THE LISBON STOCK EXCHANGE IN THE TWENTIETH CENTURY

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CHAPTER 1

JUSTIFYING

A HISTORY OF THE LISBON STOCK EXCHANGE

IN THE TWENTIETH CENTURY

1. Why do we need a Stock Exchange?

History shows that for many types of products — food, ceramics, cheese, flowers, rice, insurance, etc. — people tend to flock to some traditional places to exchange the outputs of their own production for products they need. Concentration of buyers and sellers in one single place — often called a fair — speed and simplify the effort to find a suitable counterpart to make a transaction. Additionally, it also supplies reference prices for future transactions based either on previously agreed trades executed in the very same place or on the “tags” associated to products put up for offer. Therefore, one can say that centralised markets were created to facilitate transactions and to supply information about the prices and the quantities of the “goods” available for negotiation.

In this sense a Stock Exchange is the financial version of a common fair where people are specialised in trading financial instruments rather than in physical stuffs. This also explains the fact that many historical Exchanges started as a market for both physical commodities — agriculture products, animal food, metals, etc. — as well as for financial certificates. Specialisation in
• from January 1978 until December 1987, also a new series that seems to show a desire of the market to recover from the heavy losses of the 1974-75 period;
• from January 1988 to December 2013, selecting all Wednesday values of the daily series routinely computed and disclosed by the Lisbon Exchange, already impacted by the accession of Portugal to the then European Economic Community in 1986.

Figure 6 uses three different colours to distinguish these segments. Chapter 4 discusses this evolution from a macroeconomic perspective, in considering events that occurred in Portugal and elsewhere.

It is also interesting to mention that it is now clear that the initial time series of this BVL-General index — the one that started in 1988 — suffers from two important impacts that influence significantly the average returns estimated from that series:

• the base date adopted for the BVL-General index — beginning of 1988 — is still somewhat influenced by the excessive speculation of the two previous years, which culminated in the spectacular crash of October 1987; that is, that initial index value seems to be “overvalued”;
the Portuguese share market was in the 1980s still recovering from the “wounds” that followed the economic and social events of 1974, in particular the “suspension” of the Exchange operations for about three years. Pessimism permeated the investment community, which seems to have demanded an extra average return to accept returning to the local share market.

13. The case of the Overseas Listed Companies

Evidence on the presence of joint stock companies and private capital in the Portuguese colonies abounds. In one way or another,

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31 The studies produced until now focus on the political (and military) aspects of the empire, and on the ethnographic descriptions of those territories. It is also
other, Portuguese economic historians are unanimous in signalling
the presence of economic groups in the Portuguese motherland,
although they care less about its presence in the Portuguese over-
seas territories.\textsuperscript{32}

In the twentieth century the old dreams to build a rich and pow-
erful Portuguese nation returned to the fore of political discussions
and to projects of political parties. This empire was to be based on
the Portuguese continental territory and on the collection of vast
and rich overseas territories.

Economic development of colonial territories as a road to pros-
perity and economic growth became a fundamental blueprint of the
Portuguese Monarchists, but the Republican Party also subscribed
to this enthusiasm for the role of colonies in material progress and
prosperity.\textsuperscript{33} Later, Salazar’s political regime also supported these
projects of the Portuguese learned class and political parties of the
day, on how to manage this fourth colonial empire. Pragmatism
and a fascination with modernity were hallmarks of the epoch in
Portugal, and Corporations emerged as the institutional framework
to achieve business progress in Africa.\textsuperscript{34}

The legal environment for national and foreign direct invest-
ment that prevailed in the Portuguese motherland was extended to
her overseas territories, and tropical businesses began flourishing
there.\textsuperscript{35}

\begin{footnotesize}
\begin{itemize}
\item known that during Pombal’s eighteenth-century government trade corporations were
created, aiming at an increasing economic integration with Brazil. That corporate
model seems to have been extrapolated to other territories of the Portuguese em-
pire to complement the Portuguese state in the task of running large slices of the
empire. (Duarte, 2000).
\item \textsuperscript{32} Reis, 1993. Valentim, 1979.
\item \textsuperscript{33} Lains, 1998 (a).
\item \textsuperscript{34} Lisbon Stock Exchange Historical Archive. Lisbon Overseas Historical Archive.
\item \textsuperscript{35} Mata, 2007.
\end{itemize}
\end{footnotesize}
There is now ample historical evidence on the Portuguese and foreign companies operating in the Portuguese offshore. Their presence comes from the pre-World War I decades when globalisation led to the capacity of investing in economic activities on other continents.\(^\text{36}\)

As a result, overseas businesses became a new profitable sector and came into fashion very suddenly, giving place to corporations requesting to be listed in the Lisbon Stock Exchange.

Figure 7 — Provisional certificate of 25 bearer shares of “Companhia de Moçambique”, one of the “majestic” firms used by Portugal to develop Mozambique.

Annex 1 describes the companies operating in overseas territories that were listed at the Lisbon Stock Exchange, specifying those that were used to compute the Overseas Index.

The 1885 Berlin Conference established the borders for the European overseas empires in Africa in the 1880s. It adopted the principle of effective occupation as the main rule to legitimise international claims to each territory. Historical arguments were useless as effective settlement and administration were required for this purpose.

The administrative seizure of those territories through settlement and effective occupation can explain corporations’ rush to the African colonial territories. Individual businesses also existed, but corporations were the most representative actors.

