MARCH 2024

COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

By Junyu Tan,
Economist
North Asia
Bernard Aw,
Chief Economist,
Asia Pacific
Nouri Chatillon,
Associate
Economist

China Payment Survey 2024: Payment delays continued to shorten, but corporates increasingly cautious

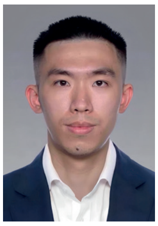
For the Chinese economy, 2023 was the year when economic activities generally normalised from the pandemic. The same went for corporate business practices regarding payment terms. As market competition and practices returned to normal, more companies took the initiative to grant payment terms. This differed from the flexibility that suppliers had been somewhat forced to adopt during the pandemic, when customers faced tighter liquidity conditions. But more willingness to offer payment terms belied growing caution among corporates, as evidenced by the increased use of risk management tools and more restrictive payment terms. Coface's 2024 China Corporate Payment Survey showed that average payment terms decreased from 81 days in 2022 to 70 days in 2023.

As payment terms shortened, more respondents reported payment delays in 2023. Of the 1,020 respondents, 62% reported overdue, up from 40% in 2022. Intense competition was cited as a major cause of financial difficulties for customers, which may be partly due to the excess capacity in some industries. The burden of destocking has caused major suppliers to offer deep discounts that eroded corporate profits. However, cost pressures did not appear as a significant burden on Chinese companies, which was consistent with China's relatively weak price pressures.

However, an increase in the incidence of payment delays may not necessarily equate to a worsening of companies' cash flow position. In fact, payment delays, measured in the number of days, improved significantly in 2023, decreasing from 83 days in 2022 to 64 days in 2023. Total days sales outstanding (DSO) – the sum of average payment delays and payment terms – also shortened from 164 days to 133 days, indicating a generally improving cash flow cycle. The survey also revealed a continued downward trend in ultra-long payment delays (ULPD, above 180 days) exceeding 2% of annual turnover, a threshold for high non-payment risk based on Coface's experience. Only 33% of respondents reported such delays, the second-lowest level since 2014.

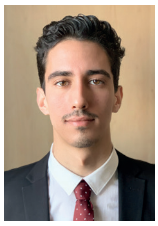
There were still notable divergences across different industries regarding credit risks. Construction still experienced the longest payment delays (84 days) as property developers remained under severe financial pressure due to a slow new home sales recovery. Textile appeared to have the highest non-payment risks (ULPDs exceeding 2% of turnover) when overdue occurred. But the situation is unlikely to improve in 2024 as pent-up demand recedes and labour costs rise.

Looking ahead, most respondents remained optimistic about the economic prospects in 2024, and increased policy support may bring some confidence to companies. By sector, pharmaceuticals emerged as the most optimistic, followed by automotive. Fierce competition was still seen as the biggest risk to business operations in 2024 but is expected to moderate from 2023 as inventory burdens ease. However, the demand slowdown in 2024 is expected to be more challenging, which should prompt more government spending to stabilise demand.



JUNYU TAN
Economist,
North Asia

BERNARD AW
Chief Economist,
Asia Pacific

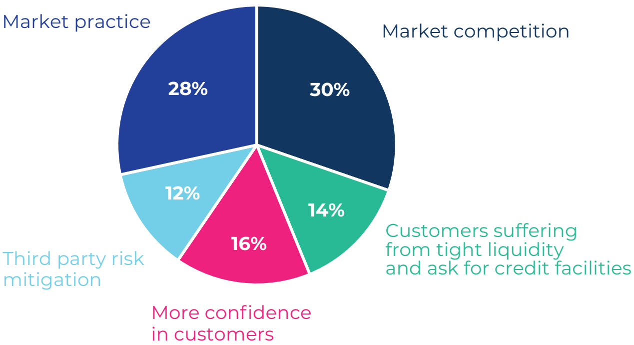


NOURI CHATILLON
Associate
Economist

PAYMENT TERMS[1]: INCREASED WILLINGNESS TO OFFER CREDIT SALES MASKED GROWING CAUTION AMONG SUPPLIERS

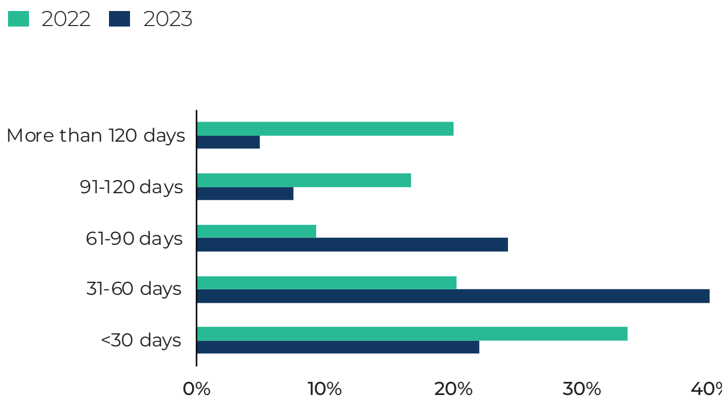
- The share of respondents offering payment terms increased significantly to 79% in 2023, from 50% a year ago. Among companies that offered credit sales, market competition (30%) and market practices (28%) were cited as top reasons, suggesting that the increase in willingness may stem from the normalisation of business practices as overall economic activity recovered. Correspondingly, tight customer liquidity, the primary reason for credit sales during the pandemic, dropped sharply from 43% to 14% as corporate cash flow improved. But creditors remained cautious and confidence in customers declined (16% in 2023 compared with 33% in 2022) amid an uneven cyclical recovery and lingering concerns about a structural slowdown.
- Risk mitigation from third parties, while still not a primary factor behind credit sales, is becoming increasingly common among respondents. However, this could be due to the increased share of companies with a larger revenue scale in our sample, which may be more inclined to use risk management tools.
- Nevertheless, despite an increased willingness

