PANORAMA

April 2015

What we see in the Asia Pacific region

COFACE ECONOMIC PUBLICATIONS

By Coface Asia Pacific Economist based in Hong Kong

Coface conducts an annual survey to examine corporate payment trends and experiences in the Asia-Pacific region. In 2014, the survey was conducted in 8 economies – Australia, China, Hong Kong, India, Japan, Singapore and Taiwan, as well as, for the first time, Thailand. The study revealed some key indicators that showed signs of a slight deterioration. Overdues have become a more common occurrence for more respondents and a slightly higher percentage reported that the average length of overdue periods was longer than 90 days. In addition, more respondents indicated that overdue amounts have increased over the last year.

On the other hand, with improvements in issues concerning ultra-long overdues, we can see that the more prudent attitude taken towards credit management seems to have shown its usefulness. To prove the validity of this opinion, we investigated insolvency trends in these economies and concluded that risks are improving in Japan, Singapore, and Taiwan. For this report, several risk underwriters also shared their on-the-ground views on sector development in their respective economies.

From *Occupy Central* in 4Q2014, to the segregated protests against "parallel traders" in 1Q2015, Hong Kong grabbed the world's attention. While economic data has not yet fully reflected the impact from these events, Coface expects stronger headwinds in 2015, despite the expectations of a moderate pickup in growth resulting from the sustained recovery in the west. Already hit by the economic slowdown in China, Hong Kong's economy is showing *flu-like* symptoms – illustrated by the feverish property sector and the fatigue experienced by the retail sector.

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APRIL 2015

SOME KEY INDICATORS FROM THE SURVEY REVEALED SIGNS OF A SLIGHT DETERIORATION.

BY OUR ECONOMIST

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« As a region, overdues have become a more common experience for more respondents. Also, a slightly higher percentage of respondents reported that the average length of overdue periods was longer than 90 days. In addition, 36.8% of the respondents mentioned that overdue amounts increased over the last year. This data may point to deteriorated payment experiences in the region. »

SUMMARY

Coface (Asia Pacific) conducts surveys in 8 economies to trace the evolution in corporate payments. This report is designed to be a point of reference which gives readers an overview of the economic and industrial development in these countries. The study is supported by the results of the payment survey, as well as other macroeconomic and microeconomic indicators.

Some key indicators from the survey revealed signs of a slight deterioration. Firstly, overdues have become a more common experience for more respondents, with 69.9% of the respondents sharing experiences of overdues during 2014, compared to 67.7% in 2013 and 67.5% in 2012. Secondly, a slightly higher percentage of respondents reported that the average length of overdue periods was longer than 90 days. 14.8% of respondents stated that the average overdue period experienced was longer than 90 days, marginally higher than the 14.5% in 2013 (vs. 13.2% in 2012). In addition, 36.8% of the respondents mentioned that overdue amounts increased over the last year, compared to 34.7% in 2013. This data may point to deteriorated payment experiences in the region.

Nevertheless, it appears to us that companies were less frequently troubled by ultra-long overdues (i.e. overdues of over 180 days). Only 24.9% of the respondents reported that these ultra-long overdues weighed more than 2% of their annual turnover (sales). This is noticably lower than the 29.6% and 37.2% reported in 2013 and 2012, respectively. As these ultra-long overdues are quite likely not to be paid, the reduction of reported issues is seen as a positive development.

Marked progression in corporate payment experience is to be found in Australia, which saw improvements in terms of i) overdue occurrences, ii) length of average overdues and iii) potential financial issues related to ultra-long overdues. In addition, we note that Taiwan and Singapore saw enhanced payment experiences in 2014, as suggested by improvements in 2 of the 3 aforementioned indicators. Insolvency trends and business closures in Taiwan and Singapore also remained at low levels, which further supports our view.

Several indicators suggest that corporate risk in Hong Kong may be on the rise. Firstly, in 2014, overdues became more common and more companies reported that average overdue periods extended to over 90 days. Moreover, cases of insolvency rose by 3.1% YoY in 2014, reaching a level that was last seen in 2010 when the city was hit by the waves of the global financial crisis, causing concerns on further deterioration. In addition, the city's economic activities are tied to China and recent developments – including but not limited to the anti-parallel traders activities in Hong Kong and trends of Chinese travelers visiting other destinations – may negatively impact businesses in the special administrative region. Uncertainties are clouding Hong Kong's economy.

1 PAYMENT SURVEY BACKGROUND

Coface (Asia Pacific) conducts surveys in 8 economies to trace the evolution of experience in corporate payments.[1] This report is designed to be a point of reference which gives readers an overview of the economic and industrial development in these countries. The study is supported by the results of the payment survey, as well as other macroeconomic and microeconomic indicators.

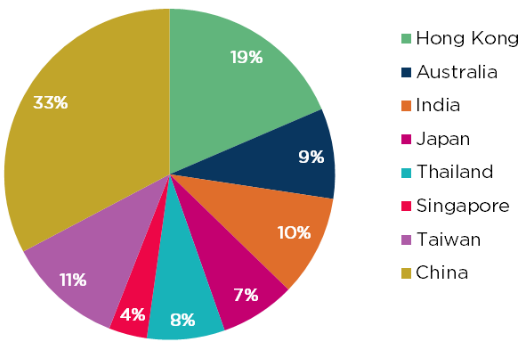
This report will also enable readers to understand the general status of corporate credit management practice and experience in selected Asian countries. By analysing the responses of the survey, we can gain a better understanding of Asia-based companies' payment experiences and how credit management tools are being used to mitigate risk.

Data collection was effected in 4Q2014. Across the 8 economies covered in the report, we received valid responses from 2,695 companies.[2] Around 33% of the companies were located in China. Hong Kong (19%), Taiwan (11%), India (10%) and Australia (9%) represented approximately half of the sample size, while Thailand, Japan, and Singapore accounted for the remaining survey respondents.

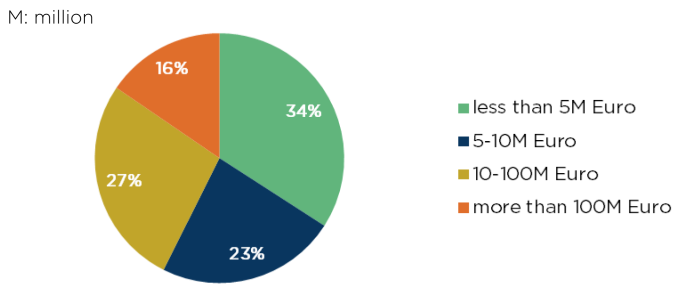
The survey respondents represented a wide-range of company sizes. Among the respondents, 34% had estimated sales revenues of lower than EUR 5m in 2014, while 23% expected sales revenues to be between EUR 5m and EUR 10m. 27% of companies had estimated revenues of between EUR 10m and EUR 100m, while 16% had annual revenues of over EUR 100m.

The survey includes information from various industry sectors. As illustrated below, the most highly represented industry is "industrial machinery & electronics", which accounts for slightly more than 18% of the sample size. Other well represented industries in the survey include "chemicals" (12%), "household electric & electronic appliances" (9%) and "metals" (8%).[3]

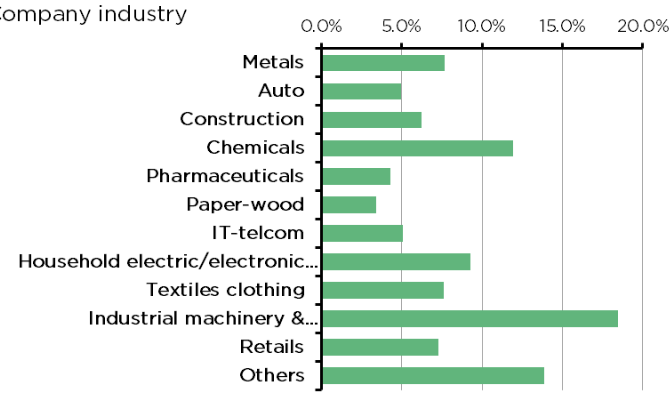
Countries of respondents



What is the total estimation of sales revenue of your company in 2014?



Company industry



[1] Australia, China, Hong Kong, India, Japan, Singapore, Taiwan, and Thailand
[2] Survey data is collected by Coface Asia-Pacific's local marketing teams and external consultants. Data is then consolidated by Coface marketing staff in Hong Kong. The author of this report would like to thank the colleagues in the marketing department who contributed tremendously to the report.
[3] "Household electric/electronic appliances" are defined as products that are readily available to be used domestically; "industrial machinery & electronics" are defined as products that are for industrial use or semi-finished products.

2 CORPORATE PAYMENT EXPERIENCE IN ASIA

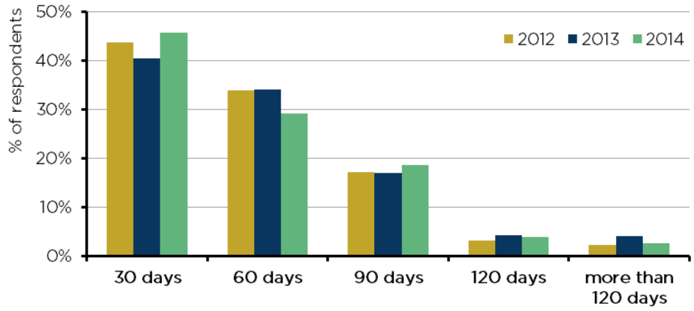
Similar to our findings in previous years, credit sales were adopted by some 85% of this year's survey respondents, largely due to "market competition" (51.8% in 2014 vs. 52.4% in 2013) and increasingly because of "confident in customers' ability to pay" (24.9% in 2014 vs. 22% in 2013). Credit extension practices in the 8 economies surveyed have remained largely in-line with those seen in 2013, with some signs of more prudent credit control practices across the region.

Most companies are trying to control their average credit terms to below 60 days. In 2014, 25.1% of respondents mentioned that the average credit terms extended to their customers were over 60 days, compared to 25.4% in 2013 and 22.5% in 2012. As regards maximum credit terms seen during the year, it was notable that an increased share of companies intend to refrain from granting overly-long credit terms. In 2014, "only" 33.2% of companies reported that the maximum credit term given was 120 days or longer, compared to 39.1% of respondents in the 2013 survey.

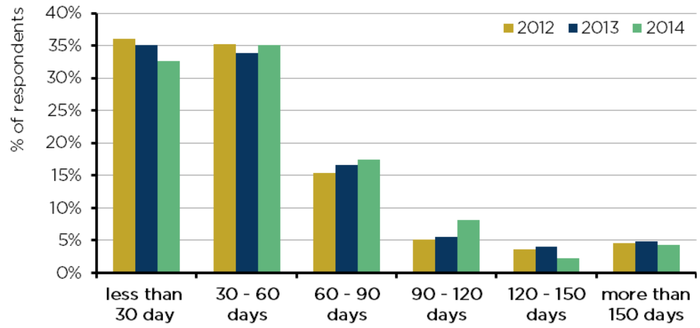
The overdue situation in the countries surveyed has remained similar to last year's, with key indicators pointing to some signs of a slight deterioration. Overdues have become a more common experience for more respondents, with 69.9% reporting experience of overdues during the year, compared to 67.7% in 2013 and 67.5% in 2012. Moreover, a slightly higher percentage of respondents noted that the average length of overdue periods was longer than 90 days. 14.8% of respondents shared the fact that average overdue periods experienced by their companies was longer than 90 days, marginally higher than the 14.5% in 2013 (and 13.2% in 2012). Similarly, it appears from the survey that a lower percentage (32.6% in 2014 vs. 35% in 2013) of companies faced relatively short-term overdues of lower than 30 days. In addition, 36.8% of the respondents said that overdue amounts have increased over the last year, compared to 34.7% in 2013. This data may point to deteriorated payment experiences in the region.

