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COUNTRY PRESENTATION SUBMITTED BY PORTUGAL

* The attached country presentation is circulated in the language and form in which it was received. The terminology employed is that of the submitting Authority.

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Design, implementation and results of
privatization programmes

I - MEDIUM AND LONG TERM OBJECTIVES

1. Efficiency and redimensioning of public sector

The privatizations and redimensioning programme for the State's entrepreneurial sector involves, at enterprise level, the modification of the relations with public powers, the broadening of the autonomy at a managerial level and the redefinition concerning objectives of internal efficiency and of relationship with clients; at sectorial level, it involves the promotion of the competition or the elucidation of rules on the activity and the modification of the work relations. In short, the acceptance of the "majority" of the enterprise's personality, free of casuistic and discretionary intervention of political powers.

The objectives of this transformation are defined by Law. The Frame-Law ruling privatizations lists seven objectives which may be grouped in three sets of general relevance but, of course, having an importance and priority depending on the specific circumstances and on the political options.

The first three objectives;

- a) To modernize the economic units, to increase their competitiveness and to contribute to the strategies of sectorial and entrepreneurial restructuring;

- b) To reinforce the national entrepreneurial capacity and to prize other national interests (f),
- c) To promote the reduction of the State's burden on the economy,

reply to a concern for global efficiency and relate to a recognition of the fact that the management capacity of the State is one of the scarcer resources and should be reserved for situations where the market mechanisms prove to be inadequate.

2. Dissemination of the capital

The second set of objectives:

- d) To contribute to the development of the capital market;
- e) To enable a large number of Portuguese citizens to participate in the shareholding of the enterprises' capital through an adequate dispersion of the capital, special attention being given to the employees of the enterprise in question and to small subscribers;

indicates the dispersion of the capital, implying shareholder structures which, in situations of lesser development and dynamism of the stock exchange market, may hardly be compatible with the objectives of reinforcing the vitality of both companies and national entrepreneurial capacity.

3. Public finance

Finally, the third set of objectives:

- f) to preserve the State's patrimonial interests
... and
- g) to promote the reduction of the public debt's
burden on the economy,

are placed last because, in a broader perspective, the State's economic interests are protected by the previous objectives and the modernization of the enterprises together with the promotion of the national patrimonial capacity may justify sacrifices in the short and medium term.

II - Macroeconomic context of the launching of the privatization programme

Portugal's accession to the EEC in 1986 determined that deep institutional changes be undergone in order to lead the economic policy towards greater accession to market mechanisms. In that sense, prices for goods and services were changed, the taxation system was reformed and a procedure was engaged to consolidate financially public enterprises and to reduce the role of the State on the productive sector.

The macroeconomic context where such reforms were launched was extremely favourable. GDP over the 1986-1990 period grew at an average rate of 4.5%; the unemployment rate shrank to half in 1990, falling to a little over 6%, the inflation rate fell to an average value of 12% less, after it had registered much higher values, over 20%, in previous years. Among the factors which did positively affect the macroeconomic evolution a reference must be made to the flow of foreign direct investments and of Community structural funds, which contributed to higher levels of investment.

Structural funds alone responded - already in 1990 - for 1.5% of the product growth, this percentage at present being 1.8%.

The privatization programme begun in 1989 did so benefit from a particularly favourable macroeconomic frame, allowed by the external conjuncture and greatly due to the benefits resulting from the accession to the EEC and appears inserted in a set of structural reforms intended to improve the market's operation, contributing therefore to the best Portuguese integration in the Community.

III - The role of the State

Share of the public sector

In order to understand the considerable importance assumed by the public sector in the Portuguese economy some significant events occurring in the last two decades must be broadly outlined.

During the period before the 1974 Revolution Portuguese society and the economy went through a process of complex and swift transformation. The revolutionary process and the international context which was marked by the first oil crisis accelerated the changes and gave rise to disrupting situations. Among the aspects marking the period before April 1974, the progressive opening in the sector of external trade (participation in EFTA), the liberalization of the access to most of the sectors of economic activity which were previously subject to administrative authorizations, the heavy emigration, the strengthening of union activity, the drastic fall of trade with the colonies, the launching of huge

industrial projects which were being questioned because of the oil crisis, the financial fragility of the industrial enterprises, the speculative euphoria in a narrow stock market and the high rate of inflation are to be pointed out.

