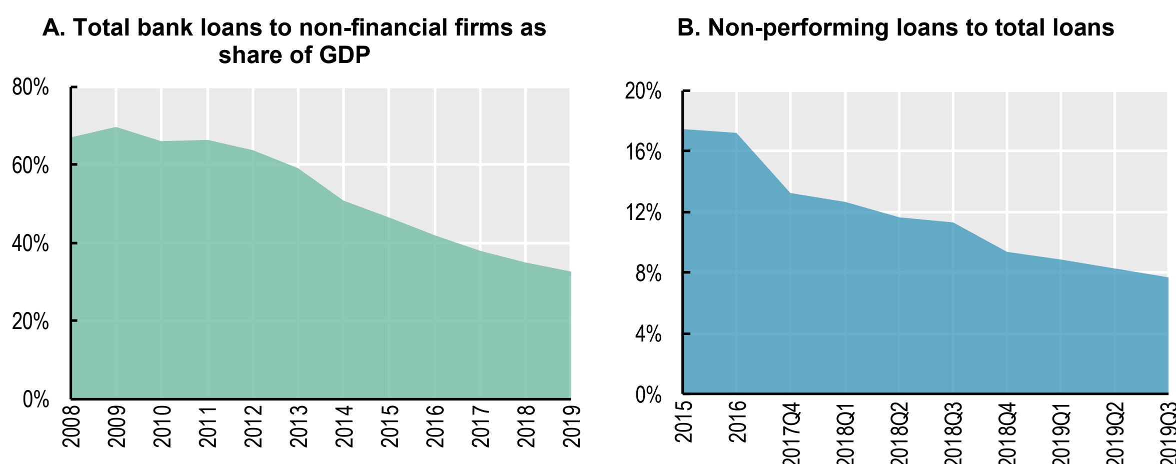
Figure 19. Gross public debt in selected European countries



Note: Gross public debt values for the period 2019-2021 are estimations.
Source: OECD Economic Outlook 106 database.

Portugal has in recent years also undertaken structural reforms aiming to reduce the leverage levels in the economy and the level of non-performing loans (NPLs) in the banking system. This includes improvements in firm restructuring and insolvency procedures. As a result, both loans to non-financial corporations and NPLs have experienced a decline. As shown in Panel A of Figure 20, bank loans to non-financial firms were stable at around 65% of GDP in Portugal during the 2008 and 2012 period. Since 2013 bank loans to non-financial firms have shown a steady decline and accounted for 35% of GDP at the end of 2018. In addition, the stock of non-performing loans in the banking system has declined from its peak at 17.5% as share of total loans in 2015 to 9.40% in 2018, thanks to the introduction of NPL reduction plans. However, at this level, the stock of NPL remains a concern and weighs on banks' profitability and solvency (OECD, 2019b).

Figure 20. Bank loans and non-performing loans in Portugal



Source: ECB, Eurostat, Bank of Portugal.

Labour market reforms, the deleveraging process of the banking system, improvements in firm restructuring and insolvency procedures provide a good basis for closing the productivity gap and putting Portugal on a path for long-term sustainable growth. In particular, Portugal can lift its productivity by implementing policies that improve the availability and allocation of long-term, market-based financing (Heil, 2017). This is particularly important for growth-

oriented companies that need capital and are willing to assume the risks associated with research, innovation, development and market expansion.

1.2. Business demographics

Table 7 classifies all companies in Portugal and other five EU countries into four groups based on the number of employees: micro (1 to 9 employees); small (10 to 49 employees); medium (50 to 249 employees); and large (over 249 employees). It shows that small and medium-sized enterprises (SMEs) account for over 99% of the number of companies in all countries. With respect to Portugal, it also shows that 95.2% of all non-financial firms in 2016 were micro-firms, while small and medium-sized enterprises accounted for 4% and 0.6%, respectively. Only about 0.1% of all Portuguese firms had more than 250 employees.

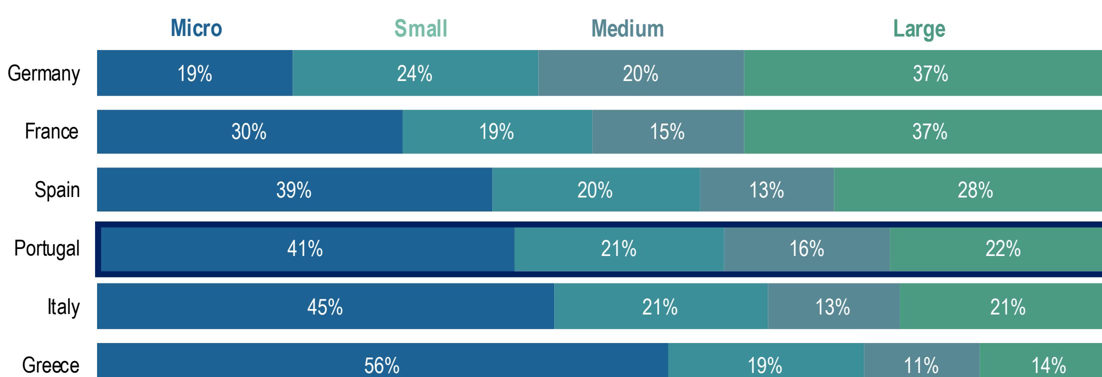
Table 7. Distribution of companies by firm size, 2016

	Germany	France	Spain	Portugal	Italy	Greece
Micro	81.9%	95.1%	94.6%	**95.2%**	94.8%	96.5%
Small	15.2%	4.1%	4.7%	**4.0%**	4.6%	3.1%
Medium	2.5%	0.6%	0.6%	**0.6%**	0.5%	0.3%
Large	0.5%	0.1%	0.1%	**0.1%**	0.1%	0.1%

Source: OECD SDBS Structural Business Statistics.

Although SMEs as a group account for more than 99% of the companies in all European countries shown above, there are wide differences with respect to their share in total employment and productivity levels as well as the distribution of SMEs among different sub-groups. Figure 21 illustrates the employment distribution among the four company categories in six countries. While micro companies in Portugal account for 41% of the total employment, large firms represent only 22%. While the largest share of the workforce is employed by large firms in Germany and France, the majority of workers is employed in micro or small firms in Greece, Italy and Portugal.

Figure 21. Employment distribution by firm size, in 2016

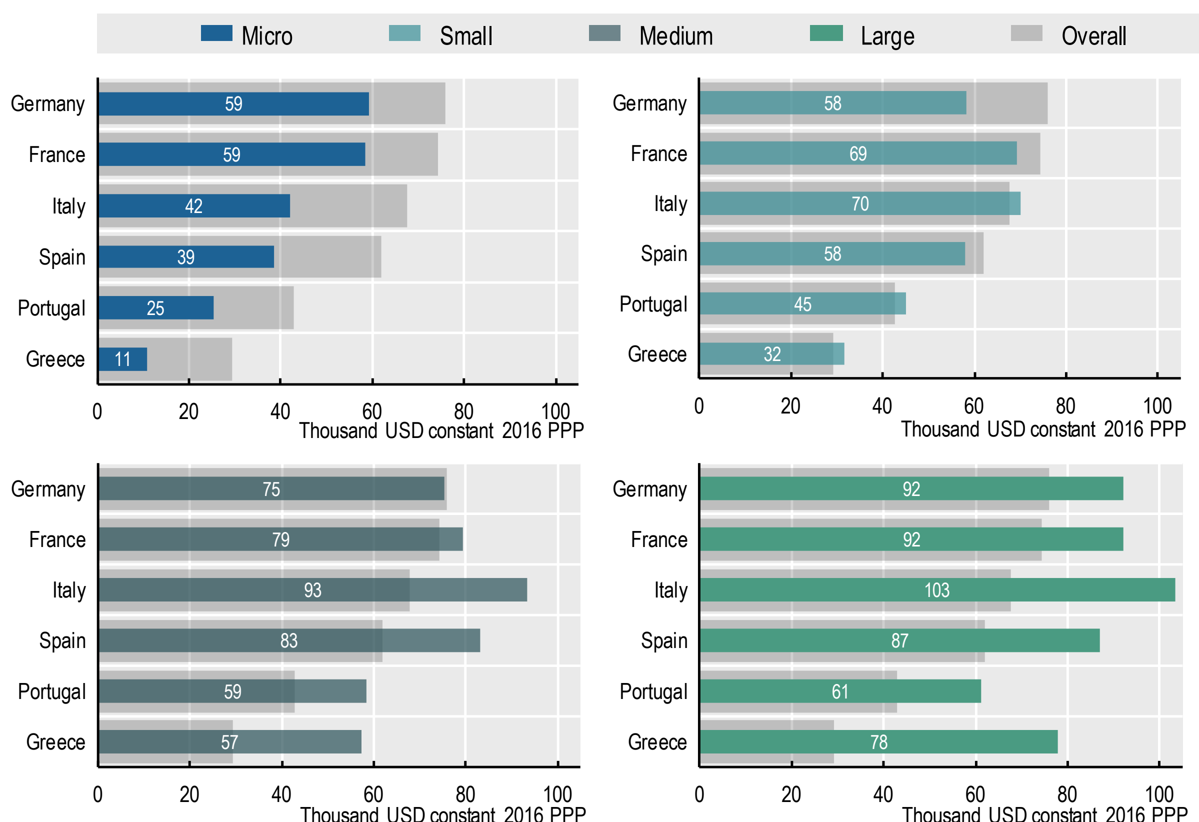


Source: OECD SDBS Structural Business Statistics.

Productivity levels also differ across firm sizes. While micro-firms, in general, have the lowest level of labour productivity, it is particularly low in Portuguese micro-firms at USD 25.3 thousand (2016 PPP) per person employed (Figure 22). After Greece, this is the second lowest level among the six countries shown in the figure. This is also the case for small Portuguese firms for which the labour productivity is at USD 45.1 thousand per person employed whereas in countries like France or Germany it is USD 58.5 thousand and USD 59.4 thousand, respectively. Importantly, the average labour productivity level for large

firms in Portugal is by far the lowest at USD 61.2 thousand. In the other five economies shown in the figure, it ranges between USD 78 and USD 103 thousand. The large proportion of unproductive micro-firms, combined with low productivity across the remaining groups result in an overall low productivity of the entire Portuguese economy.

Figure 22. Labour productivity by firm size, in 2016



Source: OECD SDBS Structural Business Statistics

Table 8 presents a breakdown of the number of Portuguese companies by industry and firm size. The table shows that the wholesale and retail trade industry accounts for the largest share of companies (17%) as this is the industry where micro-sized firms and small-sized firms are most active. The second and third largest share of companies are operating in administrative and support service activities (14%) and agriculture (10%) respectively. Among the group of small-firms, besides manufacturing, and wholesale and retail trade that accounts for more than 20% of all small firms, accommodation and food service, and construction also represent over 10% of small firms. Importantly, despite manufacturing only represents 5% of all companies, they account for the largest share of the companies among small, medium and large group. Particularly for the medium and large size companies they represent over 30% of the companies.

Table 8. Composition of Portuguese firms by industries in 2018, as a percentage of total number of companies in each size category

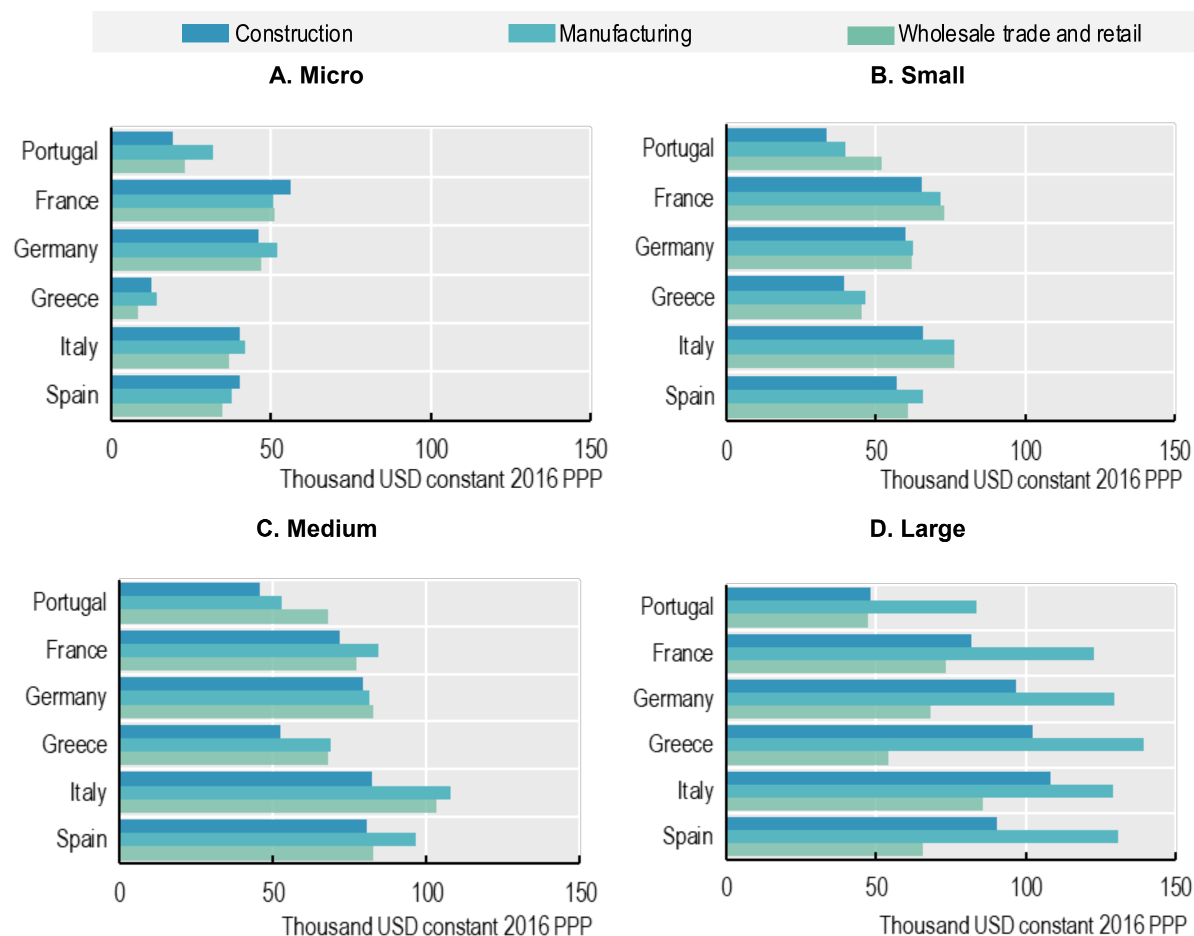
	Micro	Small	Medium	Large	All companies
Accommodation and food service activities	8.7%	12.5%	8.6%	5.6%	**8.9%**
Administrative and support service activities	14.6%	3.6%	6.4%	15.9%	**14.2%**
Agriculture, farming of animals, hunting and forestry	10.7%	3.3%	2.2%	1.3%	**10.4%**
Arts, entertainment, sports and recreation activities	2.9%	0.8%	1.1%	1.2%	**2.9%**
Construction	6.5%	12.4%	8.5%	4.9%	**6.7%**
Consultancy, scientific and technical activities	10.2%	5.2%	3.8%	4.3%	**10.1%**
Education	4.6%	1.8%	1.9%	1.1%	**4.5%**
Electricity, gas, steam, cold and hot water and cold air	0.3%	0.1%	0.2%	0.6%	**0.3%**
Human health and social work activities	7.8%	3.6%	2.6%	3.4%	**7.7%**
Information and communication activities	1.5%	2.2%	3.6%	5.8%	**1.5%**
Manufacturing	4.5%	24.5%	36.9%	31.2%	**5.3%**
Mining and quarrying	0.1%	0.4%	0.3%	0.4%	**0.1%**
Other service activities	5.0%	1.2%	0.8%	0.4%	**4.8%**
Real estate activities	3.7%	1.2%	0.5%	0.1%	**3.6%**
Transportation and storage	1.9%	4.2%	5.2%	7.8%	**2.0%**
Water collection, treatment and distribution; sewerage, waste management	0.1%	0.5%	1.4%	3.1%	**0.1%**
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.9%	22.2%	16.1%	12.7%	**17.0%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Statistics Portugal.

To explore in more detail the differences in productivity, Figure 23 plots some industries' labour productivity by firm size and compares it with selected European countries. The industries included are the wholesale and retail trade that accounts for the largest share of companies in the Portuguese economy, and manufacturing and construction that are important in the medium and large size groups. With the exception of micro firms where Greek companies exhibit a very low level of productivity, the levels for Portuguese firms are relatively low across all industries. Differences in productivity across size classes are particularly high as large firms have a significantly higher productivity level compared to small and micro firms. With respect to different industries, the productivity gap between different size groups is particularly marked in the wholesale trade and retail industry in Portugal, Greece, Italy and Spain. For example, in the wholesale trade and retail industry, a medium-sized firm is almost 3 times more productive than a micro-firm in Portugal and 8 times in Greece.

In Germany and France, the largest dispersion in productivity across size classes is found in the manufacturing industry. However, the productivity gap between size classes is smaller even in the manufacturing industry when compared with other countries. For instance, a large manufacturing firm in Germany and France is 2.5 times more productive than a micro-firm. Productivity gaps across companies of different size are less pronounced in the construction industry in Portugal as a large construction firm in Portugal is only 2.5 times more productive than a micro-firm.

Figure 23. Labour productivity by firm size for selected industries, in 2016



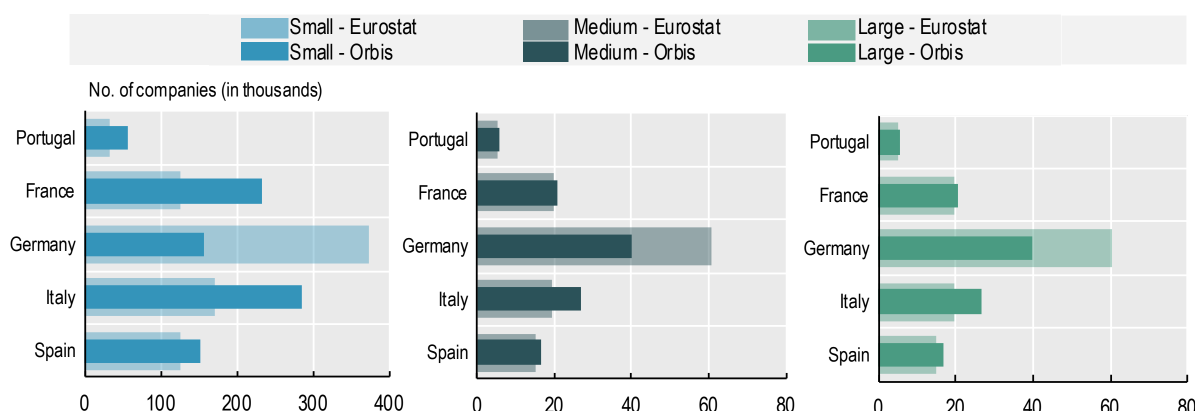
Source: OECD Structural Business Statistics.

1.3. Company categories in Portugal

Following chapters of the report build on firm-level data obtained from the ORBIS database with a view to understand the past business dynamics in Portugal and to compare it with selected European peer countries. The analysis includes only non-financial companies and companies with more than 10 employees. The purpose of choosing a size threshold of 10 employees is twofold: first, data coverage typically increases with firm size which means that the coverage for smaller firms is less reliable and hampers comparability. Second, the focus of this report is on market-based financing and micro-firms are, in general, unlikely to tap capital markets.

The OECD-ORBIS Corporate Finance dataset includes financial and ownership information of non-financial companies between 2005 and 2016. To assess the representativeness of the data against the official statistics, Figure 24 compares the coverage of the OECD-ORBIS Corporate Finance dataset with the Eurostat business statistics. While there is no significant difference in terms of the distribution of firms among different size groups, the OECD-ORBIS dataset generally has higher coverage than Eurostat.

Figure 24. Comparison of the OECD-ORBIS Corporate Finance dataset with the Eurostat dataset in 2016



Source: OECD-ORBIS Corporate Finance dataset, Eurostat business statistics, see Annex for details.

One potential weakness in analysing the investment and financing structure of the business sector in an economy is treating the whole non-financial corporate sector as one entity without taking into account differences with respect to key characteristics, such as size, listing status and industry. From a capital market perspective, it may also be important to know if a company is part of a larger company group. To take into account factors that could affects the ability of companies to access financing, non-financial companies are divided into four categories (see Table 9), which are used throughout this chapter[11]:

Table 9. Company categories in the Portuguese non-financial business sector

	Category 1: Listed companies		Category 2: Large unlisted companies		Category 3: SMEs part of a group		Category 4: Independent SMEs	
	No. of companies	*Median assets (EUR K)*	*No. of companies*	*Median assets (EUR K)*	*No. of companies*	*Median assets (EUR K)*	*No. of companies*	*Median assets (EUR K)*
2005	63	199 099	367	166 244	3 093	5 055	59 157	434
2006	59	207 263	411	161 723	3 139	5 398	59 885	435
2007	54	178 159	450	153 379	3 225	5 496	59 177	469
2008	50	229 493	469	160 682	3 440	4 923	56 830	503
2009	49	251 387	476	161 391	3 445	5 055	54 405	528
2010	46	315 281	492	160 918	3 410	5 021	50 827	546
2011	45	281 525	451	161 593	3 181	5 256	48 769	518
2012	49	241 930	427	160 846	2 978	5 293	47 983	464
2013	47	231 130	429	156 119	3 087	5 571	46 512	440
2014	44	401 140	418	155 343	3 536	5 005	45 247	418
2015	44	367 175	401	158 754	3 563	5 196	48 215	381
2016	44	401 471	405	157 412	3 545	4 984	51 153	335

Note: SMEs controlled by a parent company with assets under EUR 87 (USD 100) million are not taken into account for the group analysis. However, they are included when studying the economy as a whole.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

[11] Non-financial companies include corporations that are fully or partially owned by the Portuguese public sector. According to OECD (2014), however, Portugal did not report any listed state-owned enterprise and reported only 33 majority owned non-listed enterprises and 51 statutory corporations and quasi-corporations in 2014. These 84 state-owned enterprises were responsible for 70 981 employees that represented 3.8% of total employment in the country that year.

Category 1: Listed companies

This category includes, on average, about 50 non-financial listed corporations per year with median assets of around EUR 275 million. Listing status may have a strong impact on a corporation's financing conditions, since being listed on a stock exchange requires the implementation of certain transparency and disclosure standards as well as other corporate governance practices. The corporation has already passed a certain threshold in terms of its formal and institutional structure, which may make outside investors more willing to provide funds and facilitates access to a wide range of financing options, including private equity as well as public and private debt markets. As shown in Figure 25, listed companies in 2016 accounted for 11% of the employment in the economy and generated 23% of aggregated sales.[12] It should, however, be noted that since the number of listed non-financial companies is low and the listed corporate sector is mainly dominated by a few large companies, in some cases the results for listed companies presented below may be driven by a few large companies.

Category 2: Large unlisted companies

This category includes on average about 433 large non-financial corporations with assets larger than EUR 87 million (USD 100 million) in 2018 real terms. Their median asset size was EUR 160 million on average. In contrast to publicly listed companies, less information is available for large unlisted companies which reduces available financing options or may result in financing conditions on less favourable terms. However, companies in this category can generally be classified as professionally managed formal companies. In 2016, large unlisted companies' share in total sales and employment was around 28% and 16% respectively.

Category 3: Small and mid-sized companies part of a group

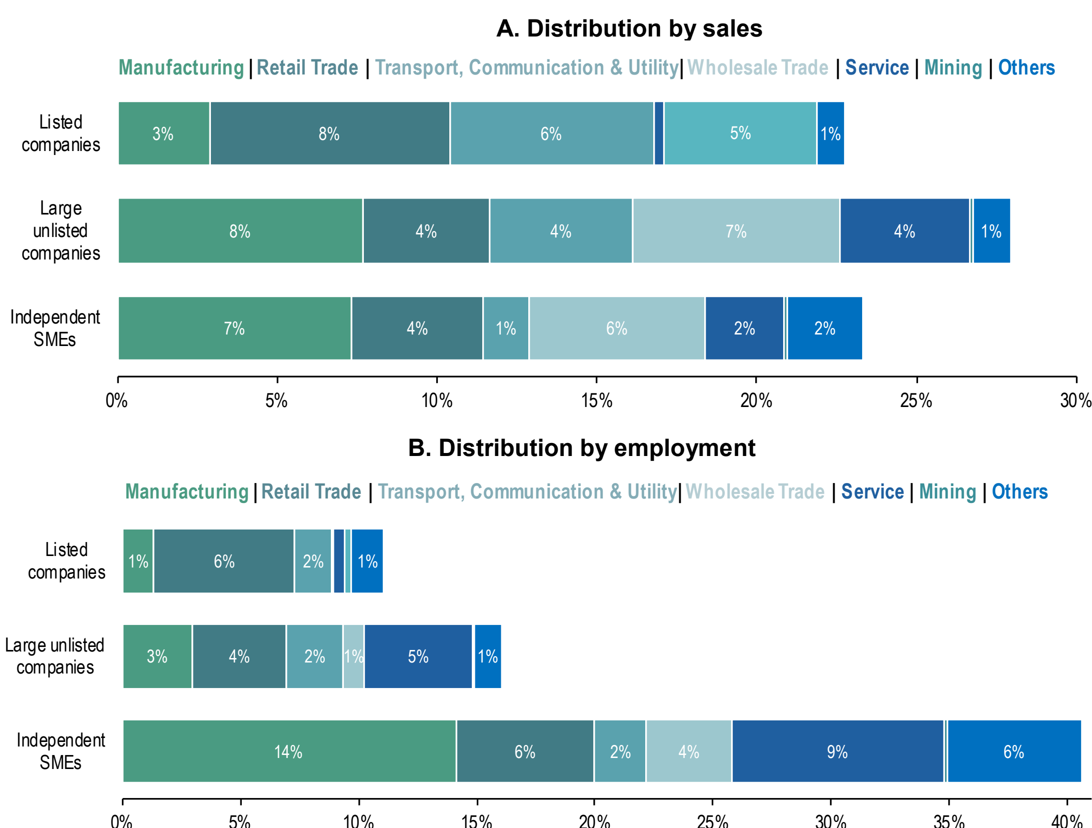
This category includes all small and mid-sized enterprises controlled by a listed (Category 1) or a large unlisted corporation (Category 2). SMEs based in Portugal but controlled by a non-Portuguese company or by a Portuguese financial company are also included in this category. Category 3 contains on average 3 304 companies per year with median assets of EUR 5.2 million. Since the financial results of *SMEs part of a group* are consolidated into a parent company, unconsolidated accounts are used in the analysis to identify their own structure. In general, the information available for SMEs is relatively limited, but being part of a group can help subsidiaries to access financing at better conditions compared to independent SMEs. One theoretical explanation for the existence of economic groups is that they provide a financing advantage in setting up new firms when the pledgeability of cash flows to outside financiers is limited (Almeida and Wolfenzon, 2006). By creating an internal capital market, an economic group can also improve the available financing options for group companies.

[12] The category classification is based on different financial reports available for companies (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available.

Category 4: Independent small and mid-sized companies

The last category includes all SMEs identified to be controlled by individuals and those with no ownership information available. For this group, only unconsolidated accounts are reported. The group of *Independent SMEs* is the largest in terms of number of companies (around 52 300 companies per year), but the smallest in terms of size (median assets around EUR 456 000). The information available for these companies is limited and unlike *SMEs part of a group, Independent SMEs* do not benefit from financing advantages related to a group structure. In 2016, they employed more than any other company group with 40% of the workforce being employed in this category. However, they accounted for only 23% of the total sales.

Figure 25. Distribution across industries by company categories in Portugal, 2016



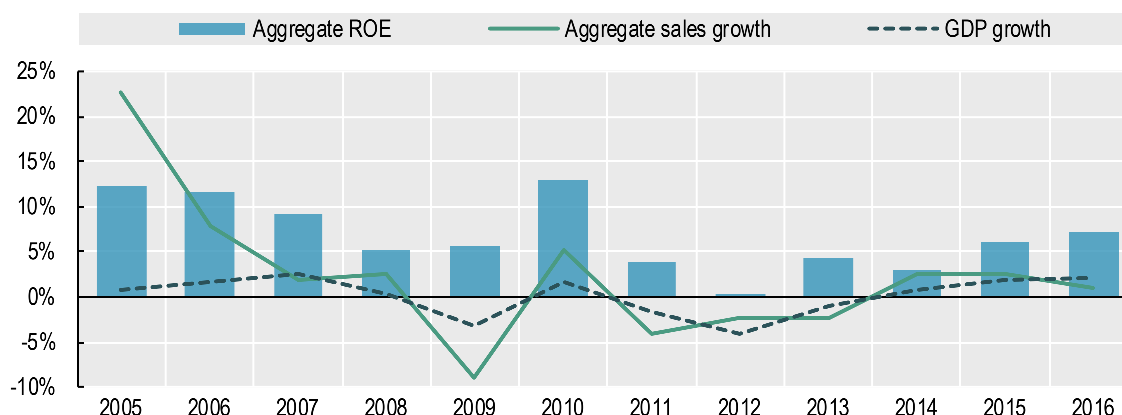
Note: For each category, sales and employment numbers are presented as share of economy totals. Calculations for the total economy take into account the group structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. The figure does not show the category *SMEs part of a group* as these companies are accounted for in the financial statements of their parent company. The categories in this figure are subsamples of the economy constructed for characterisation and comparison purposes and do not consider parent companies with less than EUR 87 (USD100) million assets. As a result, they do not add up to 100%.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.4. Non-financial company performance and profitability

In the midst of the 2008 global financial crisis, the aggregate sales of the Portuguese corporate sector dropped by almost 9%. After a recovery in 2010, aggregate sales growth turned negative again between 2011 and 2013 during the sovereign debt crisis in the euro area. As

shown in Figure 26, aggregate return on equity (ROE – net income over total shareholders' equity) also fell significantly from 2010 to 2012, when it was almost zero. While the average ROE was 11% between 2005 and 2007, it was less than 3% between 2011 and 2014. However, some improvement can be noted in 2015 and 2016.

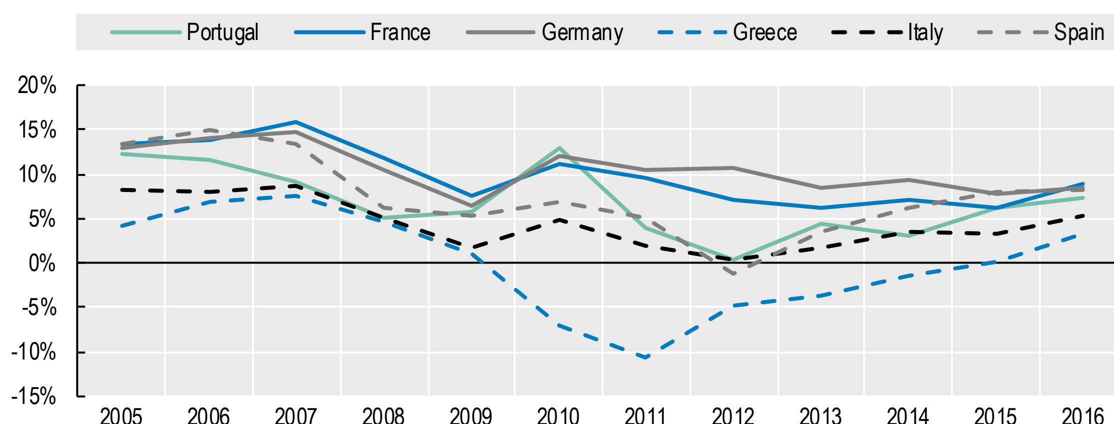
Figure 26. Sales growth, performance and GDP growth in Portugal



Source: OECD-ORBIS Corporate Finance dataset and OECD Economic Outlook database, see Annex for details.

As shown in Figure 27, the aggregate ROE levels have not recovered to pre-global financial crisis levels also in other European countries and the overall trend has been similar across countries. However, the recovery between 2012-2016 was stronger in Portugal compared to Greece and Italy and at similar levels with France and Germany.

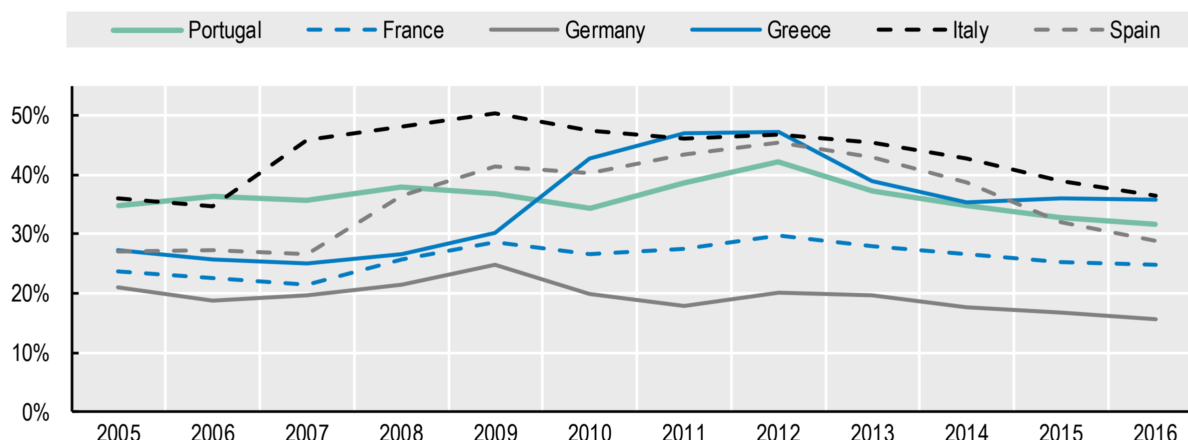
Figure 27. Return on equity in Portugal and selected European economies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

The observed decline in aggregate ROE during the 2011-2013 period in Portugal and some other European countries was partly driven by the high share of loss-making companies. Figure 28 shows the share of loss-making companies – companies with negative net income – in the total number of companies in Portugal and other European countries for the period between 2005 and 2016. In 2012, the share of companies reporting losses reached its peak in Portugal with 42% and with almost 50% in Greece, Italy and Spain. In Germany, however, the share of companies reporting losses has been significantly lower with a declining trend since 2009. For example, in 2016, the share of loss-making firms in Portugal was twice the share in Germany – 32% versus 16%.

