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COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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Asia Payment Survey 2022:
Asian companies face rising credit risks despite shorter payment delays

The year 2021 was characterised by a stop-start economic recovery amid new COVID-19 variant outbreaks, prompting companies in Asia-Pacific to remain accommodative in the provision of credit terms. Average payment terms increased from 68 days in 2020 to 71 in 2021, as more companies provided longer credit terms, according to the 2022 Asia Corporate Payment Survey. Out of 13 sectors, only textile and energy reported a shortening of credit terms amid rising input prices, especially for energy and fibres, exerting greater cost pressure on these two sectors.

Improved economic conditions in 2021 contributed to a notable fall in the duration of payment delays across Asia-Pacific, dropping from 68 days on average in 2020 to 54 days in 2021, the lowest level in 5 years. The share of respondents experiencing overdue payment remained stable at 64% vs. 65% in the previous year. Among the nine economies covered, payment delays shortened the most in Malaysia and Singapore. By contrast, China was the only country that recorded a rise in payment delays, and was also the country with the longest average payment delay.

However, the survey highlighted some concerns. The share of respondents that mentioned an increase in the amount of overdue went up to 35% in 2021, against 31% in the preceding year. Furthermore, more companies reported ultra-long payment delays (ULPDs) of more than 10% of annual turnover, with this increase driven largely by China where the already high share of 27% in 2020 grew to 40% in 2021. The proportion of ULPDs slightly increased in Australia and India, while it stabilized or declined in the other six economies, with a significant drop in Hong Kong. The large majority of ULPDs are never paid, and therefore, cash-flow risks tend to increase when these ULPDs account for over 2% of a company's annual turnover.

While the majority of respondents showed optimism about the economic outlook, with 71% expecting economic growth to improve in 2022, there are growing downside risks to growth. Continued supply chain disruptions, escalation in geopolitical tensions, elevated commodities prices, and rising interest rates, have dampened business expectations of more companies, with fewer respondents anticipating improved sales and cash flow for the coming year.

The Coface 2022 Asia Corporate Payment Survey was conducted between November 2021 and February 2022. It covered almost 2,800 companies from nine markets and 13 sectors located in the Asia-Pacific region.

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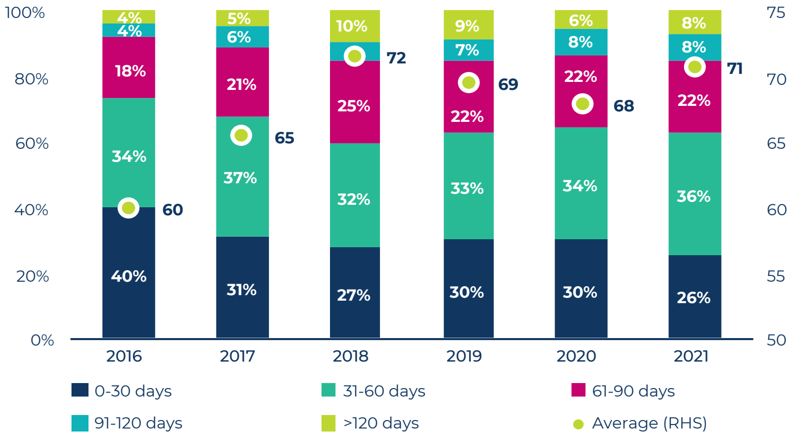
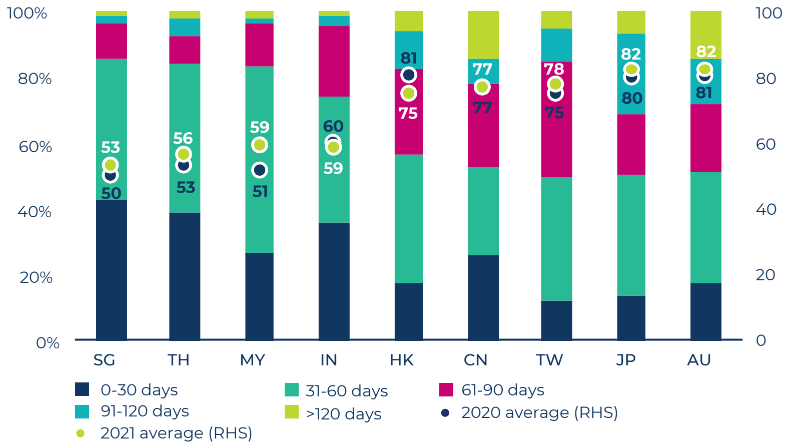
PAYMENT TERMS[1]: FRAGILE RECOVERY INVITES LONGER CREDIT TERMS

