JUNE 2023

COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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Asia Payment Survey 2023

In 2022, Asian businesses took a more stringent approach to credit terms amid a year of aggressive rate hikes, tighter financial conditions and higher inflation. Coface's Asia Payment Survey showed that fewer companies offered credit sales, but that average payment terms shortened from 71 in 2021 to 66 days in 2022. Most of the 13 surveyed sectors tightened credit terms, with ICT and construction shortening the duration of payment terms the most as higher input costs, labour shortages and weaker global demand put pressure on their financial positions.

Tighter credit terms coincided with longer payment delays. The average payment delay lengthened from 54 days in 2021 to 67 days in 2022. Six of the nine economies covered recorded longer payment delays, with the greatest increase reported in Malaysia. By contrast, payment delays were shorter in Hong Kong, Australia, and China, although Australian and Chinese businesses continued to report the two longest average payment delays.

However, longer payment delays did not cause a deterioration of credit risk as fewer firms experienced ultra-long payment delays (ULPDs), which are defined as overdue payments stretching beyond 180 days. The share of respondents reporting ULPDs exceeding 2% of their annual revenue fell from 34% in 2021 to 26% in 2022. Monitoring ultra-long overdue payments is important because most ULPDs are never paid according to Coface's experience. Therefore, cash flow risks tend to rise when these ULPDs exceed 2% of a company's annual revenue. Only two of 13 sectors (paper and retail) reported a greater proportion of respondents with ULPDs that increased from 22% and 23% respectively in 2021 to 29% in 2022. Conversely, this share dropped the most for the textile sector where ULPDs fell from 38% in 2021 to 14% in 2022.

Ongoing geopolitical and economic challenges notwithstanding, Asian firms were more optimistic about growth prospects for the year ahead, with 77% of respondents expecting economic growth to improve in 2023. Anticipation of increased economic activity led to a greater share of respondents projecting higher sales and improved cash flow for 2023. Coface expects a slightly faster rate of GDP growth for emerging Asia in 2023, but also anticipates elevated commodity prices, notably energy prices, higher interest rates, tighter financial conditions, and weak global trade demand will remain the key curbs on business activity this year.

The Coface's 2023 Asia Corporate payment survey was conducted between November 2022 and April 2023. It covered over 2,300 companies from nine markets and 13 sectors located in the Asia Pacific region.

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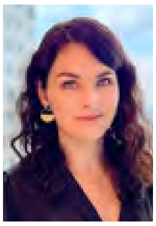
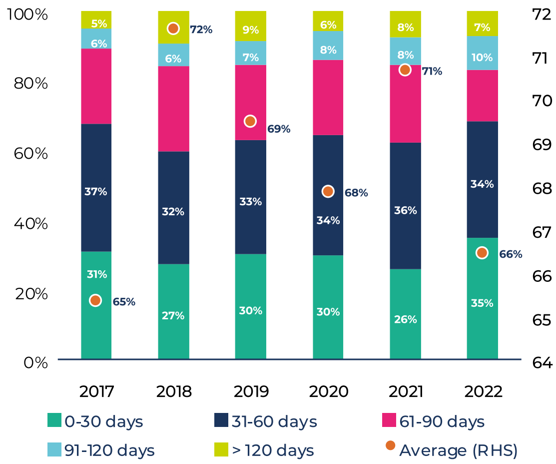


EVE BARRÉ
ASEAN economist

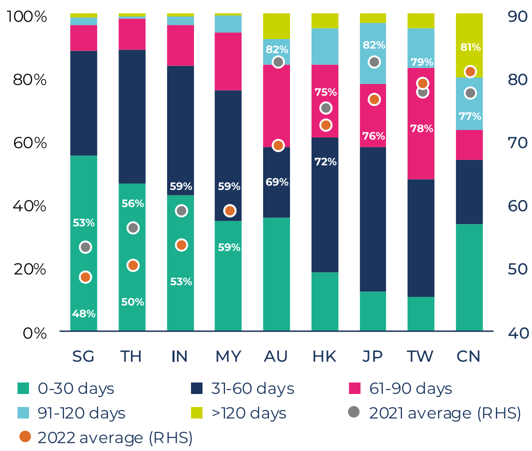
TIGHTER PAYMENT TERMS[1], ESPECIALLY IN CONSTRUCTION AND ICT

Chart 1:
Payment terms in Asia Pacific



Source: Coface Payment Survey

Chart 2:
Payment terms by region



Source: Coface Payment Survey

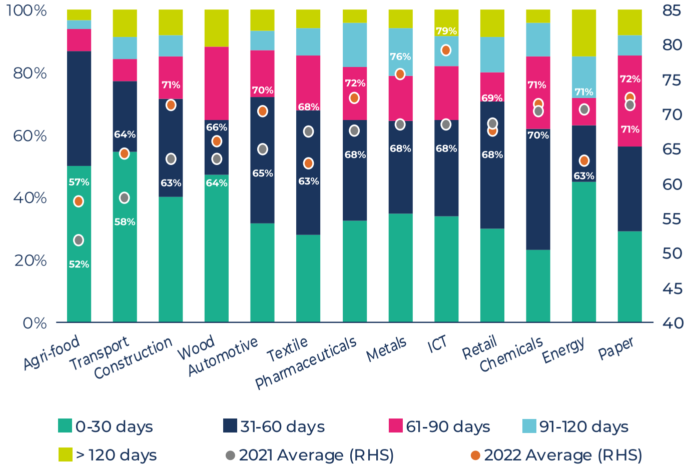
• **Fewer firms provide credit terms.** The share of respondents offering credit terms declined for the second consecutive year in 2022, falling from 77 % in 2021 to a 10-year low of 73 % amid a year of aggressive interest rate hikes and tightening financial conditions, especially across advanced economies. Among those that provided credit terms, market competition remained the main reason, mentioned by 39 % of respondents, followed by greater confidence in customers' ability to pay (29 %). A quarter of businesses that provided credit terms reported customers' tight liquidity as the main reason for credit sales, up from 15 % in 2021.

