

PAYMENT SURVEY



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China Payment Survey 2023: Shorter payment delays but worsening credit conditions in chemicals and wood

The year 2022 was marked by a significant economic slowdown and stringent Covid response in China. In the face of tight liquidity and mobility restrictions that disrupted payment processes, Chinese businesses showed greater flexibility in giving credit terms. Coface's 2023 China Corporate Payment Survey showed that the average payment terms increased from 77 days in 2021 to 81 days in 2022.

Longer credit terms contributed to fewer incidents of payment delays in 2022. Among the 1,000 respondents, 40% reported overdue, down from 53% in 2021. This represented the smallest share over the past five years. The main reason for overdue was customers' financial difficulties, which resulted from margin pressures due to competition and, increasingly, from rising raw materials prices. In addition, the average payment delay shortened from 86 to 83 days in 2022. Sector-wise, agri-food reported the largest reduction in the average payment delay with a cut of 23 days, as well as lengthening credit terms by the second-largest period after textile.

Fewer respondents reported increased amount of overdue payments (42% to 21%). They were mainly small enterprises (<50 billion renminbi

turnover) that relied on the domestic market. The survey, conducted between December 2022 and March 2023, also showed that fewer companies faced ultra-long payment delays (ULPDs), which are payments overdue by more than six months, exceeding 2% of annual turnover. The proportion of respondents mentioning such delays fell from 64% in 2021 to 36% in 2022. With Coface's experience showing that 80% of ULPDs are never paid, this drop suggests reduced cash flow risks.

This risk, however, differed by sector. Chemicals appeared the most vulnerable to funding risks with just over a third (34%) of respondents reporting ULPDs exceeding 10% of turnover, up from 26% in 2021, as higher energy and raw material prices, production disruptions due to lockdowns, and subdued demand pressured the sector's liquidity conditions. An upward trend was also observed for the wood sector, with the proportion increasing from 0% in 2021 to 20% in 2022.

The pandemic - and subsequent lockdowns - was the top factor affecting businesses in 2022. As the Chinese government turned away from its zero-Covid policy, the share of respondents expecting an improvement in sales and cash flow increased in tandem, indicating optimism about China's business operating environment in 2023.



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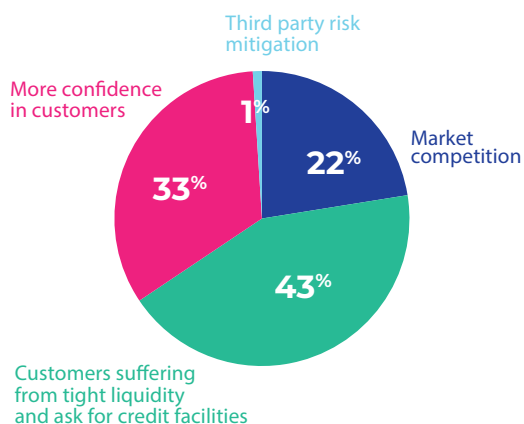
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PAYMENT TERMS¹: LONGER CREDIT TERMS AMID TIGHTER LIQUIDITY

• **A notable drop in respondents offering payment terms in 2022, from 66.6% in 2021 to 50.3%, doing so amid a marked slowdown in domestic economic growth and strict Covid restrictions.** Among those offering credit sales, customers' tight liquidity was highlighted as the main reason, in contrast to market competition, which had been the top reason since 2014 (**Chart 1**). Greater confidence in their customers (33% vs. 37% in 2021) was the second most common factor behind offering credit sales. Market competition was mentioned by 22% of respondents, nearly halved from 42% in 2021.