In this context of deep changes the effects of the political and social turmoil resulting from the 1974 revolution made it inevitable that the State increase its intervention in the economy. This intervention's component which lasted longer was the nationalization of the principal enterprises, in 1975 and 1976, in the sectors of finance, industry, transport and social communications.

Nationalization of enterprises - which, as a rule, did not affect foreign shares - caused indirect changes of the participated enterprises' ownership, namely the participations held by Banks and Insurance Companies.

Thus, the dimension of the State's entrepreneurial sector which, before 1974, was already significant, did dramatically increase to 15% of the product, 5% of employment and, in certain years, 30% of the Gross Fixed Capital Formation.

Anyhow, the coexistence of this evolution with the opening of the economy to external trade did not hinder the maintenance in Portugal of a relevant role for small and medium enterprises, private initiative and the performance of the market's normal mechanisms.

The legal framework which conditioned privatizations evolved gradually and steadily, as of 1976, after the completion of the Constitution, where the

irreversibility of nationalizations was determined, the access of private initiative to certain sectors of the economic activity denied and the right to a compensation for nationalized property owners recognized. Important marks of this evolution are the constitutional revisions which took place in 1982 and 1989 and the Treaty of Accession to the EEC in 1986.

The sectors reserved to State initiative were successively limited to a minimum with no relevant economic meaning.

Scale and nature of privatization

The formal beginning of the privatizations programme took place in 1988, still with limitations imposed by the Constitution in force. In fact, that legislation (Law 84/88 of 20 July) hindered the loss of public majority and defined general and rigid limits to the acquisition and holding of privatized shares. Only after the revision of 1989 - the first after accession to the EEC - was the irreversibility of post-1974 nationalizations put aside, the norms for privatizations established and its implementation is to be subordinate to the regime of a frame law, passed by Parliament, approved by an absolute majority of deputies in effective office. Law 11/90 of 5 April - Draft-Law on privatizations - revoked the previous legislation (Law 84/88 of 20 July), under which some partial privatization operations had been performed.

Consequently, the first four privatization operations performed in 1989 covered only 49% of the enterprises' capital, three of which were completed in 1990 and one

in 1991. In the following years, partial privatizations were also performed but for different reasons¹

Redefinition of the role of the State

Privatizations programme

It is the Government's objective to reduce the entrepreneurial sector of the State which, in future, should limit itself to the assurance of activities where the externality involved in the goods or services in question so demand. In fact, the principle of subsidiarity is assumed to be basic in the definition of the State's shareholding strategy, including, whenever possible and for the increase of the efficacy it represents, the participation of private capital. In the future, from various sectors of activity, only 20 companies considered necessary for public service rendering shall remain in the State's entrepreneurial universe. (In 1988, this universe detained majority participation in 76 companies).

Being clearly assumed that the privatization of companies and the resulting reduction of the role of the State in the economy is the main objective of governmental strategy for the State's shareholding function, it is not possible to foresee precisely the terms, delays, rhythm and pace of the alienation by the State. Not only the capacity of the market absorption

¹ Actually, in most of the operations, the sequencing of privatizations was adopted as a form of enabling the formation of stable core shareholders, with a minimum of State intervention. Only 30% of the operations performed from 1989 to the end of 1992, corresponding to 24% of the proceeds, were performed in a non-phased way.

but also the taking into consideration of other objectives of the privatizations programme (on the reinforcement of domestic entrepreneurial capacity, the dissemination of the capital and the preserving of the State's patrimonial interests) hinder the establishment of rigid time schedules. Anyway, the reduction of the State's entrepreneurial sector's burden must be attained gradually, before the completion of the Economic and Monetary Union in 1997 or 1999.

The attached table presents, in a synthetic form, the impact of the privatizations programme, inciding on the companies which are, on the whole or by majority, detained by the State².

In that table, we begin with the situation before the start of the privatizations procedure (1988), the burden of the State's entrepreneurial sector then amounting to 16.2% of GDP, 4.7% of the employment and 22.8% of the GFCF. The privatizations programme will reduce such percentages to 9.7%, 2.9% and 14.3% respectively. The same table shows the programme's uneven progress at the end of 1992, as a result of the priority given to privatizations in the financial sector, practically achieved.