• **Credit terms become more restrictive on average.** Even Asian businesses that offered credit terms have become more restrictive regarding the duration of credit terms, reflecting general cautiousness amid increasingly difficult economic conditions. The average payment term declined from 71 days in 2021 to 66 days in 2022 **(Chart 1)**. Increasing raw material prices and rising interest rates prompted businesses to provide shorter credit terms. The share of respondents offering credit terms below 30 days rose from 26 % in 2021 to 35 % in 2022. The proportion of those that offered payment terms exceeding 60 days shrank from 38 % to 32 % in 2022.

• **Great variation across markets.** Although most markets covered by the survey saw a decrease in payment terms in 2022, the average credit term varies greatly across economies **(Chart 2)**, with southern and southeastern Asian firms appearing to be more cautious. Lower by five days, Singapore yet again recorded the shortest average credit term of 48 days. Thailand, India, and Malaysia also offered credit terms below the regional average (66 days). Australia saw the largest shortening of the average credit term, with a cut of 13 days to 69 days amid a surge in corporate insolvencies (43 % y/y) during 2022. Only two of the nine surveyed

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

economies indicated longer payment terms in 2022, and the longest credit terms. Taiwan registered a small rise of one day, from 78 days in 2021 to 79 days in 2022. The longest average credit term was in China, where it rose from 77 days to 81 days.

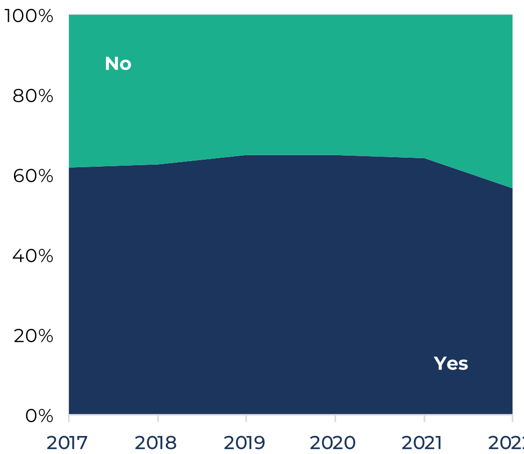
• **Most sectors also tightened credit terms, with over three-quarters (10 of 13) offering shorter payment terms (Chart 3).** ICT and construction reduced the length of credit terms the most, by 11 and 8 days, respectively. The construction sector was beset by multiple headwinds, including rising interest rates, labour shortages in several Asian countries, and notably higher material input costs, making businesses more cautious about credit terms. Meanwhile, global weakening of demand for ICT products – electronics exports from Asia declined in the second half of 2022 and inventories piled up – were reasons for more restrictive payment terms. By contrast, the energy and textile sectors lengthened credit terms and were also the only two sectors to do so in 2021.

2 LONGER PAYMENT DELAYS[2] BUT FEWER ULTRA-LONG OVERDUES REPORTED

• **The survey results on late payments were mixed, reflecting the complex economic reality faced by businesses in 2022, including border reopenings, supply chain changes, rising input prices, higher funding costs, and geopolitical tensions.**

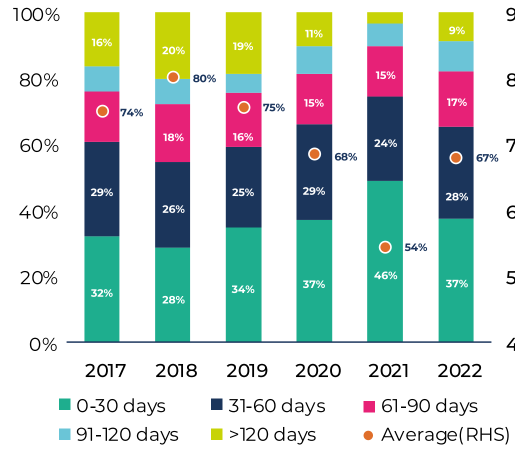
• **Fewer businesses reported overdue payments in 2022.** The share fell to 57 % - the lowest in 10 years - from 64 % in 2023 **(Chart 4). But among those who reported late payments, the duration of payment delays across Asia-Pacific increased markedly (Chart 5).** The average payment delay lengthened from 54 days in 2021 to 67 days, wiping out the improvement made in 2021, which was a year of strong economic rebound. Longer delays materialised as fewer companies reported average delays of less than 30 days, while more companies mentioned overdues of over 30 days, with a noticeable rise in the share of respondents that faced delays exceeding 120 days (3.5 % in 2021 to 9 % in 2022).

