Global Restructuring Trends

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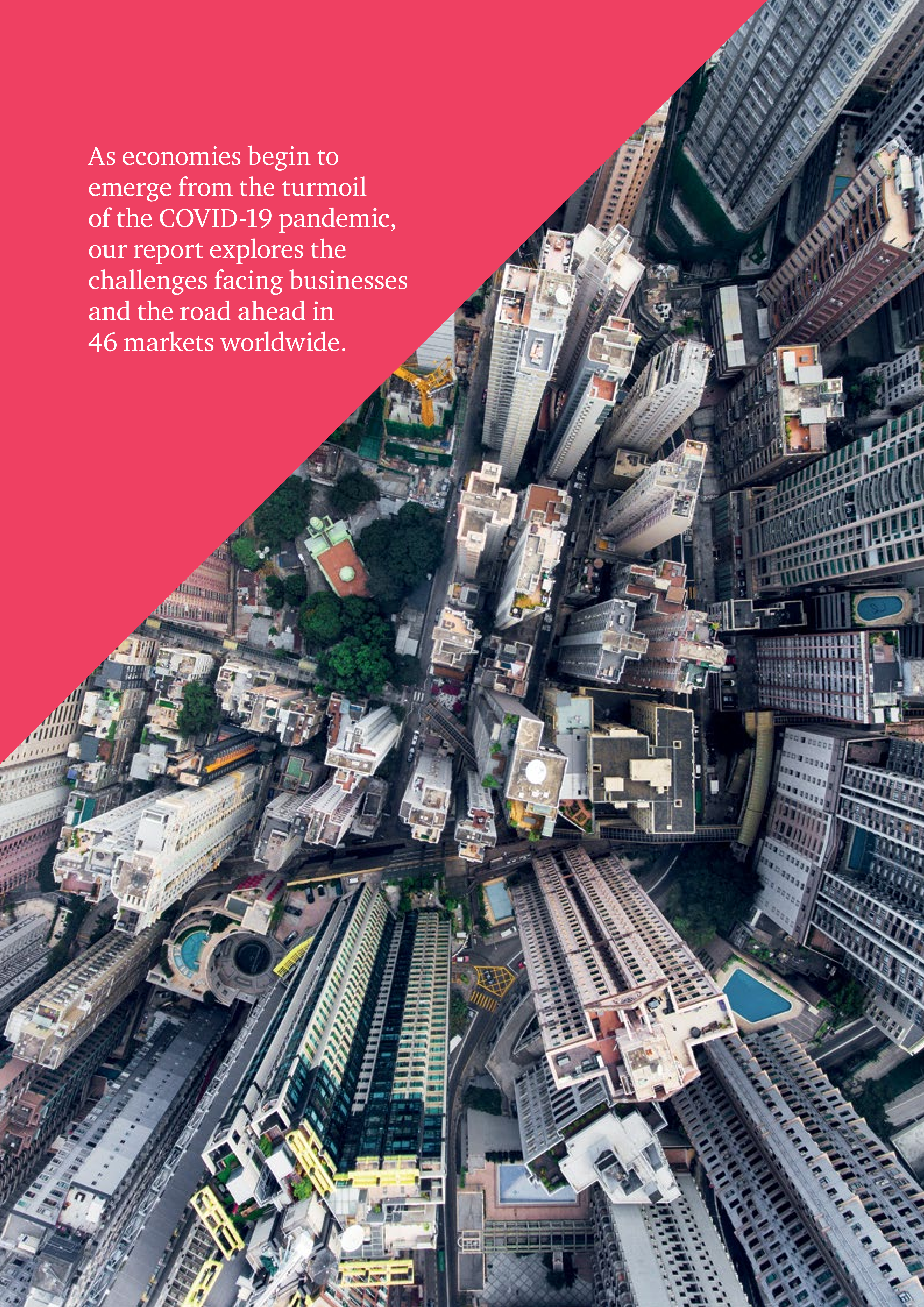
November 2021

pwc

As economies begin to emerge from the turmoil of the COVID-19 pandemic, our report explores the challenges facing businesses and the road ahead in 46 markets worldwide.



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Executive summary

Foreword

Welcome to Restructuring Trends 2021 – a global view.

As economies begin to emerge from the turmoil of the COVID-19 pandemic, our report explores the challenges facing businesses and the road ahead in 46 markets worldwide. We also look at developments in insolvency legislation and their implications for restructuring professionals, businesses and lenders.

During the most acute phase of the pandemic, many businesses were forced into survival mode, with revenues drying up and liquidity under pressure. The lifeline of government relief, credit moratoria and huge availability of capital at low interest rates helped many companies weather the crisis. Restructuring and insolvency activities were generally subdued as a result.

More recently, vaccine roll-outs have led to the lifting of restrictions and improvements in consumer and business confidence within many economies. But with opening up comes the scaling back of government support and the need for businesses to tackle the debt burden accumulated during the pandemic.

Further challenges include the need to ramp up output in the face of continued strains on liquidity, rising raw material prices and mounting supply chain disruption. In turn, progress on vaccination varies, leaving countries with low immunisation rates vulnerable to fresh surges in infection and resulting lockdowns.

Businesses around the globe have to navigate an asymmetrical recovery whilst looking ahead to the future and recovery from the pandemic.

Gearing up for transformation

As the focus shifts to recovery and growth, businesses are looking at how to create value in markets being reshaped by the acceleration in digital transformation and growing stakeholder focus on environmental, social and governance (ESG) issues.

As disruption and change gather pace, the central challenge for businesses is how to optimise their portfolio in the medium-to-long term rather than just short-term survival. The extent of lender and other stakeholder support hinges on whether the business can generate long-term value in these evolving market conditions. The availability of finance will also be increasingly linked to strategy and performance on ESG and diversity and inclusion, as outlined in our latest **Act Now: From Recovery to Growth** report.

It's therefore important for all parties to understand how this medium-to-long-term value will be generated. In line with our latest Act Now research, four key priorities stand out:

1. Realigning operations
2. Bolstering liquidity and working capital
3. Stepping up progress on corporate deleveraging
4. Optimising the business portfolio

The coming pages offer insights into businesses' ability to meet the immediate challenges and gear up for the transformational market developments ahead.

Steve Russell
Head of Business Restructuring Services
PwC United Kingdom

"During the most acute phase of the pandemic, many businesses were forced into survival mode, with revenues drying up and liquidity under pressure.

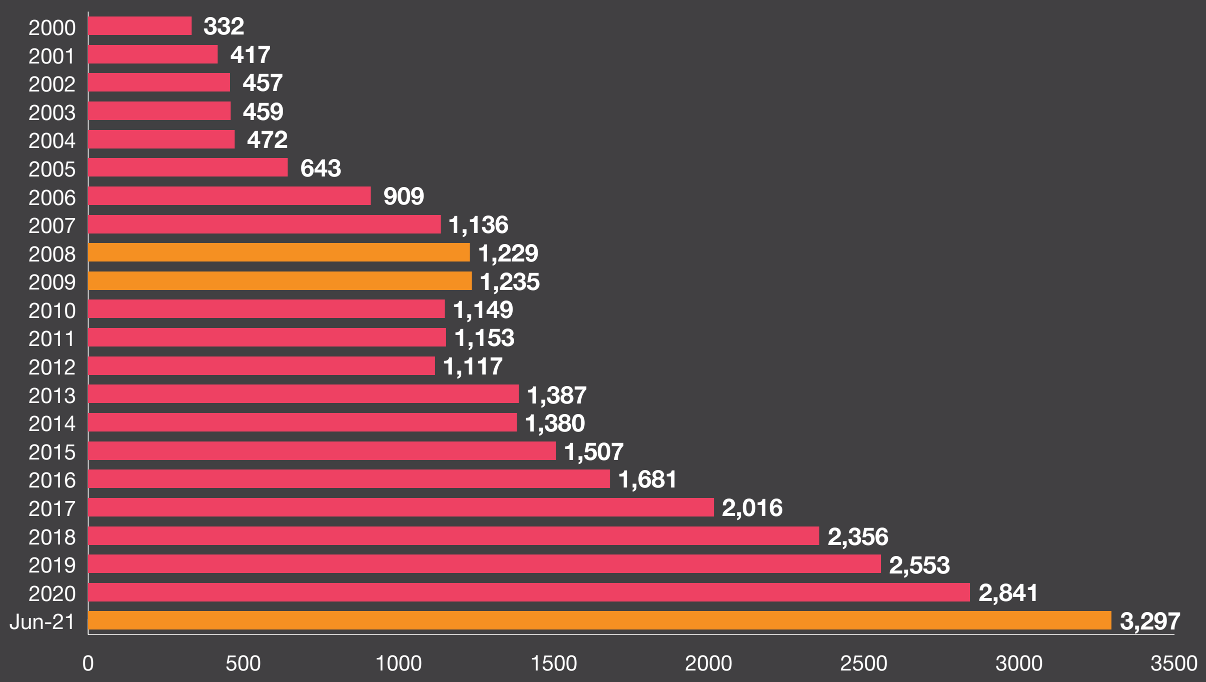
One: Brakes on restructuring coming off

While the impact of the COVID-19 pandemic is receding, the coming year presents a fresh set of challenges as businesses deal with the withdrawal of government support and shift from stabilise and survival mode to longer term recovery and growth.

Insolvency and restructuring have been subdued, but are expected to pick up as we move into 2022 and beyond

Government relief and credit moratoria, support from banks and other lenders, and the huge availability of capital at low interest rates have largely held back insolvency and restructuring activity throughout the pandemic.

Figure 1: **Private Markets Dry Powder (USD 'bn)**



> Insolvency and restructuring have been subdued, but are expected to pick up as we move into 2022 and beyond.

This combination of state support and readily-available capital has made amend-and-extend or refinancing the clear and preferred solutions in many situations to date. The abundance of capital and pressure to put it to work mean that a lot of these refinancing agreements have been covenant-lite. Where there has been insolvency or more comprehensive restructuring activity, it has tended to be either sector (e.g. those most affected by the pandemic such as retail, hospitality and travel or ESG-related such as in mining and energy) or situation specific (e.g. fraud or businesses suffering from volatile commodity price and supply chain issues).

However, the extent of government relief has varied. Some countries, such as Mexico, have held back on government stimulus amid continuing austerity. Others may have wanted to inject more support, but have been constrained by elevated levels of sovereign debt going into the crisis. In turn, even with government relief, some economies such as Turkey and Hong Kong have seen high levels of insolvency even during the pandemic.

As government support measures start to be withdrawn and temporary loans come due for repayment, the brakes on insolvency and restructuring activity will begin to come off. Over-leveraged capital structures will need to be addressed and maintaining lender forbearance and support could also become more challenging, particularly in sectors where the prospects for recovery and long-term growth are less clear.

Some countries, such as Malaysia and Greece, are expecting an offloading of non-performing loans by banks to special situation funds which in turn may drive a more aggressive approach to recovery. In addition some markets are seeing an influx in non-bank lenders for the first time, such as New Zealand.

Further risks include the high level of fiscal debt after many governments borrowed money to help support businesses during the crisis. The debt burden means that the scope for further state aid in the event of fresh surges in infection could be limited. The risk is especially marked in countries where government debt was already high going into the crisis. This includes a number of major economies such as France and Japan.

Some economies are already seeing a resulting uptick in insolvency activity, particularly in the mid-market. Activity could accelerate even faster in less developed markets where there is less resilience and low COVID-19 immunisation rates could hamper recovery and heighten the dangers of a renewed wave of infections. However, in most markets there will be a lag, though we would expect to see a step-up through the course of 2022. At the other end of the spectrum, exceptionally rapid recovery and plentiful capital for refinancing may prevent any significant surge in insolvencies in some markets such as the US.

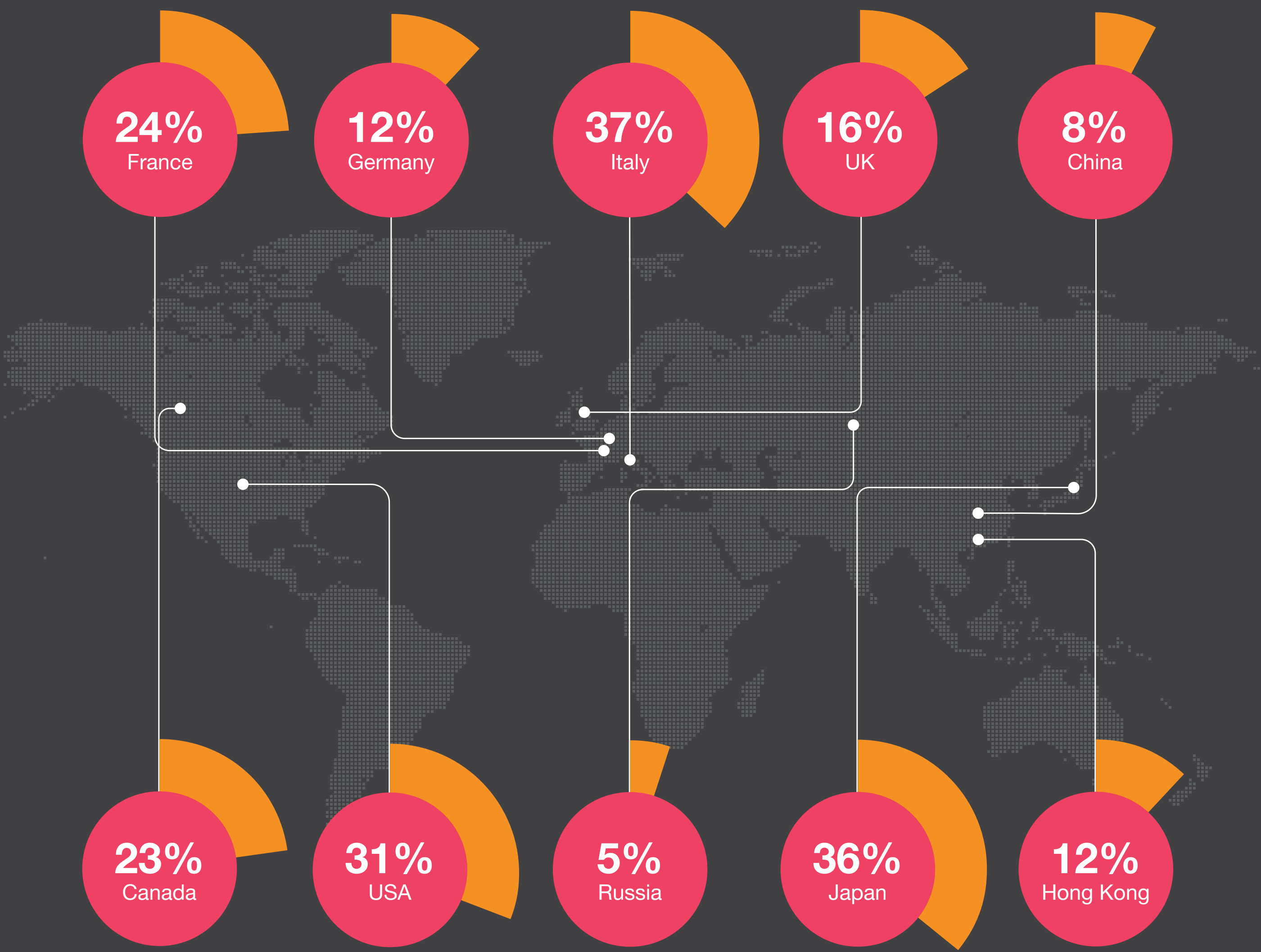
Businesses at the centre of the restructuring radar include those in sectors most severely affected by lockdowns and travel restrictions including tourism, airlines, hospitality and bricks-and-mortar retail. Other focus areas include sectors already feeling the impact of the move to Net Zero such as mining and energy as well as those experiencing growth pains as they emerge from the pandemic (spikes in demand, supply chain issues, labour shortages, commodity price volatility and inflation).

Priorities ahead

- Companies need to re-appraise and shore up their liquidity and working capital requirements to address the unwinding of government support and debts accrued during the pandemic, while at the same time meeting renewed customer demand and delivering delayed investment.
- The likely limited availability of further government support in some economies will increase reliance on existing lenders, shareholders and access to the capital markets, which may be less forthcoming in sectors where the prospects for recovery and long-term growth are less clear.

“The abundance of capital and pressure to put it to work mean that a lot of these refinancing agreements have been covenant-lite.

Figure 2: **Government support as a % of 2020 Real GDP**



> "
> As government support measures start to be withdrawn and temporary loans come due for repayment, the brakes on insolvency and restructuring activity will begin to come off.

Two: Uneven road to recovery

Focus is shifting from survival and stabilise to recovery and growth.

While the momentum for global economic recovery is gathering overall, the pace looks set to vary between countries and sectors.

One key factor is progress on vaccination. While rates tend to be lower in poorer countries, a number of advanced economies are also lagging.

The speed of recovery within and between sectors also differs quite markedly. Airlines and tourism will take time to get back to pre-pandemic levels, particularly in economies where there are continuing travel restrictions affecting tourism businesses such as Australia, Japan and New Zealand.

Other sectors such as hospitality and retail may come back more quickly as restrictions ease – for example in the US, many such service enterprises are already bouncing back and even exceeding pre-pandemic levels in some cases.

In addition, whilst consolidation in some sectors has been seen to date, more is expected through further M&A activity as players start to capitalise on growth opportunities.

In economies where the rebound is furthest forward, the business focus is moving from short-term survival to recovery and growth, bringing with it challenges in managing the associated demands on liquidity and working capital.

The speed of the rebound in some economies and resulting surges in demand could further stretch resources. And as digital disruption and expectations on ESG threaten to turn whole sectors on their head, companies face the challenge of adapting business models, securing the funding needed to finance the necessary transformation and, ultimately, boost value over the medium-to-long term.

Priorities ahead

- In this uncertain and potentially stop-start pathway to recovery and growth, it's essential to monitor cash and develop realistic forecasts which take account of potential varying recovery scenarios.
- The immediate demands don't just include day-to-day expenses, but also funding for future growth and to adapt to the trends reshaping marketplaces and economies.

"Airlines and tourism will take time to get back to pre-pandemic levels, particularly in economies where there are continuing travel restrictions affecting tourism businesses such as Australia, Japan and New Zealand.

Figure 3: **Real GDP growth / decline 2020 – Annual percent change**

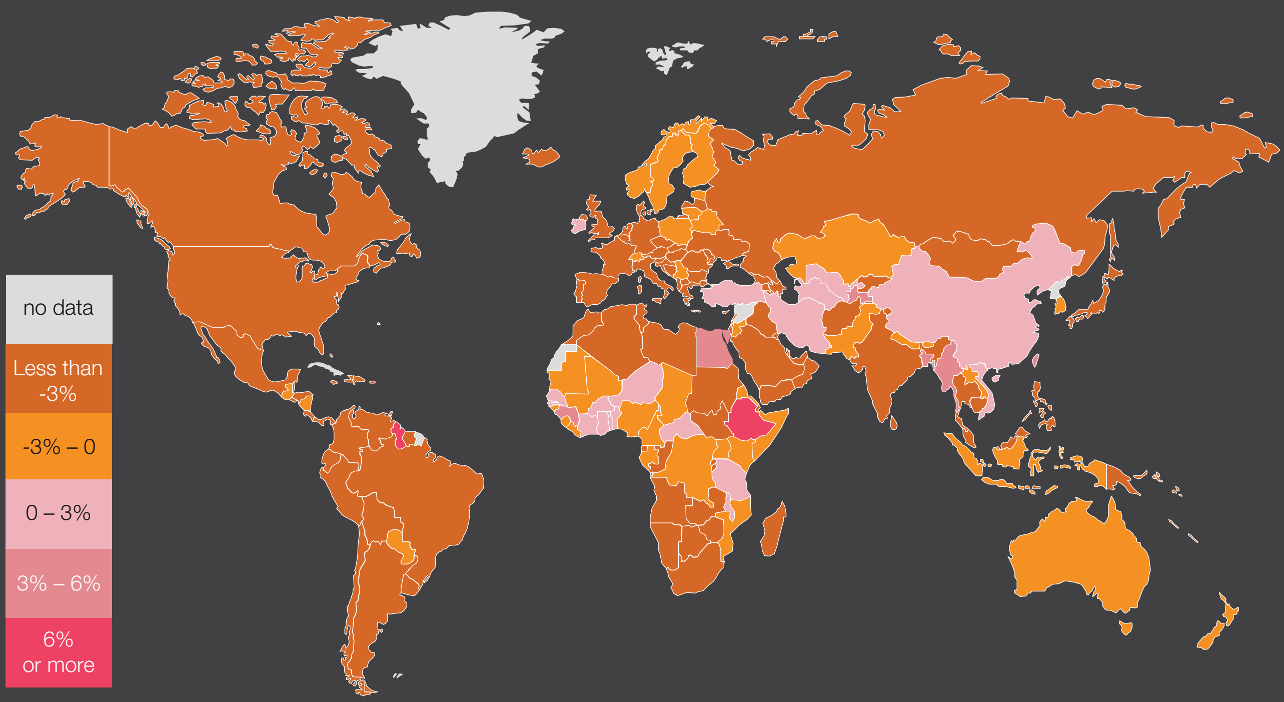
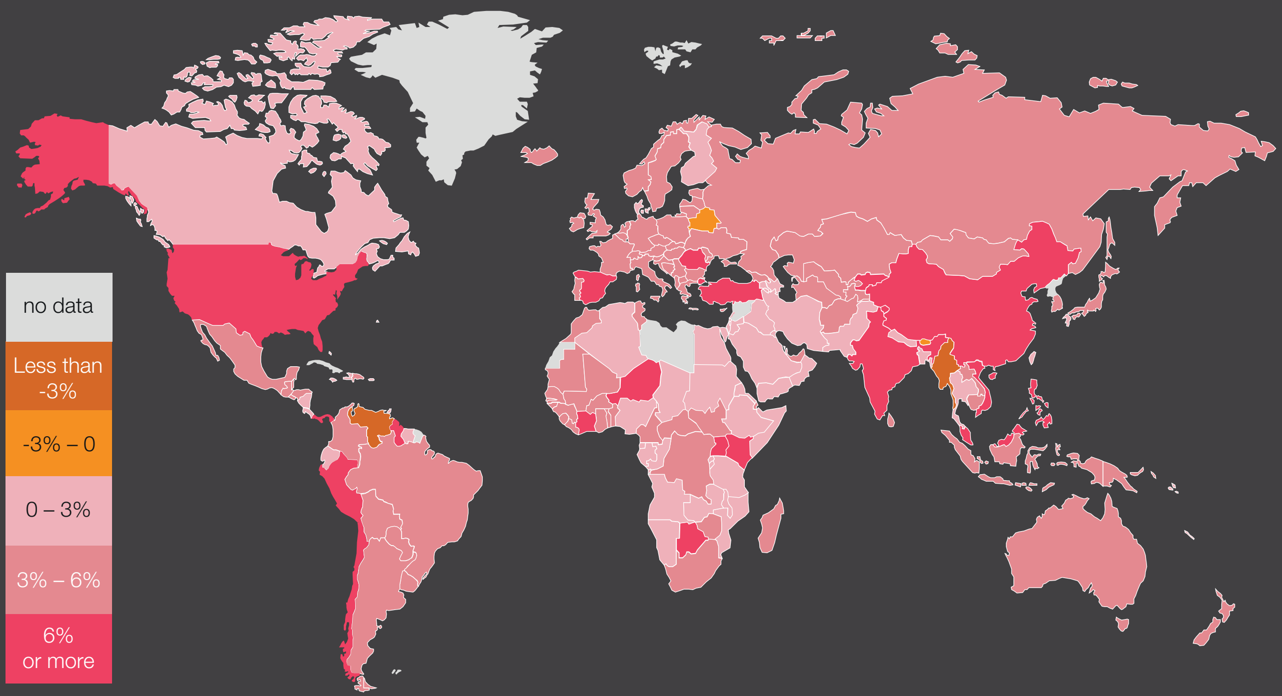


Figure 4: **Real GDP growth / decline 2021 – Annual percent change**



Three: Supply chain disruption and inflationary pressures

Supply chain disruption could hold up recovery and jeopardise some businesses.

From steel to semiconductors, supplies of raw materials and finished goods, along with the capacity to transport them, are under pressure or seeing a significant rise in prices.

Severely affected sectors include construction, where disruption is causing project delays and pressure on costs and cash flows. In turn, a number of automotive manufacturers have had to curtail or temporarily shut down production altogether because of the shortage of semiconductors.

In addition the recent increase in wholesale gas prices in Europe has had an adverse impact on the energy retail sector and is likely to lead to further supply chain pressures.

Rising raw material prices are also heightening inflationary pressures, which may translate into interest rate rises in due course. Among the prominent markets where rising inflation may be met with an increase in base rates is the UK, where there is still the possibility that rates may rise later this year rather than next year.

Supply chain issues put further pressure on working capital and emphasise the need for resilient supply chain management. For economies as a whole, the pincer of impaired output and rising inflation could slow or even derail recovery.