Nevertheless, it was not all bad news regarding the region's payment experiences. From the survey findings, it appears that companies have been less frequently troubled by ultra-long overdues (i.e. overdues of over 180 days). Only 24.9% of respondents reported that ultra-long overdues weighed more than 2% of their annual turnover (sales) - which is notably lower than the 29.6% and 37.2% in 2013 and 2012, respectively. Taking a more in depth look at the data, as illustrated in the chart below, there are improvements, with a drop in reported issues relating to ultra-long overdues weighing more than 5% of company turnover. This is important, because it is our experience that these ultra-long overdues are quite likely not to be paid at all. Thus, if they weigh more than 2% of annual turnover, they could lead to tremendous cash flow problems for the company concerned.

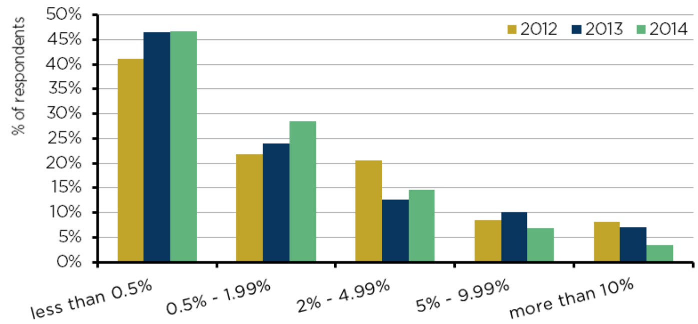
The average credit terms (from date of invoice) offered to your customers during the last 12 months is: (one answer only)



On average, what is the length of overdue (days) for your credit sales?



The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



3 COUNTRY BY COUNTRY ANALYSIS

While the previous sections have given more topline views on the emerging trends of corporate payment experiences in the Asia-Pacific region, the following pages will focus more on the performances of individual countries covered in the survey. It should be noted that Thailand has no comparison from previous years.

For each of the countries discussed below, we will cover the overall corporate payment experience and corporate payment experiences of an industry. These industries were selected either because they have the most representative sample size from the survey in the respective country, or because some specific trends are worth mentioning.

Some key figures are illustrated below:

	Overdue occurrence			Average overdue periods over 90 days			Ultra-long overdues > 2% of turnover			Did not use credit management tool	
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2013	2014
APAC	67%	68%	70%	13%	14%	15%	37%	30%	25%	36%	37%
Australia	83%	85%	74%	9%	10%	7%	43%	23%	17%	24%	32%
China	77%	82%	80%	13%	18%	20%	36%	33%	30%	37%	30%
Hong Kong	57%	53%	55%	19%	12%	18%	49%	35%	33%	39%	48%
India	56%	63%	86%	18%	10%	10%	60%	30%	24%	42%	47%
Japan	42%	36%	43%	7%	6%	10%	14%	8%	7%	14%	12%
Singapore	68%	76%	85%	20%	21%	10%	53%	45%	23%	37%	29%
Taiwan	77%	56%	48%	7%	14%	21%	11%	16%	15%	43%	50%
Thailand[4]	N/A	N/A	89%	N/A	N/A	4%	N/A	N/A	19%	N/A	37%

Source: Coface

In addition, where applicable, the report also features evolving trends concerning company closures in the countries, as well as interviews with Coface's local risk managers. This report also features slightly expanded analyses on Hong Kong's retail and property sectors, which are set to face headwinds in 2015.

For other information regarding the macroeconomic trends in various economies, please refer to our website www.coface.com.

[4] Coface conducted the payment survey in Thailand for the first time in 2014

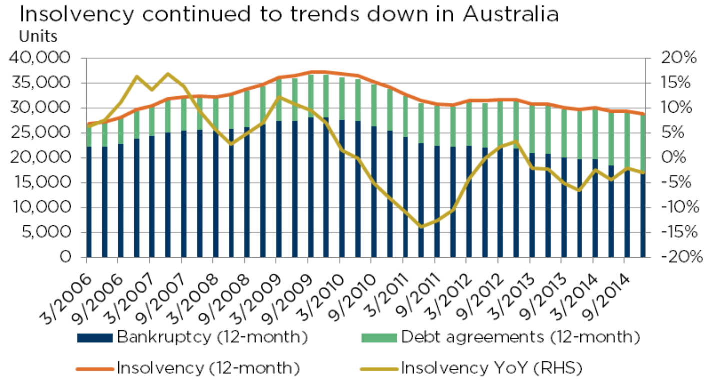
AUSTRALIA – IMPROVED CORPORATE PAYMENT EXPERIENCE. RISKS SEEN ON-THE-GROUND.

Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A2	A2	A1	2.7	2.2

Source: Coface

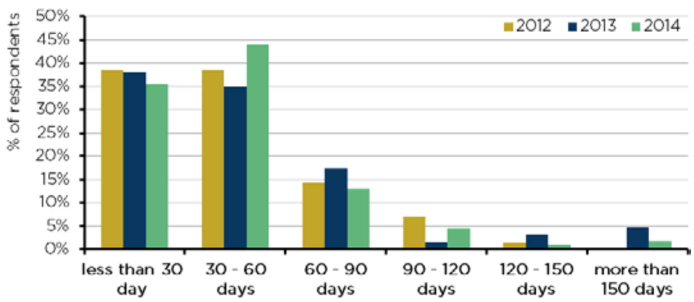
In Australia, overall payment experience has seen marked improvement. Overdues were experienced by 73.5% in 2014, showing a sharp improvement compared to the 85.1% in 2013 and 83.3% in 2012. On average, credit terms extended by Australian businesses were slightly extended in 2014 compared to previous years. 5.6% of the respondents reported that average credit terms extended to customers were over 60 days, compared to 5.1% and 5.1% of respondents in 2013 and 2012, respectively. On the other hand, average overdue periods became less of an issue for companies based in Australia. 7.4% of the surveyed companies declared that average overdue periods lasted longer than 90 days, compared to 9.5% in 2013 and 8.6% in 2012.

Insolvency continued to trends down in Australia



Source: Coface, CEIC data

Australia: On average, what is the length of overdue (days) for your credit sales



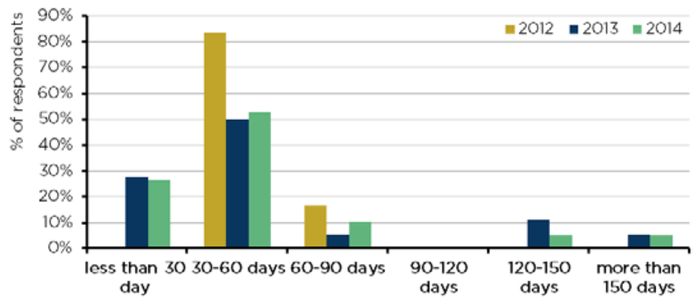
It is also noteworthy that ultra-long overdues became less of an issue in 2014 compared to previous years. "Only" 16.6% of respondents reported 180-day-or-longer overdues that weighed more than 2% of their companies' annual turnover, a dramatic decrease compared to the 23% of respondents in 2013 and 42.9% in 2012. These trends suggest that pressure on companies due to payment experience has eased during the course of 2014.

The improving payment experience is in-line with the country's insolvency trends. On a 12-month running basis, insolvency in Australia has registered 8 consecutive quarters of year-on-year decline. As of the end of 2014, insolvency declined -2.9% YoY, with 28,893 cases of insolvency in the full-year of 2014. 17,358 of these cases were identified as bankruptcy cases, while parties reached debt agreements in 11,322 cases during the period.

Construction sector in Australia

As it represented the largest portion of the sample size in Australia, survey data on the construction sector was analyzed in greater detail. Generally speaking, similar to the overall trends observed in the survey sample, payment experience in the construction sector has seen some degree of improvement. Credit terms extended to customers by companies in the industry have stayed within 60 days. This was the same situation as in 2012 and relatively more prudent than in 2013, when 4.8% of respondents extended credit terms of longer than 60 days. 83% of the respondents in Australia's construction industry reported that they had experienced overdues in 2014, compared to 86% and 100% in 2013 and 2012, respectively. Overall, overdue periods have been more controlled, with 10.5% of respondents from the industry reporting average overdue periods of over 90 days, lower than the 17% in 2013.

Construction sector in Australia:
On average, how long is the above mentioned overdue days?



What could indicate a potential risk, is the rise in responses showing that ultra-long overdues weighed more than 2% of companies' annual turnover. 31.6% of the survey's respondents in the construction industry indicated that they had had this experience in 2014, compared to 27.8% in 2013 and 50% in 2012. Although it is arguable that the increase is not dramatic and is less severe when compared to 2012, with the likelihood of these ultra-long overdues not being paid at all, some of the sector's participants could encounter problems.

Looking ahead, the lackluster investment sentiment will be a barrier to a breakthrough in economic growth. As much as the commodities sector has been contributing to Australia's growth in previous years, investment activities – particularly investments in commodity-related industries – continued to weaken in 2014, due to lackluster commodity prices. The Australian government has enhanced incentives to stimulate investment, by pledging a bonus of 15% of the proceeds from the sales of public infrastructure assets, provided that the income is reinvested in new infrastructure projects. This, together with country's strong property sector, may stabilize the construction sector in the near-term.

Box 1

Views from the country manager/underwriter in Australia

Most sensitive sectors

The two sectors that are most attention-worthy are the mining and automotive sectors. The country's mining sector is expected to face headwinds in the near-term. Given the continuing decline in commodity prices, special attention is required for small and new mining companies with high-leverage and high cost-structures. As concerns the auto sector, as all three main car manufacturers are due to exit the Australian market over the next 2 to 3 years, development in the sector will see drastic changes.

Other sectors to be closely watched

The retail sector could see some challenges in the near-term. This is primarily led by low consumer confidence. Moreover, the strong Australian dollar is making imports cheaper and competition is also increasing from online-shopping sites offering prices that are competitive compared to local retail markets. We can see that consumers are trying to reduce their debts and are becoming more price conscious in their purchases. Hard discounting is becoming more common and is impacting retailers' margins.

Moreover, the high debt-levels of agricultural industry participants may be a problem. As ever, weather conditions are a determining factor for farming-related industries and drought has been prominent for several years in large agricultural areas – including parts of Queensland, New South Wales, Victoria, South Australia, and Western Australia. All have been affected at some point over the past 10 years, with some areas suffering from drought for several years in a row. At the same time, flood rains have also affected parts of the country in recent years, while cyclones are not uncommon in the north (Northern Territory) and east of the country (Queensland). Droughts were pronounced in central Queensland over the past year and earlier in 2015, a couple of cyclones hit the north east of the state. These factors bring uncertainty to the agricultural industry.

Other developments to be noted

Australia has engaged in trade talks with different nations, particularly with the signing of free-trade agreements with China, Japan and Korea in late-2014. These developments, together with the recent weakness in Australian Dollar, should benefit export sectors –in particular the country's agro-food sector.

CHINA – PRESSURE FROM HIGH LEVERAGE, HIGH COST OF FINANCING AND LOW PROFITABILITY. RISKS ACROSS SECTORS.

Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A3 (-ve watch)	A3 (-ve watch)	B	7.4	7

Source: Coface

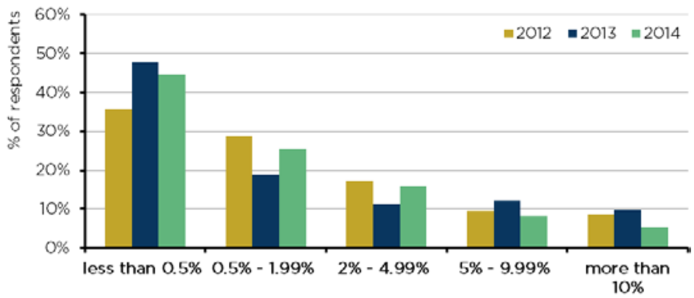
(With slight editorial changes, the following section is extracted from China: The not-so-calm Year of the Sheep)

From this year's survey results, China-based firms appear to have become more prudent in granting credit facilities to their customers, possibly as a result of weak payment experiences in 2013. Supporting this view is the decline in the length of credit terms and the lower percentage of respondents who experienced overdue payments in 2014 compared to the previous year. Only 7.5% of the survey's respondents said that the average credit-terms extended by their companies was 120 days or longer, compared to 11.4% in the 2013 survey.

Examining trends in overdue occurrences, payment experiences deteriorated noticeably in 2013, but the situation stabilized in 2014. Compared to 2013, when 81.9% of survey respondents reported overdues in their business, 79.8% of the respondents said that they have seen overdue issues in their credit sales in 2014. The slight improvement in this category could be in-line with more prudent credit control, as mentioned in the previous paragraph. Indeed, some companies reported that they were more prudent in their granting of credit-terms to customers in 2014 compared to the previous year.

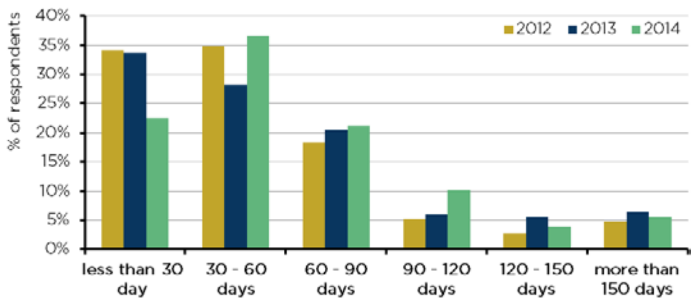
Pressure resulting from ultra-long overdue payments (i.e. more than 180 days) eased in 2014 compared to 2013. 29.8% of the respondents reported ultra-long overdue payments weighing more than 2% of their annual sales, compared to 33.4% in 2013 and 35.6% in 2012. These ultra-long payments, which weigh heavily as a percentage of company sales, logically lead to pressure on companies' financials.

China: The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



Nevertheless, when overdues occurred in 2014, the amounts were generally higher and a greater percentage of respondents said average overdue periods were longer than 90 days. 56.7% of the survey's respondents said that the overdue amounts owed to them have been relatively higher, compared to 45% in 2013, while 20.5% reported that overdue amounts have declined over the past year (22.6% in 2013). In terms of overdue periods, 19.6% of respondents shared that their average overdue period exceeded 90 days in 2014, compared to only 17.8% in 2013.

China: On average, what is the length of overdue (days) for your credit sales



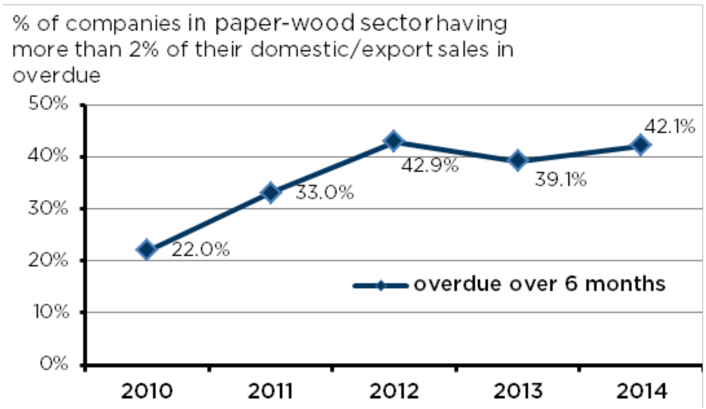
China's 7.4% YoY GDP growth in 2014 was the lowest growth rate in the last 24 years and momentum is on a downwards trend (Coface forecasts GDP to grow by 7% in 2015). At the same time, the real economy in China is facing rising challenges in 3 major areas: 1) high leverage; 2) high cost of financing, 3) low profitability driven by overcapacities in certain sectors. While monetary easing measures are being introduced to smooth out the growth deceleration process, if the additional low-cost funding is not delivered to the parties that need and deserve it, the main purposes of these monetary easing measures are likely to be defeated and further concerns on credit pressure would be in sight. Challenges are expected to continue in 2015.

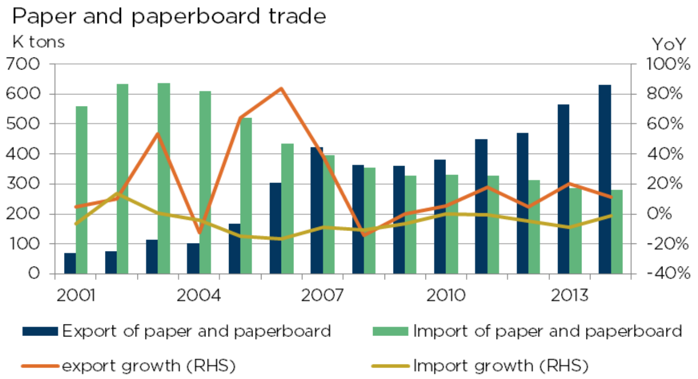
Paper-wood sector in China

(With slight editorial changes, the following section is extracted from *China: The not-so-calm Year of the Sheep*)

The paper-wood sector was chosen for this section because a high percentage (42.1%) of these firms reported ultra-long overdues weighing over 2% of their annual sales - which is a very worrying trend.

Payment experience in the paper-wood industry deteriorated in 2014 compared to 2013, particularly due to extended overdues. Average credit terms offered in the paper-wood industry have been stable, with 40% of companies averaging 90 days or above (40% in 2013). However, there is rising pressure on the length of overdues. 31.6% of respondents shared that average overdues were longer than 90 days, compared to 13% in 2013 and 21.4% in 2012. Ultra-long overdues continued to be a factor underwhelming the paper-wood sector, with 42.1% of the respondents in the sector reporting that 180-days-or-longer overdues weighed more than 2% of their annual turnover. These trends add worries to the sector, on top of its other fundamental weaknesses.





Source: Coface, CEIC data

The net profit margins of the Chinese paper-making industry have deteriorated, from 5% in 2013 to 4.5% in 2014, while leverage has remained largely stable (e.g. debt-to-equity ratio of 131% in 2013 and 132% in 2014). The margin squeeze was driven by the usual suspects of rising costs and slower growth in demand, which were felt by many industries across the board.

The overall demand for paper should continue to grow modestly in the near future, as a result of export demand. As demonstrated in the chart below, while import growth of "paper and paperboard" continued to be in negative territory in 2014 (-1.2% YoY decline), export growth remained strong (+ 11.6% YoY). This is illustrative of the emerging trend concerning Chinese paper products and their oversupply which may begin to underwhelm producers in neighbouring economies (such as Japan and Korea), especially when costs of transportation are relatively low as a result of low oil prices.

Box 2

Views from the country manager/underwriter in China

Overdue experiences

In terms of overdues, the number of cases increased noticably. Overdues and claims were mainly triggered by worsening financial performance, supply chain issues, and management issues – due to poor investment decisions or connected to company failures.

From our practical experience, privately-owned companies are still identified as highly risky. Overall, large companies in China are still in a favorable position given their size and pricing power. The small-sized privately-owned companies are experiencing difficulties in accessing additional funds and even when they do, costs are high. Moreover, these companies are changing the direction of their strategies – which could add to the uncertain outlook. Some of them are going through a transitional period during a handover stage (i.e. from old management to younger management). This also presents a certain degree of risk.

State-owned enterprises (SOEs) generally presented stable performances, but we did see overdues reported among this category of companies. We believe this category will separate into stronger and weaker groups over the coming 2 to 3 years.

Risky sectors

Low CPI and further decline of PPI (producer price index) indicate weakness in consumption of both daily items and industrial products. We thus believe the effects of overcapacity will spill over to the entire economy in 2015. Given this, there would be no real “safe” industry in China (although we still place hope on relatively stable industries related to daily living, including clothing, food, household and transportation). We also anticipate there should be better payment situations for industries relating to environmental protection and energy saving, as they are set to benefit from supportive government policies.

We remain cautious on industries underwhelmed by overcapacity issues - such as iron, steel, cement, shipbuilding, aluminum, glasses for construction, coal mining, paper and printing.

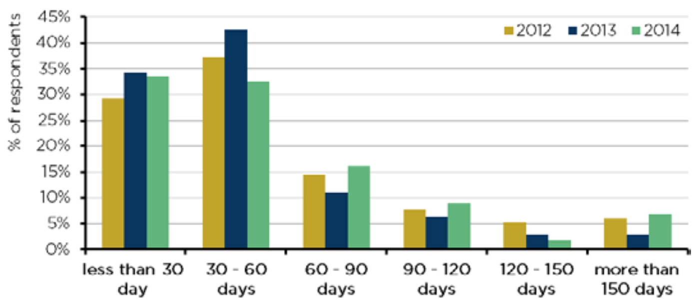
HONG KONG – FLU-LIKE SYMPTOMS. ISSUES ARE SLOWLY SURFACING.

Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A1	A1	A2	2.3	3.0

Source: Coface

Companies in Hong Kong generally experienced weaker payment performance in 2014 compared to 2013, although still an improvement when compared to 2012. Credit terms extended by companies in Hong Kong have lengthened, with 16.7% of respondents saying that average credit terms extended to customers were 90 days or longer (against 10.3% in 2013 and 17.2% in 2012). The occurrence of overdues became more common, with 55.4% of the survey respondents citing experience during the year, compared to 52.6% in 2013 and 56.6% in 2012. In addition, the trend was for overdues to become longer, with 17.7% of the respondents reporting average overdue periods beyond 90 days, compared to 12.2% of respondents in 2013 and 18.9% in 2012.

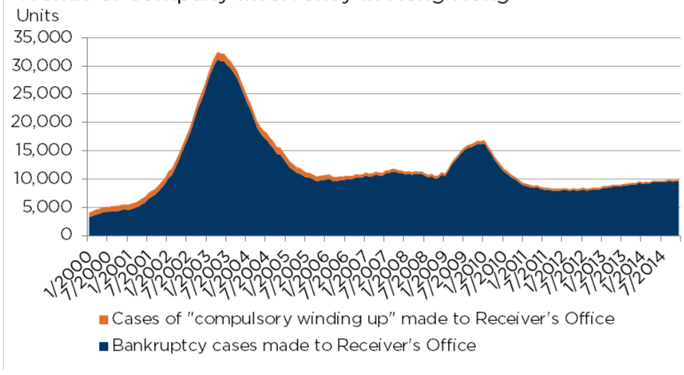
Hong Kong: On average, what is the length of overdue (days) for your credit sales



Nevertheless, these Hong Kong-based companies reported less problems with overdues of more than 180 days. 32.9% of respondents mentioned that ultra-long overdues (of 180 days or longer) represented more than 2% of their companies' annual turnover, while 35.5% of respondents in 2013 and 48.9% in 2012 reported such issues. These developments could signal relief for businesses, although other indicators point to weaker performance in general.