Chart 4:
Overdue during the past 12 months



Source: Coface Payment Survey

Chart 5:
Payment delays in Asia Pacific



Source: Coface Payment Survey

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

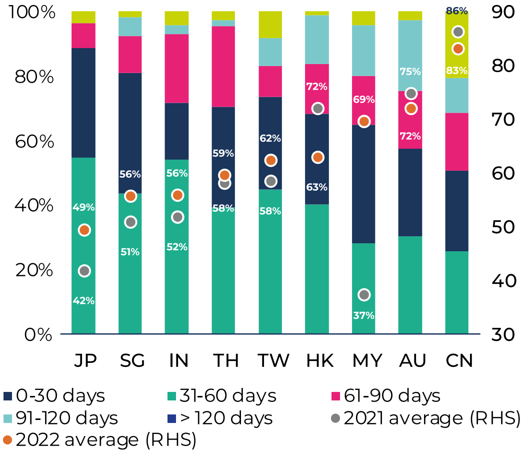
• **Most economies reported longer payment delays, albeit to various degrees. (Chart 6). The average payment delay lengthened drastically in Malaysia.** After a sharp fall in 2021, Malaysia's average payment delay rose from 37 days in 2021 to 69 days in 2022, a whopping increase in the space of just over one year. Despite an increase of 7 days, Japan saw the shortest payment delays, with an average of 49 days in 2022, up from 42 days in 2021. It was followed by Singapore (56 days, +5 days) and India (56 days, +4 days). By contrast, payment delays were reduced in Hong Kong (-9 days), Australia, and China (-3 for the latter two countries). Nevertheless, China continues to be the country with the longest average payment delay among the nine economies covered in the survey, at 86 days.

• **Sector-wise,** seven of the thirteen sectors in the survey registered longer average payment delays **(Chart 7). Overdue payments increased the most in retail (+15 days), pharmaceuticals (+10.5), and energy (+10).** Accordingly, the energy sector posted the longest average payment delay of 77 days, alongside construction. On the other hand, agri-food and textile saw the shortest payment delays, with both sectors experiencing a reduction from 60 days in 2021 to 52 days in 2022.

• **However, longer payment delays did not go hand in hand with an increase in firms with overdues.** Quite the contrary, the proportion of respondents that experienced an increase in the value of overdues fell from 35.5% in 2021 to 26.8% in 2022. More companies mentioned stable overdues (25.8 % in 2022 vs. 21.6 % in 2021) and reported a decrease in the amount of overdues (42.9 % in 2022 vs. 47.3 % in 2021).

• **Cash flow risk also indicated an improvement.**

Chart 6:
Payment delays by region

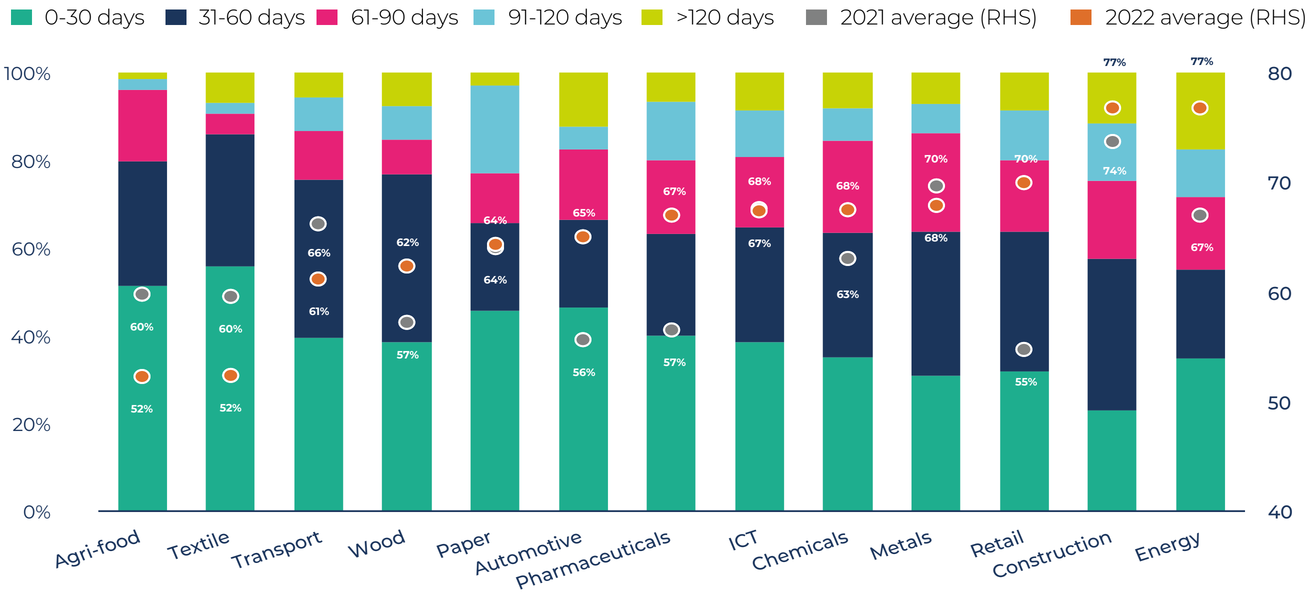


Source: Coface Payment Survey

The survey shows a decline in the proportion of respondents experiencing ultra-long payment delays (ULPDs) exceeding 2 % of their annual revenue, falling from 34 % in 2021 to 26 % in 2022 (Chart 8). The decline was in part explained by a smaller share of businesses facing ULPDs of more than 10 % of annual revenue (from 14 % in 2021 to 9.5 % in 2022). According to Coface's experience, 80 % of these ULPDs are never paid. Therefore, cash-flow risks arise when these ULPDs account for over 2 % of a company's annual revenue.