² Besides these, there are still the minority participations, greatly originated in the privatizations procedure, which are not considered in the quantification elements mentioned in the attached table; in fact, in most cases, the State's participation is very much reduced and the relevant privatization procedure will therefore have not much impact. The table does also reflect the possibility of liquidating some companies.

Institutional follow-up

The institutions and the existing supports to promote entrepreneurship or to promote job retraining, aim the enterprises in general and not, specifically, those resulting from the privatization procedure.

The centralization and processing of the information on the privatization procedure, including the elements for the assessment of privatization results, is performed at the Ministry of Finance.

The relatively small burden represented by the State's entrepreneurial sector in terms of employment and, on the other hand, the particularly favourable circumstances of the employment market in which privatizations have occurred until now, explain the absence of a negative social impact deriving from the procedure.

IV - Technical, legal, financial and other aspects

Legal issues

The Constitution of the Portuguese Republic, before the revision performed in 1989, defined the principle of irreversibility of nationalizations performed after April 1974. That principle was eliminated from the constitutional text, henceforth allowing the possibility of total privatization. The same constitutional law 1/89 of 8 July, with the purpose of creating solid bases for the development of privatization operations, set forth that its performance would be subordinate to the regime defined by a Frame law, of the competence of Parliament. Only after the publication of this law (law

11/90 of 5 April) was it possible to establish a privatization programme.

Each phase of a privatization procedure involves, in its turn, a certain number of steps, including the publication of specific legislation - approval and promulgation of a Decree-law and publication of a Resolution issued by the Cabinet. Considering these formalities, as well as the previous assessment of the enterprise, and the final stage of registering the operations in the Committee for Stock Exchange Market, one privatization phase requires, at least, a 6-month delay. A two-phase privatization being very frequent, the delay to privatize one enterprise can easily exceed one year or even one year and a half.

Selection of enterprises for privatization

The privatization programme elected the financial sector (Banks and Insurance companies) as a priority. This is understandable considering the decisive importance of this sector for the normal functioning of the market mechanisms and also considering the relative simplicity of the procedure. In fact, the necessary supervision of the activity, oriented by standards of international scope or even by Community Directives, was institutionalized and the competition terms did not make it necessary for the State to intervene at the level of entrepreneurial structure.

Generally, the option adopted both in this sector and in every other sector, was to phase the State's capital alienation procedure in operations performed through a Stock Exchange offering or by public tendering. In that way, it was possible to implement the formation of

stable core shareholders with a minimum intervention by the State, the conditions for a larger participation of national investors being created at the same time.

It can be ascertained that the pace of privatization performance is deliberately slow, as a form of better ensuring the achievement of entrepreneurial development objectives.

Planning of privatizations

The privatization policy is envisaged as an instrument in the modernization and liberalization of the Portuguese economy, since it reduces the burden of the State on the economy, favours the reinforcement of national entrepreneurial capacity, encourages competition and desinflation and reduces the public debt and the budget deficit. The privatization policy does so contribute to the structural adjustment of the Portuguese economy necessary for the integration in Economic and Monetary Union.

These principles have been consistently confirmed in the budget laws of the last four years, considering that the privatization programme is a fundamental aspect in the financial and structural policy of the State budget. Every year, the Budget includes a global forecast of proceeds resulting from the privatization programme for the State.

Organisation of privatization

By law, in April 1990, Parliament bestowed on the Government the power to privatize the nationalized companies and assets. The Government enacts its powers

by Decree-law, subject to promulgation by the President of the Republic and, eventually, submitted to the Parliament's confirmation on its conformity with the law. The fundamental aspects of the privatization policy are found in the mentioned law. The general principles to which privatizations must obey are defined there as well as the privatization procedures which may be followed, and under what circumstances, the requirements relating to the enterprises form of assessment, the restrictions the Government may impose on the purchase and shareholding, the preferential regime for small subscribers and employees, the possible reserve of a special power for the Government's intervention in privatized companies by means of, for instance, "golden" shares.

The terms for each sale are established by the Cabinet near the date when the operations are to take place. The resolution of the Cabinet defines the fixed or benchmark prices for public offers, approves the programme of public tendering and establishes the terms of reference for direct sales procedures.

It can therefore be concluded that the privatization procedure is conducted at the highest level of centralized form.