The less-healthy payment experiences were in line with trends in bankruptcies. On an annual basis, total cases of bankruptcy and "compulsory winding up" with the Official Receiver's Office rose by 3.1% to 9,945 cases in 2014. Amongst these, 97% were bankruptcy cases, with the remainder being "compulsory winding up". Albeit the modest growth of the trend, it has reached a level that was last seen in 2010, when the economy was stabilizing following the global financial crisis (GFC). Further pickup of the trend could be seen as a challenge to businesses in the territory.

Trends of company insolvency in Hong Kong



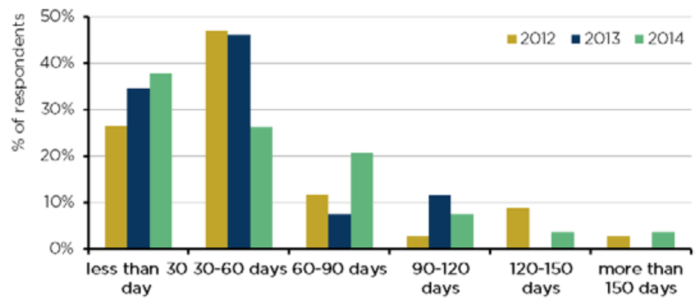
Source: Coface, CEIC data

Textile sector in Hong Kong

Companies' payment experiences in Hong Kong's textile sector were troubled.

15.2% of the respondents shared that they have extended credit terms of 90 days and beyond, compared to 8.6% in 2013 and 18% in 2012. 55.8% of the textile companies surveyed in the city reported overdue experiences in 2014, a decline from the 63.4% in 2013 and 60.7% in 2012. The length of overdues was greater in 2014, with 15.1% of respondents saying that their average overdue periods were 90 days or longer, compared to 11.5% of respondents in 2013 and 14.7% in 2012 sharing the same experience.

Textile sector in Hong Kong:
On average, how long is the above mentioned overdue days?



The textile sector experienced troubles caused by ultra-long overdues in 2014. 45.3% of the respondents in the business shared that ultra-long overdues represented more than 2% of their companies' turnover, compared to 34.6% in 2013 and 38.2% in 2012. Looking more closely into the figures, 17% shared that these lengthy overdues represented some 5-10% of annual turnover, while 15.1% reported that 180-days-or-longer overdues weighed over 10% of their companies' annual sales. With a probability that these overdues will not be paid, this could be a sign of trouble.

Hong Kong's textile sector is highly exposed to trade activities, with most of the manufacturing procedures being associated with the production base in Guangdong Province (e.g. Dongguan) in Mainland China. As a result of this, the weak experience stated above could be related to developments in the region.

Pressure on the textile industry in China has been climbing. With the rising land and labour costs and high cost of financing for private firms in China, the near-term outlook remains clouded. While we argued in the China payment survey report that some companies are considering investment in machineries to boost efficiency (e.g. water-free dyeing), other manufacturers we recently spoke with are less eager to invest. For instance, a Hong Kong-based company with its manufacturing facilities in Dongguan – who, at its peak, hired 4,000 employees in Dongguan – shared with us that with the uncertain outlook for the industry, they would not be further investing in the firm's China business for the time being. The company, however, pointed out that they would consider following other industry players by adding a manufacturing base in a Southeast Asian country, such as Vietnam.

While it is unlikely that businesses dealing with the textile trade will vanish overnight – particularly with the emerging trend of China as an importer of finished products – the industry must adapt to the changing environment. That being said, challenges to the industry will persist.

Box 3

Hong Kong is showing *flu-like* symptoms

Hong Kong has been the gateway between China and the rest of the world since China began to re-engage in the global economy in the late 1970s. Since then, it has become a unique service provider, with much of the economic output emanating from service sectors. Amongst others, financial and logistical service providers have emerged as clear winners during the bloom phase. This is despite the turbulence the city has endured over the years including, but not limited to, the Asia Financial Crisis (1997), the Dot-Com Bubble (2000), SARS – severe acute respiratory syndrome (2003) and the Global Financial Crisis (2007/08).

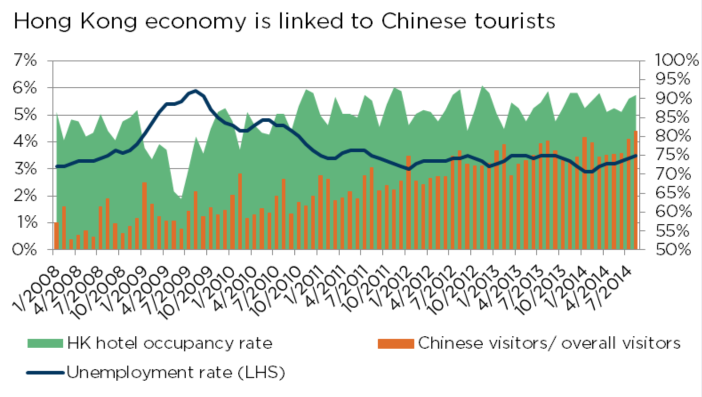
While Coface expects modest improvement in growth as a result of strengthening investments in infrastructure - as well as export activities in light of the global recovery - the economy has been showing *flu-like* symptoms.[5] In recent months, property prices have been soaring to record levels (fever), while the retail market is showing lackluster momentum (fatigue). The development of these sectors will be discussed in this section.

Retail market in Hong Kong to be challenged

In 2014, Hong Kong went through rather turbulent times, headlined by the Occupy Central (or Umbrella Movement) between September and December 2014.[6] Since then, there have been segregated protests in the city, concerning the so-called "parallel traders".[7] Conflicts between Mainland tourists and local protestors have led to tensions, not only between tourists and local citizens, but also among cities. While data from December and January may not yet be reflective of this, we believe we will see the negative impacts from these disturbances surface during the next few months.

Services accounted for some 92.9% of the city's GDP as of 2013. Among other service industries, tourism is a big part of Hong Kong's economy, with its receipts representing 15.6% of GDP in 2013. Understandably, China was the country of origin for most visitors, accounting for some 77.7% of the total 60.8 million visitors in 2014, compared to 54% of the total of 23.4 million visitors in 2005. In 2014, while broader service industries still experienced relatively stable activities, there are worrying early signs. Referring to the city's business receipt index, the retail sector saw an average drop of -0.3% YoY in 2014 - the first decline since 2009. Accommodation and food services sectors – industries that are directly relevant to tourism – saw a 1.6% YoY decline and a 1.6% YoY growth, respectively. Headwinds are expected, going forward.

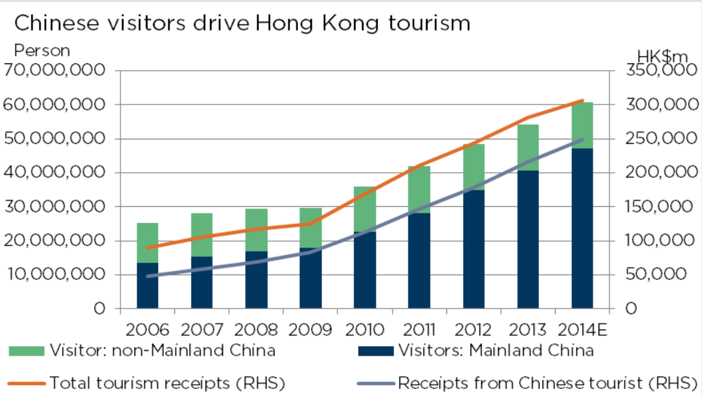
[5] Common symptoms of flu include fever, fatigue, nausea, etc.
[6] Rishi Iyengar (October 2014) 6 Questions You Might Have About Hong Kong's Umbrella Revolution. Time.
[7] Ernest Kao (February 2015) Fresh clashes in New Territories protest against parallel traders. SCMP.



Source: Coface, CEIC data

In May 2014, Chief Executive (CE) Leung Chun-ying sought the opinion of an advisory committee on cutting 20% of the quota of the Individual Visitors Scheme (IVS). The CE again raised a similar comment in February 2015.[8] This shows that the Hong Kong Government does intend to address the city's socio-economic issues. As the potential economic impact of this measure would be quite significant, the rhetoric should (for the moment) be considered as a sign of the government's determination to tackle the rising social tensions between local residents and mainland Chinese visitors. As a result of rounds of discussion, in April, a once-per-week limit was set by Mainland authorities to restrict residents of the Shenzhen to visit Hong Kong. While further action may be absent for the moment, such policy-tones could be a prelude to government actions in the upcoming months.

Nevertheless, the realization of such a policy would have a negative economic impact. As of the end of 2013, receipts from inbound tourism contributed some HK$332 billion (approximately US$43 billion) to the city's economy. Chinese visitors are big spenders in the city. Chinese visitors with overnight stays spent over HK$8,900 on a per capita basis in Hong Kong in 2013, the highest among visitors from around the world. 72% of this amount was spent in "shopping", according to our analyses using the Hong Kong Tourism Board's data. We estimate that receipts from Chinese tourism reached HK$250 billion in 2014, with a YoY growth rate of 15% - outpacing total tourism receipts (estimated at 9% YoY).



Source: Coface, CEIC data

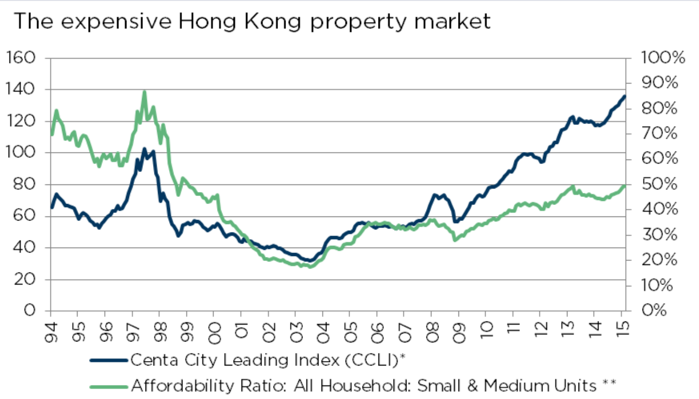
With the importance of Chinese visitors to the city, the potential curb on inbound visitors would add worries to Hong Kong's slowing consumption. Traditionally, Chinese visitors have a strong appetite for purchasing luxury products in Hong Kong, due to the close proximity and tax-free nature (versus import duties and 17.5% VAT in China). However, as indicated in the China payment survey report, due to increasing affordability (e.g. weaker yen and euro), improving accessibility (e.g. easier visa applications), and tax incentives (e.g. tax rebates in Japan and Europe), Chinese visitors are indeed taking their shopping sprees to other countries.[9] Such developments could pose challenges to Hong Kong's tourism sector, including the retail market.

Secondly, demand from Chinese visitors continues to be hurt following the wide-spread effects of China's anti-corruption scheme, which has been hurting the city's retailers. This is illustrated by the slowing of imports of Swiss watches (-0.0% YoY in 2014 and -5.6% YoY in 2013). This lackluster momentum is continuing, with a decline of -21.8% YoY recorded in February 2015.[10] We expect broader impacts to be felt as from 2015.