By giving concessions to special Portuguese joint-stock companies in Mozambique—the so-called “Companhias Majestáticas” due to their extended powers in their allocated territories—in a region where a Portuguese administration did not yet exist, the government transferred the responsibility for establishing a Portuguese administration and authority in the territory to those free-standing companies during their period of the concession. Figure 7 exhibits a provisional certificate of 25 bearer shares of Companhia de Moçambique, one of the “majestatic” firms used by Portugal to develop Mozambique.

The government also minimised public expenditure by allowing religious missions to provide education and health care to overseas populations.

38 Companhia de Moçambique is a good example: Duarte, 2000.
39 Wilkins, 1998. The extended sovereign powers transferred to these firms explain the “majestatic” classification of them.
40 For the role of tribal power in Mozambique and local rebellions see Garrett, 1907: 214.
There is a widespread and spirited discussion on the character of colonial businesses. Both Marxist and Imperialistic approaches point to exploitation in colonial investment.\(^{41}\) On the opposite, globalisation studies identify internationalisation of capital behind overseas investments as a consequence of the increasing integration of the world economy, thanks to the improving technology that provided better and more efficient transportation, implying proximity and decreasing information costs.\(^{42}\) However, this approach considers only macro-economic perspectives.\(^{43}\)

This book departs from both interpretations because those methodologies lead to misunderstanding the internal logic of private corporations, by forgetting their microeconomic views in conceiving their individual businesses. The views from strategic management suggest that entrepreneurship, international business, and investors’ expectations command the flows of capital to new regions.\(^{44}\)

In Portugal nobody discussed the perspective of investors in terms of the cost of the capital that was required for these firms to operate in African offshore. Our proposal is to elect investors’ perspectives concerning their rewards. For this purpose all corporations operating in the Portuguese overseas territories that were listed in the Lisbon Stock Exchange were considered for the period extending from 1900 to the decolonisation that occurred in 1974-75, in the aftermath of the 25 April military revolution.

The amount of reward achieved in investing in the Portuguese offshore is the important question to be examined, because one may see this exercise as the discovery of the equity return premium that investors required to invest their capital in start-ups and other


\(^{43}\) O’Rourke, 1999.

entrepreneurial activities in those endeavours, instead of applying it in alternative less risky initiatives in known geographic regions.

Unknowns in the territories, severe tropical climate, the lack of local public utilities, the absence of local trained labour force, the need of moving European employees to head local activities, and the difficulty of controlling management decisions at a distance, were surely great problems to be equated and solved for those investments “abroad”.

The greater the difficulties and risks, the higher the equity return premium required, because the comparison was done with the rewards that alternative assets could provide. For these reasons we might expect that the equity return premium for those who invested in the Portuguese offshore should be higher than the equivalent premium for identical activities developed in the more tranquil and known European territory. Of course they also benefited from the government rule over those territories, which represented a positive externality for businesses. The private incentives to invest capital depended upon the new opportunities stemming from the needs to finance local central-state expenditures, on the one hand, and the political support from the Portuguese government, on the other.

The Portuguese dominance over this empire was partially guaranteed by a number of joint-stock companies operating in the realms of agricultural plantations and livestock raising, mining, felling and carrying timber, shipping, transportation (for mail, passengers, and goods), insurance, and banking.\textsuperscript{45} Shipping and insurance were the two sectors in which established firms decided to expand their activities to overseas geographies, as vessels were already plying coastal waters and shipping required insurance for the cargoes. Together with local crop production, these activities profited from

the favourable geographic positioning of the African offshores on the sea routes from northern Europe to Brazil and other South American territories, and also to Asia. Commerce, ports and railway construction, telegraphs and telephones, water, gas and fuel provision, banking, and industrial activities were very active sectors of economic activity in the Portuguese empire. An example of a special role is banking, and, on another front, Diamang was a special case in Angola (mining diamonds), after 1956. Figure 8 exhibits a multilingual certificate of a five-bearer share of “Companhia de Mossamedes” operating in Angola.

Additionally and for other sectors of activity one can also consider that geographic expansion was due to market-seeking investment to broaden the customer bases of the established firms, as local populations had a low standard of living for demanding their products, but the rising number of Portuguese settlers and the rising standards of life throughout the century were increasing the demand for all kinds of goods and services.

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46 The issuing bank Banco Nacional Ultramarino and the unique case of Banco de Angola, a completely private corporation, are very illustrative. Valério, et al. (2011).

47 It was given so many powers that this company had an independent police force to fight against smuggling of diamonds, easily unearthed in the geographic areas whose concession was granted to the company.

48 Cassis, 1997 states the same aspects, globally.
Figure 8 — Multilingual certificate of a five bearer share of “Companhia de Mossamedes” operating in Angola.

The desire for new production conditions might also have been a force driving the companies to the Portuguese territories.

Smaller territories seem to have been unattractive to private investment, and as a result, most of the private companies and corporations were concentrated in Angola and Mozambique, but farming prospered in the tiny archipelago of São Tomé e Príncipe because of cocoa and the international market for chocolate, and some of the farms were listed in the Lisbon Stock Exchange.\(^{49}\)

\(^{49}\) Although history attributes to India the underlying motivation for the extraordinary project of the Portuguese discoveries from the beginning of the 1400s — to by-pass the Italian cities that supplied Europe with spices imported from India — it was not in the Portuguese State of India that private companies played a significant auxiliary role to the state. Macau probably deserves a different and independent
In the last years of the nineteenth century, the largest territories (Guinea, Angola, and Mozambique) were carefully visited and inspected by geographers, who mapped and described them under the surveillance of the Lisbon Society of Geography, thanks to scientific expeditions carefully planned for this purpose, while rebelled tribes were submitted thanks to military campaigns. Public goods received by corporations from the government include all these aspects, particularly peace, as well as a legal background definition, the existence of courts for conflicts arbitrage, and material facilities.