Chart 1:
Payment terms in Asia Pacific



Source: Coface Payment Survey

Chart 2:
Payment terms by region



Source: Coface Payment Survey

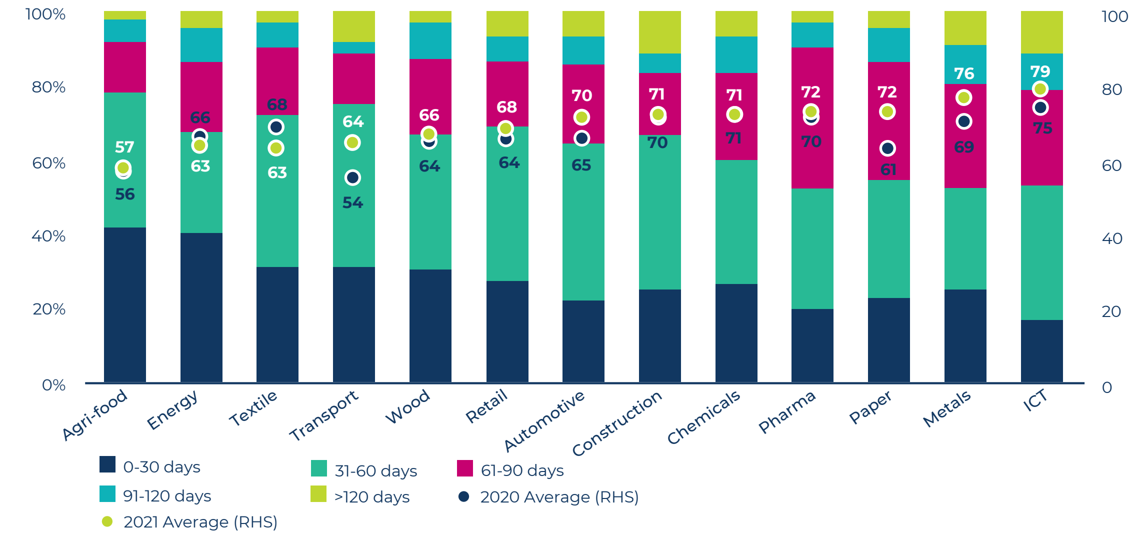
- **After having risen for two consecutive years, the share of companies offering credit terms decreased in 2021, falling to a 9-year low of 77%, from 83% in 2020.** The main reason for credit terms remained market competition and was mentioned more than in the past years (48% of respondents mentioned it, from 43% on average in 2016-20). Respondents were more confident in their customers, as it was the second most common factor for credit terms (30% vs. 26% in 2020).

- **With the economic recovery from the COVID-19 induced crisis undermined by the emergence of new variants (Delta and Omicron) that led to fresh outbreaks in 2021, respondents remained quite flexible in the provision of credit terms.** Average payment terms rose from 68 days in 2020 to 71 days in 2021, as more companies provided longer credit terms. The share of respondents offering credit terms fewer than 30 days declined from 30% in 2020 to 26% in 2021, whereas the proportion of credit terms of 30-60 days and those over 120 days increased **(Chart 1).**

- **Average credit terms vary widely across economies (Chart 2).** Five economies, led by Australia and Japan, posted average credit terms longer than the regional average (71 days). Only two out of nine economies recorded a decline in payment terms between 2020 and 2021, with a decline of six days in Hong Kong, from 81 days (the longest in the previous survey) to 75 days in 2021. Despite an increase, Singapore recorded the shortest average credit term (53 days / +3 days), followed by Thailand at 56 days (+3) and Malaysia at 59 days (+8). By credit payment period, the proportion of respondents with credit terms over 120 days was the highest in Australia (14.5% vs. 15.9% in 2020) and China (14.7% vs. 13.5%).

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

Chart 3:
Payment terms by sector

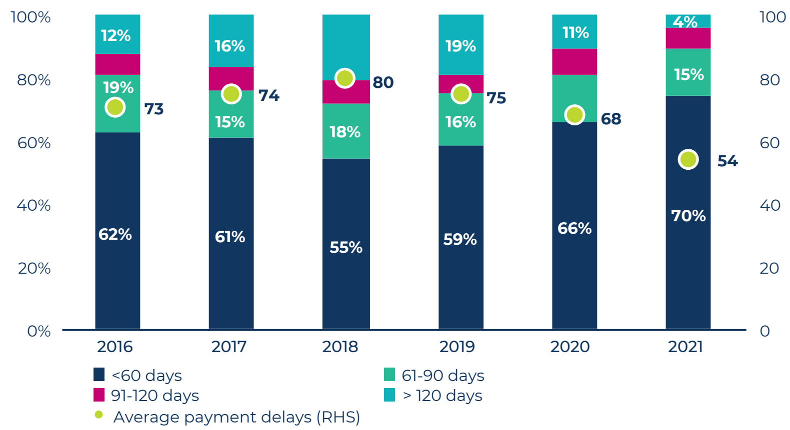


Source: Coface Payment Survey

- **Most sectors offered longer payment terms, with only 2 out of 13 sectors (textile and energy) reporting shortening credit terms (Chart 3).** Rising raw material prices raised input costs for these two sectors, creating greater cost pressures. Energy prices increased sharply in 2021. The textile industry was impacted by higher energy costs since synthetic fibres are derived from petroleum. Meanwhile, prices of natural fibres such as cotton rose rapidly amid reduced output due to weather conditions (drought in Texas). By contrast, paper (+11 days) and transport (+10) registered the highest increases in credit terms, partly due to a higher share in respondents experiencing credit terms above 120 days. The longest credit terms were observed in ICT.

2 PAYMENT DELAYS[2]
SHORTER BUT COSTLIER PAYMENT DELAYS

Chart 4:
Payment delays in Asia-Pacific



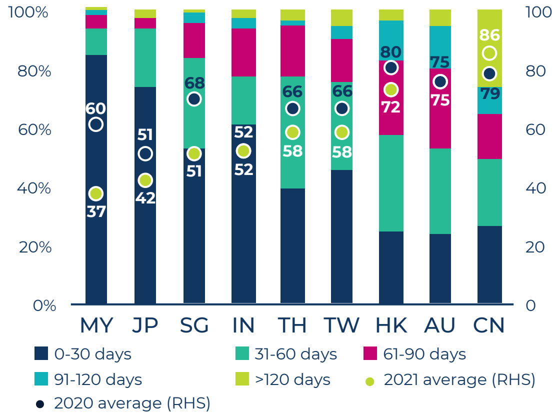
Source: Coface Payment Survey

- **More than two-thirds (64%) of respondents experienced overdue payments in 2021**, a slight decrease from 65% in the previous survey. From a longer-term perspective, the share of companies reporting payment delays has remained broadly stable over the years.