[8] *HK seeks to tighten visit scheme for Chinese mainlanders: chief executive* (February 2015) Global times.
[9] Tung, R. (March 2015) *China: The Not-so-calm Year of the Sheep*. Coface
[10] *The Swiss and world watchmaking industry in 2014* (FH 2015) Federation of the Swiss Watch Industry

Property market in Hong Kong

Hong Kong's property market has earned its share of global media coverage. Property prices are notoriously expensive, with CBRE and Forbes – among many others – naming Hong Kong as the city where properties are among the most expensive and unaffordable in the world. Indeed, property prices have been soaring in recent years. As indicated in the chart below, property prices have risen by over 320% since the trough in 2003, when the city was severely hit by SARS. Compared to the then-peak in June 2008, before the global financial crisis had its underwhelming impact on the city, property prices have also increased by 80.5%. At the same time, between 2008 and 2014, median annual income rose modestly by 21.7%, while GDP increased by 31.5% in nominal terms - significantly lower than the magnitude of property price increases. Such diverging trends have made property less affordable for people living in the city, as illustrated by the green line in the following chart.



Source: Coface, CEIC data

Unaffordability of housing, among other issues, has led to instability in the city. According to the half-yearly monetary and financial stability report by the Hong Kong Monetary Authority (HKMA) – the de facto central bank – the Hong Kong property market is supported by "pent-up demand and improving sentiment" (HKMA, p.50).[11] While the report suggests that the imbalances are likely to remain in the near-term, the US Federal Reserve's rate decision presents risks to the market.

Hong Kong's policymakers have placed great attention on the development of the property market and implemented various measures to counter the rapidly increasing property prices. On February 27, the chief executive of the HKMA introduced added measures (known as "spicy measures" in Cantonese), in an attempt to curb demand of property. They included:

- For properties with a value lower than HK$7million, the maximum mortgage loan-to-value ratio has been lowered from 70% to 60%
- For non-self-use properties, DSR was lowered from 50% to 40%
- For all residential mortgage loans, the HKMA requires banks to bring up the risk-weight floor to 15% by the end of June 2016, with a 10% risk-weight floor to be implemented by end of June 2015

While these actions may bring negative sentiments to the property market in the near-term and should reduce investment appetite for properties valued lower than HK$7million, such measures are hardly going to have substantial, long-term, direct effects on the property market. However, these measures will make banks more prudent when approving mortgage applications and should be viewed as preemptive measures that could avoid a banking crisis in Hong Kong, should the much anticipated interest rate hikes move faster than expected.

On the other hand, these measures are drawing much criticism in the city, as they have moved the threshold higher for potential first-time homebuyers who have been targeting homes with a value of lower than HK$7 million. Taking the example of a potential buyer who wants to purchase a HK$6 million flat in Hong Kong, by implementing rule (i) above, the down payment needed for the apartment is upped by HK$600,000, representing 45 months of median monthly income of HK$13,500.

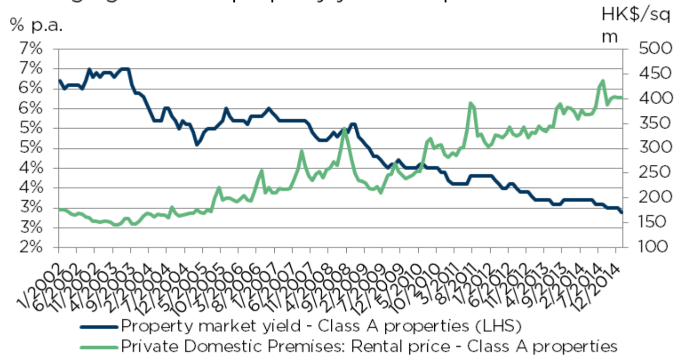
The unaffordability of purchasing property has pushed rental prices up to record levels. As illustrated by the green line in the chart below, rental prices for Class A property linger around record-levels of HK$400/m2. However, at the same time, due to ever-soaring property prices, rental yields have dived to 2.9% p.a., a record-low since at least 1998 and significantly below the average of 4.8% p.a. registered since 1998.

* *"Reflecting secondary private residential property prices...based on scheduled formal sale & purchase date"* (Source: Centaline Property Agency Limited)

** *"An estimate of the percentage of average household income that must go into servicing a mortgage for an average flat at present prices, mortgage interest rates and down payment terms"* (Source: SCMP)

[11] *Half-yearly monetary and financial stability report* (September 2014) Hong Kong Monetary Authority

Diverging trends of property yield and prices



Source: Coface, CEIC data

Without any unexpected exit of capital from the city or other major negative events, these trends are expected to last. Low-and-middle income families who are not owners will thus remain under pressure. As the Hong Kong Dollar is pegged to the US Dollar, the interest rate is expected to pick up in 2015 (although it is unlikely to increase rapidly). This will add pressure to mortgage payers.

INDIA – COMMON OVERDUES EXPERIENCED. IMPROVING BUSINESS CONFIDENCE DRIVES ECONOMIC ACTIVITIES.

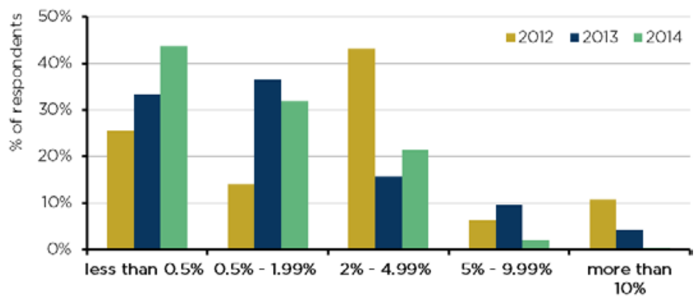
Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A4	A4	B	6.9	7.0

Source: Coface

With the majority of companies citing "market competition" as the reason for credit sales, they have become a rather common practice amongst businesses. In 2014, 94% of the surveyed companies said that they extended credit sales during the year, compared to 80.7% in 2013 and 76.3% in 2012. These companies have extended longer credit terms to their customers in general – perhaps also as a result of the aforementioned "market competition". 21.6% of the respondents in India shared that the average credit terms extended to customers were longer than 90 days, while only 9.4% of companies in 2013 and 8.4% in 2012 reported the same practice.

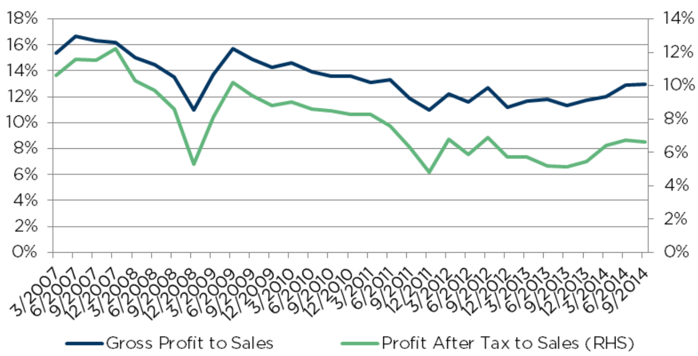
Overdue situations in India became more common, with 85.7% of the respondents reporting that they experienced overdues in 2014, compared to 63.3% in 2013 and 56.4% in 2012. The average overdue period stabilized in 2014 comparing to 2013, with 9.7% of the respondents sharing that the average overdue period was longer than 90 days. The survey findings showed continual improvement in the situation regarding the country's ultra-long overdues. 24.1% of respondents shared that their ultra-long overdues weighed more than 2% of annual sales in 2014, while 30% of the respondents in 2013 and 60.2% in 2012 shared the same experience.

India: The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



Businesses in India have faced fewer headwinds in 2014 compared to previous years, thanks to the more stable macroeconomic environment. After a tightened monetary situation in late-2013 and early-2014, the Indian rupee ranged between levels of 58.2855 and 63.824 during the year, allowing companies to operate in a relatively more stable situation than that of 2013. At the same time, as India is the world's 4th biggest oil consumer, it benefited tremendously from the decline in oil prices. Headline inflation slowed to 7.2% during the year – compared to 9.7% in 2012 and 10.1% in 2013 - adding to the confidence of businesses operating in the country. These trends have brought positive results for businesses. As of September 2014, gross-profit-to-sales rose to 13% and profit-after-tax-to-sales increased to 6.6% (compared to 11.3% and 5.1% respectively a year ago). Within this context, the business environment should continue to improve in 2015.

Improving corporate profitabiltiy in India



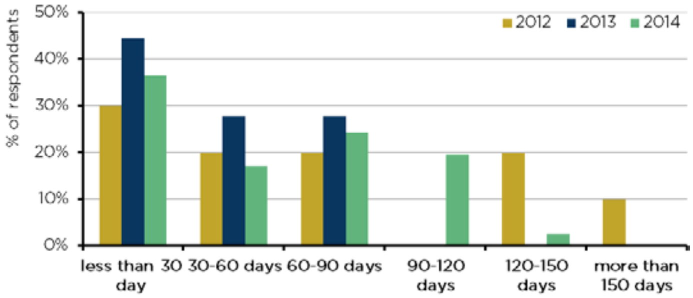
Source: Coface, CEIC data

IT-telecoms sector in India

Among the many other service sectors where India has demonstrated its advantages against its peers, the country's IT-telecoms sector is a key beneficiary of its low-cost, skilled labour force. However the sector's payment experience in 2014 was not exceptional. 82% of the survey's respondents reported that they had faced overdue situations during the year - notably higher than the 44.7% in 2013 and 52.6% in 2012.

In general, the credit cycle of India's IT-telecoms industry was extended in 2014. Businesses lengthened credit terms to their customers, with 35.7% of the respondents in the industry reporting average credit terms beyond 60 days, compared to only 4.6% of respondents in 2013 and 7.1% in 2012. On the other hand, 22% of the respondents remarked that their average overdue periods were 90-days-and-beyond, compared to none in 2013. Moreover, with 35.2% of respondents reporting that ultra-long overdues (i.e. overdues of 180 days) weighed more than 2% of their turnover – compared to 11.1% in 2013 – these developments need to be monitored.

IT-Telecom in India:
On average, how long is the above mentioned overdue days?



Risks exist in all businesses, and some aspects of these risks are related to cyber security and intellectual property theft. According to Singh et al. (2014), some 308,371 websites were hacked between 2011 and 2013 in India, showing that business and governmental websites are indeed at risk.[12] While this illustrates the risks for businesses in general, these developments could also present opportunities for India's IT-telecoms sector.

According to Bhosale (2014), IT and business process outsourcing (BPO) exports are set to double from around USD80 billion (3.9% of GDP), to USD155 billion (4.9% of GDP) in 2020.[13] While this should present opportunities for the Indian IT-telecoms sector, there could a shift in focus underway. Bhosale suggests that while corporate IT budgets are not increasing, they are becoming more service-oriented and less focused on hardware and software. As such, service providers need to provide value-added solutions for clients, by adapting new "social, mobility and analytical tools". With these developments in the pipeline, opportunities will be presented to service providers who retain a key client base and provide a range of services. Those who fail to do so may see increasing headwinds.

Box 4

Views from country manager/underwriter in India

Payment experience in India

Corporate overdue payments in India deteriorated in 2014. In general, there was a huge increase in overdues from companies across all sectors. The majority of overdues were seen from companies directly or indirectly related to the construction industry (for example infrastructure). It is believed that companies were expecting a change in the government in the elections, and hence a wait-and-see attitude was taken, which delayed payments during the early half of 2014.

Since the previous government had faced challenges in boosting the economy, companies expected the new government to make tough but necessary decisions to help the economy move forward. As at the completion of this report, there has been no major recovery in industry.

Amongst the other different types of companies, partnership and proprietary companies were the key victims negatively affected by the situation. To a certain extent, we also saw delayed payments rising among private-limited companies.