In the early twentieth century these facilities were scarce, because the main government aim was to fund regiments to protect the borders of southern Angola and northern Mozambique from German attacks, on the eve of and throughout WWI. Only after this War was it possible to launch a programme of administration, thanks to the appointment of colonial governors — so called “Altos Comissários” — who were awarded with extensive functions and decision-making autonomy from the Lisbon government to begin the implementation of settlement policies in order to secure the most interior and remote zones.

Urbanisation was another aim, as well as communications, schooling, and health-care provision. The 1920s, however, were disappointing times concerning the behaviour of the colonial stuffs. Because of agricultural mechanisation in the American continents, the formidable production increase for the global world supply led to risible study, as it always (even today) operated as an entry and exit door for China to trade with the outside world.

50 Sociedade Portuguesa de Geografía.

51 All financial documents on these military campaigns are available at the Lisbon Overseas Historical Archive (“Arquivo Histórico do Ultramar”). Birmingham, 1978.

52 The action of Altos Comissários such as Norton de Matos and Vicente Ferreira in Angola is frequently remembered.
until October 1987 (nothing to do with the simultaneous
crisis in the international markets) when a peak was attai-
ned after a number of days in a row with 5% daily gains;
excess speculation and operative limitations of the market
triggered a crash on 19 October;

Figure 7 — Extra return from overseas companies as shown by those
firms listed on the Lisbon Stock Exchange

c) in 1989 a diversified, long, and visible privatisation pro-
gramme took off but the simple perception that a new
policy was in place with the new government profoundly
changed the mind of the man in the street, and so invest-
ment in shares suddenly became fashionable; from then
on, the succession of Exchange sessions where parts of
the capital of many previously nationalized companies
were sold to private investors not only started to off-set
the heavy losses stemming from the October 1987 crisis
(minimum level of the BVL equity index in January 1993),
but also triggered an explosion in trading volumes in the
Exchange markets and share quotations, both effects resulting from the low prices offered by the government in the initial sessions of privatisations — providing easy and rapid capital gains to the common investor — together with the restored involvement of domestic and foreign investors in the market (Figure 7).

One cannot forget that each time the government launched a new operation to sell part of a company the media and the propaganda attached to the event had a lasting effect upon the common investor and attracted non-residents.

Table 3 — Monetary summary of the most important period of privatisations in Portugal

Table 3 describes privatisations. As a whole, from 1987 to 2006, privatisations involved 164 firms, in 239 operations, producing almost € 26 bn. The 2008 crisis, however, led the index to levels that
are much below the lower limit of the one standard deviation confidence interval, as the asset pricing and rewards declined sharply (GAFEEP, 1995).

12. Sudden and Simultaneous Independence of all Overseas Territories

The political event of April 1974 also introduced a radical shift in the strategic evolution of the domestic economy: a country that for around five centuries\(^72\) had based its survival on an extended overseas empire, in the single year of 1975 lost all territories in Africa.\(^73\) This fact forced it to turn its eyes to the European integration movement initiated in Rome in 1957. In fact, Portugal joined the then European Economic Community in 1986, an event also with profound consequences for all of its domestic firms and the resident financial sector.

Additionally and because all local governments in the newly independent territories followed a leftist orientation, all overseas companies listed on the Lisbon Stock Exchange were either nationalised by these African governments or stopped their businesses due to poor political and economic conditions in their operating areas. This explains why no single overseas company remained listed after the Lisbon Exchange resumed operations in equities in 1977.

As stated in the last chapter, on average, the behaviour of the overseas firms listed on the Lisbon Stock Exchange was quite success-
ful (profitable) during the decades following the Great Depression although, this extra return came at the cost of more volatility. These results for the overseas businesses are not so different from Grossman (2014) findings:

... total returns for domestic and overseas equities listed on the London Stock Exchange during 1869-1928. Indices are presented for Africa, Asia, Australia (including New Zealand), Europe, Latin America, North America (as well as for the UK) and for the finance, transportation, raw materials, and utilities sectors in each region. Returns and volatility were typically highest in emerging regions and the raw materials sector. Dividend yields were similar across regions and differences in total returns were due largely to disparities in capital gains.

However, the overseas index for the Lisbon market shows different turning points in comparison to the general index suggesting that different factors were impacting the operations of such distant companies. Table 4 compares the different periods between breaks along the window 1900-1974 for the overseas firms with those for the overall market of the Lisbon Exchange.