Chart 1:
Percentage of respondents citing the factor as reason for offering payment terms



Source: Coface Payment Survey

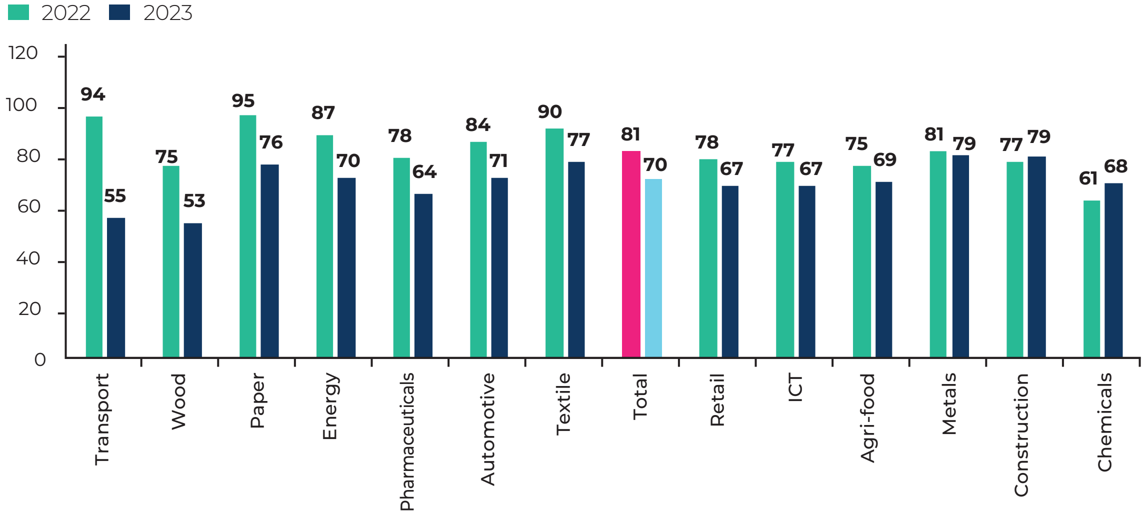
Chart 2:
Payment terms by duration (days)



Source: Coface Payment Survey

1 Payment term refers to the time frame between when a customer purchases a product or service, and when the payment is due, as reported by our respondents on average.

Chart 3:
Average payment terms by sectors (days)



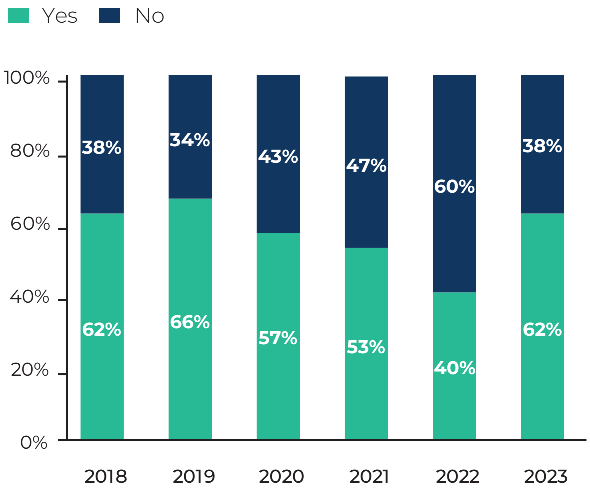
Source: Coface Payment Survey

to offer sales on credit, businesses shortened payment terms in 2023. On average, total payment terms decreased from 81 days in 2022 to 70 days in 2023. Fewer respondents offered longer payment terms of more than 90 days, which may reflect greater caution about market uncertainty that could negatively impact corporate cash flows. However, companies were still comfortable with credit sales with moderate terms, as the survey also showed that most companies preferred payment terms of 31 to 60 days.

- Accordingly, 11 of the 13 sectors analysed by Coface tightened payment terms. The transport and wood sectors saw the largest reductions, at 39 days and 22 days respectively, making them the most stringent sectors for credit sales. Conversely, chemicals (+7) and construction (+2) were the only two sectors to extend payment terms in 2023. Construction and metals were among the most generous sectors, offering credit sales of up to 79 days, likely due to still-tight customer liquidity, as sluggish new home sales continued to weigh on property developers' cash flow positions.