Figure 28. Share of loss making companies in Portugal and selected European companies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

To have a closer look at industry differences with respect to the share of loss making companies in Portugal, Figure 29 provides a comparison across industries in 2006, 2012 and 2016. Given the severity of the global financial crisis, all industries shown in the figure saw an increase in the share of companies reporting losses in 2012 compared to 2006. Following an economic recovery after 2012, the ratio of loss-making firms fell significantly for all industries but one from 2012 to 2016. The agriculture, forestry and fishing industry had more loss-making companies in 2016 than in 2006. At the same time, manufacturing is the industry that shows the lowest share of loss-making companies in all the three years.

Figure 29. Share of Portuguese companies with negative net income (loss) by industries

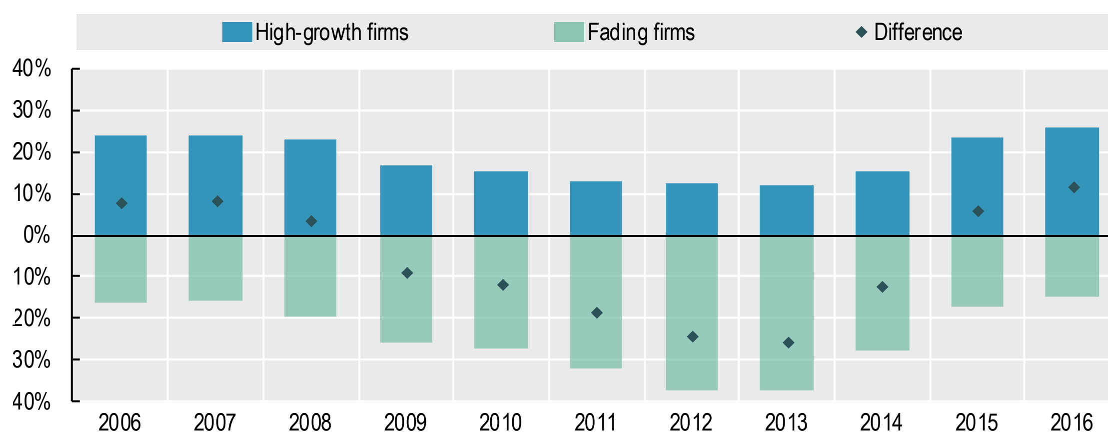
Note: The industry classification corresponds to the 1-digit SIC classification. Construction here corresponds to: General Contractors – Single-Family Houses; Electrical Work; Plumbing, Heating and Air-Conditioning; and Special Trade Contractors, Not Elsewhere Classified. Construction does not include real state companies.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.5. High-growth and fading companies in Portugal

To explore firm level growth dynamics in the Portuguese economy, Figure 30 defines two groups of companies: high-growth firms and fading firms. High-growth firms (HGFs) are defined as those companies reporting 3-year annualised sales growth over 10 per cent. Measuring growth over a 3-year period allows identifying companies with continuing growth rates and excluding temporary changes. Similarly, fading firms are defined as companies with

3-year annualised sales growth below minus 10 per cent. The figure plots the share of HGFs and fading firms for Portugal in bars and the black dots represent the difference between the two groups. Between 2006 and 2008, the share of HGFs in the total number of firms was on average 24%. Between 2009 and 2014, the average share of HGFs dropped by 8 percentage points to 14%. However, after 2015, the share of HGFs recovered and reached 26% in 2016, the highest level over the entire period. At the same time, the share of fading firms has also seen a significant decline after 2013, and was 15% in 2016.

Figure 30. Share of high-growth and fading firms in Portugal



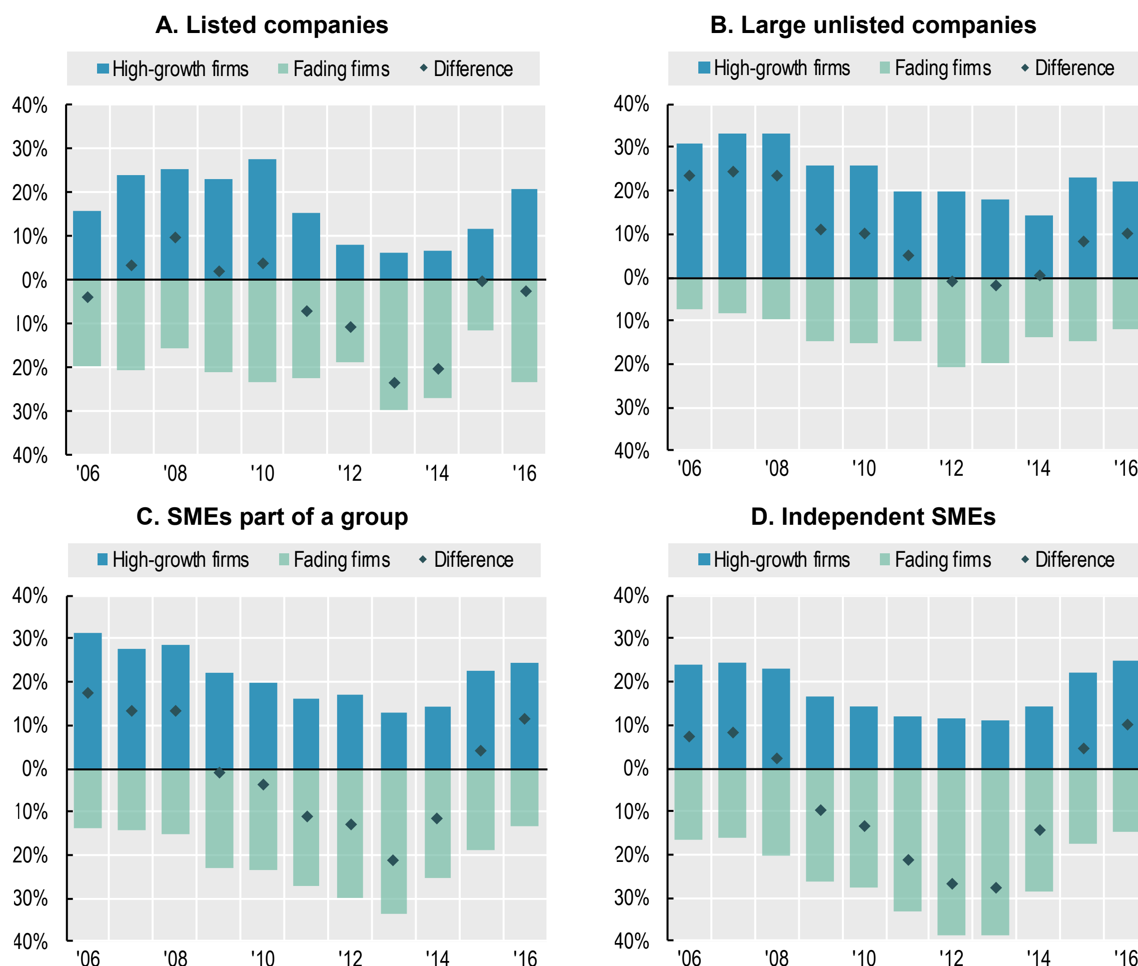
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 31 shows the share of HGFs and fading firms in Portugal across the four categories of companies described above. Within the segment of large companies, listed companies have actually reported more fading firms than large unlisted companies. In fact, large unlisted companies were more resilient during the crisis period, with the highest share of HGFs and the lowest share of fading firms. Interestingly, with the exception of 2010, the share of HGFs was always higher for the large unlisted companies category compared to the listed companies category. Moreover, in 2016, the highest share of fading firms among the 4 categories was observed within the listed companies.

Over the period, SMEs part of a group recorded on average 22% of HGFs compared to 18% within independent SMEs. Similarly, SMEs part of a group showed a lower average share of fading firms compared to independent SMEs. In 2012 and 2013, independent SMEs were the most affected companies by the crisis, and the share of fading firms in the category increased to almost 40%.

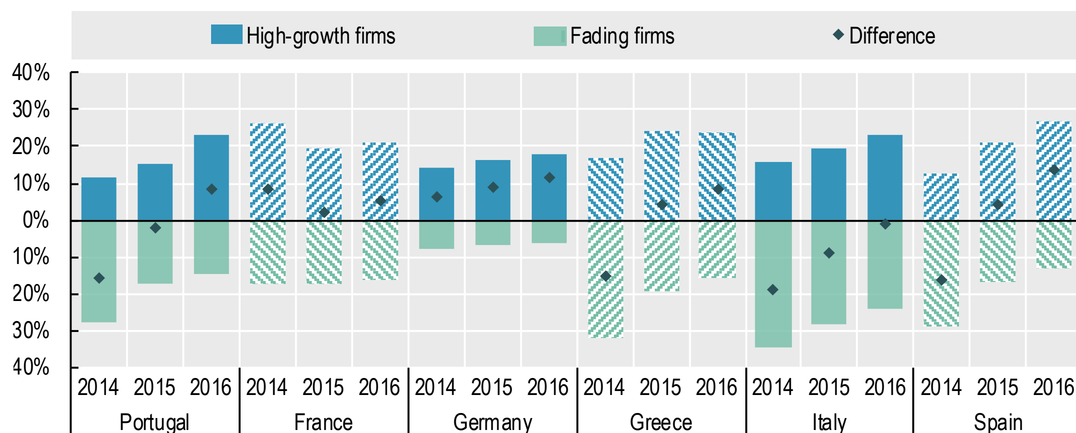
The country comparison in Figure 32 highlights some of the differences between Portugal and other European economies. Germany, for example, has a modest share of HGFs, but, at the same time, a small share of fading firms resulting in a positive difference between HGFs and fading ones. At the other end, in countries like Italy, the share of fading firms outnumbered the share of HGFs. However, it is worth mentioning that, in 2016 Portugal, together with Spain and Germany, had the largest positive difference between the shares of HGFs and fading firms.

Figure 31. Share of high-growth and fading firms in Portugal, by category of companies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 32. Share of high-growth and fading firms in Portugal and selected European economies



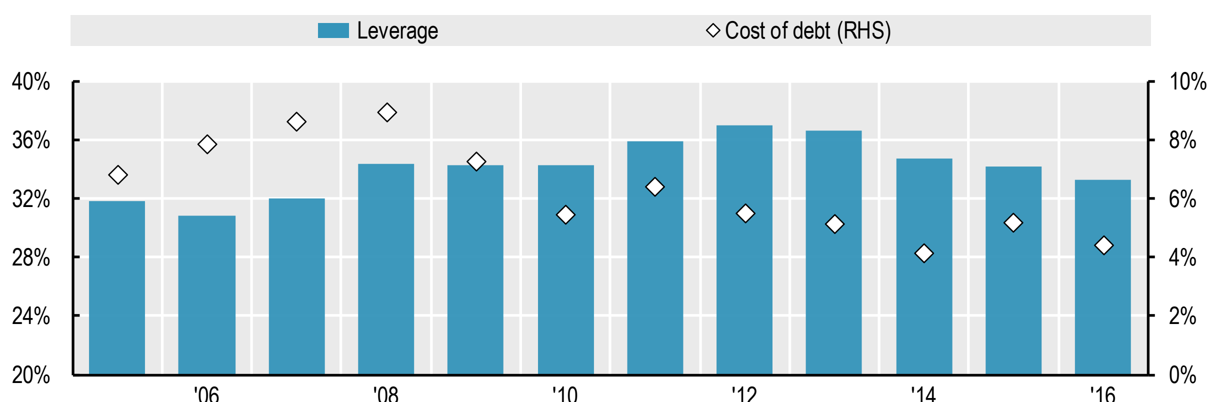
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.6. Leverage and capitalisation levels

Banks have historically played a dominant role in financing the Portuguese business sector. However, after 2012 the banking system experienced a transition aiming to improve the quality of their balance sheets resulting in an economy-wide deleveraging process. According to the European Commission statistics, bank loans to non-financial firms accounted for 35% of the GDP in Portugal by the end of 2018.

Figure 33 shows the leverage ratio (total financial debt over total assets) and the cost of debt for non-financial corporations in Portugal. The cost of debt is estimated as interests paid over total financial debt. Leverage in the corporate sector reached 37% in 2012. In the aftermath of the financial crisis, however, there has been a steady decrease in total bank lending to the non-financial corporate sector (Figure 20) and the aggregate leverage level for the Portuguese business sector has also been declining. This is in line with the policy objective to reduce the vulnerability of the Portuguese economy to adverse shocks by continue deleveraging the corporate and household sectors (Banco de Portugal, 2018). Moreover, the cost of debt, in parallel to the global low interest rate environment, has remained at low levels since 2010 compared to the previous period.

Figure 33. Leverage and cost of debt for Portuguese non-financial companies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

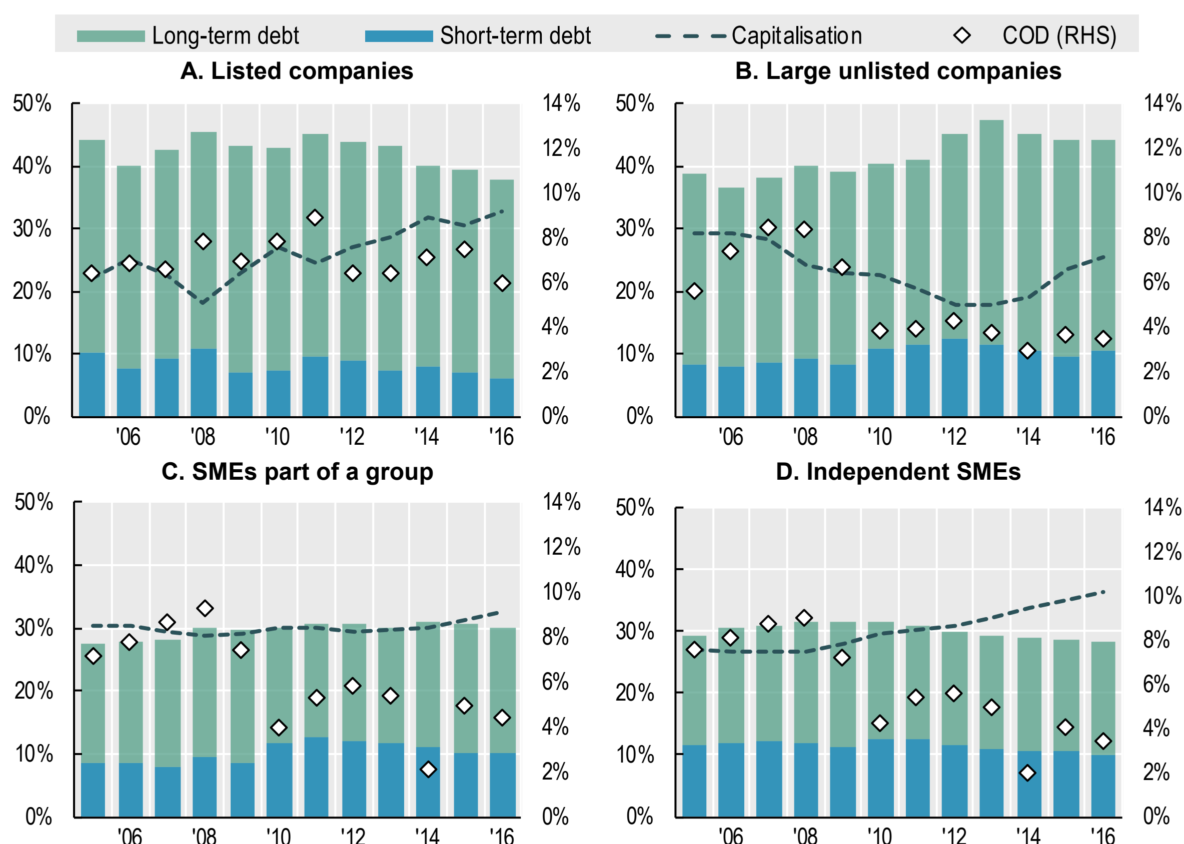
Figure 34 illustrates leverage and capitalisation levels as well as cost of debt for the four different categories of companies. The figure covers only companies that reported financial debt in their balance sheets. While almost all large corporations reported financial debt, the ratio is around 60% for small companies.

Capitalisation level is calculated as total shareholders' equity in relation to total assets. The figure shows how the capitalisation level of listed companies fell sharply during the global financial crisis of 2007 and 2008, mainly due to poor performance. The decline was 4 percentage points, from 22% in 2005 to 18% in 2008. Since then, the level has returned to pre-crisis values and reached its maximum level in 2016 at 33%. During the 2007-2008 period, large unlisted companies also experienced a drop in capitalisation level of 4 percentage points. However, large unlisted companies' capitals levels were strongly affected during the sovereign crisis and had a sluggish recovery afterwards. Listed companies, on the contrary, injected equity to their balance sheets by raising significant amounts of capital through secondary public offerings (SPOs). Indeed, in 2007 and 2008 already listed Portuguese companies raised EUR 2.4 billion, and an additional EUR 4.5 billion between 2012 and 2014 by using the stock market for secondary public offerings (see Chapter III).

In Portugal, the leverage level for listed companies is slightly higher than the one for large unlisted companies, 42.3% compared to 41.6%. In addition, listed companies also have a higher share of long-term debt and a higher cost of debt compared to large unlisted companies. The higher cost may be a result of their higher outstanding volume of debt and the higher share of more expensive long-term financing. Overall, listed companies have higher equity capital levels and use more long-term debt financing.

Panel C and D compare the independent SMEs with those that belong to a company group. Interestingly, SMEs that are part of a group have slightly higher leverage and are less capitalised in comparison with independent SMEs. Indeed, in 2016, independent SMEs had the highest capitalisation level among the four categories of companies with 36%. It is worth noticing that, in terms of debt maturity, independent SMEs had in 2005 three percentage points higher share of its financial debt due in less than one year compared to SMEs part of a group, and in 2016 the share of short-term financial debt for both groups was the same.

Figure 34. Debt, capitalisation and cost of debt for company categories in Portugal



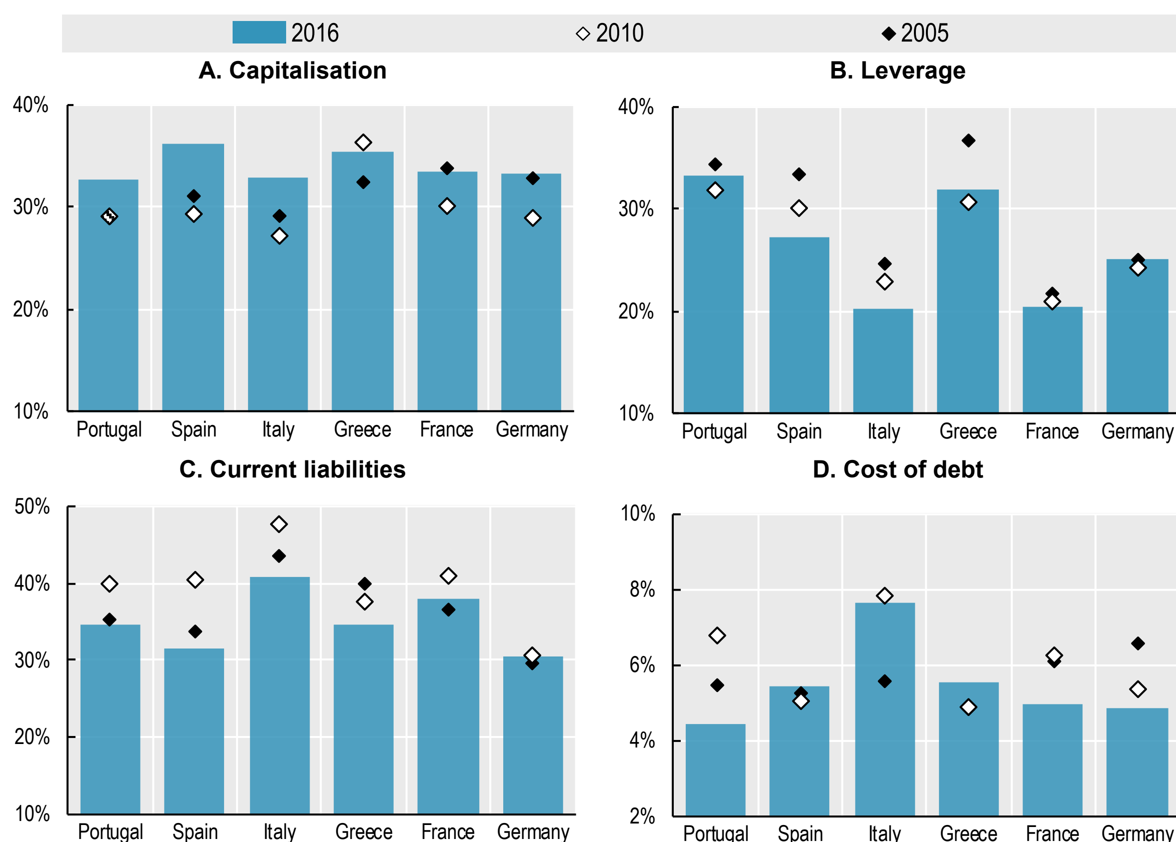
Notes: Capitalisation level is defined as shareholders' funds as a share of total assets. Debt levels are also presented as a share of total assets. Calculations include only companies that reported financial debt. Unconsolidated financial statements are used in the calculations for SMEs part of a group and independent SMEs. Calculations for long-term and short-term debt include only financial debt (interest bearing debt) and exclude other forms of financing received from the parent company by SMEs part of a group.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

In 2016, the aggregate leverage level of the Portuguese business sector was the highest among the European peer economies shown in Figure 35. While the leverage ratio in Portugal was 33%, it fluctuated between 20% and 25% in Italy, France and Germany. However, the capitalisation level of the Portuguese business sector also increased between 2010 and 2016, and was at comparable levels with France and Germany (Panel A).

The use of short-term debt financing, including short-term financial debt, trade credit and other current liabilities, of the Portuguese non-financial corporate sector decreased to 35% in 2016 from 40% in 2005. This is a higher level compared to Germany and Spain, but 6 percentage points lower than Italy and 4 percentage points than France (Panel C).

The aggregate cost of debt financing has fallen to low levels in European markets since the financial crisis. Panel D in Figure 35 shows that, particularly in Germany, France and Portugal the cost of debt has decreased since 2010 and was in 2016 lower than the pre-crisis averages (2005). Particularly, in 2016, Portugal witnessed the lowest cost of debt (4.4%) compared to the other selected European economies.

Figure 35. Capitalisation, debt levels and cost of debt, cross-country comparison



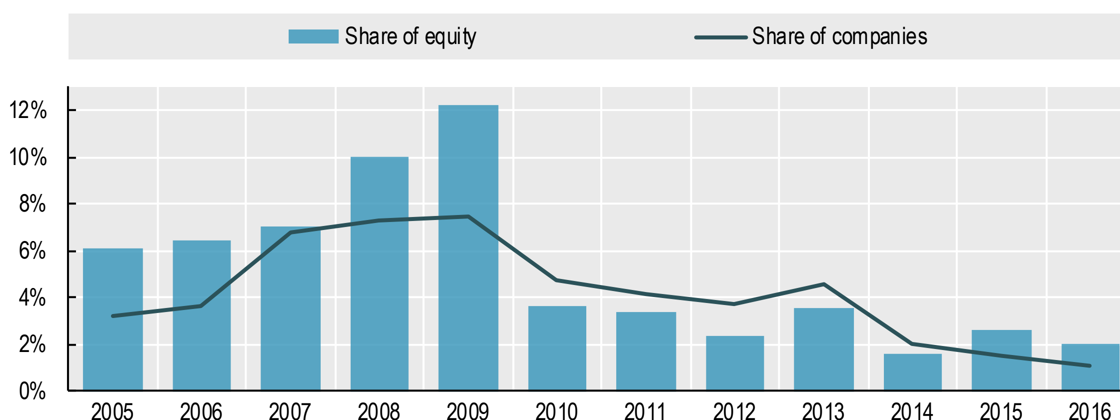
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.7. Non-viable firms and capital misallocation

The observed productivity slowdown over the past decade in many OECD economies has triggered a discussion about its underlying causes and potential consequences for future economic growth. Underperforming firms – that in a competitive market would have exited the

market – remain alive, causing an increasing resource misallocation in the economy. The so-called zombie firms are defined as mature companies that are consistently incapable of covering their interest payments (Adalet McGowan, Andrews and Millot, 2017). [13] It is argued that the presence of such firms in the economy not only prevents new entrants, but also deprives their most promising industry peers of finance.

Figure 36. Zombie companies and equity capital allocation in Portugal



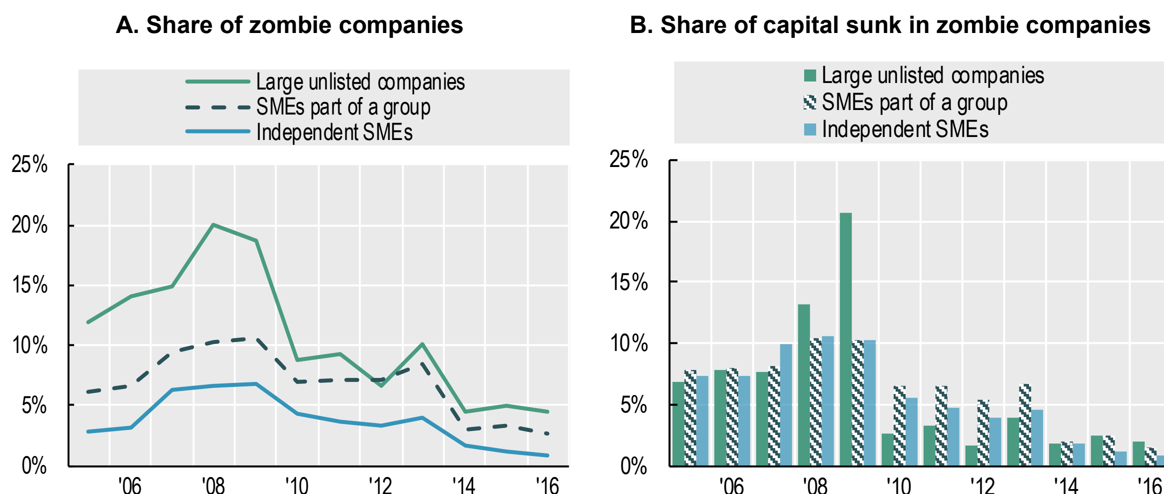
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Among OECD countries, Portugal has experienced a considerable fall in exit and restructuring barriers (Gouveia and Osterhold, 2018). And since the financial crisis, there has also been a significant improvement with respect to the share of non-performing loans and non-viable firms. While the financial crisis momentarily resulted in a historical record of non-viable firms accounting for 12% of total equity capital of the Portuguese non-financial corporate sector, their number and share of equity capital rapidly decreased in the years that followed. As illustrated in Figure 36, both the share of non-viable firms and the equity capital allocated to these companies declined dramatically since 2010 and in 2016 they attained their minimum level since 2005 with only 1.1% of companies representing 2.1% of equity.

Figure 37 in Panel A plots the share of non-viable firms for the unlisted categories of companies defined in Section 1.3 above and Panel B shows the share of the equity capital associated with these companies. The analysis reveals that both the share of non-viable firms and the equity capital sunk in these companies have been continuously falling for all three groups since 2010, reflecting the major efforts to improve the financial health of the corporate sector.

[13] Zombie companies' definition here follows Adalet McGowan, Andrews and Millot (2017). Zombie companies are defined as firms older than 10 years that during 3 consecutive years are not able to cover their interest payments with their operating income. The age restriction is imposed to differentiate between real zombie firms and young innovative firms.

Figure 37. Zombie companies by company category in Portugal, (2005-2016)



Notes: The share of zombie companies in Panel A is calculated as the number of zombie companies identified every year over the total number of companies in that group. The bars in Panel B show the share of capital sunk in zombie companies within each group.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

CHAPTER II. THE OECD SURVEY ON ACCESS TO FINANCE IN PORTUGAL

To complement the research presented in this report, the OECD has conducted an extensive survey on how unlisted non-financial Portuguese companies use and perceive market-based financing. The survey covered large unlisted companies and some smaller companies that were considered to have growth potential. 297 companies responded to the survey, submitting answers mainly from board members and key executives. This chapter summarises the survey results and discusses them by using firm and transaction level data from the OECD Capital Market Series dataset.

2.1. Description of the survey universe construction and survey methodology

The OECD conducted a survey on how unlisted non-financial companies use and perceive market-based financing in Portugal. This survey focused on Portuguese large unlisted companies, including large mid-sized companies, and aimed at mapping their key characteristics, their understanding of market-based financing and perception of barriers to access capital markets.

Companies were drawn from a universe of unlisted companies available in multiple commercial databases (ORBIS, FactSet and Refinitiv). The companies selected to participate in the survey fit at least one of the following criteria: 1) Large unlisted companies were selected based on their sales and assets; 2) Companies with growth potential (3-year annualised growth over 10 per cent); 3) Companies that delisted from the Portuguese stock exchange since 2000.

Companies' contact information (names, address and email addresses) was collected from ORBIS, FactSet, Refinitiv and Bloomberg. Publicly available information was used to complement, verify and correct the information obtained from the commercial databases. The contact persons within the company invited to respond the survey were either the CEO, CFO, Chair of the Board, Board members or other key executives.

The OECD launched the online questionnaire on December 5th 2018. The questionnaire was initially sent to 1 085 non-financial companies. As new contact information was obtained, the questionnaire was sent to additional 851 companies throughout December totalling 1 936 companies. The survey was available both in English and Portuguese and respondent were given the option to select their preferred language.

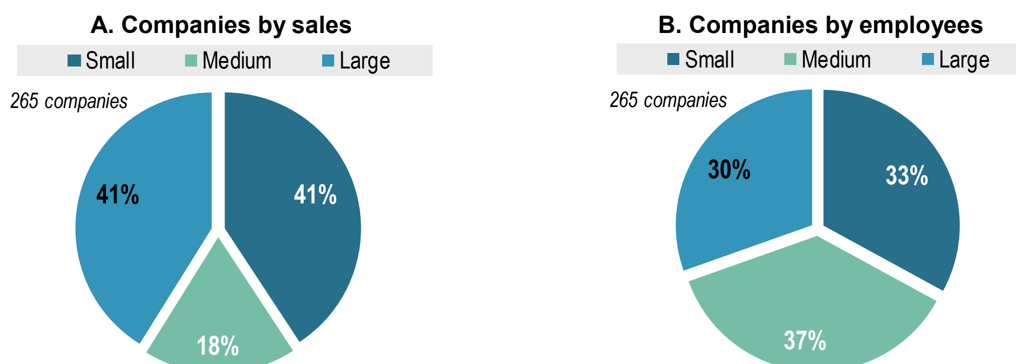
In order to increase the response ratio, paper copies of the questionnaire were also sent to 543 large companies in the mailing list. These companies were given three options for responding to the questionnaire: using the online tool, sending their answers by email or sending them by mail. Between the December 2018 and May 2019 period, 297 Portuguese unlisted companies participated in the survey, including 17 delisted firms.

2.2. The universe of respondent companies

The universe of companies answering the survey was characterised according to sales and employees reported in 2017 into three groups: small (sales below EUR 50 million or

employees below 100); medium (sales between EUR 50 and EUR 100 million or employees between 100 and 500); and large (sales over EUR 100 million or employees over 500). Large companies account for 41% of the respondents (Figure 38, Panel A). Companies with sales between EUR 50 and 100 million account for 18% of the respondents, and companies with sales under EUR 50 million represent 41% of the respondents. Companies are more evenly distributed among the three size groups with respect to the number of employees (Figure 38, Panel B).

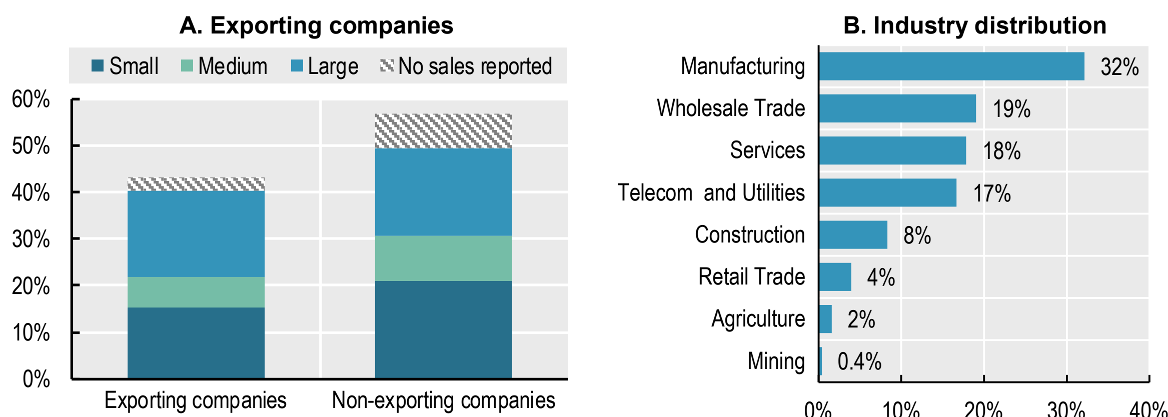
Figure 38. Distribution of respondent companies by size



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

With respect to overseas activities, 43% of the surveyed companies indicated that they exported goods or services[14] in 2017 to another country; whereas the remaining 57% only focused their activities in the local market. Among the exporting companies, 43% were large companies compared to 33% of large companies within the non-exporting group (Figure 39, Panel A). Notably, small companies represent 36% of the exporting group, outweighing medium-sized companies. The share of small and large unlisted companies in the non-exporting group of companies is similar. Panel B of Figure 39 shows that over 30% of the respondent companies belong to the manufacturing industry, followed by wholesale trade (19%), services (18%), and telecommunication and utilities (17%).

