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Restructuring Trends: A Global View

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Getting on the front foot will not only stabilise businesses in the short-term, but also help them gear up for longer term shifts in technology, customer expectations and international trading arrangements. Conversely, waiting until the lifeline of government support is withdrawn could significantly reduce the options available and increase business vulnerability.

The world continues to grapple with the most serious global health emergency for a generation. And with lockdown, social distancing and restrictions on the movement of goods and people has come severe economic upheaval.

As governments strive to sustain businesses and save jobs, policy measures continue to evolve in rapid and often unpredictable ways. In the first phases of the novel coronavirus (COVID-19) pandemic, businesses across the world were mainly focused on stabilising liquidity and tackling cash flow erosion. Even as economies reopen, the trajectories of both infection rates and business recovery remain uncertain. To date, both insolvency rates and pressure to restructure have generally been held in check by government intervention. Yet these lifelines are now beginning to be wound up. Few would doubt that we’re entering a make or break period, with businesses facing hard choices ahead.

In this, the third edition of PwC’s Restructuring Trends: A Global View, we explore the business challenges and public policy responses that are shaping market activity in 37 economies worldwide. The report draws on the expert local insights of our restructuring advisers and insolvency practitioners, who outline how governments and businesses have responded to the economic upheaval, how they expect the next 12 months to play out and the priorities for restructuring ahead.

What comes through strongly from our analysis as explored later in our report is that businesses can no longer rely on the cushion of government subsidies or suspension of debt obligations. Neither can they afford to wait for recovery to take its course – we just don’t know how long it will be before pre-pandemic levels of output are restored. It is therefore vital to take the initiative now – when facing adversity, decisive action counts. For recovery plans to be successful, businesses need to be clear about the challenges in their path and how to steer through them. Some of the challenges are immediately obvious. Others may be harder to foresee and potentially the most critical. This isn’t just about surviving, but also maintaining control of the business, preparing for the future and ultimately thriving in the long-term.

As we explore in Where Next, a series of papers looking at how COVID-19 is affecting different industries and how organisations can transform to meet the challenges, the pandemic is accelerating change and providing a catalyst for innovation and operational modernisation. Prominent examples range from the shift to digital retail to moves towards a more sustainable economy. As part of a deals-led recovery, the plentiful dry powder ready for investment by private equity is set to play a key role in enabling businesses to keep pace with fast-changing customer demand and seize the opportunities ahead.

In order for companies to navigate the complex challenges their organisation may face and maintain control, we believe that it’s important to focus on four critical areas: operations (e.g. cost competitiveness), liquidity and cash, financial restructuring and stakeholder management (customers, employees and suppliers, as well as financial stakeholders) and strategic mechanisms (e.g. consolidation or divestment of non-core assets). Like the wheels on a car, each needs to be in good working order and closely aligned to move the vehicle forward.

If you have any queries or would like to discuss any of the issues highlighted in more detail, please feel free to get in touch with one of our local contacts listed in the report.

Data sources are available on page 49
Government support holds back insolvency and restructuring activity, for now

As revenues dried up and cash calls became harder and harder to meet, government intervention has provided a vital lifeline for many businesses, even ones that had previously been strong and well-resourced. Support includes loan guarantees and wage subsidies for workers put on short-time or furlough (more than 40 million workers are on furlough in the 37 economies we cover in this report). Governments have also offered tax holidays and moratoria on insolvency action.

This support held down insolvency rates during the critical initial months of the crisis (Q2 2020 rates fell across many markets compared to Q2 2019). It would also appear to have eased the pressure to restructure and turn around troubled businesses, including those that were struggling before COVID-19. But governments can only afford to foot the bills for so long.

Restructuring activity is set to pick up in Q4 2020 or Q1 2021

As government support is withdrawn, we expect restructuring activity to pick up. The immediate priorities will include repairing the balance sheet and dealing with the debts accumulated during lockdown. With revenues subdued and margins tight, there will also be pressure on businesses to eliminate waste, drive down costs and refocus resources on growth.

We have also noted increasing levels of non-performing loans in territories such as Italy, Portugal, Greece and East Africa which will drive lender led restructuring activity in the coming months, as banks look to dispose of these portfolios or outsource the management of these.

Insolvency moves back onto the agenda

Insolvency activity has been curtailed through much of Q2 2020 and Q3 2020, largely as a result of government support and restrictions on legal action. There are a few exceptions to this, particularly for territories with debtor in possession processes. The USA is the most obvious one, as Chapter 11 provides the framework and protection to help with restructuring of operations, and more companies have harnessed it as a tool to get through the emergency. We have also seen a similar trend in Canada where, whilst insolvencies have been decreasing, corporate restructuring under Canada’s debtor-led restructuring statute saw a significant increase in the first half of 2020.

In general, insolvencies are expected to increase in Q4 2020 and into 2021, especially for those companies that operate in heavily COVID-19-affected industries that may take much longer to recover (e.g. leisure, travel, hospitality, tourism, accommodation, retail etc), as well as for those that have yet to adapt their operations to the new environment.

Data sources are available on page 49
**Government support**

**Level of funding as a percentage of 2019 GDP as at August 2020**

- **Canada** 14.3%
- **China** 4.6%
- **France** 5.6%
- **Germany** 12.5%
- **Hong Kong** 10.0%
- **Italy** 4.5%
- **Japan** 42.2%
- **Russia** 3.4%
- **United Kingdom** 4.0%
- **USA** 13.9%

**Percentage of the national workforce on furlough as at July 2020**

- **Canada** 15.9%
- **France** 32.6%
- **Germany** 18.7%
- **Italy** 45.2%
- **Japan** 6.2%
- **United Kingdom** 31.5%
- **USA** 0.1%

**Note:** A complete circle would represent 100%
**Note:** No furlough data available for China, Hong Kong and Russia
**Note:** Graphs present the G8 countries plus China and Hong Kong

Data sources are available on page 49
<table>
<thead>
<tr>
<th>Country</th>
<th>2020 Real GDP YoY variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>(8.4)%</td>
</tr>
<tr>
<td>China</td>
<td>1.2%</td>
</tr>
<tr>
<td>France</td>
<td>(12.5)%</td>
</tr>
<tr>
<td>Germany</td>
<td>(7.8)%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>(4.8)%</td>
</tr>
<tr>
<td>Italy</td>
<td>(12.8)%</td>
</tr>
<tr>
<td>Japan</td>
<td>(5.8)%</td>
</tr>
<tr>
<td>Russia</td>
<td>(6.6)%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(10.2)%</td>
</tr>
<tr>
<td>USA</td>
<td>(8.0)%</td>
</tr>
</tbody>
</table>

Pressure on GDP underlines the need to adapt now and future-proof the business for the shifts ahead

International Monetary Fund (IMF) projections anticipate that the contraction in GDP stemming from the COVID-19 pandemic will be more marked than the Global Financial Crisis of 2008-09 in all but a few markets. Unemployment could also be higher, rising significantly towards the end of 2020 as government support schemes are scaled back.

The trajectory and duration of economic recovery in 2021 are still uncertain, and are likely to vary by market and sector. Much hinges on both a medical solution to the virus and companies’ ability to adapt to the new environment. Further drivers of demand and growth include people’s comfort with, and ability to, travel.

The key focal points for the coming round of restructuring include repairing the balance sheet and creating the foundation of a healthy medium-to long-term recovery. Crucially, there will be opportunities to make the most of rapidly developing restructuring regimes, which provide new tools to work through the issues created by the crisis. These include new legislation implemented or pending in the UK, Netherlands, Singapore, Middle East and the Cayman Islands.