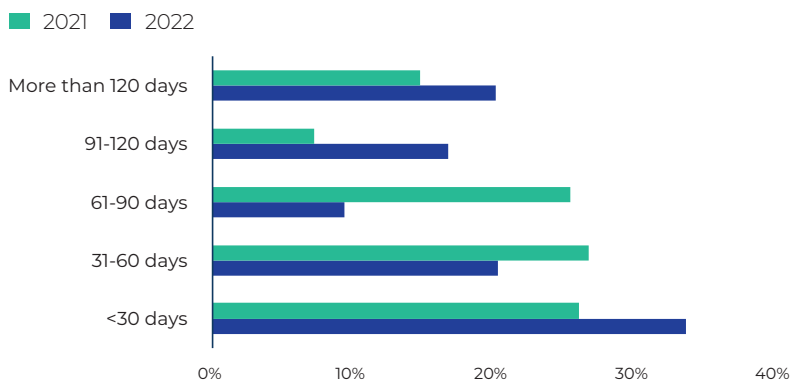
• Despite businesses facing an economic slowdown in 2022 due to the Omicron wave and the subsequent strict lockdown response, **credit terms lengthened during the year. Chinese businesses had to exercise more flexibility as their customers needed more time to make payments amid tight liquidity and mobility restrictions that disrupted payment processes.** The average payment terms increased from 77 days in 2021 to 81 days in 2022. More respondents offered credit terms above 90 days, which contributed to longer average credit terms. But the survey also showed that more businesses favoured credit terms of less than 30 days (**Chart 2**), likely reflecting the increased caution that these respondents have towards cash flow and credit management amid higher market uncertainty and weaker growth.

Chart 1:
Reason for offering credits sales



Source: Coface Payment Survey

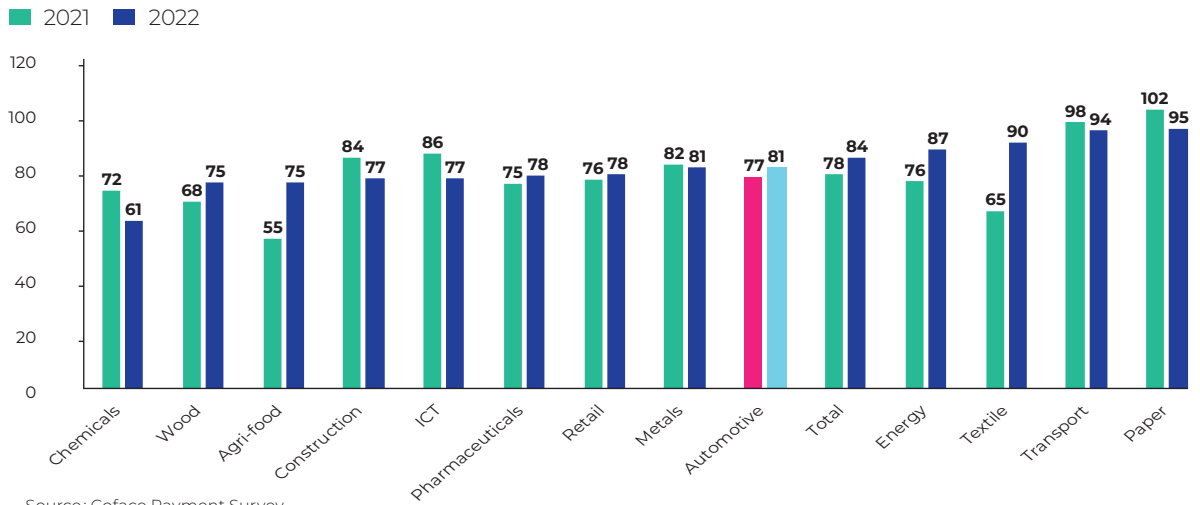
Chart 2:
Average credit terms in days



Source: Coface Payment Survey

¹ Payment term – the time-frame between when a customer purchase a product or service, and when the payment is due.

Chart 3:
Average credit terms among sectors
in days

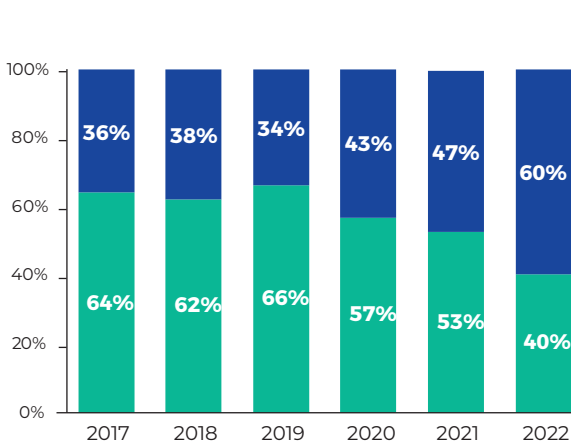


Thus, **the payment term trajectory differed between sectors**. Out of the 13 Coface sectors, six of them recorded a decrease in their payment terms. Chemicals saw the largest shortening (-11 days), making it the sector with the shortest average payment terms at 61 days. Construction, ICT, and paper also tightened. The paper sector remains, however, the most generous in terms of length of average credit terms at 95 days.