Figure 39. Size and industry distribution of exporting companies



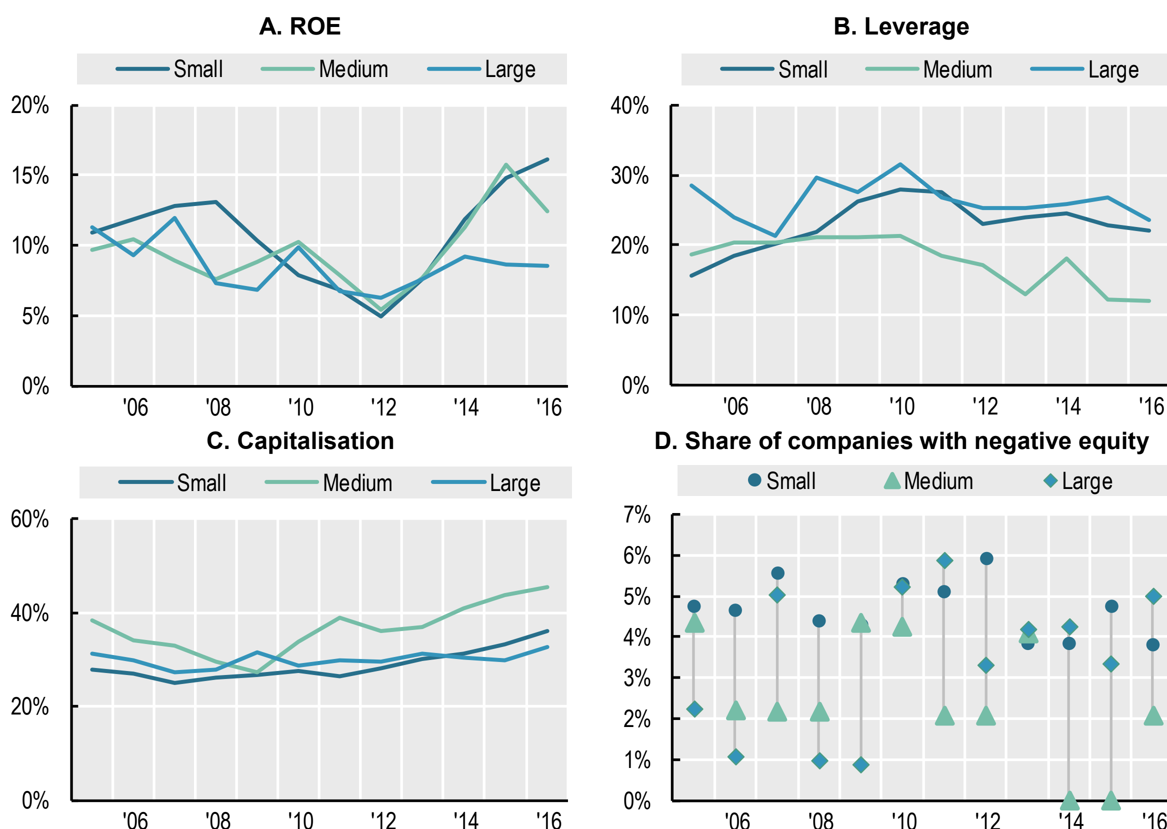
Source: OECD Survey on Access to Finance in Portugal, OECD-ORBIS Corporate Finance dataset, see Annex for details.

[14] Only when export activities account for more than 10% of sales.

To explore in some detail the financial characteristics of respondent companies, Figure 40 depicts their median return on equity (ROE), leverage and capitalisation ratios during the period 2005-2016. The median ROE of the small companies for the entire period was 10.8%. This was above the average ROE of medium-sized and large companies with levels of 9.7% and 8.7% respectively for the same period. Indeed, the large company category saw a decrease in performance in terms of median ROE as the 2019 level was 3 percentage points lower than the 2005 average (Figure 40, Panel A). However, it is important to note that small companies were selected among a group of companies with high annual growth rates.

With respect to leverage and capitalisation levels, medium-sized companies have shown the lowest levels of leverage and the highest levels of capitalisation since the 2008 global financial crisis. In 2016, the median leverage ratio for medium-sized companies was 12% and the median capitalisation ratio was 46%. In addition, medium-sized companies also had the lowest share of companies with negative equity over the recent years (Panel D). The large company group, had the highest share of companies with negative equity in 2016 (4.7%).

Figure 40. Key financial indicators for respondent companies by company size (net sales)



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

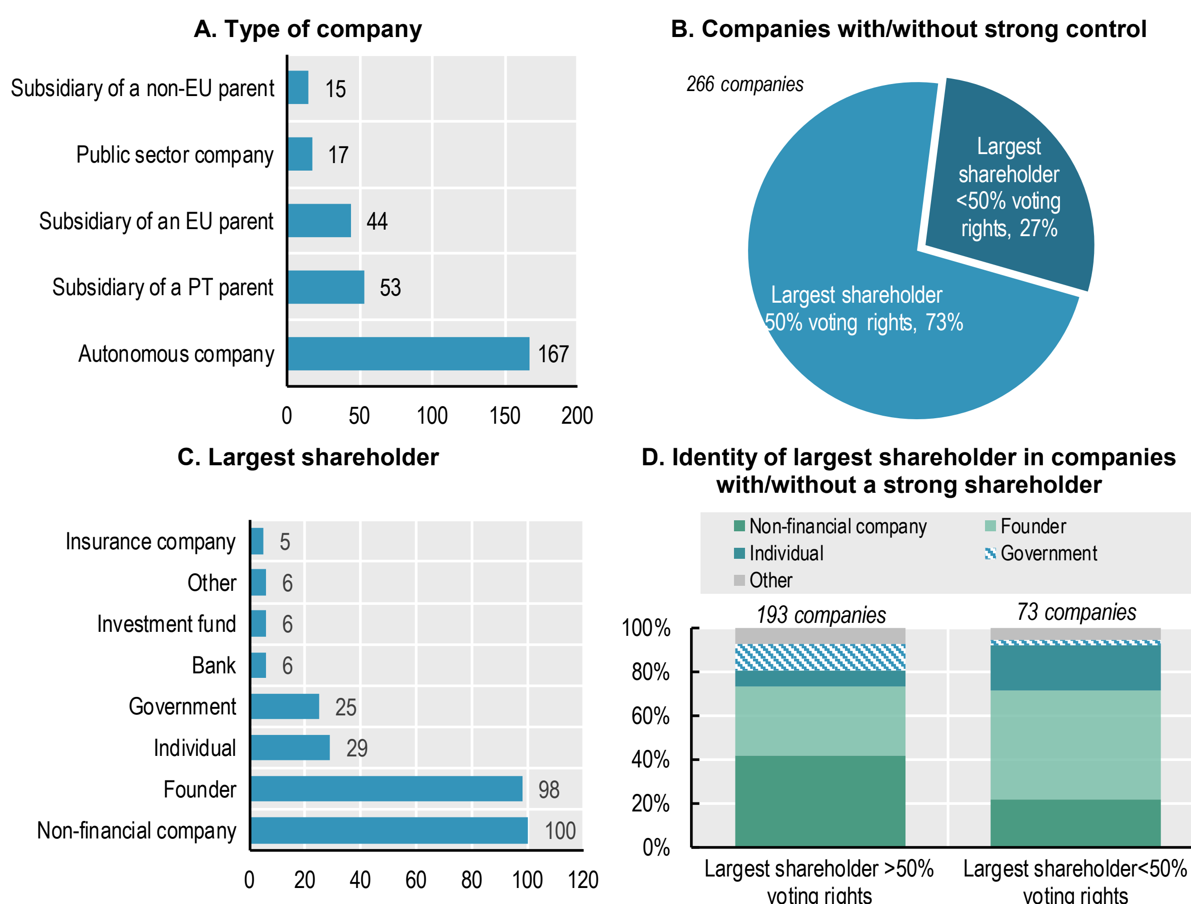
2.3. Overview of company structures: ownership and management

Corporate finance decisions are typically influenced by key company characteristics. For example, subsidiaries with a strong parent company may have an advantage in accessing financing, either from the parent company itself or by benefitting from implicit guarantees by the parent company when borrowing. It is also common that company groups create internal capital allocation mechanisms that may improve the available financing options for group

companies. In addition, some subsidiaries may be prevented from taking autonomous financing decisions. Among the surveyed companies, 56% (167) were autonomous companies and 38% (112) were subsidiaries of a parent company. Among the subsidiaries, 18% were subsidiaries of a Portuguese company, 15% were subsidiaries of an EU company and 5% were subsidiaries of a non-EU company. In addition, 6% of them identified themselves to be a public sector company.

With respect to their ownership structure, 73% of the respondent companies had a large shareholder holding over 50% of the voting rights (Figure 41, Panel B). In 36.4% of the companies, the largest shareholder was another non-financial company and in 35.6% of the companies, the largest shareholder was the founder (Figure 41, Panel C). Panel D identifies the largest shareholder in companies with and without a majority owner. In companies where the largest shareholder holds more than 50% of the voting rights, 42% have a non-financial company as the largest owner. In 31% of the companies, the largest owner is the founder and in 12% of the companies it is the public sector. In 22% of the companies where the largest shareholder does not hold over 50% of the voting rights the largest shareholder is a non-financial company. 49% have the founder as the largest shareholder and 21% an individual (other than the founder).

Figure 41. Type of company, voting power and ownership

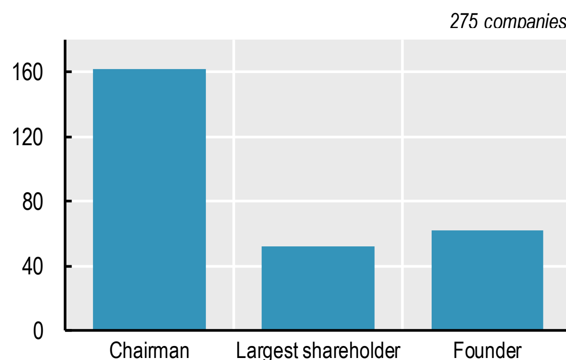


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Companies were also asked whether the CEO also exercises other responsibilities in the company (Figure 42). In 60% of the companies, the CEO is also the chair of the board. In

almost 15% of the companies, the CEO combines the roles of chair, the largest shareholder and the founder.

Figure 42. Other roles of the CEO in the company



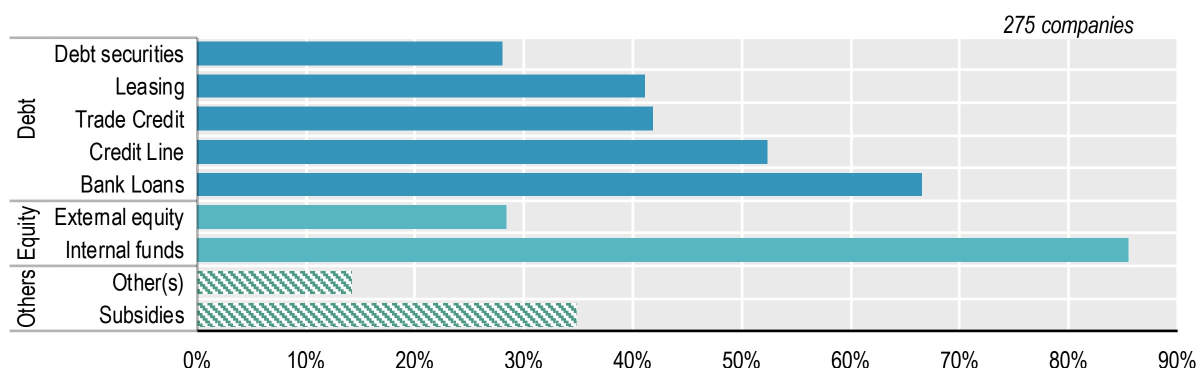
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.4. Corporations' financing sources

While unlisted firms typically do not use market-based financial instruments, they still have several short- and long-term options to finance their activities, including an initial public offering (IPO). Companies in the survey were therefore asked how important different funding sources were for them. Figure 43 shows the share of companies that reported each funding source as important or very important. Not surprisingly, 85% of the companies reported that internal funds – in the form of retained earnings – was the most important source of financing.

Bank loans and credit lines, both granted by banks, rank second and third in importance as sources of funding. The high dependence on banks as a source of financing is not a recent phenomenon in Portugal (Gameiro and Gonçalo, 2007). Both equity- and debt market-based financing were indicated as important sources of financing by around 30% of the companies. According to the Bank of Portugal, the use of market-based financing by Portuguese companies has been quite low in recent years, which is contrary to the development in most other European economies including the ones affected by the sovereign debt crisis (Banco de Portugal, 2018).

Figure 43. Financing sources by importance

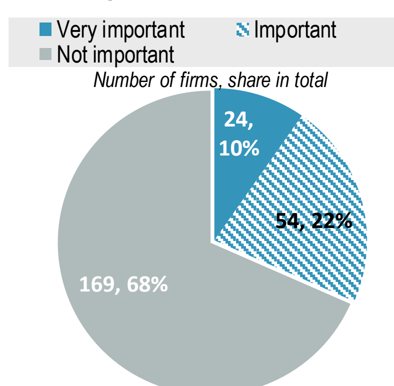


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Equity capital

While external equity funding is mentioned as an important or very important source of financing by 78 (32%) of the unlisted companies in the survey (Figure 44), history shows that few Portuguese unlisted companies have taken the step to obtain external equity financing through public equity markets. Companies' perceptions reflect the low activity in primary public equity markets (IPOs and SPOs) in Portugal compared with other European countries. As shown in Chapter III, since 1996 only 29 companies have become public in Portugal. Despite the fact that equity capital raised through SPOs since 1996 was almost 5 times the amount raised through IPOs in Portugal, the overall primary market activity in Portugal has been very limited (see Figures 62, 64 and 69 in Chapter III).

Figure 44. Importance of external equity

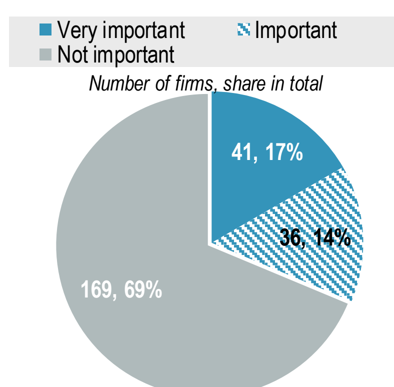


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Debt securities

Corporations can also benefit from capital markets by issuing debt securities, including corporate bonds, commercial papers and notes. Similar to external equity, debt securities was mentioned as an important or very important source of financing by 77 (31%) of the respondent companies in the survey. However, debt securities were more frequently classified as "very important" compared to external equity (Figure 45). It is also important to note that the use of long-term corporate bond markets by Portuguese non-financial companies is even more limited than what the survey results indicate as the share of the non-financial sector in total corporate bond proceeds has been only 18% during the past two decades (Figure 95).

Figure 45. Importance of debt securities



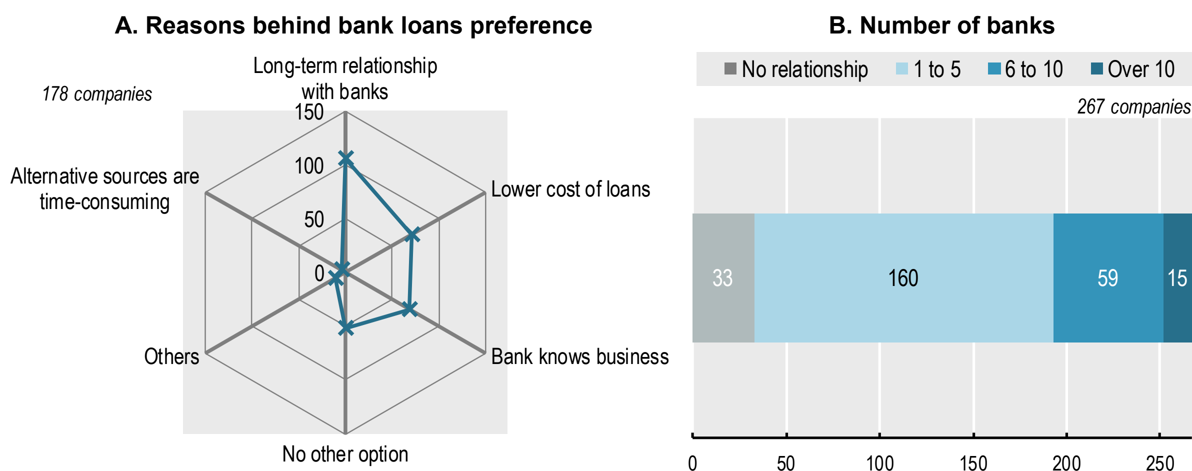
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Bank loans

Bank loans were indicated as the second most important financing source by the surveyed companies. Bank loans were mentioned as important or very important by 67% of the respondents. Companies were also asked about the main reasons for choosing bank loans over other sources of financing. As seen in Panel A of Figure 46, the long-term relationship with banks is the main reason the majority of companies choose bank loans. The lower cost of loans and the fact that banks know their businesses were also indicated as important factors by almost half of the companies. Importantly, 52 out of 178 companies mentioned that they choose banks loans because no other options were available.

Companies were also asked with how many banks they had a relationship. Over half of the companies (60%) responded that they had relationships with 1 to 5 banks and 22% of the companies reported having a relation with 6 to 10 banks. Only 6% of the companies responded having relations with more than 10 banks.

Figure 46. Main reasons for choosing bank loans as one of the main sources of financing

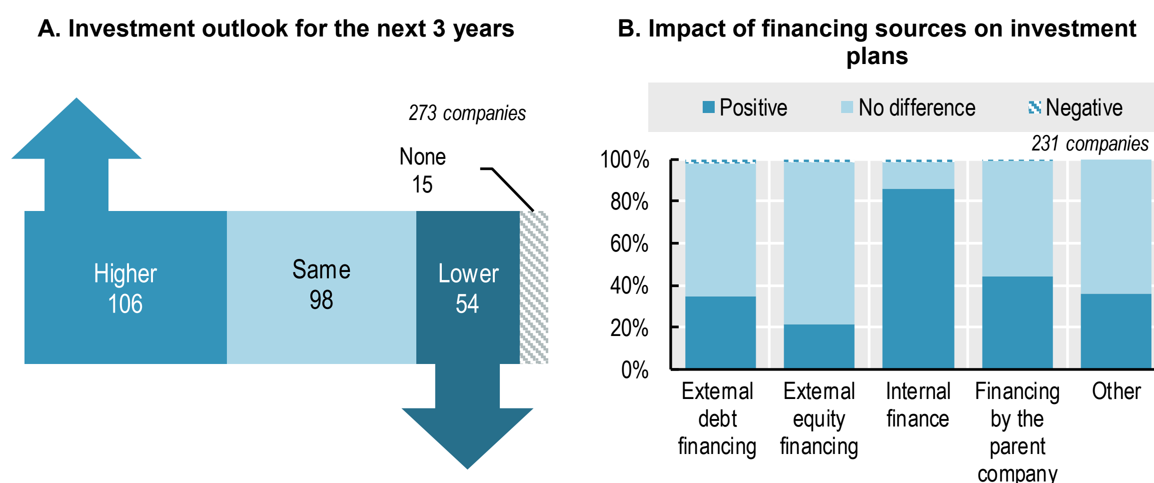


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.5. Investment plans

When asked about their investment plans for the coming 3-year period compared to the past 3-year period, 75% of the firms said that they would invest at least as much as before (Figure 47, Panel A).

Figure 47. Investment outlook for the coming three years and impact of financing sources



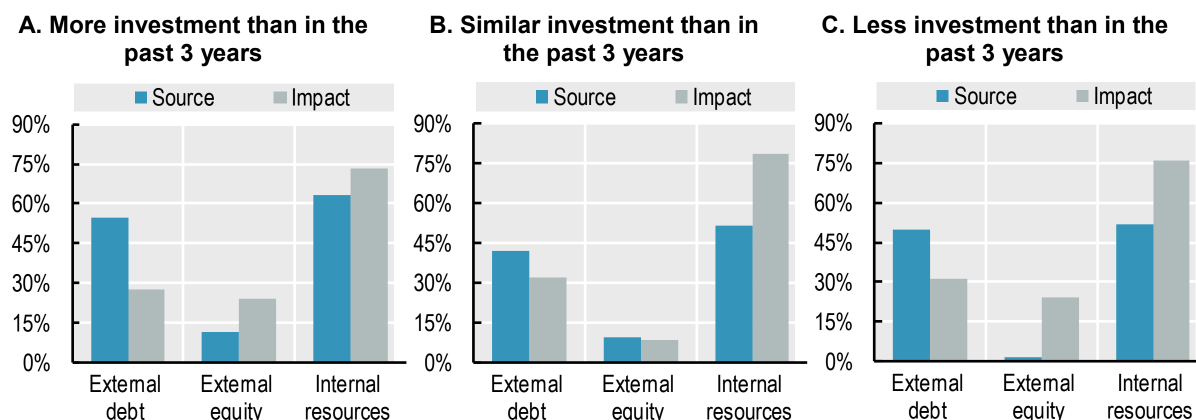
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 47 confirms that internal funds are seen as a crucial source of financing investment by the Portuguese corporate sector. More than 80% of the companies said that the availability of internal funds positively affects their investment plans. Many respondent companies in the OECD Survey, which was carried out in 2019, are relatively large and a big majority of them indicated the importance of internal resources for their investment decisions. This attitude may be related to the continued deleveraging process in the banking sector and uncertainty about the availability of external financing since the 2008 global financial crisis. According to Banco de Portugal (2018), the portion of equity capital in Portuguese companies' capital structures continued to increase in 2017, mainly through the retention of earnings.

To explore in more detail the link between the importance of different sources of financing and companies' investment decisions, Figure 48 groups the respondent companies into three categories based on investment expectations in the next three years. "Source" indicates whether a financing option was mentioned as important by the group of companies and "Impact" indicates whether they have mentioned that the availability of a particular financing option positively affects their investment decision. For example, 55% of the companies that have indicated they would invest more in the next three years compared to the previous period consider external debt as an important source of financing. But only 28% say the availability of external debt would impact their investment decisions.

Notably, only 2% of the companies that are planning to invest "less" consider external equity as an important source of financing. However, almost 25% of the companies mentioned that its availability would positively impact their investment decisions.

Figure 48: Importance and impact of different financing sources on investment plans

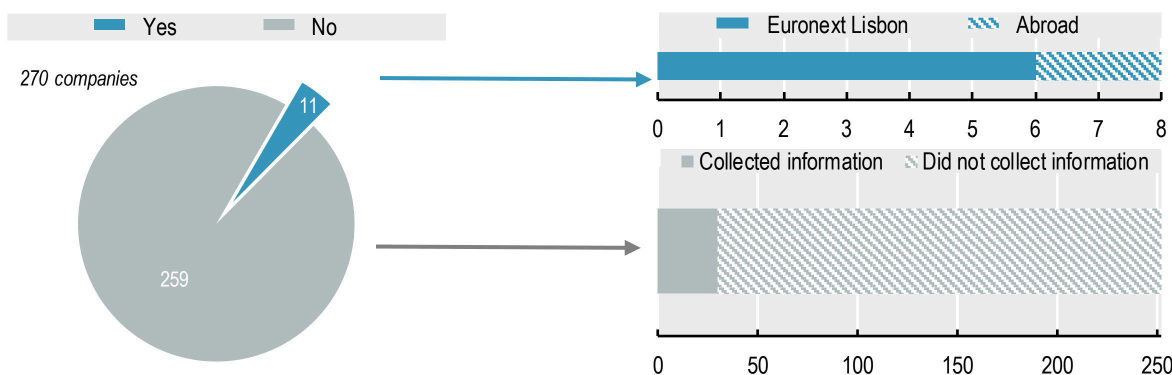


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.6. Companies that planned or evaluated the possibility to be listed

The number of listed companies in Portugal has declined over the last two decades. In the survey, the unlisted Portuguese companies were therefore asked whether they were planning to list in the next three years or if they had evaluated the possibility of going public in the past. Figure 49 reveals that a great majority of the respondent companies do not consider the possibility of becoming a listed company. Only 11 companies responded that they are planning a public listing, of which 6 indicated a national market listing and two indicated a listing abroad.

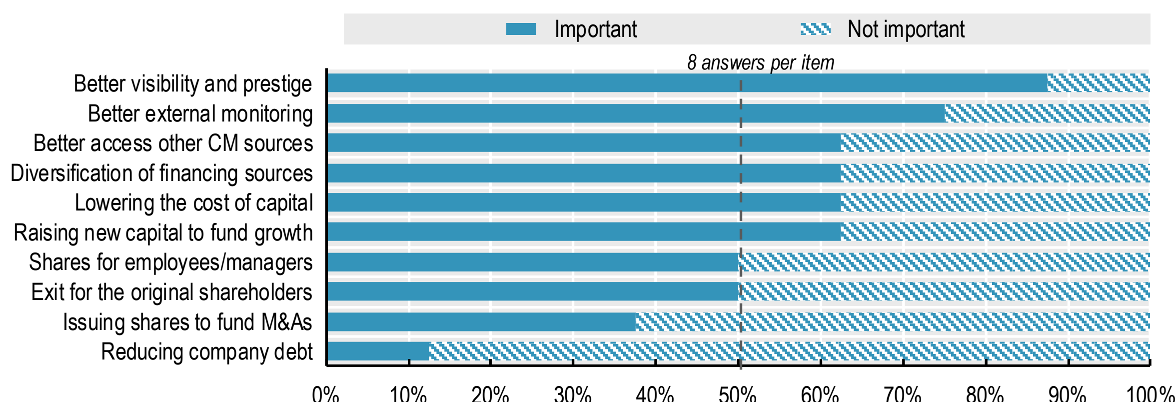
Figure 49. Companies planning to list on a stock exchange within the next 3 years



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The 11 companies that stated they are planning to list on a stock exchange within the next three years were also asked to indicate their reasons to become a publicly listed company. 8 companies responded to that question, with 7 of them mentioning better visibility and prestige and 6 of them better external monitoring as one of the key reasons to list (Figure 50). A majority of the companies mentioned better access to other capital market sources, diversification of financing options, lowering cost of capital and raising new capital to finance growth. Only one company mentioned reducing company debt as a reason to become a listed company.

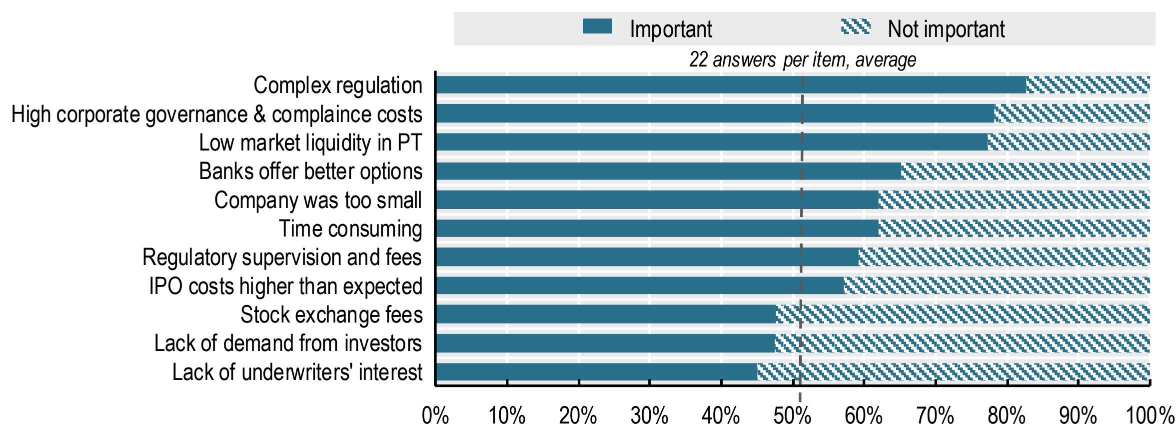
Figure 50. Reasons to become a publicly listed corporation



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 49 above, also shows that out of the 259 companies in the survey that are not planning a listing within the next three years, 30 had collected information about the listing process in the past but stopped the process before doing an IPO. This group of 30 companies was also asked to identify the factors that led them not to complete the listing process. As shown in Figure 51, more than three-quarters of the companies mentioned complex regulation, high corporate governance and compliance requirements and low market liquidity in local markets as reasons to stop their listing process. At the same time, two-thirds of the companies mentioned that banks offered better options. Importantly, the majority of the firms considered themselves too small, the process time consuming and the IPO costs higher than expected.

Figure 51. Reasons to stop companies from continuing their listing process

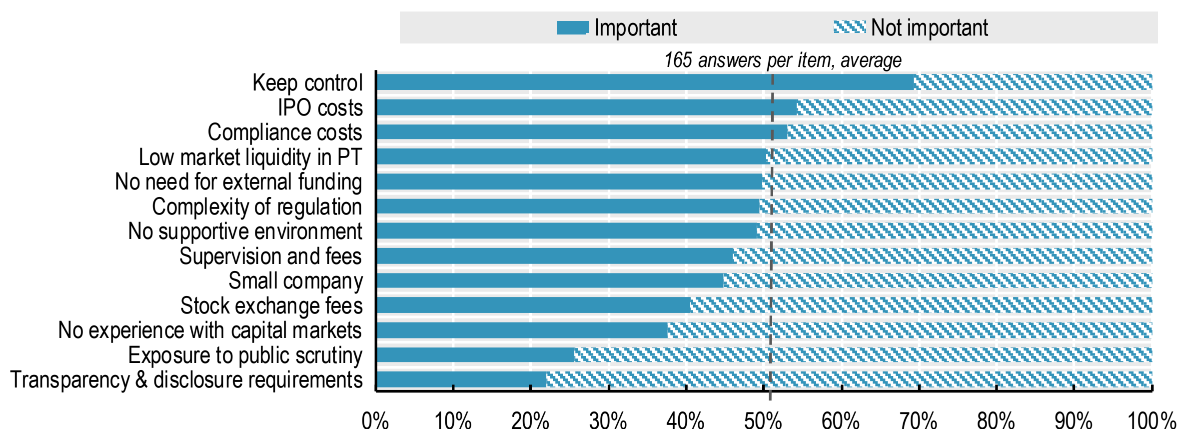


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The companies that responded that they are neither planning a listing within the next three years, nor have collected any information about the listing process were asked about the reasons for their decision not to become a publicly listed company. 165 companies responded to the question and the results are summarised in Figure 52. By far the most important reason mentioned is “our shareholders do not want to share control with others” (keep control). Listing related costs, low liquidity level and complexity of the regulation were also mentioned by more than half of the companies. It is also important to note that half of the companies mentioned that the reason behind their decision to remain unlisted is related to the fact that there is a lack of a supportive public equity market environment in Portugal. While 38% of the companies

mentioned lack of experience with capital market financing, only 22% mentioned transparency and disclosure requirements.

Figure 52. Reasons for staying private



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

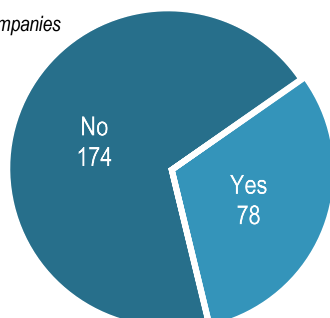
2.7. Debt securities issuance

Debt securities mainly refer to corporate bonds, commercial papers and notes. In general, debt securities issued by non-financial companies are simple in their structure, mostly non-subordinated, unsecured and with fixed interest rates. Issuers of short-term debt securities – commercial papers – are not subject to the mandatory requirement of rating nor to provisions of guarantee.[15]

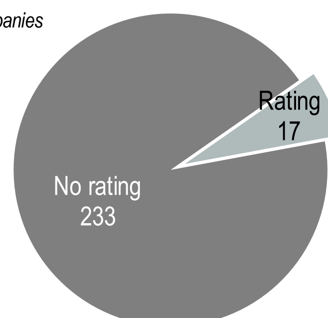
To explore the Portuguese non-financial companies' use and perception of the debt securities market, respondents were asked whether they had issued any debt securities in the past and whether they still have a valid credit rating. Panel A in Figure 53 shows that 78 companies (31%) had issued debt securities in the past. At the same time, however, only 17 companies (7%) had a valid credit rating at the time of the survey (Panel B). This may be related to the fact that most companies issued commercial papers that do not require a credit rating.