Alongside supply chain bottlenecks, resurgent demand is adding to shortages of key skills. We've already seen how travel restrictions have curtailed the movement of seasonal staff – from crop pickers to hospitality workers. We've also seen how many workers in shutdown sectors such as hospitality have taken up jobs in other industries and seem unlikely to return. Longer term issues include the shortage of commercial drivers worldwide, with often poor conditions, lack of diversity and an ageing workforce continuing to diminish an already shrunken talent pool and making it hard to attract new recruits.

Some of the talent shortages may be temporary, especially as restrictions on movement are eased. But pay rates may also need to rise quite markedly to attract scarce talent, which could in turn add a further spur to rising inflation.

Priorities ahead

- New COVID-19 variants remain a threat to the pace and extent of economic recovery, both through the risk of further lockdown and in heightening the potential for supply chain disruption for many businesses. Supply chain resilience is therefore essential, especially in the most affected sectors such as construction and automotive.

- Dealing with talent shortages requires long-term planning as well as short-term plugs. Pay, conditions and prospects may all need to be improved. Action to improve diversity could in turn enlarge talent pools and help to attract higher quality recruits.

“From steel to semiconductors, supplies of raw materials and finished goods, along with the capacity to transport them, are under pressure or seeing a significant rise in prices.


SIPG

Four: Transformation gathers pace

Need to keep pace with digital transformation and expectations on ESG and diversity and inclusion.

The acceleration in digital transformation in many sectors as a result of the pandemic opens up increased opportunities for innovation and growth on the one side, while making some operations and even whole companies unviable on the other.

Operational restructuring is needed to modernise capabilities and streamline operations, as some sectors have seen wholesale structural change in recent years with this only set to continue.

Divestment of noncore and underperforming operations is enabling businesses to refocus resources on recovery, transformation and growth.

ESG's move to the centre of the strategic agenda presents comparable challenges and opportunities. This is a chance for businesses to regenerate the environment, create fairer societies and build greater trust with customers, employees and policymakers. But perhaps more importantly this is a huge commercial opportunity. In automotive, for example, the potential is highlighted by the take-off in electric and hybrid vehicle sales in 2020 and 2021, following a decade of steady but unremarkable growth. The challenges include how quickly carmakers can accelerate the transition away from petrol and diesel vehicles, not just in production, but by making electric models sufficiently affordable within the mass market.

Further considerations for businesses in all sectors include how their strategy and performance will rate from an ESG perspective. Our UK Act Now report highlights the growing importance of ESG in credit and investment decisions. Businesses with no viable ESG strategy could find it increasingly difficult to secure financing.

Even in economies that are currently dependent on oil and gas, the focus on decarbonisation and the development of alternative opportunities is clear. The Gulf states, for example, face pressure to play their part in tackling climate change. There is also domestic pressure for change as a result of the volatility in fossil fuel markets in recent years and resulting economic instability. In line with these trends, the Saudi Tadawul and Qatar Stock Exchange (QSE) are racing to launch ESG indices in 2021, following Dubai Financial Market's early lead with the 2020 launch of the S&P/Hawkamah ESG UAE Index.

Just like ESG, diversity and inclusion are having a growing impact on stakeholder perceptions and financing decisions. Our latest Act Now research has found that nearly 60% of UK investors are more likely to extend financing in a company with a diversity and inclusion policy. Again this is more than a tick-box exercise. For example, sectors suffering some of the severest talent shortages such as technology, construction and logistics are also among the least diverse. More women and others from under-represented groups within the workforce would help to bridge these talent gaps. It would also help these sectors to better understand changing consumer demands.

Priorities ahead

- The big question for companies as they look to future-proof their strategy and capabilities is where to direct often limited financial resources when there is so much pressure to change on so many fronts. Operational modernisation, ESG and diversity and inclusion are all likely to require significant investment. Companies will need to factor in the impact of implementing such changes into their consideration of the appropriate capital structure and funding requirements.

- Careful planning and prioritisation are essential now that ESG and diversity and inclusion are weighing ever more heavily on credit decisions. This presents opportunities as well as challenges. For example, we're seeing a growing number of financing arrangements linked to ESG targets, KPIs and information and monitoring requirements.

> “Even in economies that are currently dependent on oil and gas, the focus on decarbonisation and the development of alternative opportunities is clear.

Five: Expanding restructuring toolkit

Legislation and innovation are improving the speed, choice and flexibility of restructuring options / solutions.

The expected uptick in restructuring is coinciding with the introduction of useful new options and the removal of many of the barriers that have held up proceedings in the past.

An extensive list of recent developments includes the new UK Restructuring Plan and Dutch 'scheme' (WHOA), as well as new legislation in Germany, Belgium, Ireland, Greece, Brazil, India, the UAE and KSA. We've also seen Hong Kong benefiting from greater cooperation with courts in Mainland China and the Cayman Islands are awaiting the implementation of a formal restructuring regime for the first time.

One of the key considerations for lenders where legislation is more debtor-friendly, such as the new UK Restructuring Plan, which includes the ability to cram down dissenting creditors across classes, is how to be on the front foot in challenging such proceedings. What has become clear from recent cases, is that it will be key for lenders to have an implementable alternative plan and as such early engagement with the debtor and access to information will be increasingly important.

Priorities ahead

- It's important for companies to determine which tools best serve their purposes, and consider whether they can access more favourable options outside those available in their local territories.

- Businesses may look to use legislation to help tackle some of the issues emerging from the crisis, including to potentially restructure excessive fiscal debt arising from COVID-19 related support. Lenders will need to be on the front foot in challenging such proceedings, particularly where these are more debtor-friendly.

Global vaccination progress as of 20 October.

	Fully vaccinated %	Partly vaccinated %
Australia	58	14
Austria	61	3
Belgium	73	1
Brazil	50	23
British Virgin Islands	51	7
Canada	73	5
Cayman Islands	84	0
China	71	5
Croatia	43	3
Czech Republic	56	1
Denmark	76	1
Finland	67	8
France	67	8
Germany	65	3
Ghana	3	2
Gibraltar	100	0
Greece	61	2
Hong Kong	57	3
India	21	30
Indonesia	23	16
Ireland	75	1
Italy	70	6
Japan	69	8
Kenya	2	4

	Fully vaccinated %	Partly vaccinated %
Malaysia	71	6
Mauritius	65	4
Mexico	40	14
New Zealand	59	15
Nigeria	1	1
Norway	68	9
Philippines	19	9
Portugal	87	2
Romania	30	5
Russia	32	3
Serbia	42	2
Singapore	79	1
Saudi Arabia	59	6
South Africa	18	5
South Korea	67	2
Spain	79	2
Taiwan	24	40
Thailand	36	17
The Netherlands	68	10
Turkey	59	9
UAE	86	9
UK	67	6
USA	56	9
Vietnam	19	29

Debt capital markets update

Debt capital market trends

The debt capital markets have in general rebounded strongly from COVID-19. The favourable financing environment, coupled with various government support measures, have allowed companies to survive the pandemic. Looking forward, the favourable conditions are now poised to help recovery and growth ahead.

We however see exceptions in APAC, particularly China, where the default of Evergrande and a number of other property developers have substantially dampened the mood of the market. Whether there will be wider economic repercussions remains to be seen.

In addition the ability of businesses to access this financing will be dependent on a number of factors, such as the future prospects of the sector they operate in and the impact of ESG considerations.

Americas

The leveraged loan (LL) and high yield bond (HYB) markets in Americas have rebounded from the pandemic-driven lows of Q1 and Q2 2020.

Leveraged loan issuances for the period ending September 2021 climbed to $1,291 billion, up 32% from $976 billion over the entire of 2020 while high yield bond issuances reached 93% of the total issuance last year.

Borrowers have been able to take advantage of the favourable environment to refinance existing loans and bonds at lower cost with extended maturities. Refinancing and repricing deals in loan markets accounted for over 60% of overall loan issuances in the run up to September 2021, while refinancing represented over 70% of overall activity in the high yield bond market.

The leveraged finance markets were strong in the first quarter of 2021, primarily driven by the refinancing and repricing deals mentioned earlier. The market pace cooled slightly in Q2 and Q3, as the market started to shift from refinancing and repricing to new money deals. Along with this slight market cooling, lenders and investors were able to firm up pricing where margins ticked back up slightly from the lows of Q1.

Looking forward, the leveraged financing markets in America look on track for a strong H2 2021. The fundamentals point to robust lender and investor appetite supporting solid demand as the economy continues to open up, albeit subject to deal specific considerations and challenges such as overall sector prospects.

> “Borrowers have been able to take advantage of the favourable environment to refinance existing loans and bonds at lower cost with extended maturities.

Figure 5: **Americas – High Yield Bonds and Leveraged Loan Issuance (USD ‘bn)**

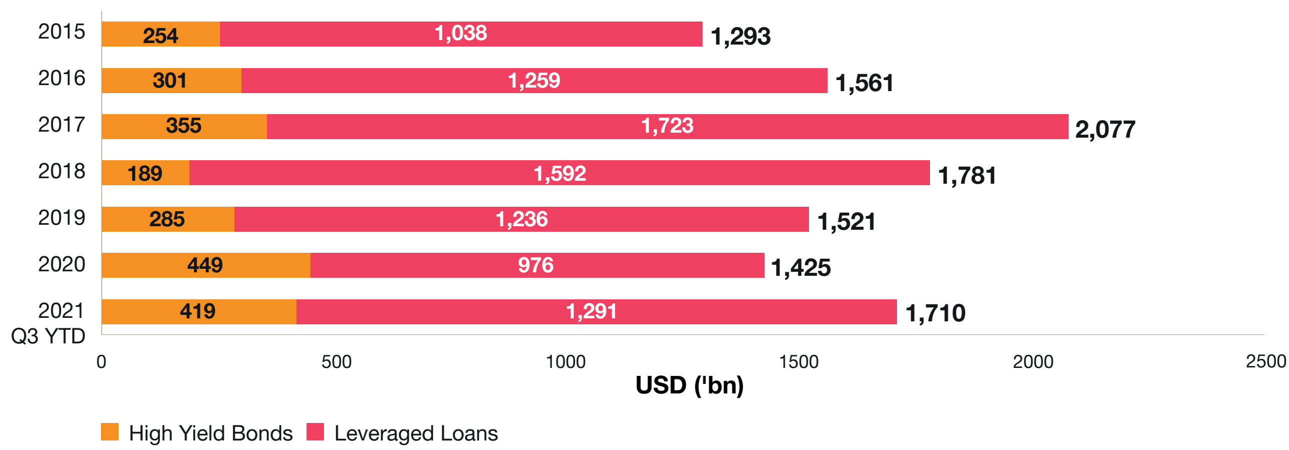
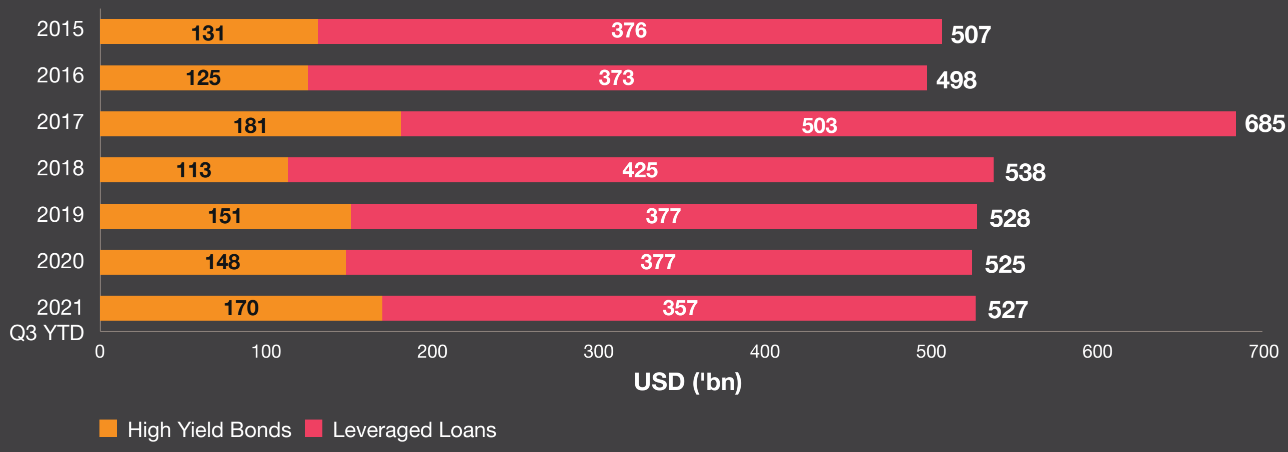


Figure 6: **EMEA – High Yield Bonds and Leveraged Loan Issuance (USD ‘bn)**



EMEA

Both the leveraged loan and high yield bond markets in EMEA have rebounded strongly from the initial impact of COVID-19. Issuance in the first three quarters stands at $527 billion, which is higher than the entirety of 2020 issuance.

The clear recovery has been driven largely by M&A activity, usually an indicator of bullish markets. This accounts for around 50% of activity this year so far. Notable deals include:

- €1.115 billion raised by EQT to facilitate to public-to-private deal of Sweden’s Recipharm
- €600m & $547 million dual-tranche term loans for the Bain-led consortium for the acquisition of Ahistrom-Muksjo; and
- €660 million term loan to support Apax Partners’ buyout of Rodenstock

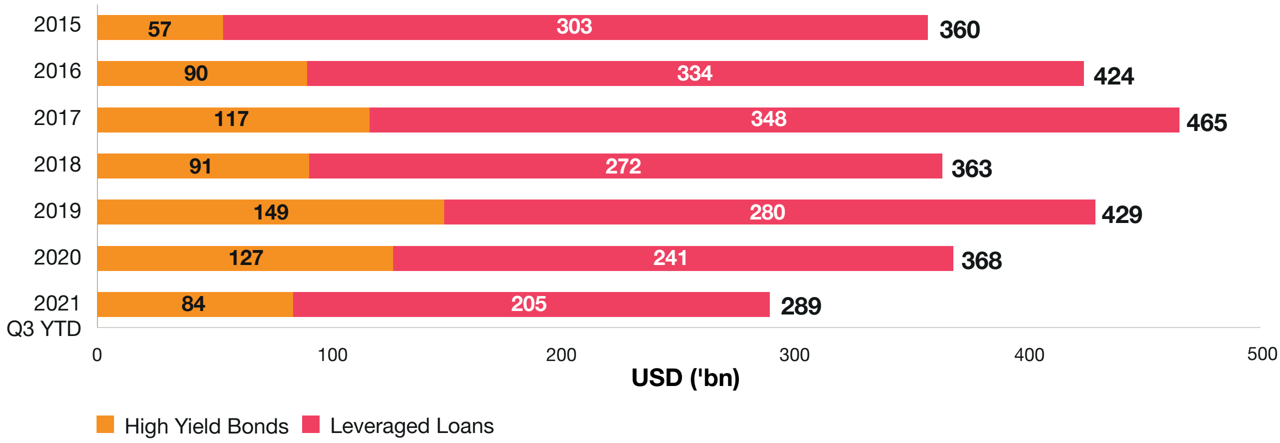
HYB Issuance this year has shifted from double-Bs to single-Bs, providing evidence that investors are willing to support credits that despite being financially weaker, have a clear pathway to recovery. TUI, Douglas and Golden Goose are examples of disrupted businesses able to obtain liquidity from the HYB market and attract strong investor interest.

Meanwhile sustainability linked loans and bonds have surged in popularity this year with both borrowers and investors.

Following Public Power Corporation’s inaugural sustainability-linked HYB issuance, we saw the first HYB buyout deal which included sustainability linked language. Lonza Speciality Ingredients, a Swiss provider of specialty chemicals for microbial control solutions, issued a some €290 million 7NC3 tranche and a some €380 million 8NC3 tranche priced at 4.75% and 5.25% respectively, backing its carve-out by Bain and Cinven. The sustainability-linked bond will include a 25bps step-up per annum, starting on 25 May, unless certain sustainability performance targets are met.

> “The clear recovery has been driven largely by M&A activity, usually an indicator of bullish markets.

Figure 7: **Asia – High Yield Bonds and Leveraged Loan Issuance (USD 'bn)**



Asia

Compared with its counterparts in the Americas and EMEA, markets in Asia have been relatively quiet this year. HYB issuance only amounted to $84 billion, representing 66% of the 2020 total. This is mainly due to the muted activity by Chinese real estate developers, who historically dominated the USD HYB market. Indeed, according to Debtwire data, the volume of HYB issuance is now at its historic low.

The default by Tahoe Group, a Chinese developer, in January 2021, started heightening investor concerns. There have been subsequent defaults by a number of other high-profile names in the market – China Fortune Land, PK Founder and TUS, Sichuan Languang, and even Evergrande, the largest developer in China.

Nonetheless, the market has not completely frozen, with a couple of issuances by smaller developers albeit at relatively high prices. These include Fujian Yango's $250 million 12.5% due 2024s, and China Aoyuan's $200 million 8.25% 3NC2.

Meanwhile, in the Southeast Asia and South Asia markets, the US Dollar denominated high yield and LL issuances have recovered to a healthy level, with strong traction shown in the first three quarters of 2021.

Majority issuance contributions in the region came from the Philippines, Indonesia and Singapore. Some of the largest deals includes Singaporean real estate logistics provider GLP, which raised $850 million priced at 4.5%, Golden Energy & Resources Ltd, which raised $285 million priced at 8.5% and ABM Investama Tbk PT which raised $200 million priced at 9.5%.

For the South Asia region, high yield bond issuances in India are a large driver. Most of these issuances have been green and sustainable bonds. Notable issuers included Indian hydropower producer JSW Hydro Energy, which raised $707 million priced at 4.12% and Shriram Transport Finance Co Ltd, which priced a $500 million MTN priced at 4.4%.

In both these markets, one noticeable trend is that the issuers are mostly familiar names that have issued debt frequently over the years. Investors are well-versed with these frequent issuers and their transparency has increased the chances of a successful debt issuance.

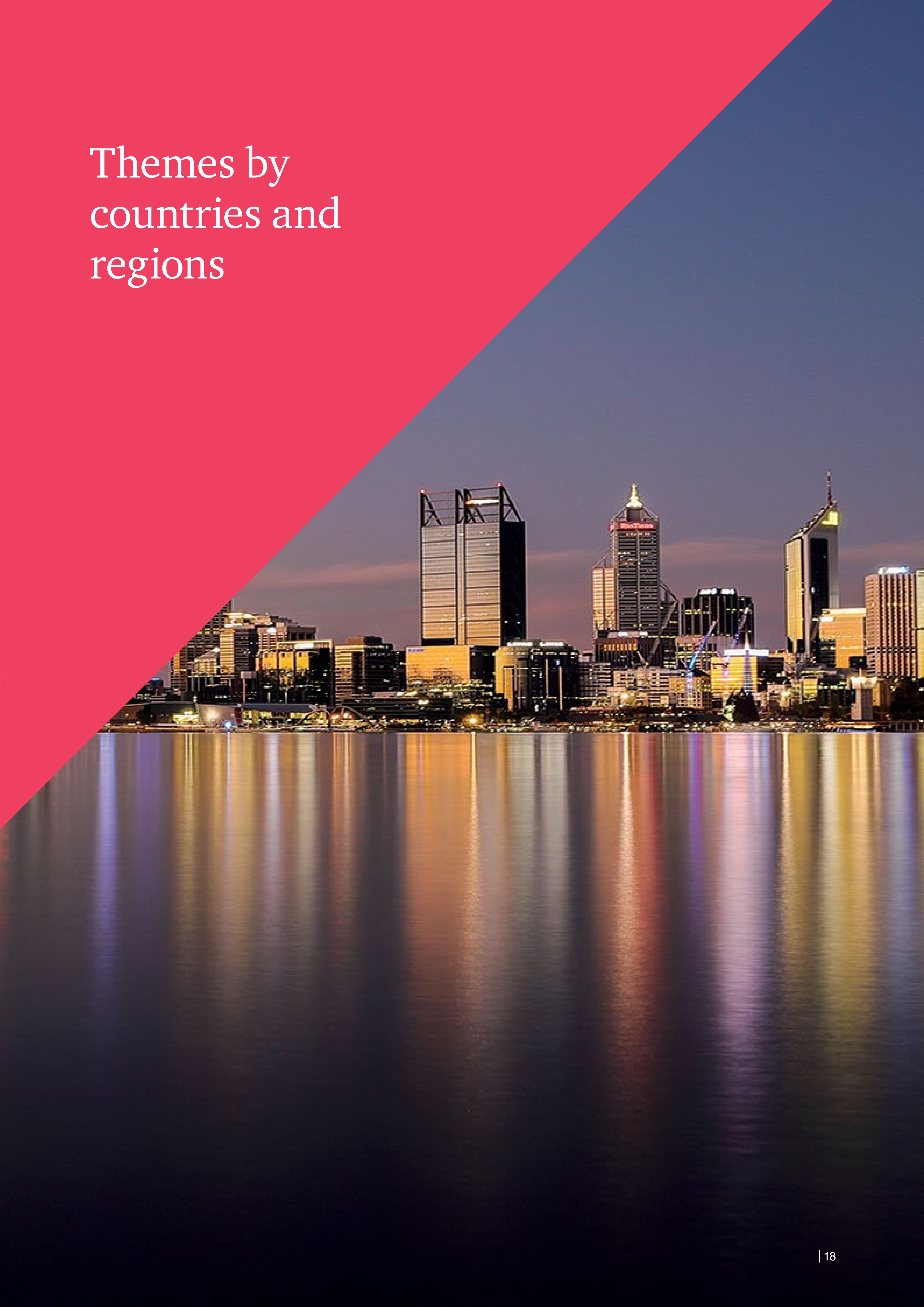
Furthermore, issuers with debt maturing in the immediate short-term are likely to take advantage of the liquidity rich environment to refinance their liabilities, sooner rather than later, to benefit from the low interest rates. However, the Delta variant and low vaccination rates continue to pose a recovery obstacle and hence investors are expected to be naturally more selective.

Finally, the themes of impact investing and ESG are becoming an increasing focus due to an accelerating awareness of the institutional investors. More future debt issuances with such themes are to be expected.

There has been an increasing trend in the Asian markets for private debt. The Preqin 2021 Private Debt Global Report noted that 44 private debt funds (up from 38 in 2020), comprising an AUM of about $11 billion, are now focused on Asia. Notable funds include the PAG Loan Fund IV ($1.5 billion) and Edelweiss Special Opportunities Fund III ($900 million), which are both direct lending funds.

Developed markets, such as North America and Europe, are becoming increasingly saturated, with risk-return profiles that do not correspond with what investors desire. Hence, more institutional attention is turning towards Asia.

Themes by countries and regions



Australia

Insolvencies are at record lows, though this could change once economic normality returns and government support recedes.

Australia has bounced back from its first recession in nearly 30 years, which occurred as a result of COVID-19 in 2020. Unemployment and interest rates are trending toward all-time lows and consumer and business confidence is high.

Insolvency activity has remained at historic lows. This reflects the ongoing short – to medium-term support from both the public and private sectors, which has propped up balance sheets.

However, a rise in COVID-19 Delta variant infections has recently led to a fresh round of lockdowns in most major cities. Government support is also less certain or abundant compared to last year. The ability of businesses to withstand the latest challenges will likely become evident in early 2022.

Stabilising balance sheets

Many listed companies affected by the pandemic moved quickly to raise fresh equity in mid-2020, which has generally given them the necessary buffer to withstand new lockdowns.

Further support has come from the 'JobKeeper' programme, which has enabled many businesses in various industries (including retail) to accumulate material cash reserves. However, these will be tested during the current lockdowns, which are expected to continue until the back end of 2021.

Repayment pressure

From mid-2021, there were signs that some key creditors (including the Australian tax office and landlords) were looking to take steps to recover long overdue debts. However, the return of lockdown is likely to be met with renewed concessions and/or a halt to proactive recovery actions until 2022. Major lenders continue to provide significant accommodation to distressed companies in the form of covenant waivers and principal and interest deferrals.

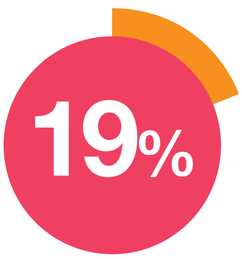
Restructuring climbs back in 2022

We expect restructuring and insolvency activity to pick-up in 2022. Vaccination rates will have hit targeted levels. This will start the move toward some form of economic normality, and resulting scaling back of government support.

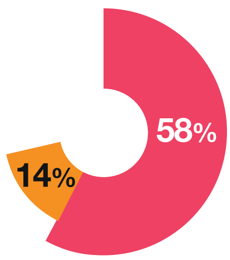
Major creditors are likely to focus on recoveries, while spending patterns of Australians will likely change materially as international borders open and consumer dollars are spent further afield. This will create winners and losers.

So far, the bulk of restructuring activity has been in sectors going through structural or regulatory change (e.g. Aged Care) and businesses impacted by ESG developments (including mining and energy) or those most impacted by the pandemic (e.g. tourism, hospitality, events) Several of the largest restructurings in the past 12 months have not been directly linked to COVID-19, but rather have been situational (e.g. fraud) or sectoral (e.g. ESG).