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74 See Chapter 3 Section 13 for a comparison between the evolution for 74 years of the overseas share index and the general index.
76 Which is calculated with all companies listed on Lisbon Exchange, therefore mainly influenced by the economy of the European part of Portugal.
Table 4 — Breaking points of the Lisbon BVL and Overseas Indices and the annualised returns along each cycle

<table>
<thead>
<tr>
<th>Cycles</th>
<th>Begin</th>
<th>End</th>
<th>Annualised Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan/00-Apr/23</td>
<td>03/01/1900</td>
<td>18/04/1923</td>
<td>9.81%</td>
</tr>
<tr>
<td>Apr/23-Jun/26</td>
<td>18/04/1923</td>
<td>02/06/1926</td>
<td>-0.86%</td>
</tr>
<tr>
<td>Jun/26-Feb/29</td>
<td>02/06/1926</td>
<td>13/02/1929</td>
<td>38.19%</td>
</tr>
<tr>
<td>Feb/29-Dec/31</td>
<td>13/02/1929</td>
<td>09/12/1931</td>
<td>-29.74%</td>
</tr>
<tr>
<td>Dec/31-Nov/46</td>
<td>09/12/1931</td>
<td>06/11/1946</td>
<td>16.40%</td>
</tr>
<tr>
<td>Nov/46-Aug/49</td>
<td>06/11/1946</td>
<td>03/08/1949</td>
<td>-13.98%</td>
</tr>
<tr>
<td>Aug/49-Jan/55</td>
<td>03/08/1949</td>
<td>05/01/1955</td>
<td>21.56%</td>
</tr>
<tr>
<td>Jan/55-Oct/62</td>
<td>05/01/1955</td>
<td>17/10/1962</td>
<td>-2.30%</td>
</tr>
<tr>
<td>1900 - 1974</td>
<td>03/01/1900</td>
<td>24/04/1974</td>
<td>11.52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cycles</th>
<th>Begin</th>
<th>End</th>
<th>Annualised Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan/00-Jul/08</td>
<td>03/01/1900</td>
<td>08/07/1908</td>
<td>-11.19%</td>
</tr>
<tr>
<td>Jul/08-Apr/10</td>
<td>08/07/1908</td>
<td>06/04/1910</td>
<td>54.10%</td>
</tr>
<tr>
<td>Apr/10-Oct/14</td>
<td>06/04/1910</td>
<td>28/10/1914</td>
<td>-0.20%</td>
</tr>
<tr>
<td>Oct/14-Sep/29</td>
<td>28/10/1914</td>
<td>26/09/1928</td>
<td>27.62%</td>
</tr>
<tr>
<td>Sep/29-Jul/32</td>
<td>26/09/1928</td>
<td>20/07/1932</td>
<td>-39.61%</td>
</tr>
<tr>
<td>Jul/32-Jan/55</td>
<td>20/07/1932</td>
<td>05/01/1955</td>
<td>21.76%</td>
</tr>
<tr>
<td>Jan/55-Mar/63</td>
<td>05/01/1955</td>
<td>06/03/1963</td>
<td>-12.78%</td>
</tr>
<tr>
<td>Mar/63-Apr/74</td>
<td>06/03/1963</td>
<td>24/04/1974</td>
<td>23.23%</td>
</tr>
<tr>
<td>1900 - 1974</td>
<td>03/01/1900</td>
<td>24/04/1974</td>
<td>14.31%</td>
</tr>
</tbody>
</table>

13. Political Instability

Following examples seen elsewhere in Europe, the political regime initiated in 1926 understood political parties as an outdated model to govern a country in the best interests of its people, and therefore authorised only a single “movement” called “União Nacional”. All other parties were banned in Portugal during the near half century of that regime. This created a vacuum in the political culture of the majority of the Portuguese population, the only exception being the Communist Party, which managed to survive during all those years even if with very few members. But it maintained an active school of political education and, during the later years before 1974, focused its efforts on the university population because of their central role in the armed forces sent to fight in Africa and as potential leaders of the Portuguese society in the years ahead.

Immediately after the fall of the old regime, many parties were legalised covering a wide spectrum from left to right, but only the

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77 In February 1970 renamed “ANP — Acção Nacional Popular”.
communists were really prepared and with ideas and tested models to mobilise populations and the civil forces.

The first government after the military coup was selected by the armed forces but lasted only a few months — from 16 May 1974 to 18 July 1974 — when a second government was empowered. This political and governmental instability so clearly indicated was the main characteristic of the new regime until July 1976, when the first elected government finally took power. But even this democratically elected regime did not bring immediate stability to the political arena. Consider that the current XXI Constitutional Government, which was empowered in 2015 is led by the 16th different Prime Minister since 1976, which attests to the variability that remains in Portuguese politics following the 1974 coup (Annex 2).

Coupling this political instability with the burden attached to the return of between 700 to 800 thousand former settlers living in the Portuguese African territories during 1974 and 1975 (Table 5), the domestic economy soon entered into recession with a severe imbalance between exports and imports.

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78 There were 6 successive “provisional” governments.

79 This text was up-dated in January 2017.

80 See in Annex 2 the complete list of all the six Provisional Governments appointed by the military after April 1974, and the 21 Elected (or Constitutional) Governments that have ruled the country since 1976, with an indication of the name of the Prime Minister of each of the 27 successive governments.

81 These figures should be compared with the resident population in Portugal: around 9.3 million inhabitants. In any case it is difficult to estimate the real number of returnees from Africa in 1974/75 as many subsequently emigrated to Brazil, Venezuela, and other American countries, and others moved to some European countries (France, Germany, etc.) with large Portuguese communities that had been growing since the mid-1960s.
Resident Population Estimated on 31 December of each year

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>8,663,252</td>
</tr>
<tr>
<td>1971</td>
<td>8,624,260</td>
</tr>
<tr>
<td>1972</td>
<td>8,636,600</td>
</tr>
<tr>
<td>1973</td>
<td>8,879,130</td>
</tr>
<tr>
<td>1974</td>
<td>9,307,810</td>
</tr>
<tr>
<td>1975</td>
<td>9,403,810</td>
</tr>
<tr>
<td>1976</td>
<td>9,507,540</td>
</tr>
<tr>
<td>1977</td>
<td>9,608,960</td>
</tr>
<tr>
<td>1978</td>
<td>9,713,570</td>
</tr>
</tbody>
</table>

Table 5 — The sudden influx to Portugal of settlers fleeing mainly from Angola and Mozambique

Source: Pordata — Base de Dados de Portugal Contemporâneo

In spite of this significant increase of the resident population and the very bad spirit of the new comers after being forced to leave behind their accumulated wealth and standard of living the country was able to accommodate all these newcomers, which, incidentally, added new “blood” to a society less accustomed to starting new projects from scratch.