Figure 53. Past debt securities issuance and companies with a valid credit rating

A. Companies that issued debt securities



B. Companies with a valid credit rating



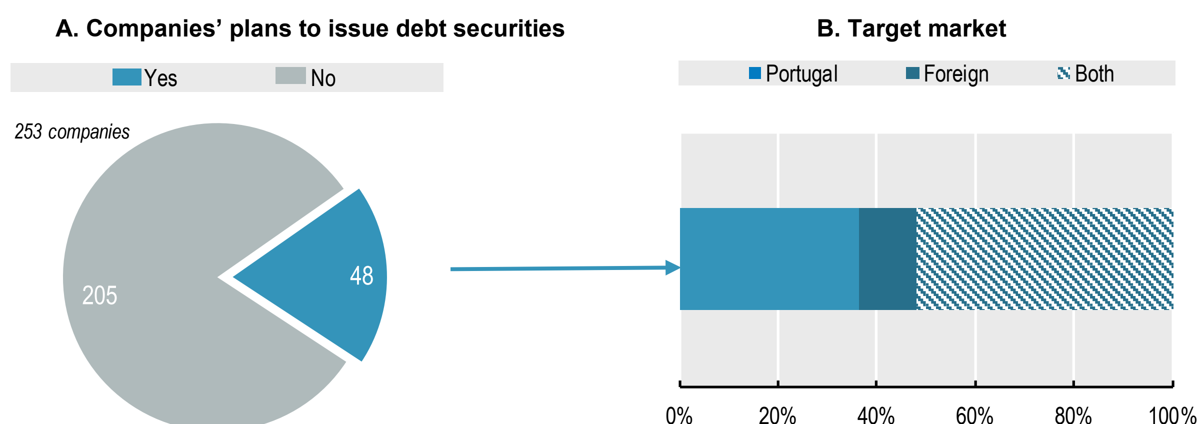
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

[15] Decree-Law No. 69/2004 of 25 March.

Companies were also asked whether they plan to issue debt securities in the following 3 years (Figure 54, Panel A). 48 companies (19%) mentioned that they were. Despite the improvements after the financial and the sovereign debt crises – regarding both country risk and market sentiment – debt issuance remains relatively low, even for the largest companies (Banco de Portugal, 2018).

Panel B of Figure 54 displays the potential target markets for planned debt security issuances within the next three years. Compared to equity issuance, there seems to be a higher preference for country diversification as more than half of the companies mentioned that they would target both the Portuguese and foreign markets.

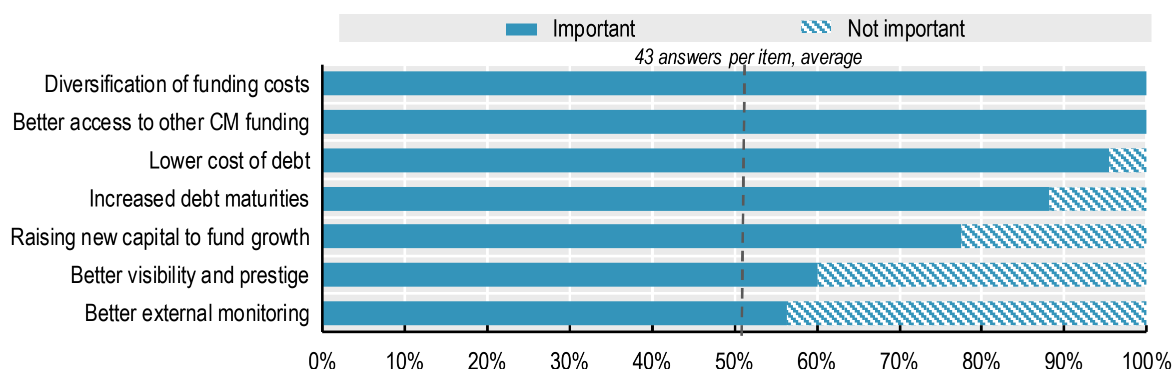
Figure 54. Plans to issue debt securities in the next 3 years and potential target market



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Companies that are planning to issue debt securities within the next three years were asked about their motives. 43 companies responded to the question and the results are summarised in Figure 55. Notably, diversification of funding sources and improved access to other market-based financing sources were mentioned by all companies. In addition, for more than 90% of the companies lowering the cost of debt and increasing their debt maturity were mentioned as important reasons to issue debt securities. Raising capital to fund growth was indicated as an important reason by almost 80% of the companies.

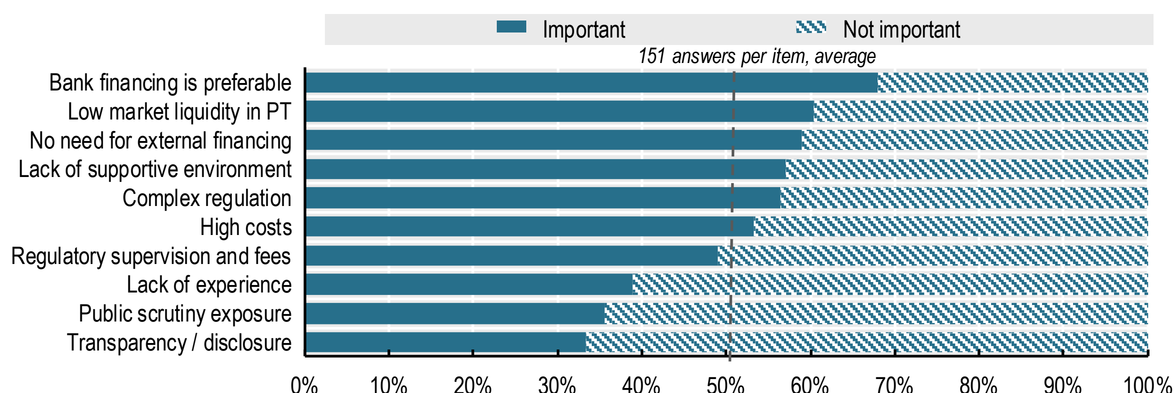
Figure 55. Reasons for issuing debt securities



Note: CM stands for capital markets.
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Companies that are not planning to issue debt securities within the next three years were also asked the reasons for not doing so. As Figure 56 shows, out of 151 companies, 106 of them (68%) mentioned that bank financing is preferable. This is followed by low liquidity in the local market, no need for external financing and lack of supportive environment. Similar to the reasons mentioned with respect to remaining a private company, disclosure and transparency requirements as well as being exposed to the public scrutiny do not appear as important factors.

Figure 56. Reasons for not issuing debt securities

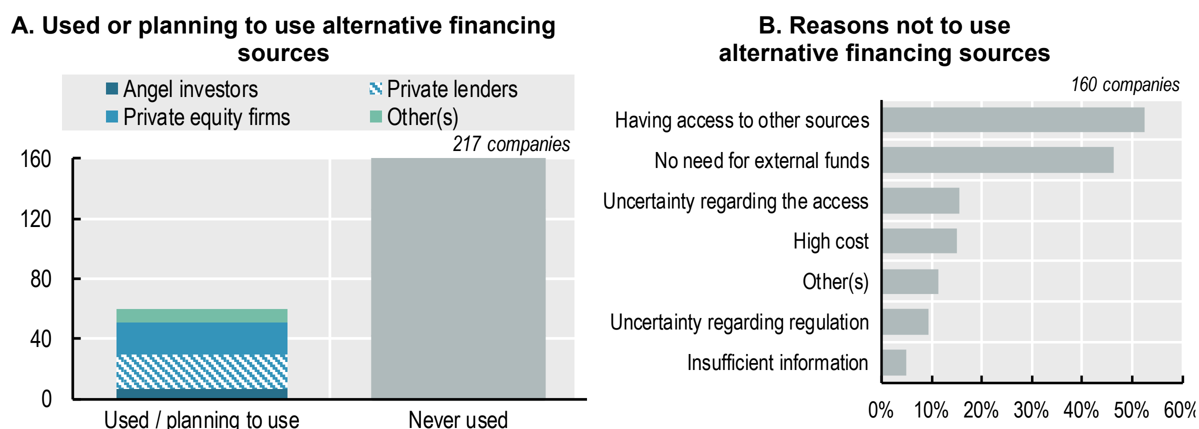


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.8. Alternative financing sources

The survey also explored the use and perception of different alternative financing options, including private equity and private debt. Over three quarters of the companies have never used or are not planning to use any of the alternative financing options (Figure 57, Panel A). The 58 companies that have used or are planning to use alternative financing sources mostly mentioned private equity and private debt. The companies that have never used alternative financing were also asked to indicate the reasons behind their decision. Over half (53%) of the companies mentioned that they have access to other sources of financing and 46% mentioned that they do not need external funding. Around 15% of the companies indicated uncertainty regarding the use of alternative financing and high costs.

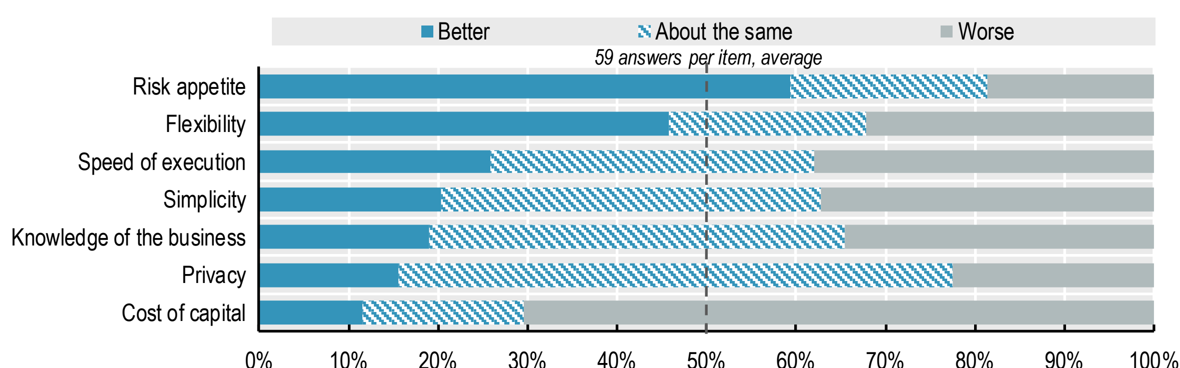
Figure 57. Usage of and impediments to using alternative financing sources



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 58 summarises company responses to the question about how they perceive alternative financing sources compared to traditional financing sources. Most companies indicated that they see the providers of alternative financing sources, such as venture capital, private loans and private equity, as more risk-prone than traditional finance providers. Most companies also see that the cost of alternative financing is higher than traditional sources. The results also show that alternative financing sources are perceived to be more flexible, but not simpler nor faster to execute than traditional financing sources.

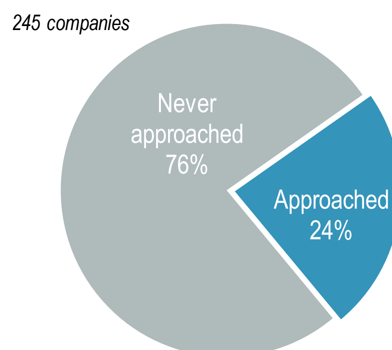
Figure 58. Perception of alternative financing sources compared to traditional financing sources



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 59 illustrates that 24% of the respondent companies in the survey have been approached by private equity/venture capital firms interested in investing in them during the last three years.

Figure 59. Companies have/have not been approached by private equity firms during the last 3 years



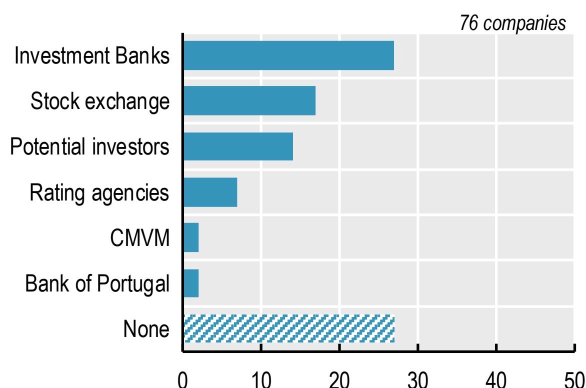
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.9. Market environment

In the OECD Survey, companies were also asked if any of the market agents, such as investment banks, the stock exchange and rating agencies, have contacted them at any point in time to provide them with information or to encourage them to use market-based financing. Figure 60 summarises the responses showing the number of firms that have been contacted to receive information about the listing process. Unsurprisingly, investment banks are the most active agents in approaching companies to provide them with information about market-based

financing. The stock exchange was identified as the second most common agent contacting them.

Figure 60. Market actors that approached companies to provide them with information about listing process



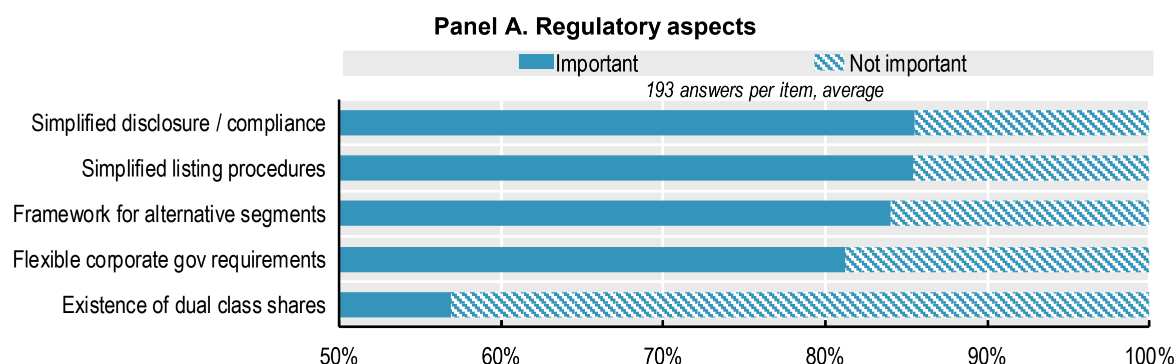
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

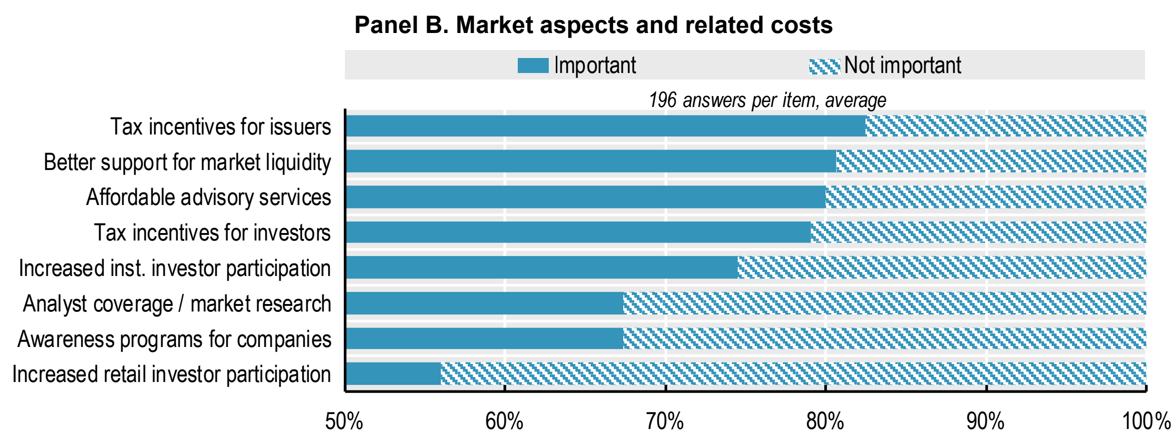
Figure 61 displays Portuguese unlisted companies' proposals for a thriving exchange listing environment. Panel A summarises issues related to the legal and regulatory framework and Panel B summarises relevant market aspects and costs. Simplified disclosure and compliance requirements, simplified listing procedures, a framework for alternative segments and flexible corporate governance requirements were indicated as important factors by more than 80% of the companies. The existence of dual class shares was not identified to be as important factor as might be expected, given that companies responded that one of the main reasons holding them back to list their shares was to lose control of the company.

Among market factors and related costs, companies indicated that tax incentives for investors and issuers are key in Portugal to nurture a successful stock exchange listing environment. More liquidity in the secondary market and factors indirectly promoting liquidity, such as increasing participation of institutional and retail investors and market research, were also perceived as important determinants to create a supportive listing environment. In fact, low secondary market liquidity has also been claimed as a reason why companies delist from the stock exchange. Moreover, having affordable advisory services was also pointed out as an important factor. The high cost of advisory services, might be particularly relevant for smaller companies.

Figure 61. Important factors for creating a successful stock exchange listing environment

Panel A. Regulatory aspects





Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

CHAPTER III. THE PORTUGUESE PUBLIC EQUITY MARKET

Equity capital is well-suited to support forward-looking long-term investments that include research, development and innovation with uncertain outcomes. It is also suitable for investments in intangible assets without well-defined collateral, which is often required as a condition for traditional loans.

Retained earnings is typically the most important sources of equity for non-financial companies, in particular for established firms. However, direct equity injections from existing or new shareholders are also important sources of capitalisation in the corporate sector. One avenue for companies to raise equity capital is using the primary public equity markets in the form of conducting an initial (IPO) or a secondary public equity offering (SPO). An IPO is the process when a company is first introduced and listed on a stock exchange. An SPO (or a so-called follow-on offering), on the other hand, is the process when an already publicly listed company raises additional equity capital in the primary market. Although both transactions are called ‘public offering’, this does not mean that they can only be conducted using a prospectus. Many primary public equity market transactions in today’s capital markets are indeed conducted through private equity placements where shares are only issued to current owners or a selected group of institutional investors without a prospectus.

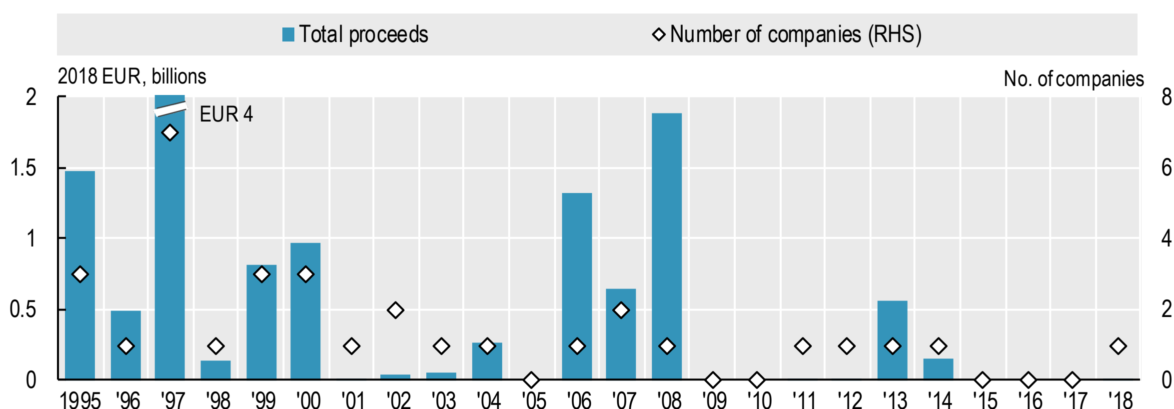
This chapter provides an overview of Portuguese companies’ use of primary public equity markets through IPOs and SPOs since 2000. It also looks at ownership structures of Portuguese listed corporations, including the level of institutional ownership and the degree of ownership concentration, and compares them with selected European countries. After describing the stock exchange landscape in Portugal, the chapter ends with a discussion on the role of intermediaries in the Portuguese primary public equity market. The discussion is primarily based on the *OECD Capital Market Series dataset* described in the Annex.

3.1. Trends in initial public offerings

Following the 1974 Revolution, the Portuguese stock market shut down for a three-year period. A few years after re-opening, it started growing strongly supported by financial market reforms and a more stable macro-economic environment. In particular, the level of primary market activity reached its peak with 88 new listings between 1986 and 1987. In the 1990s, however, the stock market activity was mainly driven by listing of state-owned enterprises as part of the national privatisation programme launched in 1989. SOE listings accounted for almost 70% of the total IPO proceeds between 1989 and 1997 (Borges, 2007).

After the end of the privatisation era in mid-1990s, the number of Portuguese companies that have listed and the total amount of equity capital they have raised have remained modest. As shown in Figure 62, the IPO activity was relatively high during the 1995-2000 period with a total of 18 companies listing raising almost EUR 8 billion. Between 2006 and 2008, however, there were only 4 new listings on the Portuguese Stock market raising a total amount of EUR 4 billion. Since 2008, the IPO activity has been persistently low with only 5 companies becoming public and issuing equity. The total amount of capital raised during the same period was around EUR 700 million.

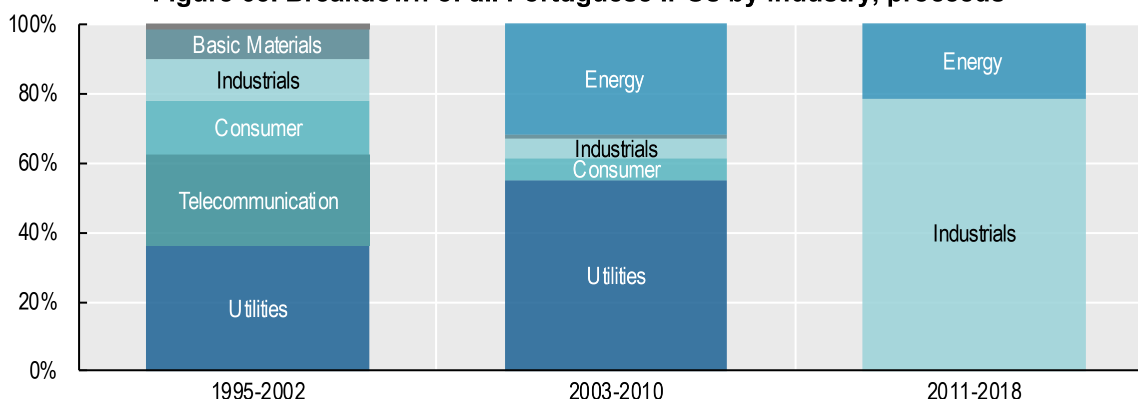
Figure 62. Initial public offerings (IPOs) by Portuguese companies



Source: OECD Capital Market Series dataset, see methodology for details.

The industry profile of the companies coming to the market has varied over time. As shown in Figure 63, during the high IPO activity period between 1995 and 2002 five industries dominated the IPO market: utilities, telecommunication, consumer, industrials and basic materials. During the period that followed, between 2003 and 2010, the companies joining the public market were mostly from the energy and utilities industries. All five companies that listed in the most recent period, between 2011 and 2018, were energy and industrials companies. It is important to note that only one financial company raised capital through an IPO over the entire period.

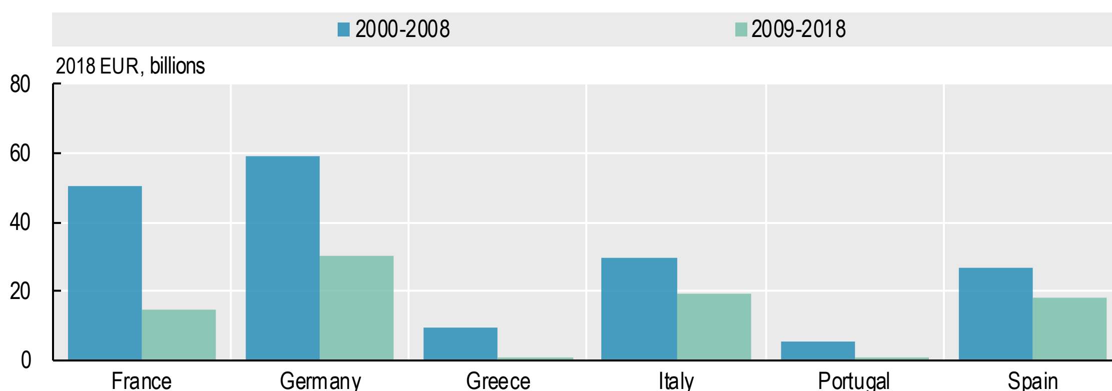
Figure 63. Breakdown of all Portuguese IPOs by industry, proceeds



Source: OECD Capital Market Series dataset, see Annex for details.

Compared to the early 2000s, public equity markets in Europe have experienced a substantial decline in IPOs over the past decade. As seen in Figure 64, the amount of capital raised via IPOs has declined for all European countries shown in the figure. In France and Germany, the total IPO proceeds by non-financial companies have dropped by around 70% and 50% respectively from the first period (2000-2008) to the second (2009-2018). In Portugal, IPO proceeds were relatively low in both periods compared with other European economies. Notably, the total amount of capital raised in the second period was around one-eighth of the first period and the average annual IPO proceeds since 2009 were only EUR 144 million.

Figure 64. Initial public offerings (IPOs) by non-financial companies from Portugal and selected economies

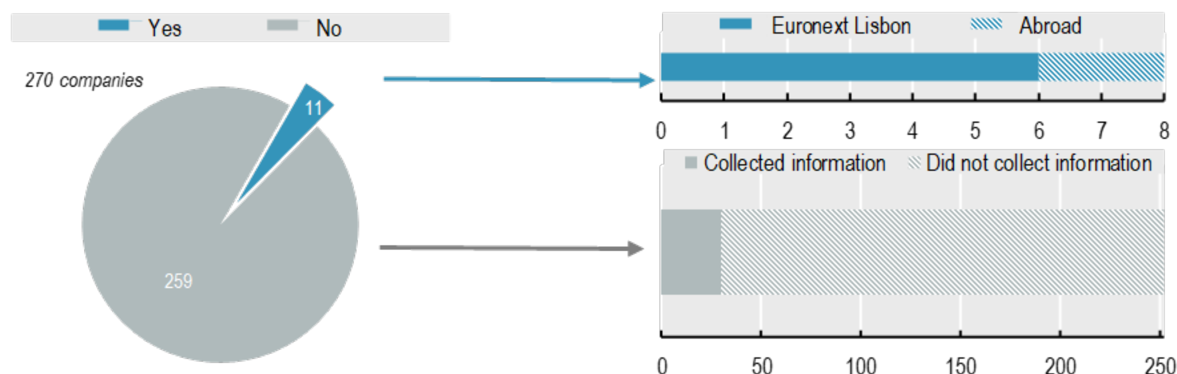


Source: OECD Capital Market Series dataset, see Annex for details.

To explore in more detail how unlisted non-financial companies use and perceive market-based financing in Portugal, the OECD conducted a survey presented in Chapter II. Among other questions, the unlisted Portuguese companies were asked whether they were planning to list in the next three years or if they had evaluated the possibility of going public in the past. Out of 270 respondent companies, a great majority (259) indicated that they did not consider the possibility of becoming a listed company. Only 11 companies responded that they are planning a public listing, of which 6 indicated a national market listing and 2 indicated a listing abroad.

The 11 companies that stated that they are planning to list on a stock exchange within the next three years were also asked to provide their motivation for becoming a publicly listed company. Out of 8 companies responding to the question, 7 mentioned better visibility and prestige and 6 of them mentioned better external monitoring as key reasons to go public. A majority of the companies mentioned better access to other capital market sources, diversification of financing options, lowering cost of capital and raising new capital to finance growth. Only one company mentioned reducing company debt as a reason to become a listed company.

Figure 65. Companies planning to list on a stock exchange within the next 3 years

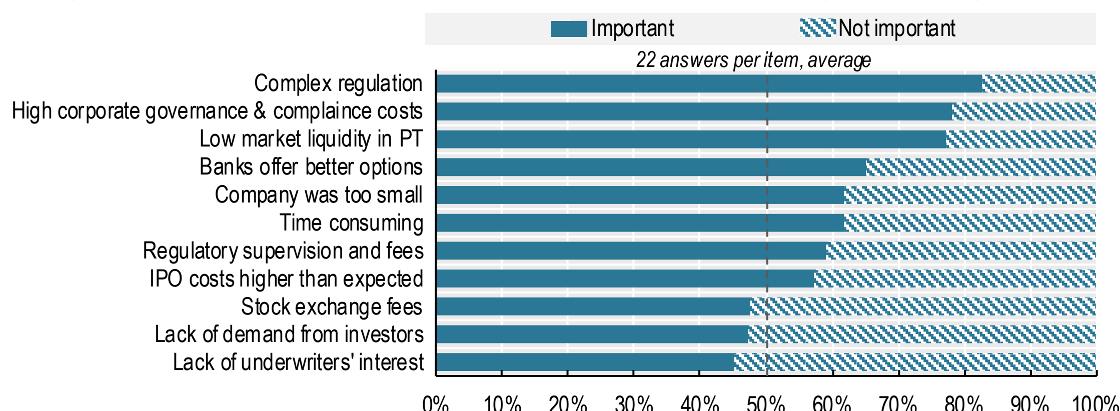


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Importantly, out of the 259 companies in the survey that indicated that they were not planning a listing within the next three years, 30 had collected information about the listing process in the past but stopped the process before doing an IPO (Figure 65). This group of 30 companies

was also asked to identify the factors that led them not to complete the listing process. As shown in Figure 66, more than three-quarters of the companies mentioned complex regulation, high corporate governance and compliance requirements, and low local market liquidity as reasons to stop their listing process. At the same time, two-thirds of the companies mentioned that banks offered better options. Importantly, the majority of the firms considered themselves to be too small, the process too time consuming and the IPO costs higher than expected.

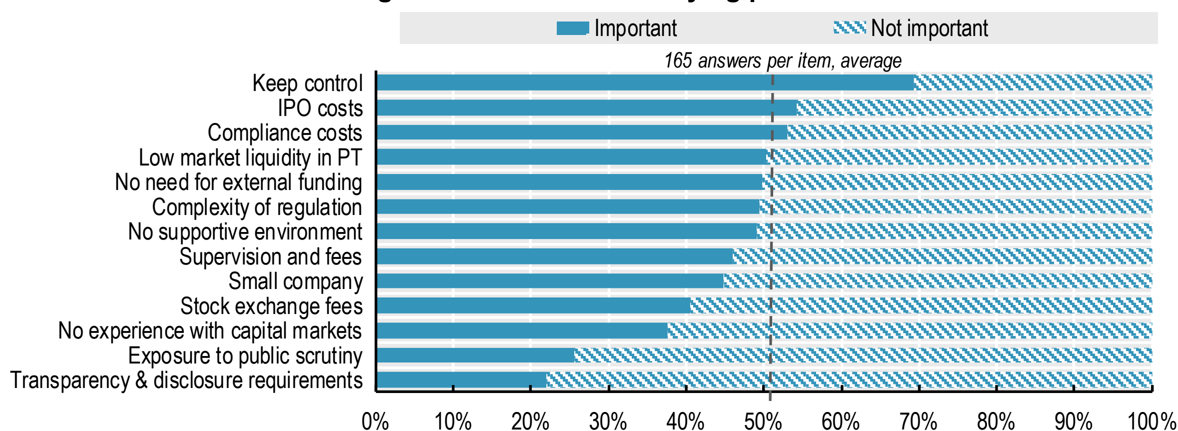
Figure 66. Reasons that prevented companies from continuing their listing process



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The companies that responded that they neither are planning a listing within the next three years, nor have collected any information about the listing process were asked about the reasons for their decision not to become a publicly listed company. 165 companies responded to the question and the results are summarised in Figure 67. By far the most important reason mentioned is “our shareholders do not want to share control with others” (keep control). Listing related costs, low liquidity level and complexity of the regulation were also mentioned by more than half of the companies. It is also important to note that half of the companies mentioned that the reason behind their decision to remain unlisted is related to the fact that there is a lack of a supportive public equity market environment in Portugal. While 38% of the companies mentioned lack of experience with capital market financing, only 22% mentioned transparency and disclosure requirements.

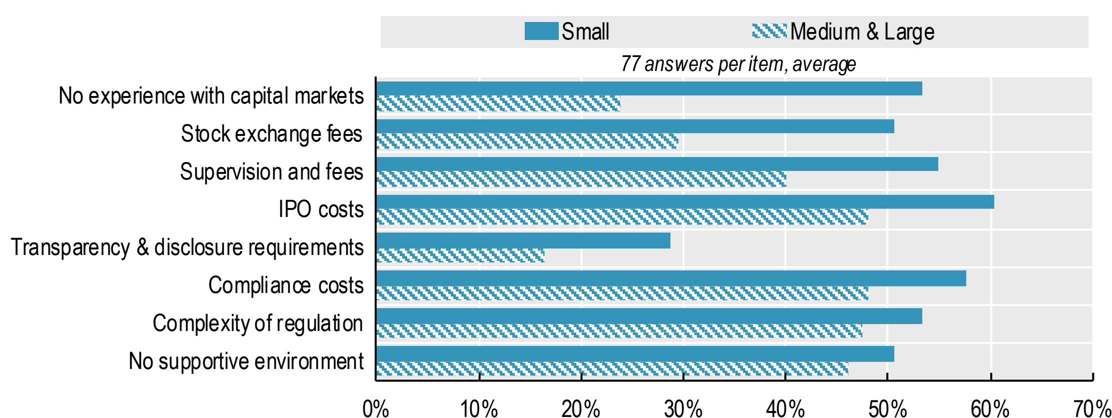
Figure 67. Reasons for staying private



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

As the motivation for staying private might change according to the size of the company, Figure 68 plots the most important reasons to stay private for small versus medium and large companies. For this question, the respondent companies are almost equally distributed between the groups of small companies and medium-large companies. Not surprisingly, having no experience with capital markets is a key factor for small companies for staying private, whereas it is less relevant for medium and large companies. Similarly, high costs of becoming a public company and the ongoing costs seem to be more relevant reasons why small firms are unwilling to use the public equity market. Some factors appeared to be equally important for both groups (not shown in the figure). For medium and large companies the two factors that appear to be relatively more important are the low liquidity level in the market and the companies' lower need of external financing. At the same time, keeping control, the most important reason indicated in the survey by all companies, is an equally important factor for both categories of companies for staying private.