2 PAYMENT DELAYS[2] MORE DELAYS REPORTED, BUT DURATION SHORTENED

Chart 4:
Percentage of respondents reporting payment delays



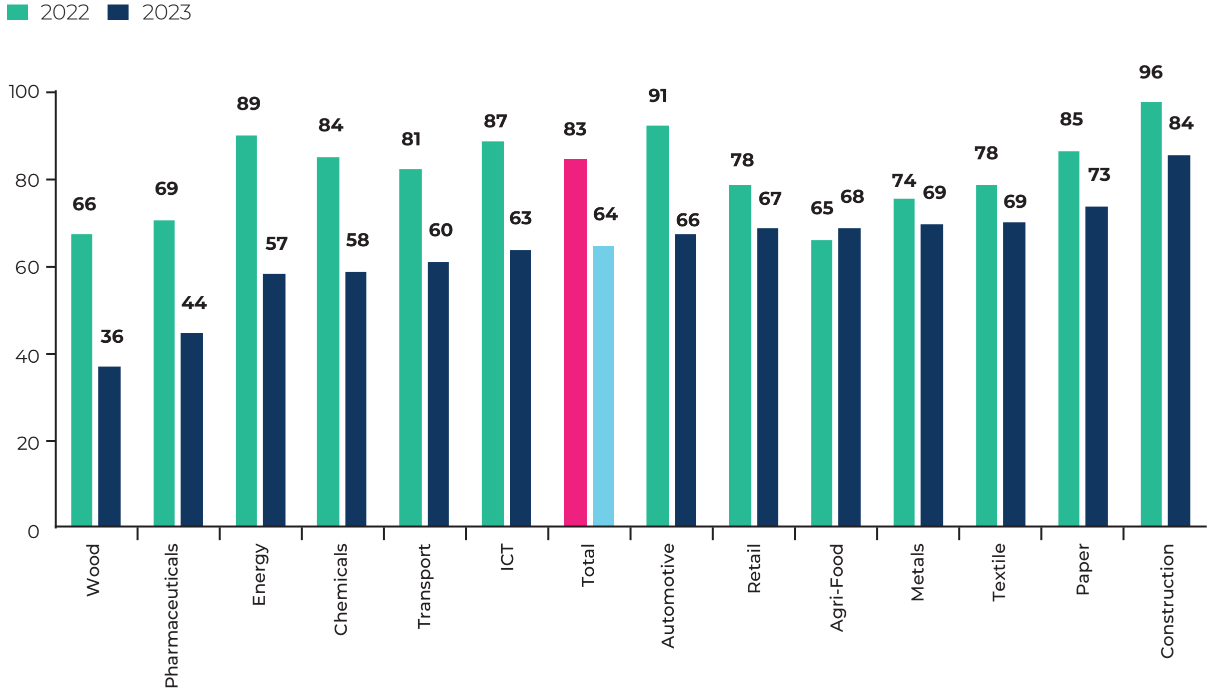
Source: Coface Payment Survey

- As payment terms shortened, more respondents reported payment delays in 2023. The share of respondents reporting overdue rose significantly from 40% in 2022 to 62% in 2023, reaching the highest level since the pandemic outbreak and reversing the downward trend since then.

- But an increase in the frequency of payment delays does not necessarily equate to a deterioration in companies' cash flow position. In fact, measured by the number of days, payment delays improved significantly in 2023, on average, decreasing from 83 days in 2022 to 64 days in 2023. More payment delays were within 60 days, while the proportion of respondents reporting payment delays of more than 120 days (5% vs. 21% in 2022) has significantly decreased. While

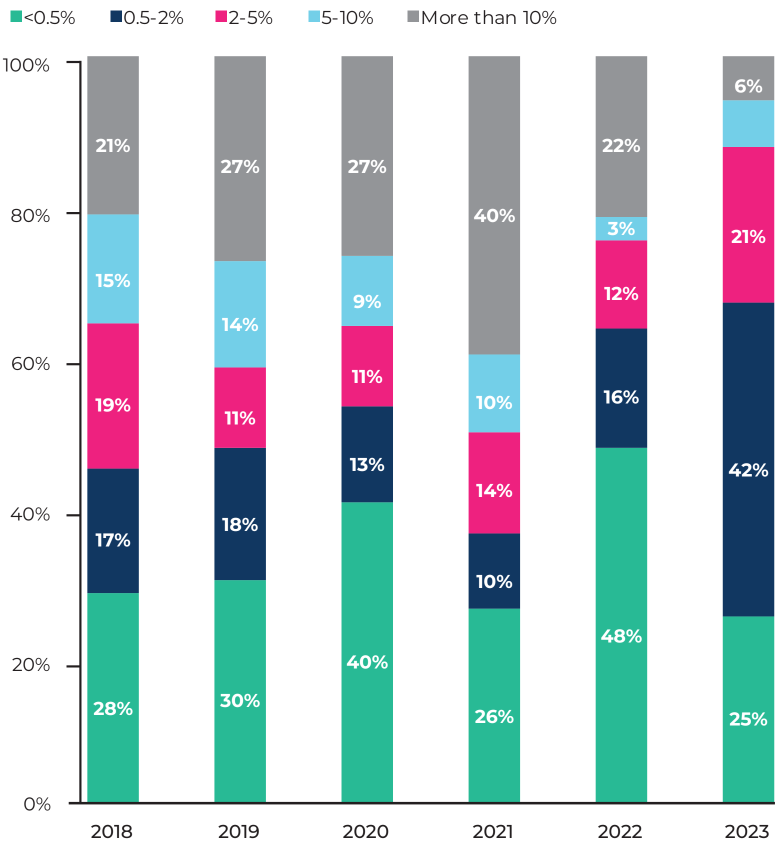
2 Payment delay refers to the period between the payment due date and the date the payment is made, as reported by our respondents on average.