14. Two IMF Stand-by Agreements. The 2011 MOU with the “troika”

After five defaults during the nineteenth century — the last in 1892 — Portugal maintained government and external accounts balanced for more than half a century, and so lost the habit of facing constraints in its external finances front. But the imbalances triggered by the economic and political events unfolding after 1974 soon forced her to call upon the International Monetary Fund (IMF) for guidance and financial assistance in order to resolve serious balance of payment crises at two different moments during the twentieth century (1978-1979 and 1983-1985).

In 1978 Portugal faced her first risk of default in the century.82 A succession of external annual deficits immediately following the

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82 For a big picture on defaults, see Reinhart, 2008.
1974 revolution completely depleted the foreign reserves accumulated in the Central Bank, forcing the government to sign a first stand-by agreement with IMF in 1978 to obtain an emergency loan in return for a number of domestic economic measures intended to restore the external equilibrium of the country.

This first IMF programme was very successfully implemented, but soon the country returned to her historical trend of importing more than selling abroad and in 1983 a second stand-by agreement with IMF was necessary for very similar purposes and accompanied by similar economic measures. Once again this economic programme was executed so perfectly that it was even referred to internationally as a case study.

As this second foreign intervention was completed, a new (centre-right) government was elected in 1985 that remained in power for ten years in a row, giving to the country the very first period of political stability following the Carnation Revolution (Annex 2). This stability permitted the implementation of a number of economic measures to improve productivity and growth. At the same time, negotiations were initiated in Brussels aimed at joining the then European Economic Community (EEC).

Unfortunately Portugal then allowed considerable slippage in state-managed public works and inflated public wages in parallel with persistent and lasting recruitment policies that boosted the number of redundant public servants. Risky credit, public debt creation, and European structural and cohesion funds were mismanaged across almost four decades. With the 2008 global crisis disrupting the markets and the world economy, Portugal was one of the first and most affected economies to succumb and so, in the first half of 2011, Portugal requested a €78 billion IMF-EU bailout package in a bid to stabilise its public finances. The Portuguese government headed managed to implement measures to improve the State’s financial situation and the country started to be seen as moving on
the right track but those measures also led to a strong increase of the unemployment rate to over 15 per cent in the second quarter 2012. The stock market could not remain isolated from this domestic and international environments.\textsuperscript{83}

15. EEC Accession in 1986. The single currency

The treaty to join the EEC was signed in June 1985 and Portugal became a full member of the European community in January 1986.

Along the very long history of the country — initiated in 1143\textsuperscript{84} — and after two strategic swings in its strategic development

\begin{itemize}
  \item first, in 1415, when the conquest of Ceuta in northern Africa marks the beginning of the overseas expansion
  \item second, in 1975, when the retreat from Africa marks the end of the Empire and the return to the original territory in the Iberian Peninsula,
\end{itemize}

this accession to the EEC constitutes a new shift in the Portuguese strategic orientation: no longer toward the sea and the overseas expansion, but toward Europe and its innovative integration movement. Most political parties supported these decisions to the north

\textsuperscript{83} Berkowitz, 2012.

\textsuperscript{84} Normally the Treaty of Zamora signed on 5 October 1143 by Afonso VII, then king of Leon and Castile, and by Afonso of Portugal — from then on King Afonso I — is considered the birth date of this country as it recognised its independence from Leon.
and to integration with other countries, and for a number of political and economic reasons:

- gain political stability
- maintain independence from the traditionally hegemonic Spanish neighbour
- access to large markets in rich economies
- acceleration of modernisation — culturally and economically
- participation in the integration process underway in Europe
- access to budgetary funds provided by the European Commission.

During the first years of membership — until 2000 — the country seems to have profited very well from those advantages, but this cannot be separated from the fact that there was a single prime minister during most of that same period. As a matter of fact, the 1995 Parliamentary elections led to a new party to power — socialist — and to a new prime minister, but until 2000 nothing changed significantly from that positive trend.

In terms of the domestic capital market, the period from 1989 to 2000 saw the return of a number of firms to private hands, especially in the financial and utility sectors. Most of those companies were sold back to investors through a number of public offers executed through the Stock Exchanges (Lisbon and Porto) to increase transparency of the process and to promote the Exchange market in order to establish a “popular domestic capitalism”.

In the beginning the Portuguese Political Constitution (even after the 1982 revision that made it more market oriented and less “socialist”) authorised selling only up to 49% of the share capital of any nationalised company, but with the revision of 1992, the
the counter transfer of cash — Financial Settlement. It is crucial that they are executed at the same time in order to avoid any finalisation risks. These two operations are part of what is now called the Post-trade activities of an Exchange.