Figure 68. Important reasons for staying private by company size



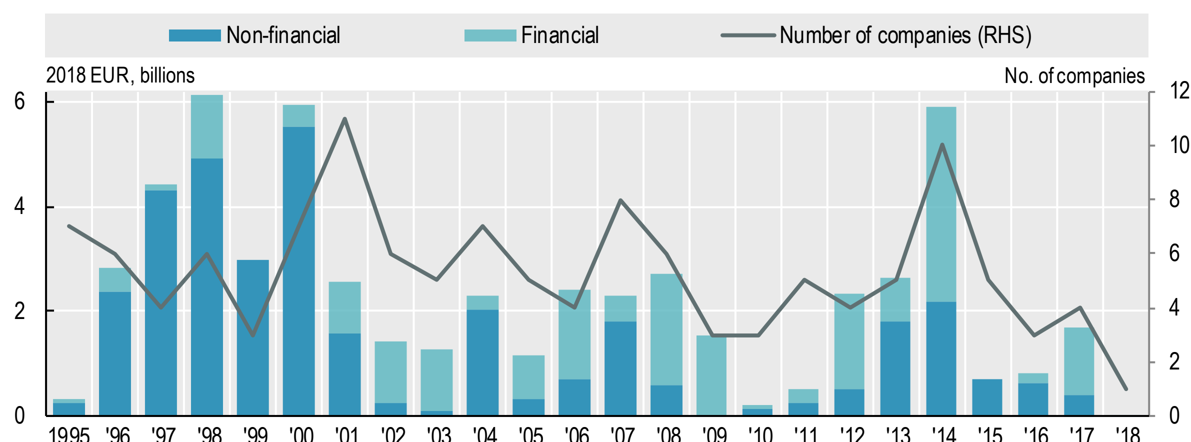
Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

3.2. Trends in secondary public offerings

After its IPO, a company can raise additional equity capital through a secondary public offering (SPO, follow-on offering). SPOs are normally launched several years after the IPO for the purpose of raising capital for new projects, to recapitalise the company or to pursue an acquisition. It is important to note, again, that in today's capital markets an SPO does not necessarily mean a shares offering to the public with a prospectus. Rather, it is often conducted through a private placement where shares are only issued to current owners or a selected group of institutional investors, without a prospectus.

Figure 69 shows the number of Portuguese companies and their annual amount of equity raised through SPOs since 1995. Already listed companies in Portugal, raised capital more often compared to newly listed companies. Over the entire period, there have been on average five SPOs per year raising an average of EUR 2.3 billion. However, since 2014 there has been a declining trend both with respect to proceeds and the number of companies doing SPOs. Over the entire period, the total amount of equity capital raised through SPOs was more than four times as large as the amount of equity capital raised by IPOs. It is worth noting that the distribution of SPO proceeds between financial and non-financial firms has changed throughout the period as companies from the financial sector have become more dominant. Similar to the trend in IPOs, there have been very few non-financial companies using the public equity market through SPOs since 2009.

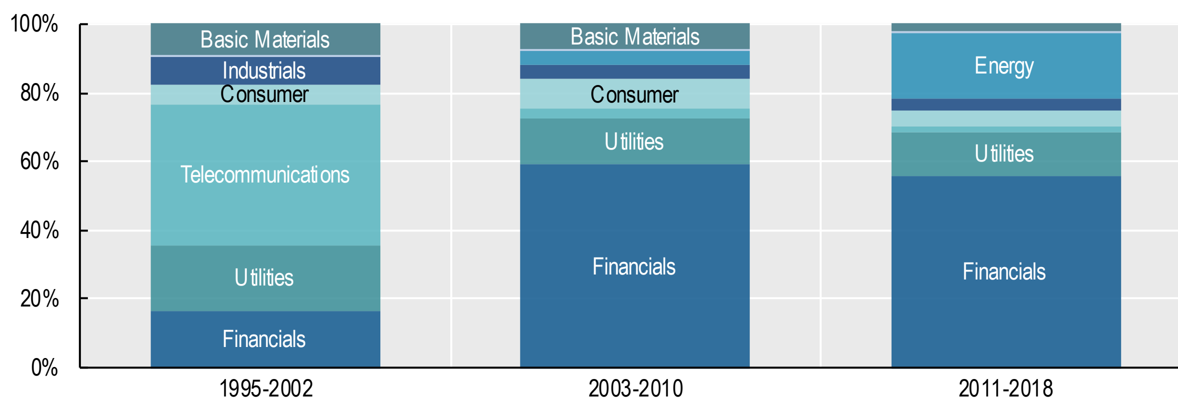
Figure 69. SPOs by Portuguese companies



Source: OECD Capital Market Series dataset, see Annex for details.

In order to provide a broader picture of the industry distribution of Portuguese SPOs, Figure 70 presents the breakdown of all SPOs by industry in three different periods. In line with the trend illustrated in Figure 69 above, while the financial sector represented around 17% of all Portuguese SPO proceeds between 1995 and 2002, its share has increased to 60% since 2003. Efforts to re-capitalise the national banking sector following the 2008 global financial crisis and the subsequent euro area crisis have played an important role in driving this trend. As a result of a few large transactions, the energy industry became the second largest sector in the last period starting in 2011. The only non-financial sector that maintained a relatively important market share with respect to SPOs over the three periods was utilities, although its share dropped from 19% to 13% from the first period to the last period.

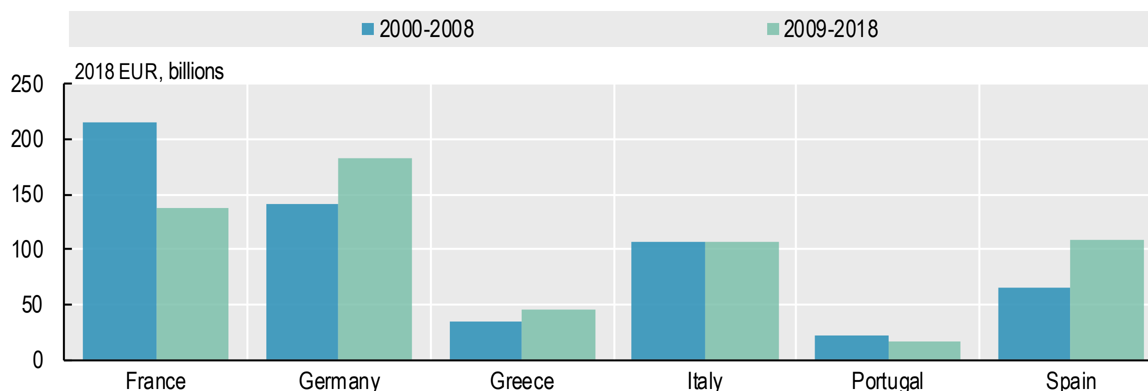
Figure 70. Breakdown of all SPOs by Portuguese companies by industry, proceeds



Source: OECD Capital Market Series dataset, see Annex for details.

Figure 71 presents proceeds raised by Portuguese companies and companies from European peer countries in the years prior to and following the 2008 global financial crisis. While SPO proceeds by Portuguese and Italian companies remained almost unchanged between the two periods, German and Spanish companies raised more capital through SPOs in the post-crisis period. It is important to note that over the entire period, the amount of equity capital raised through SPOs was considerably larger than the amount of equity capital raised through IPOs in all countries. This fact illustrates the importance of public equity markets as a significant source of finance for companies that are already listed.

Figure 71. Secondary public offerings by companies from Portugal and selected economies



Source: OECD Capital Market Series dataset, see Annex for details.

3.4. Investors and ownership structure in the Portuguese public equity market

The analysis in this section is based on ownership information for the 34 largest listed companies in Portugal as of the end of 2018. These 34 companies account for 99.6% of the total domestic market capitalisation. Using the same criteria developed in De La Cruz, Medina and Tang (2019), 5 investor categories are identified: private corporations, public sector, strategic individuals, institutional investors and other free-float. Table 10 summarises the share of market capitalisation in the hands of different categories of investors. Portugal shows a high share of ownership of listed companies by private corporations and the public sector compared to other European markets. The fact that private corporations hold on average 33% of the equity stake in Portuguese listed companies can be seen as a strong indicator of presence of company group structures in the economy. At the same time, of the below listed countries, ownership by institutional investors is the lowest in Portugal after Greece.

Table 10. Ownership by investor category

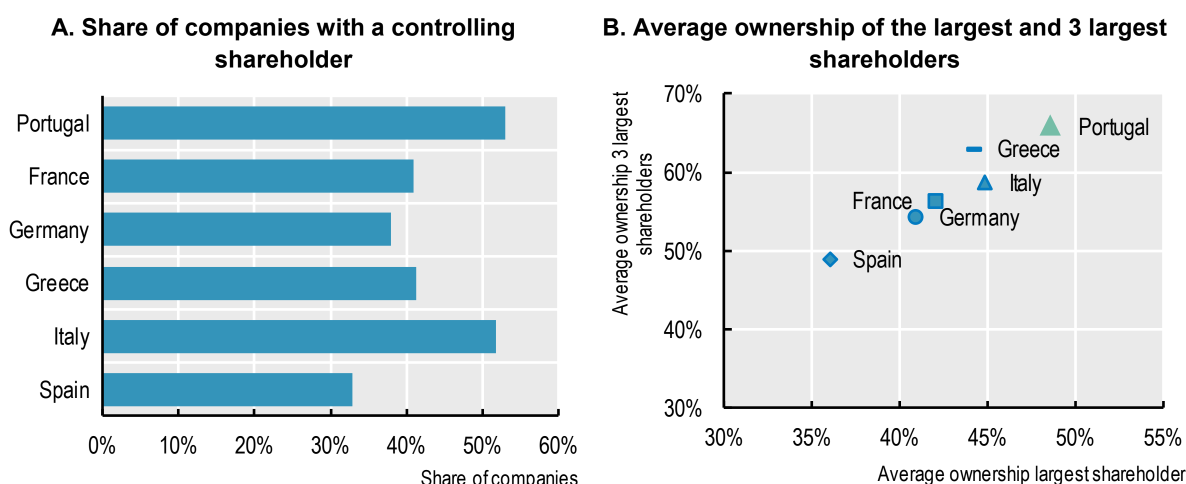
	Private corporations	Public sector	Strategic individuals	Institutional investors	Other free-float
Portugal	33%	13%	10%	23%	20%
France	18%	8%	13%	28%	34%
Germany	18%	6%	8%	30%	38%
Greece	24%	9%	15%	19%	34%
Italy	14%	12%	11%	28%	35%
Spain	13%	6%	14%	27%	40%

Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters Eikon, Bloomberg; see Annex for details.

The following figures characterise equity markets in terms of their ownership concentration. Panel A in Figure 72 shows the share of listed companies with a single controlling shareholder. Controlling shareholder is here defined as a single investor holding over 50% of the equity capital in the company. Portugal shows the highest share of companies with a controlling owner. In fact, over half of the listed companies in Portugal have a single controlling shareholder. Only Italy, shows a similar share of companies controlled by a single shareholder. At the company level, concentration in Portuguese listed companies is also high. Panel B in Figure 72 plots the average holding of the single largest shareholder against the average of the combined holdings of the 3 largest owners. Again, Portugal shows the highest level of ownership concentration at the company level compared to other European economies.

As shown in De La Cruz, Medina and Tang (2019) concentrated ownership is a widespread phenomenon in the listed corporate sector around the world. It is documented that in 29% of the worlds' listed companies the largest single shareholder holds over 50% of the equity capital. The high concentration in equity capital ownership may be linked to the limited availability of control enhancing mechanisms, such as multiple voting shares. In Portugal, for example, multiple voting shares is not allowed for listed companies. However, the same is true for Germany and Spain, where the concentration of ownership is significantly lower than in Portugal. As described above, large controlling shareholders are also very common among unlisted Portuguese companies. In the group of 297 companies that responded to the OECD Survey, over 70% reported having a large shareholder holding over 50% of the equity capital.

Figure 72. Ownership concentration



Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters Eikon, Bloomberg; see Annex for details.

Equity markets have become increasingly internationalised as cross-border ownership has significantly risen over the recent decades. This trend has been largely driven by the strong growth of institutional investors that increasingly hold globally diversified portfolios. Table 11 provides an overview of the origins of the different categories of investors in Portugal and five other European markets. At the overall market level, foreign ownership in Portugal is high compared to other European markets. However, this is not only driven by a large share of foreign institutional ownership, but also by a strong presence of foreign private companies and foreign public sectors as owners of Portuguese listed companies.

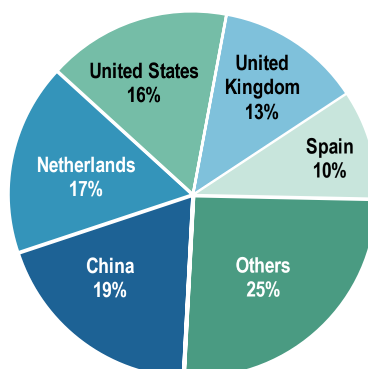
Table 11. Foreign versus domestic ownership

	Private corporations		Public sector		Strategic individuals		Institutional investors	
	Domestic	*Foreign*	*Domestic*	*Foreign*	*Domestic*	*Foreign*	*Domestic*	*Foreign*
Portugal	22%	11%	1%	12%	10%	0%	3%	20%
France	14%	4%	5%	3%	11%	1%	6%	21%
Germany	13%	6%	3%	3%	6%	2%	7%	23%
Greece	9%	15%	7%	2%	15%	0%	2%	16%
Italy	9%	4%	9%	3%	10%	1%	4%	24%
Spain	9%	5%	3%	3%	11%	2%	2%	24%

Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters Eikon, Bloomberg; see Annex for details.

Overall, foreign investors' holdings in Portugal accounts for 44% of the total market capitalisation, substantially higher than in other European economies. Figure 73 shows the origin of these investors by domicile country. Investors from China account for 19% of the total foreign ownership in Portuguese listed companies, followed by the Netherlands, the United States and the United Kingdom. In the case of China, the public sector is the main category of investor. The high share of Dutch investors is mainly related to private companies whereas for the United States and the United Kingdom it is primarily made up by institutional investors.

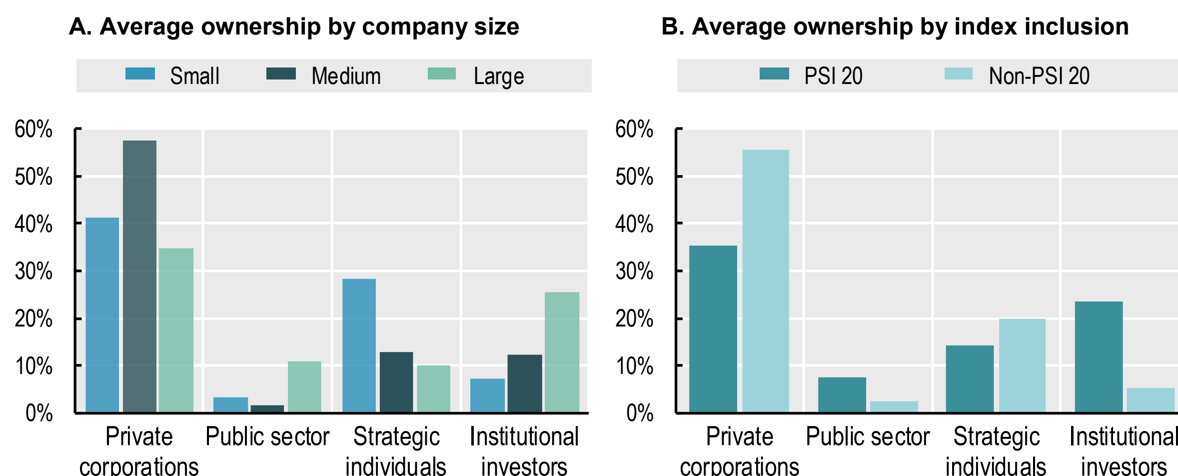
Figure 73. Largest foreign owners in Portugal



Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters Eikon, Bloomberg; see Annex for details.

The ownership structure of listed companies in Portugal varies significantly when separating companies by size. Companies were grouped into 3 categories according to their market capitalisation: large, medium and small. As seen in Panel A of Figure 74, private corporations, on average, dominate the ownership in all three size groups, but their holdings are significantly larger in medium-sized companies. Strategic investors own a high average share of small companies compared to the other two groups. The presence of the public sector and institutional investors is more noticeable in the largest listed companies.

Figure 74. Ownership by investor category at the company level in Portugal



Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters, Bloomberg; see Annex for details.

The companies included in the domestic stock market index also exhibit a different ownership structure that the ones that are not. In general, companies included in the index are large

companies with higher free-float. Panel B shows the average ownership for the companies in the PSI 20 index and for those that are not included in the PSI 20. Because institutional investors tend to track indices they hold on average a 24% share of the market capitalisation in the PSI 20 index companies compared to a modest 5% share in non-index companies.

3.5. The Portuguese Stock Exchange

Since mid-1990s, the stock exchange industry, particularly in advanced markets, has experienced important structural changes. These changes include the transformation from broker membership models to privately owned for-profit corporations, listing of stock exchanges on their own markets and consolidation of independent exchanges into international group structures. In addition, there has also been an extensive fragmentation in the secondary market as trading in stocks has increasingly been split between the stock exchanges where their shares are listed and multiple other trading venues, such as multilateral trading facilities (MTFs) and internal trading systems of investment firms (OECD, 2016).

The Portuguese stock market has also gone through important changes over the last two decades. In 1999, the Lisbon Stock Exchange, which was founded in 1769 and the Porto Stock Exchange, founded in 1832, merged into *Bolsa de Valores de Lisboa e Porto*. This stock exchange was then acquired by Euronext N.V. in 2002 and became part of the Euronext group of exchanges under the name of Euronext Lisbon. In Portugal, Euronext Lisbon is currently the only regulated market for the trading of shares, and it also operates two MTFs – Euronext Access and Euronext Growth. These two MTFs offer simplified access to public equity markets with less stringent listing requirements than those of the regulated market, in particular concerning free-float requirements, audited accounts, accounting standards, and financial reporting obligations.

Table 12 provides the initial and ongoing requirements on Euronext’s markets and the number of Portuguese companies listed in each of the segments. As shown in the table, initial admission and ongoing requirements are the lowest for Euronext Access, followed by Euronext Access+ and Euronext Growth, providing alternatives for companies not meeting the criteria of the regulated market. While Euronext Access, established as Easynext Lisbon in 2004 becoming an MTF in 2009, offers a route for start-ups and SMEs, Euronext Growth was established as Alternext Lisbon in 2012 and has been dedicated to small- and medium-sized companies. According to the terminology of EU-regulations, the three above mentioned markets are defined as MTFs.

Table 12. Listing admission and ongoing requirements on Euronext's markets

INITIAL				
	Euronext Access	Euronext Access +	Euronext Growth	Euronext
Free Float	Not applicable	€1m	€2.5m	25% or 5% if over €5m
Financial Statement	2 last years' (no requirement of audited accounts)	2 last years' and audited accounts for the last year	2 last years of audited accounts	3 last years of audited accounts
Main document to be provided	Information document (or EU Prospectus in case of public offers)	Information document (or EU Prospectus in case of public offers)	Information document or EU Prospectus	EU Prospectus
Accounting Standards	IFRS or local GAAP	IFRS or local GAAP	IFRS or local GAAP	IFRS
Intermediary	Listing Sponsors	Listing Sponsors	Listing Sponsors	Listing Agent

ONGOING				
	Euronext Access	Euronext Access +	Euronext Growth	Euronext
Annual financial reporting	Yes but based on local legal regulation	Audited annual financial report	Audited annual financial report	Audited annual financial report
Semi-annual financial reporting	Not required	Unaudited semi-annual report	Unaudited semi-annual report	Audited semi-annual report
Price sensitive information, list of insiders, market survey	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)
Declaration of management transactions	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)	Applicable (Directive Market Abuse)
Declarations of breaches of threshold voting rights	Not applicable	Not applicable	Applicable	Applicable
Anti-money laundering	Applicable	Applicable	Applicable	Applicable
Intermediary	Not required	Listing Sponsor	Listing Sponsor	Not required
Website	Yes	Yes	Yes	Yes
Number of listed companies as of end 2019	**8 companies**	**-**	**1 company**	**38 companies**

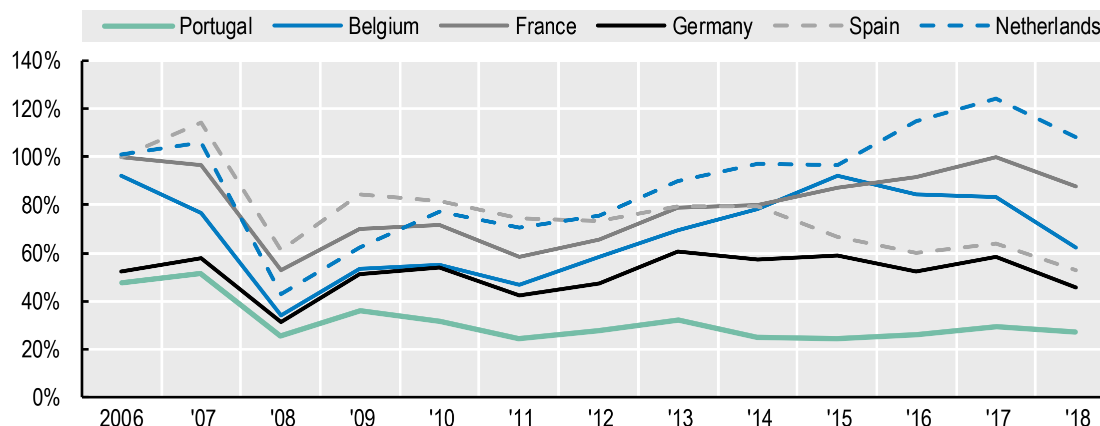
Source: Euronext.

As of end 2019, 8 companies were listed on Euronext Access, 1 company on Euronext Growth and 38 on Euronext Lisbon's EU regulated market. There are no companies listed on the Euronext Access+. Companies listed both on the regulated and the unregulated segments of Euronext Lisbon are mainly domestic issuers. In fact, there are only 2 foreign companies listed on the regulated segment of the Euronext Lisbon. The total market capitalisation at the end of 2019 was around EUR 63 billion, of which only EUR 25 million was related to Euronext Growth and EUR 133 million to Euronext Access.

Figure 75 shows the size of the stock market, measured as the market capitalisation-to-GDP ratio for a selected group of European countries between 2006 and 2018. All countries experienced a sharp decrease in the size of their stock markets during the global financial crisis, and for most countries, the ratio was still below the pre-crisis levels as of end 2018. As seen in the figure, Portugal had the lowest market capitalisation-to-GDP ratio throughout the

entire period. From roughly 50% in 2007, the ratio fell to around 25% in 2008 and has fluctuated around 30% since then.

Figure 75. Stock market capitalisation-to-GDP ratio in selected markets

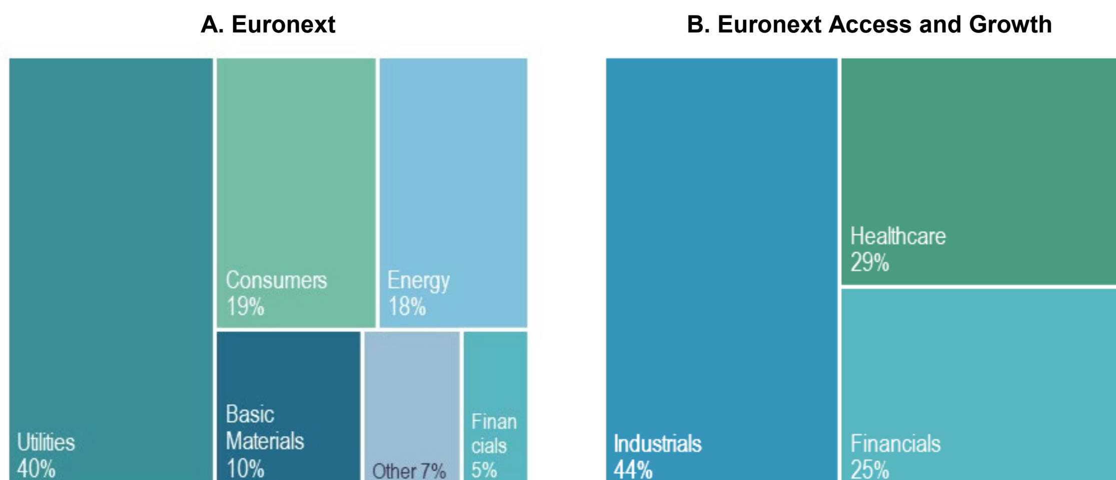


Source: OECD Economic database, European Central Bank.

Figure 76 shows the industry breakdown of the companies that are listed on the Euronext markets by market capitalisation. In the regulated Euronext market, the utilities industry is dominant with 40% of the market capitalisation (Panel A). However, this market capitalisation belongs to only 3 companies. The consumers industry follows the utilities industry with a 20% share of total capitalisation, but comprises 13 companies. Figure 76, Panel B, presents the breakdown of the Euronext Access and Growth markets. The number of companies on these markets are only one fifth of those on the regulated market. The industrials, healthcare and financials industries make up 34%, 29% and 25% of the market capitalisation, respectively.

Figure 76. Industry breakdown of listed companies in Euronext markets

A. Euronext **B. Euronext Access and Growth**



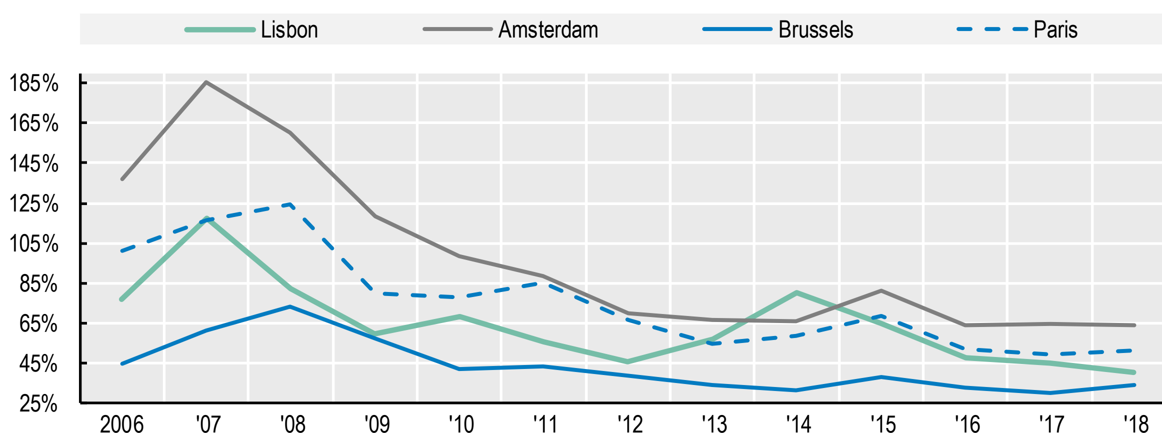
Source: Euronext.

Figure 77 compares the secondary market liquidity, as measured by trading volume divided by stock market capitalisation, among Euronext's four national markets.[16] Euronext Lisbon, reached its highest turnover ratio (116%) in 2007 and similar to other markets, has

[16] The turnover used here adopts the Regulated Environment View (REV), which include all transactions subject to the exchange supervision. Transactions can be either electronic order book or regulated reported deals.

experienced a downward trend since the financial crisis. By the end of 2018, the turnover ratio was 41% for Euronext Lisbon, considerably lower than the 64% for Euronext Amsterdam, but higher than the 34% for Euronext Brussels.

Figure 77. Stock market turnover ratio among Euronext markets



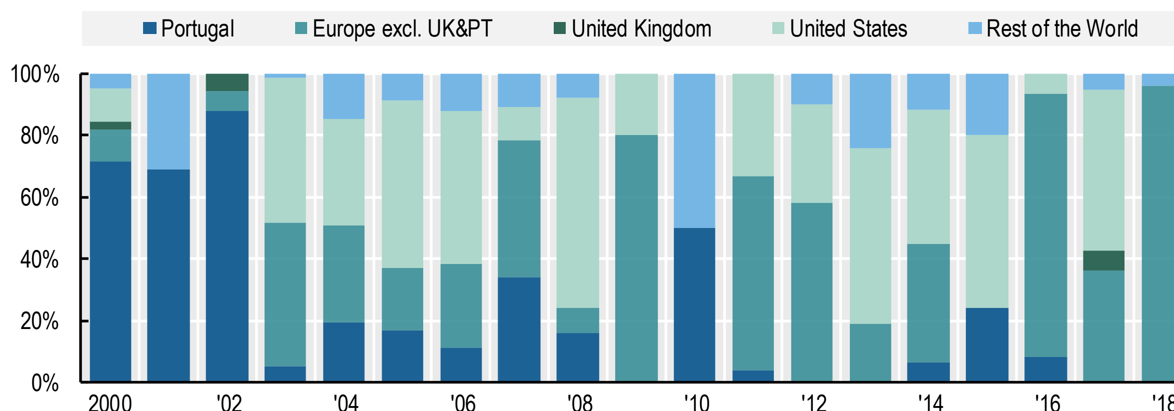
Source: Euronext Factbook.

3.6. Intermediaries in the Portuguese primary equity market

The key intermediation function in the primary equity markets is served by underwriters, who support the issuance of a company's shares to the public. Underwriting services are mainly provided by investment banks and consist of origination, distribution, risk bearing, and certification. Underwriting investment banks also advise the IPO firm on the timing and pricing of the offering, and help the firm to prepare the required documentation including the public prospectus.

Figure 78 shows the share of total underwriting volume in the public equity market in Portugal by origin of the top 100 investment banks since 2000. Since 2003, the most active investment banks in equity underwriting have been from Europe (excluding Portugal) and the United States since 2003. Even though the annual average share of Portuguese investment banks in total underwriting volume was almost 80% between 2000 and 2002, after 2003 it shrank to 18% and since 2016 not a single Portuguese bank has participated in an underwriting activity.

Figure 78. Underwriters of Portuguese public equity offerings



Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

CHAPTER IV. THE DELISTINGS FROM THE PORTUGUESE PUBLIC EQUITY MARKET

During the past two decades, the number of listed companies in Portugal has declined from 148 to 47. An important reason has been the relatively small number of new listings. But there has also been a discussion about the increasing number of companies that have delisted from the stock market. To shed some light on the delistings from the Portuguese stock market, this chapter provides an overview of the various types of delistings and a brief literature review of the main reasons for voluntary delistings, and summarises the delisting trends in the OECD area and compares it with trends in IPOs. Then it describes the trends in the delisting activity and some key characteristics of delisted firms. It presents key financial indicators for delisted firms and compares them to those of newly listed firms and comparable listed firms.

4.1. Reasons for delisting

Just as an IPO may be a natural step in the lifecycle of a company, a delisting may also be justified for a number of reasons. While some companies are forced to delist because they no longer meet the listing requirements, most companies leave the stock market voluntarily as a result of a change in ownership or by a shareholder resolution. Involuntary delistings are usually forced by the securities regulator or the stock exchange as a result of a violation of listing requirements and/or liquidation of the company.

While involuntary delistings are usually beyond the power of management and shareholders, a voluntary delisting includes a number of considerations and trade-offs between costs and benefits. Being listed is typically expected to be associated with multiple benefits, such as enhanced visibility, credibility, better access to multiple sources of funding and ready access to equity through secondary offerings. When these benefits are not seen as convincing enough while compared with the costs associated with being listed, such as when listing fees and compliance costs outweigh the benefits, management can take the delisting decision voluntarily.

Voluntary delistings are initiated by the company and there are many alternatives to how the delisting occurs. For example, a company may delist its shares to have them traded on another venue with higher or lower standards or to begin to trade on an unregulated market. Alternatively, a delisting may occur because of a merger where one company acquires all shares of a listed company. If the acquiring company is also a listed company, the shares of the combined company continue to be traded. Another option is when a company delists its shares after an acquisition or a public takeover bid. As a result, the company’s ownership structure might become concentrated and the company’s investors, at least initially, may not want their equity to be publicly traded. Ultimately, the company may delist its shares on a non-domestic market but continues to trade on its domestic market or vice-versa (Djama, Martinez and Serve, 2014; Leuz, Triantis and Wang, 2008).

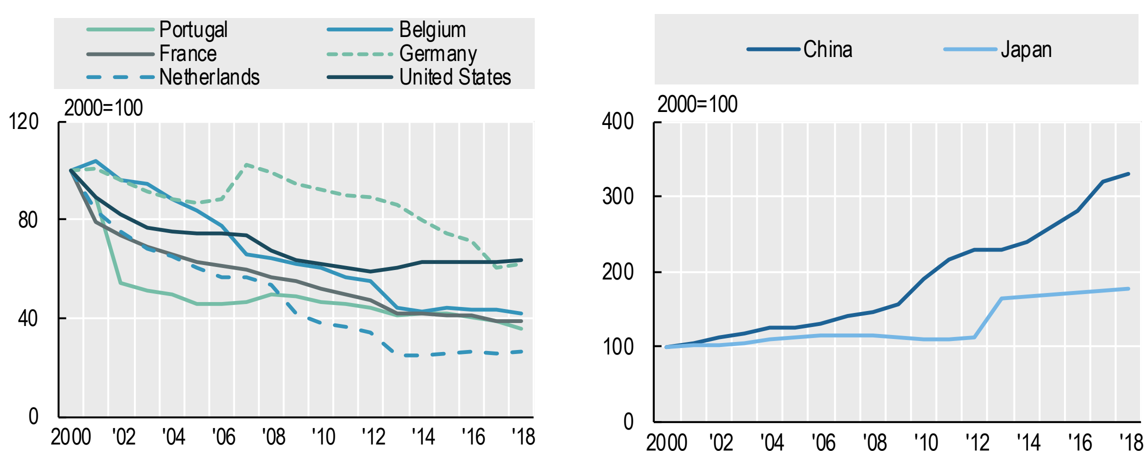
4.2. Global trends in net listings

Stock markets have for decades played a central role in channelling savings to companies in the form of long-term patient capital. Today, there are almost 50 000 listed companies around the world with a total market capitalisation of USD 85 trillion. However, while an increasing amount of household savings, directly or indirectly find their way to stock markets, the number

of listed companies in OECD economies declined from almost 30 000 companies two decades ago to about 22 000 today. The United States in particular has lost half of its companies, from almost 8 000 to 4 000. Similarly, the number of listed companies declined from 744 to 450 between the period 2000-2017 in Germany and from 1 185 to 465 in France.