The complexity of the privatization procedure imposes, however, the intervention of various entities who, in their own sphere of competence, contribute to the achievement of each privatization's configuration as best suited to each specific case. Bearing in mind the different phases of the privatization procedure, the institutional framework is as follows:

The feasibility and opportunity to privatize a company depend, firstly, on global and sectorial policies that may require prior adjustment. The initiative to adjust sectorial regulation (for instance to deregulate or to formalize regulation) and to act on the organisation of the sector (for example, segmentation of businesses in conglomerates) rests on the relevant Ministry.

Once the privatization is decided, the company, their Board of Directors and staff, play a leading role: the company appoints the pre-qualified consultants for the evaluation and formulation of proposals for the privatization, contracts specialized services (management audits, technical assessments, privatization publicity). Possible financial restructuring measures, settling of fiscal and financial relations with the Administration or disputes with third parties are identified at this stage, and the solutions worked out and proposed to the Government. The final evaluation reports and company proposals are addressed to the supervisory Ministry and to the Ministry of Finance.

Divestiture of financial assets in the portfolio of S.O.E.s is conducted by the Boards which have to fulfil some ex-post reporting obligations and to follow legally defined procedures. These do not impose significant constraints unless (i) directly nationalized property is involved or (ii) majority holdings are at stake. In the first case all provisions of the Privatization Law are applicable and the decision to sell rests on the Government who may act on the proposals of the S.O.E.'s or modify and implement different options. In the case of majority holdings the Boards of the S.O.E.'s keep their powers, unless the Minister for Finance has

decided that the assets should remain under State ownership.

The Ministry of Finance, through the Secretary of State for Finance, is responsible for the overall coordination of the Privatization Programme, establishes the priorities and timing of the operations and centralizes the execution of the sales. The Secretary of State is assisted by a small staff - the "Specialized Unit".

The "Specialized Unit" has only the equivalent to about five full-time members, but easy access to the support of top-level legal advisers and to the assistance of consultants active in the evaluation and study of privatization operations.

The "Specialized Unit" follows, at more than arm's length, the preparatory work but is well placed to facilitate the transfer of past experiences and to provide an effective channel of communication between the companies, their consultants and the Government.

The evaluation reports and privatization proposals are reviewed by the "Specialized Unit" to assess the consistency and quality, and to incorporate the insight from previous operations.

The privatization decisions are submitted to the Cabinet by the Minister for Finance and the supervisory Minister. The Cabinet receives an independent, legal and technical opinion from a Privatization Commission appointed by the Prime Minister. The Commission members are experts and professionals in the field of commercial law, auditing, finance and management. In addition to the advisory capacity, the Commission has the duties of

overseeing the legal conformity and transparency of procedures and legal instruments, registering and directing complaints to the appropriate authorities and periodically reporting on their activities.

It is believed that this institutional organisation is adequate to guarantee the compatibilization of objectives and the coordination and transparency of the privatization process, while allowing the taking into consideration of each operation's specificity, fundamental to determine the best adequate procedures.

Evaluation of assets

Prior to any privatization the company in question is carefully assessed by at least two independent and pre-qualified consultants. Financial projections and audit reports drafted in accordance with internationally accepted standards are basic elements of the evaluation work.

The alienation benchmark prices are established by a Resolution of the Cabinet based on the work of the aforementioned consultants and taking into account the report issued by the Privatization Commission.

The financial forecasts have been the basis for establishing reference values for the privatization operations. Most consultants and, in all cases, the "Specialized Unit" and the Privatization Commission have privileged the discounted value of net cash-flow that can be appropriated by shareholders once capital adequacy ratios are reached and henceforward maintained, including: (i) dividends net of taxes, (ii) less possible equity increases, (iii) plus free cash-flow in

excess of financial constraints that can be allocated to expansion or diversification projects which are not explicit in the financial forecasts. As far as possible this discounted value is checked against stock exchange multiples (usually adjusted cash-flow) and prices of comparable transactions.

The reference values, weighing several sets of assumptions contemplated by consultants, are the basis for the decisions regarding fixed prices offers (usually targeting small investors and employees) and benchmark prices for public tendering and auction sales.

Enterprise-specific prior measures

The law stipulates the need for transforming the public enterprises to be privatized into public liability companies. The Decree-Law where such transformation is defined also approves the Statutes of the public liability company which will henceforth abide by the usual legislation for commercial societies.