On the contrary, **textile and agri-food companies markedly lengthened their average credit terms**. The two sectors, which were the most restrictive in 2021, increased the duration of credit terms by 25 and 20 days to an average of 90 and 75 days, respectively (**Chart 3**).

2 PAYMENT DELAYS² INCREASED FUNDING RISK FOR CHEMICALS AND WOOD

Chart 4:
Overdue during the past year

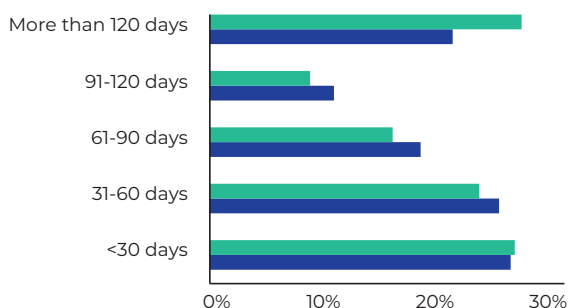


With companies offering longer payment terms, fewer reported payment delays in 2022. The share of respondents reporting overdue fell from 53% in 2021 to 40%, the smallest share in the past five years (**Chart 4**), extending a trend first started in 2020.

² Payment delay – the period between the due date of payment and the date the payment is actually made.



Chart 5:
Average overdue
in days

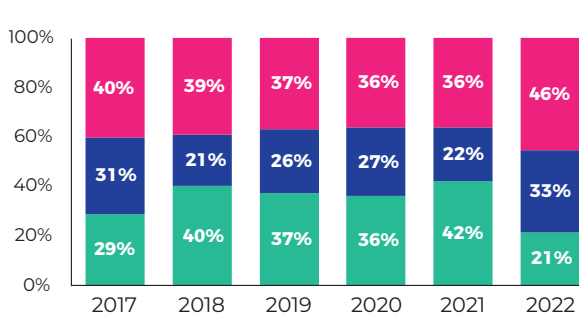


Source: Coface Payment Survey

• This was accompanied by a shortening of the **average payment delay, which declined from 86 to 83 days in 2022**, remaining below its five-year average of 87 days. A lower share of respondents who indicated payment delays above 120 days (21% vs. 27% in 2021) was the main factor. Meanwhile, the proportion of businesses experiencing medium-ranged delays (between 31 and 120 days) widened. Payment delays shorter than 30 days became the most common, mentioned by 26% of firms, a share that was stable from 2021 (**Chart 5**).

• The survey also showed that fewer companies **experienced ultra-long payment delays (ULPDs) exceeding 2% of annual turnover**. After a significant rise in 2021 with 64% of respondents reporting such delays, the proportion fell to 36% - the lowest since 2016. As 80% of ULPDs are never paid according to Coface's experience, a company's cash flow could be at risk when they constitute a share of annual turnover above 2%. The decrease was linked to the significant decline of companies experiencing ULPDs of more than 10% of annual turnover (from 40% in 2021 to 22% in 2022). These developments took place in the context of fewer firms providing credit terms, and those who did lengthened the payment period on average. With China reopening, the economic situation would move towards normalisation.