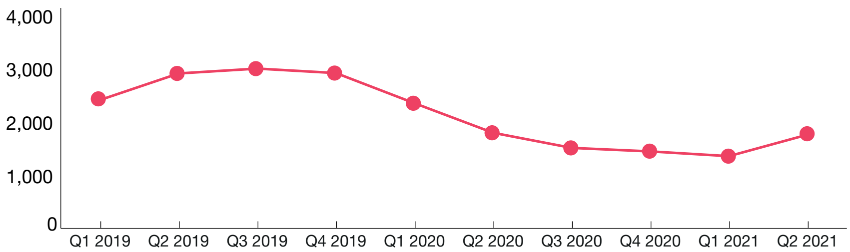
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$1,543

Real GDP growth/(decline)

GDP YoY 2009	1.7%
GDP YoY 2020	(2.4%)
GDP YoY 2021	4.2%

Total unemployment growth/(decline)

2009	21.9%
2020	30.3%
2021	(10.3%)
2022	(13.3%)

CPI

2020	0.9%
2021	2.7%
2022	3.0%

Average lending rate

2020	3.7%
2021	3.7%
2022	3.6%

*Country data may have been provided on a different date.

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Austria

Insolvencies are set to rise as government relief recedes, but there will be no surge. Pressure is not just coming from rising debt, but also the need to finance growing demands on digital transformation and ESG.

Since the start of the pandemic, insolvencies have decreased to historically low levels. As of Q2 2021, the number of cases has picked up slightly, but is still more than 50% below pre-pandemic levels.

However, some of the relief measures that have held back insolvencies are now coming to an end. Monthly tax and social security payments can still be deferred for periods prior to 30 June 2021, but no longer for new tax liabilities and social security contributions. At least 40% of the deferred liabilities have to be repaid within 15 months. These repayments are likely to trigger a number of insolvencies. A big wave is, however, not expected.

Business focus

Businesses have focused on cost reduction and cash management (e.g. reduction of working capital and initial delay of capital expenditure). Even more important has been securing government support, such as deferred payment of tax and social security contributions and support for short time work. Due to cash incentives for capital expenditure (up to 14% for environmentally-friendly investments and digitisation), we've seen a lot of investment since the end of 2020.

Restructuring gathers pace

We expect an increase in restructuring as state support decreases. A number of companies in the sectors hit most from the pandemic, such as entertainment, travel and store retail, will find it hard to service debt (including deferred tax), necessitating both financial and operational restructuring.

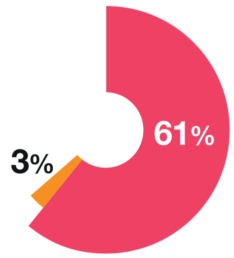
Pressure may increase if the recovery stalls. Risks include infection rates higher than last year as we move into the winter months.

The specific trends that are likely to trigger restructuring include:

- Repayment of deferred tax and social security contributions
- Need to build up working capital to reboot operations
- Capital expenditure backlog from 2020 (while there are state incentives of up to 14% of total expenditure, underperforming businesses may still find it hard to invEst)
- Acceleration in digital transformation by well-performing businesses put additional stress on distressed companies
- Increasing impact of ESG on credit decisions by banks. Underperforming businesses are likely to require external funds to pay deferred tax, bolster working capital and increase capital investment. But if they have yet to develop a viable strategy for ESG and digital transformation, lenders may be reluctant to supply credit.

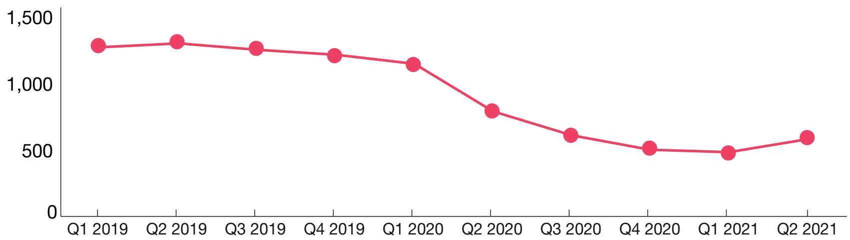
Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



Fully vaccinated Partly vaccinated

No. of insolvencies



2020 Real GDP (USD bn)

$419.2

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(3.8%)	2009	29.6%
GDP YoY 2020	(6.6%)	2020	42.8%
GDP YoY 2021	3.0%	2021	(20.3%)
		2022	(6.1%)

CPI		**Average lending rate**	
2020	1.4%	2020	No data available
2021	1.7%	2021	No data available
2022	2.0%	2022	No data available

*Country data may have been provided on a different date.

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Data sources are available on page 85

Belgium

While restructuring activity is low now, it's set to gradually increase in the next six to 18 months as the effects of government support wear off.

The economy is rebounding strongly (projected 4.7% growth in 2021), but could begin to soften in 2023.

Bankruptcies decreased by 32% in 2020, mainly as a result of government measures. These include a moratorium on bankruptcies filed by third-parties and two guarantee schemes for new credit lines provided by lenders. However, with government support ending and working capital demands rising again, we expect that restructuring activity will start to increase in 2022.

Business challenges

The main challenge since the beginning of the pandemic has been a shortfall in liquidity. This applies to 23% of all businesses in Belgium and up to 45% of those in the hardest-hit sectors.

Non-performing loan rates confirm that the three sectors that have suffered most are hospitality, whole and retail trade and construction.

For many businesses, the focus remains on liquidity either due to pre-existing problems or as a result of the economic impact of the pandemic. As the economy rebounds, additional liquidity is also being sought to sustain recovery and growth.

Another challenge that will occur for many companies is solvency. According to the National bank of Belgium, 85% of non-financial corporations rated as solvent before the crisis and this is now less than 75%.

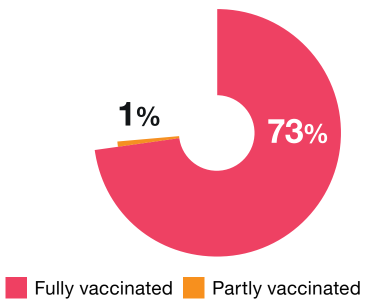
Furthermore, recently we have seen an increased impact of the global semiconductor shortage and other supply chain issues in a variety of sectors, leading to significant business disruptions.

Restructuring flexibility

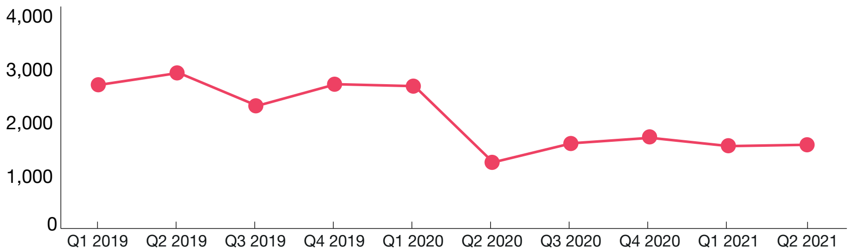
In March 2021, the government enacted a revision of the Procedure of Judicial Reorganisation (PJR). This aims to provide more flexibility in the necessary documentation and the timing when applying for PJR. The new legislation also introduces the possibility for mediation before entering a public procedure that bears the risk of losing partners' trust.

Government support as a % of 2020 Real GDP

Vaccination progress as 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$551.4

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
(2.0%)	(6.3%)	4.7%

Total unemployment growth/(decline)

2009	2020	2021	2022
13.8%	3.8%	16.1%	(3.2%)

CPI

2020	2021	2022
0.4%	2.1%	2.6%

Average lending rate

2020	2021	2022
No data available	No data available	No data available

*Country data may have been provided on a different date.

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Brazil

Insolvency action is set to increase as the enduring impact of the pandemic becomes clear and companies take stock of their position and prospects.

COVID-19 hit as Brazil was still recovering from its 2014-16 recession. Economic recovery remained weak. Fiscal policy options have also been limited since the peak of the recession in 2015-2016, with GDP growth below 2% in the following years. While recovery is broad-based globally and across economic sectors, serious challenges stand out. For Brazil, the most important right now is the uneven struggle to control the pandemic.

However plans to ensure that all of the population receives at least one vaccination dose by the end of 2021 are now well underway. If immunisation proceeds at this accelerated rate, a broader reopening of the economy in H2 2021 and a 'normalisation' toward the end of the year could be possible.

Taking stock

Restructuring activity was limited in the first months of the pandemic. To contain the pandemic, Brazil implemented social measures to slow the spread of the virus and contain its impact on the health system, which is uneven across the country.

An increase in the number of insolvency proceedings is expected due to the pandemic, but as of June, there were fewer bankruptcy filings in 2020/2021. The expectation is that insolvency cases will increase next year. The government has already begun to wind down support measures. By 2022, the economic effects of the pandemic will be better understood by companies. As a result, they may decide that filing for bankruptcy or other insolvency proceedings will help their businesses.

Improved mechanisms

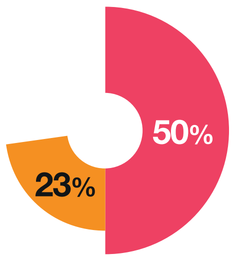
New insolvency legislation came into force in January 2021. This improves the mechanisms available to debtors in court-approved restructurings and liquidations, including debtor-in-possession lending and bankruptcy sale of assets.

The bulk of restructuring activity has been in sectors suffering from the pandemic, especially the service sector. Also in the frame are sectors affected by ESG developments, including mining and energy.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$2,268.5

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(0.1%)	2009	18.5%
GDP YoY 2020	(4.1%)	2020	11.8%
GDP YoY 2021	4.7%	2021	2.2%
		2022	(2.8%)

CPI		**Average lending rate**	
2020	3.2%	2020	27.9%
2021	7.9%	2021	36.5%
2022	6.9%	2022	52.6%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Canada

The prospects for the economy remain strong overall and insolvencies are still at low levels, but recent experience points to bumps in the road ahead.

GDP is projected by most analysts to grow by around 5.9% in 2021. Business confidence in August 2021 reached its highest level since 2006, with plans for capital spending starting to increase.

However, GDP actually fell 0.3% in Q2 2021, affected in part by supply chain disruptions, a drop in exports, and softening residential investment. Consumer confidence and business prospects will be strongly affected by the extent of the fourth wave's impact and the measures taken to limit its spread, though the country's high vaccination rate gives it a strong level of protection.

Our conversations with banks and business leaders indicate that while the overall economic outlook remains optimistic, concerns around rising inflation rates have become a reality. Businesses have also commented on the shortage of qualified staff and the rising cost of capital goods as factors affecting their investment plans.

Many companies continue to face challenges anticipating post-pandemic levels of demand, and dealing with the challenges to their supply chains that the pandemic brought on, which will take time to resolve. Given the K-shaped recovery seen in Canada, some sectors (such as hospitality and leisure) have fared worse than others and will take more time to get back on track.

Restructuring activity still low

Restructuring activity has remained relatively low following an early flurry of filings as the pandemic first took hold.

For the six month period to June 30, 2021, there were a total of 17 restructuring proceedings commenced under the Companies' Creditors Arrangement Act (CCAA), compared to 46 in the same period in 2020. Most of these cases arose from idiosyncratic events, though the bulk of the filings occurred in the manufacturing and mining/oil and gas sectors. Privately-held companies made up all but one of the CCAA filings in the period.

Business insolvency activity also remains low. In the 12 months to June 30, 2021, business bankruptcy and proposal proceedings were 22.2% below the prior 12-month period.

This reduced activity is primarily attributable to stimulus measures, forbearance by lenders and abundant capital. We've seen a willingness among lenders to provide covenant relief and waivers to borrowers, and generally defer taking actions that would require more drastic restructuring measures. Five of the six largest Canadian banks partially reduced their loan loss provisions in the most recent quarter, reversing amounts recorded earlier in the pandemic as a result of their growing optimism on the economic recovery. In turn, liquidity is readily available for bankable businesses where needed, and even troubled loans are being refinanced.

Prospects hard to call

Restructuring and insolvency activity has grown in the oil and gas, mining and manufacturing sectors. We expect to see further activity in the hospitality and leisure sector as stimulus measures expire, as well as in sectors affected by supply chain considerations such as the automotive sector. All of this activity will depend heavily on fiscal policy measures taken by the federal government following the September 2021 election, including interest rate movements and possible further stimulus measures, as well as the response to the fourth wave of the pandemic.

Looking ahead, domestic insolvency and restructuring activity is hard to predict at present. Most recent cases have arisen due to idiosyncratic events affecting borrowers. We are monitoring a number of potential cases in the oil and gas, manufacturing and automotive sectors, particularly given ongoing supply chain challenges, but the Canadian economy remains robust overall and has seen significant M&A activity through the pandemic. We anticipate that an increase in restructuring activity is likely in 2022, as inflationary pressures continue to affect demand, and as existing stimulus programs start to wind down.

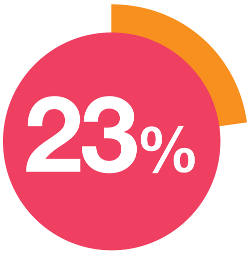
2020 Real GDP (USD bn)

$1,849.4

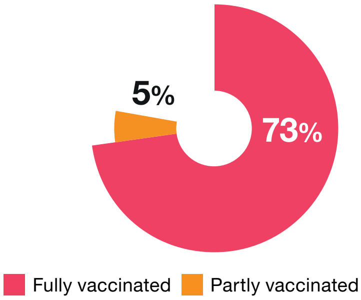
Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(2.9%)	2009	36.9%
GDP YoY 2020	(5.3%)	2020	68.3%
GDP YoY 2021	5.9%	2021	(19.8%)
		2022	(15.1%)

	CPI	Average lending rate
2020	0.7%	2.7%
2021	2.5%	2.0%
2022	2.1%	2.0%

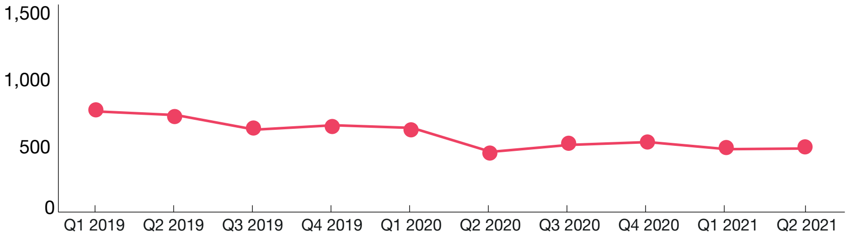
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Cayman Islands and British Virgin Islands

While formal restructuring has been subdued, refinancing has continued outside these structures and we expect more formal and informal activity over the coming year.

With the Cayman Islands and British Virgin Islands (BVI) being two of the world's most prominent offshore financial centres, the focus of the restructuring and insolvency industries are almost exclusively cross border. The main focus is hedge funds, holding companies, private equity and structured finance vehicles in major capital markets.

There is limited domestic insolvency activity, albeit there have been a number of notable failures in the tourism and hospitality sector over the course of the last year. The continued border closures and absence of tourists have led to ongoing strains on revenues in retail, leisure and hospitality. While local resident business has been able to sustain some income in these sectors, albeit on a limited capacity basis, if there is no opening of borders and return of substantial tourist numbers in the near future, we anticipate that there will be a significant increase in domestic insolvency.

Informal activity

The highly globalised nature of the work in the jurisdictions has meant that the offshore insolvency market has generally followed the direction of major global financial centres, such as London, New York, Dubai and Hong Kong.

Formal restructuring has been subdued. However, we are aware that the majority of refinancing and rescheduling of debt agreements for entities registered in the jurisdictions are currently being undertaken outside the scope of formal processes.

Restructuring demand builds

As global markets continue to open up, we expect to see a corresponding increase in restructuring and particularly as moratoriums on enforcement proceedings, state-backed credit schemes and furlough schemes are withdrawn over the coming months.

We are already starting to see an increasing number of enquiries from markets such as Hong Kong and Mainland China, especially in relation to management of Chinese property and credit. Given the substantial volume of maturities in property debt falling due there in Q3 2021 and the popularity of Cayman and BVI in corporate structuring for Chinese companies, we expect that market to be a potential source of activity for the foreseeable future.

Cayman Islands

2020 Real GDP (USD bn)

$4.6

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(6.3%)	2009	53.3%
GDP YoY 2020	(8.2%)	2020	No data available
GDP YoY 2021	3.3%	2021	No data available
		2022	No data available

CPI		Average lending rate	
2020	1.0%	2020	4.5%
2021	1.3%	2021	4.6%
2022	2.3%	2022	4.5%

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In addition, global monetary policies have helped to spur considerable inflows of investment into Cayman and BVI offshore-based private equity funds and special purpose acquisition companies (SPACs). Some of the more speculative investments that have been made by those vehicles could be derailed by a higher cost of capital, in the event of interest rate increases. In this regard, we note that the tightening of US policy (and to a lesser extent that of other OECD economies) could lead to a substantial increase in formal restructuring and insolvency over the coming 12–18 months.

Legislative opening

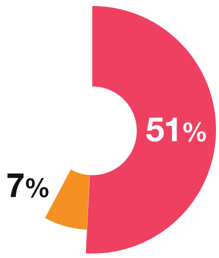
From a legislative perspective, Cayman is awaiting the implementation of amendments to its Companies Act, which will see the inclusion of a formal restructuring regime for the first time, outside the format of a liquidation. Such legislation will see the appointment of a restructuring officer, in conjunction with a moratorium, and is expected to broaden the range of tools available in the jurisdiction's rescue regime. It is understood that such legislation will be enacted by the end of 2021.

Cayman Islands

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*

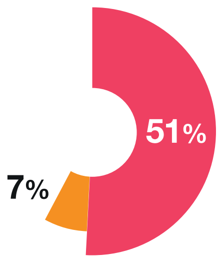


British Virgin Islands

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



British Virgin Islands

2020 Real GDP (USD bn)

$1.0

Real GDP growth/(decline)

GDP YoY 2009	4.0%
GDP YoY 2020	(12.6%)
GDP YoY 2021	2.5%

Total unemployment growth/(decline)

2009	No data available
2020	No data available
2021	No data available
2022	No data available

CPI

2020	1.8%
2021	1.7%
2022	1.6%

Average lending rate

2020	No data available
2021	No data available
2022	No data available

*Country data may have been provided on a different date.

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China

Many companies are looking at restructuring options, diversifying their businesses and stepping up the pace of digital transformation.

Following record GDP growth in Q1 2021, the momentum was checked in Q2 by a slowdown in factory activity, higher raw material costs, and new COVID-19 outbreaks in some regions. Nonetheless, the economy looks to be on track to meet the annual growth target of at least 6%. Potential headwinds that could derail growth include new variants and further supply chain disruption.

As part of the Government support to relieve the burden of the pandemic, the Administration of Taxation has targeted incentives at the most impacted industries and small businesses. While most of these incentives have now been wound up, a few have been extended to the end of 2021. This includes VAT waivers for individual business and small-scale taxpayers, income tax exemption for public health workers, and deductions on COVID-19 donation expenses.

Cash positions under pressure

Suspension of business operations at the start of 2020 hit many businesses hard, especially within transport, entertainment and manufacturing. These pressures were reflected in a soaring number of insolvencies in manufacturing in H1 2020, although cases are expected to fall in 2021 as growth and confidence moves upwards.

While some larger companies were able to source sufficient finance to survive, many SMEs faced severe challenges. Meanwhile, sectors including retail and real estate have seen multiple restructuring and insolvency cases. The real estate sector in particular has been hit by the "three-red-lines" policies and slowing sales, which have restricted their ability to refinance. New government regulation of the education sector in July may also bring potential restructuring and insolvency.

Accelerating transformation

With cash positions tight, many companies have accelerated digital transformation and sought new routes to market. For example, many fitness and education businesses moved their classes online and developed digital apps for support. We see these trends continuing as more companies adopt the double-channel strategy to provide services online and offline, despite the gradual recovery from pandemic.

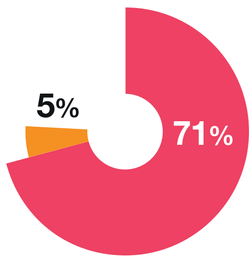
Simplifying proceedings

The government continues to optimise the business environment for bankruptcy. As of May 2021, there are 14 courts and nearly 100 trial courts for liquidation and bankruptcy nationwide. The national enterprise bankruptcy information disclosure platform provided by the Supreme Court has made the trial process more open and credible to the public. Jurisdictional courts are also helping to make bankruptcy trials simpler to adopt. Meanwhile, we saw many mega cases in the market.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



Fully vaccinated | Partly vaccinated

2020 Real GDP (USD bn)

$11,650.4

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
9.4%	2.3%	7.8%

Total unemployment growth/(decline)

2009	2020	2021	2022
13.5%	No data available	No data available	No data available

CPI

2020	2021	2022
2.5%	1.0%	2.2%

Average lending rate

2020	2021	2022
4.0%	4.0%	4.0%

*Country data may have been provided on a different date.

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Croatia

The end of credit deferral looks set to drive an increase in restructuring and insolvency.

The economic picture is mixed. Consumer confidence significantly increased in May and June 2021, almost achieving pre-COVID-19 levels for the first time since the pandemic began. However, uncertainty remains as a result of increasing COVID-19 infections and a significant slowdown in vaccinations.

Since the beginning of the pandemic, the main challenge for the hardest-hit sectors has been overcoming liquidity issues. Despite the government financial support, the focus remains on preserving and strengthening liquidity due to uncertainty over the trajectory of the pandemic. Further challenges include supply chain issues, as well as rising prices of raw and construction materials.

In addition, companies are focusing on digital developments as they look to modernise operations and build resilience for the future.

Insolvencies growing but still low

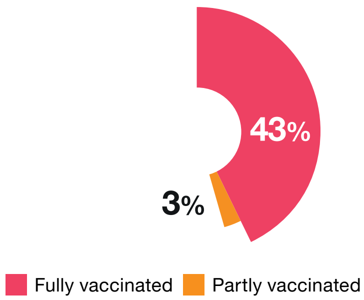
The number of insolvencies has increased in 2021 compared to 2020 as insolvencies were stopped for several months last year. But levels remain low.

The increase in insolvencies was particularly evident in the hospitality sector, which suffered significant financial consequences from the pandemic, despite the governmental support programmes. This trend is likely to continue.

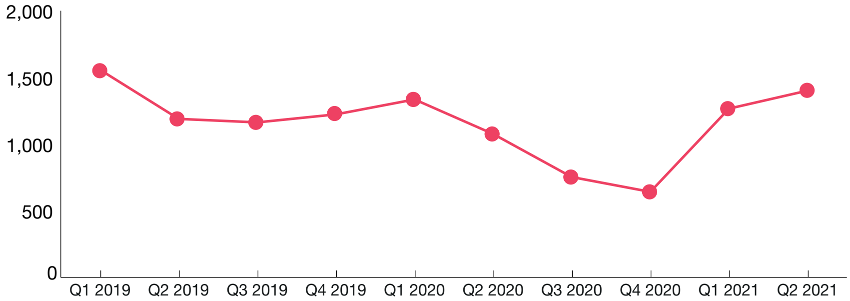
Restructuring activities are expected to mainly be driven by the end of credit moratoriums by the end of 2021, as well as extending maturities.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$61.8

Real GDP growth/(decline)

GDP YoY 2009	(7.3%)
GDP YoY 2020	(8.0%)
GDP YoY 2021	6.4%

Total unemployment growth/(decline)

2009	11.2%
2020	34.9%
2021	1.7%
2022	(6.3%)

CPI

2020	0.2%
2021	1.6%
2022	1.2%

Average lending rate

2020	7.0%
2021	7.0%
2022	7.0%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Czech Republic

With the moratorium on bankruptcy filing having come to an end, a wave of insolvencies could follow.

While growth is returning, challenges remain. These include the potential for a further wave of COVID-19 infections. Many businesses also face supply chain disruption and rising labour and material costs.

Insolvency and restructuring activity remains low when compared to the pre-COVID-19 era, largely due to extension of the credit moratorium until June 2021 by the authorities.

Large businesses have mainly focused on stabilisation of their supply chains to secure deliveries of parts and materials. Businesses in difficulties continued to focus on preserving liquidity through negotiations with their creditors or by drawing on government aid.

Restructuring and insolvency activity is expected to increase during Q4 2021 and Q1 2022. With the end of the moratorium, most of the businesses in difficulties will now have to file for bankruptcy.

In addition, many companies will find that they meet the conditions for insolvency when they will complete the financial statements for 2021.

Sectors on the restructuring radar

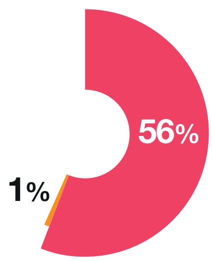
The rising costs and supply chain disruption faced by the automotive and machinery sectors are creating challenges. Particular issues centre on the shortage of semiconductors.

Lockdowns and travel bans have also had a negative effect on companies in the travel and tourism industry.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$245.6

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
(4.7%)	(5.8%)	4.0%

Total unemployment growth/(decline)

2009	2020	2021	2022
66.9%	29.6%	(27.3%)	(4.8%)

CPI

2020	2021	2022
3.2%	3.5%	3.0%

Average lending rate

2020	2021	2022
1.1%	1.1%	2.3%

*Country data may have been provided on a different date.