In particular, where these regimes are more debtor friendly we expect to see increased levels of activity as more corporates harness these tools to get through the crisis as is the case already in the US and Canada.

Note: Map presents the G8 countries plus China and Hong Kong

Data sources are available on page 49
The pandemic looks set to accelerate longer term shifts in the economy. This ranges from the move to digital retail to strengthening sustainability. Corporate restructuring is set to play a key role in helping businesses to boost strategic agility and future-proof their business models by simplifying their structures, clearing away non-core operations and freeing up funds for investment.

Undeployed capital in private equity and debt funds is at an all-time high, significantly above the levels available during the Global Financial Crisis, creating a launchpad for a fast acceleration in deals and market recoveries. An increasing number of companies have been able to raise new financing without significantly compromising existing debts, and thereby avoided lengthy restructuring processes.

### Private Markets Dry Powder ($bn)

<table>
<thead>
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<th>Value</th>
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<tbody>
<tr>
<td>Aug-20</td>
<td>2,670.8</td>
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<tr>
<td>Dec-19</td>
<td>2,556.5</td>
</tr>
<tr>
<td>Dec-18</td>
<td>2,331.8</td>
</tr>
<tr>
<td>Dec-17</td>
<td>1,996.8</td>
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<tr>
<td>Dec-16</td>
<td>1,609.1</td>
</tr>
<tr>
<td>Dec-15</td>
<td>1,437.1</td>
</tr>
<tr>
<td>Dec-14</td>
<td>1,313.4</td>
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<tr>
<td>Dec-13</td>
<td>1,332.4</td>
</tr>
<tr>
<td>Dec-12</td>
<td>1,061.4</td>
</tr>
<tr>
<td>Dec-11</td>
<td>1,121.4</td>
</tr>
<tr>
<td>Dec-10</td>
<td>1,113.7</td>
</tr>
<tr>
<td>Dec-09</td>
<td>1,199.2</td>
</tr>
<tr>
<td>Dec-08</td>
<td>1,188.3</td>
</tr>
<tr>
<td>Dec-07</td>
<td>1,106.9</td>
</tr>
<tr>
<td>Dec-06</td>
<td>885.2</td>
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<tr>
<td>Dec-05</td>
<td>630.8</td>
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<tr>
<td>Dec-04</td>
<td>464.2</td>
</tr>
<tr>
<td>Dec-03</td>
<td>452.6</td>
</tr>
<tr>
<td>Dec-02</td>
<td>452.6</td>
</tr>
<tr>
<td>Dec-01</td>
<td>412.5</td>
</tr>
<tr>
<td>Dec-00</td>
<td>328.9</td>
</tr>
</tbody>
</table>

For sources of the data presented in this report, please see page 49 at end of the report.
Insolvency appointments

Note: Q2 2020 figures for Germany, France and Russia not included as data was not available

Note: Graphs present the G8 countries plus China and Hong Kong
The crunch is coming for troubled companies. Even those in reasonably good health now face fundamental changes ahead. As a creditor, sponsor or other stakeholder with a financial interest in a company, how much longer can you therefore afford to wait and see?

The key message coming through from our Where Next industry perspectives is the extent to which COVID-19 has not only created severe strains for many businesses in the short-term, but also accelerated shifts in what customers expect and how businesses compete. Drivers of disruption and change stretch from the onward march of digitisation to demands for greater sustainability and social inclusion.

For the management and shareholders in the driving seat, the shifts underline the need for plans that don’t just assume that everything will get back to where they were before the pandemic, but actively prepare for the new environment. **Wait too long and it may be too late.**

Yet what does this all mean for you as one of the stakeholders that aren’t in the driving seat, but still have a significant interest in the health and prospects of the business? Rightly, you have offered space and support as businesses have sought to stabilise and stay afloat. But with furlough and other government lifelines being withdrawn, the need to determine whether the business is viable now and equipped for the changes ahead is becoming ever more pressing. You might argue that the trajectory of recovery is too uncertain to know whether the business has a future and what steps are needed to optimise its prospects. But if you do nothing, you might find that the only option is the last resort of insolvency and a consequential loss of value. Acting decisively now could not only avert this, but also ensure that the business is in the best shape to survive and thrive.

**What then can you do now?**

We believe that there are three key priorities:

1. **Determine what shape the business is in**

   The ‘health check’ should look at both the immediate state of the business and its longer term prospects. What are the immediate threats? How is the company’s competitive environment changing and how fit is it to keep pace? What are the opportunities and how can the business capitalise? Is management on the right track?

   Even with the current uncertainty, there is a great deal that can be determined by getting down to the detail in areas such as customer demands, competition, supply chains and access to investment. This not only requires restructuring expertise, but also insights into sector trends and how to respond, both locally and globally.

2. **Clear the path to recovery**

   What is the path to recovery? What are management teams doing to help accelerate progress? Do they have the capability to deliver the operational changes or transactions required? Depending on the state of the business and its prospects, potential support ranges from helping to shore up liquidity to divestitures, debt restructuring and facilitating access to fresh capital.

3. **Work through divergent interests**

   Key questions include both when to step in and how. Sponsors may have different priorities from creditors. Management may be wary or resistant to intervention. Different creditor groups may have different rights and leverage. Yet, by establishing a close relationship when the business is still viable rather than facing insolvency, parties have the opportunity to work effectively together to secure a better deal.
Australia is facing its first recession in nearly 30 years as a result of COVID-19. However, insolvency activity has remained at historic lows. This reflects unprecedented levels of support for business from both the public and private sectors.

A combination of economic stimulus, the temporary suspension of company directors’ obligations to avoid trading whilst insolvent, a moratorium on winding-up petitions and a strategic withdrawal from enforcement action by tax authorities has allowed many otherwise ‘challenged businesses’ to avoid insolvency.

Restructuring activity has also remained subdued. Many listed companies affected by the pandemic moved quickly to raise fresh equity in March and April. Lenders have also provided significant accommodation to distressed companies in the form of covenant waivers and principle and interest deferrals. We expect restructuring and insolvency activity to pick-up in 2021 as the bulk of government support is scaled back. Clearly some sectors are likely to face ongoing challenges, especially those where demand is driven by people coming from abroad such as the travel and tourism, tertiary education, as well as accommodation and hospitality.

Restructuring will focus on stabilising balance sheets, while accelerating digital transformation and reallocation of resources to fast recovery and growth areas.

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Insolvency appointments

Note: Q2 2020 excludes June insolvency data
In 2020, Austria's GDP is expected to decline more sharply than during the Global Financial Crisis. While the current recession looks set to be short-lived, GDP is unlikely to return to its pre-pandemic level by the end of 2021. Corporate insolvencies fell significantly in the first half of 2020, largely due to government subsidies (liquidity improvement actions, government-backed loans and short-time working). The fall also stems from new insolvency legislation, which eliminates the over indebtedness-test until the end of Q3 2020. The main focus for businesses has been on crisis management, securing liquidity and cost reductions.

The economic challenges have led to a rise in unemployment. A number of initiatives to limit the impact including short-time working have been introduced. We anticipate that the likelihood of an economic recovery in 2021 will reduce the overall impact on the employment market.