Chart 6:
Evolution of payment delays

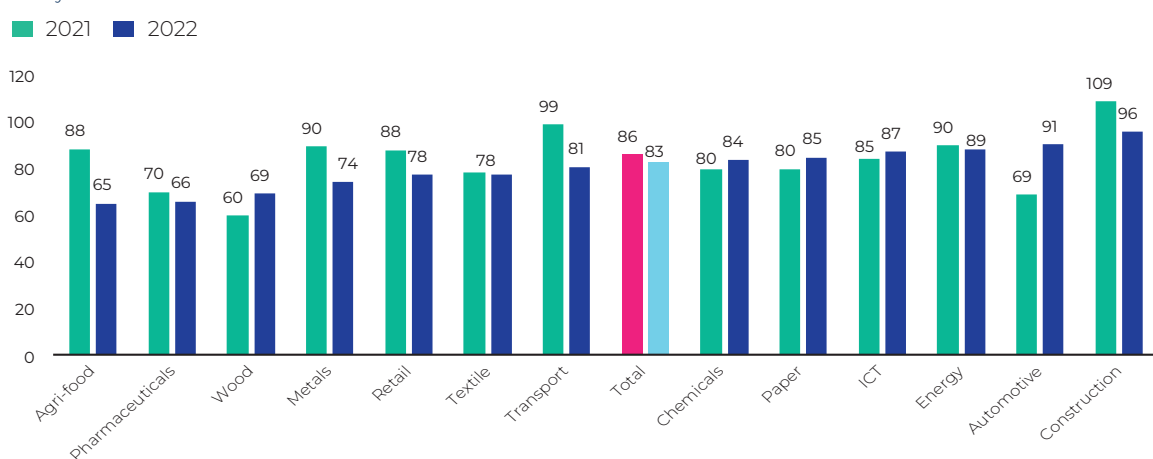


Source: Coface Payment Survey

• **Another good news came from a significant rise in the percentage of respondents reporting unchanged or decreased amounts of overdue, which increased from 58% to 79% in 2022 despite the challenging economic environment (Chart 6)**. Consequently, the share of those reporting increased payment delays fell from 42% to 21%, and were mostly small enterprises (<50 billion renminbi turnover) that relied on the domestic market.

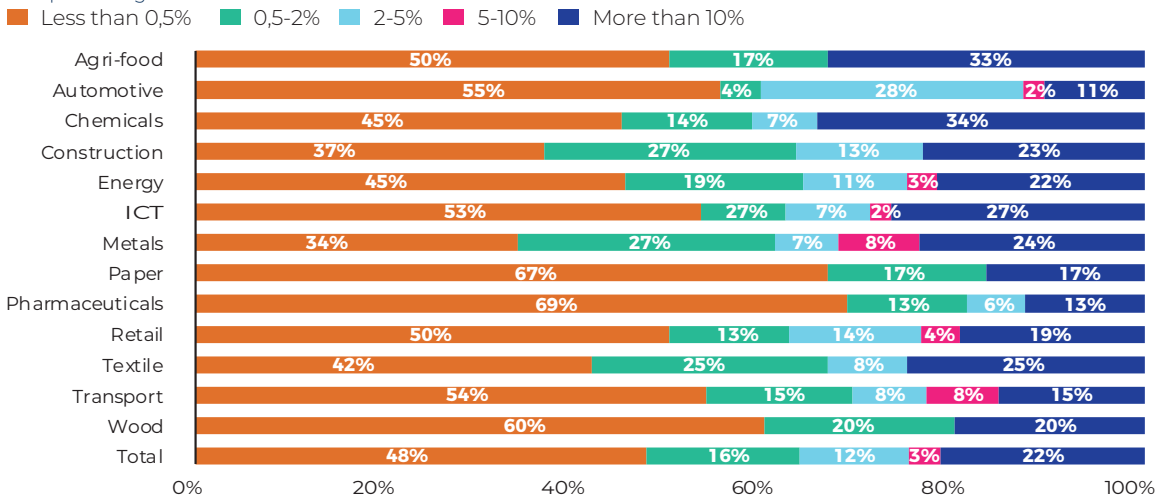
• Looking by sector, **agri-food reported the largest reduction in average payment delays (-23 days) to 65 days, the shortest among our 13 industries**. This coincided with the sector increasing credit terms by the second-largest period after textile. Agri-food companies had done the opposite in 2021, being more restrictive on credit terms at a time when global food commodity prices surged by 26%. This resulted in a rise in payment delays. The further increase in prices driven by disruptions linked to the war in Ukraine prompted businesses to be flexible as customers needed more time to make payments amid soaring prices and liquidity issues. Despite shorter payment delays, those elevated prices remain a challenge for the sector's credit conditions with 33% of respondents reporting ULPDs exceeding 10% of their turnover.