The recovery of overdues became more difficult in 2014 compared to 2013, when, following intervention, part or full payments were received. The recovery of overdues became very challenging in 2014.

[12] Singh, G. et al. (2014) India Risk Survey 2014. Pinkerton and FICC.
[13] Bhosale, A. (2014) F.I.T.T. for investors – Growth but not as we know it. Deutsche Bank.

JAPAN – LACKLUSTER ECONOMIC GROWTH. INSOLVENCY CONTINUES ITS DOWNWARDS TREND.

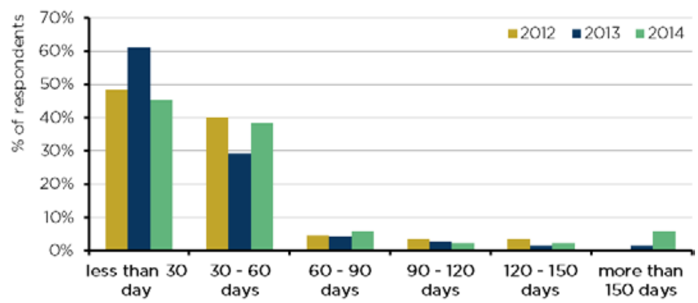
Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A1	A1	A1	0%	1%

Source: Coface

Economic development in Japan remained stable in 2014, as did its credit sales practices. In-line with previous experience, 39.7% of the survey respondents reported they have extended credit terms of longer than 90 days on average, compared to 39.3% of respondents in 2013 and 41.6% in 2012.

In general, according to the survey findings, overdues became more common among businesses. Overdues were experienced by a higher percentage of corporates in 2014 compared to the two previous years. 43.3% of respondents experienced overdues in 2014 (vs. 36% in 2013 and 42% in 2012). In addition, average overdue periods seem to have lengthened in 2014 compared to previous years. 10.5% of the respondents reported that average overdue periods were longer than 90 days, while only 5.6% of respondents in 2013 and 6.9% in 2012 shared the same experience.

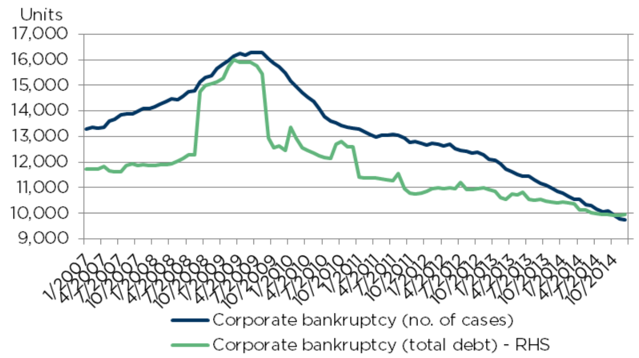
Japan: On average, what is the length of overdue (days) for your credit sales



Nonetheless, problems related to ultra-long overdues (i.e. 180-days-or-longer) were reported by a lower percentage of respondents in Japan. Only 7% of respondents said that ultra-long overdues weighed more than 2% of companies' annual turnover, while 8.3% and 13.8% of respondents shared the same experience in 2013 and 2012, respectively. With the high probability of these ultra-long overdues becoming bad debts, this development is welcomed by corporates.

This is, in fact, in-line with bankruptcy trends in Japan. In 2014, the number of bankruptcy cases dropped by 10.4% YoY, to 9,731. This represented the 6th consecutive year of decline in the number of bankruptcies and the lowest level since 1990, when "only" 6,468 cases were registered, according to Tokyo Shoko Research.[14] This is supportive of our view that insolvency risk in Japan is on a downwards trend, despite the lackluster economic growth expected in the country (Coface 2015 GDP forecast: 1%). In fact, it is noteworthy that the relationship between economic growth and insolvency in Japan has no relationship at all. Since 1993, the correlation of annual data between the two variables has been statistically insignificant, at around -0.18.

Sustained downtrend in Japanese corporate insolvency



Source: Coface, CEIC data

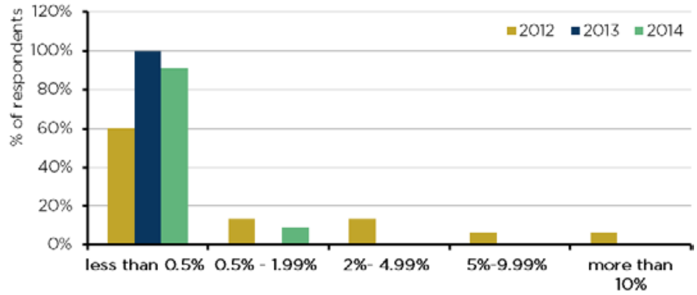
Moreover, it is believed that companies in Japan have been benefiting from the country's accommodative monetary policies. According to Chollet et al. (December 2014), in the context of low growth and low inflation, the cost of financing for companies is usually low, supported by the accommodative monetary policy stance.[15] The low cost of financing and weak yen are supportive of Japanese corporates, backing up the country's improving insolvency trends.

Chemicals sector in Japan

We selected Japan's chemicals sector in this section, as it is the industry with the most respondents from the sample size. Survey reponses from the industry show that it tended to extend longer credit terms to its customers.59.3% of respondents shared that average credit terms were over 60 days, while only 25% of respondents in 2013 and 45.8% in 2012 reported the same experience.

[14] Missing data between January 1991 and December 1992
[15] Chollet, Lequillerier, Marcilly, and Zlotowski (December 2014) *Should we be afraid of "low-flation"*. Coface.

Chemicals sector in Japan:
The ratio of overdue over 6 months is (in % of your total annual turnover)



The chemicals industry has continued to experience relatively stable payments, aside from a pickup in the occurrence of overdues. 37.9% of respondents reported experience of overdues in the year, compared to 28.6% in 2013. However, overdue periods remained well-controlled, at below 90 days for the third consecutive year. Moreover, none of the chemicals companies surveyed experienced ultra-long overdues that weighed more than 2% of their annual sales. These trends indicate that the chemicals sector in Japan remained solid in 2014.

Box 5

Views from country manager/underwriter in Japan

Payment experience in Japan in 2014

The features of the current insolvency situation are: (1) bankruptcies of listed companies are contained, as their gearing is low; (2) banks are extending generous support to even the weakest SMEs, on the back of the environment of extremely low interest rates - which have been accelerated by the Bank of Japan's unconventional easing policies; (3) construction sectors are booming thanks to continuous public spending in the Tohoku Region following the earthquake/tsunami which occurred in 2011 and numerous construction works in the Tokyo metropolitan area connected with preparations for the Tokyo Olympic Games in 2020.

In contrast to the low number of insolvencies, there were 26,999 cases of (amicable) business closures and dissolutions in 2014 (2.8 times greater than the number of insolvency cases). This shows that many family-run businesses were unable to find either new management/owners to hand over their company to, or the right strategy to grow - and thus had to close down. Payment experience in 2014 was very good, as in the late 80s, but without the same enthusiasm prevailing at that time.

Riskiest sector in Japan

Most industries are benefiting from the lower fuel prices, extremely low interest rates, the Tokyo Olympic Games scheduled for 2020 and the recovery in the stock markets. Among the ten major industries, seven showed a drop in the number of insolvencies in 2014 compared to a year ago. The number of insolvencies of food and beverage retailers dropped by 22.1% YoY and that of clothing retailers decreased by 0.4% YoY according to Tokyo Shoko Research. However, these figures disguise the fact that many retailers in the countryside are suffering from the decrease in, and aging of, the local population. Most of the small and medium sized supermarkets operating in the countryside are not making profits and many have a negative net worth. They are surviving on the mercy of banks and helped by the environment of extremely low interest rates and nationwide wholesalers who are extending support.

Outlook for Japan in 2015

The business sentiment in 2015 is likely to remain relatively good among both the manufacturing and non-manufacturing sectors. The drop in crude oil prices is a new positive factor for the Japanese economy, as Japan relies almost entirely on imported oil and gas. High fuel costs had been affecting manufacturers, the road transport industry, utility firms and households over recent years. Consumer sentiment is still lagging behind, despite the further improvement in the employment situation. Increases in salaries are awaited, as recent rises in wages have been limited to construction workers. Major risk factors are the potential rebounding of crude oil/gas prices, the rebound of the Japanese Yen against major currencies and the fall in stock markets. A change in monetary policies is unlikely, as far as the year 2015 is concerned.

SINGAPORE – LOWER INSOLVENCY LEVELS SUPPORTED BY SHORTENED AVERAGE OVERDUE PERIODS.

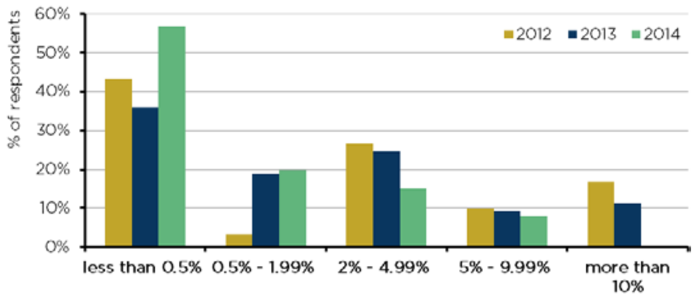
Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A1	A1	A1	2.9	3.0

Source: Coface

According to the survey respondents in Singapore, businesses have started extending longer credit-terms to their customers. 20% of the respondents shared that average credit terms were longer than 60 days, compared to only 15.3% of respondents in 2013 and 18% in 2012.

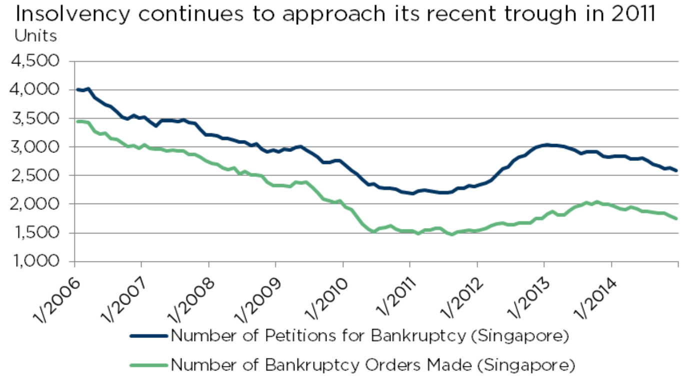
Overdues have become more common, but the length of overdues seemed to be less of an issue in 2014, compared to previous years. Overdues were experienced by 85.2% of the companies surveyed, compared to 76.1% in 2013 and 68.2% in 2012. Nevertheless, "only" 10.5% of the respondents reported that average overdue periods were 90-days-or-longer, against 20.8% of surveyed companies in 2013 and 20% in 2012. The respondents also reported less problems regarding ultra-long overdues in 2014, compared to previous years. 23.3% of the surveyed companies in Singapore cited that 180-day-or-longer overdues weighed more than 2% of their annual turnover, while 45.3% of respondents in 2013 and 53.3% in 2012 shared similar experiences.

Singapore: The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



In Singapore, bankruptcies have been on a downwards trend since late 2012 influenced, perhaps, by lower pressure on costs - such as rental and labour costs. According to Singapore's Insolvency & Public Trustee's Offce, in 2014 2,589 cases of petitions for bankruptcy were made in Singapore, while there were 1,757 cases of bankruptcy orders made. Although these numbers are still higher than the troughs seen between 2010 and 2012, the downward trends are suggesting that the risk of insolvency is improving in Singapore. The trend of business cessation is in-line with this tendance. Overall business cessation in 2014 declined by 3% YoY, compared to the 0.7% YoY increase in 2013.