Using 2000 as the base year, Figure 79 displays the evolution of the number of listed firms across some advanced markets up to 2018. In all six economies shown in Panel A, there has been a downward trend in the number of listed companies, with the largest declines observed in the Netherlands (74%), Portugal (64%) and France (61%). On the other hand, markets like China and Japan have experienced an increase in the number of listed companies over the same period. In fact, in the last two decades, Japan has almost doubled its number of listed companies and China has more than tripled this number.

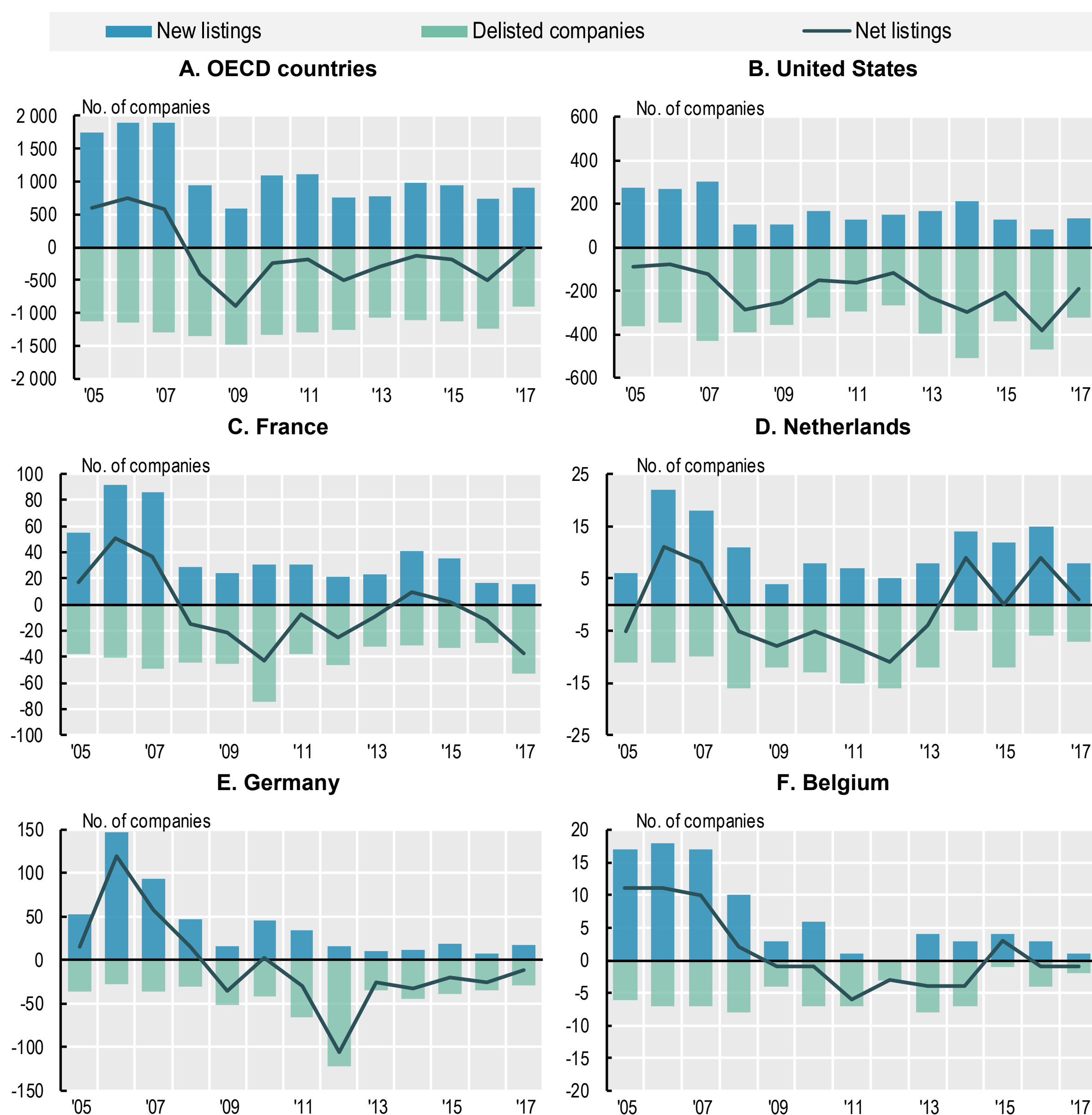
Figure 79. Number of listed firms in selected markets



Source: World Federation of Exchanges database.

Developments with respect to the number of listed companies are obviously the net effect of new listings and delistings. Figure 80 shows the net result of new listings and delistings for OECD and selected countries. For the OECD area as a whole, the number of delistings has been higher than the listings every year since 2008. In total, there were 8 818 new listings and 12 610 delistings during the 2008-2017 period, resulting in a net loss of almost 4 000 companies. The United States is responsible for a significant portion of the overall decline. It is worth noting that, unlike other countries, the United States already had negative net listings before 2008. In three out of the four European economies illustrated in the figure, namely Belgium, France and Germany, there was only one year with positive net listings since 2009. In the Netherlands, the number of listed companies has increased between 2014 and 2017.

Figure 80. Net listings in the OECD area and selected economies

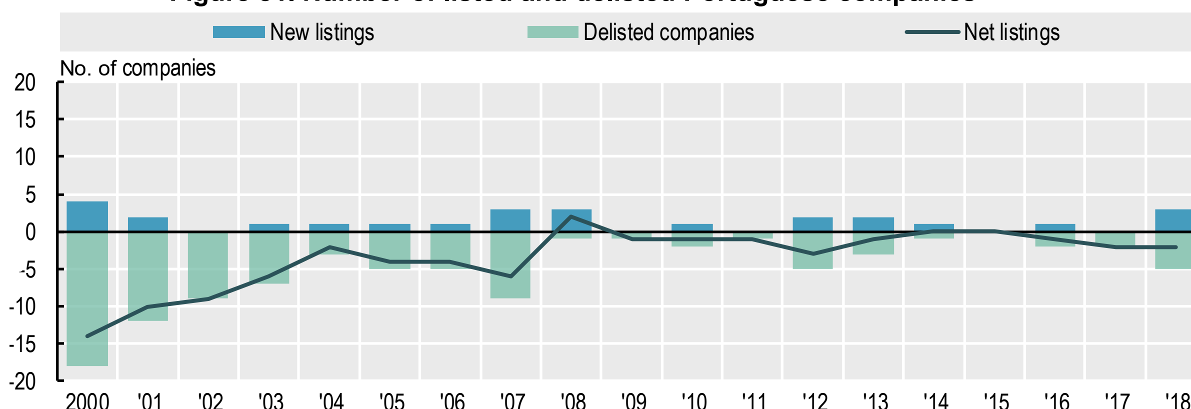


Source: OECD Capital Market Series dataset, see Annex for details.

4.3. Trends in Portuguese delistings

Figure 81 shows the number of Portuguese companies that are newly listed and delisted, between 2000 and 2018, it also provides the number of net listings for each year. It shows that the bulk of the 91 delistings in Portugal took place before the 2008 financial crisis. Throughout the entire 2000-2018 period, net listing has not been positive – except in 2008 – and almost 75% of delistings occurred between 2000 and 2007.

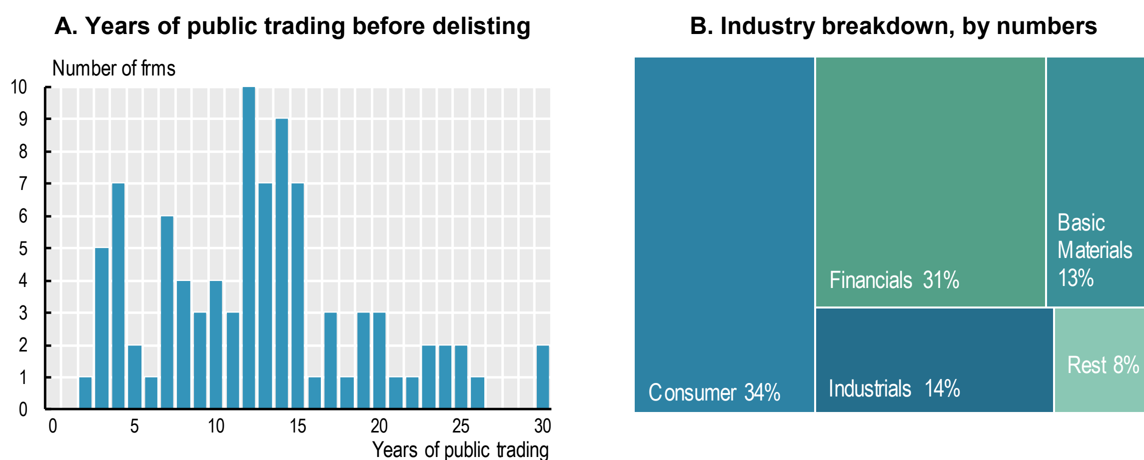
Figure 81. Number of listed and delisted Portuguese companies



Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, Euronext Factbook, see Annex for details.

Panel A of Figure 82 shows for how long the Portuguese delisted companies were listed before they decided to delist. Companies were listed on the stock market for about 12 years before they delisted. Out of the 91 companies that have delisted since 2000, 11 of them left the market after more than 20 years of being listed. With respect to the industry composition of delisted firms, Panel B of Figure 82 shows that the consumer (34%) and financials (31%) delisted companies accounted for almost two-thirds of total delistings.

Figure 82. Breakdown of delistings by listing duration and industry, 2000-2018



Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

4.4. Key characteristics of delisted non-financial firms

To explore in more detail the characteristics of delisted firms in Portugal, the following two sections focus on non-financial companies that delisted from the Lisbon Stock Exchange's regulated market between 2000 and 2018. Table 13 provides a breakdown of the sample used for the analysis.

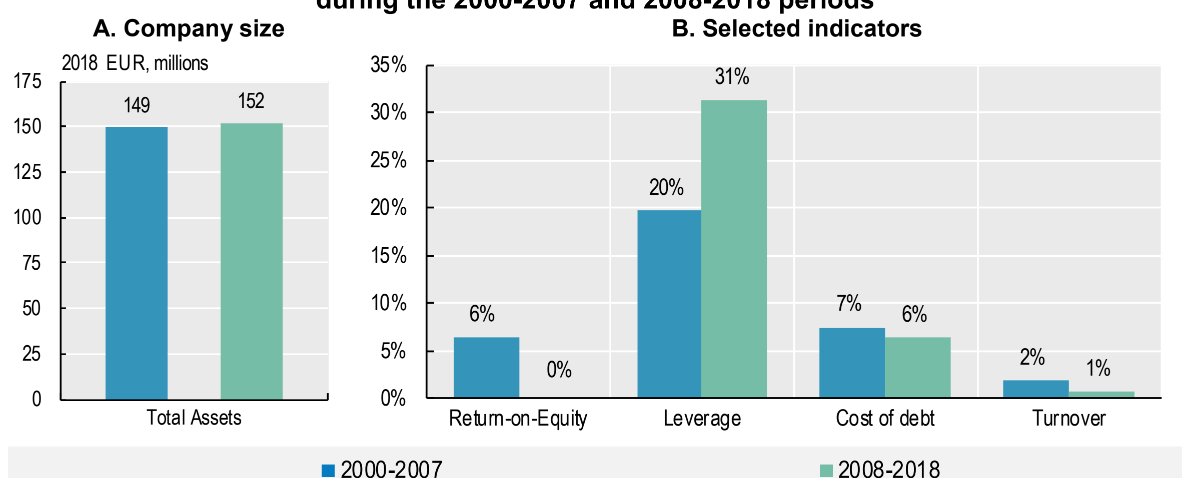
Table 13. Sample of delisted non-financial companies

Total delistings on Portuguese stock market	+91
Financial companies	-28
Delistings from the MTFs	-7
Companies with missing total assets in t-1	-5
Final sample	+51

Source: CMVM, Euronext, Thomson Reuters Datastream.

As discussed in the previous section, the large majority of delistings by Portuguese companies took place before the 2008 global financial crisis. The picture is similar for non-financial companies, with 41 out of 51 companies delisted during the 2000-2007 period. Since then, there have been 10 additional delistings. Figure 83 shows selected financial indicators for Portuguese non-financial firms in the pre- and post- financial crisis periods. While the delisted companies in both periods are, similar in terms of size on average, companies that delisted in the latter period have lower performance and higher long-term indebtedness compared to the ones delisted during the pre-crisis period. After the global financial crisis, possibly in a low interest rate environment, companies seem to bear lower costs to reach out funding. On the other hand, stocks' liquidity – calculated by the stock's turnover ratio – deteriorates further in the latter period.

Figure 83. Selected financial indicators for companies that delisted from Euronext Lisbon during the 2000-2007 and 2008-2018 periods

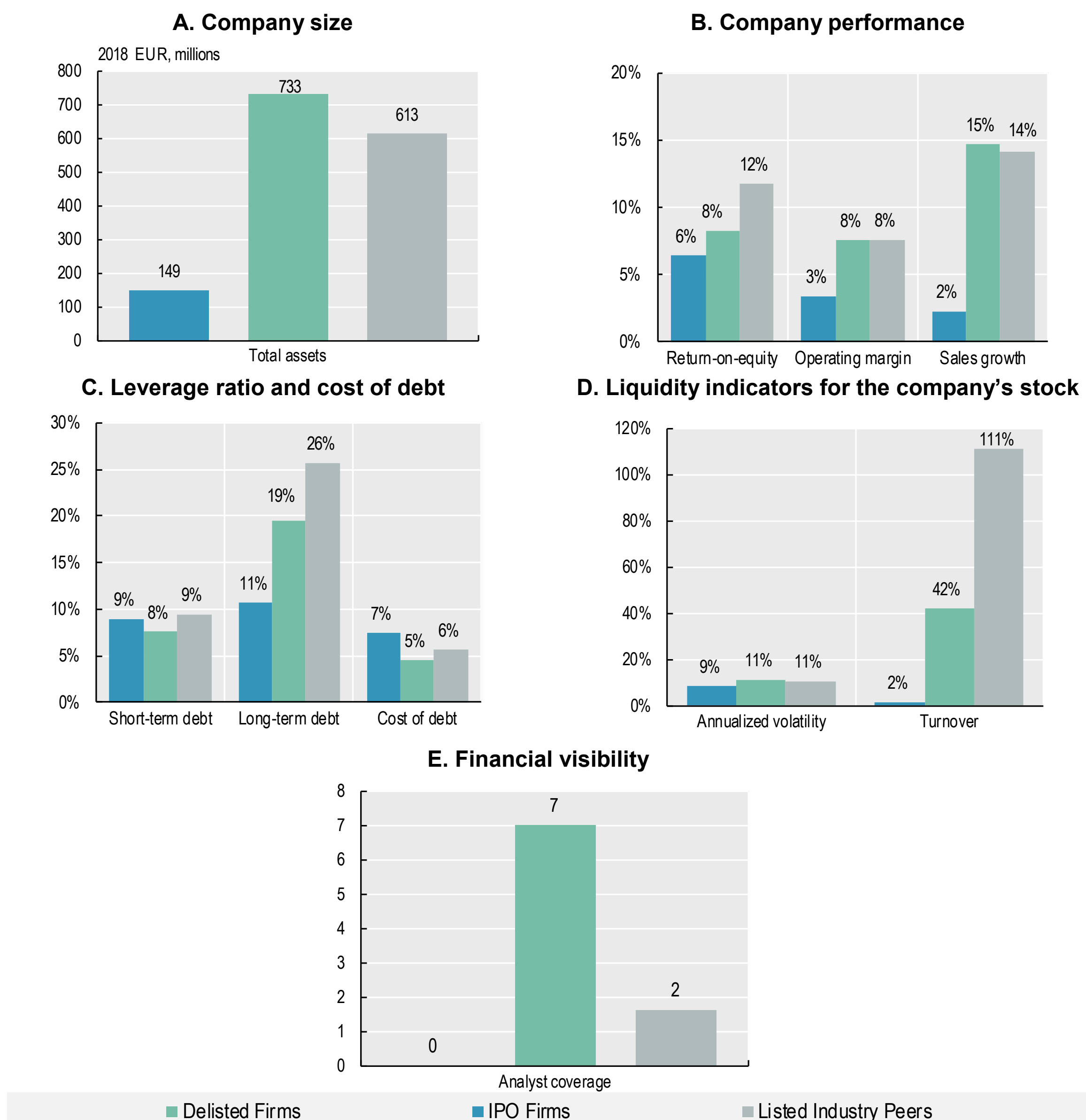


Note: The financial indicators shown are median values calculated the year before companies delisted.
Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

Since there were only 10 non-financial company delistings during the 2008-2018 period, it is difficult to draw any general conclusions about their aggregate performance and leverage using firm-level data. Hence, Figure 84 below focuses on the 41 non-financial firms that were delisted between 2000 and 2007. It shows key financial indicators for Portuguese non-financial delisted firms and compares them with new listings of non-financial firms – IPO firms – as well as listed peers in the same industry. For delisted firms and their listed peers, indicators refer to one year prior to the delisting. For IPO firms, indicators refer to the first year after the listing. Key findings include:

- Firms leaving the public equity market were about 5 times smaller than the IPO firms and 4 times smaller than their listed peers.
- Sales growth one year prior to the delisting was significantly lower for delisted firms than for their listed peers and IPO firms. In addition, they also showed weaker performance compared to the two other groups of firms. The operating margin for delisted firms was 3%, while it was 8% for IPO firms and listed peers. The ROE showed a similar picture, delisted firms had a significantly lower ROE ratio (6%) than IPO firms (8%) and listed peers (12%).
- Portuguese delisted firms were not highly leveraged compared to IPO firms and listed peers. In particular, delisted companies were characterised by lower debt ratios compared to their listed peers, both in terms of short- and long-term debt. With respect to the cost of debt, delisted firms had 2 percentage points higher cost of debt compared to IPO firms and 1 percentage point higher cost than their listed peers.
- Liquidity is measured by the turnover ratio calculated as the total value of shares traded during the period divided by the average market capitalisation. With a turnover ratio of 2%, the shares of delisted firms were significantly less liquid than the shares of IPO firms (42%) and listed peers (111%). With respect to stock return volatility, the shares of delisted firms had lower volatility compared to their listed peers.
- Measured by analyst coverage, the financial visibility of delisted firms was significantly lower (non-existent) for firms that left the public market compared to the IPO firms.

Figure 84. Key financial indicators for delisted & IPO firms and listed industry peers, 2000-2007



Note: This figure shows the comparison between delisted firms, IPO firms and listed industry peers from Euronext Lisbon for the period 2000 to 2007. Financial indicators one year before the delisting are used for each delisted firm, and financial indicators one year after the IPO are used for each IPO firm. To construct the listed industry peers comparison group for delisted firms, industry aggregate measures of listed firms in the same year are generated to compare with the measures of delisted firms (See Annex for details). A comparison of median values is presented in the figure.
Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

4.5. Reasons for delisting in Portugal

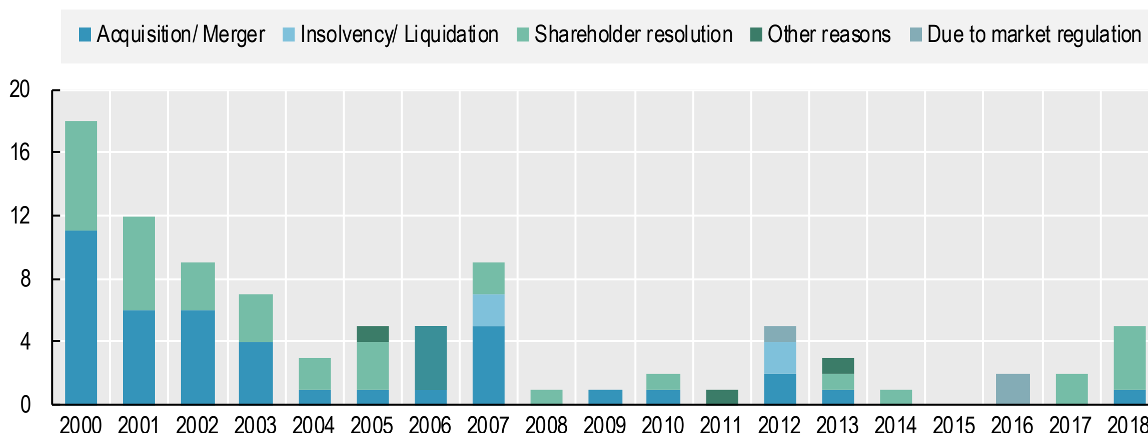
As noted previously, delistings can broadly be classified as voluntary and involuntary. According to the Portuguese Securities Law (Código dos Valores Mobiliários – "CVM") any shareholder that as the result of a takeover bid, holds directly or indirectly, at the date of the takeover result (i) at least 90% of the voting rights corresponding to the share capital and (ii) 90% of the voting rights covered by the offer, has the right, within the following three months,

to use the squeeze-out rule (Art.194 CVM), causing an immediate delisting of the shares from Euronext Lisbon, without readmission for one year.

A delisting from Euronext Lisbon may also occur as a result of the ceding of public company status (Perda da qualidade de sociedade aberta) following a resolution taken at a general meeting of shareholders by a majority of 90% of the share capital. Under the terms of the provisions in Art. 29(2) CVM, the declaration of the loss of public company status by CMVM implies the immediate exclusion of trading of the company's shares on the stock market. Again, a re-admission to trading is prohibited within one year.

Figure 85 presents the number of Portuguese delisted companies between 2000 and 2018 according to their reason for delisting. It reveals that involuntary delistings, ''Insolvency/Liquidation'' and ''Due to market regulations'' were rather insignificant. Instead, almost all delistings were initiated by existing shareholders or through a change in the ownership structure.

Figure 85. Delisting reasons of companies

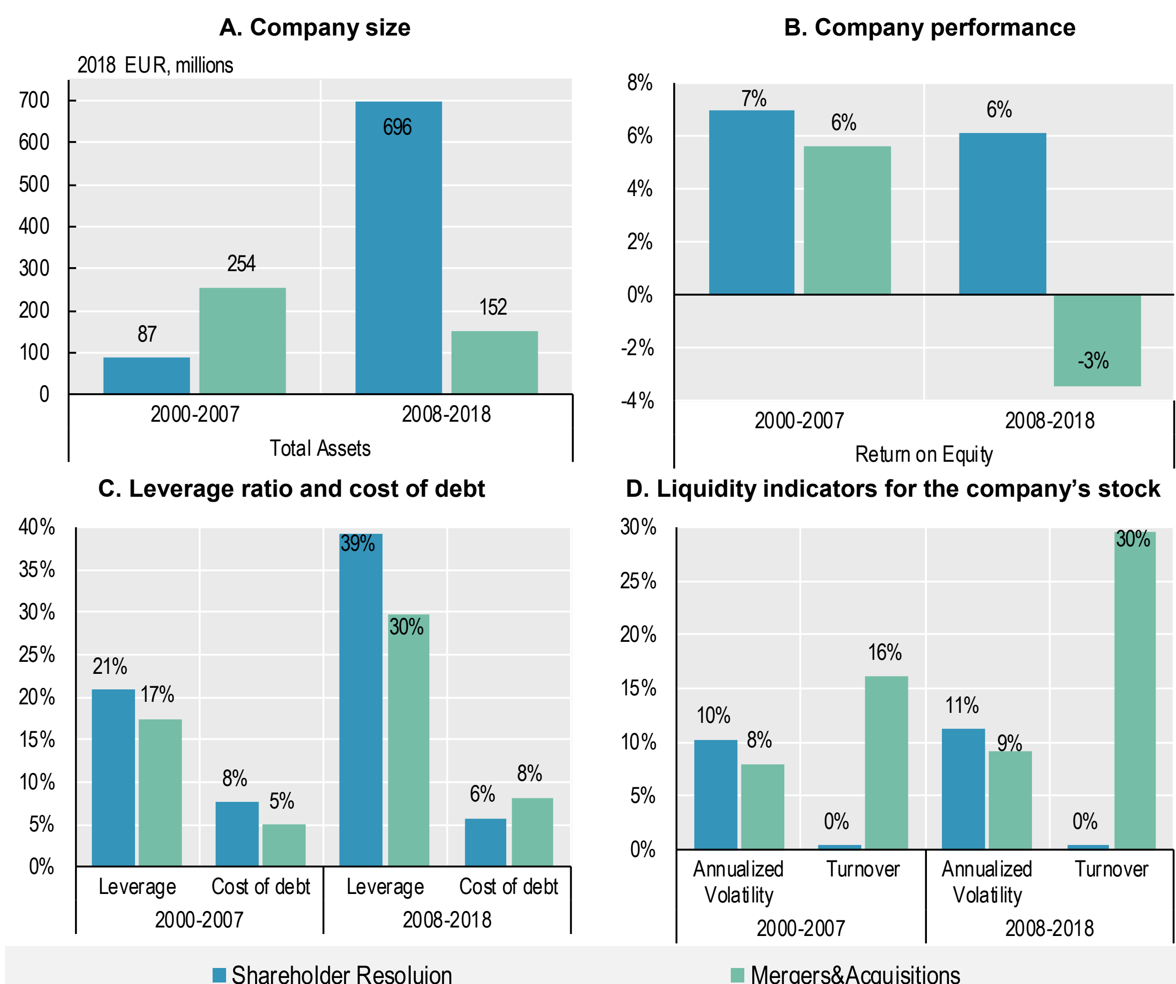


Source: CMVM.

To explore the differences between companies that delisted from the Portuguese stock market through shareholder resolutions or mergers and acquisitions (M&A), Figure 86 repeats the comparison for the selected financial indicators presented in Figure 84. Again, companies were divided according to their delisting period, the first period between 2000 and 2007, and the second from 2008 to 2018. Since there were only a few delistings in the second period, the data for that period should be interpreted with caution.

Figure 86 reveals two main differences between the companies that delisted either due to a shareholder resolution or M&A transaction over the 2000-2007 period. First, companies that delisted as a result of a decision by the shareholder meeting were smaller than the companies that delisted as a result of an M&A transaction. Second, measured by the total value of shares traded to the market capitalisation (turnover ratio), the liquidity of the shares of M&A companies was significantly higher. With respect to the performance measures, return on equity was higher for the shareholder resolution group. The figure also shows the leverage ratio defined as total financial debt over total assets and the cost of debt for the two groups. Indeed, both the leverage ratio and the cost of debt of the shareholder resolution group were higher than those of the companies that delisted as a result of an M&A transaction over the 2000-2007 period.

Figure 86. Key financial indicators of firms that delisted during the 2000-2007 and 2008-2018 periods, by delisting reasons



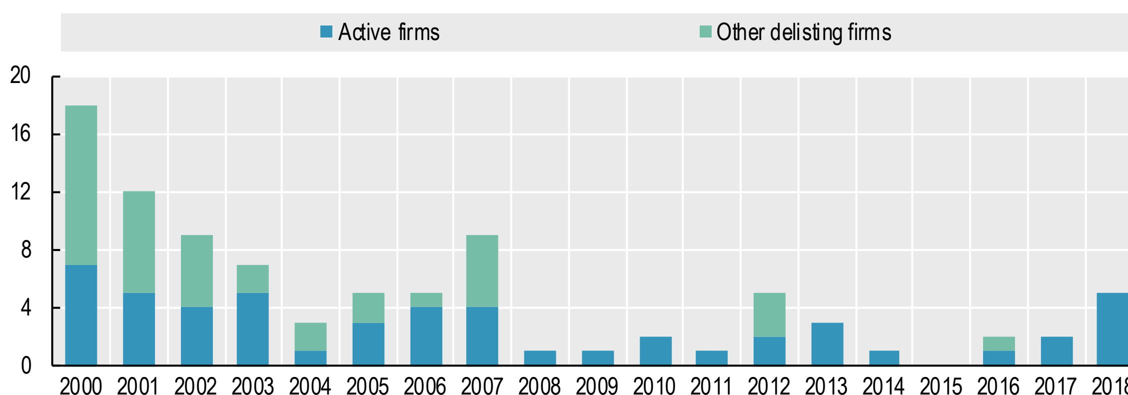
Note: This figure shows the comparison between firms delisted due to shareholder resolution and firms delisted after mergers and acquisitions in two periods: 2000-2007 and 2008-2018. Median values for financial indicators one year before delisting are used for each delisted firm. Since the sample for the period 2008-2018 consists of a few companies, the data for that period should be interpreted with caution.

Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

4.6. Survey responses from Portuguese delisted companies

To understand the main rationale of companies for being listed and the reasons behind their subsequent delisting, the OECD Survey was also sent to 47 delisted companies that were active as of end 2017. Out of these 47 companies, 17 companies participated in the OECD Survey, including two companies that are now subsidiaries of another company. Figure 87 shows that out of the 91 Portuguese firms that delisted from Euronext Lisbon during the period 2000-2018, 52 are still active, since most of them were delisted due to an acquisition or a shareholder resolution. In particular, 18 out of the 22 companies that went private after the financial crisis in 2008 were still active in 2018.

Figure 87. Number of delisted firms that are still active firms in 2018



Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

Table 14 shows the industry distribution of these active companies. More than two-thirds of the delisted companies from the industrials and basic materials industries were still active in 2017, while only 41% of the financial sector companies remained active. Companies responding to the survey were predominantly from the consumer, industrials and financials industries.

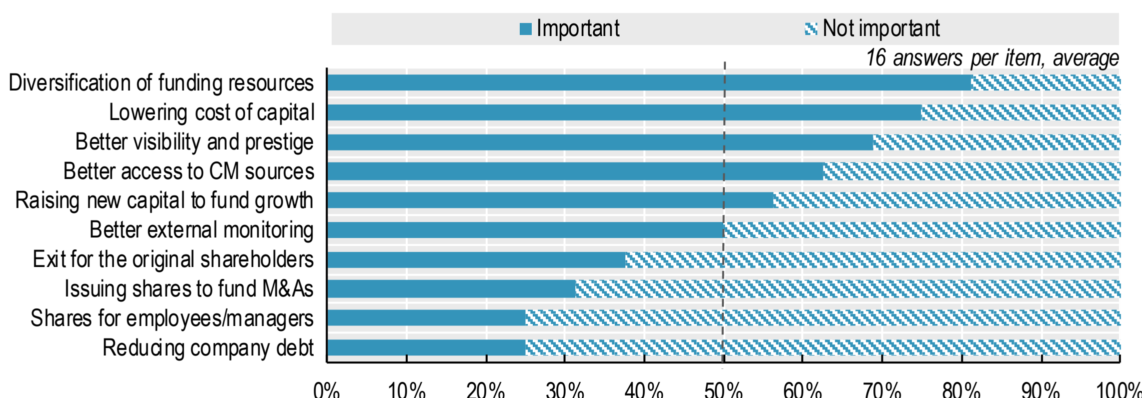
Table 14. Industry distribution of delisted companies that are still active in 2017

	Number of delistings	Active firms	Ratio	Number of companies responded to survey
Basic Materials	12	8	67%	1
Consumer	30	17	57%	6
Energy	1	1	100%	1
Financials	27	11	41%	4
Industrials	12	9	75%	4
Technology	2	0	0%	0
Telecommunications Services	2	1	50%	1

Note: The survey was conducted in 2018, the questionnaire was not sent to the five firms that delisted in 2018.
Source: CMVM, OECD-ORBIS Corporate Finance dataset, Thomson Reuters Datastream, see Annex for details.

Initially, in order to understand the motivation behind their listing decisions, companies were asked to provide their reasons to go public (Figure 88). According to the answers of 16 delisted companies, the most important reason why they first listed seems to be the diversification of funding sources. Following diversification, lowering the cost of capital was classified as important by 13 companies. Besides these two reasons, better visibility and prestige, better access to capital market resources and raising new capital to fund growth and better external monitoring were also recognised as important reasons for going public by more than half of the companies.

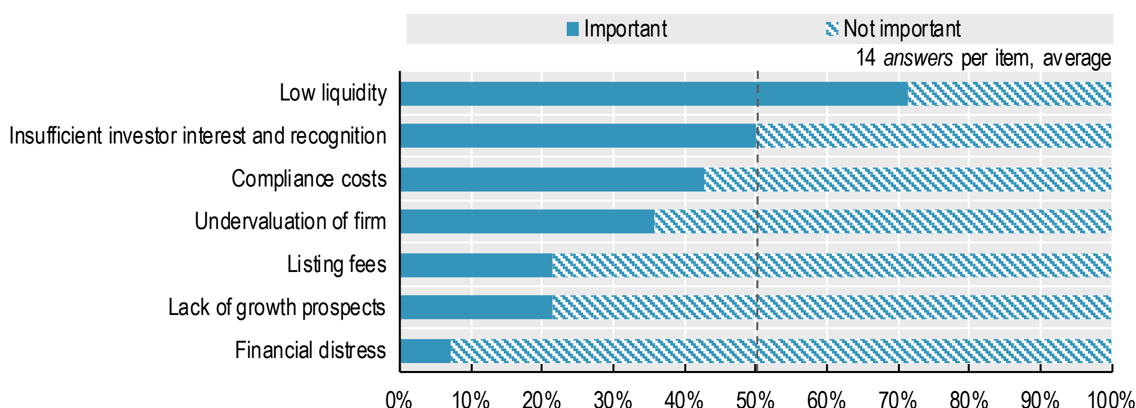
Figure 88. Reasons for going public



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

With respect to the reasons why the company subsequently delisted, 14 companies responded to the survey (Figure 89). Out of these 14 companies, 10 delisted following a shareholder resolution and 4 following a merger or acquisition. Low liquidity was mentioned by 10 companies as an important factor for delisting. In fact, all but one company delisted by a shareholder resolution mentioned low liquidity as an important factor in their delisting decision. Two companies provided additional comments in the survey pointing low liquidity as the single most important reason to delist from the market. This is consistent with the findings presented in section 4.4 (Figure 84) showing that delisted firms are the ones with lower turnover ratio compared to other firms. The second most important factor mentioned was insufficient investor interest and recognition. While 40% of the delisted companies mentioned compliance costs as an important reason for their delisting decision, only 20% mentioned listing fees. Furthermore, companies did not find financial distress as being relevant in their delisting decision. It is important to mention that most Portuguese delistings occurred in the period before the 2008 financial crisis.