Chart 5:
Average payment delays by sector (days)



Source: Coface Payment Survey

Chart 6:
Ultra-long payment delays as a % of turnover



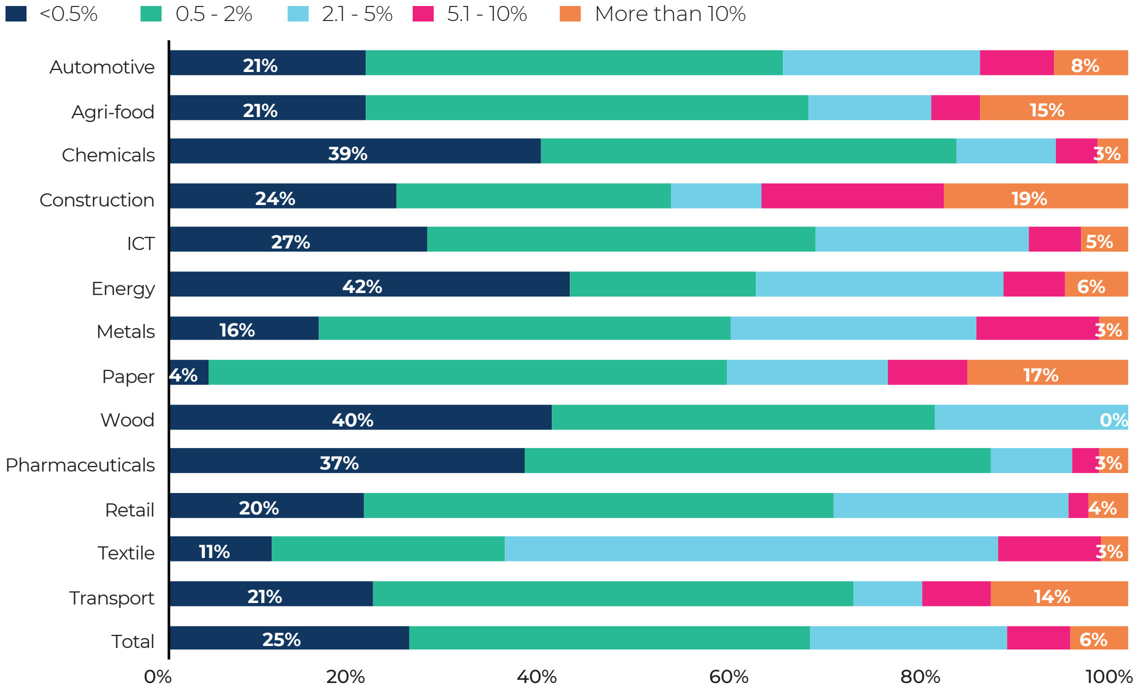
Note: Ultra-long payment delays refer to payment delays above 180 days
Source : Coface Payment Survey

average payment terms tightened by 11 days from 2022 to 2023, average delays shortened to a greater extent by 19 days, which may be a sign of improving customer cash flow.

- The survey also showed a continuous downtrend of ultra-long payment delays (ULPDs, above 180 days) exceeding 2% of annual turnover, a threshold for high non-payment risk – 80% of such delays were never paid based on Coface's experience. Only 33% of respondents reported such delays, the second-lowest level since 2014. The decline was mostly led by the reduced number of respondents experiencing ULPDs of more than 5% of annual turnover, which decreased from 25% in 2022 to 12% in 2023.