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"The rising costs and supply chain disruption faced by the automotive and machinery sectors are creating challenges.

Denmark

While restructuring activity could begin to rise as government support is withdrawn, bank finance is helping to fill some of the hole.

Most COVID-19-related restrictions have been removed. Accordingly, consumer and business confidence are rising, and unemployment is falling.

The general strength of the economy means that current restructuring activity remains low and has not yet returned to pre-pandemic levels. However, the withdrawal of government support schemes such as the deferral of employment tax and VAT payments could lead to an uptick in restructurings or cash flow distress as payments fall due.

The need to repay VAT arrears could prove especially challenging. We also expect the focus on liquidity management and forecast and working capital optimisation to increase in the final months of 2021 and into 2022, as companies assess their ability to repay government emergency financing.

Further, we expect the current price increases for shipping and raw materials to cause higher activity within liquidity management and working capital management for companies that find it difficult to pass their increasing supply costs onto customers.

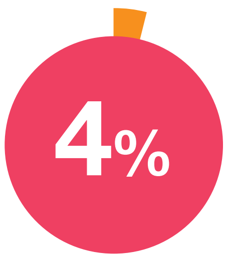
Sectors feeling the strain

The sectors that have seen the most restructuring activity are travel, leisure and hospitality. While we expect these sectors to gradually start recovering, restructuring activity will remain high due the depleted revenues in 2020 and 2021 and the significant debt burden faced by many companies (mainly stemming from government schemes primarily related to VAT and tax). As those sectors are also highly dependent on tourism, they will likely be underperforming for the remainder of the year and next year as Covid-19 continues to curb cross-border travel.

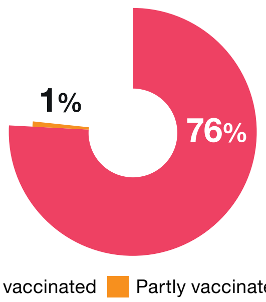
Banks step in

Many businesses will have to rely on bank financing to repay government aid. As most banks did not see a major increase in lending activity during the pandemic, we expect them to step in with finance to support businesses and help sustain recovery.

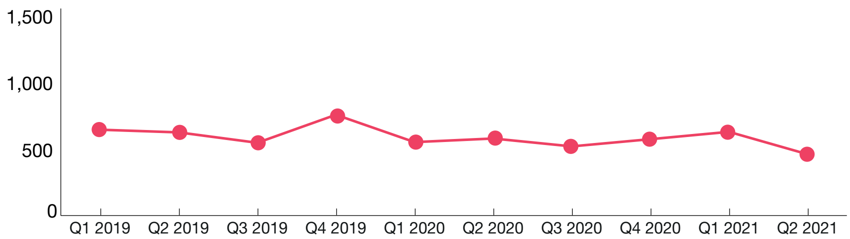
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$372.5

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(4.9%)	2009	75.3%
GDP YoY 2020	(2.7%)	2020	40.4%
GDP YoY 2021	3.5%	2021	(14.2%)
		2022	(8.2%)

CPI		**Average lending rate**	
2020	0.4%	2020	0.1%
2021	1.0%	2021	0.2%
2022	1.1%	2022	0.5%

*Country data may have been provided on a different date.

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Finland

Cost-cutting has helped to ease some of the pressure on troubled firms, but cash shortages and the push for restructuring could grow as the economy opens up.

A renewed rise in infections in recent months has increased business uncertainty, though concerns look set to ease through the autumn as vaccination coverage moves up to an anticipated 80%.

Business and consumer confidence has remained strong, which is pushing up asset prices. Further inflationary pressures are coming from shortages of materials such as steel, wood and oil. Banks have performed well in sustaining funding, taking the pressure off government-backed financing schemes.

While sectors such as travel, leisure, retail and hospitality have seen severe falls in revenue, most businesses have been able to adjust their cost bases and hence keep their heads above water. Therefore, while the number of new insolvencies did rise following the end to the temporary amendment to the bankruptcy law in March 2021, the increase was modest and within expectations.

Growth is likely to be below the Eurozone average, though government debt is lower. As an export-led economy, much will depend on the speed of recovery within global markets.

Easing the strain

As the pandemic took hold, the immediate focus for businesses was obtaining and maintaining sufficient liquidity. Many were able to negotiate some leeway within existing financial arrangements and then move to adjust their cost base.

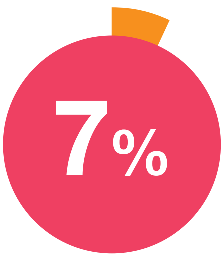
Crisis management is now giving way to situation management. Sectors most affected by the pandemic are embarking on a second round of cost cutting measures, while at the same time reconfiguring their business models to keep pace with market developments accelerated by COVID-19. The cost cutting measures and changes in business models will be visible in unemployment for the next two-to-three years. Unemployment isn't expected to fall back to pre-pandemic levels until 2023.

Restructuring need grows

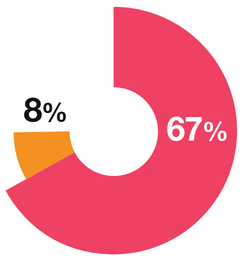
We expect upcoming insolvency or restructuring activity to be driven by two different factors. First is the hit to troubled businesses. Second is the need to adjust to longer term shifts in technology and customer demand.

The full re-opening of the economy is likely to trigger increased pressure on working capital and the requirement for new financing arrangements. However, we do not expect to see large capital spending any time soon given the political and economic uncertainty.

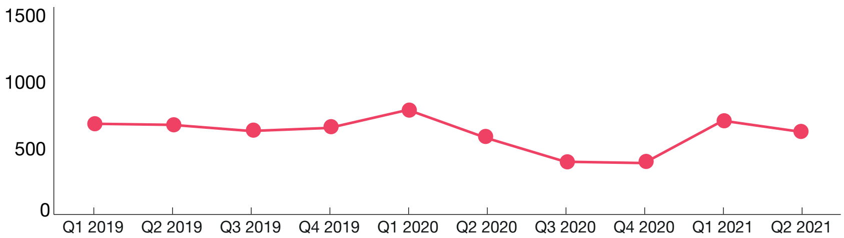
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$264.7

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(7.3%)	2009	28.5%
GDP YoY 2020	(8.0%)	2020	16.4%
GDP YoY 2021	6.4%	2021	(7.6%)
		2022	(5.5%)

CPI		Average lending rate	
2020	0.4%	2020	No data available
2021	0.8%	2021	No data available
2022	1.2%	2022	No data available

*Country data may have been provided on a different date.

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Data sources are available on page 85

France

Pre-existing debts have heightened the economic impact of the pandemic and point to vulnerabilities ahead.

Current business confidence is relatively high, as many industries have enjoyed strong demand recently, and unemployment is close to pre-pandemic levels. On the other hand, shortages of components and workers (short-term), energy transition (mid/long term), and the ability of the government to avoid tax rises in the future may affect mid/long term business confidence.

Easing the impact of the pandemic on businesses has come at huge cost to the public purse. As a result, support measures are now being gradually scaled back, though some will remain until next year's election.

Financing surge

Many businesses are taking advantage of the high levels of available capital to strengthen their balance sheets and/or pursue M&A, including acquisition of distressed targets. Deals and refinancing activity level have reached all-time highs.

On the operational efficiency side, most businesses are busy implementing productivity plans, but some of the state support measures are conditional on avoiding redundancies, or/and improving working conditions. Given the electoral agenda of the next months, the most painful and visible restructurings are likely to occur after spring 2022. We can then expect a situation where liquidity requires urgent action.

Defaults delayed

While most economists expect GDP to return to pre-pandemic levels in 2022, recovery will move at different paces according to how badly the sector and region have been affected.

Overall the number of restructuring cases should increase, with the shape of the demand recovery in each industry and the management of government support being the key factors. The massive liquidity injections in 2020 and 2021 have decreased the number of defaults during the crisis, but a catch-up is likely at some point in time.

Weighed down by debt

Setting aside the impact of the pandemic, the main weakness of the French economy is now debt. With a public debt above 120% of GDP, a structural public deficit , and non-financial corporate debt at 171% of GDP, the French economy will depend on the availability and cost of liquidity in the years to come. In particular, the state/state-guaranteed loans issued during the pandemic (€161bn) will weigh on the non-financial private sector and may in some cases require balance sheet restructurings. A new scheme has been discussed with EU Competition teams to allow the restructuring of state guaranteed loans, using Conciliation proceedings.

The businesses which will probably be the most difficult to finance in the coming months operate in the following industries: tourism, hospitality, aerospace, thermal engine automotive, as well as all businesses significantly exposed to these industries.

New Restructuring Law entered into force

The new restructuring Law (transposition of EU Directive) now into force makes French proceedings more debtor friendly, with in particular a higher weight of securities and subordination agreements in the determination of creditors classes, and a cross-class cram down mechanism possible in "Sauvegarde".

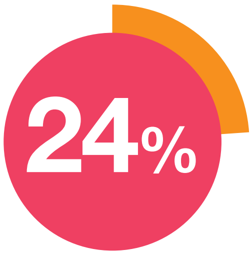
2020 Real GDP (USD bn)

$2,749.2

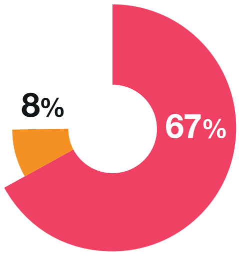
Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(2.9%)	2009	24.5%
GDP YoY 2020	(7.9%)	2020	(3.8%)
GDP YoY 2021	5.9%	2021	(1.3%)
		2022	3.4%

CPI		**Average lending rate**	
2020	0.5%	2020	2.3%
2021	1.6%	2021	2.5%
2022	1.4%	2022	2.8%

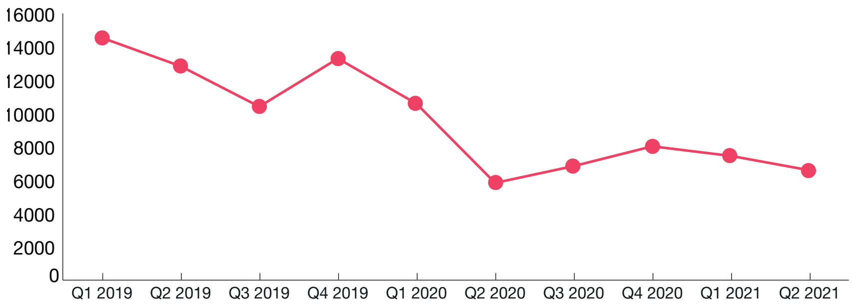
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Germany

Restructuring activity is set to increase from its current low level, driven by a combination of the wind down of state aid, difficulties repaying emergency loans and the need to adjust to challenging market conditions in key sectors such as automotive and industrial production.

Business and consumer confidence bounced back to pre-pandemic levels over the summer. This bodes well for recovery. But uncertainty remains amid increasing Covid-19 infections and a slowdown in vaccinations.

On top of the COVID-19 uncertainty, we see increasing stress on global supply chains resulting from shortages of certain raw materials (steel and other metals for industrial production and auto, wood products for construction and furniture). This could hamper economic recovery. The price increases for certain raw materials (steel, wood, oil etc.) could not only dampen business profitability, but also fuel inflation.

Shift in business focus

During the early phase of the pandemic, the main business focus was cash containment and crisis management. For most parts of the industrial sector, access to liquidity was not a problem. This resulted partly from massive state aid, but also on cash and credit reserves and the willingness of banks to continue funding and accept higher debt levels and leverage.

In 2021, the focus has shifted to strategic repositioning and operational transformation. The pandemic has accelerated existing trends such as the transition to electric vehicles and retail and consumer businesses' move online. These developments have opened up opportunities for growth and portfolio optimisation through M&A.

Insolvencies remain low

Insolvency and restructuring activity are still low. One of the main reasons for this is the number of people on short-time work schemes. While this has fallen back to around a million from the 2020 peak of six million, it's still on a par with the financial crisis of 2009.

Even after reinstatement of insolvency filing obligations, the numbers for actual filings are below pre-pandemic levels and are mainly among SMEs. Changes to the insolvency regime were made early in 2021.

This includes mandatory filing obligations and a new out-of-court restructuring scheme. But so far only a handful of SMEs have used the new legislation for restructuring.

Rise ahead

We expect an increase in restructuring activities in 2022 and the following years as a result of a combination of factors:

- State aid and easier access to short-time work schemes will run out in 2022 at the latest
- Certain sectors (e.g. automotive, travel) expect a slower recovery to pre-pandemic levels and will have to further adjust capacity and resources
- Not all companies will be able to repay COVID-19 loans or the COVID-19 induced debt load

The combination of all the above factors will lead to higher numbers of restructurings and insolvencies, but far from the surge everybody expected 12 months ago.

2020 Real GDP (USD bn)

$3,751

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(5.7%)	2009	4.8%
GDP YoY 2020	(4.9%)	2020	21.7%
GDP YoY 2021	2.8%	2021	(3.0%)
		2022	(5.8%)

CPI		Average lending rate	
2020	0.4%	2020	No data available
2021	2.7%	2021	No data available
2022	1.5%	2022	No data available

Vulnerable sectors

Over the last 18 months, we've seen the most severe impacts in the travel and tourism industry with massive support by the government combined with severe restructurings by the companies. Looking ahead, the main focus is likely to be retail and consumer, industrial production and automotive.

In relation to retail and consumer, we see a further acceleration in the shift to digital business models and problems in sustaining the viability of some physical stores.

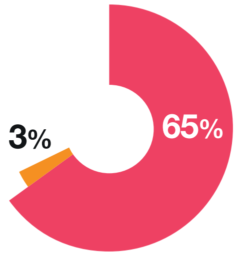
Industrial production is highly dependent on exports and the pace of global recovery.

The current strain on global supply chains and the scarcity and price increases of some raw materials could endanger recovery and future growth.

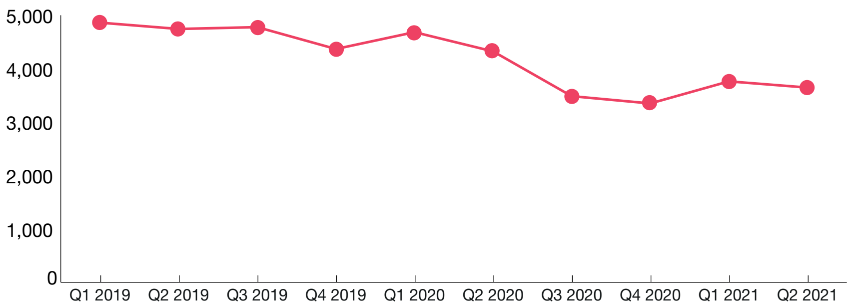
Following the ructions of the pandemic, the automotive industry is now facing massive supply chain disruption in areas such as semiconductors. After losing 13% of revenue in 2020, the industry is currently looking at losing around another 5% of global production to the semiconductor issues. Given the higher debt load after the pandemic, decreasing margins in the supply base and increasing demands from the move to e-mobility, we expect increasing restructuring activity.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Ghana

The Covid-19 pandemic has significantly impacted businesses across all industries in Ghana. The pressure on businesses has been heightened by the lack of resilience within the economy.

While the government has taken steps to support businesses and jobs, available funding is limited and given the current debt to GDP ratio it is unlikely that the Government will provide any significant stimulus packages to businesses. Many businesses, especially small ones may lack the cash reserves to ride out the falls in revenue.

Measures the government has been able to bring through include the COVID-19 Alleviation and Revitalisation of Enterprises Support ('Ghana CARES') programme. Ghana Cares aims to revitalise and stabilise the economy and support businesses and workers. The bulk of government assistance from the CARES program is targeted at the most vulnerable micro-SMEs.

Borrowing costs set to rise again

In March 2020, the Bank of Ghana reduced the base rate by 150 basis points to 14.5% to help increase access to funding and boost the economy. In 2021, the rate was further reduced by 100 basis points to 13.5%. Analysts project that lending rates will increase in 2022, making the cost of borrowing more expensive once again.

No let-up

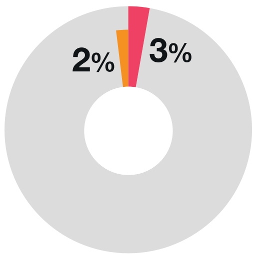
Despite the ease in travel restrictions, businesses in the travel and hospitality sectors continue to face challenges and a number are folding. Manufacturers are also experiencing difficulties stemming from the disruption to international supply chains, especially as Ghana is largely an import dependent economy.

The majority of businesses have experienced liquidity challenges and continue to look for options to address these. They are also focusing on ways to restore supply chain stability and harnessing digital technologies to keep pace with changing customer demand.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



Fully vaccinated | Partly vaccinated

2020 Real GDP (USD bn)

$76.0

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	4.0%	2009	12.6%
GDP YoY 2020	0.4%	2020	12.6%
GDP YoY 2021	4.2%	2021	(0.6%)
		2022	(3.5%)

CPI		**Central bank policy rate**	
2020	9.9%	2020	14.5%
2021	9.3%	2021	13.5%
2022	8.6%	2022	14.5%

*Country data may have been provided on a different date.

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Gibraltar

While the economy has demonstrated its resilience, the end of the insolvency moratorium could see some increase in filings.

A generous package of government measures has ensured that most businesses have survived the pandemic. In addition, the government introduced a moratorium on many insolvency legal provisions to protect companies from actions by creditors.

The tourism industry has sharply declined as a result of travel restrictions. We expect this will pick up slowly now travel curbs are easing, but nowhere near the level that it was prior to the pandemic.

Financial services has adapted relatively well and managed to maintain its business levels, with many able to continue by working from home. With many returning to the office, with the option to continue working from home in some firms, we expect financial services will continue to do well.

Online gaming is another of Gibraltar's main industries. Sub sectors such as casino-related gaming have performed well while sports related gaming has suffered. Now that things are opening up again, we expect the sports related gaming to climb steadily.

Moratorium ends

There have been a total of 22 insolvent liquidations registered since the first lockdown on 24 March 2020 to 12 October 2021.

However, now that the moratorium period has come to an end, we may see an increase in companies entering insolvent liquidation by way of petition by creditors. While they were unable to file a statutory demand or petition to put a company into liquidation during the pandemic, they have the option to do so now. There is also the possibility that with the lifting of restrictions and the moratorium grace period, companies may be able to pull themselves out of insolvency, working with creditors to ensure a plan is in place for any debts to be paid back as soon as possible.

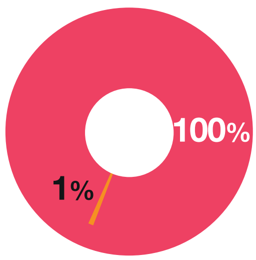
Opting for insolvency

The insolvent liquidations that have occurred during the pandemic have been voluntary and likely to be restructuring decisions as a result of hardship experienced during this time. Out of the 22 insolvencies seen during the pandemic, there has been a wide spectrum of fields in which companies have entered insolvent liquidation. This includes property holding companies which form the majority of the insolvency list, followed by investment management and trust companies. Companies in gaming, retail, the culinary industry, construction and banking and insurance have also fallen victim to the pandemic, going into liquidation following their insolvency.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

No data available

Real GDP growth/(decline)

GDP YoY 2009	No data available
GDP YoY 2020	No data available
GDP YoY 2021	No data available

Total unemployment growth/(decline)

2009	No data available
2020	No data available
2021	No data available
2022	No data available

CPI

2020	No data available
2021	No data available
2022	No data available

Average lending rate

2020	No data available
2021	No data available
2022	No data available

*Country data may have been provided on a different date.

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Data sources are available on page 85

Greece

Restructuring is set to gather pace as investment climbs back and the new bankruptcy code opens up a broader range of solutions.

The economy is expected to recover in the next couple of years, with a GDP growth rate of 7% recorded in the first half of 2021. The rebound is being driven by increased consumption, and strengthening exports.

As international travel restrictions are gradually lifted, the Greek market is set to benefit from the recovery of tourism, an industry with significant contribution to GDP and employment. However, the speed at which international tourism can return to near normal depends on the pace of vaccination in different countries around the world.

Looking to the future again

The onset of the pandemic shifted the corporate focus from investment to crisis management including liquidity and working capital funding. For companies already in financial distress, there was a shift from complex restructuring solutions to 'survival' mode, with an emphasis on liquidity.

However, there is an increasingly apparent need for transformation in the business model and in-depth operational restructuring of businesses in order to survive and prosper in fast-changing markets. The pandemic has acted as a catalyst for planned investment in new technologies, new digital tools and reconfiguration of operating models.

Restructuring back on the agenda

Extensive government support (13% of GDP in 2020) for companies affected by the pandemic has contributed to a relatively low level of insolvency and restructuring activity over the past 12 months.

The delay in the full implementation of the new bankruptcy code (in effect from mid-2021), along with the provision of bank funding and support, led all parties to postpone and/ or re-examine potential restructuring transactions. This provided 'breathing space' for companies affected by the pandemic.

As the vaccination programme continues and the market stabilises, an increase in restructuring and insolvency activity is expected from 2022 onwards.

Greek financial institutions continue the implementation of plans for the decrease of their non-performing exposure ratios through securitisation and portfolio sales, while servicers are willing to proceed with more radical restructuring solutions. This limits the banks' ability to provide ongoing financial support.

The full implementation of the new bankruptcy code, along with the currently high M&A appetite and new investment opportunities opened up by the recovery fund programme, are expected to shape restructuring activity in the near future.

2020 Real GDP (USD bn)

$231.2

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(4.3%)	2009	31.4%
GDP YoY 2020	(8.3%)	2020	(5.2%)
GDP YoY 2021	6.3%	2021	2.3%
		2022	(7.7%)

CPI		Average lending rate	
2020	(1.3%)	2020	No data available
2021	0.0%	2021	No data available
2022	0.5%	2022	No data available

Focus of activity

Despite the unstable economic environment over the past 12 months, a number of sectors have attracted investor interest including real estate and manufacturing.

The impact of the pandemic on tourism and hospitality will put them at the forefront of restructuring and insolvency activity, especially once government and bank support recede.

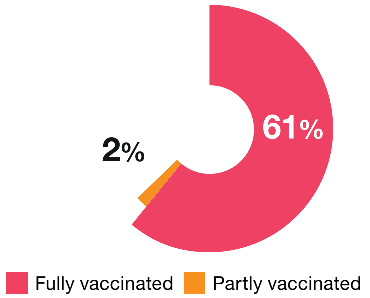
The real estate sector is also expected to continue attracting investor interest, with transactions benefiting from the implementation of the new bankruptcy code.

The return of the corporate world to normality is expected to drive a thorough review of ESG, with the pandemic heightening the focus on sustainability and social issues.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



*Country data may have been provided on a different date.

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Hong Kong

Insolvency cases are rising and could increase further as creditor patience begins to wear thin, though levels will remain modest.

A combination of easing restrictions and direct government support such as cash payments and vouchers for consumers has led to a general uptick in the local economy.

The unemployment rate rose from 2.9% in 2019 to 5.8% in 2020, though it's expected to fall back in 2021 and return to pre-pandemic levels of around 3% from 2022 onwards.

In turn, the number of corporate insolvencies has risen 12% in H1 2021 compared with pre-pandemic levels in H1 2019, with 141 winding up orders made compared with 126 orders two years ago.

The rise may be partly attributable to the backlog created by court closures and social distancing measures in the first half of 2020, with only 62 winding up orders made in H1 2020, compared with 172 in H2.

Whilst there has been a small increase in insolvencies this year compared with pre-pandemic levels, activity continues to be relatively muted as debtors have so far been able to sustain cash flows and debt loads with existing funds. Further relief has come from government support and an environment where lenders have been encouraged to be more lenient.

Pressure builds

While lenders have been paying heed to the Hong Kong Monetary Authority's (HKMA) reminders to forebear with late or non-paying corporates, banks are starting to run out of patience and initiate insolvency proceedings. This suggests that there is stress in the system which is yet to play out.

Modest uptick in restructuring

The majority of the subsidies and relief programmes are due to be wound up by the end of 2021. There is expected to be a small uptick in restructuring and insolvency activity as government support recedes and corporates that have not been able to adapt to the new operating environment struggle to maintain liquidity and sustain operations. We've noted a certain increase in the enforcement actions initiated by lenders recently, though most are willing to explore all possible means of restructuring before considering liquidation.

We are also seeing an increase in enquiries about the use of schemes of arrangement with creditors outside of an insolvency proceeding and on orderly wind downs.

Given the robust property market In Hong Kong, we have continued to see a steady flow of receiverships with real estate assets as lenders choose to enforce when there is the prospect of a relatively high recovery.

2020 Real GDP (USD bn)

$277.2

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(2.5%)	2009	22.2%
GDP YoY 2020	(6.1%)	2020	92.6%
GDP YoY 2021	(6.1%)	2021	(17.3%)
		2022	(35.7%)

CPI		Average lending rate	
2020	0.3%	2020	6.0%
2021	0.7%	2021	7.3%
2022	2.0%	2022	7.5%

Business adjusts

COVID-19 has led management teams to re-assess their group structure, cash flow needs and business strategy including geographic spread.