- **The duration of payment delays across Asia-Pacific fell sharply, dropping from 68 days on average to 54 days in 2021, the lowest in five years.** The fall also helped to extend the downward trend since the record of 80 days in 2018 **(Chart 4)**. This drop was mainly driven by fewer companies reporting average delays of 120 days and above. With government policy support gradually lifted throughout 2021 as economies reopened, companies continue to remain cautious about delays.

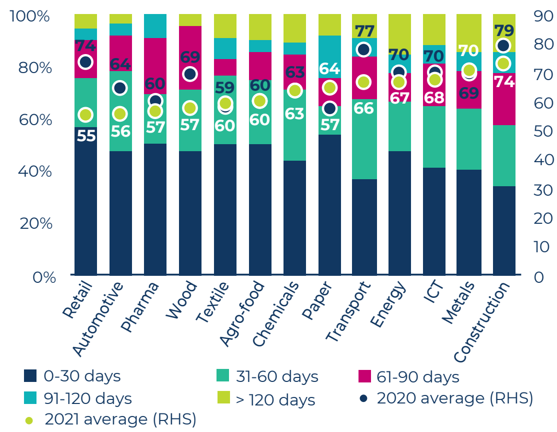
2 Payment delay – the period between the due date of payment and the date the payment is actually made.

Chart 5:
Payment delays by region



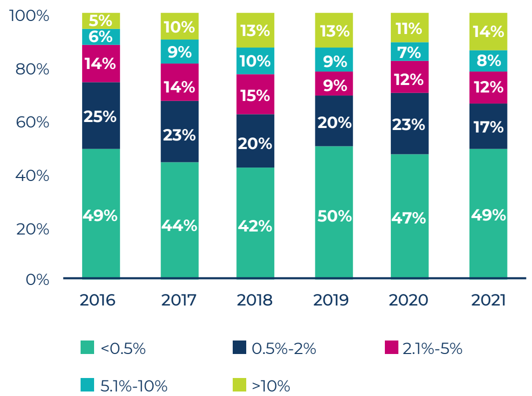
Source: Coface Payment Survey

Chart 6:
Payment delays by sector



Source: Coface Payment Survey

Chart 7:
Overdue exceeding 6 months as a % of annual turnover in Asia Pacific



Source: Coface Payment Survey

- Shorter payment delays were reported across most of the region **(Chart 5)**. Average payment delays were drastically reduced in Singapore and Malaysia, with a decline of 17.7 and 23.1 days, respectively. Meanwhile, Malaysia posted the shortest overdue with an average of 37 days, followed by Japan. By contrast, China was the only market that saw a rise in payment delays, expanding from 79 days in 2020 to 86 days in 2021, making China the country with the longest average payment delay among the nine economies covered in the survey.

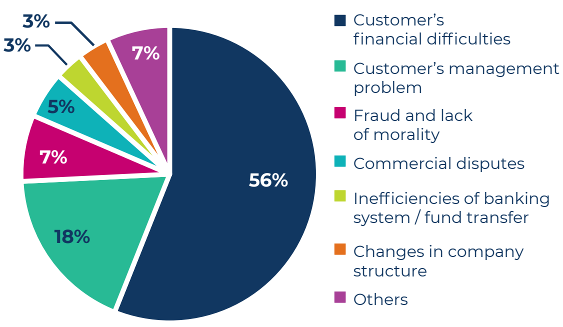
- On a sectoral basis, the reduction in average payment delays occurred in most sectors **(Chart 6)**. It decreased the most in the retail sector (-19.1 days), wood (-11.9) and transport (-11). Only the paper sector registered a clear increase in payment delays, from 57 days in 2020 to 64 in 2021 (+7). Construction and metals have the longest payment delays with 74 and 70 days, respectively.

- **Nevertheless, this improvement in the duration of payment delays masked some underlying worrying developments.** The proportion of respondents reporting an increase in the amount of overdue went up to 35% in 2021 against 31% in 2021. **Furthermore, this was accompanied by an increase in the proportion of respondents experiencing ultra-long payment delays (ULPDs) exceeding 2% of their annual turnover (Chart 7)**. Coface's experience shows that 80% these ULPDs are never paid. Therefore, cash-flow risks tend to increase when these ULPDs account for over 2% of a company's annual turnover. **More concerning, the proportion of companies reporting ULPDs of over 10% of annual turnover has increased** from 11% in 2020 to 14% in 2021.

- The situation, however, greatly varies among economies. China's proportion of respondents with ULPDs over 10% of annual turnover expanded from an already sizeable share of 27% in 2020 to 40% in 2021. There was also an increase, but to a lesser extent, in Australia (+2.7 pp) and India (+1.4). By contrast, this share stabilized or fell in the other 6 economies. It plummeted in Hong-Kong, from 20% to 7% in 2021.

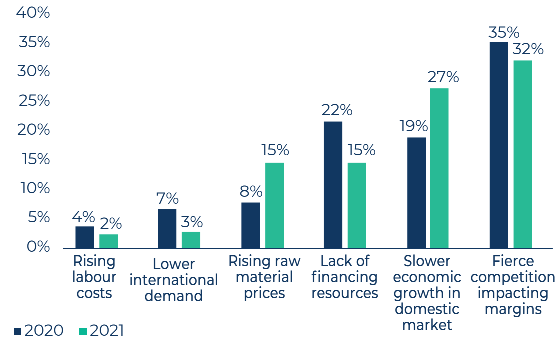
- **Sector-wise, the increase in companies experiencing ULPDs of more than 10% was particularly marked in the metals sector**, for which it increased by 14 pp to nearly 23%, the largest registered among the 13 sectors. Conversely, this share dropped to 0% for the wood sector, from 20% the previous year.