Despite the extension of government labour subsidies until March 2021, we expect that the level of restructuring and insolvency activity will increase in the remainder of 2020 and into the first half of 2021. It is clear that companies that were already facing financial difficulties at the beginning of 2020, along with those in fast-changing sectors such as retail, travel and tourism and manufacturing, are likely to face challenging market conditions.

This underlines the importance of restructuring businesses for long-term viability as well as near-term survival.

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Insolvency appointments
In 2020, the Belgian economy is expected to experience the largest annual decline in GDP since the Second World War. A return to 2019 GDP levels is expected to take several years.

To date, the largest element of the increase in unemployment has been among temporary and contract workers. Companies have drawn on furlough schemes in an effort to conserve liquidity. As these support measures are phased out, a significant increase in overall unemployment is expected until 2022.

It is clear that the focus is now on cost reduction initiatives, having at the outset of the pandemic been upon conserving liquidity.

The insolvency moratorium introduced during the first wave of the COVID-19 lockdown has held back insolvencies. However, we expect the number of insolvencies to increase. There have already been initial signs of this in the last few months. It is worth noting that activity is primarily focused on businesses that were already facing financial distress entering 2020, with a number of retail companies being especially impacted.

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Restructuring activity was limited in the first months of the pandemic. This is largely due to a combination of government subsidies and greater flexibility in the application of labour laws in areas such as reductions in working hours.

The rapid moves by private banks to introduce covenant waivers and grace periods of between two-six months for the payment of principal obligations contributed to the low levels of restructuring. With the end of these support measures, we expect an increase in default rates. As a result, banks have been raising their provisions for bad debt and increasing restrictions on new credit.

Estimates suggest that around 500,000 businesses had ceased to operate by June 2020, mainly small and micro-enterprises. As we move into the second phase of the economic emergency, we expect restructuring activity to increase. Companies are also keen to put forward viable business plans to support financial restructuring.

Pressure is coming from subdued consumer demand and rising unemployment. The temporary suspension of labour regulations that has helped to protect jobs and prevent corporate failures also looks set to be phased out. In turn, the government’s scope for further economic support may be curtailed by the pressure on public finances.

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**Brazil**

<table>
<thead>
<tr>
<th>2019 GDP (bn)</th>
<th>11.8%</th>
<th>N/A</th>
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</thead>
<tbody>
<tr>
<td>Funding</td>
<td>August 2020</td>
<td>Furlough</td>
</tr>
<tr>
<td>0.1%</td>
<td>GDP YoY</td>
<td>2009</td>
</tr>
<tr>
<td>(9.1)%</td>
<td>GDP YoY</td>
<td>2020</td>
</tr>
<tr>
<td>3.6%</td>
<td>GDP YoY</td>
<td>2021</td>
</tr>
<tr>
<td>9.7%</td>
<td>Unemployment</td>
<td>2009</td>
</tr>
<tr>
<td>14.7%</td>
<td>Unemployment</td>
<td>2020</td>
</tr>
<tr>
<td>13.5%</td>
<td>Unemployment</td>
<td>2021</td>
</tr>
</tbody>
</table>

**Insolvency appointments**

*Note: No data available*
Corporate insolvency dipped significantly in Q2 2020. A number of government wage subsidies, tax deferral and loan programmes have given companies time to review their position and consider their options. However, some of these programmes are expiring or are due to be modified. In the main, lenders have provided support to troubled debtors.

Corporate restructuring under Canada’s debtor-led restructuring statute saw a significant increase in the first half of 2020, with as many new cases in Q2 (38 filings) as in all of 2019. Many of these companies were already facing financial issues that were exacerbated by the impact of lockdown, notably in the retail sector. The economic impact of COVID-19 in Canada has been particularly profound in the oil and gas, manufacturing, retail trade and construction sectors. The dip in economic activity was compounded by a sharp drop in oil and gas prices.

It is clear that economic recovery will depend heavily on how quickly companies and consumers resume their normal operations, as well as whether further waves of COVID-19-related shutdowns will be ordered.

We anticipate that restructuring and insolvency activity will increase through the autumn of 2020, particularly as companies adjust to the new normal and the impact of COVID-19 is more fully realised. However, Canada has not yet seen the wave of defaults that were widely anticipated, though lenders are preparing for many new troubled debtors in the coming quarter.

The overhang of the recession and underlying structural changes in the economy will result in a slow return to pre-pandemic levels of economic activity across several industries, including retail, travel and tourism, and manufacturing.

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The economies of the Cayman and British Virgin Islands (BVI) are dominated by tourism and hospitality and financial services. Tourism and hospitality have been severely affected by COVID-19-related travel restrictions. However, financial services (mainly fund and corporate activity) has been buoyed by the stimulus packages put in place by governments worldwide.

Insolvencies have generally been subdued, though we’re now seeing a steadily increasing flow of enquiries. We anticipate a rise in fund redemptions and an increase in distressed insolvent scenarios into 2021, as national governments start to withdraw economic support.

Restructuring activity is increasing as a number of major corporate entities seek to restructure their debts and avoid insolvency.

This trend is likely to continue into 2021. Legislation is currently pending in the Cayman Islands, which will allow debtors to appoint a restructuring officer, outside of a liquidation process, whilst being afforded the benefits of a moratorium. We anticipate that this will increase restructurings substantially. In BVI, the Court has recently appointed its first ever ‘light touch’ provisional liquidator, similarly opening the door for substantially more financial restructuring processes in future.

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Data sources are available on page 49
Insolvency activity has been subdued across the Central and Eastern Europe (CEE) region due to government measures introduced in response to COVID-19. These include a moratorium that has enabled banks to adopt a collaborative approach with debtors. The exception is Romania, which has recorded an increase in the number of insolvencies.

Restructuring activity has also remained generally low across the region for the same reasons, though the Czech Republic has seen an increasing trend.

Businesses have mainly focused on preserving liquidity by drawing on the government support structures, as well as cost reduction and stabilisation of supply chains.

Looking ahead, we expect an uptick in restructuring activity across the CEE region in Q4 2020, once the institutional support is ended.

The key industries which remain under pressure in the region are automotive, retail, tourism and hospitality.

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**Central and Eastern Europe (CEE)**

<table>
<thead>
<tr>
<th>2019 GDP (bn)</th>
<th>2009 GDP YoY</th>
<th>2020 GDP YoY</th>
<th>2021 GDP YoY</th>
<th>Unemployment</th>
<th>Unemployment</th>
<th>Unemployment</th>
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</thead>
<tbody>
<tr>
<td>$2,262</td>
<td>(3.0)%</td>
<td>(5.0)%</td>
<td>N/A</td>
<td>9.0%</td>
<td>8.9%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

**Funding** | **Furlough** | **2020** | **2021** |
Funding | August 2020 | Furlough | July 2020 |
--- | --- | --- | --- |
--- | --- | --- | --- |

Note: No data available

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Data sources are available on page 49
China has seen a significant deceleration in growth in the wake of the COVID-19 pandemic. Consumer spending fell by 1.38 trillion yuan (US$199.3bn) in the first two months of the year due to the severe impact of the outbreak on restaurants, hotels, tourism, entertainment and transportation sectors. In turn, passenger car sales saw the biggest drop in nearly two decades.

Chinese regulators have introduced a series of measures to ease the financial pressures on enterprises emanating from the pandemic. Financial policies are geared towards certain industries such as medical and life supplies for pandemic prevention, aviation, agricultural and green energy vehicles. There is also tax relief to help ease cash flow or liquidity issues. However, despite this support, the number of insolvencies is still higher than the comparable last year. Signs are that the government might not prevent the downturn of some companies. This will lead to an increase in insolvency activity and put pressure on businesses to accelerate restructuring.