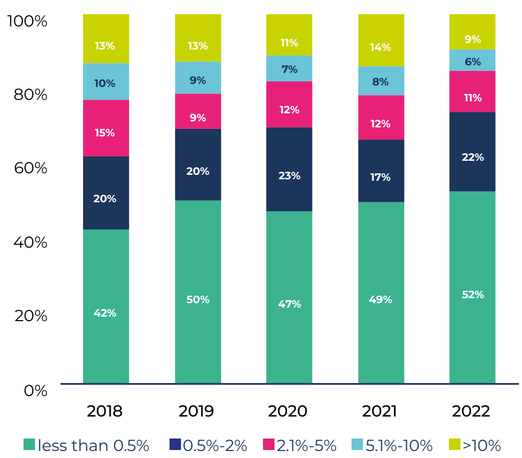
• By market, Japan and Taiwan harboured the smallest risks, with ULPDs over 2 % of annual revenue accounting for 9.4 % and 9.6 %, respectively. While risks remained elevated in China and Hong Kong, these economies enjoyed an improvement in credit conditions, with 36.4 % of Chinese and

Chart 7:
Payment delays by sector



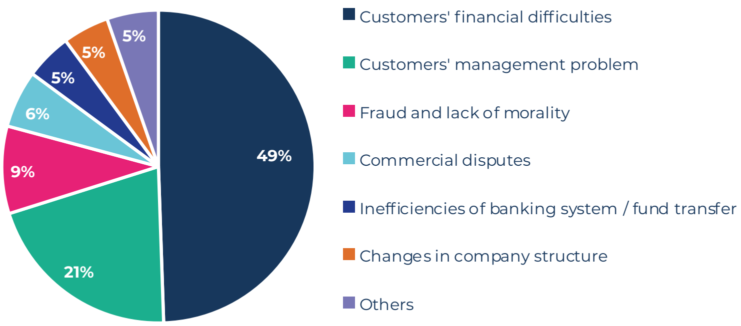
Source: Coface Payment Survey

Chart 8:
Overdue exceeding 6 months as a % of annual turnover in Asia Pacific



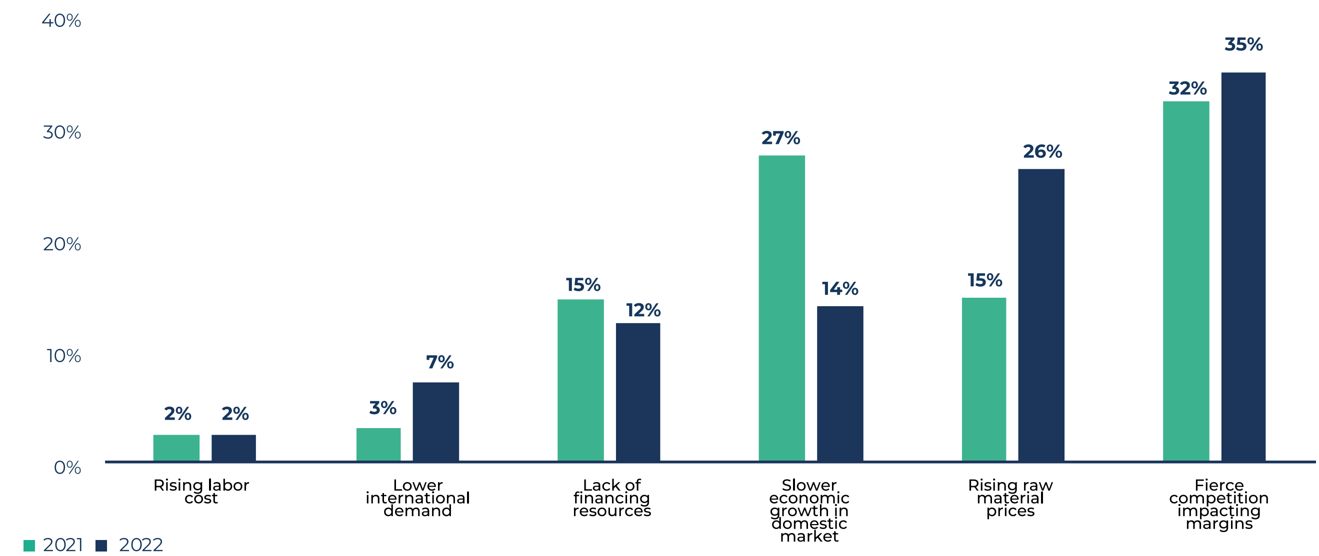
Source: Coface Payment Survey

Chart 9:
Main reason for payment delays



Source: Coface Payment Survey

Chart 10:
Main reason for customers' financial difficulties



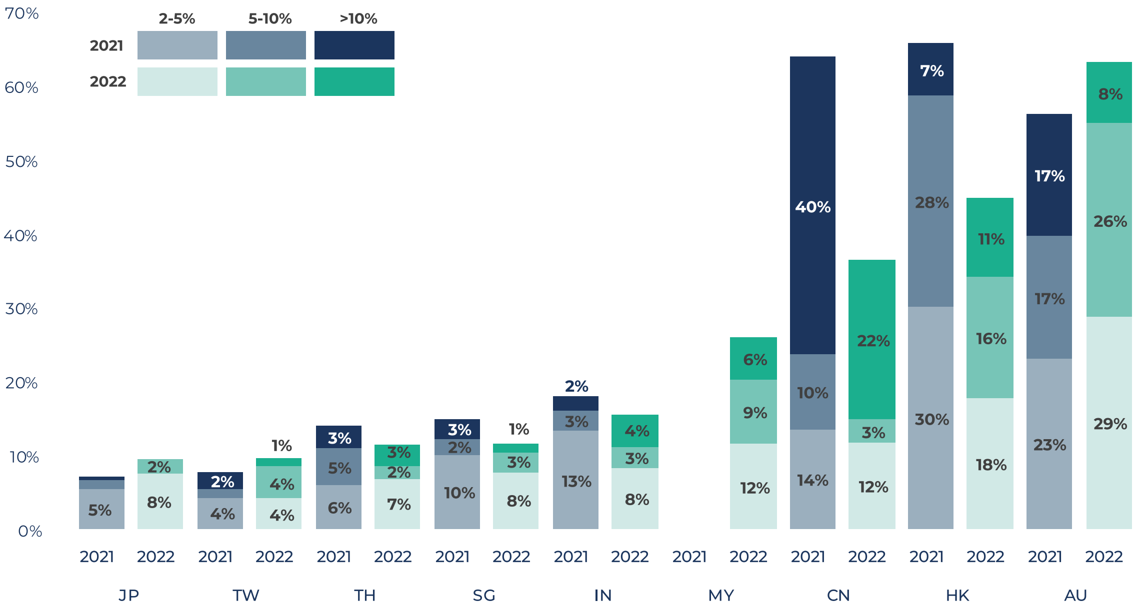
Source: Coface Payment Survey

44.7 % of Hongkong-based respondents reporting ULPDs over 2 % of revenue, i.e. a decline of 27.4 and 20.9 percentage points respectively. **The situation in Australia was different as the proportion of respondents with such ULPDs expanded from an already noticeable share of 56.1 % in 2021 to 63 % in 2022. Malaysia also faced a rise in cash flow risk with the percentage rising from 0 % in 2021 to 25.9 % during the survey period.**