Chart 8:
Main reason for payment delays



Source: Coface Payment Survey

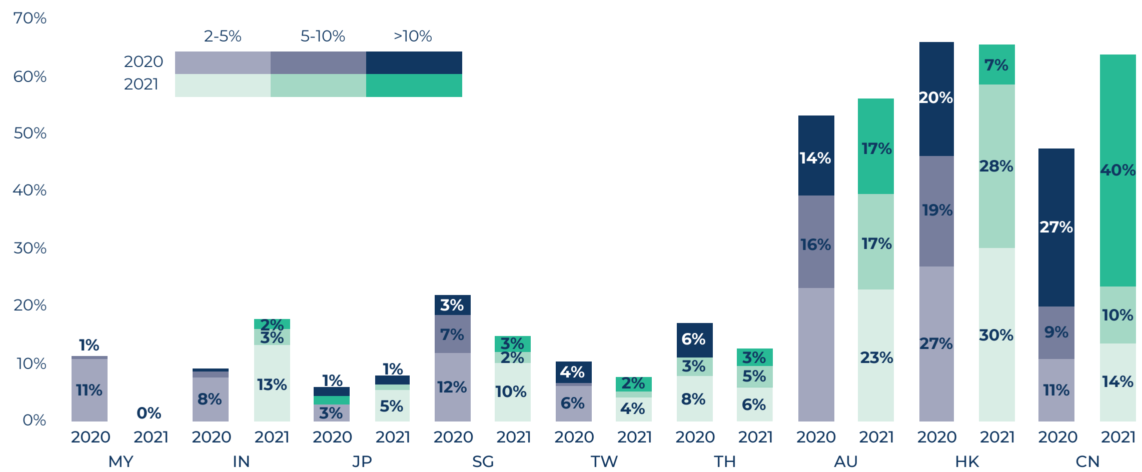
Chart 9:
Reason for customers financial difficulties



Source: Coface Payment Survey

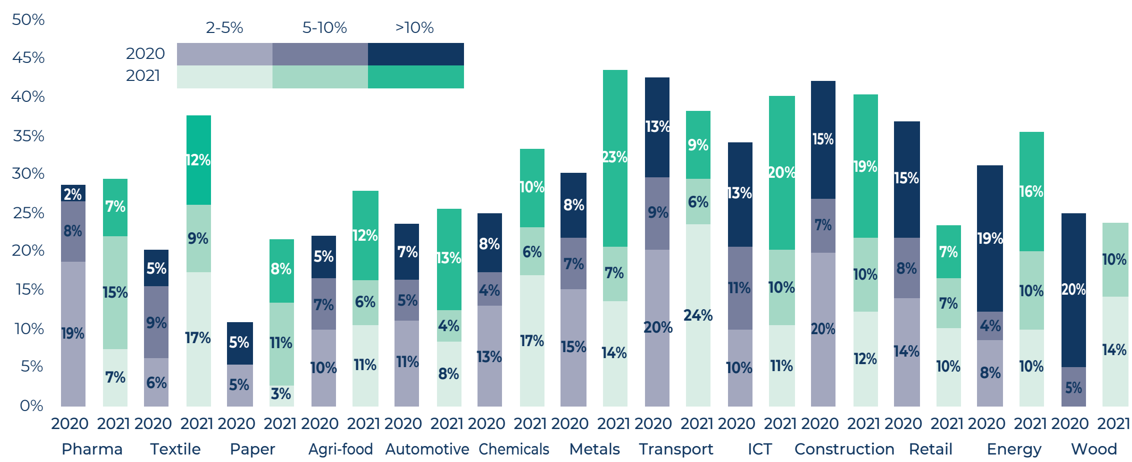
· **The main reason for payment delays remained customers' financial difficulties, as mentioned by 56% of respondents that experienced overdue payments (Chart 8)**. This was especially the case for the retail sector (73%). The most common factor behind financial difficulties was fierce competition that impacted margins, which was highlighted by almost a third of respondents **(Chart 9)**, followed by slower economic growth (27% in 2021 vs. 19% in 2020). Lack of financing resources and rising raw material prices were tied at third place, although the latter was increasingly cited a main reason, by 15% of respondents in 2021, - nearly double from 8% in the preceding year.

Chart 10:
ULPDs and annual turnover by region



Source: Coface Payment Survey

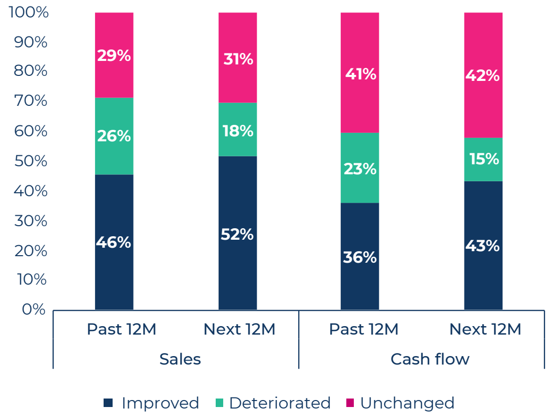
Chart 11:
ULPDs and annual turnover by sector