Chart 7:
Average payment delays by sector
in days



Source: Coface Payment Survey

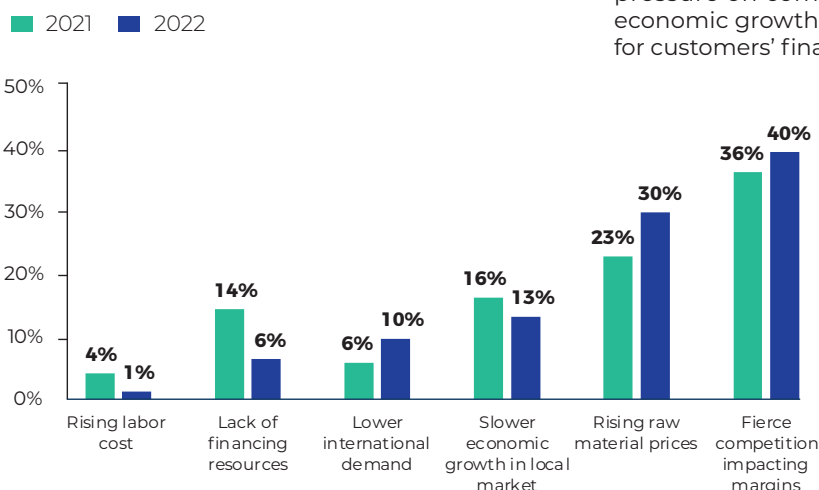
Chart 8:
Ratio of ultra-long payment delays
as a percentage of turnover



Source: Coface Payment Survey

• **Transport and metals** also saw a reduction in payment delays (-18 and -15.5 days respectively), placing them below the overall average of 83 days. In contrast, there was a notable lengthening in payment delays reported for **automotive**, whose average overdue rose by 22 days to 91 days. This was linked to a fall in the availability of auto parts, especially auto semiconductors, which hampered production. **Pharmaceuticals, paper, and chemicals** recorded longer average payment delays in 2022. Although the chemicals sector saw a modest rise of 4 days to reach an overdue of 84 days, just above the overall average (83 days), more worrying is the proportion of respondents reporting ULPDs superior to 10% of turnover. In 2022, 34% of respondents from the sector reported such ULPDs, up by 8 percentage points from 2021. This is the highest among all 13 sectors. **The financial health of the wood sector also deteriorated.** Despite a reduction in the average payment delay in 2022, more respondents of the sector reported an increase in the value of overdue (40% from 33% in 2021). In addition, while no companies mentioned ULPDs representing more than 10% of turnover in 2021, 20% of them did in 2022.

Chart 9:
Reasons for customer's financial difficulties



Source: Coface Payment Survey

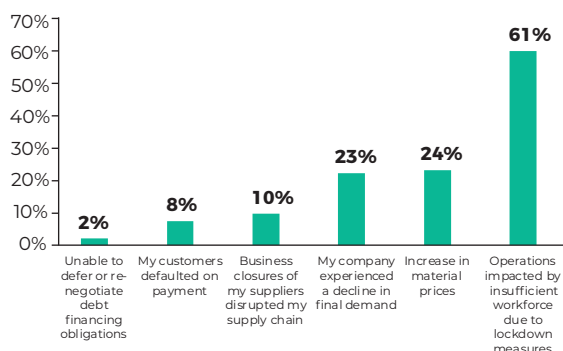
• **Construction remains the sector with the longest payment delays amid the housing market correction, followed by 91 days for automotive (Chart 7).** While the average payment delay in construction declined from 109 days in 2021 to 96 days in 2022, it remains higher than three months. There are some bright spots, however, as construction's share of respondents reporting ULPDs exceeding 10% of annual turnover fell from 56% (which was the highest in 2021 among all sectors) to 23% in 2022 (Chart 8). After a restrictive policy with stricter financing rules for real estate developers, the Chinese government has eased its tough stance towards the developers, especially towards the end of 2022 with a significant 16-point policy package in November.