Whenever the company's financial situation so justifies, a previous financial recomposition is performed in order to give potential buyers the correct notion of the financial effort which is necessary for the economic activity of the enterprise to be privatized. It is mostly through operations of previous capital increases that these recompositions have been effected but, in some cases, these capital increases occur when the privatization has taken place, hence being performed by the new shareholders.

In the particular case of the Banking sector, which constitutes the priority nuclei which, until now, has

been contemplated in the privatization procedure, it was necessary to adopt previous corrective measures to enable the creation of the necessary reserves for "credit risks" and the adequate financing of the pension liabilities as well as the achievement of minimum solvability ratios.

The Government has defined some fiscal incentives to help strengthen the financial condition and to encourage the transfer of liabilities to pension funds over a reasonable period. In the first case, all privatized companies can revalue fixed assets on the basis of the minimum values established by privatization consultants. Regarding pension funds, provisions for pension liabilities can be fully accepted for the determination of taxable income on the condition that they are used to endow pension funds until 1995.

In some cases, during the years immediately before the announcement of privatization, the companies' Boards of Directors adopted measures tending to improve the results of the operating results, either through the investment in fixed assets or through the reduction of excess labour, sometimes having the benefit of Community support.

Such measures were sometimes dictated by the enterprises' need of reform, regardless of the possible transfer of their capital to the private sector.

Particular conditions

As a rule, enterprises have been privatized without the imposition of performance requirements, the generic and sectorial framework rules for the entrepreneurial

activity having been considered as enough for its normal development. The situations of financial imbalance have been, as mentioned, previously corrected.

Exceptionally, and whenever reasons of national interest so demand, the law foresees the feasibility of a State-appointed Director or the existence of privileged shares intended to remain under State ownership, the State keeping a right of veto over fundamental matters, duly detailed in each specific case.

The bids for public tendering can still provide for special conditions imposed on the investors interested in a privatization process.

Until the present, only in two cases involving a public tendering has the State appointment of one Director occurred and, in one of them, objectives concerning investments to update the industrial premises were additionally entered. In both cases the buyers of the indivisible lot of shares were obliged to buy a second lot from the State within a certain time limit.

In another public tendering, obligations were established to ensure the settlement of pension funds and commitments due to employees past services, and the obligation of increasing the capital, as necessary to respect certain ratios of financial balance.

As regards the guarantees of employees' rights, the Frame Law stipulates that the employees of the companies subject to privatization keep, in the privatization process, all the rights and obligations they are entitled to.

The same law does still provide for the establishment, case by case, of a percentage limit for the purchase or the subscription of the capital by the same entity, singular or corporate, whenever the privatization is to be performed through public bidding, Stock Exchange offerings or public subscription. Reference must also be made to the possibility of limiting the number of shares to be acquired or subscribed by foreign entities.

Promotion or market techniques

The diploma ruling the change of a public enterprise into a public liability company, also provides for a strategy of capital alienation, thus allowing a first formal information to the parties concerned.

Portuguese legislation (the Code on Stock Exchange Market) requires that publicity be previously made for public share offerings, more commonly used for the privatization operations. The instruments employed for such an end (and also for subscription public offerings) are the previous publication of an Announcement for an Offering Project describing the characteristics of the operation in question. The contents and the form of such documents are extensively stipulated in the Law, as well as the form and the pace of its necessary publicity.

In the case of public tenderings or direct sales, publicity must also be previously made for the privatization operations, namely through publication of the relevant tender documents.

Privatization operations are also preceded by publicity campaigns in the media, on the initiative of the

enterprises in question who, as a rule, hire specialized companies for this effect.

Selling or transfer techniques

The privatization techniques mostly used are the public offerings (OPV) or the public tendering for the existing or newly issued shares. Direct negotiations can be undertaken when there is an explicit justification.

The 33 privatization operations performed until the end of 1992 involved 24 enterprises, public offerings prevailing:

(10⁹ Esc.)

| | Number of Operations | % | Total proceeds | % |
|------------------|-------------------------|-----|-------------------|-----|
| OPV | 29 | 88 | 592,6 | 88 |
| Public tendering | 3 | 9 | 82,7 | 12 |
| Direct sales | 1 | 3 | 1,5 | .. |
| Total | 33 | 100 | 676,8 | 100 |

Only four enterprises, covering 12% of the total proceeds, were not privatized through public offerings.