Source: Coface Payment Survey

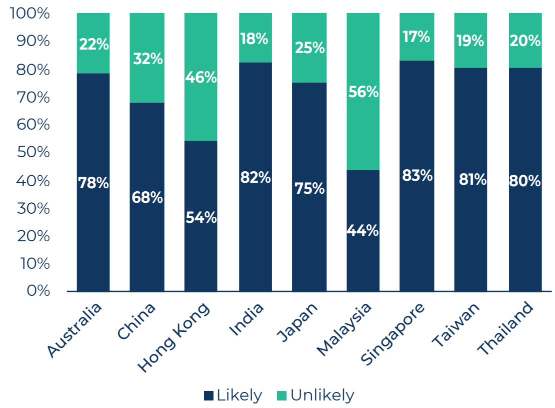
3 ECONOMIC EXPECTATIONS
SUSTAINED OPTIMISM AMID MOUNTING RISKS

Chart 12:
Business expectations (% respondents)



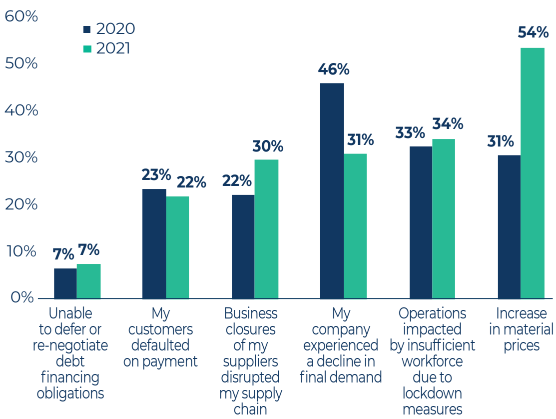
Source: Coface Payment Survey

Chart 13:
Economic growth will improve in 2022 (% of respondents)



Source: Coface Payment Survey

Chart 14:
Effect of COVID-19 on sales and cash flow (% respondents)



Source: Coface Payment Survey

- After the COVID-19 shock in 2020, the year 2021 was marked by an economic recovery from the pandemic, supported by rising vaccination rates, which enabled many economies to gradually reopen. Therefore, 46% of companies expected an improvement in sales in the 12 months preceding the survey, up from 31% in 2020. Likewise, although it does not represent a majority, the share of firms indicating an improvement in cash flow increased from 28% to 36%.

- **Overall, optimism remains intact, with 71% of respondents expecting economic growth to improve in 2022.** This optimism was, however, unequal across the region **(Chart 13)**. Singapore is more optimistic compared to the Asia average, with 83% (+17 pp) anticipating higher growth. Companies in Japan and Thailand, where the recovery was relatively subdued in 2021 and therefore with a greater scope for a stronger recovery in 2022, showed more confidence as well, both rising by 14 pp to 75% and 80%, respectively. By contrast, this share was only 44% in Malaysia, showing a significant decline (-29 pp) as compared to last year amid rising political uncertainty, with the possibility of a snap general election in 2022.

- **While the recovery is set to continue in 2022, expectations about future sales and cash flows were less bright.** The percentage of respondents anticipating improved sales performance in the coming year fell from 59% in 2020 to 52% in 2021. Meanwhile 43% forecasted better cash flow, down from 50% the previous year. The proportion of companies forecasting improved business performance was the lowest in the construction sector. **Growing downside risks to growth, including continued supply chain disruptions, escalation in geopolitical tensions, elevated commodities prices, and rising interest rates, may have dampened business expectations.**

- **Rising raw material prices are increasingly mentioned by respondents when asked about the effect of COVID-19 on their sales performance and cash flow (Chart 14)**. Over half (54%) of the companies mentioned rising raw material prices as a key reason, up considerably from 31% in 2020. Raw material prices rose sharply in 2021, especially for crude oil, and were lifted significantly higher following the conflict in Ukraine. This intensified cost pressures for companies worldwide, including in Asia-Pacific, which heightened the risk of developing cash-flow problems.

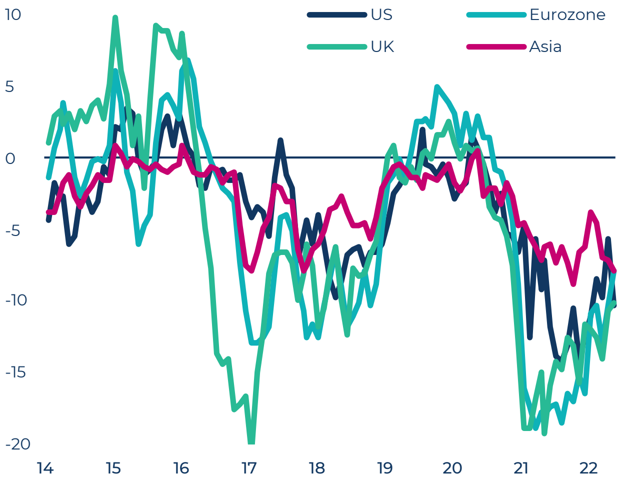
BOX:
BUSINESSES MARGINS INCREASINGLY UNDER PRESSURE

Nowadays, businesses are dealing with a complex environment characterized by supply chain disruptions, geopolitical tensions, and surging inflation. The first element appeared in 2020, when the global economy experienced a sudden and deep recession due to the emergence of the COVID-19. Supply constraints persisted in 2021, partly due to fresh COVID-19 outbreaks and new lockdowns. Nonetheless, the world gradually reopened and private demand rebounded. This widened the gap between demand and supply of many products and raw materials, leading to significant increase in prices. Global supply chain pressures slightly abated at the start of 2022, but were reignited by the Russia-Ukraine conflict. Given both countries' predominant role in global commodity markets, the conflict has led to a further surge in raw material prices, pushing inflation higher and, in turn, wages as well. Consequently, it weighed on business profitability by increasing production costs.