Businesses are now looking beyond initial crisis measures to adapt to the economic and environmental changes stemming from the pandemic. We have observed shifts in consumer spending and consumption patterns as a result of social restrictions. This includes a greater willingness to use online services in areas such as groceries and food delivery. Many businesses have pivoted online and even eliminated their bricks and mortar presence altogether.

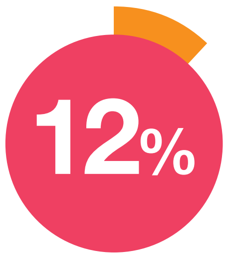
Greater cooperation

In May 2021, the Supreme People's Court and the Hong Kong government agreed a framework for judicial cooperation in corporate insolvency and debt restructuring (the 'Framework'). Under the Framework:

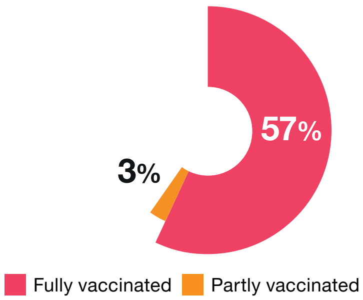
- A Mainland bankruptcy administrator may apply to the Hong Kong High Court for recognition of and assistance in Mainland bankruptcy proceedings.
- A Hong Kong liquidator or provisional liquidator may apply to the Intermediate People's Court at a designated pilot area (Shanghai, Xiamen and Shenzhen) for recognition of and assistance to Hong Kong insolvency proceedings and debt restructuring (scheme of arrangement).

The Framework is a development long-awaited by the Hong Kong restructuring and insolvency market. It marks a critical first step in resolving a number of historical issues faced by offshore insolvency practitioners in obtaining access to and control over information and assets in Mainland China. We foresee that cooperation between the Mainland and Hong Kong Courts will continue to strengthen.

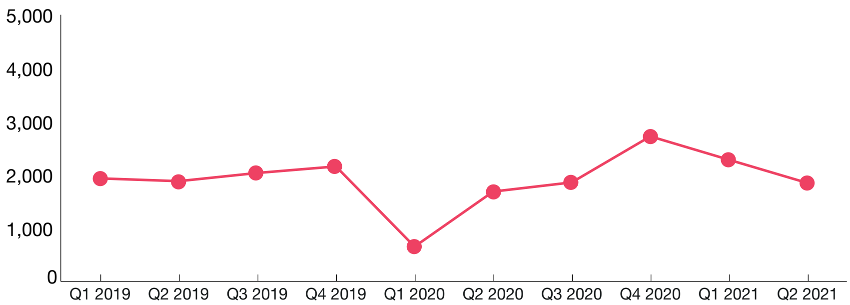
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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India

New mechanisms are helping to speed up insolvency resolution, but the pressure on courts is still considerable.

Government support has helped many businesses to survive the impact of the pandemic and boosted the economy overall. But the price is rising government debt levels, which have been exacerbated by reduced tax income. The deficit could lead to higher base rates and increased borrowing costs for businesses.

Since the start of pandemic, the business focus has shifted to planning for an uncertain future. Priorities include crisis management, enterprise agility, cost management, workforce resilience, innovation, digitisation and cash flow management. Many businesses have initiated steps to gradually recover from their losses. Further priorities include managing the shift to new ways of working. Looking ahead, the focus will be on how to improve productivity and position the business for the future, which is likely to include acquisitions and disposals.

Speeding up resolution

In 2016, the government introduced an updated Insolvency and Bankruptcy Code (IBC). This aims to maximise the value of distressed assets by speeding up resolution.

The total number of insolvency proceedings commenced under IBC decreased by c.73% in the fiscal year 2021 (April 2020 to March 2021) Reasons include both lockdowns and a moratorium on the initiation of insolvency proceedings for default arising for one year. With the lifting of the moratorium and other government interventions and expected rise in the gross non-performing asset (GNPA) ratio of Indian banks, the total number of insolvency proceedings is expected to grow during 2021.

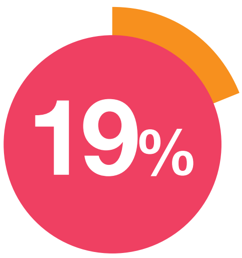
Further evolution in proceedings include pre-pack insolvency. This was introduced for SMEs in April 2021 using a creditor in control while debtor in possession model for resolution. We've also seen the incorporation of the National Asset Reconstruction Company, a proposed bad bank to take up certain categories of NPAs from banks and public sector financial institutions. These new mechanisms could also help to reduce the time taken for resolution of stressed assets.

Possible hold-ups ahead

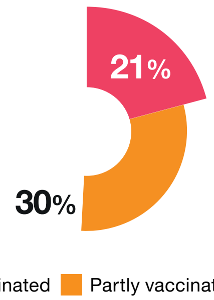
The GNPA ratio could rise above 11% by March 2022 under a severe stress scenario. This combined with the expiry of the insolvency moratorium could increase the total number of insolvency applications filed with the courts. Adding to the burden on the courts may in turn increase the delays in stressed assets resolutions.

Along with the IBC, we may therefore see an uptick in demand for one-time settlement and debt offloading to asset reconstruction companies (ARCs). Distressed debt fund raising is also expected to rise.

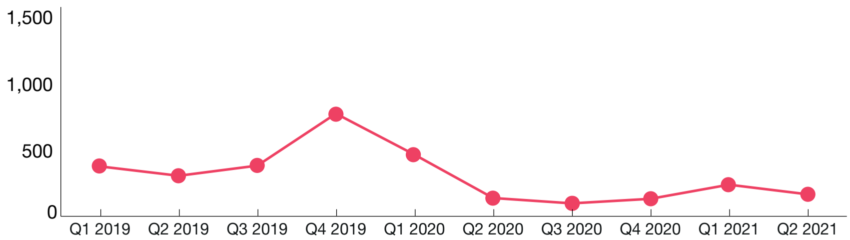
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$2,775.1

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	7.9%	2009	0.4%
GDP YoY 2020	(7.3%)	2020	0.5%
GDP YoY 2021	9.0%	2021	0.3%
		2022	0.4%

CPI		Average lending rate	
2020	6.2%	2020	9.3%
2021	5.5%	2021	9.3%
2022	4.5%	2022	9.2%

*Country data may have been provided on a different date.

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Indonesia

Businesses and the wider economy continue to be jolted by spikes in COVID-19 infection.

The impact of the pandemic persists as the government continues to impose mobility restrictions to deal with new variants and a rise in cases. The low vaccination rate heightens vulnerability and the impact on business prospects.

However, there have been some positive signs. These include a plateau in loan restructuring requests in Q1 2021.

Following the initial outbreak in 2020, businesses shifted their focus towards improving liquidity and reassessing their financing options. With lower margins due to decreasing revenues, renegotiations on existing financial arrangements and cost reduction initiatives had to be made to ensure liquidity. For many companies, new sources of financing (including government support) had to be obtained to provide a lifeline.

The pandemic has also accelerated digitisation across both existing and new businesses. During the pandemic, we observed many SMEs utilising online channels, particularly in the food and door-to-door delivery service sectors.

The current focus continues to be building resilience and financial stability to cope with the uncertain trajectory of the pandemic.

Loan restructuring incentives extended

To prevent a spike in bad loans, the government introduced a relaxation on loan quality assessment and restructuring requirements for borrowers impacted by COVID-19 (effective in March 2020) as part of the national economic recovery programme.

At the end of 2020, the Financial Services Authority anticipated a further decline in quality of debts under restructuring and extended incentives that had originally been due to end on 31 March 2021 until 31 March 2022. As COVID-19 continues to spread, the restructuring incentives were further extended to 31 March 2023.

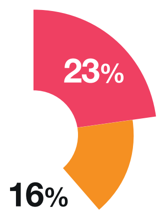
Vulnerable sectors

Sectors hardest hit by the curbs on movement and socialising include transport, hospitality and food. Prolonged restrictions are going to put further strain on mobility-dependent sectors, as well as construction (particularly public infrastructure construction, which has experienced multiple project delays).

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$1,104.4

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	4.6%	2009	(4.6%)
GDP YoY 2020	(2.1%)	2020	20.0%
GDP YoY 2021	3.9%	2021	(0.5%)
		2022	(7.6%)

CPI		Average lending rate	
2020	2.0%	2020	12.8%
2021	1.9%	2021	12.1%
2022	3.2%	2022	12.3%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Ireland

Ireland escaped the worst of the economic downturn and the rebound was given strong impetus by a highly effective vaccination programme. As government support tapers off over the next 6 months, restructuring in the worst hit sectors is likely to increase.

Ireland was the only EU economy to see a rise in GDP in 2020 and growth has climbed sharply in 2021 as the vaccination programme gathered pace. Ireland's GDP growth in 2020 was 3.4% and is forecast to be in the region of 11.4% for 2021.

As of September 2021, the current unemployment rate is 6.3% and is expected to decrease by around 1% per year in 2022 and 2023, though youth unemployment remains a concern. The covid adjusted unemployment rate is 10%, which includes those in receipt of the pandemic unemployment payment, which is Ireland's formal covid job retention scheme.Particular sectors such as hospitality and the arts suffered significant loss of employment and could take more time to recover.

Insolvency activity set to rise

There were a total of 576 corporate insolvencies registered with the Irish Companies Office in 2020, which was a 27% overall reduction on the 2019 figures of 792. Total corporate insolvencies have continued to fall by a similar amount again in 2021. In addition to the government subsidies, there has been widespread forbearance from creditors including the Revenue Commissioners, suppliers, local authorities, banks and landlords. In particular, the Revenue Commissioners have put in place a scheme to warehouse debt accumulated during the pandemic, with a repayment plan to be put in place commencing in 2023. Once the supports are eased, we anticipate that insolvency activity is likely to increase in the coming years. In addition to the removal of government support, the actions and behaviour of creditors will have a significant impact on the level of insolvencies.

Worst hit sectors

Hospitality and food services have been most impacted by the reduction in tourism, limited trading hours and pandemic restrictions. Travel restrictions and hesitancy may result in reduced trading into next year. Many of these businesses occupy city/town centre locations with higher rents and will struggle to meet creditor and debt repayments after support schemes end. We would expect to see an upturn in insolvency activity in these sectors.

Wholesale and retail trade also suffered as a result of limited trading hours, reduced capacity and a significant drop in footfall, which pushed more customers to online shopping. This was a sector that was already in decline prior to the outbreak of COVID-19, with a number of high profile retail insolvencies in recent years. The pandemic has exacerbated existing issues in the industry and as support schemes fall away the sector will struggle if they have not adapted their business models.

Construction businesses were affected by the prolonged closures of construction sites. The demand for housing means that there is high demand for construction at the moment, so most construction businesses should recover well. However, a shortage of materials and significant increases in prices may impact some businesses and place pressure on margins in the near term. While there are positive signs emerging for construction activity, many companies enter this phase with weakened balanced sheets and working capital issues.

2020 Real GDP (USD bn)

$406

Real GDP growth/(decline)	
GDP YoY 2009	(4.9%)
GDP YoY 2020	3.4%
GDP YoY 2021	11.4%

Total unemployment growth/(decline)	
2009	109.9%
2020	17.3%
2021	16.6%
2022	(11.2%)

CPI	
2020	(0.5%)
2021	2.1%
2022	1.3%

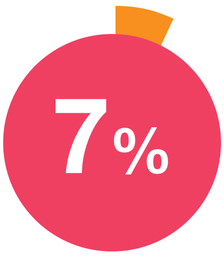
Average lending rate	
2020	No data available
2021	No data available
2022	No data available

Summary

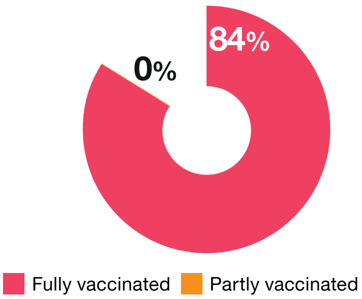
At a GDP level, Ireland's economy has proved very resilient during and emerging from the pandemic. However, there are serious concerns about the financial health of the SME's, particularly those in the worst hit sectors such as hospitality, travel, retail and construction. The Government has recently enacted legislation to create a new formal rescue mechanism specifically for SMEs, which is the Small Company Administrative Rescue Process 'SCARP'.

This is a welcome addition to Ireland's restructuring toolkit and builds on the well established and increasingly internationally regarded examinership process. We expect financial restructuring and formal corporate insolvencies to increase in the latter half of 2022 and into 2023 as businesses reopen. Given the abnormally low level of insolvencies since the start of the pandemic it is inevitable that there will be an element of catch up. Weak businesses have been artificially sustained by state support that in normal circumstances would have failed.

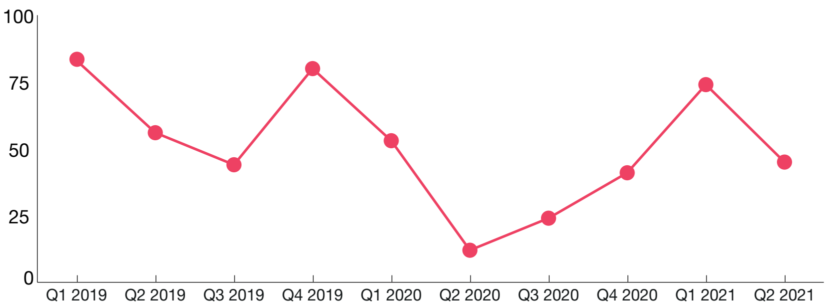
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Italy

2022 looks set to be marked by both a new wave of investment and rise in insolvency and restructuring.

Growth is strong, driven by investment, though government debt has reached all-time highs.

Insolvency and restructuring have been quite quiet in 2020-2021, due to government initiatives. These include credit guarantees, curbs on redundancies and a moratorium on loan and working capital maturities. Further steps include suspension of bankruptcy filings and payment terms for some insolvency procedures. The introduction of the new Bankruptcy Law has also been postponed until May 2022.

Gearing up for change

With liquidity concerns easing, businesses have shifted their focus from crisis management to strategic repositioning, portfolio optimisation and consolidation. We, therefore, expect an uptick in M&A deals and business combinations (on performing, stressed and distressed assets) across many sectors, with market liquidity an enabling factor.

Restructuring and insolvency cases are expected to increase in 2022 as government support recedes and the temporary measures, that have held back activity, come to an end. According to the Italian Central Bank, the average 1-year probability of default increased from 3% to 3.7% in 2020.

2022 will see the introduction of the postponed legal framework for crisis and insolvency, along with new restructuring schemes to ease negotiations with creditors for smaller businesses.

Vulnerable sectors

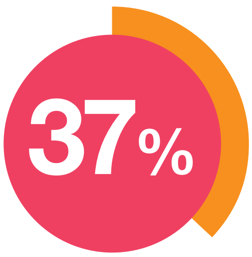
Three of the sectors most affected by Covid-19 have been bars and restaurants, non-food retailers and travel and hospitality. Restructuring activity in these sectors is therefore likely to be high.

Looking ahead, we expect that health and fashion related (leather, shoes, apparel) businesses could be involved in a new wave of restructuring and consolidation, with smaller and weaker players to be targeted by stronger ones, looking for brands, scale synergies and geographical expansion.

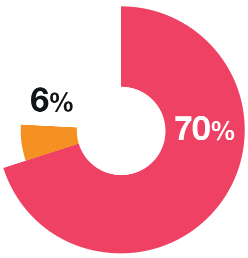
Investing in a greener future

Economic recovery and renewal are set to receive a boost from the Piano Nazionale di Ripresa e Resilienza (PNRR), a huge package of investments worth €191.5bn that will be fully deployed by 2026. The PNRR is part of the Next Generation EU (NGEU) Program, of which Italy will be among the main beneficiaries. The PNRR entails an ambitious reform plan across six pillars, or 'missions', with a focus on sustainability, digital innovation and modernising infrastructure.

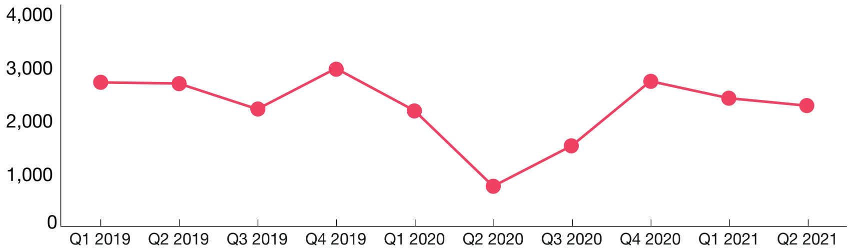
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$1,843.2

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(5.3%)	2009	14.6%
GDP YoY 2020	(8.9%)	2020	(8.3%)
GDP YoY 2021	4.6%	2021	13.0%
		2022	1.7%

CPI		Average lending rate	
2020	(0.3%)	2020	3.5%
2021	1.3%	2021	3.5%
2022	0.8%	2022	3.5%

*Country data may have been provided on a different date.

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Japan

The number of bankruptcies continues to be held in check by government relief, but this can only last so long.

Government support includes liquidity provision through COVID-19 loans from private financial institutions, along with further funding for the hospitality industry. This support looks set to continue until the general election, but with the rapid increase in the already high government debt, there is limited capacity for continued relief. In addition, once this year's financial results are announced, it's likely that an increasing number of borrowers, mainly in the business to consumer sector, will have their credit ratings downgraded to 'requires management' or 'bankruptcy concern'. As this will make it impossible for banks to extend new credit, demand for financial restructuring looks set to increase.

Moreover, the problem of excessive debt, mainly in SMEs, will become apparent in three years as support is wound down and debts become due. The government's 'Growth Strategy Action Plan' announced in June discussed new private liquidation guidelines for SMEs, and also specified the consideration of accelerated rehabilitation procedures.

Restructuring demand builds

While we've seen little major financial restructuring in the wake of the pandemic, demand is building under the surface.

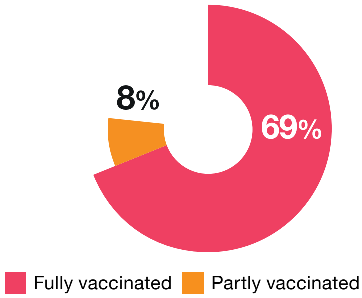
Where we have seen restructuring, this has mainly focused on the sectors most directly affected by the pandemic including retail, hospitality, restaurants and apparel. Department stores have been holding on by selling assets, but it only seems a matter of time before the crunch comes.

There is a possibility that the transport sector (air and land transportation for consumers) will become a restructuring focus, but since this is also an infrastructure sector there is a high chance of government support. On the other hand, medium-sized companies that are not supported by the government will likely go bankrupt or sell out.

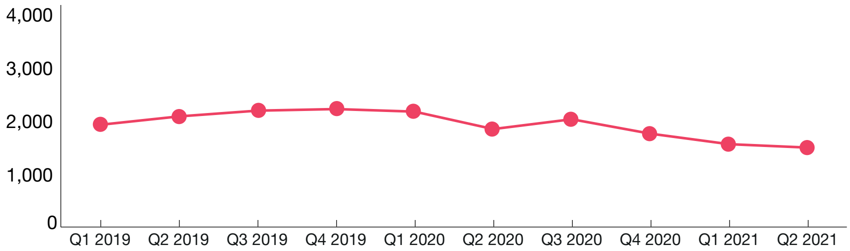
The manufacturing sector is beginning to restructure its business portfolio to comply with ESG standards. This is particularly evident in the automotive and chemical industries, and is expected to become a major trend in the future.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$5,962

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(5.7%)	2009	26.8%
GDP YoY 2020	(4.6%)	2020	17.6%
GDP YoY 2021	2.5%	2021	5.1%
		2022	(7.3%)

CPI		Average lending rate	
2020	0.0%	2020	1.4%
2021	(0.1%)	2021	1.4%
2022	0.9%	2022	1.4%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Kenya

The need to shore up cash positions is driving the bulk of restructuring. The lifting of relief measures for restructured loans could fuel further activity.

Recent months have seen a significant easing of restrictions. This has led to a gradual return to normality within the economy.

However, there has been a renewed surge in COVID-19 cases stemming from the Delta variant. Further recovery could be hampered by the low vaccination rate and difficulties in vaccine supply.

The government has been keen to borrow in the international markets to support the local currency and to avoid crowding out the private sector by borrowing domestically. Further inflationary shocks are unlikely in the near-term as most of the fiscal proposals included in the 2021/2022 budget have already taken effect.

Business priorities

The major priority for businesses is to stay afloat. Cash flow management and cost rationalisation have been at the forefront of most business agendas, while most expansionary plans have been shelved.

Restructuring focus

Most of the restructuring activity is expected to be liquidity driven as companies are looking to shore up their working capital and preserve cash flows.

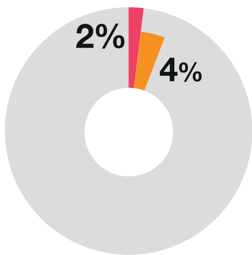
Manufacturing, hospitality and real estate have seen the bulk of the restructurings. We expect the trend to continue.

The Central Bank's lifting of the relief measures for banks in respect of restructured loans in March 2022 is likely to raise non-performing loan rates. Further deterioration in banks' assets could lead to increased restructuring and/or insolvency.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$64.9

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	3.3%	2009	3.2%
GDP YoY 2020	(0.3%)	2020	144.5%
GDP YoY 2021	4.4%	2021	(15.9%)
		2022	(10.3%)

CPI		Average lending rate	
2020	5.3%	2020	10.7%
2021	6.2%	2021	9.6%
2022	5.7%	2022	10.0%

*Country data may have been provided on a different date.

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> "Manufacturing, hospitality and real estate have seen the bulk of the restructurings. We expect the trend to continue.

Malaysia

Opportunities are opening as businesses look to strengthen balance sheets and divest non-core assets.

Full recovery may still be some way off. Cautious consumer sentiment, reduced spending and restricted mobility have significantly dampened business revenues.

A recent survey conducted by PwC Malaysia revealed that close to 60% of businesses have no confidence in the prospects for an economic recovery in 2021 and return to pre-Covid-19 revenue performance.

Pressure forces action

At the start of the pandemic, many businesses adopted a ‘wait and see’ approach, but nonetheless focused on managing their liquidity by applying for the various moratoria, subsidies and payment deferrals. Most felt that the pandemic would last between 3-6 months and they had sufficient liquidity to ‘mothball’ their business temporarily, but keep their headcount and cost structure relatively unchanged.

As time pressed, businesses most affected took more proactive measures. A number of airlines have undertaken schemes of arrangement to address their liabilities and cost structure. We have also seen private equity portfolio companies considering rescue mechanisms or mechanisms available in the insolvency toolkit to manage their exit.

The number of new bankruptcies and winding-up cases declined in 2020 compared to 2019. This trend can be explained as follows:

- Temporary legislation introduced in 2020 raised the minimum debt threshold for bankruptcy petition to RM100,000 (c.USD25,000) in 2020 from RM50,000 (c.USD12,500)
- Automatic loan moratorium under the government economic stimulus package worth more than RM320b (c.USD80b) or about 20% of GDP

Rise in winding-up

An increasing number of businesses are considering restructuring and managed exits.

In the first four months of 2021, the number of new voluntary winding-up cases stood at 503. On an annualised projection, this will be 1,509 new cases in 2021, which will be up from 863 in 2020.

Restructuring and insolvency is expected to pick-up further once the moratoria end in December 2021. Looking ahead, the government is under fiscal constraint because of previous debt relief and stimulus packages and therefore the ability to provide more stimulus to the economy may be limited. Furthermore, while the economy is opening up as vaccination progresses, the working capital and capital expenditure required to restart businesses may be too high relative to the increased revenues expected.

Moody’s expects Malaysia’s NPL level to increase once the various debt relief programmes end. It estimates that the NPL ratio would come to 3% to 4% from 1.5% to 2% in 2019.

2020 Real GDP (USD bn)

$350.8

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(1.5%)	2009	13.4%
GDP YoY 2020	(5.6%)	2020	27.9%
GDP YoY 2021	0.0%	2021	10.2%
		2022	(19.9%)

CPI		Average lending rate	
2020	(1.0%)	2020	4.9%
2021	1.3%	2021	4.3%
2022	1.9%	2022	4.3%

Opportunities open up

Aviation, hospitality and certain retail and consumer segments (e.g. cinemas, fashion retail chains) have faced the greatest impact from the pandemic and have been the primary focus of restructuring.

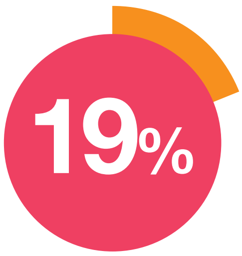
Looking ahead, we expect to see more restructuring activity within the retail and consumer (e.g. wellness centres, restaurant chains), oil and gas sector (lower oil demand and impact of ESG) and property development companies (oversupply in office and residential).

We anticipate buy-out opportunities of distressed assets, in particular companies will be seeking to acquire warehousing and transportation-related businesses.

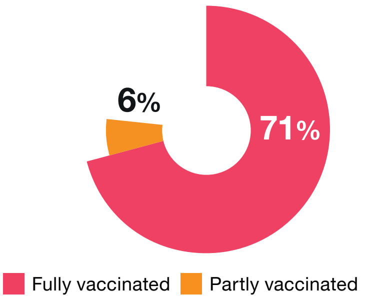
In addition, over the years many government-linked companies and public listed entities strayed into business other than their core business. The pandemic has forced many to restructure and increasingly divest non-core businesses.