Insolvency continues to approach its recent trough in 2011



Source: Coface, CEIC data

While these indicators may suggest that Singapore's business environment could be stabilizing, global trade trends and other factors are influencing its economy. As an example, the country is continuing to face high leverage issues. The annual financial stability review conducted by the central bank – the Monetary Authority of Singapore (MAS) - noted that household debt-to-income ratio increased to 2.3x (times) in 2013, compared to 2.1x in 2012 and 1.9x in 2008.[16] With the potential rise in interest rates (i.e. as a result of interest rate hikes by the Fed) and a squeeze on company earnings, the high leverage nature of the country could lead to a reversal of the declining trend of company closures and bankruptcies.

Policymakers are aware of this situation and the MAS should be putting together preemptive measures to rein in the increase in leverage. A potential rule that is being discussed is to restrict unsecured consumer loans to less than 12 months-worth of income and, at the same time, requires individuals to repay debts beyond the limit within a given period (e.g. 2-years for individuals who have debts worth around 12 to 16 months-worth of income and 4 years for beyond 16 months-worth of income). While the execution of such a policy could slightly dampen the consumption outlook in the near-term, it would provide stability to the financial system. Conversely the potential deferral of implementing this rule – as hinted at on March 10 – could deepen the issues of leveraging.[17]

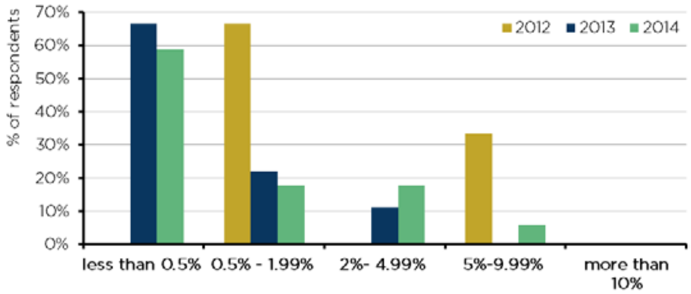
[16] Monetary Authority of Singapore (2014) Financial Stability Review 2014
[17] Monetary Authority of Singapore (2015) Reply to COS Cut on Individual Indebtedness

Chemicals sector in Singapore

We have a relatively small sample from the payment survey in Singapore (4% of total respondents), while the chemicals sector represents the highest percentage of respondents from the pool.

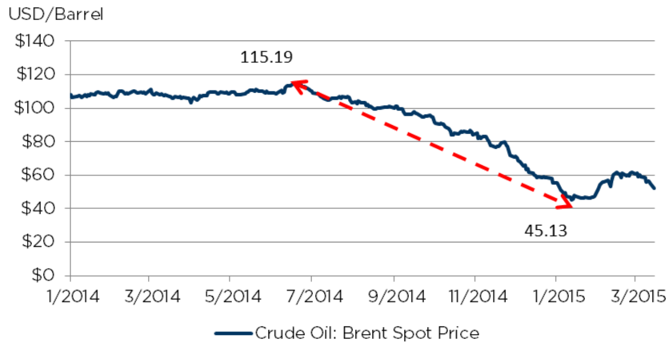
The country's chemicals sector faced longer credit cycles compared to last year, with an increase in both credit terms and lengthier overdue periods. 37.5% of the respondents shared that the credit terms offered to customers were 90-days-or-longer in 2014, while none of the respondents in 2013 reported this experience. In this year's survey, all companies in the chemicals sector said that they had experienced overdues, as was the case in 2013. While the aforementioned trend shows a continuation of a frequent occurrence, what merits closer attention is that 11.8% of the respondents in the sector reported that average overdue periods were longer than 150 days, while none of the companies in 2013 reported average overdue periods higher than 90 days. Moreover, there was an increase in respondents reporting that ultra-long overdues weighed more than 2% of their companies' annual turnover (23.5% in 2014 compared to 11.1% in 2013). Although it is less serious than the situation in 2012, for us it flags up that the sector may be facing challenges in collecting debts.

Chemicals sector in Singapore:
The ratio of overdue over 6 months is (in % of your total annual turnover)



As discussed in the China payment survey, the chemicals sector is highly sensitive to the volatility of crude prices. As crude prices dropped quickly and significantly in 2014, companies in the chemicals industry faced major headwinds in 2014 from: 1) write-downs in inventory value, 2) margins squeezed as a result of high input prices from the previous period and lower pricing of products when delivered, and 3) customers requesting "haircuts" in goods delivered. The weak payment experience is expected to continue in the near-term, as the payment deadlines for products delivered in late-2014 were likely extended to early in 2015, as a result of the credit-terms. However, with the less dramatic movement of crude prices expected, payment experience in the chemicals sector is expected to stabilize towards the second half of 2015 for the chemicals sector. This applies not only to the chemicals sector in Singapore, but to the sector in much of the rest of the region. As input prices have come down, as a result, prices of chemicals products are also expected to be lower in 2015.

Crude prices declined rapidly and significantly



Source: Coface, CEIC data

TAIWAN – GENERALLY IMPROVED PAYMENT EXPERIENCE. COMPANY DISSOLUTIONS REMAIN LOW LEVEL.

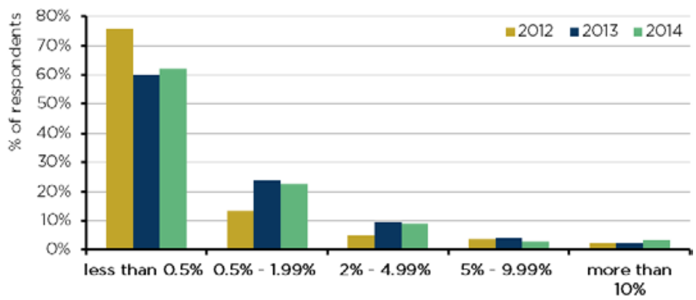
Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A1	A1	A2	3.7	3.8

Source: Coface

Interestingly, from our survey in Taiwan, the use of credit sales has been on a declining trend since 2012. Only 74.8% of the survey respondents reported that they had credit sales in 2014, compared to 86.6% in 2013 and 94% in 2012. 39.9% of the respondents shared those credit sales terms were longer than 60 days, compared to 38.6% of respondents in 2013 and 47.5% in 2012.

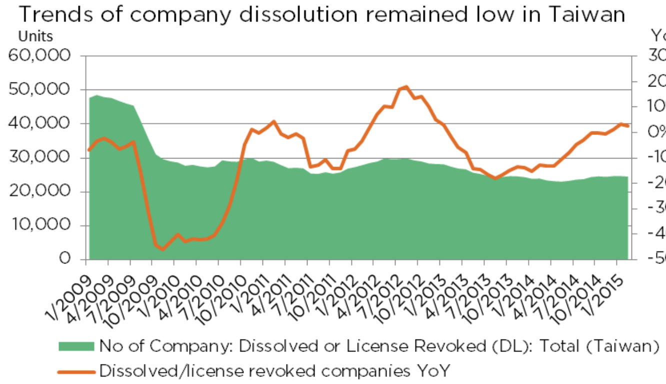
The occurrence of overdues in 2014 showed a downwards trend - but, when they did happen, overdues seem to have lengthened. The 47.9% of respondents sharing that they faced overdue situations in 2014 is notably lower than the 56.1% in 2013 and 76.6% in 2012. 21.2% of respondents reported that overdues were 90-days-or-longer in 2014, while 13.6% and 7.3% of respondents shared this experience in 2013 and 2012, respectively. 43.4% of the respondents said that the overdue amounts owed to them had dropped since a year ago, while only 18.5% saw their overdue amounts increase during the period. At the same time, ultra-long overdues (of 180-days-or-longer) have not become an issue for Taiwanese corporates. 15.1% of companies shared that they have experienced ultra-long overdues weighing more than 2% of their annual revenues – the lowest in the region – compared to 15.9% a year ago. These trends suggest that payment experiences have, in general, improved since the previous year.

Taiwan: The ratio of aged overdue debts over 6 months as a percentage of your total annual turnover is :



The improved payment experiences shown in the survey are in-line with the stabilized trend in company dissolutions. In 2014, 24,637 companies were either dissolved or had their licenses revoked - a 1.3% YoY spike compared to 2013 but 51.6% lower than the peak in 2008, during the global financial crisis. As shown in the chart below, the slight pickup in 2014 was likely due to the low comparable base in 2013 and this should not be seen as a reemergence of concerns. The export-oriented Taiwanese economy is expected to benefit from the stabilization of the US economy which should, in turn, enhance payment experience in the near-term.

Trends of company dissolution remained low in Taiwan



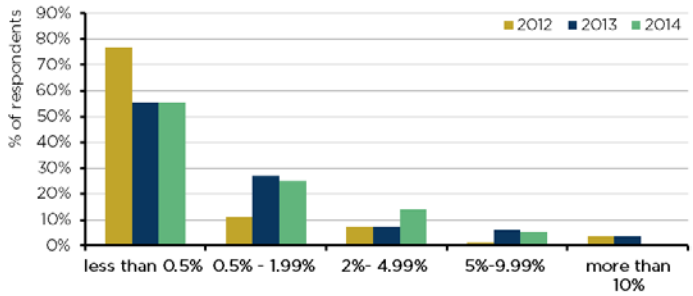
Source: Coface, CEIC data

Taiwan's industrial machinery and electronics sector

Taiwan's industrial machinery and electronics sector experienced less frequent occurrences in overdues. 42.9% of the respondents from the industry said that they have had experienced overdues in 2014 - noticably lower than the 63.3% in 2013 and the 80.4% in 2012.

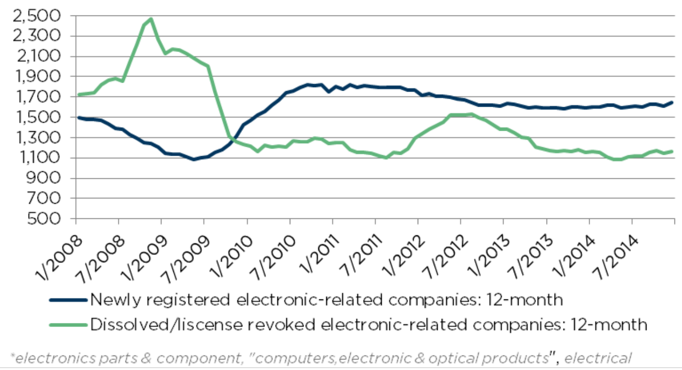
The survey results suggest that the credit cycle of these companies has picked up. 49.2% of the respondents from the industry reported that their average credit terms were longer than 60 days, compared to 44.7% in last year's survey. A higher percentage of respondents said that they have seen longer overdues, with 22.2% citing that their average overdue periods were longer than 90 days, compared to 21% in 2013 and 6.1% in 2012. A concern going forward, is the rising share of respondents reporting that ultra-long overdues could become an issue. 19.4% of the respondents said that 180-days-or-longer overduesweighed more than 2% of their annual turnover, compared to 17.3% of respondents in 2013 and 12.2% in 2012. Although much of this increase was in the “2%-4.99%” category, as there is a high chance that these ultra-long overdue will not be repaid, these developments need to be monitored.