Commodities are inputs for production process in various sectors worldwide. Therefore, such an environment directly affected businesses' financial health, including in Asia, according to Coface's Asia Payment survey, with 54% of respondents mentioning rising material prices as a key adverse factor influencing cash-flow and sales last year. More importantly, the potential impact of higher input costs on business margins is concerning. Purchasing Manager Index (PMI) surveys showed that input prices in Asia-Pacific rose sharply since the second half of 2020, while the rate of increase in output prices was slower than the growth in input prices. This resulted in increased pressure on manufacturers' corporate margins, as businesses were able to only partially pass on higher business costs to their clients.

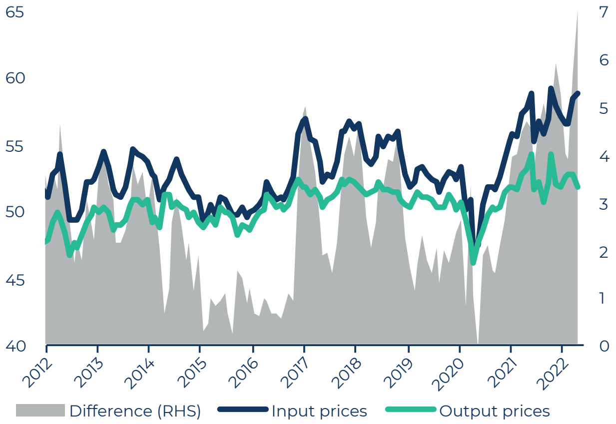
The pass-through of higher commodities prices to consumers was reflected in sharp rises in consumer inflation, particularly in Europe, because of its heavy reliance on Russian energy. Stronger inflationary pressures could constrain consumption growth, resulting in a reduction in demand for consumer-facing sectors. Headline inflation in Eurozone posted a record high of 8.1% in May 2022. After enjoying subdued inflationary pressures through 2021, Asian countries are now recording rapidly rising inflation, especially in food and energy items. In some Asian economies, consumer price index (CPI) growth rate has exceeded central bank's target. This was the case in Thailand, where CPI posted an annual increase higher than the upper value of the central bank's target band of 3% for the fifth consecutive month in May. Inflation target were also breached in Australia, India, and the Philippines. After having experienced deflation during 10 months over 2020/2021, Japanese inflation went above the Bank of Japan's target with 2.5% in April. Facing this surge in living costs, some countries decided to increase wages in order to help consumers to deal with the situation. In Japan, South Korea and Singapore, data revealed that average wage growth has accelerated since 2021. In Southeast Asia, Malaysia introduced a large minimum wage hike of 35% in May 2022. A rise in minimum wage is also set to be implemented in the Philippines in June and in Vietnam the following month. Higher wages is another threat on business profitability, as they lead to higher production costs.

Chart 15:
Manufacturing margin pressure
PMI output price net of input price



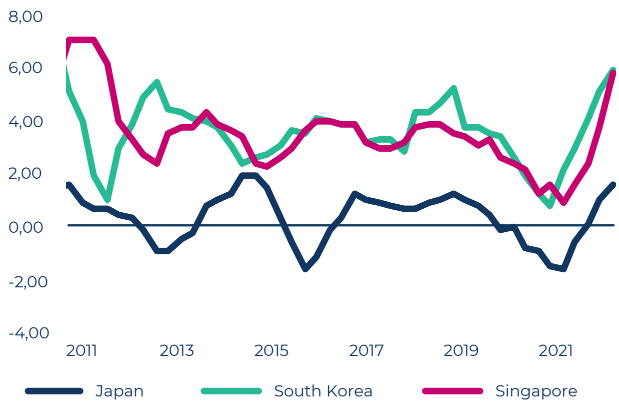
Source: S&P, Coface

Chart 16:
PMI Asia - price indexes
seasonally adjusted



Source: S&P, Coface

Chart 17:
Average wages
NSA, 4qma, % annual change



Source: National sources, Coface

Payment Survey Results By Economy

Australia

COFACE ASSESSMENT: A2

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	85,0%	79,3%	63,6%	74,8%	77,0%	↗	Above
Average payment terms (days)	40	47	36	81	82	↗	Above
Payment delays							
Experienced payment delays	87,1%	73,0%	66,7%	90,7%	93,4%	↗	Above
Payment delays increased	32,4%	29,6%	34,1%	48,5%	50,0%	↗	Above
Average payment delays of more than 90 days	9,5%	12,3%	9,1%	20,4%	19,9%	↘	Above
Ultra long payment delays > 2% of turnover	28,4%	38,3%	20,5%	53,3%	56,1%	↗	Above
Overall						↗	**Above**

China

COFACE ASSESSMENT: B

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	73,6%	67,3%	66,2%	67,4%	66,6%	↘	Below
Average payment terms (days)	76	86	79	77	77	-	Above
Payment delays							
Experienced payment delays	63,8%	62,9%	66,0%	56,8%	52,5%	↘	Below
Payment delays increased	28,6%	40,0%	37,1%	36,3%	42,1%	↗	Above
Average payment delays of more than 90 days	34,4%	38,8%	41,0%	29,5%	35,2%	↗	Above
Ultra long payment delays > 2% of turnover	48,1%	55,3%	52,5%	47,6%	63,8%	↗	Above
Overall						↗	**Above**