Until 1974, these markets operated in Portugal under a set of rules essentially designed under the 1889 Commercial Code, and remained without any significant changes for about 85 years. Securities existed in paper form and were kept either at home or deposited in the vaults of commercial banks. The tradition was for individual investors to contact a broker with whom they deposited the estimated amount of money to pay for the desired shares or bonds to be purchased, or they left the securities they wished to offer for sale.

The two Portuguese Stock Exchanges basically offered tradability to security issues. Settlement of all trades was made transaction by transaction — called “gross settlement” — and demanded the physical delivery of the certificates object of the previous bargain together with the counter flow of cash for payment. In particular, the settlement of Exchange transactions was first done between brokers and subsequently between each broker and its clients. For small volumes of transactions and few investors this settlement procedure was sufficient and inexpensive to operate.

Also, dividends and coupons were handled by the respective issuer and demanded the personal presence of the investor either in the offices of that particular issuer or in those of a contracted bank or broker.

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79 If delivery occurs some “instants” before payment, this cash transfer may not be implemented and the other way round. History has supplied examples where payment did not occur because the transfer agent went bankrupt in between.

80 Mind that, on the opposite, both Commodities Exchanges were always part of the Portuguese state. Dahlquist, 2012.
Manuel Ricciardi, official broker of the Lisbon Stock Exchange from 1956 to 1999 and a number of years President of its Board, explained that the clients of the Lisbon Stock Exchange were people from business activities, but added that there were also inexperienced (but knowledgeable) individuals who came to buy stock to apply their savings. He mentioned bank employees, public servants, and lawyers as people he had amongst his clients.81

However, this was a very inefficient operative model that included many opportunities for errors and prolonged delays between trading and settlement. And the fact that many bond and share issues used certificates aggregating more than one security — e.g. 10 shares or 50 bonds in one certificate — introduced additional problems when the owner intended to sell only part of one such multiple certificate.

Manuel Ricciardi reported his personal brokerage experience in this period, saying “this was a new experience in my professional life” to express how great was the enthusiasm for stocks in the late sixties-early seventies, because of the rising prices. He added that this was the time when the non-official market increased a great deal: “It was very common to observe private transactions among stock holders in the open-air parking of Terreiro do Paço. People opened their cars’ luggage space to take out their shares and negotiated among them, out of any official system”.82

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81 Interview kindly conceded to us at his son’s (Luís Ricciardi) office, at Rua do Comércio. We evoke here the memory of his great contribution to the Lisbon Stock Exchange.

82 Ibid. It is curious that no teaching on financial issues was provided in undergraduate studies in Economics, at the “ISCEF-Instituto Superior de Ciências Económicas e Financeiras” school at this time. Caetano, 2003.
Things started to derail when, in the middle of the 1960s, particularly with the popular enthusiasm discovered in 1972 and 1973 for risky investments, the number of securities traded exploded along with the number of retail investors involved. This revealed the deficiencies of an architecture that had been designed long ago at the end of the 19th century and for a market that was much smaller.

It is in the light of those insufficiencies that an interim and simplified Securities Code83 was published at the very beginning of 1974 as a first step to remedy such deficiencies. It was this legislation that nationalised the two Portuguese Stock Exchanges by turning them into mere autonomous departments of the domestic Ministry of Finance. It also introduced netting84 between the trading moment and the settlement finalisation to reduce the amount of paper transfers and cash flows, although this was implemented only after the resumption of operations on the Lisbon Exchange in 1976/77.

Indeed, the leftist military coup in April 1974 interrupted this updating process of the whole system around the Stock Exchanges and their legal environment. Even when political conditions allowed that move a few years afterwards, the priority was then much more to reactivate the Capital Market and the Lisbon Exchange (from 1976 on) than to redesign the whole legal framework. Only at the end of the 1980s, was the time ripe enough to resume that modernisation plan, and the author of that Interim Code was then asked to write a brand new but comprehensive Securities Code which entered into effect during the second half of 1991.

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83 Decree-Law nr. 8/74, published on 14 January 1974, to be implemented from 13 April 1974 on.
84 See Art. nr. 79.
Meanwhile, the government took measures to gradually immobilise all certificates in securities accounts offered to investors by the local banks. In fact, with this immobilisation:

- it was simpler to place orders for trading as banks and brokers required only a declaration from the banks attesting that those securities existed and were “frozen” in those securities accounts;
- settlement could be implemented in a much easier way, either between two accounts in the same bank — if both seller and buyer were clients of the same bank — or transferring inter-banks only the net amounts of securities resulting from many trades in the space of a few days;
- the financial side also benefited from this intense use of banks for very similar reasons.

The final step in this area was taken with:

- first: dematerialisation of all securities, initiated in 1988;\(^\text{85}\)
- second: following the publication of the first Securities Code, creation in 1991 of a CSD - Central Securities Depository — called Interbolsa — where every securities issue was registered and which was charged with the netting and the settlement operations following the execution of all Exchange transactions.

In particular, this Code integrated the main market segments of the two Portuguese Exchanges — “mercado de âmbito nacional\(^\text{86}\)” — and determined the creation of the first nationwide CSD (the


\(^{86}\) Nationwide market.
Interbolsa) to be owned in equal parts by the two Exchanges, which were also “semi-privatised”. The implementation of this company to execute all those post-trading functions was very much facilitated by the adoption of the electronic trading system Tradis borrowed from the Rio de Janeiro Stock Exchange in 1991. In fact, this was a rare case of an integrated computer programme that encompassed both the trading of securities and the netting and settlement of those transactions. In addition this same system also cared for the execution and control of all corporate events that cash instruments periodically undergo, such as payment of dividends and coupons, rights issues, bonus shares, amortisation of debt instruments, etc.