Indusrial Machinery & Electronics in Taiwan: The ratio of overdue over 6 months is (in % of your total annual turnover)



After weathering lackluster demand in exports over the last 2 years, the Taiwanese market has seen a moderate pickup in exports, with a growth of 4.9% YoY in 2014. The integrated circuit industry, on the other hand, has experienced a much better year. Its revenues grew by 16.7% YoY, compared to 15.6% and 4.6% in 2013 and 2012, respectively. The Export Order Index (EOI) shows that electronic products averaged 14.2% YoY growth during 2014, higher than the overall EOI’s 8.8% average. The reviving demand for exports has helped the industry absorb the rising cost of labour, which has seen an increase in average monthly earnings of 18.4% YoY for electronic parts and components manufacturing and 13.1% YoY for electronic equipment manufacturing. These higher earnings could add optimism to the domestic economy and ease social tensions, as seen in early 2014.

Adding optimisim in electronic-related sectors



Source: Coface, CEIC data

THAILAND – POLITICAL UNCERTAINTY HURT BUSINESSES IN 2014. COMPANY DISSOLUTIONS SPIKED.

Country risk assessment		Business climate assessment	GDP growth (%)	
January 2015	March 2015	2014	2014E	2015E
A4	A4	A3	0.7	3.5

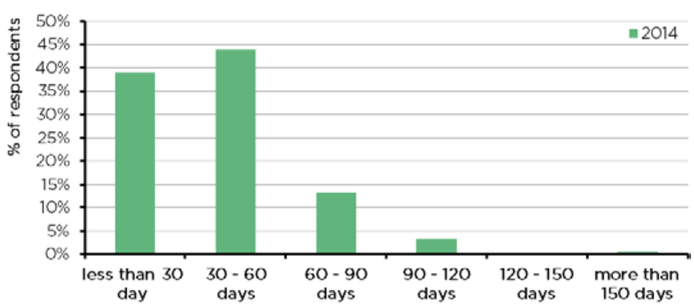
Source: Coface

As this is the first year that Coface has conducted its corporate payment survey in Thailand, year-to-year comparisons are not available. Nevertheless, the findings from this year's survey help to broaden our knowledge of payment experience in the country and the region. This will build the foundation for further analysis going forward.

In general, companies in Thailand offer credit sales to their customers more often than other countries in the region, while credit terms tend to be relatively shorter. 88.8% of the companies operating in Thailand offer credit sales to their customers – which is slightly higher than the average of 85.1% in the 8 surveyed countries. 11.5% of the respondents shared that their average credit terms were over 60 days, compared to the 25.1% average of respondents across the region.

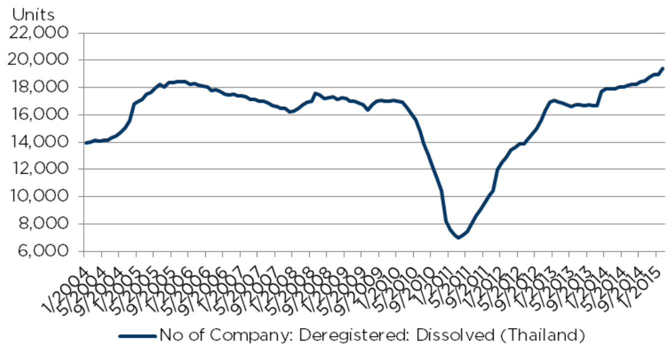
Overdues were seen by 88.8% of companies in Thailand, the highest percentage across the region (where 69.1% of the companies experienced overdues in 2014). However, most of the overdues in Thailand were relatively shorter, with only 3.9% of companies sharing that their average overdue periods were longer than 90 days in 2014 (compared to the regional average of 14.8%). Albeit less serious compared to the regional average, ultra-long overdues (i.e. 180-days-and-beyond) did trouble some companies in Thailand. 19.2% of the companies in Thailand reported that ultra-long overdues weighed more than 2% of their firms' annual turnover (compared to 24.9% of companies in the region sharing the same experience in 2014). Developments in this area need to be watched.

Thailand: On average, what is the length of overdue (days) for your credit sales



The country's business environment was weak in 2014, as reflected by the number of company dissolutions. In 2014, 18,964 companies were dissolved, a rise of 7.1% YoY compared to the 17,730 in 2013. The chart below shows that the trend is still pointing upwards on a 12-month running basis. This suggests to us that the corporate payment risk is high in Thailand.

Evolution of company dissolution in Thailand



Source: Coface, CEIC data

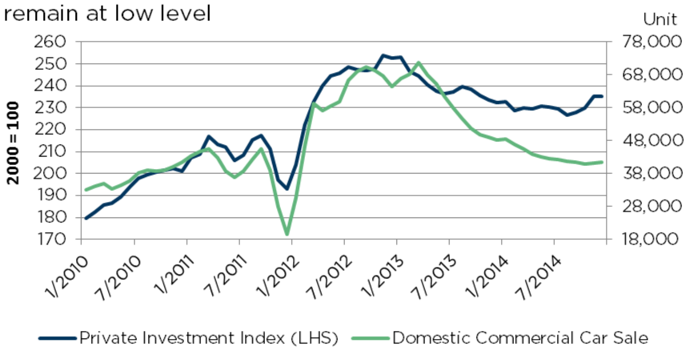
Coface expects Thailand's GDP to grow by 3.5% in 2015. Coface put a negative outlook on corporate risk in Thailand in September 2013 and lowered the Country Risk Assessment in March 2014. Indeed, the first half of 2014 was shadowed by political uncertainty, before a coup in May stabilized the political situation. However, the negative impact on the economy was already made, and the economy shrank by an average of -0.1% YoY in 1H2014.

Domestic consumer sentiment has been weakened and it could take some time for it to return. Recovery in export growth will also be marginal in the short-term, despite rising demand from the CLMV countries (Cambodia, Laos, Myanmar, and Vietnam). Nevertheless, a modest recovery in the Thai economy is in sight – mostly as a result of the base-effect – with growth likely to come from both private and public investment. This follows the deferral of some government-led investment projects in 2014, due to the political situation.

Policymakers and government agencies are more optimistic and expect Thailand to grow by "at least 4%" in 2015. Policymakers expect growth to be driven mainly by the anticipated increase in government expenditure, especially from investments in infrastructure. It is expected that private consumption and investment will increase following the overall economic recovery and clear government policies (which will raise the confidence of investors).

According to Coface's underwriter in Thailand, the optimistic assumption of ambitious spending in developing transport infrastructures represents a downside risk. Possible delays in infrastructure spending stemming from slow budget disbursements are a major downside risk for this year's economy. This could also dampen private investors' confidence, as well as incentives for new investment.

Investment sentiment shows early signs of recovery, but remain at low level



Source: Coface, CEIC data

Secondly, although consumer confidence will help support private consumption, the low level of agricultural income (due to decreasing world agricultural prices and high household debt) could be an obstacle to revival in private consumption. A possible rise in value-added tax, currently capped at 7%, could also cause consumption to decrease further.

The global economic recovery remains cloudy and this will have negative implications for Thai exports – as do the slowdowns in China, Europe and Japan, the country's main trading partners. The volatility in global fund flows and the decision on the Fed's funds rate will impact Thailand's capital outflows. These risks will continue to exist in 2015.

Box 6

Views from country manager/underwriter in Thailand

Payment experience in 2014, compared to 2013

Payment experience in 2014 worsened compared to 2013. This trend is mainly due to the economic slowdown and the sharp downturn resulting from the protracted domestic and political turmoil which negatively influenced growth in the first half of the year. Prior to the coup in May 2014, GDP growth contracted 0.6% YoY for the first half of 2014. The National Council for Peace and Order (NCPO) responded quickly after the coup, repaying rice farmers for their crops sold during the previous government and ordering speedy disbursement of compensation. Consumer confidence gradually picked up and reached a one year high in September, thanks to greater political clarity.

Domestic consumption did not fulfil its vital role as it continued to be dogged by ever-increasing household debt, fuelled by the first-time car buyer scheme and the rice purchasing program of the previous government. As high household debt is keeping individual disposable incomes low, purchases of houses, cars, and consumer durables are being deferred. Car figures (including production, domestic sales, and exports) remain negative, although the declines have been shrinking as of late.

Export growth was still gloomy due to the fragile global economic recovery - in particular in Thailand's main export destinations of China, Japan, and the EU. The decline in imports was broad-based, led by fuel, machinery, automobile parts and consumer goods. This shows that investment is still lackluster, while domestic demand remains weak. The manufacturing production index and capacity utilization have yet to pick up. Tourism remains sluggish, due to the continued imposition of martial law.

It could be said that the result of the economic slowdown and swelling household debt caused the deterioration of payments in Thailand, especially with small to medium-sized enterprises (SMEs), the most affected by the prolonged political uncertainty. Risk-averse banks were also reluctant to make loans. This deterioration follows the same trend as the increase of non-performing loans in the banking system.

Riskiest sectors

In 2014, we saw a particularly marked deterioration in payment experiences in 3 sectors: household electric/electronic appliances, chemicals, and building materials and steel.

Mobile phones are fast becoming the camera most used for everyday photos, particularly by younger adults. With the rise in smartphone sales and the decline in compact digital camera sales, the imaging industry has become a battleground between digital cameras and smartphones. This has meant that some large distributors of digital cameras, who did not adapt to changing trends, could not survive.

The low manufacturing index meant that less chemicals products were used in manufacturing processes. Importantly, slow domestic consumption and high household debts negatively affected the demands on the industry. Moreover, the upsurge in oil prices pressured chemicals producers in the form of lower chemicals spreads (see early section on chemicals sector in Singapore).

The political deadlock, tight money supplies and lack of major infrastructure projects dampened the demand on building materials and steel.

CONCLUSION

Some key indicators from the survey picked up signs of a slight deterioration. Firstly, overdues became a more commonplace experience for more respondents, with 69.9% sharing that they had experienced overdues during the year, compared to 67.7% in 2013 and 67.5% in 2012. Secondly, a slightly higher percentage of respondents reported that the average length of overdue periods was longer than 90 days. 14.8% of respondents cited that average overdue periods experienced by their companies were longer than 90-days, marginally higher than the 14.5% in 2013 (vs. 13.2% in 2012). In addition, 36.8% of respondents noted that overdue amounts had increased over the last year, compared to 34.7% in 2013. This data may point to deteriorated payment experience in the region.

Nevertheless, it appears that companies were less frequently troubled by ultra-long overdues (i.e. overdues of more than 180 days). Only 24.9% of the respondents shared that these ultra-long overdues weighed more than 2% of their annual turnover (sales) - notably lower than the 29.6% in 2013 and 37.2% in 2012. As these ultra-long overdues are quite likely to not be repaid, the reduction of reported issues is seen as a positive development.

Marked improvement in corporate payment experience can be found in Australia, which saw improvements in terms of i) overdue occurrences, ii) length of average overdues and iii) potential financial issues related to ultra-long overdues. In addition, we note that payment experiences in Taiwan and Singapore were improved in 2014, with better performances in 2 of the 3 aforementioned indicators. Trends concerning insolvency and business closures in these two economies also remained at low levels, supporting our view of an improved scenario in corporate payments.

Several indicators suggest that corporate risk in Hong Kong may be on the rise. First of all, in 2014, overdues became more common and more companies reported that average overdue periods had extended to longer than 90 days. Cases of insolvency rose by 3.1% YoY in 2014, reaching a level last seen in 2010 when the city was hit by the waves of the global financial crisis, causing concerns of further deterioration. In addition, the city's economic activities are tied to China and recent developments – including but not limited to the anti-parallel traders activities in Hong Kong and trends of Chinese travelers visiting other destinations – may negatively impact businesses in the special administrative region. Uncertainties are clouding the Hong Kong economy.

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