Industries such as financial services, public health and the care sector are more likely to attract foreign direct investment due to relief policies introduced recently.

**Insolvency appointments**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q3 - 2019</th>
<th>Q4 - 2019</th>
<th>Q1 - 2020</th>
<th>Q2 - 2020</th>
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</thead>
<tbody>
<tr>
<td>Count</td>
<td>0</td>
<td>2400</td>
<td>3200</td>
<td>4000</td>
</tr>
</tbody>
</table>

**PwC Local contact:** Victor Jong
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Data sources are available on page 49
The number of insolvencies dipped in the first half of 2020 despite the biggest quarterly drop in GDP in Q2 since the Global Financial Crisis.

This is largely explained by government-funded relief initiatives such as postponement of VAT payments, salary compensation to furloughed employees and funding to cover pandemic-related losses. We also saw an expansion of lending and guarantee capacity through state-financed lending entities. During lockdown, Danish courts were only open for self-declaration of bankruptcy, which prevented third-parties or creditors from filing. In addition, banks reported an unforeseen decrease in their lending activities, due to the relief initiatives from the government.

In line with global trends, the emphasis for businesses has been on crisis management, accessing liquidity and supply chain resilience. The majority of the government funded schemes are ending in Q3. We therefore expect to see an uptick in insolvency activity.

The economic outlook in Denmark is uncertain. The Danish National Bank anticipates that recovery to pre-pandemic levels of output could take several years. As Denmark is a small and open exporting economy, it’s dependent on the global economy. We expect exporting companies and businesses with foreign operations to be especially affected by the current uncertainties. We also see an unusually high number of vacant leases in the retail sector, and a low occupancy rate in hotels due to COVID-19.

We expect the support required in the near future will be focused on securing financing to sustain operations. We also expect restructuring support to increase, especially once the COVID-19 government measures are phased out. We have also seen a focus on cash forecasting and working capital optimisation, and we believe this trend will continue in the near future.

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The adverse impact of COVID-19 on East African businesses has been severe. The region's economies have limited capacity to absorb the resultant economic shocks, and governments have limited ability to offer significant stimulus and support.

This impact is reflected in increasing levels of non-performing loans. While this would normally have led to a surge in lender-driven insolvencies, central banks are encouraging banks to favour restructuring instead. The result has been an unprecedented upsurge in the volume and value of restructured facilities. In Kenya, for example, **29% of the total banking sector loan book was restructured between March and June 2020.** Given the high leverage and widespread financial distress across East African businesses before the pandemic, these steps defer rather than resolve the problems.

Conversely, insolvency activity has dipped. This is despite the recent implementation of insolvency-related legal and regulatory reforms in a number of regional markets, aimed at making insolvency regimes ‘business rescue’ friendly.

We expect to see comprehensive restructuring of balance sheets as lenders take stock of their position and the outlook for clients in the post-pandemic period.

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**Insolvency appointments**

**Note:** No data available

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**East Africa**

**$240**

2019 GDP (bn)

**1.3%**

Funding | August 2020

**N/A**

Furlough | July 2020

**5.2%**

GDP YoY | 2009

**0.8%**

GDP YoY | 2020

**5.1%**

GDP YoY | 2021

**6.4%**

Unemployment | 2009

**8.6%**

Unemployment | 2020

**9.0%**

Unemployment | 2021

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Data sources are available on page 49
Insolvency activity in the first half of 2020 was down from 12 month before. This is mainly due to government moves to expand lending and guarantee capacity to SMEs, ensuring sufficient access to finance and reducing the structural buffer requirements for the banking sector. Access to capital has been gradually improving over recent months.

The government has also initiated targeted liquidity improvement actions for the most severely impacted sectors, such as aviation and shipping.

As a result of these initiatives, restructuring activity has remained relatively quiet.

In line with global trends, the emphasis for businesses has been on crisis management, accessing liquidity, supply chain resilience and rent re-negotiations.

We anticipate that, in the event of a renewed COVID-19 outbreak followed by further lockdowns, there will be a severe impact on SMEs. This contrasts with larger companies, which are more dependent on exports and global demand.

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The impact of lockdown on the French economy has been compounded by the dent to important sectors such as aerospace, automotive and tourism. Government support to help viable companies to ride out the impact has included loan guarantees to encourage bank lending.

As a result, restructuring activity has been focused on two factors. The first is shoring up the balance sheets of otherwise viable companies applying to the guarantee programme. The second is stabilising companies that had already faced difficulties before the pandemic, including some retail businesses affected by digital competition.

Over the next few months, we expect the number of companies in financial distress or bankruptcy to increase, resulting from the relative weakness of the economic rebound across many sectors.

Furthermore, these economic difficulties could also spur the need for refinancing of some of the lending supported by the guarantee programme.

The government is currently transposing the 2019 EU restructuring directive into law. This should improve the prospects for secured creditors, relative to shareholders and unsecured creditors. Some temporary measures have also been implemented to ease the restructuring processes during the post-pandemic period. Examples include flexible access to asset deals for existing shareholders, in absence of other credible options.

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The German economy faced significant headwinds from the outbreak of COVID-19 as a result of its reliance in exports. However, economic activity has begun to slowly get back on track on the back of some €1.3tn in government subsidies. The support includes tax reductions, furloughs and state aid in form of loans and equity.

Further relief has come from the temporary suspension of the obligation to file for insolvency until the end of September 2020, with an option to extend this until the end of March 2021. As a result, insolvency proceedings declined by nearly 10% in May 2020 compared to May 2019. Restructuring activity and default rates have also been subdued due to government support.

The main focus of businesses in the last months has been on accessing liquidity, crisis management and supply chain stabilisation.

We expect to see an increase in restructuring activity as government support is scaled back.

The continuing impact of the pandemic is likely to spur restructuring within the automotive sector in particular. Alongside the near-term dent in consumer demand stemming from the outbreak, carmakers face a longer-term shift towards hybrid and fully electric vehicles.

Furthermore, we expect to see increased restructuring in challenged sectors such as retail, shipping and industrial manufacturing.

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**Insolvency appointments**

![Insolvency appointments graph]

*Note: Q2 2020 excludes June insolvency data*
The impact of the COVID-19 pandemic has been heightened by the importance of tourism to the Greek economy (some 20% of GDP). Coordinated monetary, fiscal and regulatory support has helped to ease the difficulties faced by businesses across the economy. As a result, restructuring activity has been low in 2020 so far. The winding down of government and bank support, paired with the fact that servicers are taking over the majority of non-performing loans, will be key drivers of increased restructuring activity over the next period.

A new Bankruptcy Code is about to come into effect (from 2021) incorporating the EU restructuring directive. This will help to streamline bankruptcy processes, bring together restructuring regimes under one code and reduce the time to discharge. It will also usher in early warning mechanisms and a truly out of court workout, as well as the digitisation of procedures. We believe that the changes will make restructuring, pre-insolvency procedures and bankruptcy more efficient.

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The government has supported business and jobs through three rounds of funding totalling HKD288bn (US$37.1bn) since the start of 2020. Moreover, in April, the Hong Kong Monetary Authority instructed all banks to grant a six-month loan repayment holiday to SMEs, which has given respite to SMEs across a range of different sectors.