We expect banks will start to offload NPLs and therefore distressed funds will also start to look into the acquisition of NPLs.

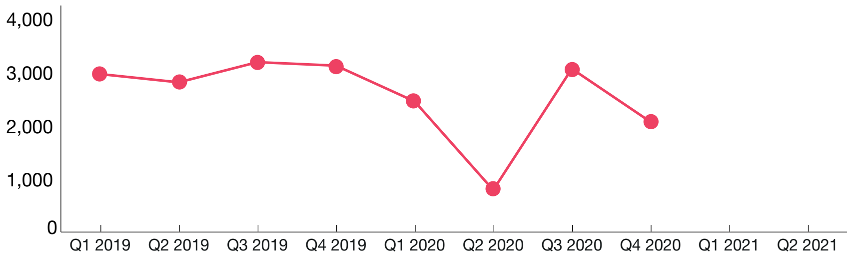
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Mauritius

Tourism has suffered during the pandemic, though is beginning to recover. While legislation has imposed a brake on insolvencies, this is only temporary.

With tourism a mainstay of the economy, Mauritius has been severely affected by curbs on travel. 2020 saw a historic peak in unemployment as well as 14.2% fall in GDP.

However, optimism is growing as borders open up and the vaccination programme progresses.

Recovery will be bolstered by an increase in public investment in projects to expand and modernise infrastructure. Sectors such as ICT and financial services, which performed well during the pandemic period, are expected to maintain their growth momentum.

Hospitality bears the brunt

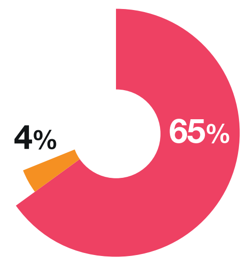
The peak in administration in the third and fourth quarter of 2020 reflects the toll that the national lockdown has taken on local businesses, despite loan deferrals and the financial support provided by the government. The hospitality sector, including entertainment, has borne the brunt of the economic shock.

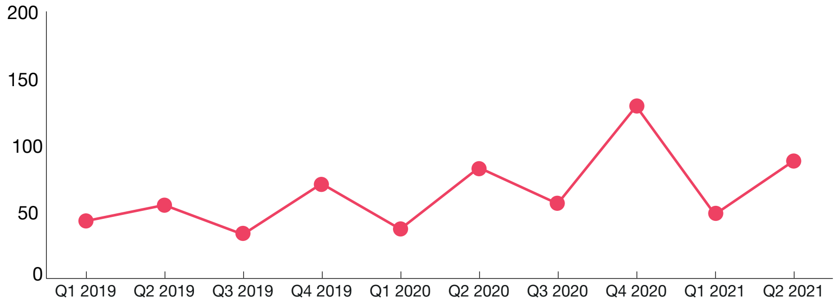
The COVID-19 (Miscellaneous Provisions) Act has helped to curtail insolvency cases. Winding-up resolutions passed by a company or by its creditors during the COVID-19 period or within a three-month period after the COVID-19 period were deemed not to have been passed (except for global companies), therefore restricting the number of voluntary winding-ups.

Insolvency procedures are expected to increase once the pandemic period is deemed to have ended as cases that were previously void will become effective.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*





2020 Real GDP (USD bn)

$10.8

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	2.6%	2009	2.7%
GDP YoY 2020	(14.2%)	2020	37.4%
GDP YoY 2021	7.5%	2021	(7.7%)
		2022	(4.8%)

CPI		Average lending rate	
2020	2.5%	2020	7.2%
2021	3.8%	2021	7.2%
2022	3.3%	2022	7.0%

*Country data may have been provided on a different date.

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> "Mauritius has been severely affected by curbs on travel. 2020 saw a historic peak in unemployment as well as 14.2% fall in GDP.

Mexico

Mexico's economy is facing push and pull, which is affecting the prospects for recovery and levels of insolvency and restructuring.

The positive economic push includes proximity to a fast-rebounding US and the bolstering effect of the United States – Canada – Mexico Agreement (USMCA). We are also seeing record high money remittances from Mexicans in the US.

The pull is relatively low levels of government expenditure on COVID-19 economic stimulus (2% of real GDP), in line with the ongoing policy of austerity. The country's ability to keep pace with recovery in other markets is further hampered by low vaccination rates and a rise in new variant cases.

Government investment is primarily focused on specific infrastructure projects and assistance programmes, which may do little to boost the economy in the short-term.

Restructuring push

The bulk of restructuring activity is usually pursued out-of-court. Therefore, most insolvency cases take place under the radar. Up to mid-August 2021, there had been 29 filings, 81% of the average processes registered in each of the last two years, at this rate, number of filings are expected to close the year higher than 2019 and 2020. However, 2020 numbers may be distorted by the closure of courts for part of the year and the covenant relief imposed by the National Banking and Securities Commission.

Restructuring activity is expected to remain relatively low in the near-term. In part, this stems from creditors' amendments and extensions to corporate debt. Proximity to the US could also continue to have a positive economic impact as long as the recovery in the northern neighbour continues.

Liquidity pressure

As the pandemic took hold, the corporate agenda was dominated by the need to sustain liquidity and draw on new sources of funds. However, many creditors closed financing channels and institutional investors took a cautious approach to funding.

This liquidity focus has continued as many businesses seek to renegotiate terms and conditions on their debt. This is running alongside operational turnaround and performance improvements. Some sectors have witnessed market consolidation, either from M&A activity or companies choosing to downsize or exit.

Many banks and private equity funds appear to have good liquidity levels, which could provide additional cash to the market. However, caution continues to hold back lending.

We might expect fresh restructuring activity in the near term as a result. The main focus is likely to be retail, entertainment, industrial and financial services. Furthermore, the three sectors driving bankruptcy filings for 2020 and 2021 are industrial, retail and financial services. The common drivers are a combination of:

- Pandemic-related closures resulting in reduction or ceasing of business activity
- Deterioration of client or loan portfolios
- Liquidity constraints in the business due to significant cash flow reduction
- Misalignment of the capital structure obligations and cash generation capacity

Recent legislation relating to power generation, hydrocarbons and curbs on outsourcing could drive further restructuring activity. Access to traditional financing and structured finance could in turn boost the market, as well as generating opportunities to invest in distressed assets in the sectors affected.

2020 Real GDP (USD bn)

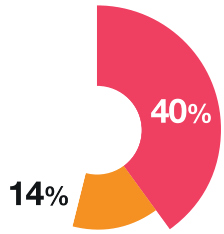
$1,199.6

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(5.3%)	2009	31.0%
GDP YoY 2020	(8.3%)	2020	28.0%
GDP YoY 2021	6.0%	2021	(12.6%)
		2022	(6.1%)

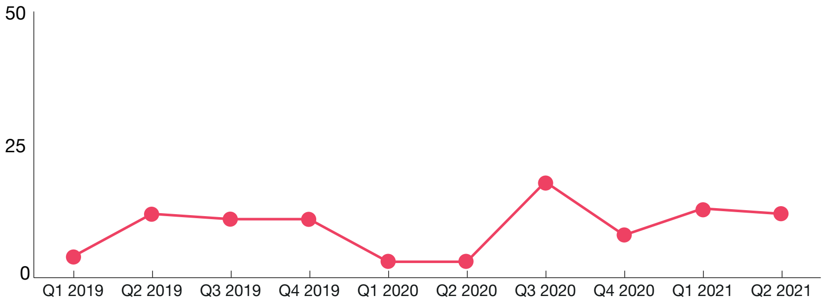
CPI		**Average lending rate**	
2020	3.4%	2020	6.5%
2021	5.5%	2021	5.5%
2022	4.8%	2022	6.1%

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Data sources are available on page 85

Middle East

Bankruptcy law reform across a number Middle East territories is providing new restructuring tools for companies to explore on their route to rehabilitation and renewal.

As a result of the pandemic and sluggish economic conditions over the last 12-18 months, we have seen a number of large scale corporate formal insolvencies in the Middle East and a number of long running restructurings in KSA utilising KSA bankruptcy proceedings. However, whilst there is limited publicly available data, anecdotally the number of restructuring cases has not increased drastically as continued government support in response to COVID-19 has provided breathing space for stressed corporates in the region.

Disciplined response

Regional companies appear to have grasped that disciplined financial and operational management are the key to survival and success in the wake of COVID-19, given the fragility and uncertainty of the regional and global economic outlook.

More than three-quarters of respondents to PwC's 2021 Middle East CEO survey said that in the wake of the pandemic, they were planning to launch initiatives to achieve cost efficiencies over the next three years. Whilst the maturity of managing working capital in the region continues to evolve, the pandemic has forced clients to consider more mature and sustainable working capital practices.

Measures such as improving inventory management processes, instilling a cash-conscious culture throughout the company, adopting a more risk based approach to cash collections and only investing in products and services that can rapidly deliver cash returns.

Action needed

We expect the number of financial restructuring cases to increase significantly during H2 2021 and early 2022 as government support packages begin to expire. While lenders have been supportive in the short-term, the appetite for subsequent or repeated deferrals will be incrementally more challenging.

Accordingly, companies that have required the breathing space afforded by government support measures must ensure they have a convincing and bankable plan of action for dealing with their debt obligations as a short window of time will determine a longer term fate.

Legislation promotes rehabilitation

The solutions will be aided by the overhaul of the formal insolvency legislation and framework across the UAE and KSA.

The legislation offers a useful framework to help facilitate required financial restructuring and a platform for otherwise good companies to successfully restructure and 'rehabilitate'. The framework is designed to enable companies that deserve to survive to stay in business. To this end, the UAE government broadened the scope of the 2016 bankruptcy law in November 2020 to provide protection to individuals and businesses facing insolvency due to "emergency situations" – a category that covers the pandemic but also extends to natural and manmade disasters, including wars.

Debtors are now exempt from immediately launching bankruptcy proceedings while they try to settle with creditors, if they can prove that such an emergency has damaged their operations or investments. It is not only the UAE's federal insolvency laws that have been improved to help companies rehabilitate rather than liquidate. Free zones in the UAE, such as the Dubai International Financial Centre (DIFC), have recently amended their insolvency laws to provide more options for companies within their jurisdictions.

For KSA, given the paucity of regulations around corporate insolvency prior to the issuance of the Bankruptcy Law in 2018, the new legislation has caused a significant shift in the regulatory landscape applicable to distressed companies. Companies facing financial difficulties, as well as their creditors, now have a number of clearly defined procedures that they can choose from depending on the circumstances of the indebted company. There has been a strong uptake in the number of restructuring and insolvency cases being approved (114 in the last 18 months)

Saudi Arabia

2020 Real GDP (USD bn)

$673.3

Real GDP growth/(decline)

GDP YoY 2009: 1.8%

GDP YoY 2020: (4.1%)

GDP YoY 2021: 2.8%

Total unemployment growth/(decline)

2009: 5.8%

2020: 17.4%

2021: (0.5%)

2022: 1.2%

CPI

2020: 3.5%

2021: 3.3%

2022: 1.1%

Average lending rate

2020: 8.0%

2021: 8.0%

2022: 8.0%

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Sectors in focus
Falling oil prices, investor uncertainty driven by geopolitical tensions, a challenging real estate sector and the global pandemic have severely affected the oil and gas, tourism, retail and hospitality sectors in the region. These sectors, along with the real estate, construction and contracting, which never fully recovered from the 2008-9 global financial crisis, will therefore see the most restructuring and insolvency activity in the region.

Decarbonisation
Although the Gulf countries will continue to be the world's primary producers of oil and natural gas for the foreseeable future, COVID-19 has accelerated the decarbonisation trend and will affect the oil and gas sector.

Global pressure will come from geopolitical allies as the Biden Administration links climate change to national security. Domestic pressure also continues to build due to constrained economic and job growth due to volatile oil markets over the past five years.

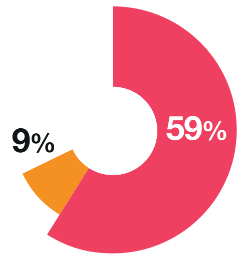
In line with these trends, the Saudi Tadawul and Qatar Stock Exchange (QSE) are racing to launch ESG indices in 2021, following Dubai Financial Market's early lead with the 2020 launch of the S&P/Hawkamah ESG UAE Index.

Saudi Arabia

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



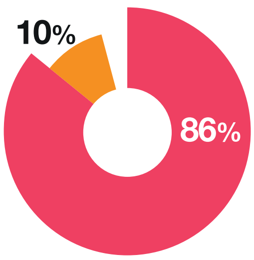
Fully vaccinated Partly vaccinated

UAE

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



Fully vaccinated Partly vaccinated

UAE

2020 Real GDP (USD bn)

$386.4

Real GDP growth/(decline)	
GDP YoY 2009	(5.2%)
GDP YoY 2020	(6.1%)
GDP YoY 2021	3.7%

Total unemployment growth/(decline)	
2009	11.5%
2020	1.1%
2021	0.7%
2022	0.7%

CPI	
2020	(2.1%)
2021	0.4%
2022	1.7%

Average lending rate	
2020	2.8%
2021	2.8%
2022	2.8%

*Country data may have been provided on a different date.

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Data sources are available on page 85

New Zealand

With asset prices high, unemployment low and debt cheap and available, insolvency rates are unlikely to rise significantly in the near term.

Insolvency was initially held in check by government measures such as wage subsidies and small business cash flow loans. More recently, many businesses have been able to trade as normal. There has also been an abundance of equity and debt capital (at low interest rates) available should additional funding be required.

Banks have actively sought to avoid enforcement action where possible (predominantly due to perceived reputational issues from enforcement in a pandemic). Typically they've opted for ongoing monitoring of stressed or distressed customers, with the intention of either funding them through to recovery or moving to a managed exit of the relationship (i.e. refinance with other lenders). This approach is also not expected to change significantly in the short-term.

Businesses in hard hit sectors such as tourism and hospitality are typically small enterprises, so while they've struggled to operate profitably since the emergence of COVID-19, many have simply cut their losses and hibernated while borders have remained shut. Larger impacted businesses have either been able to raise capital or, in the case of our National Airline, have received loans from the government.

Nonetheless, challenges remain. Managing supply chain risk (including price volatility, product shortages and freight capacity) has become a key issue across many sectors, including construction, manufacturing and retail. This will increase the focus on managing working capital. The disruption is spurring a greater focus on planning and increasing the diversity of ways to get products to market, as well as placing an increased strain on working capital management. Further challenges include the impact of closed borders on talent supply.

Pressure to repay

The Inland Revenue has recently increased its focus on recovery of tax arrears (not subject to agreed payment plans). However, its resources are limited so we expect the focus will be on the most severe situations.

In recent months, we've seen an influx of non-bank lenders, many of which are funds from Australia or further afield. These lenders are often ready to take an aggressive approach to debt recovery. Therefore, increases in insolvency activity driven by these non-bank lenders could be a possibility in the future.

However, if there is a shock to the economy such as a surge in COVID-19 infections, this could trigger an increase in insolvencies. The impact of an anticipated increase in interest rates could also place stress on thinly capitalised businesses which have been propped up by government support schemes.

2020 Real GDP (USD bn)

$192.3

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	0.3%	2009	46.3%
GDP YoY 2020	(1.1%)	2020	14.1%
GDP YoY 2021	5.3%	2021	(7.1%)
		2022	0.6%

CPI		Average lending rate	
2020	1.7%	2020	6.1%
2021	3.3%	2021	6.0%
2022	2.8%	2022	6.6%

Vulnerable sectors

The sectors that have seen the most restructuring activity are travel, tourism and hospitality, along with the primary industry segments reliant on overseas and seasonal workers (although this has been offset by strong price growth in commodities).

We expect the uncertainty associated with the ongoing border closures to continue to impact these sectors, with increased supply chain, materials/commodity price and ongoing labour shortages further impacting sectors such as construction and health care. Wage inflation is also evident with increases in minimum wages, employee benefits and competition to scarce talent.

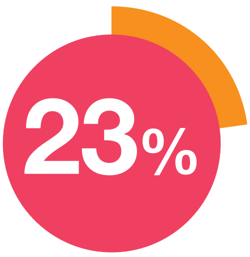
Additionally, we expect to see pressure in construction given the significant price increases of materials and delays in supply, combined with labour pressures.

ESG comes to the fore

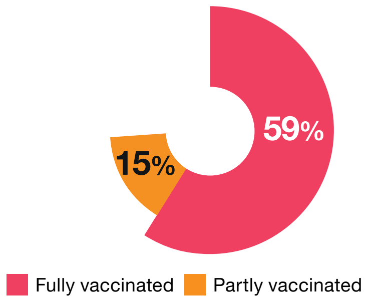
ESG is an increasingly important issue for NZ businesses. A key sign of this is that providers of capital are increasing their focus on portfolio companies/borrowers' ESG strategies. This creates a risk that those businesses that do not have a clear plan may miss out on much needed funding in the near future.

Businesses with limited financial resources face the challenge of how to target scarce funds effectively, as making operational and strategic changes to meaningfully improve ESG performance demands significant investment.

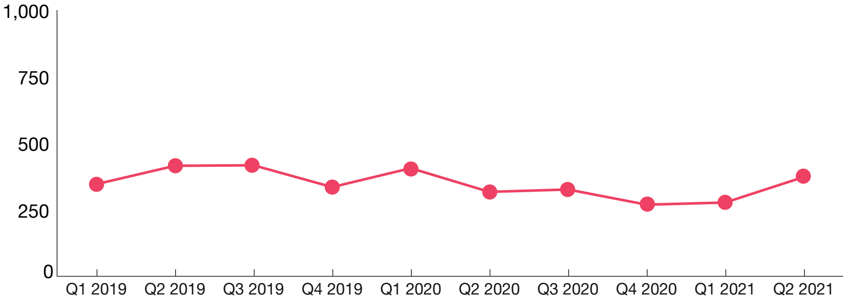
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Nigeria

While the economy is rebounding overall, oil and gas revenues are still down.

The shock of lockdown and resulting disruption to services, output and supply have caused huge problems.

Domestic economic activity ground to a halt in Q2 2020, leading to salary reductions, postponement of projects and high levels of uncertainty. The most damaging development was the near collapse in the oil market, which led to a decline in exports and government earnings. Recession, an increase in the government deficit and further currency depreciation followed.

The government has not introduced any new insolvency rules to counter the effects of the pandemic. But to cushion the impact on the most vulnerable citizens and businesses, the government launched a series of intervention programmes, including cash transfers, tax rebates and a regulatory-backed moves to restructure loans in the most affected sectors

The economy rebounded in Q2 2021, with strong growth in non-oil sectors such as ICT and financial services compensating for some of the downturn in oil. The government is actively encouraging the development of the digital economy as a way to diversify an economy that is still heavily dependent on oil.

Hardest hit sectors

The sectors most negatively affected by the pandemic based on Q2 2020 GDP data include transport, real estate/hospitality, trade and oil and gas. The OPEC cap continues to hamper recovery in oil and gas.

The impact of the pandemic on small scale retailers is captured by the negative growth in the trade sector. The decline in the transport sector reflects pressure on aviation, as well as restrictions on inter-state movements. Conversely, the ICT and the financial services sectors benefited the most from the pandemic amid increased technology adoption.

In Q2 2021, the economy witnessed a sector wide recovery save for the oil sector which contracted by 12.7% amid the OPEC output cap.

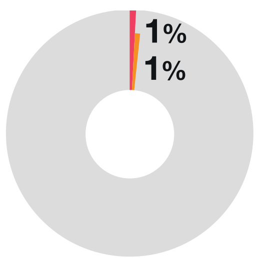
Other notable recent developments include the recent enactment of the Petroleum Industry Bill. This is expected to boost investment in the upstream oil and gas sector.

Also, while the agricultural sector has continued to enjoy various government intervention supports, the protracted clash between herders and farmers, as well as banditry may derail growth in the sector.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$477.9

Real GDP growth/(decline)

GDP YoY 2009	8.0%
GDP YoY 2020	(1.9%)
GDP YoY 2021	2.1%

Total unemployment growth/(decline)

2009	2.6%
2020	No data available
2021	No data available
2022	No data available

CPI

2020	13.2%
2021	16.7%
2022	13.8%

Average lending rate

2020	16.1%
2021	18.5%
2022	21.9%

*Country data may have been provided on a different date.

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Norway

While significant, the economic impact of the pandemic has been less than most other European markets. However, as government support ends in the coming months, we could see an autumn/winter spike in bankruptcies across sectors.

Norway's GDP suffered its biggest contraction since World War Two in 2020, but the 0.8% fall was one of the smallest in Europe.

COVID-19 related restrictions have now ceased. Unemployment rates have dropped throughout 2021, following their 2020 peak.

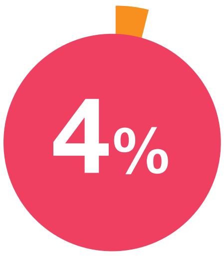
Businesses have mainly been focusing on their supply chain (capacity constraints in both shipping from and production in Asia) and strengthening their digital presence.

As government support schemes come to an end and with interest rates set to increase, businesses will focus more on working capital and cash flow management in the years to come.

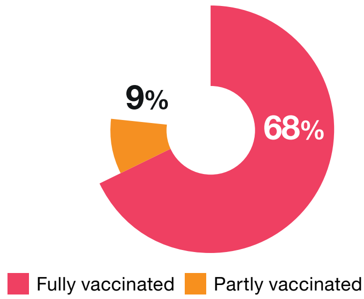
There have been limited bankruptcies and restructuring activities during the COVID-19 period due to governmental support. We expect to see more cases as the support schemes end. Most have already gone, with deferral of tax payments due to follow at the end of October 2021.

The sectors who have seen the most insolvency activities are construction, leisure and hospitality (hotel, restaurants etc). We expect the latter sectors to gradually start recovering as borders reopen and tourists return to Norway.

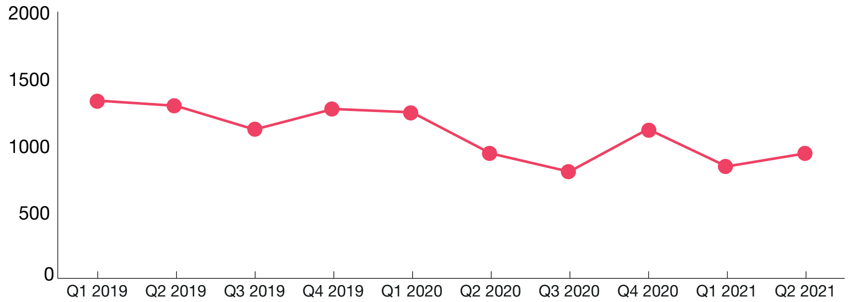
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$488.9

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(1.7%)	2009	22.4%
GDP YoY 2020	(0.8%)	2020	41.4%
GDP YoY 2021	2.5%	2021	(20.7%)
		2022	(1.9%)

CPI		**Average lending rate**	
2020	1.3%	2020	No data available
2021	2.2%	2021	No data available
2022	1.7%	2022	No data available

*Country data may have been provided on a different date.

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Data sources are available on page 85

Philippines

The economy is bouncing back, but restructuring looks set to increase as vulnerable businesses grapple with the continuing impact of the pandemic.

After more than 20 years of uninterrupted growth, the economy contracted by 9.6% in 2020, mainly due to the COVID-19 pandemic.

Both consumer and business confidence sharply declined, but have since improved. The economy is expected to recover in two to three years, with growth reaching a projected 7.3% by 2023, fuelled by domestic consumption, infrastructure spending and remittances from abroad. However, a low vaccination rate and fresh surge in cases could slow the rebound.

Government debt has also risen sharply to help aid financing and liquidity. Apart from the furlough extension, the government has also offered stimulus and income tax relief (4.4% of 2020 GDP).

In the face of financial challenges, restrictions on movement, many businesses have temporarily or permanently ceased to operate. Based on the World Bank survey, the tourism (64%), arts and entertainment (57%), and transportation (45%) sectors reported the highest level of closures (i.e. permanent and temporary closures) as of November 2020.

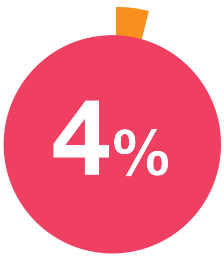
SME cash pressure

Among the most vulnerable have been micro and small enterprises, many of whom have a less than one-month cash runway. Banks were more conservative in lending and also increased their provisions for credit losses. Large businesses tend to have longer cash runways, some exceeding 12 months. Those who were quick to pivot and implement digital solutions fared better. Traditional retailers had to move quickly to develop and extend online channels.

Restructuring plans

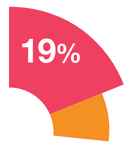
Based on PwC's 2021 mid-year CEO survey, the tourism, leisure, and traditional retail and food service industries continue to face challenges brought on by the pandemic. Blue-chip entities in the logistics, food and beverage and transportation sectors have also cited restructuring plans in order to cope with the prolonged impacts of the pandemic.