• **From a sectoral breakdown perspective, the decrease in companies experiencing ULPDs of more than 2 % was broad-based, with only two sectors reporting a rise.** The paper and retail sectors saw the proportion of respondents with ULPDs increase respectively from 21.6 % and 23.4 % in 2021 to 28.6 % and 29.2 % in 2022. Conversely, this share dropped the most for businesses in the textile sector, where ULPDs fell from 37.7 % in 2021 to 14 % in 2022.

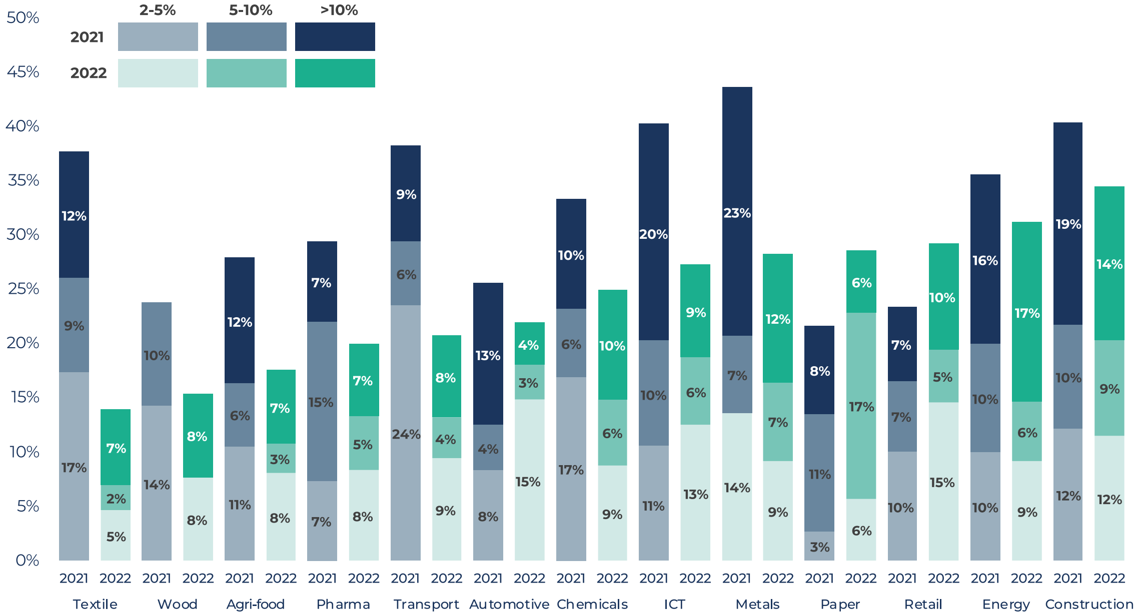
• As in previous years, **the main reason for payment delays remained customers' financial difficulties, as reported by 49 % of respondents that experienced overdue payments (Chart 9).** This was especially the case for the energy sector (70 %). Fierce competition which eroded margins was the main factor contributing to these difficulties, as highlighted by nearly more than a third of respondents **(Chart 10).** Rising raw material prices became the second main reason for difficulties after 26 % of respondents mentioned it in 2022, up from 15 % in 2021. By contrast, in the context of post-pandemic economic normalisation, slower domestic growth was mentioned less in 2022 (27 % vs. 14 %).