As a result, insolvency activity has been relatively muted this year, with only 62 compulsory winding up orders this year compared with 126 for the comparable period last year. The lower numbers may also be attributable to the impact of COVID-19 on court operations.

Nonetheless, many businesses, especially those in the consumer and retail industries, have faced significant liquidity issues, requiring them to focus on reducing their highest outgoings – typically rental expense and employee wages.

We expect the hard-hit travel and aviation sectors to take longer to return to 2019 activity levels as the catalyst of lockdown changes people’s behaviour and priorities in the longer term. Accommodating these changes will require a significant rethink when it comes to liability management.

With economic strains continuing and new bank financing becoming more difficult and pricier to secure, we anticipate that the number of insolvencies may go up in Q4 2020 or early next year. Businesses and lenders are unable to hold out indefinitely despite the government measures.

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Insolvency rates have been held in check by government and regulatory intervention.

Recent regulatory action includes an increase in the threshold for invoking proceedings, inclusion of a special insolvency resolution framework for SMEs and a moratorium on fresh initiation of proceedings for six months. The Reserve Bank of India (RBI) has also introduced a Resolution Framework for COVID-19 Related Stress, which aims to revive real estate sector activities and mitigate the impact of financial stress on borrowers.

Business agenda is primarily focused on maintaining the debt-equity ratio, reviving demand and optimising cost management. In turn, the government has been focusing closely on credit availability, resource utilisation and entrepreneurship. Further interventions include the RBI prudential norms, which grant banks a one-off window to adjust loan arrangements in sectors under stress.

While unemployment rose initially, it has started to fall as businesses come out of lockdown. Business sentiment is also encouraging. PwC research has found that more than 80% of businesses are confident that the economy can return to the pre-pandemic levels by June 2021. The research underlines the importance of getting on the front foot in seeking to restructure businesses and boost viability. Respondents in our survey attribute their resilience in the face of stress and confidence in their ability to rebound to operational flexibility, robust crisis management and effective process/product innovation.

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Note: No data available for Q2 2020
Restructuring activity in Ireland has remained relatively subdued. The insolvency rate in the first half of 2020 was down by around 30% compared to the same period in 2019. Contributing factors include payment breaks for borrowers, together with the impact of government support schemes. The acid test of viability for businesses will come when the government aid is withdrawn.

A key focus for businesses has been the renegotiation of leases and the granting of forbearance. This has led to some high-profile disputes between landlords and their tenants. There have already been a number of liquidations in the retail sector, driven primarily by administrations and downsizing of UK-parent companies whose difficulties were accelerated in the COVID-19 lockdown.

There is likely to be an increase in restructuring and insolvency activity in the first half of 2021. The Office of the Director of Corporate Enforcement issued guidance, and some comfort, to directors that they would give due regard to the direct impacts of COVID-19 when assessing if a director acted recklessly when trading while insolvent on the basis they act in good faith and responsibly. New temporary insolvency legislation is being introduced. The most notable changes are to extend the examinership period by a further 50 days if required, permit remote/virtual creditor meetings and an increase the winding up debt threshold to €50,000.

We expect large multinational businesses to bounce back quickly, but the SME sector will take a number of years to recover. A lot of SMEs are already highly leveraged from the last downturn. They will therefore require some form of restructuring, refinancing and/or change of management in order to survive. Schemes such as the recently introduced State Credit Guarantee for 80% of borrowings will be crucial to the survival of these businesses, which are the lifeblood of the Irish economy.

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Restructuring and insolvency activity was relatively quiet in the first half of 2020 as a result of emergency legislation and generally supportive approach of banks and creditors. This includes the option to suspend payments for 6-12 months.

The gathering recovery of the economy is expected to continue in the coming months. Confidence has continued to improve in all sectors.

Stronger companies have found it relatively easy to access bank finance. Loans are secured by government guarantees to cover losses and support short-term cash needs. However, businesses that took advantage of last year’s government-backed debt restructuring measures have generally not been able to benefit from the current guarantees. As a result, they may need to re-open discussions with banks and look for solutions without government support.

A significant increase in new insolvency and restructuring is expected in the first quarter of 2021, once the existing support measures have ceased. In the case of distressed companies, there may be the need for capital restructuring.

In both cases, investors could play a significant role, with the Italian banking system involved in a new wave of de-risking (through the disposal of non-performing loan portfolios and single names, as well as outsourcing of their management to dedicated platform). Recent deal activity also suggests that there is likely to be further consolidation among TIER-2 banks.

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Insolvency appointments
While GDP has fallen, the number of insolvencies has not increased, and the rate of unemployment has been stable. Since the Global Financial Crisis, Japanese companies have been improving their level of cash and shareholder equity.

In response to the pandemic, the government and banks coordinated moves to bolster liquidity and help corporations to protect their cash positions. Further steps include a government scheme to support SMEs, with funding equivalent to more than 20% of 2019 GDP.

Some specific sectors (e.g. automotive, auto-parts, hospitality & leisure, retail & consumer) have been heavily disrupted by the COVID-19 outbreak and have yet to recover. Consequently, if the COVID-19 outbreak continues or there is a renewed surge in cases, there is likely to be more restructuring.

Other than COVID-19 related developments, there are likely to be more opportunities for business restructuring. These include portfolio reorganisation, operational restructuring and divestments in Japanese corporations. This is due, in part, to track record of growth in conglomerates, sometimes retaining unprofitable non-core businesses. Furthermore, we expect to see a consolidation of the banking system, as smaller regional banks have been affected by a slow economic recovery and poor interest rates. The government appears open to supporting any regulatory reform required to enable the consolidation process.

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To protect jobs and stimulate the economy, the Central Bank of Malaysia initiated an automatic moratorium on all loan/financing, payments, principal and interest by individuals and SME borrowers for a period of six months from 1 April 2020. The moratorium was further extended for three months to those who are directly impacted by the pandemic.

Insolvency activity has been subdued due to various initiatives by the government to protect companies against collapse. This has given the businesses disrupted by the pandemic some lifelines. However, we anticipate insolvency activity to pick up in 2021. Especially on highly geared companies when the government pulls the brake on existing support measures.

**Insolvency appointments**

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</table>

*Note: No data available for Q1 2020 and Q2 2020*

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Data sources are available on page 49
Liquidity has come under pressure following the decline in oil prices and the COVID-19 pandemic. In 2020 there have already been a number of high profile corporate collapses in the region.

A combination of government support and initiatives have so far helped to delay more widespread defaults. For example, the UAE Central Bank has issued directives to offer relief measures to banks, corporates and individuals within the country and implemented the Targeted Economic Support Scheme (TESS), to support banks in providing relief to corporate borrowers. The TESS scheme is currently due to expire in Q4. Similar measures have been taken elsewhere in the region, notably by the Saudi Arabian Monetary Authority. The support provided by banks has typically comprised of deferrals rather than waivers.

As the deferrals come to an end, we expect the economic pressure created by lower oil prices and the impact of the pandemic demands a more holistic solution for borrowers who have taken advantage of these schemes.

Widespread legislative changes in the bankruptcy and restructuring frameworks of most major regional jurisdictions could support distressed businesses in restructurings and also provide alternative options for creditors. In 2020, there has already been a number of long running and high profile cases put forward under the new Kingdom of Saudi Arabia bankruptcy law where there are now over 500 cases in total. Earlier in the year in the UAE, the Financial Reorganisation Committee accepted the first two applications to support multi-billion dollar restructurings of prominent groups in the region. These are likely to pave the way for an increased interest in the formal frameworks now in place to support distressed situations.