Government support as a % of 2020 Real GDP



No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$312.8

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	1.5%	2009	4.2%
GDP YoY 2020	(9.6%)	2020	192.3%
GDP YoY 2021	4.2%	2021	(22.7%)
		2022	(26.1%)

CPI		Average lending rate	
2020	2.6%	2020	3.5%
2021	4.5%	2021	3.5%
2022	3.7%	2022	3.5%

*Country data may have been provided on a different date.

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Portugal

The end of credit deferral looks set to drive restructuring among companies troubled by loss of revenue and the overhang of pre-pandemic debts.

While the economy contracted in 2020, government support has prevented insolvency rates from reaching the levels seen during previous crises.

There was a rise in insolvencies in Q1 2021. But levels began to fall back again as business and consumer confidence started returning to previous levels and the number of fully vaccinated people increased.

While the initial focus of businesses was accessing government support to reduce costs and ensure enough liquidity to pass through the crisis, companies are now looking to position themselves in a post-pandemic world, either in terms of business strategy or (re)financing. Additionally, new funds from the implementation of the Recovery and Resilience Plan will play a key role in driving economic recovery and companies are now working out how to access this support.

With most of the credit moratoria coming to an end, we expect to see an increase in restructuring activity, especially in those sectors and companies already facing financial constraints in the pre-pandemic period and those whose recovery is expected to be slower (e.g. hospitality and tourism related sectors).

While the moratoria have shielded vulnerable companies, they have also added to their debt levels.

Further support geared to financial health

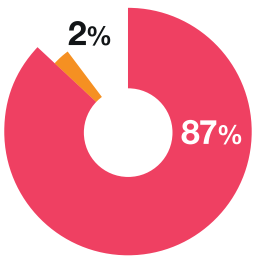
Additionally, banks are expected to assess clients' ability to pay and adapt the repayment profile of the loans for those able to do so. The state guarantee of 25% of restructured corporate debt (up to €10 million per debtor) for companies assessed as 'healthy' creates additional room for restructuring activity. The government is also making €1.3 billion available to help recapitalise SMEs affected by the crisis once the moratoria ends.

Sectors under pressure

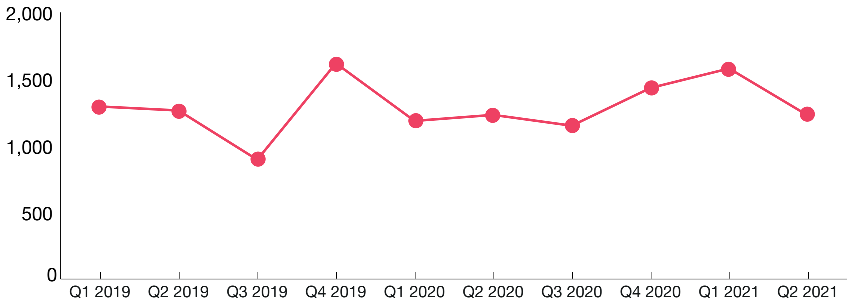
Sectors experiencing the highest insolvency activity have been hospitality and catering, automotive, retail and trade, manufacturing and construction. The latter two are further impacted by a combination of high levels of leverage from the past and more recent export restrictions and delays in delivering projects. We expect these to remain the key drivers of restructuring activity in the next months as moratoria end and banks restructure payment profiles of individual businesses under moratoria.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$234.6

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	(3.0%)	2009	23.8%
GDP YoY 2020	(7.6%)	2020	5.6%
GDP YoY 2021	4.9%	2021	(1.9%)
		2022	3.8%

CPI		**Average lending rate**	
2020	(0.1%)	2020	2.9%
2021	0.6%	2021	3.4%
2022	1.1%	2022	3.4%

*Country data may have been provided on a different date.

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Romania

While the economy is rebounding, the pandemic has exposed underlying weaknesses and the rise in insolvencies is likely to continue.

The economy is projected to grow by around 6% in 2021. This makes Romania one of the few EU economies expected to reach pre-pandemic growth levels this year.

Government relief measures have included wage support, tax holidays and loan moratoria, with a particular focus on SMEs.

However, the future brings a high level of uncertainty and challenge. The pandemic has exposed the vulnerability of Romania's institutions to adverse shocks, exacerbated existing fiscal pressures, and widened gaps in healthcare, education, employment, and social protection.

The immediate negative impact of the pandemic is the increase in the unemployment rate, though this is slowing. Nearly 20% of businesses in Romania were forced to either reduce or cease operations during the COVID-19 pandemic.

Business challenges

Lockdown has impacted consumption. This in turn has affected the export of goods (especially manufactured goods and machinery). It also decreased investment and put additional pressure on the country's reserves and need for external funding.

Restructuring increases

In H1 2021 new insolvency proceedings were above the level recorded in the same period in 2020. The number of insolvencies is now close to pre-pandemic levels and it is estimated to increase compared to the previous year.

In the first phases of the pandemic, businesses mainly focused on preserving liquidity by drawing on government support schemes, reducing costs and stabilising supply chains. Presently, companies also need to focus on dealing with the debts accumulated during the lockdown, financial restructuring, consolidation or divestment of non-core assets. Therefore, insolvency activity looks set to continue its upward trend.

Pressured sectors

Industries like manufacturing, retail, tourism and hospitality were most affected by the impact of COVID-19.

The pandemic has had an especially negative impact on the apparel and footwear sector, mainly as a result of delays in the supply of raw materials. Even after 18 months of the pandemic, the factories are struggling to deal with the uncertain status of orders and lack of raw materials. Mass layoffs and factory bankruptcies are not communicated as a specific issue publicly, but experts report that many small factories may be at risk of folding.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*

2020 Real GDP (USD bn)

$225

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(5.5%)	2009	13.7%
GDP YoY 2020	(3.9%)	2020	26.6%
GDP YoY 2021	6.0%	2021	8.7%
		2022	(2.7%)

CPI		Average lending rate	
2020	2.7%	2020	3.5%
2021	4.2%	2021	3.5%
2022	3.6%	2022	3.5%

*Country data may have been provided on a different date.

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Russia

Already high levels of insolvency could grow still further following the end of the credit moratorium.

Insolvencies in H1 2021 decreased by 15.8% compared to the same period in 2020 to reach 4,788. However, monitoring procedures have increased during the period, so we expect to see a rise in insolvencies in H2 2021.

Despite high levels of government and central bank stimulus, employment rates still lagged pre-pandemic levels by the end of 2020, but have picked up since. Businesses have been focused on sustaining liquidity and optimising working capital as they strive to ride out the crisis.

Following the termination of the six-month moratorium on bankruptcy at the beginning of 2021, the number of insolvencies for legal entities increased, as well as applications for debt restructuring.

Government and banks have helped to support companies and sectors in distress during the crisis. This mitigated the worst effect of the downturn but also created new challenges, as businesses will need to refinance their debt in the coming years. We therefore expect that the growth of insolvencies in H2 2021 and H2 2022 will continue.

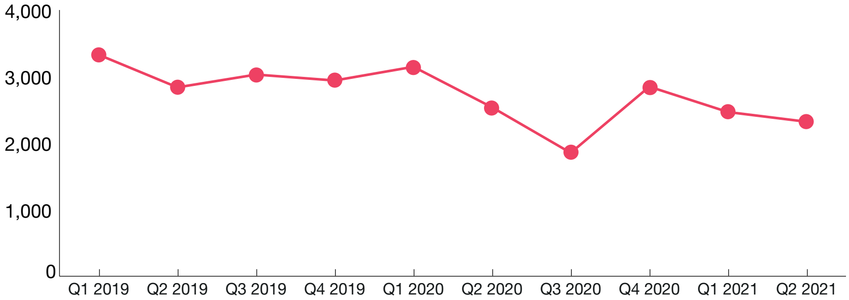
While some assistance may eventually be withdrawn, the government and the CBRF will continue to offer relief for the most affected citizens, businesses and sectors. This includes measures to support SMEs and easing of regulatory burdens on lenders so they can provide more finance for the economy.

Inflation poses further challenges. Food inflation has been fuelled by currency depreciation and an increase in world food prices, along with a poor harvest for some agricultural crops.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*

No. of insolvencies



2020 Real GDP (USD bn)

$1,679.4

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
(7.8%)	(3.0%)	3.4%

Total unemployment growth/(decline)

2009	2020	2021	2022
33.8%	44.4%	(8.4%)	(15.8%)

CPI

2020	2021	2022
(3.9%)	6.0%	4.8%

Average lending rate

2020	2021	2022
8.0%	8.0%	7.8%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Serbia

As bankruptcy curbs end and working capital demands increase, more restructuring is on the horizon.

Pandemic restrictions and disruption have driven down economic output and consumption. This in turn has affected the export of goods (especially manufactured goods and machinery). It has also decreased investment and put additional pressure on the country's reserves and need for external funding.

Support and self-help

Government intervention has included providing liquidity to the economy, in particular SMEs, revenue support to individuals and ensuring fiscal stability. Despite the government financial support, the focus within business has continued to be 'self-help' by preserving and strengthening liquidity in the face of the uncertainty over the trajectory of the pandemic.

Government support has helped to ease the negative financial effects of the pandemic. While the economy is now beginning to recover, a number of risks and challenges remain. These include imbalances in global production and logistics flows, low predictability of commodity and material prices, inflation and geopolitical risks. There is also uncertainty about how a potential next wave of infections could affect the recovery. If severe, it could be a real test of companies' resilience.

Moratorium protection ends

Several support measures have been adopted by the government. These include a moratorium, which has curbed the opening of new bankruptcy proceedings. There are also two guarantee schemes for new credit lines

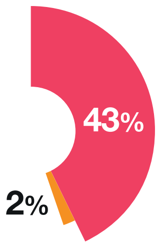
With the moratorium closing and emergency credit facilities needing to be repaid, working capital demands are ramping up. Coupled with lingering cash shortfalls, we expect restructuring activity to gradually increase over the next six to 18 months.

Business areas most affected and hence possibly in line for restructuring include service activities, tourism and hospitality, along with SMEs in general.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$49.8

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
(2.7%)	(1.0%)	6.1%

Total unemployment growth/(decline)

2009	2020	2021	2022
12.9%	(17.8%)	7.8%	(7.4%)

CPI

2020	2021	2022
1.6%	2.8%	2.3%

Average lending rate

2020	2021	2022
10.5%	10.5%	9.5%

*Country data may have been provided on a different date.

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Singapore

Government support measures are still in place. But restructuring activity could rise as the temporary relief begins to taper off.

In 2020, the government has largely propped up the country's economy through fiscal support and legislative relief. The government's sizable drawdown of its past reserves to fund support measures has enabled many businesses to remain viable until the situation improves. The government also introduced temporary enforcement relief for financially-distressed sectors affected by COVID-19, particularly the construction and property sector.

The effectiveness of these policies is evident in the fact that the number of bankruptcy cases and companies in compulsory liquidation tumbled when compared to 2019. But while support continues, it can't be extended indefinitely.

Even as the pandemic recedes, the business outlook will remain challenging for some sectors. The road to economic recovery for a resource-scarce nation, like Singapore, depends on the global economic recovery and COVID-19 situation around the region.

Planning for the future

Prior to COVID-19, Singapore had embarked on the Industry Transformation Maps to improve productivity, innovation and trade internationalisation. The pandemic has accelerated towards adoption of technologies in sectors such as food delivery, logistics, e-commerce and cloud computing.

Businesses are also becoming more aware of the importance of resilient supply chain management.

Restructuring on the horizon

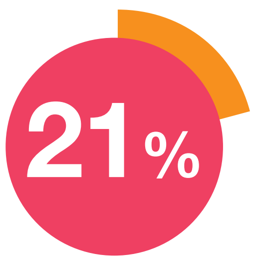
Some larger insolvency cases may arise as temporary relief measures taper off. The impact is likely to be greater on the micro and SME companies that have relied on government support. In anticipation, the government has set up the Simplified Insolvency Programme (SIP) to assist financially distressed micro and SME companies to restructure their debts to rehabilitate their business or wind-up via simpler, faster and lower cost insolvency processes. Given the challenging environment, the government has extended the application period for the SIP by 12 months, to end on 28 July 2022 instead of 28 July 2021.

Sectors on the radar

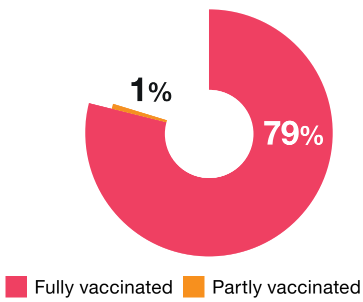
We expect the construction, aviation and tourism and hospitality sectors to drive restructuring and insolvency activity going forward. The construction sector has been particularly impacted by rising inflation in material costs, which could not be passed on to consumers after being locked in long-term construction contracts. The impact of higher prices has been exacerbated by rising labour costs caused by the limited supply of foreign construction workers as a result of travel restrictions.

It's still too early to judge how quickly the aviation and the tourism and hospitality sectors will recover. The return to pre-pandemic travelling patterns depends on the vaccination rate and pace of recovery across countries.

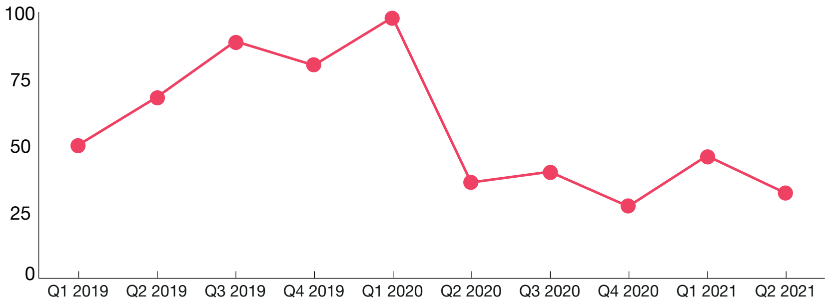
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$320

Real GDP growth/(decline)

GDP YoY 2009	0.2%
GDP YoY 2020	(4.8%)
GDP YoY 2021	6.3%

Total unemployment growth/(decline)

2009	52.6%
2020	(0.5%)
2021	(0.5%)
2022	(0.5%)

CPI

2020	(0.3%)
2021	2.0%
2022	2.3%

Average lending rate

2020	5.3%
2021	5.3%
2022	5.3%

*Country data may have been provided on a different date.

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Data sources are available on page 85

South Africa

The pandemic hit South Africa at a time when many businesses were already under substantial economic and financial strain. While there has been limited restructuring activity as a result of lender support, we expect it to grow in 2022.

The South African economy was already in recession before COVID-19 hit and shrank by 6.4% in 2020. Constraints on government finance have limited its ability to cushion the economic impact of the pandemic. Although the economy began to grow again at the beginning of 2021, unemployment hit record levels in Q2. Civil unrest in some regions followed.

Nonetheless, restructuring activity has been muted. Through the pandemic, lenders and creditors have supported businesses by providing waivers and extensions to debt service. South African corporates tend to be less highly leveraged than European counterparts and have more experience in dealing with volatility. They have therefore been agile in navigating the changing environment. Liquidations were 25% down in the first half of 2020, but increased substantially in the second half of 2020 to 24% above 2019 levels. They returned to 2019 levels in the first half of 2021.

We saw a substantial increase in provisioning by the banks in 2020, but a number of the lenders have started to unwind some of these provisions as the outlook improves. Lenders are seeking to maintain a balance between balance sheet protection with wider social and developmental obligations.

The slow vaccination roll out will weigh heavily on economic recovery. As a result, we expect to see an increase in restructuring and insolvency activity and distressed sales in 2022, as trading fluctuations and working capital pressure continue.

Investment opportunities

M&A activity in South Africa has been relatively subdued compared to more developed markets, with the jury still out on whether we will see a similar trend here. We are also seeing an increased focus from financial markets on ESG, particularly on environmental considerations as debate around the energy transition gathers momentum. The transition could potentially open up attractive investment opportunities, but also increase the cost of capital for those on the wrong side of the environmental push.

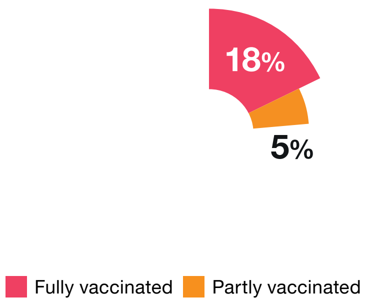
Sectors under strain

The pandemic has added to the strains on property, business services, manufacturing, hospitality and tourism sectors. The latter has been especially hard hit as a result of many countries tightening restrictions on travel to South Africa, although these have recently been loosened by many countries. At the same time, certain sectors have performed well, such as those linked to rising commodity prices, technology and some areas of agriculture.

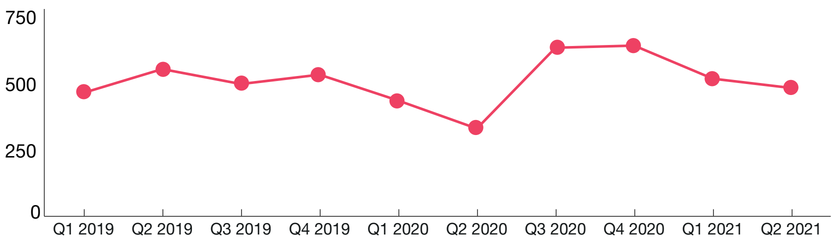
We expect the demand for restructuring and insolvency advice to increase in the future as a result of prevailing business conditions, increasing financial pressure and the potential for further civil unrest.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$442.1

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(1.5%)	2009	2.7%
GDP YoY 2020	(6.4%)	2020	4.6%
GDP YoY 2021	4.0%	2021	3.2%
		2022	1.0%

CPI		Average lending rate	
2020	3.3%	2020	8.5%
2021	4.4%	2021	7.1%
2022	4.2%	2022	7.9%

*Country data may have been provided on a different date.

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> We are also seeing an increased focus from financial markets on ESG, particularly on environmental considerations as debate around the energy transition gathers momentum.

South Korea

Government support could begin to wind down after the March 2022 presidential election, paving the way for a renewed wave of restructuring.

In response to the COVID-19 pandemic, the government and financial institutions have been providing support such as the extension of payment schedules and reduction of interest rates.

Government financial support for companies via commercial banks is expected to continue until the upcoming presidential election. However it is unclear whether the measures will continue beyond then.

Business priorities

Four priorities stand out as businesses seek to come through the pandemic and build for the future:

1. Stabilising liquidity through mid – to long-term capital raising, credit funds, tax strategies and working capital management, along with change of capital structure from short-term to mid – to long term. Leading private equity funds are alert to this, setting up more credit funds to capitalise on the opportunity
2. Develop and implement digitisation strategy in pandemic-impacted business environment
3. Secure and redesign of the global supply chain, for example by changing factory location, securing procurement (shipping, warehouse etc)
4. Developing and implementing an appropriate ESG

Restructuring focus

In the wake of the pandemic, restructuring activities have been primarily focused on large corporations and the most impacted industries including airlines. A number of, state owned banks, conducted a bailout programme to provide liquidity to companies badly affected by the financial impact of the pandemic.

Meanwhile, for SMEs, financial institutions are providing financial support in line with government policy. For now, this makes restructuring of companies in distressed situations slow, as the decreasing number of bankruptcy and insolvency shows.

However, restructuring and insolvency are likely to pick up pace if support measures are scaled back following the presidential election. Major restructuring activities would include a number of leading business groups. They are already selling off their non-core businesses, which presents deal opportunities for buyout and credit funds. Moves to secure supply chains, and move forward with digitisation and ESG are also on the rise.

Sectors in the frame

Three sectors with the most restructuring/insolvency activities so far:

- Although the economic recovery continues across all industries with the vaccine roll-out and the upturn in the global economy, travel-related industries continue to be in a difficult situation. As restructuring of major airlines has been completed, restructuring could now focus on low-cost airlines
- Pressure on revenues, and the rapid transition to eco-friendly electric vehicles are expected to severely impact the auto parts ecosystem
- Lockdown disrupted consumer sectors such as apparel, whereas home delivery and healthy food sales are booming due to increased time indoors

Top three focus areas ahead:

- Private equity funds are under pressure to re-examine their portfolios and search for deal opportunities for currently low-valued companies
- Growth of delivery business and e commerce-based retail will put increased pressure on physical stores
- Structural transformation in the oil refining, petrochemical, and steel industries are expected due to ESG and the impact on energy and utility industries to achieve carbon neutrality

2020 Real GDP (USD bn)

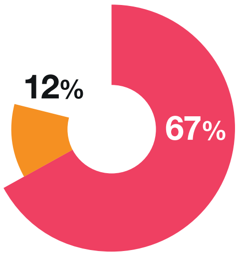
$1,467.5

Real GDP growth/(decline)		**Total unemployment growth/(decline)**	
GDP YoY 2009	0.8%	2009	15.6%
GDP YoY 2020	(1.0%)	2020	5.2%
GDP YoY 2021	3.8%	2021	10.1%
		2022	(14.4%)

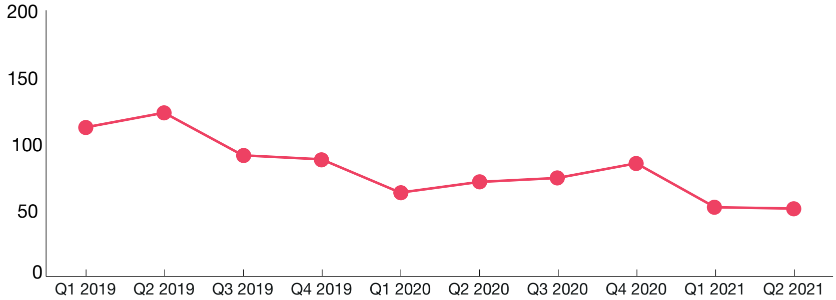
CPI		**Average lending rate**	
2020	0.5%	2020	2.6%
2021	2.2%	2021	2.3%
2022	1.7%	2022	2.7%

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Data sources are available on page 85

Spain

With the moratorium on bankruptcy due to end at the close of 2021, 2022 could see a tsunami of insolvencies.

The economy contracted by more than 10% in 2020 and unemployment rose by 9.7%, mainly driven by the impact of the pandemic on tourism, hospitality, transport and automotive. But with one of the highest double vaccination rates in the world, rising consumer confidence and key sectors such as tourism starting to recover, the outlook is now more positive.

Businesses have been focused on ensuring enough liquidity through cost saving and securing new financing provided with government support. Now, after almost two years of pandemic, they are thinking of how to position themselves in a post-pandemic environment, adapt to changes in their business models and supply chains. Moreover, EU Next Gen Funds will play a key role in the Spanish economic recovery and companies are now focused on positioning themselves to capitalise.

Insolvency moves from trickle to flood

Insolvency proceedings are increasing despite the extension of the bankruptcy moratorium until the end of 2021. This increase is mainly driven by individuals and SMEs, as very few big companies are filing for voluntary insolvency as a result of the moratorium.

As the moratorium ends, the rise could gather pace before becoming a flood from Q2 2022.

Grey area

Others will seek to solve their problems via the new 'restructuring processes'. However, these are drawing criticism from the current insolvency practitioners, as their new potential role as restructuring receivers is not clear and the restructuring possibilities are diminished due to the protection of the public creditors.

Whatever option is followed, most companies will need to refinance state-aided loans. Possible options include alternative funds or a distressed M&A.

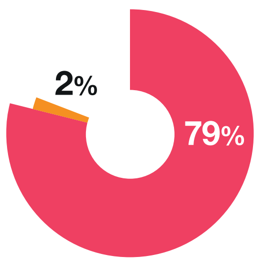
Sector focus

The sectors where we expect most restructuring and insolvency activity from Q2 2022 onwards are retail (except food and beverage) and those related to tourism such as hotels, hospitality or transport.

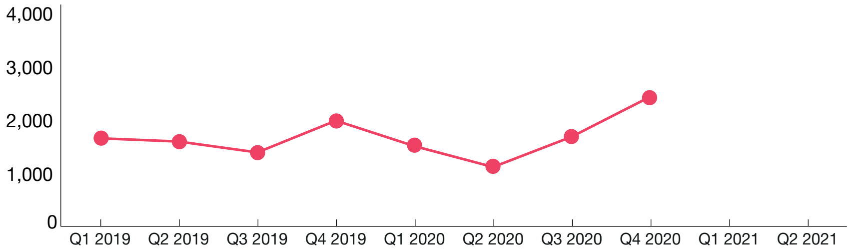
We also expect more M&A transactions as businesses seek to strengthen capital structures and drive forward sector consolidation.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$1,401

Real GDP growth/(decline)

GDP YoY 2009	(3.8%)
GDP YoY 2020	(10.8%)
GDP YoY 2021	6.9%

Total unemployment growth/(decline)

2009	60.2%
2020	9.7%
2021	(6.1%)
2022	(1.6%)

CPI

2020	(0.3%)
2021	1.8%
2022	1.2%

Average lending rate

2020	No data available
2021	No data available
2022	No data available

*Country data may have been provided on a different date.

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Taiwan

Many businesses have had to fall back on their own resources to steer through the pandemic. While unemployment is coming down, Taiwan's reliance on exports makes it vulnerable to any renewed downturn in the global economy.