Another important characteristic of the settlement model adopted in Portugal was the use of Central Bank money to settle the financial “leg” of all Exchange transactions: members of the two domestic Exchanges were debited or credited in their cash accounts with the Portuguese Central Bank \(^{87}\) by the amounts calculated by Interbolsa after netting all buy and sell orders executed during each business day. This option for the Central Bank money fully eliminated any potential credit risk associated with the use of a (single) commercial bank.

From that moment on, Portugal adopted the model of an integrated package of services offered by local Exchanges to the domestic market, which is very similar to the one existing in other countries. In fact, and although not universal and not central to the particular

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\(^{87}\) Actually, the brokers saw those debits and credit done in their accounts opened in a commercial bank. It was this bank that had their reserve accounts maintained with the Central Bank debited or credited by Interbolsa to implement the financial settlement.
role of a Stock Exchange in a country, many Stock Exchanges today offer an integrated package of services that include:

• **listing**: it is the screening process that restricts the admission to official trading of any interested issue according to a set of conditions designed to give quality, liquidity, and confidence;

• **registration and custody of securities**: even if securities retain the paper form (not dematerialised), investors, issuers, and financial intermediaries can reduce their operating costs if one single national entity — the CSD — registers whatever issue is placed in the market, holds the corresponding certificates, and executes and controls the debits and credits on the securities accounts (under the names of the many investors exposed to each issue) whenever each investor receives or delivers a certain number of shares or bonds;

• **settlement**: from the data sent by the centralised market after two trading orders are matched — what security, how many shares or bonds, the agreed price — someone has to implement the simultaneous transfer of money from buyer to seller and the transfer of ownership from seller to buyer; and if the financial settlement is implemented in the banking system, the two cash accounts must be debited and credited in due time and in correct amounts;

• **netting**: since some investors execute buy and sell orders during one single day — notably the case of brokers who execute a large number of orders received from their clients — it makes sense to net the total amount of payments to be made by each side against the total amount of credits to be received, in order to reduce the money volume changing hands to one single cash flow per day; and similarly for
each individual security where all hand-ins can be netted against all hand-outs;

• **corporate events**: issuers periodically pay dividends and/or coupons to their investors and these distributions can gain efficiency if handled centrally; also capital increases rights issues, and other corporate events can benefit from such an organised and centralised procedure;

• **guarantee (clearing)**: since all markets tend to maintain a small (but not zero) time window between the moment a trade is agreed upon in a Stock Exchange and the day that same transaction is actually settled — typically two to three days — there always exists the risk that one of the parties in a trade may in the meantime default either on the financial side or the securities side; for that reason some markets offer the possibility to all investors of acquiring a guarantee of timely settlement of any agreed trade.

Today Interbolsa offers all these services except that guarantee step which is now outsourced to the Anglo-French LCH-Clearnet firm via a delegation operating next door to the Interbolsa offices.

The participation of Portugal in the European Union also had a consequence regarding the integration of the local Exchange in the consolidation process initiated in 2000, when Paris, Brussels, and Amsterdam merged their Exchanges into a single organisation called Euronext\(^\text{88}\). As it often happens, in terms of post-trading this merging experience also brought some valid lessons: the three domestic CSDs of France, Belgium and Holland were promptly sold to an international organisation called Euroclear according to the idea that Exchanges basically should provide only listing and trading services to their clientele.

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However, for a number of reasons, Portugal did not follow this movement and instead kept *Interbolsa* within the package of services offered to the market by the Exchange. The fact is that, after all these years of experience, the advantages of such an integrated offer — from Listing to Custody — are now recognised and so *Interbolsa* has now been converted into the “knowledge centre” of post-trading services of the whole Euronext Group.

9. Large versus SME companies in the Exchange

Statistics indicate that the Portuguese model of financing local corporations has in general favoured the banking channel in detriment to direct access to savers\(^9\), even for funding long-term corporate investments. Also it seems that the same predominance has prevailed during most of the twentieth century (if not always). For example, during the 81 years from 1930 to 2010, the number of listed companies varied widely under the influence of economic and political events, but the importance of this source of funding (equity only) in the whole economy has always been small as Table 3 expresses by comparing the year-end global nominal share capital of the listed companies with the Portuguese GDP.

These statistics tend to under-measure the funding capacity provided by this market channel, as they are based on nominal values, not on market quotes. Indeed, experience indicates that most of the time the market-prices of listed shares were considerably above their respective par values, and also, typically, new shares were offered

\(^9\) See for example the semi-annual survey conducted by the Portuguese Statistics Office — *"Inquérito de Conjuntura ao Investimento"* — in which resident corporations are questioned about their planned means to finance future investments. As a matter of fact, those surveys routinely report that bonds and shares (listed or not) represent less than 1% of their total funding mechanisms.
by issuers to investors only slightly below their market quotations. Therefore, one can accept that the above numerical estimates — using par values — are clearly pessimistic, and that those companies were able to raise much more funding than what is indicated above. Unfortunately this under-measurement does not change the overall picture due to the low values of the percentage of equity in comparison to GDP. Also, the number of listed companies is small, and more recently only large and medium-large companies are present in the Exchange market. Small firms only exceptionally appear in the list of those with shares admitted to an Exchange.