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Note: No data available
Following sharp falls in GDP and rises in unemployment, the Dutch economy is not expected to recover to pre-crisis levels until 2024 in more conservative scenarios.

Nonetheless, insolvency rates have stayed remarkably low, driven by support from the government, as well as the banking sector. For affected companies, the options include partial payment of a company's personnel costs by the government, the postponement of tax payments and government guarantees on newly issued bank loans. At the same time, banks have offered to suspend interest and amortisation payments. As a result, insolvencies were concentrated in sectors where the impact of the crisis was most severe, such as travel and leisure.

As government support is expected to decrease over the coming months and tax liabilities and interest and amortisation payments become due, a wave of insolvencies is expected during Q4. This would be even more likely if there is a second wave of infections.

The sectors that are likely to face increasing pressure include retail, travel, transportation & logistics, but also the construction sector. The construction 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.

In light of these developments, the new WHOA restructuring law, which is expected to become effective during the second half of 2020, is becoming even more relevant. This so-called ‘Dutch scheme’ allows for a court-approved restructuring plan, in which hold-out positions are less likely to frustrate a (consensual) restructuring. It also allows for a significantly faster restructuring process.

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New Zealand

$207
2019 GDP (bn)

21.3%
Funding | August 2020

66.3%
Furlough | July 2020

0.3%
GDP YoY | 2009

(7.2)%
GDP YoY | 2020

5.9%
GDP YoY | 2021

5.8%
Unemployment | 2009

9.2%
Unemployment | 2020

6.8%
Unemployment | 2021

The level of formal insolvencies has remained broadly consistent with last year, but the rates have actually decreased since the outbreak of COVID-19. This is largely due to government initiatives that have provided businesses with additional liquidity (e.g. wage subsidies, cashflow loans and tax regime changes). However, the banking sector has also played a key role through allowing principal holidays, covenant waivers and the extension and re-purposing of existing loan facilities.

In addition, the temporary relaxation of certain directors’ duties is intended to give boards of viable businesses the confidence to trade on through the COVID-19 uncertainty.

The introduction of a new Business Debt Hibernation scheme provides an option for businesses to obtain a seven-month standstill on existing trade debts. However, for those under greater financial pressures, this may have to be used alongside other restructuring processes (e.g. a creditor compromise) to be effective.

Insolvency appointments

We anticipate a significant uptick in insolvency and restructuring activity in Q1 2021, once the existing support measures wind down. The main focus will be businesses in sectors such as tourism, hospitality and leisure and tertiary education, along with primary industry segments reliant on recognised seasonal workers. As these sectors look to recover, much will depend on the lifting of border restrictions.

More broadly, we expect that many business owners will take 2020 as a ‘moment of truth’ and run a ruler across their businesses from top to bottom. Financial, operational and strategic restructuring solutions (e.g. divestment of non-core entities) will be used to create businesses that are more internationally competitive, environmentally sustainable and clear on their value propositions and competitive advantages. This will act as a springboard for long term viability and growth beyond the recovery.

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The economy has been hit by both COVID-19 and low oil prices, resulting in the lowest GDP growth in decades. Tourism, travel, entertainment, hospitality and offshore are amongst the most heavily affected sectors.

However, overall insolvency activity has remained stable as a result of extensive economic support packages from the government. Many businesses have focused on crisis management, cash flow forecasting and securing liquidity.

We expect restructuring and insolvency activity to increase in 2021 as government support unwinds. Moreover, a new temporary law, expected to become permanent, may contribute to an increased number of debt negotiations, with the aim to avoid unnecessary bankruptcies.

In comparison to other markets, Norwegian regulations and procedures for debt negotiations have been seen as rigid, and rarely used. This could now change.

The new legislation has similarities to Chapter 11 in the US and is expected to improve the scope for meaningful negotiations and solutions.

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**Insolvency appointments**

Data sources are available on page 49
Stringent lockdown rules have held back economic growth. However, the foundations for resilience and recovery are strong.

Following the government’s introduction of a moratorium on loan payments during the quarantine period, there was an initial rise in past due loan rates, though the rate of increase has since started to come down. Gross restructured loans also increased marginally.

The banking sector has not yet fully felt the impact of the pandemic. However, as unemployment rises, loan defaults, particularly for consumer loans, will increase.

Micro, small and medium enterprises (MSMEs) are most vulnerable, yet the banking system’s exposure to MSMEs account for only about 5% of the total loan portfolio.

The Central Bank of the Philippines has also rejected calls for a 365-day moratorium on loan payments as this may severely impact the banking industry, the financial system and the economy.

Food and beverage, other essentials, healthcare and telecommunications have been boosted by the impact of the pandemic. Harder hit sectors such as tourism could take longer to recover. Resulting restructuring is likely to focus on both short-term stabilisation and steps to put viable but temporarily troubled businesses on a stronger financial, operational and strategic footing over the long-term.

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Insolvency appointments

Note: No data available
While the economy is expected to return to growth in 2021, unemployment is likely to be similar to the Global Financial Crisis.

Insolvencies in Q2 were above the same period in 2019, but remain below the figures reported between 2015 and 2018. This largely stems from the introduction of government support measures for companies, including credit lines for companies in most affected sectors, credit moratoriums and a simplified lay-off scheme.

Additionally, a new recovery process (PEVE) has been created for companies adversely impacted by COVID-19. This will allow judicial ratification of extrajudicial agreements with creditors. During this emergency, companies have focused their efforts on cash flow and treasury management (managing working capital cycle, accessing to government’s credit lines and bank’s credit moratoriums) and cost reductions (furlough schemes to reduce staff costs and other fixed costs as rents).

As credit moratorium periods (available until March 2021) and furlough schemes close, we expect to see an increase in restructuring, especially within sectors and businesses already facing difficulties prior to the pandemic. Businesses within the tourism sector, which accounted for nearly 9% of GDP in 2019, could be especially vulnerable and in need of restructuring following the travel disruption seen in recent months. The priority will be protecting and enhancing the viability of businesses that continue to have positive prospects over the long-term.

We expect restructuring activity to gather pace in the first half of 2021. Additionally, once debt moratoria end, the level of non-performing loans will increase. Most of the sectors will need more than two years to recover to 2019 levels of activity.

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### Data sources are available on page 49
The combination of the COVID-19 outbreak, oil price tensions and currency depreciation have led to a fall in GDP. However, higher liquidity and national reserves mean that the decline is unlikely to be as marked as during the Global Financial Crisis.

The government response to COVID-19 has included tax and rent holidays and a six-month insolvency moratorium. The government has also provided financial guarantees and subsidies to the most severely impacted sectors such as hospitality and aviation.

This support has held back restructuring activity. Businesses have been primarily focused on addressing liquidity issues and supply chain disruptions, adapting business and operating models and implementing cost-cutting initiatives.

We expect a significant increase in restructuring and insolvencies starting from Q4 2020, with the insolvency moratorium and credit holidays due to end in October.

The covenant tests undertaken in Q3 are likely to be an important trigger.

The corporate debt market is dominated by major state-owned banks. There are currently no alternative lenders, credit funds or distressed assets funds in the market. Permanent changes to the Russian insolvency law have yet to come (a debtor protection scheme is under consideration by the government). In the meantime, the key focus in 2020 and 2021 will continue to be financial restructuring and refinancing in the private sector. We’re also likely to see specific operational measures such as working capital management optimisation across a broad range of performing and distressed businesses.

