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China Payment Survey 2019: Longer delays as growth falters

2018 proved to be a relatively challenging year for China. Growth slowed to 6.6% and is expected to decline further in 2019 (6.2%, according to Coface forecasts). As a result, 59% of the 1500 Chinese companies that participated in Coface's survey believe the economy will not improve in 2019, the worst since 2003. The situation relating to payment delays also deteriorated. 62% of companies in China experienced payment delays in 2018, with 40% of respondents reporting that they recorded an increase in payment delays, much higher than the 29% registered in 2017.

59% of Chinese companies believe the economy will not improve in 2019, the worst since 2003

The Chinese economy experienced some headwinds in 2018. Slower economic growth had implications on Chinese companies. For instance, the amount of corporate bond defaults quadrupled, reaching USD 16 billion, while the number of bankruptcy cases settled through the Supreme Court of the People's Republic of China spiked to 6,646.

These pressures should be understood in the context of deleveraging efforts during the first half of 2018, which led to tighter liquidity conditions. This coincided with an escalation of trade tensions between the United States and China, which eroded consumer sentiment, in turn resulting in weaker domestic consumption. Reflecting these adverse conditions, a majority of respondents believe that it is unlikely that growth will improve in 2019 (59% vs. 33% a year ago). This is the first time that this has happened since Coface started conducting China payment surveys in 2003.

Chinese companies have resorted to using longer payment terms to sustain business levels. Average payment terms increased to 86 days in 2018, up from 76 days in 2017 and in line with a trend that began in 2015, with terms being longest for the automotive and transportation sectors, followed by construction and energy.

Corporate payment behaviour deteriorated: construction, automotive and ICT most at risk

Payment delays also deteriorated in 2018: 62% of companies experienced payment delays in 2018, with 40% reporting that they recorded an increase in 2018, much higher than the 29% registered in 2017. More worryingly, the proportion of respondents experiencing ultra-long payment delays (more than 180 days) exceeding 2% of their annual turnover increased to 55% in 2018 from 47% in 2017. In Coface's experience, 80% of ultra-long payment delays are never paid. When these constitute more than 2% of annual turnover, a company's cash flow may be at risk.



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Additionally, on the high-risk end of the spectrum, the largest proportion of respondents experiencing ultra-long payment delays exceeding 10% of their annual turnover was in the construction sector (28%), followed by automotive (27%) and information & communication technologies (25%). The pharmaceutical sector recorded the lowest proportion (7%), ahead of the agri-food sector (12%). To further aggravate matters, almost 60% of respondents admitted to using banker acceptance drafts and/or commercial acceptance drafts in place of cash for payments. These represent hidden cash flow risks, which may prove problematic as growth continues to slow in 2019.

“After a period of buoyant growth, it seems that unavoidable structural headwinds are finally catching up with China’s economy,” explains Carlos Casanova, Coface’s Economist for the Asia Pacific Region. *“The results of our survey of 1500 Chinese companies confirm that payment behaviors have deteriorated as a result of tighter liquidity and fierce competition, squeezing profit margins. As economic growth slows further, risks will intensify in sectors where a large proportion of companies struggle with cash flows and stress in debt service.”*

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