Chart 11:
ULPDs and annual turnover by region



Source: Coface Payment Survey

Chart 12:
ULPDs and annual turnover by sector

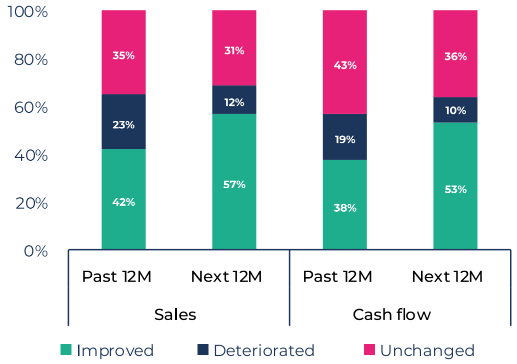


Source: Coface Payment Survey

3 ECONOMIC EXPECTATIONS: RISING OPTIMISM DESPITE TANGIBLE RISKS

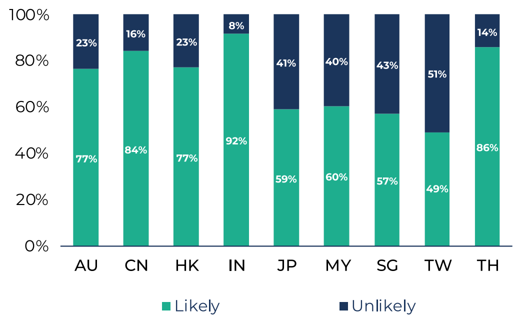
· **After a general economic rebound in 2021, 2022 was beset by geopolitical and economic challenges** amid an ongoing pandemic, including the Ukraine-Russia war, escalating US-China technological rivalry, high inflation, and aggressive interest rate hikes that contributed to tighter monetary and financial conditions, all of which weighed on Asian consumers and businesses. In China and Hong Kong, Covid measures continued to damp economic activity. A smaller proportion of respondents (42 %) recorded improved sales in 2022, down from 46 % in 2021. However, optimism regarding cash flow increased slightly, with 38 % of respondents indicating an improvement in cash flow, up from 36 % in 2021 **(Chart 13).**

Chart 13:
Business expectations (% respondents)



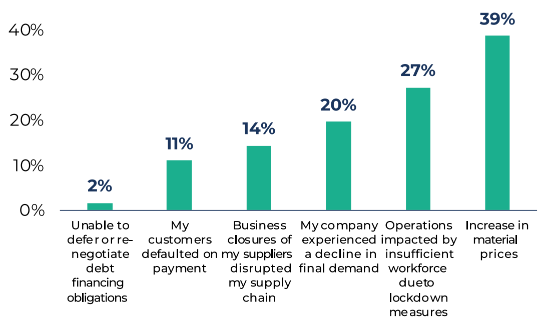
Source: Coface Payment Survey

Chart 14:
Economic growth will improve in 2023 compared to 2022



Source: Coface Payment Survey

Chart 15:
Main factors affecting your sales and cash flow in 2022



Source: Coface Payment Survey

• **However, prospects for 2023 appear to have brightened, with 77 % of respondents expecting economic growth to improve in 2023.** This optimism was, however, disparate across the region **(Chart 14)**. India and Thailand were the most optimistic economies with 92 % (+9.4 ppts from 2021) and 86 % (+5.6) of respondents anticipating higher growth. Companies in Hong Kong and China, where lockdown measures were only dismantled in late 2022, expressed more confidence in greater economic growth for 2023, with the proportion increasing by 23.7 ppts to 77 % in the former and by 16.3 ppts to 84 % in the latter. By contrast, Taiwanese businesses were increasingly pessimistic, with only 49 % expecting sharper growth, i.e. a fall of 31.4 ppts from 2021. Given Taiwan's dominant role in the global electronic value chain, the current global electronic downturn has had a great impact on Taiwanese business confidence.

• **Coface forecasts economic growth in Asia to accelerate slightly in 2023, which is consistent with improved expectations about future sales and cash flows.** The percentage of respondents anticipating improved sales performance in the coming year rose from 52 % in 2021 to 57 % in 2022. Optimism about cash flow also increased with 53 % forecasting better cash flow, up from 43 % the year earlier. Confidence in the coming year's sales and cash flow performance was the greatest for agri-food amid cooling food prices. By contrast, companies in the textile sector were the most pessimistic about both sales and cash flow performance. Durably elevated raw material and energy prices, together with weakening demand for apparel, are reasons for such pessimism. For example, Indian exports of textile products fell by 7 % in 2022 and 23 % in the first quarter of 2023.