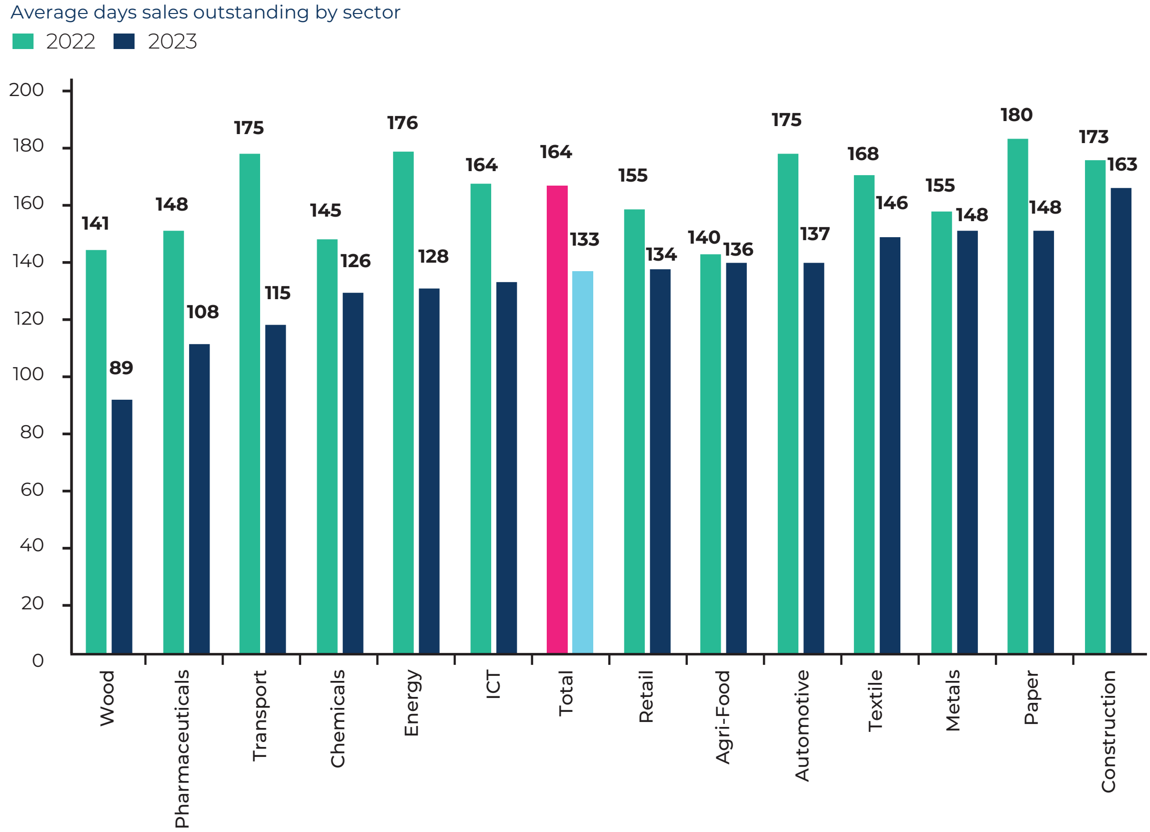
- By sector, agriculture was the only one to report longer payment delays (+3 days), although this may be partly attributable to shorter payment terms (-6 days). However, if payment delays are added to payment terms, the total average waiting time between purchasing a product and paying an invoice - known as days sales outstanding (DSO) - decreased from 140 days in 2022 to 136 days in 2023, indicating an improvement in the cash flow cycle. This may be due to increased demand for dining as households no longer practiced social distancing. However, the level remained slightly higher than pre-pandemic levels as inventory pressures on products such as pork persisted. Overcapacity in pork production has in turn led to continued low pork prices, affecting end-sellers' profitability and therefore their payment behaviour.

Chart 7:
Ultra-long payment delays by scale (as a percentage of turnover)



Note: Ultra-long payment delays refer to payment delays above 180 days
Source : Coface Payment Survey