Main buyers of privatization assets

As a rule, the Government has assumed a position of minimum intervention in order to determine the shareholding structure and has tried to obtain a market test for the assessment value. In fact, a capital

alienation has often been carried out in various phases with a frequent recourse to competitive biddings in the first phase and the offer at a fixed price in the subsequent phases. In some cases, the offering of core shareholdings, allowing or not immediate positions of control, has been undertaken. The recourse to public tendering was rare and to private sales even rarer.

As a rule, the shareholding structures have been largely corresponding to the objectives of the Government. Therefore, in phased offerings, preference rights have been given to the shareholders resulting from the first phase.

The number of shareholders resulting from privatization operations is very high (over 300.000) and the percentage of those who remain as shareholders (about 55%) is also high after 4 years have elapsed since the beginning of the programme. Only 11.5% of the privatized enterprises capital was acquired by employees and small subscribers. In almost every case, the shareholding control is done by groups of domestic investors, sometimes associated with foreigners. These, although with a much smaller expression than nationals, have participated in most of the privatization operations.

Mobilization of financial resources

Financial constraints

The time schedule for the privatization operations takes into account the capacity and the opportunities of the market, as it may be understood seeing the amounts involved in the Privatization Programme (over 10.000 million USD) and the youth of the national capital market.

On the other hand, it is of paramount importance that the market be promptly informed about the characterization chart of enterprises to be privatized in the short run, as well as on the relevant terms and conditions for alienation. Divulging and information actions intended for the public and for the investors are carried out for each case in order to encourage and favour the mobilization of savings.

Some instruments of mobilization of resources intended for privatizations were implemented. For instance, within the scope of a successive broadening of the mobilization possibilities of indemnity shares on behalf of the owners of nationalized enterprises, permitted, since 1990, to be used for the payment of shares purchased in the privatization procedure. In the area of taxation, some incentives have been implemented in order to encourage the participation of the public in general and of the employees in the privatization procedure, especially in the operations performed by public offering. Reference must also be made to the unforming of the limits imposed by the monetary policy in what concerns the access of nationals to the international financial market, thus allowing a situation where the conditions are the same for foreign entities.

Until the present, investors have found financial support at the Banks to bid in the privatization procedure. The circumstance that, in parallel, the entrepreneurial sector is being restructured, giving rise to alternative investment opportunities for the privatization programme (restructuring or company buyings) advises that the greatest prudence be used in the time scheduling of future operations.

The weight of privatized enterprises in the whole stock exchange capitalization should be - according to the last available data - around 20%. The increase due to the privatization procedure in the stock exchange capitalization is, however, more significant than the contribution of that procedure to the value of the transactions. In fact, given the reduced rotation (transactions value/Stock Exchange capitalization ratio) checked in what concerns privatized enterprises, the conclusion must be reached that these have not positively changed the unsatisfactory situation of the secondary market.

VI - Results of privatization Monitoring and evaluation

The evaluation of how much the results have met the objectives of the privatization programme is made by the Ministry of Finance.

As many of those objectives refer to the long term, it is still premature to make a detailed evaluation. Nevertheless, it is interesting to note, in connection with each objective, what indicators were selected for a preliminary evaluation of the programme's partial achievement.

Objective a) - To modernize the companies, to increase their competitiveness and to contribute to the strategies of sectorial and entrepreneurial restructuring: distinction is made between non-financial and financial companies, each group having a selection of a set of indicators related to the economic and financial situation and to productivity.

Indicators are those normally used in the measure of profitability, in the evaluation of the financial structure and of productivity. In the case of non-financial enterprises there is also concern for having an idea on innovation/expansion, by using the investment/employment indicator.

Objective b) - Reinforcement of the national entrepreneurial capacity.

The indicators are as follows:

- Average percentage of capital acquired by foreigners, by operation
- Percentage of privatized companies controlled by national groups
- Total capital of the enterprises controlled by national groups/total capital of privatized companies.

Objective c) - Promotion of the reduction of the State's burden on the economy.

For the whole State's entrepreneurial sector, indicators measure its burden on the national economy in terms of GDP, GFCF and employment. The same indicators measure the weight of public banks and of public insurance companies in the relevant sectors. The monitoring of the reduction of the burden of public enterprises in these two sectors, does also use the main items of the Balance and of the income statement (net assets, matched own funds, etc.).