• **Customers' financial difficulties remained the main reason behind payment delays, highlighted by 63% of respondents that indicated overdue.** These difficulties resulted mostly from fierce competition affecting margins (40%), but also – and to a greater extent in 2022 – from rising raw materials prices (30% vs. 23% in 2021). The surge in commodity prices following the war in Ukraine and the remaining pressure on supply chain led prices for inputs to increase sharply in 2022, putting greater pressure on companies' finances. The slower economic growth in China was the third reason for customers' financial difficulties (Chart 9).



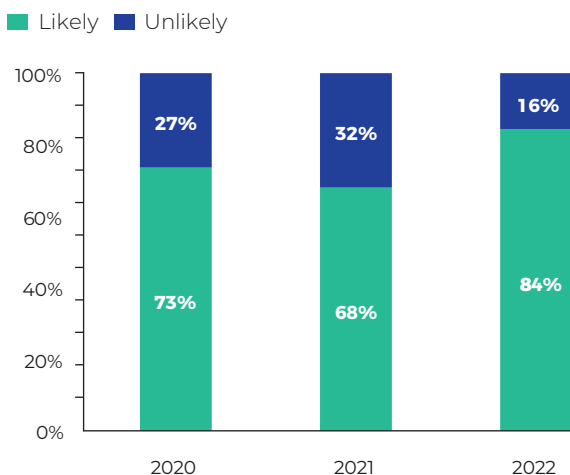
3 ECONOMIC EXPECTATIONS GREATER OPTIMISM AFTER THE END OF ZERO-COVID

Chart 10:
What were the main factors affecting your sales and cash flow in 2022?



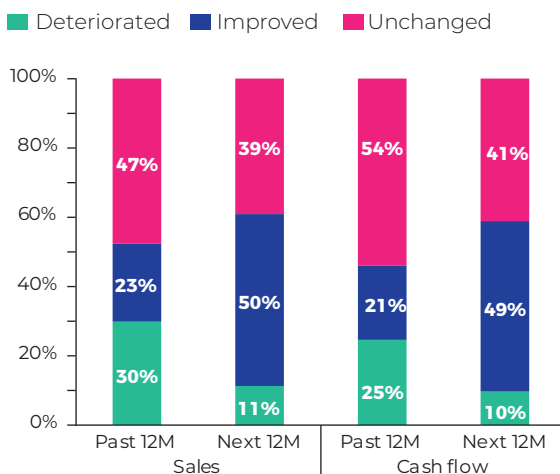
Source: Coface Payment Survey

Chart 11:
Economic growth will improve next year



Source: Coface Payment Survey

Chart 12:
Economic expectations



Source: Coface Payment Survey

- **Stability characterised the year 2022, with almost half (47%) of respondents indicating steady sales performance from the preceding year, up from 32% in 2021.** This increase came at the expense of those that mentioned an improvement in sales, which declined from 38% to 23% in 2022. The survey also showed stable cash flow conditions. Like in 2021, more than half of respondents (54%) indicated unchanged cash flow over 2022. The share of firms indicating improved cash flow was virtually unchanged (22% in 2021 vs. 21%). A similar trend was seen for firms highlighting deteriorated cash flow (25% vs. 24% in 2021).

- **The strict Covid policy in China greatly hit businesses in 2022.** While rising raw material prices and a decline in demand were major factors affecting cash flow and sales, highlighted by 24% and 23% of respondents respectively, **61% of respondents indicated operations impacted by insufficient workforce due to lockdown measures as the top factor affecting cash flow and sales (Chart 10).** Consequently, the effects of COVID-19 were the greatest risk in 2022 for three-quarters of respondents.

- Looking ahead, **respondents were increasingly optimistic about economic prospects in the next 12 months as the Chinese government transitioned away from its zero-Covid policy at the end of 2022.** The share of respondents expecting higher economic growth rose from 68% in 2021 to 84% (Chart 11). Coface expects China's GDP growth to accelerate to between 4% and 5% in 2023, following an underwhelming 3% economic expansion in 2021 (the slowest since 1976 due to the pandemic and real estate downturn).