Chart 8:
Average days sales outstanding by sector



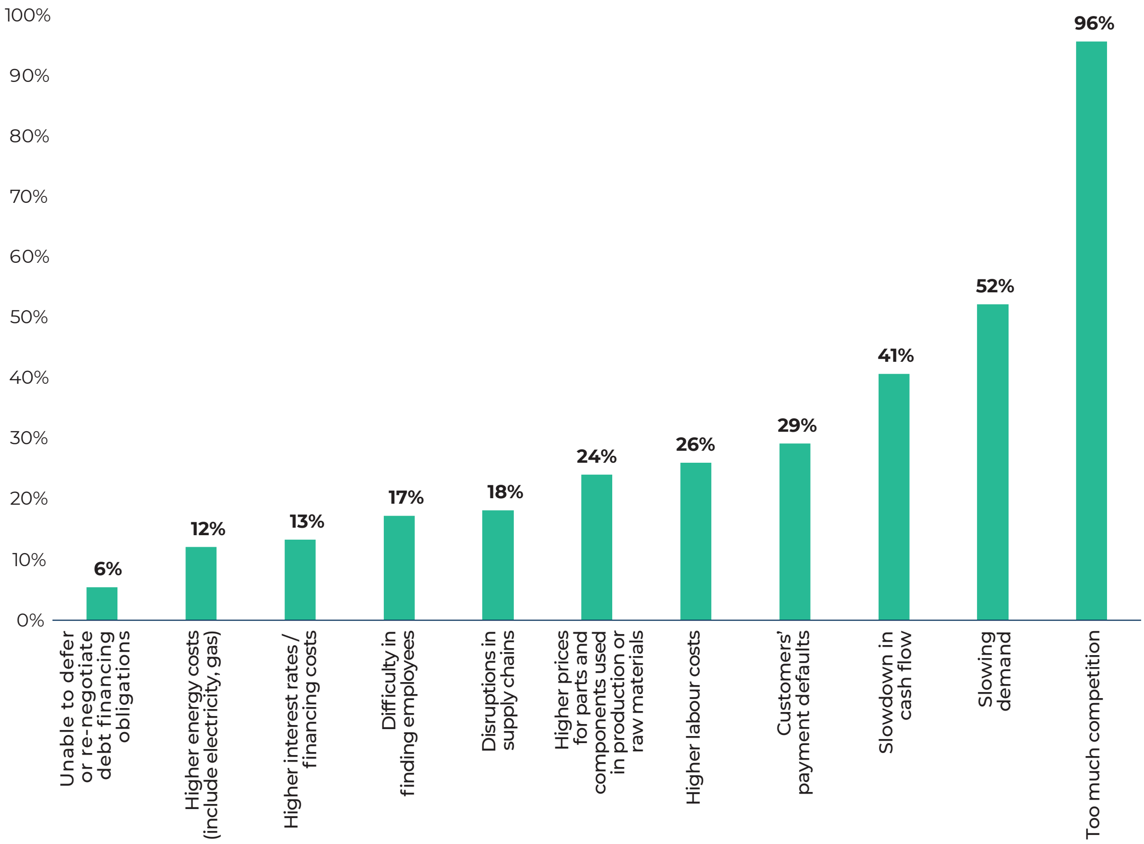
Source : Coface Payment Survey

- All other sectors saw a reduction in payment delays, led by energy and wood with an improvement of 31 and 30 days, respectively. For the former, this was likely the result of a normalization of overall industrial activity, with fewer disruptions caused by the pandemic. For the latter, an improvement in furniture sales from 2022 may be the main reason, although a slow recovery in new home sales still points to a challenging demand outlook.

- Construction continued to experience the longest payment delays (84 days) as property developers remained under severe financial pressure. On the positive side, payment delays shortened by 12 days to just under three months, while the proportion of respondents reporting ULPDs exceeding 10% of annual turnover continued a downward trend, falling from 23% in 2022 to 19% in 2023. To mitigate credit risks for real estate developers, the Chinese government has significantly eased home-buying restrictions since August last year to boost demand as home sales account for more than half of developers' funding sources. Meanwhile, on the supply side, following the 16-point policy package announced at the end of 2022, the government has provided additional special funds to ensure that real estate developers deliver pre-sale housing. In addition, the construction of public housing gradually made up for the weakness of commercial real estate. Infrastructure investment also maintained overall construction demand, with the state construction PMI index expanding throughout the year.

- Fierce competition was cited by 96% of respondents as the reason for customers' financial difficulties. Since reopening, domestic demand for goods has been weaker than expected, while policy bias towards the supply side during the pandemic led to overcapacity in some sectors (food, automobiles, household appliances), thereby exacerbating supply-demand imbalances. This intensified competition among producers (i.e., offer price cuts to promote sales) was reflected by a 3% decline in the producer price index during 2023 after two years of increase. As a result, slowing demand and slowing cash flow were cited as the second and third most important causes of financial distress for customers. However, compared to global peers, cost pressures did not appear to be a significant source of burden for Chinese companies. Only a quarter of respondents cited labour or input costs as the main reason for customers' financial difficulties, and only 13% cited financing costs. This was consistent with China's weak price pressures that have prompted the Chinese central bank to adopt easing policies to keep corporate financing costs benign.

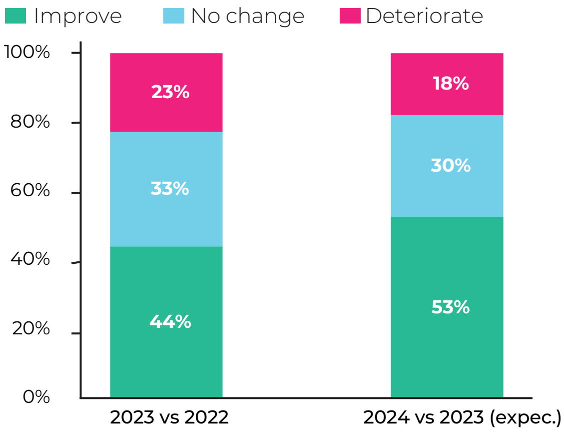
Chart 9:
Percentage of respondents citing the factor as reasons for customer financial difficulties