Objective d) - Contribution to the development of the capital market.

In relation to each type of privatization (public offering, public tendering...), the number of enterprises, the number of alienated shares and the value of the proceeds are recorded. Also recorded are the number of enterprises and the number of shares admitted in the Stock Exchange.

Other indicators are:

- Percentage of the underwriting in the total of the offered capital;
- Percentage of the number of the underwritten shares over the total number of offered shares;
- Total demand of shares/total number of offered shares;
- Stock Exchange capitalization (contribution of privatized companies);
- Rotation (transactions value/Stock Exchange capitalization) of the shares on the secondary market (contribution of privatized enterprises);
- Profitability of the investment, from the shareholder's point of view.

Objective e) - Encouragement of the Portuguese citizens' participation in the shareholding of the capital of enterprises, especially employees and small subscribers.

Dispersion indicators of the shares are built up, the permanence of shareholders after the privatization is evaluated, the percentages of the demand from small subscribers and employees are calculated, as are the discounts over the share benchmark price performed to the benefit of these two classes of shareholders.

Objective f) - Preservation of the State's patrimonial interests.

The indicators used compare the total of the value achieved in the operations to the total of the base value of those very operations or to the total of the average value proposed by the Privatization Commission.

Objective g) - Promotion of the reduction of the public debt's burden on the economy.

The indicators used measure the contribution of privatization proceeds to the reduction of the public debt ratio (stock of the direct public debt/GDP market prices).

Results of privatization

As said above, it is not yet possible to make a systematic analysis of the achievement degree of each one of the mentioned objectives. Therefore, we may only outline the aspects which we find to be of more significance before the available indicators and following the same order for the objectives of the privatization programme:

- a) Every privatized company is fully active, some indicators revealing - in consolidated terms - an

improvement of performance both economically and financially;

- b) The presence of domestic groups in the privatized enterprises is a reality;
- c) The State's burden on the economy keeps on reducing and an almost complete achievement of the aims for the privatization programme in the financial sector can be reckoned;
- d) In a small way still, privatizations have contributed to the increase of Stock Exchange capitalization and to the dynamization of the capital market. The percentage of underwritings in the total of the offered capital is very reduced, clearly showing the interest of investors in privatizations. On the other hand, there are still many privatized companies with shares unadmitted in the Stock Exchange and transactions on the secondary market are reduced;
- e) The interest shown by small subscribers and employees of the privatized enterprises is limited notwithstanding the specially favourable terms they are offered. However, considering the number of shareholders resulting from privatization procedures, the outcome is encouraging, in the Portuguese context;
- f) The market has confirmed the accuracy of the assessment values and of the proposed benchmark prices.

- g) Privatizations have positively contributed to the reduction of the public debt burden in relation to GDP. This reckoning has, however, a relative interest. In fact, although proceeds are significant, already nearing 5.5 million USD-exclusively employed, in accordance with the law, in the redemption of the debt resulting from nationalizations and in new capital investment in the productive sector - we must realize that privatization will not have a positive budget impact in the long run unless the efficacy of privatized enterprises is developed.

PORTUGAL
PRIVATISATION PROGRAM

| | S.O.E. 1988 (1) | PRIVATISATION PROGRAM (2) | PROGRESS (END 1992) (3) | REMAINING S.O.E. (4) |
|------------------------|-----------------------|---------------------------------|-------------------------------|----------------------------|
| FINANCIAL SECTOR | 20 | 75% | 93% | 25% |
| INDUSTRIAL SECTOR | 28 | 70% | 25% | 10% |
| TRANSPORT AND TELECOM. | 16 | 45% | 50% | 55% |
| OTHER | 12 | 40% | 40% | 40% |
| TOTAL | | | | |
| NO OF ENTERPRISES | 76 | 60% | 50% | 30% |
| WEIGHTS: | (5) | | | |
| VALUE ADDED | 16.2% | (40%) | (23%) | 9.7% (60%) |
| EMPLOYMENT | 4.7% | (38%) | (53%) | 2.9% (61%) |
| FIXED INVESTMENT | 22.8% | (37%) | (42%) | 14.3% (63%) |

(2) SHARE OF TOTAL S.O.E.