Hong Kong

COFACE ASSESSMENT: A3

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	75,4%	91,5%	87,1%	88,6%	87,4%	↘	Above
Average payment terms (days)	56	62	63	81	75	↘	Above
Payment delays							
Experienced payment delays	58,2%	68,9%	85,1%	95,5%	93,9%	↘	Above
Payment delays increased	17,7%	23,3%	37,2%	59,4%	56,5%	↘	Above
Average payment delays of more than 90 days	15,9%	11,0%	10,5%	32,3%	17,7%	↘	Above
Ultra long payment delays > 2% of turnover	26,2%	27,4%	18,6%	66,1%	65,6%	↘	Above
Overall						↘	**Above**

India

COFACE ASSESSMENT: C

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	94,1%	96,0%	97,5%	95,7%	97,1%	↗	Above
Average payment terms (days)	60	50	42	60	59	↘	Below
Payment delays							
Experienced payment delays	86,8%	82,0%	86,3%	83,3%	69,8%	↘	Above
Payment delays increased	35,7%	20,5%	17,6%	20,0%	26,6%	↗	Below
Average payment delays of more than 90 days	28,6%	23,4%	2,4%	7,2%	6,9%	↘	Below
Ultra long payment delays > 2% of turnover	36,8%	21,0%	11,4%	9,2%	17,9%	↗	Below
Overall						-	**Below**

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme

Japan

COFACE ASSESSMENT: A2

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	67,8%	86,4%	87,5%	87,5%	90,2%	↗	Above
Average payment terms (days)	102	73	88	80	82	↗	Above
Payment delays							
Experienced payment delays	50,0%	41,8%	41,7%	41,9%	40,2%	↘	Below
Payment delays increased	16,4%	14,6%	12,9%	22,4%	5,4%	↘	Below
Average payment delays of more than 90 days	17,8%	12,2%	4,3%	4,5%	3,3%	↘	Below
Ultra long overdue amounts > 2% of turnover	6,8%	8,5%	8,6%	6,0%	8,0%	↗	Below
Overall						-	**Below**

Malaysia

COFACE ASSESSMENT: A4

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	80,6%	88,9%	92,0%	91,5%	70,5%	↘	Below
Average payment terms (days)	48	68	64	51	59	↗	Below
Payment delays							
Experienced payment delays	20,6%	65,7%	66,5%	69,2%	99,1%	↗	Above
Payment delays increased	21,2%	26,5%	25,6%	12,2%	50,5%	↗	Above
Average payment delays of more than 90 days	6,1%	26,5%	29,3%	10,1%	2,3%	↘	Below
Ultra long overdue amounts > 2% of turnover	9,1%	36,8%	33,1%	11,5%	0,0%	↘	Below
Overall						-	**Below**

Singapore

COFACE ASSESSMENT: A2

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	90,4%	83,7%	86,4%	89,3%	85,2%	↘	Above
Average payment terms (days)	69	54	54	50	53	↗	Below
Payment delays							
Experienced payment delays	72,0%	71,1%	65,0%	59,5%	71,0%	↗	Above
Payment delays increased	29,2%	16,0%	20,1%	13,3%	14,8%	↗	Below
Average overdue times of more than 90 days	22,2%	19,3%	18,7%	14,7%	4,7%	↘	Below
Ultra long overdue amounts > 2% of turnover	44,4%	23,5%	21,6%	22,0%	14,8%	↘	Below
Overall						-	**Below**

Taiwan

COFACE ASSESSMENT: A2

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	77,8%	88,7%	85,7%	84,7%	69,9%	↘	Below
Average payment terms (days)	71	72	71	75	78	↗	Above
Payment delays							
Experienced payment delays	60,7%	58,3%	55,4%	50,5%	49,0%	↘	Below
Payment delays increased	14,0%	18,0%	25,8%	24,6%	20,1%	↘	Below
Average payment delays of more than 90 days	17,5%	15,7%	18,8%	17,3%	10,1%	↘	Above
Ultra long payment delays > 2% of turnover	10,5%	9,2%	7,0%	10,5%	7,7%	↘	Below
Overall						↘	**Below**