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**Russia**

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<tr>
<th>2019 GDP (bn)</th>
<th>Funding</th>
<th>August 2020</th>
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<tr>
<td>(7.8)%</td>
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<td>4.8%</td>
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**Note:** No data available for Q2 2020
The number of insolvencies rose in Q1 2020. The impact of the COVID-19 pandemic has heightened the pressures on already troubled businesses. Enterprises that are poorly capitalised may face cash flow issues after government support schemes end.

In general, there will be increased opportunities in the restructuring and turnaround sector. Moreover, the introduction of The Insolvency, Restructuring and Dissolution Act (IRDA) 2018, which came into effect at the end of July, is likely to be a watershed.

The significant changes include debtors given more workout or turnaround opportunities as creditors are restricted to conveniently wind-up the company via the “ipso facto” clause. Moreover, there are provisions for third-party funding such as Strategic Solutions and Turnaround Group (SSTG). Further developments include a simpler and more cost-effective means for the appointment of judicial managers (done out of court with creditors’ agreement) and/or approval of workout proposals (cram-down provisions on recalcitrant creditors).

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**Singapore**

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**Insolvency appointments**

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<tr>
<td>Q1</td>
<td>Q2</td>
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Data sources are available on page 49.
Following a decline in insolvency activity pre COVID-19, South Africa is now starting to see an increase in activity. Whilst a number of businesses were already operating under severe liquidity and financial constraints prior to COVID-19, the onset of the global pandemic has seen an acceleration in the number of expected business rescue filings and liquidations.

Key industries such as aviation, retail and tourism and hospitality remain under severe pressure, although financial distress is now being experienced across almost all industries. Whilst lenders are, by and large, looking to support existing businesses, there are no specific legislative changes relating to lender positions or directors’ reckless trading risks.

There has been a material increase in the provision of bad debts (and loan impairments) by major banks. In terms of resulting restructuring (whether through the use of a formal process or by way of informal workout) and insolvencies, much will depend on lenders’ risk appetites, their exposure to the specific sector in question and the requirement for fresh capital injections.

We expect the number of restructurings and insolvencies to continue. In the short term, the focus is likely to remain on liquidity access and crisis management, stakeholder negotiations and security of supply.

In the longer term, we anticipate the need for a number of significant companies to undergo financial and operational restructuring following short term stabilisation.

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**Insolvency appointments**

![Insolvency appointments chart]

Note: Q2 2020 includes data for May and June as no insolvency filing were recorded in April
While GDP has fallen, insolvency activity in 2020 has not increased compared to the same period in 2019 due to the financial support provided by the government. This includes a corporate asset sales programme through the Corporate Stabilisation Fund and Korea Asset Management Corporation, along with financial support for specific industries such as the aviation sector.

The Korea Growth Investment Corp. has established a corporate restructuring fund (about US$ 1 billion) to invest in companies with liquidity issues.

However, the number of insolvencies is expected to increase in the second half of 2020 amidst limitations on the availability of government financial support. Proactive restructuring for many industries will be needed.

Our analysis of rehabilitation and insolvency cases following comparable outbreaks (e.g. SARS, MERS) shows that (1) Insolvency cases increased 1-2 years after the first occurrence of the disease (2) Insolvency cases occurred more than restructuring cases (3) Insolvency in retail business is expected to increase (except for online retail business).

We anticipate that insolvency in retail business will increase after 1-2 years from 2020 due to COVID-19 and more.

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**Insolvency appointments**

![Graph showing insolvency appointments]

Data sources are available on page 49
The Spanish economy is expected to experience the most significant drop in GDP for 40 years and the recovery to 2019 levels will take several years.

Insolvency activity in Q2 2020 was markedly lower than the previous quarter. This is largely due to government support and new insolvency legislation, which introduced a moratorium period protecting companies from creditor action until the end of the year.

Businesses have been primarily focused on liquidity and crisis management in recent months. Government relief packages including financing and loan guarantees have reduced the impetus for restructuring. However, we expect activity to pick up in the first half of 2021 as the support is withdrawn.

The core sectors of tourism and service will still need government aid to get through the difficult next few months.

Looking ahead, we anticipate an increase in insolvency proceedings during 2021. We also expect to see more M&A transactions as businesses seek to strengthen capital structures and drive forward sector consolidation.

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### Insolvency appointments

![Insolvency appointments chart](chart.png)

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Data sources are available on page 49
The rise in insolvency rates seen earlier in 2020 has started to flatten out. It is currently too early to assess if the improvement in the number of insolvencies is due to government support packages or Sweden’s decision not to go into a lockdown.

The emphasis for businesses has been on crisis management, accessing liquidity, supply chain resilience and rent re-gearing.

A number of sectors including automotive manufacturing and industrial production generally have seen a rebound to more normal activity levels, while several service sectors continue to struggle. It may be 2021 and possibly even longer before some sectors return to pre-COVID-19 output levels.

Restructuring has increased. Legislation in Sweden makes a restructuring a good option in liquidity crises. In March 2020, some major restructurings in the retail sector were initiated. This was also the month with the highest number of initiated restructurings.

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**Insolvency appointments**

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Sweden

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Data sources are available on page 49
Insolvency activity has fallen both as a result of debt suspension and government wage subsidies. Restructuring activity increased in 2020 as companies re-evaluated their business plans and operational efficiency. In particular, retail, travel and automotive companies sought to reduce costs, optimise footprint and dispose of redundant assets.

Insolvency activity is expected to rise in Q1 2021, once COVID-19-related government support is anticipated to be discontinued.

We expect that the hardest hit sectors will face a recovery trajectory of several years to return to 2019 levels of activity. Companies with weak balance sheets, especially in the travel, hospitality, retail, construction and automotive sectors may not survive this recession. We are anticipating increased demand for cash and debt management, accompanied by transactional activity, such as refinancing, asset sales, ownership changes and footprint consolidations.

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**Data sources are available on page 49**
GDP has fallen, with sectors such as aviation and tourism especially affected. However, most sectors have withstood the impact of the economic downturn.

The emphasis for businesses has been on liquidity management and cost reduction.

Restructuring and insolvency activity has been relatively quiet in the past few years due to a low default rate. They have been held back still further by the US$35 billion government relief package for businesses adversely affected by the pandemic.

Although insolvency and restructuring will probably increase in the second half of 2020 as the impact of COVID-19 extends, we do not expect a substantial increase in most sectors.

Insolvency appointments

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Data sources are available on page 49
There have been an increasing number of debt restructuring deals following the adoption of new regulations compared to private deals. It appears that the market has adapted well to the new legislation and the lenders are acting in greater harmony.

A second wave of debt restructuring is expected in the last quarter of 2020 due to a number of factors including local currency depreciation, which is adversely affecting corporates with open positions. Businesses are also facing subdued consumer confidence and higher borrowing costs.

A number of newly adopted restructuring methods including severe write-downs (‘haircuts’), debt for equity swaps and new borrowings are being increasingly used. Nonetheless, both amendments and extensions continue to account for the majority of activity.

**Insolvency appointments**

```
Q3 - 2019 | Q4 - 2019 | Q1 - 2020 | Q2 - 2020
5000
4000
3000
2000
1000
0
```

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Data sources are available on page 49
Insolvency activity in the 12 months up to May 2020 was 15% lower than the same period in 2019. This is largely due to government protection. It also reflects new insolvency legislation, which introduced a moratorium period safeguarding companies against creditor actions and a restructuring plan that can bind creditors to it, along with suspension of wrongful trading and winding up petitions.