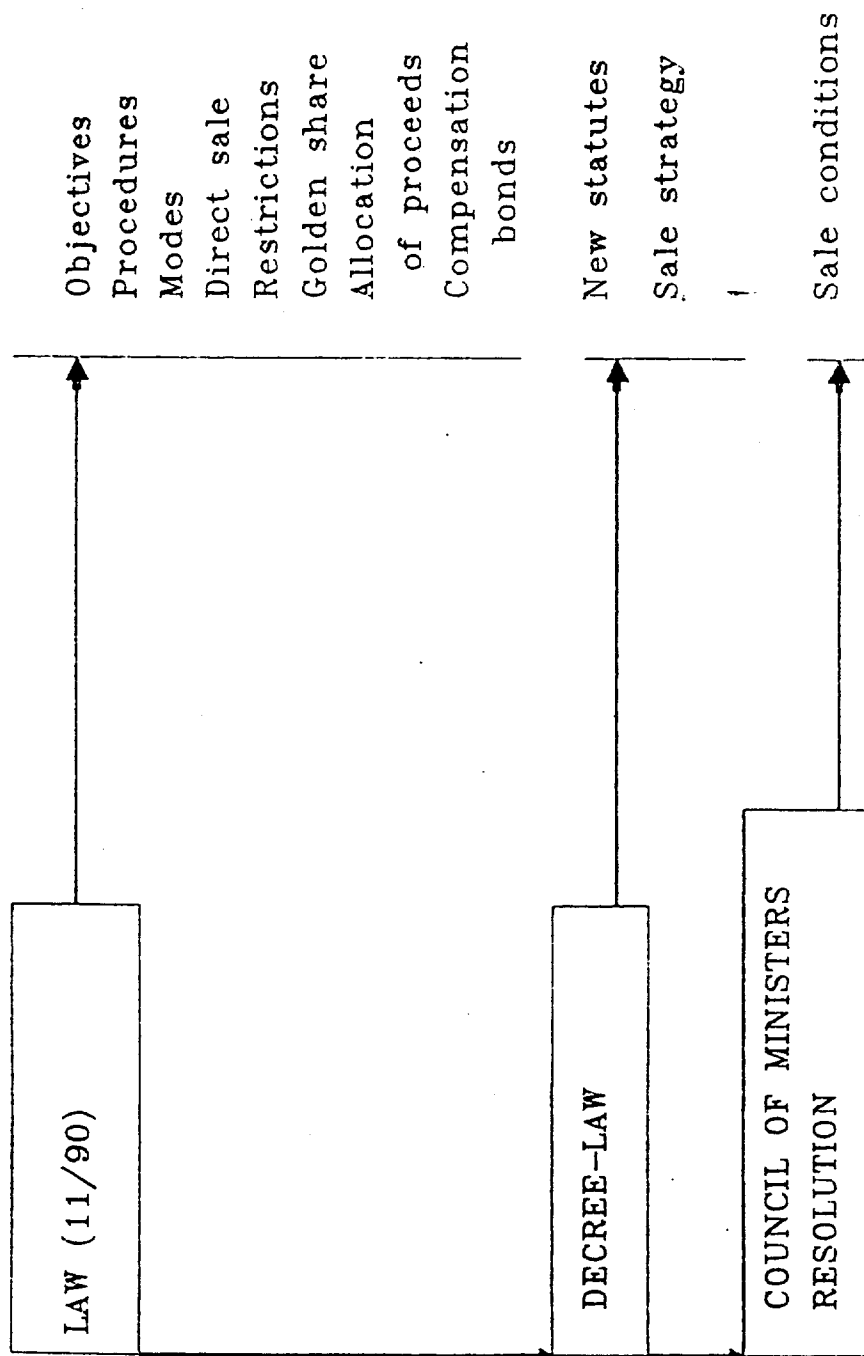
(3) COMPLETION OF MEDIUM TERM PROGRAM

(4) EXPECTED TO BE KEPT UNDER STATE MAJORITY OWNERSHIP

(5) BASED ON NATIONAL AND COMPANY ACCOUNTS 1990

LEGAL FRAMEWORK

NATIONALIZED ENTERPRISES



INSTITUTIONAL FRAMEWORK

NATIONALIZED ENTERPRISES