Source: Coface Payment Survey

3 ECONOMIC EXPECTATIONS
COMPETITION TO MODERATE, BUT UNFAVOURABLE DEMAND OUTLOOK

Chart 10:
Business activity assessment



Source: Coface Payment Survey

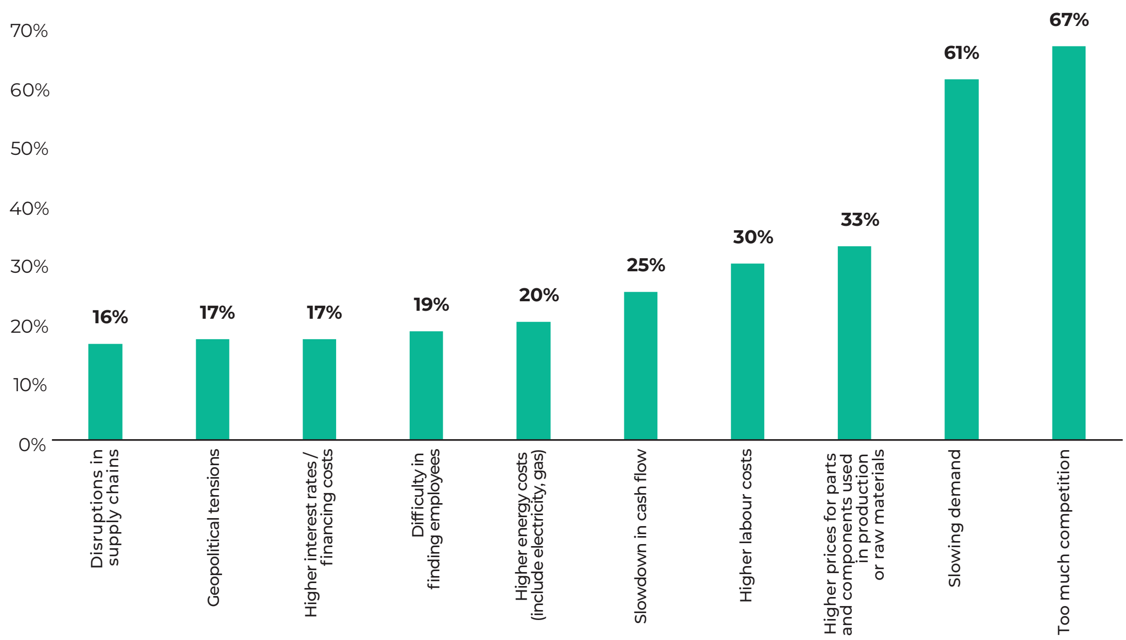
- Less than half of the respondents reported improved business conditions in 2023 compared to 2022, despite the normalisation of economic activities. Sluggish demand for goods is likely to be the culprit, stemming from structural problems in the job market (high unemployment among youth), fragile household income expectations, and a slow recovery in the housing market.

- But looking ahead, respondents remained optimistic about the economic outlook over the next 12 months, with more than half expecting business conditions to improve in 2024. The signal to stabilise growth reflected in increased policy support may bring some confidence to companies.

- By sector, pharmaceuticals emerged as the most optimistic industry (72%), followed by automotive (70%) and construction (69%). For pharmaceuticals, structural demand arising from an ageing population may be the main reason. For automotive and construction, continued policy support for electric vehicles and investment in infrastructure and public housing were likely major sources of optimism. Textile, on the other hand, was the most pessimistic, with more than half of respondents believing the outlook would worsen. A fading boost to apparel demand following reopening could have led to waning optimism. At the same time, rising domestic cost burdens due to a relatively tight job market for low-cost labour may also exacerbate the loss of cost advantages compared with Southeast Asian competitors.

- Fierce competition was still regarded as the biggest risk facing corporate operations in 2024. However, compared with the proportion of respondents who saw this as a major challenge in 2023 (96%), it has dropped significantly to 67%. This may be related to reduced inventory burden, as many businesses had promoted sales in 2023 by offering deep discounts. Slowing demand ranked as the second biggest risk to business operations, and our respondents believed it would become more severe compared with 2023. This is understandable given that demand due to reopening has dissipated while household incomes and business profits have yet to provide new dry powder. In this regard, government spending will likely have to step up to stabilise overall demand conditions.

Chart 11:
Percentage of respondents citing the factor as risks to companies operations in 2024



Source: Coface Payment Survey

BOX:

MONETARY CONDITIONS TO REMAIN FAVOURABLE FOR CORPORATE FINANCING

In 2023, the People's Bank of China (PBOC) was a notable exception in the global fight against inflation. Amid weak inflationary pressures, the Chinese central bank delivered two cuts to the banks' reserve requirement ratio (RRR) to maintain ample liquidity and two policy interest rates cuts to lower funding costs. Unsurprisingly, less than 20% of respondents to our survey cited financing costs as a primary constraint on business operations as the lending rate for corporate loans has on average declined by 20 basis points. This also corroborated with our survey showing a shortening of DSO, which reflected a general improvement in cash flow conditions in 2023.

Looking ahead to 2024, a still benign inflationary environment and a likely dovish shift from the Federal Reserve will enable the PBOC to remain accommodative and focus more on domestic factors. The larger-than-expected RRR and benchmark lending rate cuts since the beginning of the year have sent a strong signal to stabilise growth. The easing bias of the central bank is likely to keep overall monetary conditions conducive to corporate financing.