• **Asked about the main factors affecting sales and cash flow in 2022, 39 % of respondents cited rising raw material prices (Chart 15).** They had already increased in 2021, and the war in Ukraine resulted in further spikes in commodity prices which ranged from energy and metals to agricultural raw materials. Other factors were disruptions to operations due to lockdown measures leading to an insufficient workforce (27 %) and a decline in demand (20 %). **Elevated commodity prices, notably energy prices, high interest rates and tight financial conditions, as well as weak global trade demand, are expected to curb business activity in 2023.**

Payment Survey Results
By Economy

BUSINESS DEFAULT RISK

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

Australia

COFACE ASSESSMENT: A2

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	79,3%	63,6%	74,8%	77,0%	80,5%	↗	Above
Average payment terms (days)	47	36	81	82	69	↘	Above
Payment delays							
Experienced payment delays	73,0%	66,7%	90,7%	93,4%	94,8%	↗	Above
Payment delays increased	29,6%	34,1%	48,5%	50,0%	52,2%	↗	Above
Average payment delays of more than 90 days	12,3%	9,1%	20,4%	19,9%	24,7%	↗	Above
Ultra long payment delays > 2% of turnover	38,3%	20,5%	53,3%	56,1%	63,0%	↗	Above
Overall						↗	**Above**

China

COFACE ASSESSMENT: B

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	67,3%	66,2%	67,4%	66,6%	50,3%	↘	Below
Average payment terms (days)	86	79	77	77	81	↗	Above
Payment delays							
Experienced payment delays	62,9%	66,0%	56,8%	52,5%	40,4%	↘	Below
Payment delays increased	40,0%	37,1%	36,3%	42,1%	21,3%	↘	Below
Average payment delays of more than 90 days	38,8%	41,0%	29,5%	35,2%	31,4%	↘	Above
Ultra long payment delays > 2% of turnover	55,3%	52,5%	47,6%	63,8%	36,4%	↘	Above
Overall						↘	-

Hong Kong

COFACE ASSESSMENT: A3

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	91,5%	87,1%	88,6%	87,4%	90,6%	↗	Above
Average payment terms (days)	62	63	81	75	72	↘	Above
Payment delays							
Experienced payment delays	68,9%	85,1%	95,5%	93,9%	88,5%	↘	Above
Payment delays increased	23,3%	37,2%	59,4%	56,5%	44,7%	↘	Above
Average payment delays of more than 90 days	11,0%	10,5%	32,3%	17,7%	16,5%	↘	Below
Ultra long payment delays > 2% of turnover	27,4%	18,6%	66,1%	65,6%	44,7%	↘	Above
Overall						↘	**Above**

India

COFACE ASSESSMENT: B

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	96,0%	97,5%	95,7%	97,1%	96,3%	↘	Above
Average payment terms (days)	50	42	60	59	53	↘	Below
Payment delays							
Experienced payment delays	82,0%	86,3%	83,3%	69,8%	68,8%	↘	Above
Payment delays increased	20,5%	17,6%	20,0%	26,6%	37,7%	↗	Above
Average payment delays of more than 90 days	23,4%	2,4%	7,2%	6,9%	7,2%	↗	Below
Ultra long payment delays > 2% of turnover	21,0%	11,4%	9,2%	17,9%	15,5%	↘	Below
Overall						↘	-

Japan

COFACE ASSESSMENT: A2

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	86,4%	87,5%	87,5%	90,2%	88,3%	↗	Above
Average payment terms (days)	73	88	80	82	76	↘	Above
Payment delays							
Experienced payment delays	41,8%	41,7%	41,9%	40,2%	34,4%	↘	Below
Payment delays increased	14,6%	12,9%	22,4%	5,4%	18,9%	↗	Below
Average payment delays of more than 90 days	12,2%	4,3%	4,5%	3,3%	3,8%	↘	Below
Ultra long overdue amounts > 2% of turnover	8,5%	8,6%	6,0%	8,0%	9,4%	↗	Below
Overall						-	**Below**

Malaysia

COFACE ASSESSMENT: A3

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	88,9%	92,0%	91,5%	70,5%	88,8%	↗	Above
Average payment terms (days)	68	64	51	59	59	-	Below
Payment delays							
Experienced payment delays	65,7%	66,5%	69,2%	99,1%	67,8%	↘	Above
Payment delays increased	26,5%	25,6%	12,2%	50,5%	18,0%	↘	Below
Average payment delays of more than 90 days	26,5%	29,3%	10,1%	2,3%	20,1%	↗	Above
Ultra long overdue amounts > 2% of turnover	36,8%	33,1%	11,5%	0,0%	25,9%	↗	Below
Overall						↗	-

Singapore

COFACE ASSESSMENT: A2

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	83,7%	86,4%	89,3%	85,2%	93,6%	↗	Above
Average payment terms (days)	54	54	50	53	48	↘	Below
Payment delays							
Experienced payment delays	71,1%	65,0%	59,5%	71,0%	76,8%	↗	Above
Payment delays increased	16,0%	20,1%	13,3%	14,8%	16,0%	↗	Below
Average overdue times of more than 90 days	19,3%	18,7%	14,7%	4,7%	7,7%	↗	Below
Ultra long overdue amounts > 2% of turnover	23,5%	21,6%	22,0%	14,8%	11,5%	↘	Below
Overall						↗	**Below**

