



# P R E S S R E L E A S E

Hong Kong S.A.R., 2 June 2020

## **China Payment Survey 2020: Payment delays will increase further because of COVID-19**

**In the context of weaker activity in China due to the health crisis, Coface's latest survey on business payments in China shows a deterioration in payment behaviour in 2019. 66% of surveyed companies reported payment delays. The length of payment delays remained stable at 86 days in 2019. Nevertheless, sectors that have been hit the most by lockdown measures will have to delay payments in order to survive in 2020 and the number of corporate insolvencies should increase.**

### **Payment delays: Chinese companies brace for a much tougher 2020, as cash flow risks pile up for some sectors**

Growth in China will fall to 1.0%, the lowest level in 30 years, so given the historical correlation between economic activity and payment delays, an increase is expected in 2020.

While the average payment terms remained stable at 86 days in 2019, the share of respondents offering average credit terms exceeding 120 days has almost doubled in two years, from 12% in 2017 to 23% in 2019. In practice, 50% of respondents offered maximum payment terms exceeding 120 days.

During 2019, payment delays also deteriorated in China. The proportion of companies experiencing payment delays that exceed 120 days reached 37% in 2019, i.e. 6 points more than in 2018. More ominously, more than a quarter of companies (27%) experienced ultra-long payment delays (ULPDs, over 180 days), which exceed 10% of their annual turnover. When these constitute a large proportion of total annual turnover, a company's cash flow may be at risk, which is worrisome in case of exogenous shocks like COVID-19.

#### *Sectors with the highest default risk : construction, transport, energy, automotive and ICT*

An increase in corporate bond defaults and insolvencies amongst sectors that experienced a build-up in cash flow risks in 2019 is expected. The sectors with the highest proportion of ULPDs accounting for more than 10% of annual turnover are construction (30%), transport (30%), energy (29%) and automotive (28%). On the back of US-China trade war disruptions, the ICT sector recorded the highest increase in payment delays (+12 days) to reach 102 days. While all sectors are exposed to these risks, sectors that entered the crisis from a position of strength, with sufficient cash flow, have better chances than those who did not.

In fact, companies may be in a weaker position to withstand the impact of the COVID-19 shock relative to last year, with 40% of respondents admitting that they did not use any form of credit management tool to mitigate cash flow risks in 2019, while only 17% of respondents declared using credit insurance.

*Note: Coface's 2020 China Corporate Payment Survey looks at the payment behaviour of over 1000 companies in China in late 2019. The data was compiled in the fourth quarter, which means that the figures do not take into account the impact of the COVID-19 pandemic on the Chinese economy.*



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