- **Expectations of sales and cash flows showed greater optimism, albeit more modest.** Those anticipating improved sales performance in the coming year rose from 44% in 2021 to 50% in 2022. The rise in those projecting improved cash flow was larger, from 27% in 2021 to 49% in 2022 (Chart 12). The end of zero-Covid was a key factor for better expectations in 2023.

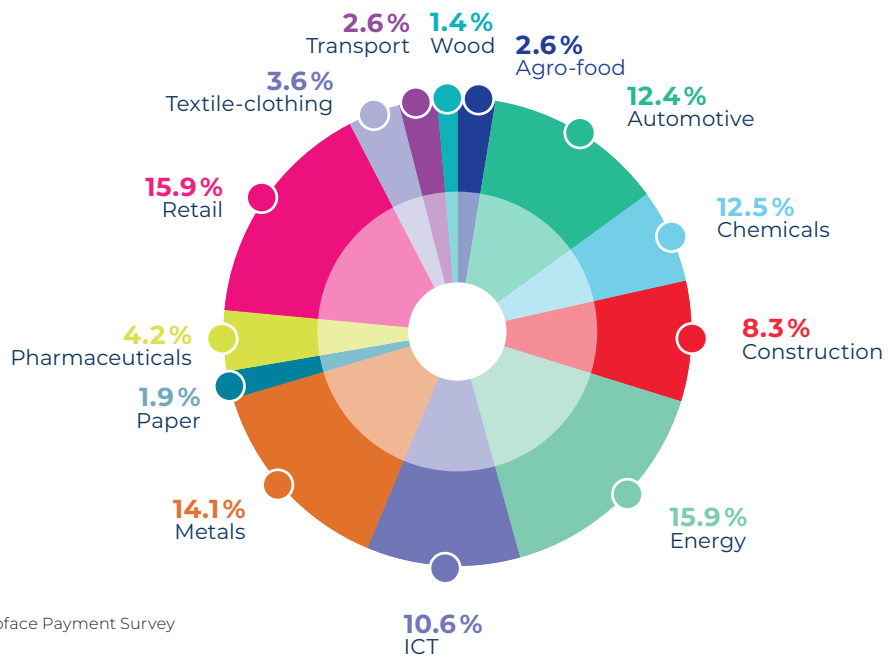
- The more pessimistic sectors were agri-food and wood with respectively 23% and 21% of respondents foreseeing deteriorating sales in 2023. Meanwhile, construction recorded the largest percentage of respondents (16%) highlighting an expected deterioration of cash flow over 2023, followed by agri-food (15%) and wood (14%).

APPENDIX



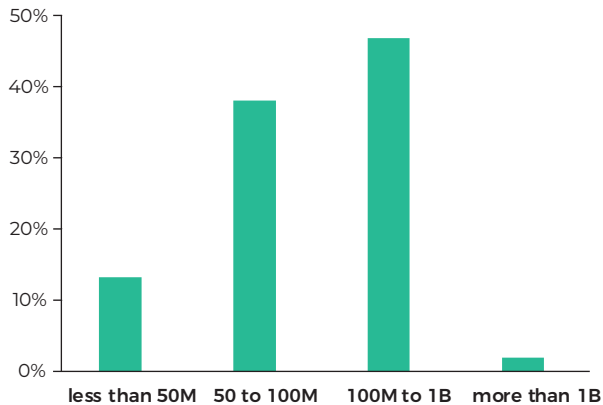
A TOTAL OF
1,000
COMPANIES PARTICIPATED
IN THE PAYMENT SURVEY

Which of the following best describes your company's industry?



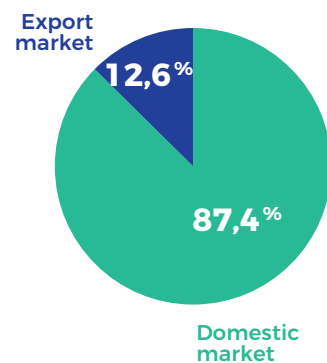
Source: Coface Payment Survey

For 2022, the total estimated sales revenue of your company will be (million RMB):



Source: Coface Payment Survey

Where is your major destination of sales?



Source: Coface Payment Survey

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