Taiwan

COFACE ASSESSMENT: A2

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	88,7%	85,7%	84,7%	69,9%	86,7%	↗	Above
Average payment terms (days)	72	71	75	78	79	↗	Above
Payment delays							
Experienced payment delays	58,3%	55,4%	50,5%	49,0%	73,4%	↗	Above
Payment delays increased	18,0%	25,8%	24,6%	20,1%	28,7%	↗	Above
Average payment delays of more than 90 days	15,7%	18,8%	17,3%	10,1%	17,0%	↗	Below
Ultra long payment delays > 2% of turnover	9,2%	7,0%	10,5%	7,7%	9,6%	↗	Below
Overall						↗	**Above**

Thailand

COFACE ASSESSMENT: A4

	2018	2019	2020	2021	2022	2022 vs. 2021	vs. APAC
Payment terms							
% of respondents offering payment terms	84,7%	90,1%	89,3%	82,9%	84,0%	↗	Above
Average payment terms (days)	42	53	53	56	50	↘	Below
Payment delays							
Experienced payment delays	54,0%	55,3%	58,7%	65,1%	67,3%	↗	Above
Payment delays increased	26,1%	42,4%	33,3%	39,6%	24,8%	↘	Below
Average payment delays of more than 90 days	8,0%	17,6%	14,4%	5,9%	4,8%	↘	Below
Ultra long overdue amounts > 2% of turnover	23,9%	24,7%	16,9%	13,9%	11,4%	↘	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

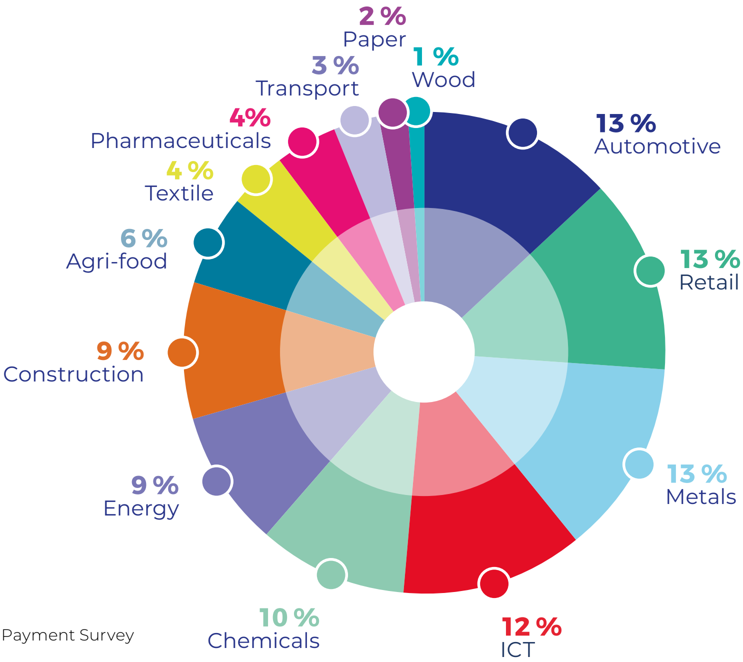
APPENDIX

A TOTAL OF

2,320

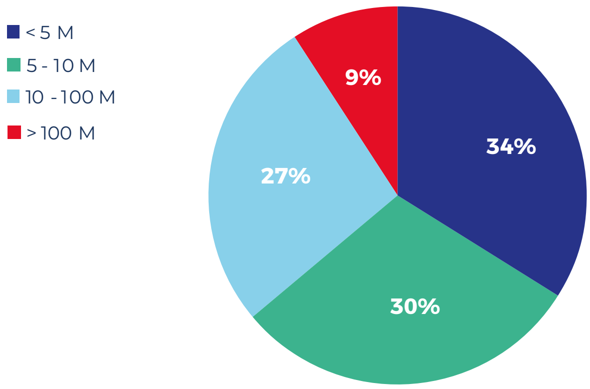
COMPANIES PARTICIPATED IN THE PAYMENT SURVEY

SECTORS OF COMPANIES SURVEYED



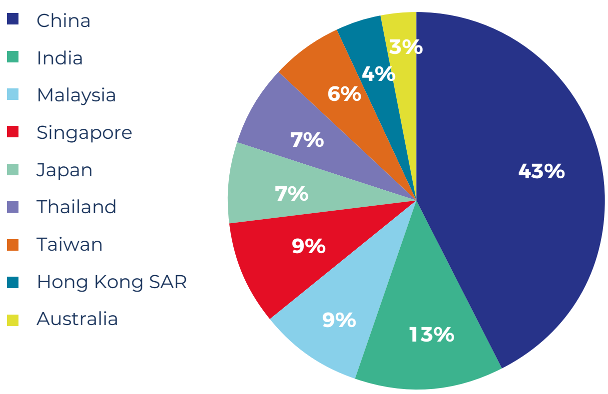
Source: Coface Payment Survey

SIZE BY TURNOVER (EUR)



Source: Coface Payment Survey

GEOGRAPHICAL DISTRIBUTION



Source: Coface Payment Survey

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