Figure 89. Reasons for delisting

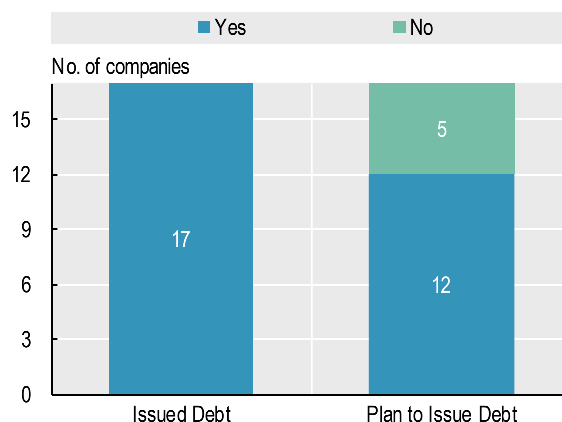


Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Corporations can also benefit from capital markets by issuing debt securities, including corporate bonds, commercial papers and notes. To explore the use and perception of these instruments, delisted companies were also asked about the extent to which they have issued debt before and after delisting, and if they planned to issue debt securities in the next 3 years. Figure 90 shows that all of the 17 delisted companies who responded to this question have

issued debt securities in the past and out of those 17 companies, twelve companies stated that they were planning to issue debt in the next 3 years.

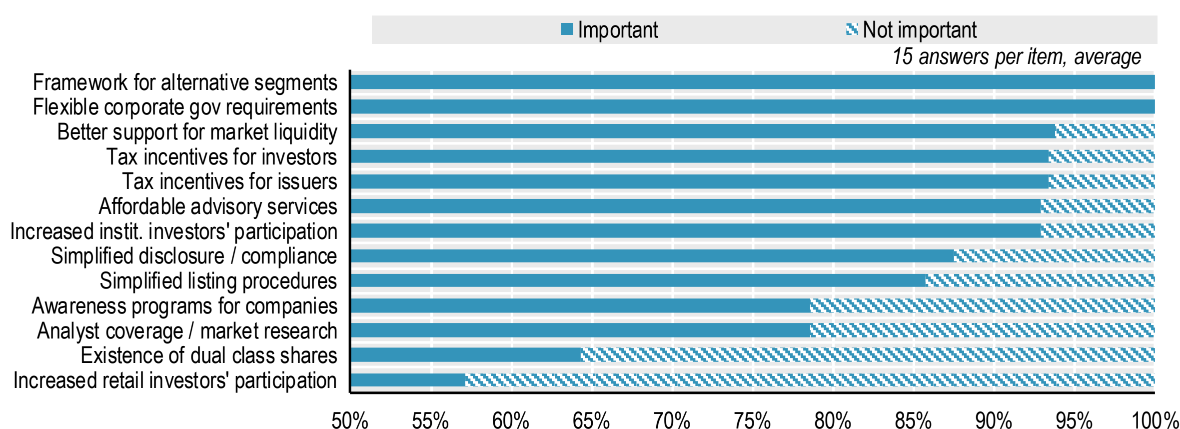
Figure 90. Delisted companies' use of debt securities market



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The delisted companies were also asked which factors they believed would contribute to a more successful stock exchange listing environment in Portugal. Their responses are summarised in Figure 91. Flexible corporate governance requirements and the existence of a well-established regulatory framework for alternative segments of the stock market (i.e. growth markets) were indicated as important factors by all companies. In addition, better support for market liquidity, tax incentives for investors and issuers, affordable advisory services and increased institutional investors participation were stated as important factors by more than 90% of the companies.

Figure 91. Factors for creating a successful stock exchange listing environment for companies in Portugal



Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

CHAPTER V. THE PORTUGUESE CORPORATE BOND MARKET

Corporate debt comes in many different forms with respect to its use and conditions, such as maturity, interest and requirements for collateral. Ordinary bank loans, for example, are often used as short-term working capital, while corporate bonds typically have a longer maturity and can be issued for a defined project. In addition to the long-term maturity structure, the absence or relatively low level of collateral requirements gives corporate bond financing a special role as a source of financing compared to other loans.

Corporate bonds can be issued to the general public or to a selected group of investors through private placements. Private placements are typically used for smaller bond offerings. They require less burdensome reporting and registration procedures; and do not require mandatory credit rating. However, in some advanced markets, privately placed corporate bonds are often rated and issued to a large number of qualified investors.

The first section of this chapter focuses on the trends in the public and private issues that are underwritten by an investment bank. Underwriters play an advisory role in helping the company to prepare the necessary documentation and pricing the bond issue. They also serve as an intermediary between the company and its network of prospective investors. These underwritten bonds account for a great share of all corporate bonds in terms of total proceeds and are reported in commercial databases, the financial press, and various studies. The chapter ends with a short overview of maturities of corporate bonds and underwriting activity in the Portuguese corporate bond market.

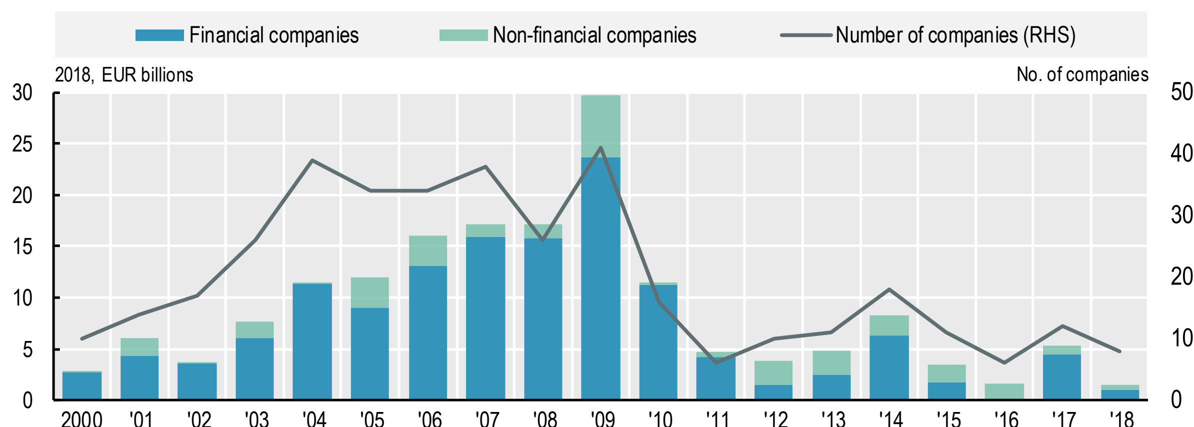
5.1. Trends in corporate bond issuance

Corporate bond markets have become a significant source of capital for financial and non-financial companies following a significant reduction in bank lending to non-financial companies in the aftermath of the global financial crisis. Since 2008, the annual global issuance of corporate bonds has averaged USD 1.8 trillion, which is twice the annual average amount for the period between 2000 and 2007. In Europe, the annual average amount went from EUR 213 billion between 2000 and 2008 to EUR 336 billion between 2009 and 2018.

Contrary to global developments and despite a low interest rate environment, the use of the corporate bond market by non-financial Portuguese companies remained limited after the global financial crisis. Figure 92 presents the amount of capital raised and the number of Portuguese companies issuing corporate bonds. Until 2009, companies increased their use of corporate bonds, both in terms of the amount of capital raised and the number of companies issuing corporate bonds. Since then, the activity in the primary corporate bond market experienced a sharp decline and has not shown any sign of recovery yet. The annual amount raised through corporate bonds was, on average, EUR 12 billion between 2000 and 2009 and dropped to EUR 5 billion since 2010. In 2018, only 8 companies issued corporate bonds raising EUR 1.5 billion. A similar trend is observed in the number of companies issuing corporate bonds, in particular, the number of issuers declined by one-third in the post-2009 period, where an average of 11 companies used the corporate bond market. Despite the improvements after the financial and the sovereign debt crises – both regarding country risk and market sentiment – debt issuance is still not significant, even within the largest companies (Banco de Portugal, 2018).

The low level of issuance shown in the figure is also confirmed by the responses to the OECD Survey on Access to Finance in Portugal. As described in Chapter II, companies were asked how important different funding sources were for them. For 85% of them, internal funds was the most important source of financing (Figure 43). Bank loans and credit lines, both granted by banks, ranked second and third in importance as sources of funding. Both external equity and debt securities, including short-term commercial papers, were indicated as important by only around 30% of the companies.

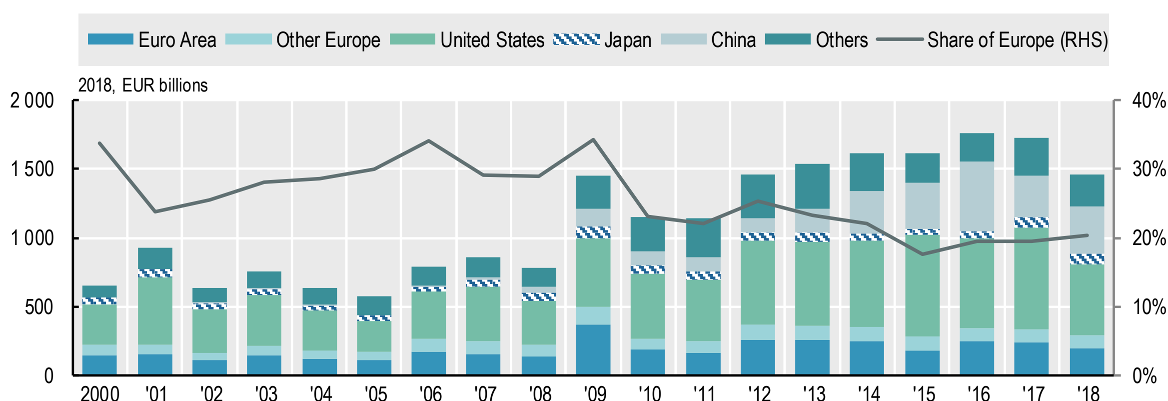
Figure 92. Corporate bond issuance by Portuguese companies



Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

At the global level, the use of corporate bonds by non-financial companies experienced a dramatic change since 2009 where an increasing number of companies turned to the bond market to raise capital (Figure 93). Non-financial corporations raised on average EUR 737 billion annually up to 2008 worldwide. This number increased to EUR 1.5 trillion in 2009 and to EUR 1.7 trillion in 2017. Although the amount raised decreased to EUR 1.5 in 2018, it has been on an upward trend across regions. In Europe, the annual average amount was EUR 213 billion between 2000 and 2008, and increased to EUR 336 billion after 2009. Despite an overall increase, Chinese corporations stand out by showing a rapid increase between 2008 and 2018. Europe has experienced a significant drop from 29% in 2008 to 20% in 2018 in the share raised by European companies in global corporate bond proceeds.

Figure 93. Global corporate bond issuance by non-financial companies

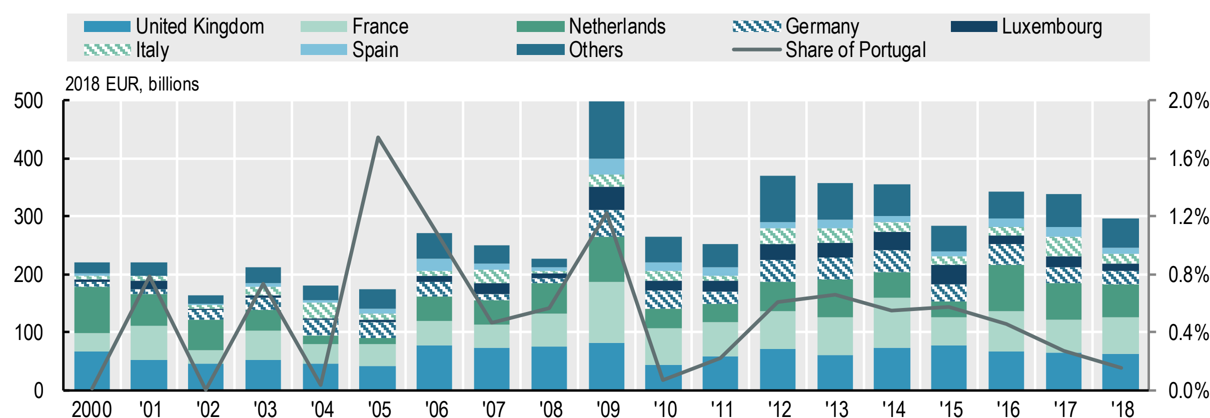


Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

Companies from the United Kingdom, France and the Netherlands have traditionally been the largest users of corporate bond markets in Europe, raising on average 60% of all proceeds

(Figure 94). They are followed by companies from Germany (9%) and Luxembourg (6%). The share of Portuguese non-financial companies in Europe was almost insignificant throughout the entire period, with only on average 0.5%. From a level close to 1% in 2012 and following years of consecutive decline, the share of Portuguese companies was only 0.2% in 2018.

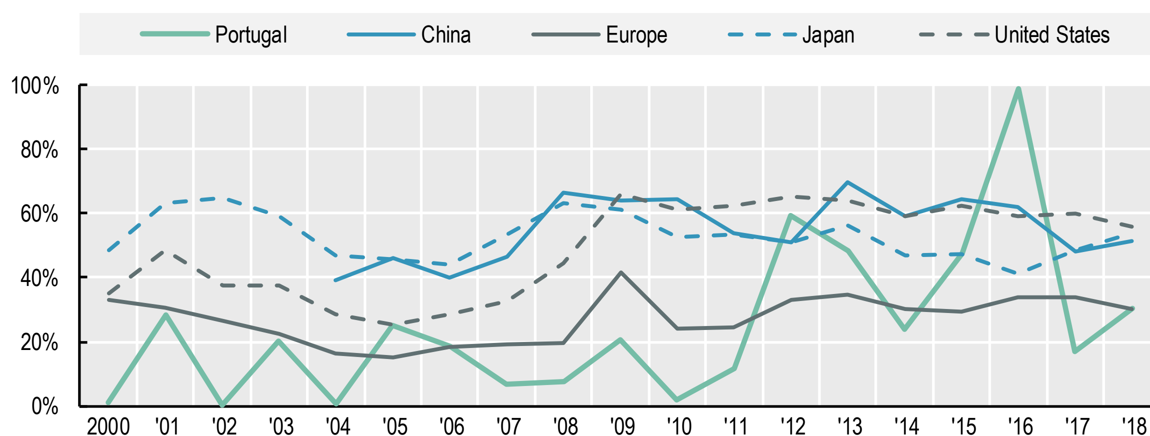
Figure 94. Corporate bond issuance by non-financial European companies



Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

One notable difference between corporate bond markets in Europe and those in the United States and Japan is the dominance of financial sector companies. This difference is particularly marked since the financial crisis when non-financial companies have accounted for about 60% of all corporate bonds issues in the United States but only around 30% in Europe (Figure 95). For Portugal, the share of non-financial companies' in the total bond issuance volume has fluctuated more over time compared to other European countries. In addition, as a result of a decline in the overall corporate bond proceeds in Portugal and a stronger reduction in the amounts issued by financial companies after the crisis, the average annual share of non-financials in total proceeds increased from 12% between 2000 and 2009, to 36% in the latter period.

Figure 95. Share of non-financial companies in total bond issuance volume

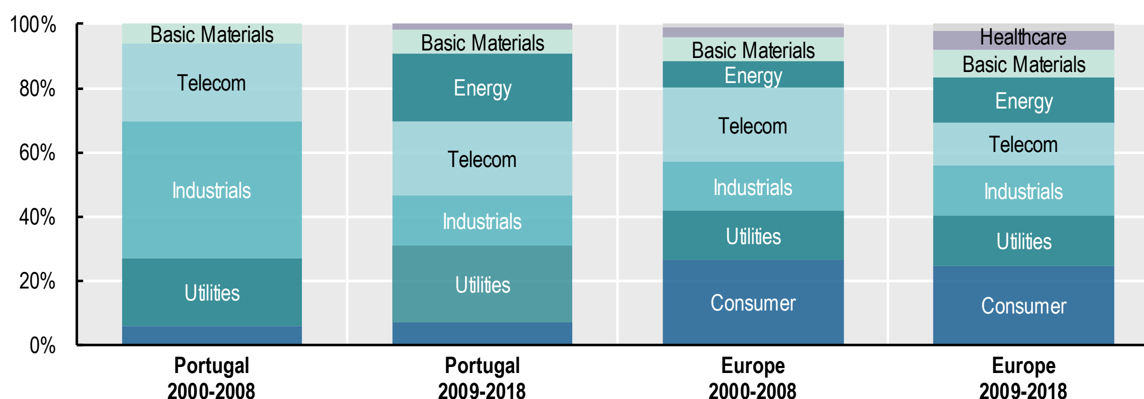


Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

The industry composition of non-financial companies issuing corporate bonds in Europe is more diverse than the one observed in Portugal (Figure 96). However, in Portugal, between the pre- and post-crisis periods there has been a decrease in industry concentration of the non-financial issuers of corporate bonds. While the relative importance of energy companies

has increased substantially, utilities and telecommunications companies remained the two largest issuers in both periods. An important feature of the Portuguese corporate bond market is the lack of bond issuances by technology companies. On the other hand, the share of corporate bonds issued by European technology and healthcare companies combined doubled from 4% to 8% between the two periods.

Figure 96. Industry distribution of non-financial corporate bond issuance



Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

5.2. Maturity profile and intermediaries in the Portuguese corporate bond market

The main advantages of issuing corporate bonds for non-financial companies are usually the lower cost of financing and longer maturities that issuers can access when compared to other debt financing. Cost and maturity depend on the issuers' risk profile and this is why the maturity profile for corporate bonds issued by non-financial companies varies widely across countries and regions, and also over time. Table 15 provides an overview of the average maturities for bonds issued by non-financial issuers in different regions. In Japan and the United States, non-financial corporations have been able to issue at longer maturities over the recent years compared to 2005. In Portugal, as the number of corporate bond issuances has been very low and unstable over the years, the average maturities of bonds are largely driven by a few large issuances. For example, the average maturity reached its highest level in 2006 with 16.3 years and decreased from 7.2 years in 2017 to 5.2 years in 2018.

Table 15. Average maturities for corporate bonds by non-financial companies

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Portugal	9.7	16.3	10.5	7.0	7.9	11.0	3.7	3.9	4.7	5.1	12.2	8.0	7.2	5.2
Europe	8.3	10.8	10.9	8.2	8.1	8.6	8.1	8.9	8.3	8.6	9.6	9.4	9.2	8.8
Japan	7.2	8.0	7.6	7.8	7.5	7.3	6.9	6.3	6.9	7.9	8.8	11.1	9.6	10.7
United States	11.7	11.7	12.7	10.8	10.0	11.0	11.5	11.7	11.8	12.2	12.6	13.3	12.4	13.1

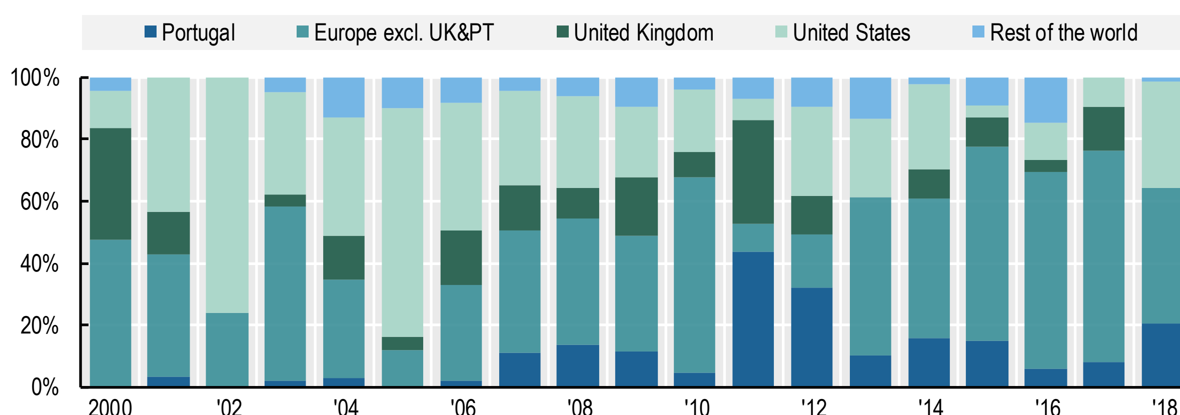
Note: Average maturities are expressed in number of years and represent simple averages.
Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

In the corporate bond market, companies typically pay an investment bank that will underwrite and manage the offering of the bond to the public or to a selected group of professional investors. Underwriters mainly assume responsibilities with respect to helping issuers in preparing the necessary documentation for the issuance, structuring it with respect to potential investor demands and pricing the issuance. The reputation of the underwriter is often seen as

an implicit certification of the quality of the bond, which may be of particular importance for smaller companies that are less known to investors (OECD, 2015b).

In Portugal, the investment banks (underwriters) assisting Portuguese issuers have mostly been foreign banks. Figure 97 presents, by nationality of the investment banks, their share in the volume of corporate bond issues since 2000. The information is collected from the league tables reporting the top 100 investment banks in the bond market in Portugal. Indeed, European and US investment banks dominate the underwriting activity in Portugal. Although the Portuguese investment banks underwriting activity in the domestic corporate bond market was almost inexistent until 2006, with an average annual share of 1.8%, ever since the average yearly share of Portuguese investment banks in total increased to 16%.

Figure 97. Share of Portuguese banks in the domestic corporate bond market underwriting activity



Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

CHAPTER VI. THE PRIVATE EQUITY AND VENTURE CAPITAL MARKET IN PORTUGAL

In addition to the growth of traditional institutional investors over the recent decades, the world's capital markets have also witnessed the emergence of alternative types of institutional investors that complement the traditional ones. Among these alternative institutional investors, private equity and venture capital funds stand out as important investors in non-financial companies. In 2019, the deal volume of private equity stood at USD 1.47 trillion globally, similar the USD 1.49 trillion observed in 2018 (McKinsey, 2020).

This chapter starts with a broad overview of private equity activity in Portugal and compares it to European aggregates. This is followed by a presentation of more detailed data concerning the three main stages typically associated with private equity fund investments, namely fundraising, investment and divestment. The issues addressed in this analysis include the sources of private equity funding, industry distribution of private equity investments and the most common private equity exit strategies.

6.1. Overview of the private equity activity in Portugal

Private equity represents an alternative to traditional bank financing and to public equity markets for companies seeking capital to finance their investment plans. This type of financing could be of particular importance for companies with high growth potential that require a substantial amount of external capital to finance their expansion but have not reached a significant size to access public markets or their assets composition prevents them from getting bank financing (Tykovova, 2007; Subhash, 2009).

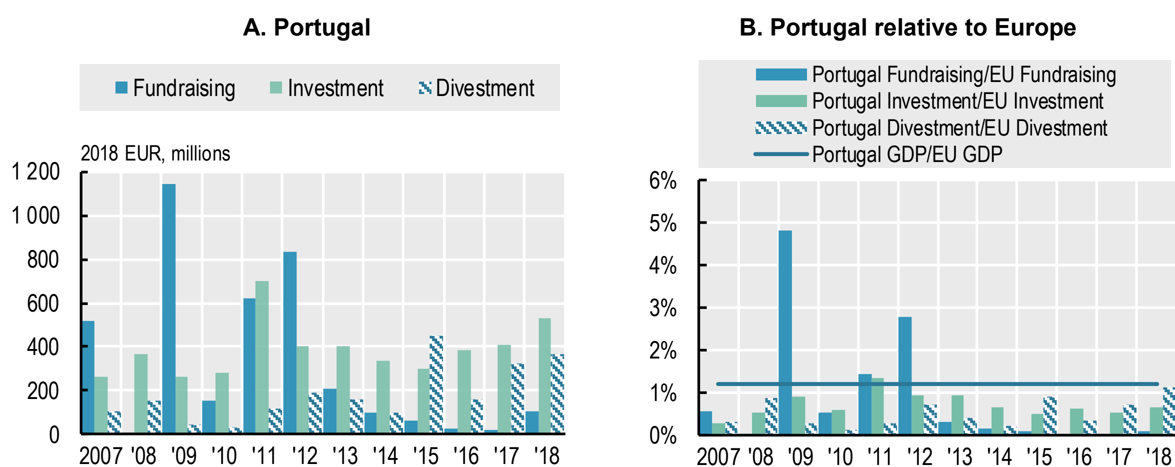
The private equity investment cycle is comprised of three main stages. The first stage is referred to as *fundraising* where a private equity firm raises funds from institutional investors, banks, high net worth individuals and others. Funds will be closed to new investors after having raised the targeted amount of capital. Funds raised are recorded normally in the country of the private equity firm. The second stage is *investment* where a private equity firm uses the raised funds to invest in a company. These transactions are recorded according to the location of the investee company. As described above, private equity funds have a definite investment horizon, which means that they need to exit all their investments in a given time, usually less than 10 years, and liquidate the fund. There are different exit strategies, including buyback by managers or owners, sale in public offerings, repayment of preference shares/loans, sale to another private equity firm or financial institutions, and write-off. The exit operation constitutes the third stage and is referred as *divestment,* which is recorded at investment cost.

In Portugal, the use of private equity as a source of corporate financing is still relatively under-developed. Figure 98 presents an overview of fundraising, investment and divestment trends in Portugal since 2007 and a comparison to EU aggregate numbers. Panel A shows a comparison in amount for three stages of private equity activity respectively. In most of the years, the amount of private equity capital invested in Portugal is higher than the amount raised in the country. During the last five years, capital raised in Portugal was on average EUR 64 million, while total investment received by Portugal firms were over six times at

EUR 392 million. Divestment has been low in earlier years but has picked up recently with an average of EUR 281 million for the last five years. It is also worth noting that the divestment activity is generally lower than the investment activity as the private equity industry is a growing industry in Portugal.

Private equity activity in Portugal compared to European levels remains weak. While Portugal represents about 1.2% of total EU GDP, for the last five years private equity investment and divestment only amounted to 0.6% and 0.7% of the European values respectively (Figure 98, Panel B). The fundraising has also remained sluggish. After reaching almost 3% in 2012, it has been low for the last five years counting merely 0.09% of the funds raised in Europe.

Figure 98. Private equity activity in Portugal



Source: Invest Europe / EDC.

6.2. Private equity investors and fundraising trends

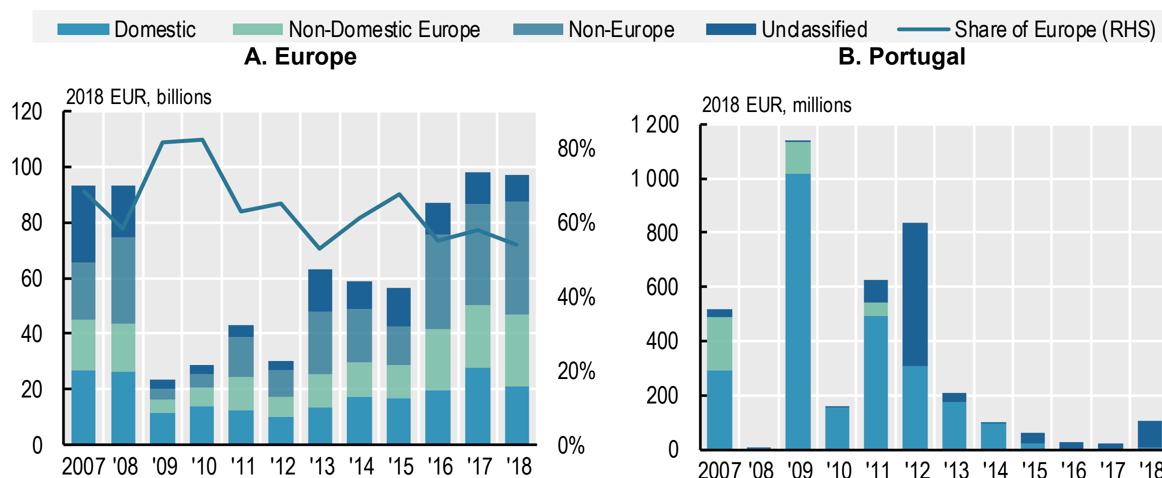
Private equity (PE) funds are set up as limited partnership (LPs), with private equity firms providing service as general partners (GPs) of the funds. PE firms generally do not have a permanent capital, thus every few years it needs to reach out to investors to raise a new bulk of capital. In fact, PE funds normally last for more than ten years while PE firms raise new funds every three to six years to stay in business (Barber and Yasuda, 2017). Moreover, most funds start experiencing exits in the third year and this is when the follow-on fundraising occurs. A successful fundraising is not only important for PE firms to start new funds but also of great importance when follow-on funds are needed to ensure the continuity of funds.

Private equity fundraising in Europe has been on a healthy recovery following the financial crisis. In 2018, the fundraising in Europe reached a record level of EUR 97.3 billion. This recovery is largely driven by non-European investors, in particular from Asia and North America. In fact, the funds raised from these two regions have more than doubled as their inflow to Europe increased from EUR 12.7 billion in 2015 to an average of more than EUR 30 billion over the last three years. This large inflow from outside Europe has resulted in a slight decrease in Europe's share as a fund provider (Figure 99, Panel A).

However, different from the trend in Europe, PE fundraising in Portugal has been low in recent years. After reaching a peak of more than EUR 1 billion in 2009, the total fundraising has been declining and has only averaged around EUR 60 million during the last five years. It is worth noting that the amount raised has picked up slightly in 2018 reaching over EUR 100 million.

Panel B in Figure 99 also shows that the most important source for private equity fundraising is the domestic market which accounts for almost 70% of the total funds raised between 2007 and 2018. Private equity firms in Portugal have only attracted a small amount of funds from other European countries and almost no funds have been raised from outside Europe. Since 2015 the funds raised domestically have dried up and it only reached EUR 5 million in 2018.

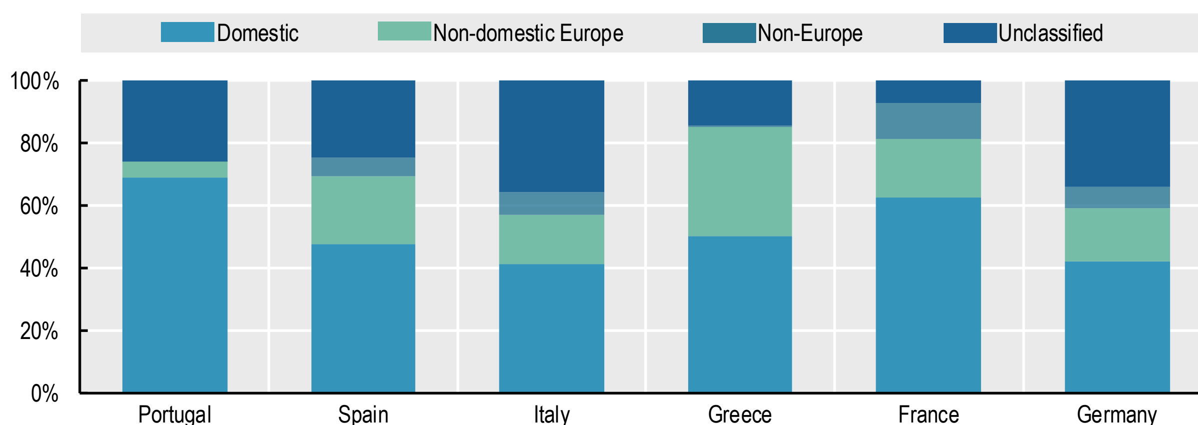
Figure 99. Private equity fundraising in Europe and Portugal



Source: Invest Europe / EDC.

A comparison between Portugal and other countries confirms the over-reliance of Portuguese private equity on domestic funding sources. As shown in Figure 100, almost all fundraising in Portugal comes from the domestic market, compared to other European countries where the funding is largely from other European countries or outside Europe. In Spain and France, around 20% of the funds raised originate from other European countries.

Figure 100. Private equity fundraising by origin of the investors (2009-2018)

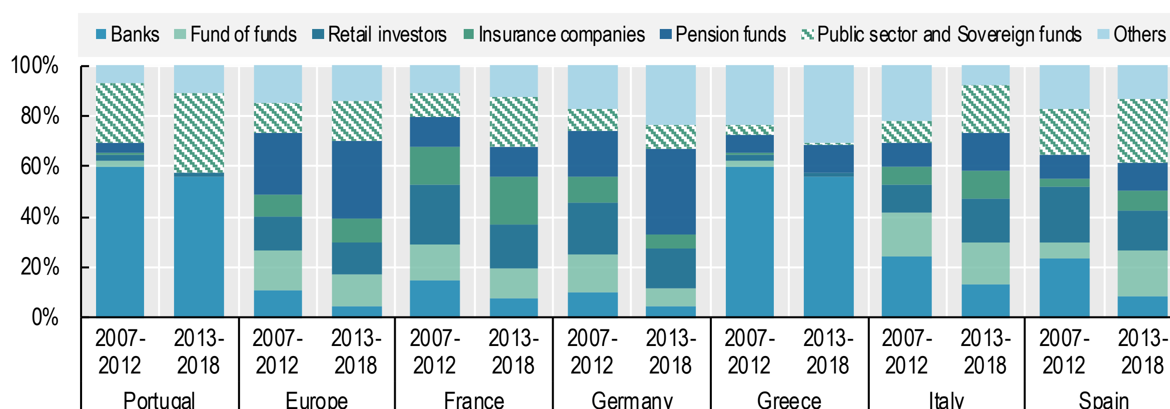


Source: Invest Europe / EDC.