Restructuring activity has also remained relatively quiet. The default rate is low as businesses remain in lockdown and are supported by lenders and the government.

In the tough operating environment, businesses’ main focus has been crisis management, accessing liquidity, supply chain resilience and rent re-gearing.

We anticipate an uptick in activity from Q4 2020 once the employee furlough scheme expires and the trajectory of recovery for businesses becomes a little clearer.

We expect that some sectors will take several years to return to 2019 levels of activity and some face permanent structural change. We anticipate that a long tail of liability management will be needed, accompanied by transactional activity, in areas such as changes in ownership and refinancing as businesses adapt.

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**Insolvency appointments**
The US is experiencing a sharp increase in restructuring activity in 2020 as the fallout from COVID-19 has accelerated the restructuring of companies that were already stressed pre-COVID-19. In fact, Chapter 11 bankruptcy filings of companies with $100m of liabilities or more increased approximately 50% in the first half of 2020 as compared to the same period in 2019.

The consumer markets and oil and gas sectors accounted for a combined 55% of the activity through June 2020, and we anticipate more activity to come in these sectors.

During the first half of 2020, companies were facing unprecedented economic uncertainty and we observed a willingness from lenders to provide flexibility in the form of near-term loan forbearance and amendments.

Now, as those short-term fixes are set to expire, borrowers and lenders are searching for longer term solutions and we expect that will trigger additional restructurings to reset capital structures for the ‘new normal’.

Looking ahead, we expect to see an increasing roster of distressed companies and restructuring activity across a broad range of sectors as companies navigate a challenging reopening environment characterised by increasing costs, lower consumer demand and waning government stimulus support.

We expect the hospitality, automotive and healthcare sectors to be among the hardest hit by these forces.

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**Insolvency appointments**

![Insolvency appointments chart](image)
## Table key

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<td>9.3%</td>
<td>10.4%</td>
<td>9.1%</td>
<td>13.9%</td>
<td>0.1%</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>D</td>
</tr>
</tbody>
</table>
Sources of data

Graphs Source Data

Dry Powder data from Preqin. Note: Data does not match PwC numbers given that we factor in additional AuM sources from National Associations, which slightly increases Dry Powder levels.

2020 GDP projections data from IMF as at July 2020 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD


Furlough data from OECD as at July 2020 for all territories except Japan http://www.oecd.org/employment-outlook/2020/

Number of Insolvencies:

Canada: http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02290.html#quarterly2020


Italy: http://www.mc.camcom.it/uploaded/Allegati/Promozione/Charts/Open-Data-Flussi-Imprese.htm?url=http://www.mc.camcom.it/uploaded/link-open-data/Procedure-Concorsuali-Italia.json&color=393185

Japan: https://tradingeconomics.com/japan/bankruptcies

Russia: https://tradingeconomics.com/russia/bankruptcies


USA: https://www.abi.org/newsroom/bankruptcy-statistics
Sources of data (contd)

Individual Territories Source Data

2019 GDP data from Trading Economic for all countries except Cayman and British Virgin Islands
https://tradingeconomics.com

PwC Calculation on government funding as percentage 2019 GDP based on IMF data as at August 2020 for all territories except South Africa and Cayman and British Virgin Islands

PwC Calculation on government funding as percentage 2019 GDP for South Africa

PwC Calculation on furlough as a percentage of total workforce based on data from OECD as at July 2020 for all territories except Cayman and British Virgin Islands, Japan, Singapore and Taiwan.

PwC calculation on furlough as a percentage of total workforce for Singapore based on the Jobs Support Scheme (Oct 2019 to March 2021) ("JSS") - Up to 31 July 2020, a cumulative of S$15 billion has been paid to more than 140,000 employers, with 1.9 million local employees.

Furlough as a percentage of total workforce for Taiwan
https://statfy.mol.gov.tw/index04.aspx

2009, 2020 and 2021 GDP projections from IMF as at July 2020 for all territories except Cayman and British Virgin Islands
https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/USA/AUS/AZE/BGD/BHS/PRT/AUT

2009, 2020 and 2021 Unemployment projections from IMF and Trading Economics as at July 2020 for all territories except Cayman and British Virgin Islands
https://www.imf.org/external/datamapper/LUR@WEO/OEMDC/ADVEC/WEOWORLD and https://tradingeconomics.com/

2019 GDP, government funding, furlough, 2020 and 2021 GDP projections and 2021 and 2021 unemployment projections Cayman and British Virgin Islands from Cayman Islands Economic and Statistics office

Number of Insolvencies:

**Australia:**

**Austria:**

**Belgium:**

**Brazil:** Data not available

**Canada:**
http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02290.html#quarterly2020
Sources of data (contd)

- **Cayman and British Virgin Islands** data not available
- **Central and Eastern Europe** data not available
- **Denmark** [https://www.dst.dk/da](https://www.dst.dk/da)
- **East Africa** data not available
- **Germany** [https://www.destatis.de/EN/Press/2020/07/PE20_256_52411.html](https://www.destatis.de/EN/Press/2020/07/PE20_256_52411.html)
- **Greece** data not available
- **Ireland** Insolvency figures are based on a review of the companies registration office
- **Japan** [https://tradingeconomics.com/japan/bankruptcies](https://tradingeconomics.com/japan/bankruptcies)
- **Middle East** data not available
- **New Zealand** New Zealand Gazette notices
- **Norway Statistics Norway (SSB)**
- **Philippines** data not available
- **Portugal** Iberinform “Insolvências e Constituições em Portugal”, June 2020
- **Russia** [https://tradingeconomics.com/russia/bankruptcies](https://tradingeconomics.com/russia/bankruptcies)
- **South Korea** [https://tradingeconomics.com/south-korea/bankruptcies](https://tradingeconomics.com/south-korea/bankruptcies)
- **Spain** [https://tradingeconomics.com/spain/bankruptcies](https://tradingeconomics.com/spain/bankruptcies)
- **Sweden Upplysningscentralen** [www.uc.se](http://www.uc.se)
- **Switzerland** Bisnode D&B
- **Taiwan** [https://tradingeconomics.com/taiwan/bankruptcies](https://tradingeconomics.com/taiwan/bankruptcies)
Sources of data (contd)


USA https://www.abi.org/newsroom/bankruptcy-statistics

Appendix Source Data

2009, 2020 and 2021 GDP from IMF as at July 2020 for all territories except Cayman and British Virgin Islands https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/USA/AUS/AZE/BD/GD/BHS/PR1/AUT


PwC Calculation on government funding as percentage 2019 GDP based on IMF data as at August 2020 for all territories except South Africa and Cayman and British Virgin Islands https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#A


PwC Calculation on furlough as a percentage of total workforce based on data from OECD as at July 2020 for all territories except Cayman and British Virgin Islands, Japan, Singapore and Taiwan. http://www.oecd.org/employment-outlook/2020/

PwC calculation on furlough as a percentage of total workforce for Singapore based on the Jobs Support Scheme (Oct 2019 to March 2021) ("JSS") - Up to 31 July 2020, a cumulative of S$15 billion has been paid to more than 140,000 employers, with 1.9 million local employees http://www.oecd.org/employment-outlook/2020/

Furlough as a percentage of total workforce for Taiwan https://statfy.mol.gov.tw/index04.aspx