Thailand

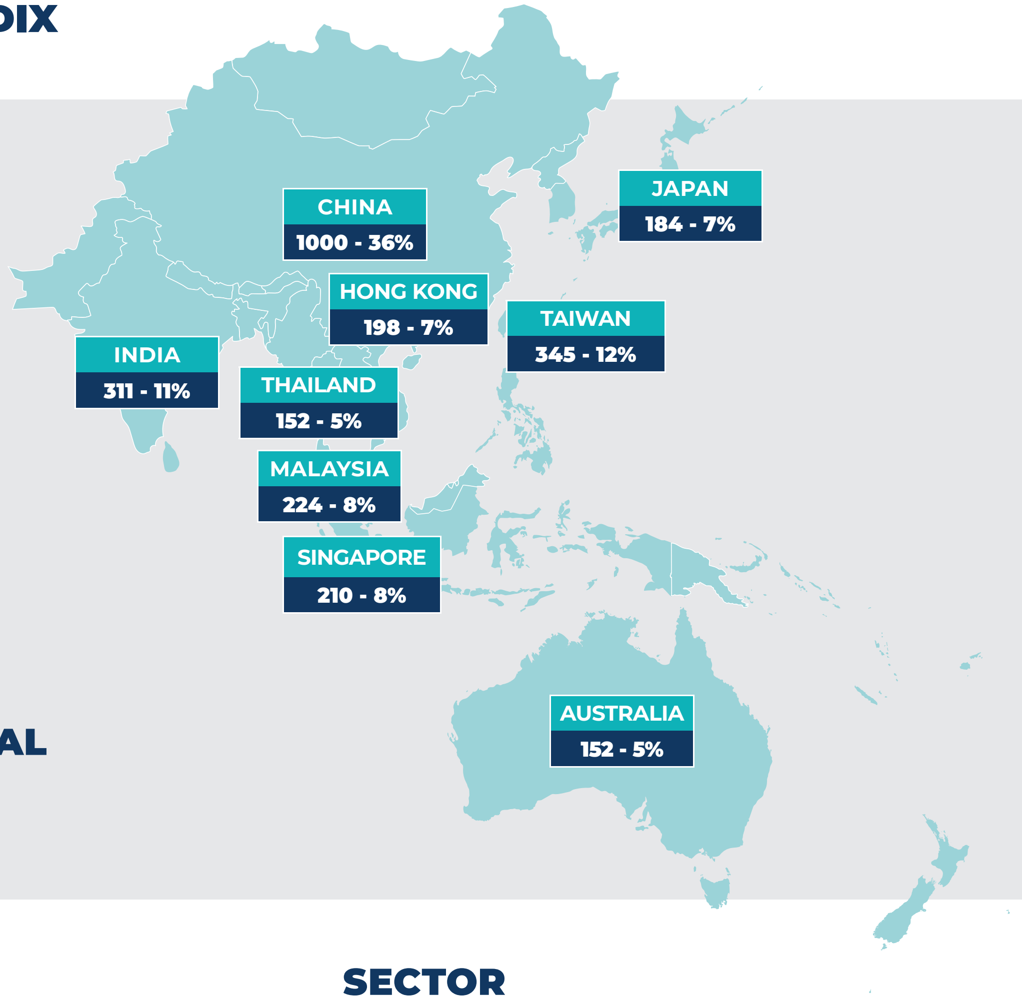
COFACE ASSESSMENT: A4

	2017	2018	2019	2020	2021	2021 vs. 2020	vs. APAC
Payment terms							
% of respondents offering payment terms	82,2%	84,7%	90,1%	89,3%	82,9%	↘	Above
Average payment terms (days)	53	42	53	53	56	↗	Below
Payment delays							
Experienced payment delays	51,8%	54,0%	55,3%	58,7%	65,1%	↗	Above
Payment delays increased	31,3%	26,1%	42,4%	33,3%	39,6%	↗	Above
Average payment delays of more than 90 days	11,5%	8,0%	17,6%	14,4%	5,9%	↘	Below
Ultra long overdue amounts > 2% of turnover	22,1%	23,9%	24,7%	16,9%	13,9%	↘	Below
Overall						-	-

BUSINESS DEFAULT RISK

A1 Very Low
A2 Low
A3 Satisfactory
A4 Reasonable
B Fairly High
C High
D Very High
E Extreme

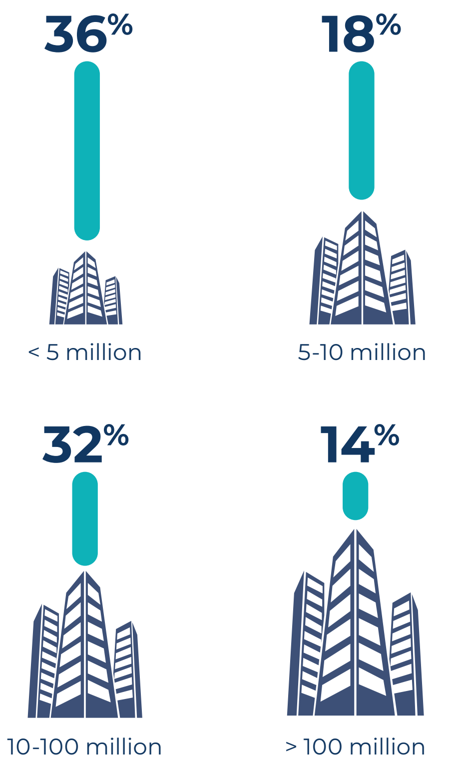
APPENDIX



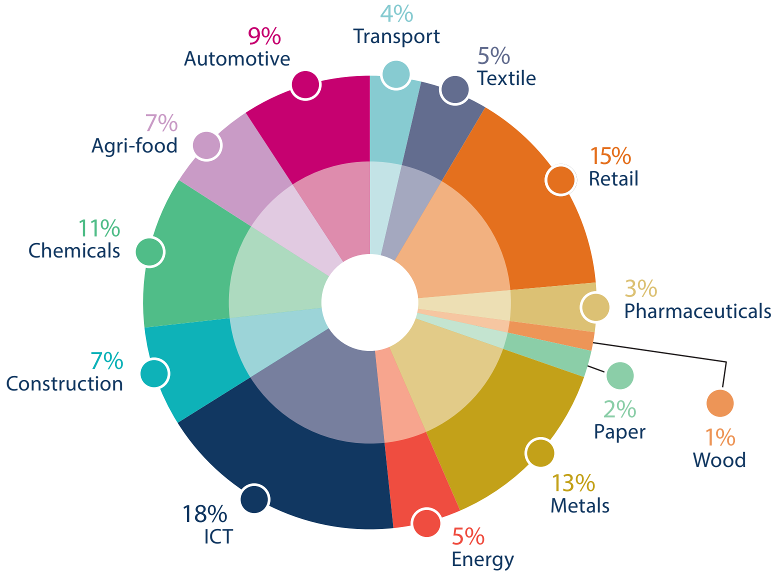
2,776
COMPANIES

GEOGRAPHICAL DISTRIBUTION

SIZE BY TURNOVER



SECTOR DISTRIBUTION



GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

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