Regarding capital contributions by different types of investors, Portuguese PE fundraising is dominated by banks, as well as the public sector and sovereign funds. These two categories of investors account for almost 90% of funding source during both 2007-2012 and 2013-2018 periods (Figure 101). Other types of investors are almost negligible. This contrasts what is observed in other European countries. In Europe, pension funds appear to account for the largest share of fundraising, followed by public sector and sovereign funds. Retail investors and fund of funds also play an important role by providing over 10% of the capital respectively.

During recent years, the share of funds raised from the public sector and sovereign funds, as well as pension funds have significantly increased, while banks are accounting for a lower share of funds. Particularly, in Italy, the public sector and sovereign funds have increased their share of fundraising from 9% to 19% from the first to the second period, and in Germany the share of funds raised by pension funds has increased from 19% in the first period to 34% during the 2013-2018 period.

Figure 101. Private equity fundraising by type of capital providers

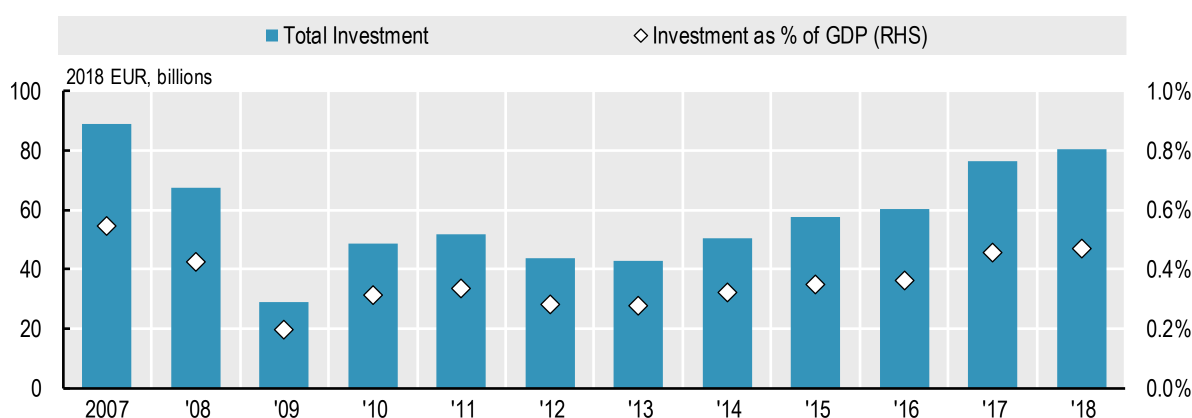


Source: Invest Europe / EDC.

6.3. Investments by private equity funds

Figure 102 shows the total amount of private equity investments in Europe in absolute terms and as a percentage of GDP. Despite six consecutive years of increase since 2012, the amount is still well below the pre-crisis levels. After a sharp drop to EUR 30 billion in 2009, the total annual investments fluctuated around EUR 50 billion between 2010 and 2014, before picking up gradually in recent years. As a percentage of GDP, total private equity investments in Europe were 0.47% in 2018.

Figure 102. Private equity investments in Europe



Source: Invest Europe / EDC.

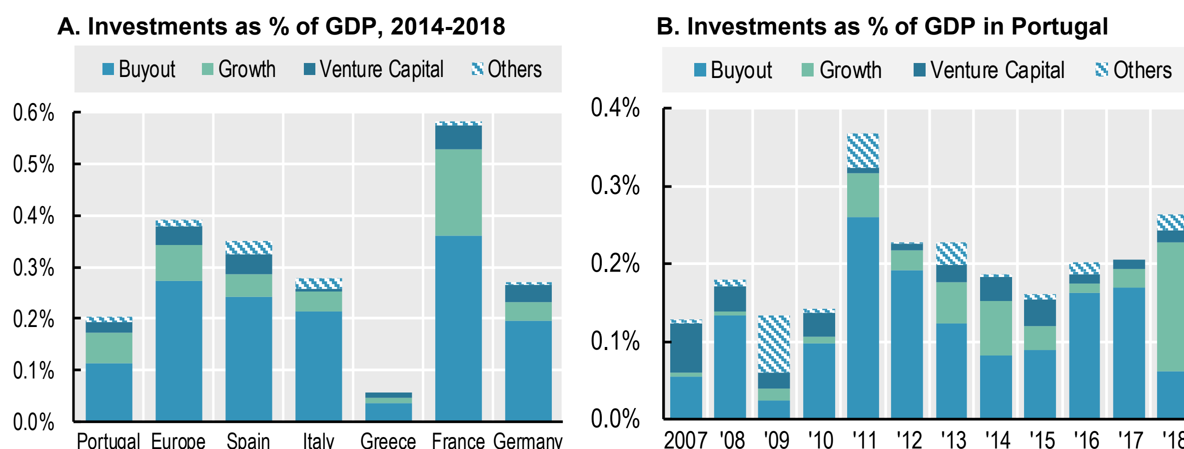
Portugal appears to have one of the lowest private equity investments to GDP ratio. As shown in Panel A of Figure 103, over the last 5 years, Portugal's investment to GDP ratio is only half of the aggregate European level as PE investment accounts for 0.2% of its GDP. This number is relatively low compared to countries such as France and Spain, in which the ratios are

0.58% and 0.35% respectively. Germany also has strong PE market in terms of absolute volume, but its total investments as share of GDP were relatively modest compared to other countries due to its larger economy.

Different European countries also show different distribution in terms of types of private equity investments. Buyouts have a dominant role in PE market as it accounts for almost two-thirds of the total investment in Europe. Typically accompanied with high levels of debt financing, a buyout deal involves acquiring a controlling position in the target company in order to facilitate the restructuring of the company. As shown in Figure 103, during the 2014-2018 period, in Portugal buyout deals account for 56% of total investment, while in Spain and Italy the buyout deals represent 69% and 77% respectively. This comparatively low share of buyout in Portugal partly contributes to the low investment level.

Growth investment, normally a minority investment in relatively mature companies that need capital for expanding operations, represent more than 30% of the total investment in Portugal during the 2014-2018 period. The ratio of growth investment to GDP ratio in Portugal is 0.06% which is actually higher than most European countries, for instance Spain (0.05%) and Italy (0.04%). A time series trend in Panel B in Figure 103 shows that in recent years there has been an increasing trend of growth investment. In particular, 2018 has seen a surge in growth investment as it accounted for more than half of the total PE investment in Portugal. Venture capital is relatively underdeveloped in Portugal, which only accounts for 0.02% of GDP, compared to European level of 0.04%. It is also worth noting that venture capital in Portugal has been on a decreasing trend after the financial crisis. Despite recent picks up in 2014 and 2015, venture capital investments fluctuated around only 0.01% of GDP for the last three years.

Figure 103. Private equity investments in Portugal and selected European countries

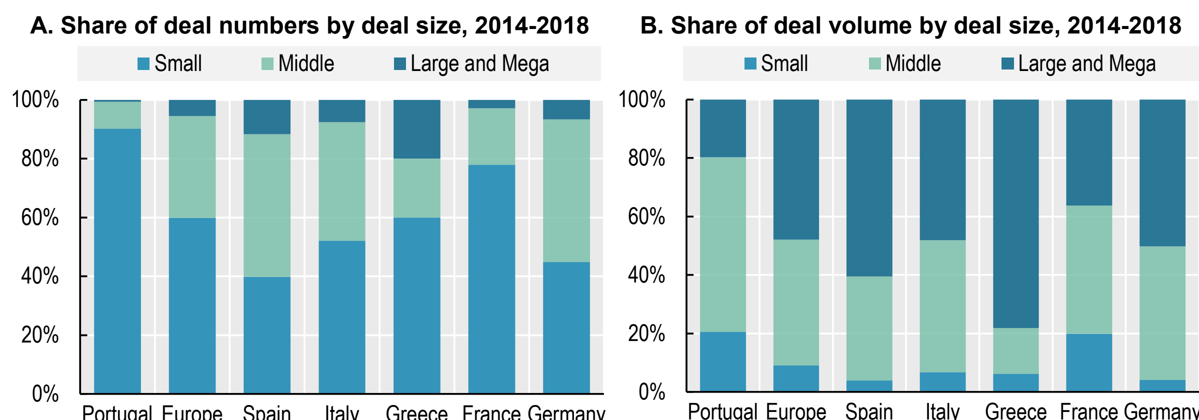


Source: Invest Europe / EDC.

A closer look at the buyout deals shows that the low buyout investment in Portugal is mainly driven by the lack of large deals. Figure 104 presents the size distribution of buyout investments where the deals are classified according to three categories: “large and mega deals” that are above EUR 150 million, “mid-sized deals” that are between EUR 15 and 150 million; and “small-sized deals” which are under EUR 15 million. At the European aggregate level, although small-sized deals represent the lions’ share in terms of numbers (60%), the capital invested only accounts for 9% of the total buyout values. The large and mega deals have concentrated almost half of the investment despite it only represents less than 5% of the

number. For the case of Portugal, it appears that over the last five years, there has been only one large deal that represents 20% of the total investment value.

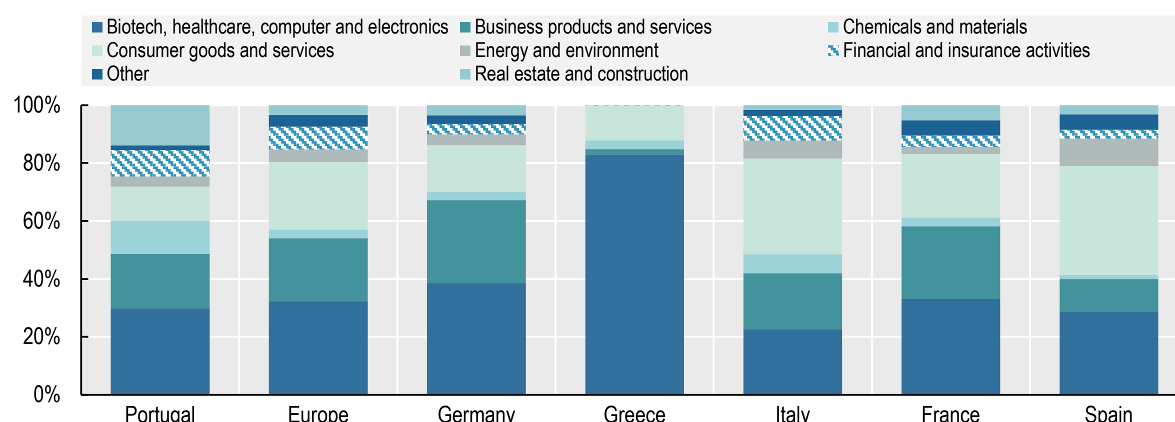
Figure 104. Deal size distribution for buyout investments



Source: Invest Europe / EDC.

Three industries, namely consumer goods and services; business products and services; technology including biotech, healthcare, computers and biotechnology, are making up almost 80% of the total PE investment in Europe (Figure 105). Portugal is no exception as these three sectors almost account for 60% of the total investment. Portugal has the lowest share in consumer goods and services (12%) among the six European countries in the figure, well below Spain (38%) and Italy (33%). At the same time, Portugal has the highest share (11%) in chemicals and materials, which is three times the European level (3%).

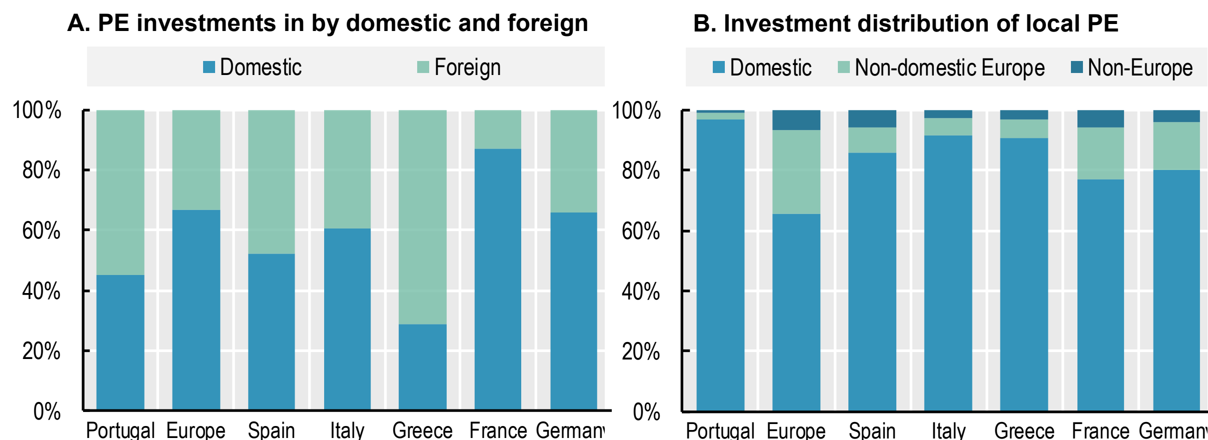
Figure 105. Private equity investments by industry, 2014-2018



Source: Invest Europe / EDC.

Half of the private equity investments in Portugal are conducted by foreign funds as shown in Panel A of Figure 106, compared to Europe where 67% of investments are from domestic PE firms. In France, one of the most developed PE markets in Europe, domestic PE firms contribute almost 90% of total investments received. Moreover, as shown in Panel B of Figure 106, almost all investment of Portuguese PE firms have gone to domestic companies, suggesting a strong home bias for Portuguese PE firms. Countries like France and Germany, domestic PE firms allocate more than 20% of the investments to foreign companies.

Figure 106. Geographic distribution of private equity investments (2014-2018)



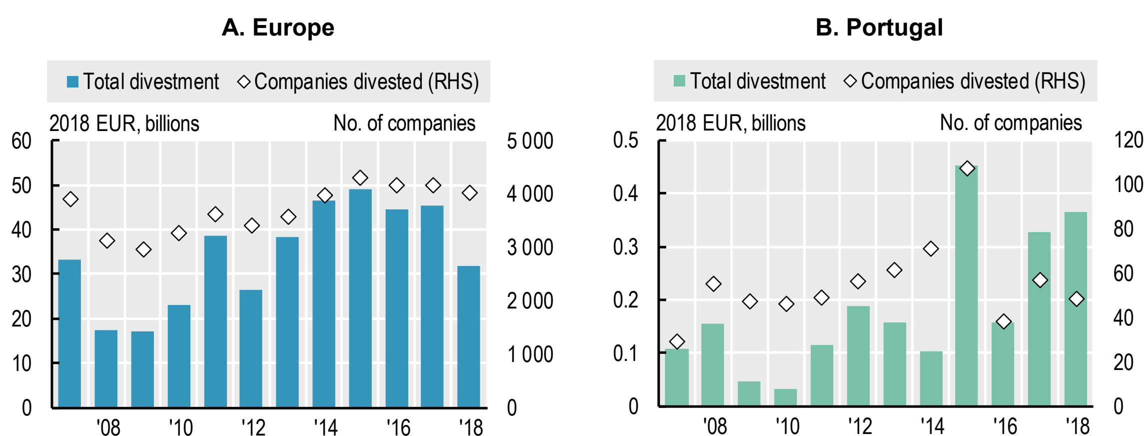
Source: Invest Europe / EDC.

6.4. Divestments and exit strategies

Private equity funds normally have an investment period of 5-6 years and funds have an average life of ten years (Brown, Gredil and Kaplan, 2019). Over the fund's lifecycle, divestment is the last stage and the success of investments depend on the realization of potential gains from divestment. During this stage, PE firms sell the investee company and distribute the proceeds to investors. Both the timing and method selected significantly influence the price reached for the divested asset (EY, 2019).

The divestment activity in Europe reached its lowest level during the financial crisis, as lower valuations slowed down the exits (Figure 107, Panel A). Since 2012 it has been on a recovery path and reached EUR 49 billion with more than 4 000 companies in 2015. It has however decreased significantly in 2018 to EUR 32 billion. One reason behind the recent slowdown has been the increase in the average holding period. Portugal recorded the lowest level of divestment in 2010 and afterwards there has been a somewhat positive trend. Its divestment activity also peaked in 2015 with EUR 451 million and 107 companies, and slightly dropped for the last three years with an average of EUR 283 million.

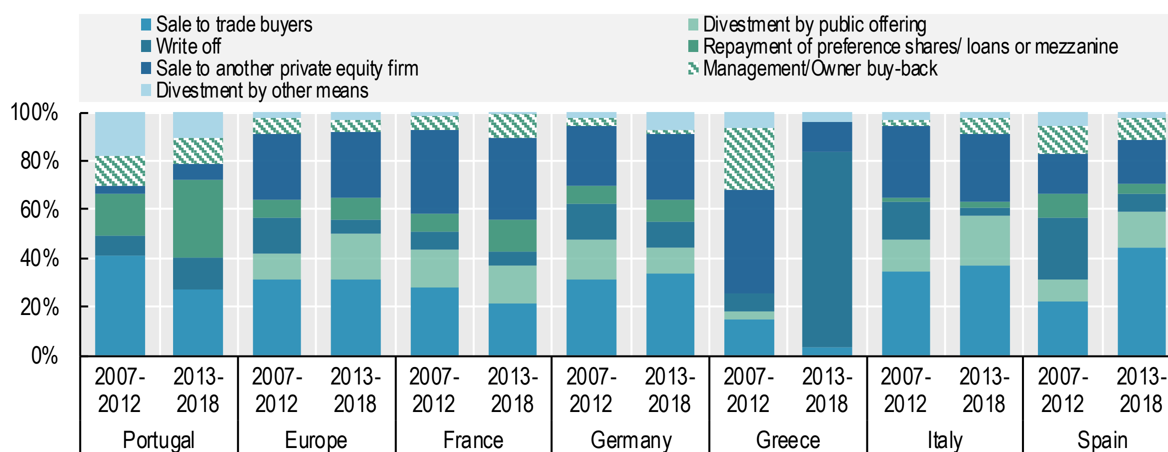
Figure 107. Total divestment volume and private equity backed IPOs in Europe and Portugal



Source: Invest Europe / EDC

There are mainly 7 forms of divesting assets illustrated in Figure 108. In 2007 and 2008, 56% of the divested volume in Europe is related to selling the shares in the investee company to another private equity firm or trade buyers through so-called trade sales. IPOs have also become popular as its share of divestment volume has reached almost 20% since 2013. In Portugal the most popular exit forms are repayment and buy-back. Importantly, Portugal has not seen an exit via IPOs during the last decade.

Figure 108. Distribution of divestment volumes by exit forms



Source: Invest Europe / EDC

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ANNEX – METHODOLOGY FOR DATA COLLECTION AND CLASSIFICATION

A. Company financial and ownership information

The information presented in Part II, Chapter I is mainly based on the OECD-ORBIS Corporate Finance database. The extract of information presented in Chapter I includes financial statement and ownership information of non-financial companies between 2005 and 2016.

Company categories construction

Part II, Chapter I shows the following four non-financial firm categories: Category 1 "*Listed companies*", Category 2 "*Large unlisted companies*", Category 3 "*Small and mid-sized companies part of a group*", and Category 4 "*Independent small and mid-sized companies*". The construction of the company categories is based on the ownership, industry, legal information and financial information tables.

The procedure starts by identifying all listed and unlisted companies with assets over USD 100 million in the entire ORBIS universe. Non-financial listed companies are classified immediately as Category 1 and large unlisted non-financial companies as Category 2. For these groups, the consolidated financial statements are used, if available.

The following step identifies the countries of interest and uses their ownership-country-year tables. ORBIS provides many records of owners at different points in time from different sources. Two criteria are used to clean the ownership information and to be left out with only one record for each firm-year observation: the largest owner is kept and the latest information is prioritised. The largest owner can be either the global ultimate owner at 50%, the global ultimate owner at 25%, or the largest direct owner with over 25% holdings. Once the sample has a unique firm-year record, owners are classified as corporations or natural persons.

Using the ownership records generated in the previous step, the routine starts by identifying the subsidiaries of the listed and large unlisted companies. Three types of companies are identified: 1) domestic subsidiaries with a local parent, 2) domestic subsidiaries with a foreign parent, and 3) companies controlled by a person. Some companies that are classified as subsidiaries in this step were already identified as large unlisted companies at the beginning. In these cases, since the subsidiary was already consolidated, its data were not used to avoid duplications. The domestic subsidiaries with a local parent in Category 1 or 2, or with foreign parents Category 1 or 2 are classified as Category 3. Please note that this category includes the non-financial domestic subsidiaries of financial domestic parent and foreign parents as these parents are excluded as they do not meet the industry requirement or because they are not incorporated in the domestic market under analysis. The companies where the largest owner is a person (over 25% ownership) are classified as Category 4.

Economy-wide calculations take into account the ownership structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. Thus, economy wide calculations include companies from Category 1, Category 2, Category 4, companies without ownership information, and companies from Category 3 that had a foreign parent or a financial domestic parent.

Financial information cleaning

The company category classification described in the previous section also incorporates different types of financial reporting (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available. For the remaining categories, unconsolidated financial statements are used.

The raw financial dataset contains several firm-year observations when a company has multiple consolidation codes or it reports for different purposes. To construct a panel with a unique firm-year observation, the following steps are applied:

1. Financial companies are excluded.
2. The fiscal year corresponds to the previous calendar year of the closing date whenever the closing date of the financial statement is before June 30th.
3. Financial statements covering a 12-month period are used, preferably.
4. When multiple observations within the same year exist, accounts with closing dates closer to year-end are preferred to accounts with older closing dates.
5. Published annual reports are preferred to local registry filings. Local Registry filings are preferred to unknown filing types.
6. Accounts using IFRS are preferred to those using GAAP, accounts using GAAP are preferred to those using unknown accounting practices.
7. For companies with multiple consolidation codes, the following criteria apply: for companies that release consolidated financial statements, C1 is preferred when both C1 and C2 exist; for companies that release unconsolidated statements the observation from annual reports are preferred over others.
8. Financial information is adjusted by annual EUR Consumer Price Index changes and information is reported in 2018 constant million EUR.
9. Companies with at least one observation showing negative assets or negative fixed assets are dropped from the sample.
10. Companies with equal or less than 10 employees are dropped from the sample.
11. Financial statement information is winsorized at 1% for both tails within companies' categories.

Industry classification

The OECD-ORBIS Corporate Finance uses the 1-digit SIC industry classification.

Standard Industrial Classification (SIC)
Agriculture, Forestry and Fishing
Mining
Construction
Manufacturing
Transportation, Communications, Electric, Gas and Sanitary service
Wholesale Trade
Retail Trade
Finance, Insurance and Real Estate
Services
Public Administration

B. Survey methodology

Description on survey sample construction and coverage

The OECD conducted a survey of how unlisted non-financial companies use and perceive market-based financing in Portugal. This survey focused on the Portuguese large unlisted companies, including large mid-sized companies, and aimed at mapping their key characteristics, their understanding of market-based financing and perception of barriers to access capital markets. Companies were drawn from a universe of unlisted companies available in multiple databases (ORBIS, FactSet and Refinitiv). The criteria to select companies were the following:

- Large unlisted companies were selected based on their sales and assets.
- Companies with growth potential (3-year annualised sales growth over 10 per cent).
- Companies that delisted from the Portuguese stock exchange since 2000.

Companies' contact information (names, address and email addresses) was collected from ORBIS, FactSet, Refinitiv and Bloomberg. Publicly available information was used to complement, verify and correct the information obtained from the commercial databases. The persons within the company invited to respond the survey were either the CEO, CFO, Chairman, Board members or key executives. In some cases, companies were contacted by phone asking for a general email address or the name of the appropriate person to respond the survey.

Survey methodology

The OECD launched an online questionnaire which was sent to 1 085 non-financial companies on December 5th 2018. As new contact information was obtained, the questionnaire was sent to additional 851 companies throughout December totalling 1 936 companies. The survey was available both in English and Portuguese and respondent were given the option to select their preferred language.

In order to increase the response ratio, paper copies of the questionnaire were also sent to 543 large companies in the mailing list. These companies were given three options for responding to the questionnaire: using the online tool, sending their answers by email or sending them by mail (post). Between the December 2018 and May 2019 period, 297 Portuguese unlisted companies participated in the survey including 17 delisted firms.

C. Public equity data

The information on Initial public offering (IPOs) and secondary public offerings (SPOs) presented in Part II, Chapter III is based on transaction and/or firm-level data gathered from several financial databases, such as Thomson Reuters Eikon, Thomson Reuters Datastream, FactSet and Bloomberg.

Considerable resources have been committed to ensuring the consistency and quality of the dataset. Different data sources are checked against each other and, whenever necessary, the information is also controlled against original sources, including regulator, stock exchange and company websites and financial statements.

Country coverage and classification

The dataset includes information about all initial public offerings (IPOs) and secondary public offerings (SPOs or follow-on offerings) by financial and non-financial companies for 5 European economies (France, Germany, Italy, Spain and Portugal) for the period from January 1995 to December 2018.

All public equity listings following an IPO, including the first time listings in an exchange other than the primary exchange, are classified as a SPO. If a company is listed in more than one exchange within 180 days that transactions are consolidated under one IPO.

The country breakdown is carried out based on the domicile country of the issuer. In the dataset, the country of issue classification is also made based on the stock exchange location of the issuer.

It is possible that a company becomes listed in more than one country when going public. The financial databases record a dual listing as multiple transactions for each country where the company is listed. However, there is also a significant number of cases where dual listings are reported as one transaction only based on the primary market of the listing. For this reason, the country breakdown based on the stock exchange is currently carried out based on the primary market of the issuer. Going forward, the objective is to allocate proceeds from an IPO to respective markets where the issuance is listed at the same time.

Currency conversion and inflation adjustment

The IPO and SPO data, and related financial statement data, such as total assets before offering, are collected on a deal basis via commercial databases in current USD values. The information is aggregated at the annual frequency and, in some tables, presented at the year-industry level. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.

Industry classification

Initial public offering and secondary offerings statistics are presented in this report using Thomson Reuters Business Classification (TRBC). The economic sectors used in the analysis are the followings:

Thomson Reuters Economic Sector
Basic Materials
Cyclical Consumer Goods / Services
Energy
Financials
Healthcare
Industrials
Non-Cyclical Consumer Goods / Services
Technology
Telecommunications Services
Utilities

Exclusion criteria

With the aim of excluding IPOs and SPOs by trusts, funds and special purpose acquisition companies the following industry categories are excluded:

- Financial companies that conduct trust, fiduciary and custody activities
- Asset management companies such as health and welfare funds, pension funds and their third-party administration, as well as other financial vehicles
- Companies that are open-end investment funds
- Companies that are other financial vehicles
- Companies that are grant-making foundations
- Asset management companies that deal with trusts, estates and agency accounts
- Special Purpose Acquisition Companies (SPACs)
- Closed-end funds
- Listings on an over-the-counter (OTC) market
- Security types classified as “units” and “trust”
- Real Estate Investment Trusts
- Transactions with missing or zero proceeds

D. Ownership data

The main source of information is FactSet Ownership database. This dataset covers companies with a market capitalisation of more than USD 50 million and accounts for all positions equal to or larger than 0.1% of the issued shares. Data are collected as of end of 2018 in current USD, thus no currency nor inflation adjustment is needed.

To complement the data with additional market information, Thomson Reuters is also used. For each of the following six economies (Portugal, France, Germany, Greece, Italy and Spain), the information presented in Part II, Chapter III corresponds to all listed companies in those markets.

In a second step, the information for the reported owners as of the end of 2018 is collected for each company. Some companies can have up to 5 000 records in the list of owners. Each record contains the name of the institution, the percentage of outstanding shares owned, the investor type classification, the origin country of the investor, the ultimate parent name, among others. Each owner record is re-classified into the following investor classes: Private corporations, Public sector, Strategic individuals, Institutional investors and Other free-float. When the ultimate parent was recognised to be a Government, the investor record is, by default, classified as Public sector. For example, public pension funds that are regulated under public sector law are classified as government, and sovereign wealth funds are also included in that same category.

E. Investment banking data

The investment banking data uses as the main source of information the Thomson Reuters League Tables. Each table offers information about the top 100 investment banks in the selected region, their ranking in the table, total gross proceeds allocated to that bank, the market share for each bank and the number of deals in which the bank was involved during the selected period of time. For this report, the information is collected for the following five regions/markets of activity: Portugal, Europe excluding United Kingdom and Portugal, United Kingdom, United States and the Rest of the world.

Inclusion criteria

The information is collected for Bonds (including High Yield, Investment Grades, and Emerging Markets) and Equity (including Initial Public Offerings and Secondary Public Offerings). Information is retrieved on an annual basis from 2000 to 2018. Each table provides information for the top 100 investment banks involved in underwriting each of the above mentioned securities. The allocation method chosen is equal to each bookrunner, which means that if there is a USD 1 billion loan and 2 bookrunners on the deal they will get USD 500 million each.

Identification of the banks' country and region

A full list containing each unique bank in the sample is created to identify its country of origin. The list of unique bank names contains 6 884 banks worldwide. Their nation of origin is assigned based on the location of the headquarters. Sources of information such as FactSet, Thomson Reuters, Bloomberg and banks websites/annual reports are used to identify banks' origin nation.

F. Delistings' corporate data

The firm-level financial information data presented in Part II, Chapter IV is based on Thomson Reuters Datastream database (Datastream), complemented by OECD-ORBIS Corporate Finance database (Orbis). The list of companies delisted from the Portuguese stock market has been constructed by using data from Datastream and Orbis, and checked against Bloomberg to ensure accuracy. Variable definition is shown in Table A1. All variables in this report are presented in 2018 EUR.

Aggregate variables

To construct aggregate ratios we require that each observation in order to be included in the numerator and denominator has to have non-missing values. For example the aggregate ratio of $X/Y_t = \frac{\sum_i x_{i,t}}{\sum_i y_{i,t}}$ where $x_{i,t}; y_{i,t}$ are non-missing for each i and t.

Firm-level variables

Firm-level variables are constructed in consistency with the aggregate ratios for comparison purposes.

Table A1: Variable definitions

Variable	Descriptions	Data Source
Total assets	Total assets in Million EUR 2018	Datastream/Orbis
Operating margin	(Operating earnings)/Sales	Datastream/Orbis
Return-on-equity	(Income before extraordinary items) /(Common equity)	Datastream/Orbis
Long-term debt	(Long-term debt)/(Total assets)	Datastream/Orbis
Short-term debt	(Short-term debt)/(Total assets)	Datastream/Orbis
Cost of debt	(Interest payments)/(Total debt)	Datastream/Orbis
Leverage ratio	(Total debt)/(Total assets)	Datastream/Orbis
Cash ratio	(Cash and cash equivalents)/(Total assets)	Datastream/Orbis
Sales growth	$(Sales_t - Sales_{t-1})/Sales_{t-1}$	Datastream/Orbis
Turnover	(Total number of shares traded in one year) /(Average number of shares outstanding)	Datastream
Annualised volatility	Standard deviation of monthly return of the share price for the last 12 months	Datastream
Analyst coverage	Number of analysts following the firm based on earnings per share (EPS) forecasts for the year	Thomson Reuters Eikon

F. Corporate bond data

Data shown on corporate bond issuances in Part II, Chapter V is based on original OECD calculations using data obtained from Thomson Reuters Eikon that provides international deal-level data on new issues of corporate bonds, which are underwritten by an investment bank. The database provides a detailed set of information for each corporate bond issue, including the identity, nationality and sector of the issuer; the type, interest rate structure, maturity date and rating category of the bond, the amount of and use of proceeds obtained from the issue.

The initial dataset covers observations in the period from 1 January 2000 to 31 December 2018. From this initial set, convertible bonds, deals that were registered but not consummated, preferred shares, sukuk bonds, bonds with an original maturity less than 1 year or an issue size less than USD 1 million are excluded.

The country breakdown is carried out based on the domicile country of the issuer. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.

G. Private Equity data

The main source of information for the private equity data (Part II, Chapter VI) is Invest Europe. The information provided by Europe is made up of firms managing investment vehicles or pools of capital (Funds) and primarily investing equity capital in enterprises not quoted on a stock market. Firms are included in the analysis as long as at least one of the funds they manage qualifies to the inclusion conditions; however, only the activity of the qualifying funds is taken into consideration.

The countries included when referring to Europe statistics are: Austria, Baltic countries (Estonia, Latvia, Lithuania), Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Other CEE (Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia, Slovakia), Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, United Kingdom.

The fundraising activities are classified according to the country that corresponds to the location of the advisory team of the fund. The amount reported under investments includes equity, quasi-equity, mezzanine, unsecured debt and secured debt. Secured debts amounts within all investments packages are removed, unless the debt originates from private equity funds. Investment activities are recorded according to the location of the portfolio company. Divestment amounts are recorded at cost (i.e. the total amount divested is equal to the total amount invested previously). Private equity statistics are collected in current Euros. Amounts are then adjusted by using Euro CPI to express them in constant 2018 EUR.

The categories of private equity entities that are excluded from the Invest Europe Universe are: Fund of Funds, Hedge Funds, Real Estate, Project Financing/ Infrastructure, Secondary Funds, Distress Debt, Venture Credit, Participative Loans, Incubators, Accelerators, Business Angels and Holding companies.

www.oecd.org/corporate/capital-markets

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