

CORPORATE INDEBTEDNESS IS HUGE PROBLEM IN PORTUGAL - PLMJ

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With companies in significant debt, an increase in the trend for private equity companies to acquire stakes in businesses would help to ease the problem

Corporate indebtedness is a huge issue in Portugal and, while the situation has been helped by private equity funds acquiring equity stakes in companies, this trend needs to increase given the scale of the problem, says Duarte Schmidt Lino, partner at PLMJ.

"Bank loans remain the preferred mode of financing in Portugal, but the very dangerous level of indebtedness that was reached by the Portuguese corporate sector has forced other solutions to be applied," he says. The 2008 economic crisis had a significant impact, Schmidt Lino explains. "There was a shock and everything stopped for a while, and the music was over, except for some urgent situations such as restructuring funds set up by banks when assets were transferred to them – and

then the music started again, but a different tune." He says private equity firms came in and designed tailor-made solutions for specific situations, but adds that this trend needs to increase given the scale of corporate indebtedness.

"Banks or other financial entities stepped in and bought debt and those hostile restructurings were the most challenging cases we had, in which timing is the most crucial thing. If you act early, things are much easier, but often decisions are made too late when a company has deteriorated and it becomes harder," Schmidt Lino says.