This “rejection” of small firms can be noticed by segmenting the whole group of listed corporations in:

- the group of “10 largest” firms which almost always accounted for around 50% of the total nominal capital obtained by the entire collection of listed companies;
- therefore, the remaining companies — between 85 and 135 firms — took the remaining 50% share of listed money; that is, around 9 times more (non-large) firms were able to raise funds via this listing in Lisbon.
- Amongst those non-large companies, some tiny companies — called the “10 smallest” — were also accepted in the Exchange during this entire 81-year period, in spite of the fact that all of them together raised less than 1% of the whole aggregate listed.

This suggests that the Exchange market was more favourable to larger companies for raising capital than to smaller ones.
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<td>Others</td>
<td>46</td>
<td>42</td>
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<td>51</td>
<td>56</td>
<td>60</td>
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<tr>
<td>Total Share Capital Listed on BVL (PTE 000 000) / (EUR 000 000)</td>
<td>948</td>
<td>1 031</td>
<td>1 059</td>
<td>1 727</td>
<td>3 251</td>
<td>5 897</td>
<td>9 353</td>
<td>13 318</td>
<td>23 331</td>
<td>35 822</td>
<td>32 661</td>
<td>3 686</td>
<td>37 314</td>
<td>502 249</td>
<td>1 471 316</td>
<td>17 990</td>
<td>21 178</td>
<td>31 722</td>
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<td>Share of the 10 largest</td>
<td>59.32%</td>
<td>66.02%</td>
<td>59.71%</td>
<td>50.11%</td>
<td>53.25%</td>
<td>50.16%</td>
<td>49.92%</td>
<td>48.56%</td>
<td>54.30%</td>
<td>45.96%</td>
<td>82.31%</td>
<td>84.07%</td>
<td>83.20%</td>
<td>41.90%</td>
<td>42.34%</td>
<td>71.83%</td>
<td>81.39%</td>
<td>78.20%</td>
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<tr>
<td>Share of the 10 smallest</td>
<td>0.18%</td>
<td>0.22%</td>
<td>0.25%</td>
<td>0.21%</td>
<td>0.11%</td>
<td>0.06%</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.02%</td>
<td>0.01%</td>
<td>1.26%</td>
<td>5.89%</td>
<td>0.85%</td>
<td>0.34%</td>
<td>0.16%</td>
<td>0.09%</td>
<td>0.06%</td>
<td>0.06%</td>
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<tr>
<td>Share of the middle others</td>
<td>40.50%</td>
<td>33.76%</td>
<td>40.04%</td>
<td>49.69%</td>
<td>48.64%</td>
<td>49.78%</td>
<td>50.04%</td>
<td>51.42%</td>
<td>45.56%</td>
<td>54.03%</td>
<td>16.42%</td>
<td>10.04%</td>
<td>15.95%</td>
<td>57.76%</td>
<td>57.50%</td>
<td>28.42%</td>
<td>21.39%</td>
<td>21.74%</td>
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<tr>
<td>Share of the 50 smallest</td>
<td>4.36%</td>
<td>4.84%</td>
<td>3.83%</td>
<td>3.53%</td>
<td>2.99%</td>
<td>1.83%</td>
<td>1.30%</td>
<td>0.86%</td>
<td>1.23%</td>
<td>0.83%</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>3.7%</td>
<td>2.0%</td>
<td>2.52%</td>
<td>3.80%</td>
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<tr>
<td>GDPm  (PTE 000 000) / (EUR 000 000)</td>
<td>18 239</td>
<td>19 785</td>
<td>19 960</td>
<td>39 989</td>
<td>56 052</td>
<td>70 572</td>
<td>88 994</td>
<td>135 681</td>
<td>212 358</td>
<td>342 817</td>
<td>722 257</td>
<td>1 476 316</td>
<td>413 014</td>
<td>10 072 063</td>
<td>15 912 873</td>
<td>115 548</td>
<td>127 490</td>
<td>162 163</td>
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<tr>
<td>Total Share Capital in % of GDP</td>
<td>5.20%</td>
<td>5.21%</td>
<td>5.30%</td>
<td>4.32%</td>
<td>5.80%</td>
<td>8.36%</td>
<td>10.51%</td>
<td>9.82%</td>
<td>10.99%</td>
<td>10.45%</td>
<td>0.37%</td>
<td>0.25%</td>
<td>0.90%</td>
<td>4.99%</td>
<td>9.25%</td>
<td>16.57%</td>
<td>16.61%</td>
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</tbody>
</table>

Table 3 — Total number of listed corporations on the Lisbon Stock Exchange, 1930-2010

Source: Daily Bulletins of the Lisbon Stock Exchange, BVL Historical Archive.

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90 Since the market closed in April 1974, and because this analysis sampled the month of December of every five years, the year of 1974 could not be included.


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She has served as President of the Portuguese Economic and Social History Society, and is the author of several books and many articles in scholarly journals.

José Carlos Rodrigues da Costa, EE, BBA, and MBA was for 22 years a visiting Professor of Finance of the School of Business and Economics of Universidade Nova de Lisboa (NOVA), and for two years of the ISCTE. His areas of interest are Corporate Finance, International Finance, Investments, and Financial Derivatives. Since 1990 he has held key posts at the Lisbon Stock Exchange, where he participated in the re-establishment of the stock market in Portugal and in the process of internationalization of the Portuguese Exchange, including the integration into the innovative Euronext Group of Exchanges. Alone and in cooperation with the other two authors he has published in a number of scholarly journals and in the domestic press.

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