While unemployment rose in 2020, four rounds of government relief mean that it has fallen in 2021 and will decrease to previous normal levels in following years. The support includes subsidies for SMEs, individual loans and tax benefits.

Since the outbreak of Covid-19, the primary focus for business has been managing working capital, debt ratio levels, and other liquidity-related issues. Companies have also been closely monitoring business flows to make sure they can come through the pandemic.

Self-help

Compared to many other countries, Taiwan has a relatively low vaccination rate. Government support also lags behind many comparable economies. Although businesses can receive several types of subsidies and loan, they have largely been relying on their own resources and capabilities to get through the pandemic.

Reliant on global markets

For an export-led economy, the fortunes of the wider global economy are critical. If the global recovery slows, we expect restructuring and insolvency activity will grow in following years. As the pandemic continues to affect the world, it's not just travel and hospitality that could suffer, but other sectors as well in a vicious circle of knock-on issues.

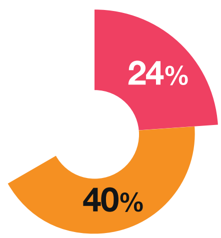
Restructuring ahead

There are no official statistics for restructuring and insolvency activity in Taiwan. But in our observation, travel, tourism, hospitality and airline businesses have been the most seriously hurt by Covid-19. A rise in restructuring and insolvency may well follow.

For now, restructuring and insolvency will continue to be tempered by government relief. There is no deadline for ending this. The government announced that it will adjust its policies on a rolling basis, depending on the situation.

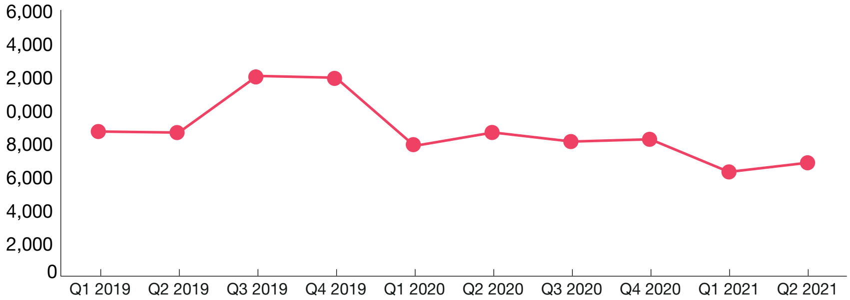
Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



Fully vaccinated Partly vaccinated

No. of insolvencies



2020 Real GDP (USD bn)

$590

Real GDP growth/(decline)	
GDP YoY 2009	(1.6%)
GDP YoY 2020	3.1%
GDP YoY 2021	5.3%

Total unemployment growth/(decline)	
2009	42.0%
2020	14.4%
2021	(7.6%)
2022	(5.9%)

CPI	
2020	(0.2%)
2021	1.8%
2022	1.1%

Average lending rate	
2020	4.5%
2021	4.5%
2022	4.5%

*Country data may have been provided on a different date.

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Data sources are available on page 85

Thailand

With no signs of an imminent recovery in the domestic economy, many businesses are struggling.

The business environment remains difficult. The economic impact of high household debt and the slow recovery of the critical tourism sector have been compounded by a series of severe floods and droughts.

In July 2021, the consumer confidence index hit its lowest level due to the lockdown starting in late June 2021 in major cities, including Bangkok, as a result of Delta variant spread. The business confidence index also dropped to its lowest level since July 2020, reflecting concerns over the severe infections and delays in vaccination in the country. Unemployment continues to rise.

While the situation is likely to remain challenging, the government plans to open the country to stimulate business and investments in the coming months.

Exports recovering

While a renewed wave of infections and slow pace of vaccination will continue to pose downside risk to the domestic economy, a number of export sectors are turning the corner. Agricultural and food products and auto parts are expected to slowly recover following the improvement in global demand. The key challenge to exports is supply chain management in the face of disruption and higher prices.

Surviving the downturn

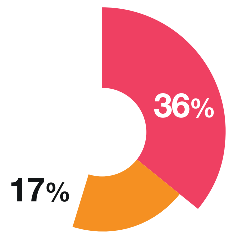
Businesses have been primarily focused on liquidity and crisis management. Local airlines announced they had serious liquidity issues as there have been limited flights allowed during the lockdown.

Focus of potential restructuring

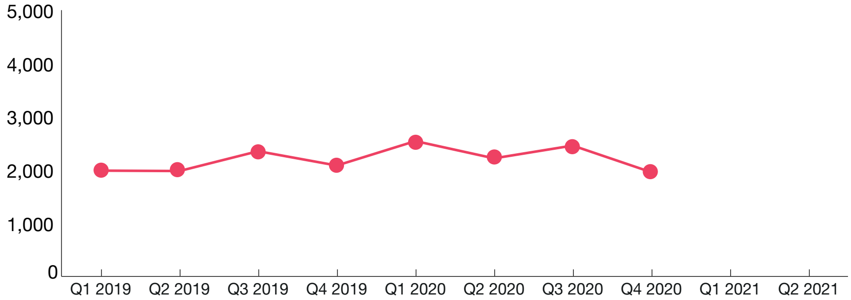
A number of business areas are facing exceptional difficulties and are moving onto the potential restructuring radar. These include the sectors that have contributed to the largest percentage of new non-performing loans. These are wholesale and retail trade, manufacturing, public utilities and transport, and services (especially hotels given the economy's reliance on the tourism industry).

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$425.4

Real GDP growth/(decline)

GDP YoY 2009: (0.7%)

GDP YoY 2020: (6.1%)

GDP YoY 2021: 0.9%

Total unemployment growth/(decline)

2009: 9.6%

2020: 149.8%

2021: (28.2%)

2022: (39.1%)

CPI

2020: (0.8%)

2021: 0.6%

2022: 0.7%

Average lending rate

2020: 7.8%

2021: 7.4%

2022: 7.5%

*Country data may have been provided on a different date.

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"Agricultural and food products and auto parts are expected to slowly recover following the improvement in global demand.

The Netherlands

Restructuring set to pick up and move back to pre-pandemic levels. Insolvency may also rise, though not to previous levels thanks to options opened up by the new Dutch scheme.

The gathering strength of the economy is reflected in low unemployment and a high demand for labour.

Government support has staved off an anticipated wave of pandemic-related restructuring and insolvencies. This includes the possibility to defer taxes and other financing facilities, in combination with a lot of dry powder in the market.

Business focus shifts to future

At the start of the pandemic there was a lot of uncertainty and businesses were looking for additional cash to weather the storm.

Now the business lens is shifting to anticipating the long-term impact of Covid-19, for instance how new hybrid ways of working will affect current business models. Further priorities include how to reduce the additional debt, manage international supply chain disruption and fill the growing number of vacancies, especially among technical and healthcare workers.

Knock-on impacts

The rise in inflation may cause interest rates to increase more rapidly than expected. Considering the increased indebtedness of the government, businesses and private persons, this may trigger another wave of insolvencies later in 2022.

Restructuring returns to pre-pandemic levels

Insolvency levels are at their lowest for 30 years due to government support schemes including a temporary moratorium on pandemic-related insolvency procedures. But most of this relief has come or is coming to an end by the end of the year. We expect restructuring to be more leverage rather than liquidity-driven, and that the number of files will at least return to pre-pandemic levels.

We also expect insolvencies to increase, albeit at a lower level than before the pandemic due to the new Dutch scheme WHOA, which was introduced in January 2021. To date, the WHOA has been used primarily for smaller businesses. We know that larger companies are currently contemplating and partially preparing to use this tool in the near future. The WHOA is also expected to be a good tool to restructure excessive fiscal debt. This is relevant as government relief in the form of deferred taxes amounts to €17bn, with repayments due from October 2022.

Sectors that have seen the most activity in the past year include hospitality, retail and leisure. Looking ahead, we expect to see a rise in activity in the following sectors:

- Real estate due to lower demand for retail and office space
- Construction – the sector was already under pressure pre-COVID-19, driven by the so-called PFAS-crisis and nitrogen-crisis, during which a limited number of permits were issued by the government for new building projects
- Services
- Healthcare
- Financial services
- Advisory services & research

2020 Real GDP (USD bn)

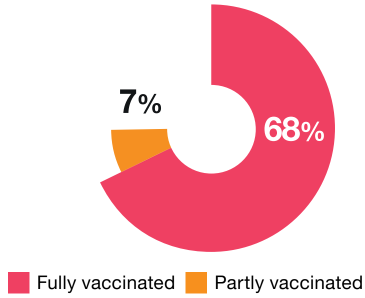
$929.2

Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(3.7%)	2009	25.7%
GDP YoY 2020	3.7%	2020	11.8%
GDP YoY 2021	3.7%	2021	(10.5%)
		2022	3.9%

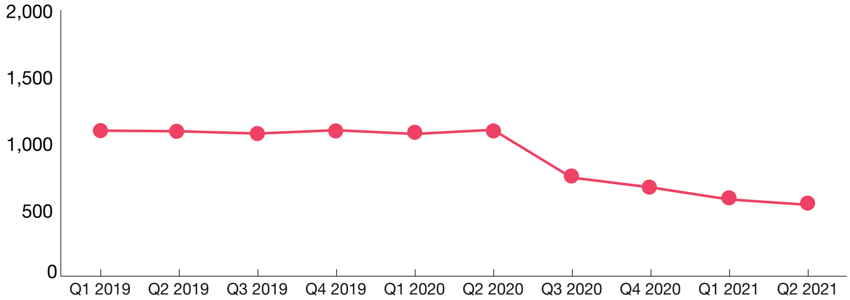
CPI		Average lending rate	
2020	1.3%	2020	3.1%
2021	1.2%	2021	3.1%
2022	1.3%	2022	3.1%

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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Turkey

COVID-19 has already led to a surge in bankruptcies and more could follow.

The pandemic has driven down business revenues and government tax receipts, especially within the hard-hit tourism sector. This has in turn exacerbated existing economic problems including the government deficit, high interest rates and depreciation of the Lira with the economy already damaged pre COVID-19 by the financial and geo-political crisis.

A fresh rise in cases could prolong these difficulties and hamper recovery. Although the vaccination rate has improved following deals with suppliers, hesitancy remains a factor.

In the face of the pandemic, the business focus has shifted to liquidity, cash preservation and working capital management. Government support schemes such as credit guarantees, short-term employment allowances and one-time payments to businesses provided limited relief for the distressed businesses. Starting from 2021, companies have started to think more about transition to a post-pandemic world.

2020 peak

Insolvency activity and specifically bankruptcies significantly increased in the second half of 2020, before slowing down in the first half of 2021. While the pressure was already being felt in H1 2020, an increase in the waiting period for the start of legal proceedings from 90 days to 180 days for banks' non-performing loans held back the rise in cases until the second half of the year.

Effective mechanisms

Given the ongoing economic problems, we expect to see restructurings continuing at a high level. The new restructuring regimes (Large Scale-Financial Restructuring Framework Agreement for loans higher than TL25 million, and the Small Scale-Financial Restructuring Framework Agreement for loans below TL25 million) are tested and acknowledged by the market. We expect to see further adaptation with regards to the implementation of such regimes. However, these mechanisms are optional for borrowers and some big ticket restructurings are still being executed bilaterally through consensual agreement with lenders.

Between October 2019 and May 2021, 372 companies applied to be included in the scope of the Large Scale-Financial Restructuring Framework Agreements. Financial Restructuring Framework Agreements were signed with 202 companies among those and TL55.6 billion worth of loans (USD c. 6.6 billion) have been restructured. In the same period, 71 companies applied to be included in the scope of the Small Scale-Financial Restructuring Framework Agreements and loans of the 28 companies (TL 323 million) have been restructured.

Sectors on watch

The most negatively affected industries are tourism, energy, real estate & construction and certain areas of retail and transport:

- **Tourism and leisure:** Visitor numbers plunged by around 70% in 2020 compared to 2019. Despite the hopes for the summer of 2021, a number of leading visitor markets tightened restrictions on travel to Turkey, driving down revenues still further.
- **Real estate and construction:** Increase in the financing costs due to high interest rates, rising commodity prices and low disposable income levels hinders the construction and real estate sector. The pandemic has also hit revenues of shopping malls and office spaces. Shifts to home working and online digital could hinder recovery in these areas.
- **Energy:** Loans used to finance energy investments are usually denominated in hard currency (USD), but the electricity is priced in local currency. Depreciation therefore poses a risk for energy assets without feed-in-tariff mechanisms.
- **Retail:** Retail sales (especially for bricks-and-mortar retail) have slid during the pandemic, which affected most companies/brands negatively.
- **Transportation:** Due to lockdown measures and travel restrictions, transport businesses have faced significant reduction in passenger numbers and revenues.

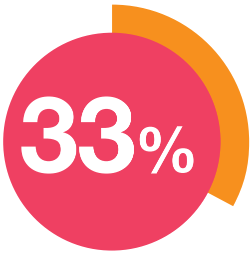
2020 Real GDP (USD bn)

$1,275.7

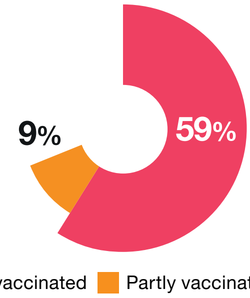
Real GDP growth/(decline)		Total unemployment growth/(decline)	
GDP YoY 2009	(4.8%)	2009	32.9%
GDP YoY 2020	1.8%	2020	(2.3%)
GDP YoY 2021	8.3%	2021	2.9%
		2022	(17.7%)

CPI		Average lending rate	
2020	12.3%	2020	19.5%
2021	17.7%	2021	22.0%
2022	14.5%	2022	20.0%

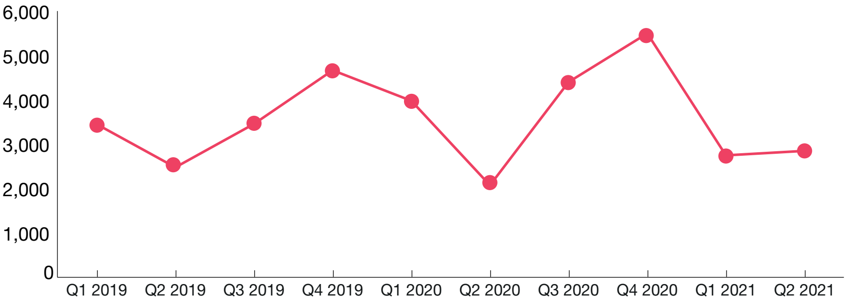
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



*Country data may have been provided on a different date.

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United Kingdom

We expect a further uptick in restructuring and insolvency through 2022 as government support is scaled back and the need to fund modernisation and growth heightens the pressure on business liquidity.

The UK's real GDP contracted by 9.9% in 2020. The loss of revenue from lockdown and disruption to production and sales weighed most heavily on retail, travel, hospitality, real estate and oil and gas. However, the impact of COVID-19 has been mitigated by £0.3 trillion of government support – 16% of GDP (as of 3 June 2021). As a result, both restructuring and insolvency activity have been subdued.

Q2 2021 saw the number of insolvencies rising by 31% from the previous quarter to reach 3,339, mainly driven by supply chain pressures in the manufacturing and construction sectors and the recent increase in wholesale gas prices which has had an adverse impact on the energy retail sector. Although insolvency activity was 10% higher in Q2 2021 than Q2 2020, this is still 27% down on Q2 2019.

Government steps back

Most government support measures (e.g. furlough, job retention) are expected to be phased out by the end of 2021. The exception is the moratorium on commercial rent arrears, which is being extended to 25 March 2022.

The successful vaccination roll-out has driven increasing consumer confidence, most notably in the accommodation and food services sectors.

The momentum for recovery is reflected in forecast GDP growth in 2021 and 2022.

The withdrawal of government support, rising commodity prices and the need to service debt accrued during the pandemic, replenish stocks and meet pent-up demand could all intensify the pressure on liquidity for businesses which have either been mothballed in the pandemic and/or are already facing strains on liquidity.

In addition rising inflation provides a threat to interest rates, with the possibility that rates may still rise later this year rather than next year, in an effort to bring inflation down to the Bank of England's 2% target.

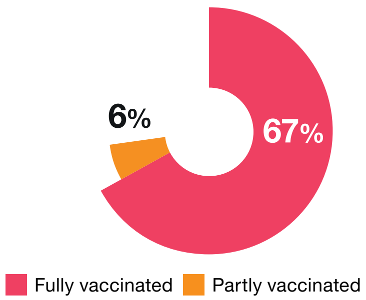
The priority for businesses will continue to be liquidity, supply chain resilience, inflation / interest rates and repayment of government-backed debt.

Legislative openings

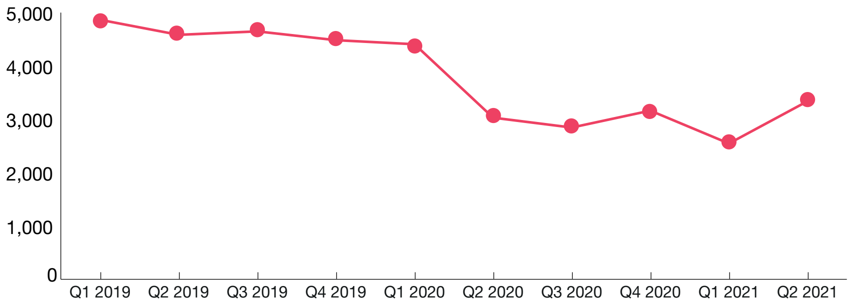
The new Restructuring Plan has grown into a well-deployed tool for restructuring practitioners since its introduction as part of the UK Corporate Insolvency and Governance Act 2020 (CIGA20) in June 2020. The CIGA20 measures aim to combat the economic impact of the pandemic. The Restructuring Plan draws much of its substance from the existing scheme of arrangement. The key difference is the ability to cram down creditors across one or more dissenting classes, as long as no creditor is worse off than they would be under the relevant alternative.

Government support as a % of 2020 Real GDP

Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$2,626.1

Real GDP growth/(decline)

GDP YoY 2009	GDP YoY 2020	GDP YoY 2021
(4.1%)	(9.9%)	6.0%

Total unemployment growth/(decline)

2009	2020	2021	2022
35.8%	15.4%	8.8%	(4.7%)

CPI

2020	2021	2022
0.9%	2.1%	1.9%

Average lending rate

2020	2021	2022
2.1%	2.1%	2.1%

*Country data may have been provided on a different date.

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United States

Following a surge in 2020, restructuring has fallen back and looks set to remain low as a result of government stimulus, plentiful capital and the gathering economic rebound.

The economy has largely reopened, due in part to the recent vaccination drive. The Business Confidence Index is at an all-time high, which can be seen in the M&A markets as businesses look to deals to drive shareholder value in an environment where access to capital is plentiful and interest rates are at historic lows.

However, complications with the COVID-19 Delta variant could negatively impact the economy depending on the magnitude and intensity of future cases and variants.

Restructuring falls back

The pandemic initially created a surge in restructuring activity as businesses rushed to assess and modify business plans, renegotiate covenants and forbearance agreements, and increase liquidity to bolster their availability in an unprecedented trading environment.

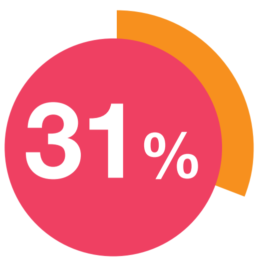
But insolvencies fell back again. They are down 40% in Q2 2021 year-on-year, driven by the continued low interest rate environment, historic levels of government support (31% GDP) and widespread access to liquidity in the capital markets.

Bouncing back

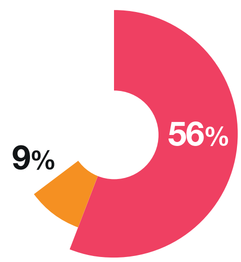
The Chapter 11 and restructuring landscape of 2021 YTD has looked very different from 2020. 2020 was a record-setting year and impacted several industries including the airlines, consumer discretionary (including retail and restaurants), energy and healthcare. In 2021 YTD, almost a third of all Chapter 11 filings have been in real estate as the delayed impact of the pandemic hit the industry from REITs to construction. Several of the most heavily impacted industries in 2020 have experienced a strong bounce-back, including the restaurant industry where monthly sales have now exceeded pre-pandemic levels as of July 2021.

Despite climbing household, government and non-financial corporate debt, restructuring activity is expected to remain low for the foreseeable future. Increasing vaccination rates continue to support economic activity, and falling unemployment, low interest rates and GDP growth are indicators that, for the time being, businesses are in the process of recovering from the impact of the pandemic. A surge of evictions following the Supreme Court's recent dismissal of the Centers for Disease Control and Prevention eviction moratorium could dampen recovery, however the impact of this recent ruling remains to be seen.

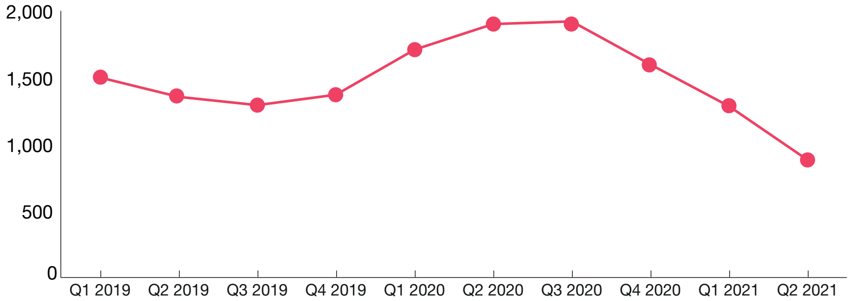
Government support as a % of 2020 Real GDP



Vaccination progress as at 20 of October*



No. of insolvencies



2020 Real GDP (USD bn)

$17,706

Real GDP growth/(decline)	
GDP YoY 2009	(2.5%)
GDP YoY 2020	(3.5%)
GDP YoY 2021	6.0%

Total unemployment growth/(decline)	
2009	59.9%
2020	108.8%
2021	(29.1%)
2022	(22.6%)

CPI	
2020	1.2%
2021	4.3%
2022	2.2%

Average lending rate	
2020	3.8%
2021	3.0%
2022	3.0%

*Country data may have been provided on a different date.

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Vietnam

The latest wave of COVID-19 infections has proved to be the worst and is forcing many businesses to focus on crisis management now and restructuring options ahead.

Having successfully contained the pandemic during its first year, cases started to surge in Q2 2021. The government has locked down most of the large cities and provinces since June 2021, which has affected many businesses and sectors.

The government has stepped up emergency support packages. But lasting recovery hinges on vaccination. The government is seeking to boost inoculation as a key part of its health and economic recovery programme, with a locally developed vaccine nearing approval.

In addition, the government is stepping up investment in infrastructure in H2 2021 to boost recovery and longer term development.

Forced to close

Many companies have faced severe disruption in the wake of the pandemic or have had to suspend operations altogether. The most impacted have been forced to the edge of bankruptcy. Nearly 80,000 businesses have withdrawn from the market, a rise of more than 25% over the same period in 2020.

Renewed focus on liquidity

Prior to COVID-19, the economy was growing fast, which was driving operational restructuring to help facilitate further expansion. However the pandemic has increased demands for cash flow liquidity and financial crisis management. Businesses that had only seen growth ahead are now becoming more aware of the importance of financial risk management, working capital and supply chain management. The pandemic has also accelerated adoption of new technologies in sectors such as food retail, food delivery, logistics, e-commerce.

Hit hard

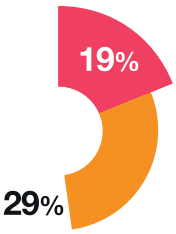
The rapid spread of COVID-19 in this fresh wave has caused significant damage to many industries, among which hospitality, aviation and construction are among the hardest hit. This may drive restructuring and insolvency activity in the future.

In turn, the hike in steel and construction material costs, as well as the delay in construction projects during lockdown, is adversely affecting the construction sector. In August 2021, many construction companies called on the Association of Construction Contractors to seek support from the government.

Government support as a % of 2020 Real GDP

No. of insolvencies – No data available

Vaccination progress as at 20 of October*



2020 Real GDP (USD bn)

$206.8

Real GDP growth/(decline)

GDP YoY 2009	5.4%
GDP YoY 2020	3.0%
GDP YoY 2021	1.0%

Total unemployment growth/(decline)

2009	59.9%
2020	108.8%
2021	(29.1%)
2022	(22.6%)

CPI

2020	3.2%
2021	2.2%
2022	3.2%

Average lending rate

2020	4.5%
2021	5.0%
2022	5.3%

*Country data may have been provided on a different date.

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> “The pandemic has also accelerated adoption of new technologies in sectors such as food retail, food delivery, logistics, e-commerce.

Appendix: Data references

2020 Real GDP (Accessed October 2021)

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Fitch Solutions, Reserve Bank of India
Fitch Solutions, Reserve bank of New Zealand
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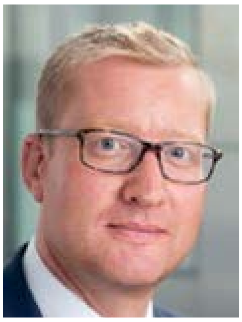

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#ActNowToRecover
#ActNowToGrow
#ValueCreation

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