But some risks need to be highlighted. While increased demand for fiscal financing and debt resolution may lead to increased liquidity support, there may also be a risk of crowding out corporate capital. Likewise, as monetary policy responses need to consider cyclical and cross-cyclical factors, loan growth should continue to favour government-led investment growth, while imbalances between sectors remain. Manufacturing, infrastructure, public housing, and urban villages development will be the main sources of loan growth, and special credit support to promote energy transformation, digital transformation, and rural development will likely be renewed and expand in size.

Date	Type	Measures
22-Feb-24	Rate	Deposit rates in privately-owned banks were reported to lower by up to 60bps on some tenors
22-Feb-24	Rate	5-year loan prime rate was lowered by 25bps
5-Feb-24	Liquidity	Reserve ratio requirements for all banks were lowered by 50bps
5-Feb-24	Structural tools	A net issuance of RMB 150bn worth pledged supplementary lending (PSL) in January was reported
24-Jan-24	Rate	Rediscount rate for loans to the agricultural sector and small enterprises was announced to be lowered by 25bps
2-Jan-24	Structural tools	A net issuance of RMB 350bn worth pledged supplementary lending (PSL) in December was reported
22-Dec-23	Rate	Deposit rates in state-owned banks were lowered by up to 25bps on some tenors
15-Sep-23	Liquidity	Reserve ratio requirements for all banks were lowered by 25bps
1-Sep-23	Rate	Deposit rates in state-owned banks were lowered by up to 25bps on some tenors
20-Aug-23	Rate	1-year loan prime rate was lowered by 10bps
15-Aug-23	Rate	7-day reverse repo and 1-year medium-term loan facility rates were lowered by 10 and 15bps respectively

Source: PBOC, Coface

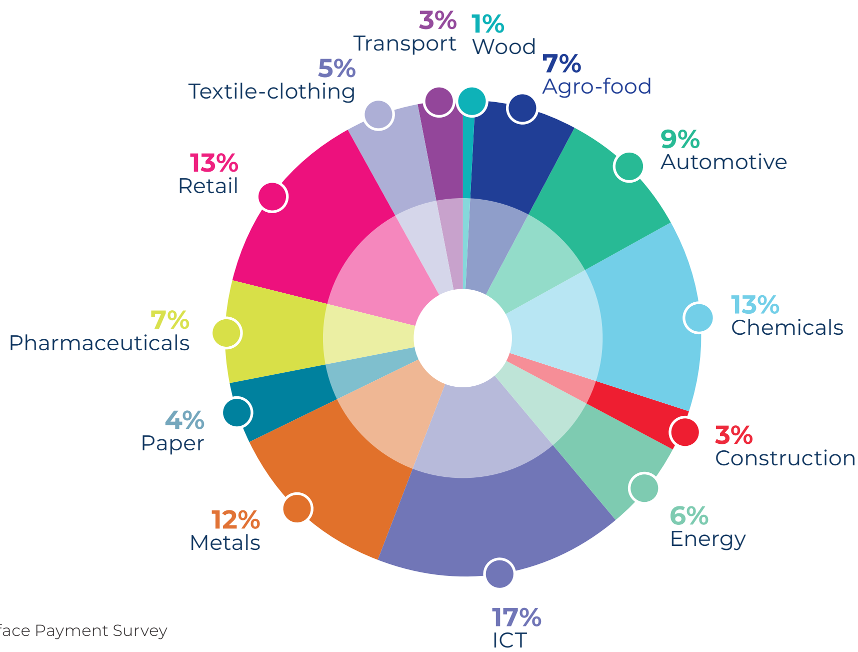
APPENDIX

A TOTAL OF

1,020

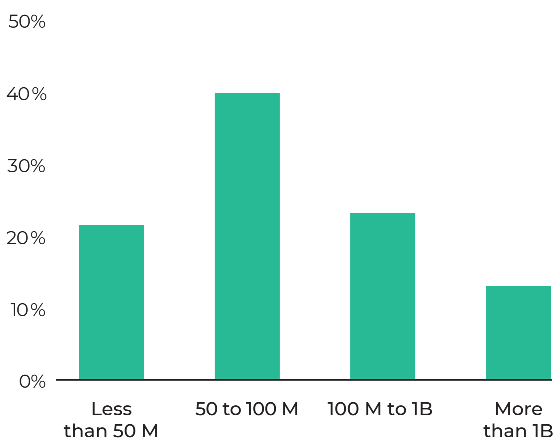
COMPANIES PARTICIPATED IN THE PAYMENT SURVEY

Which of the following best describes your company's industry?



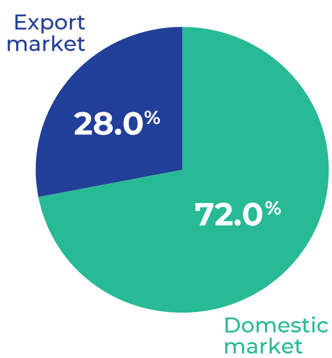
Source: Coface Payment Survey

For 2023, the total estimated sales revenue of your company will be (RMB)?



Source: Coface Payment Survey

What is your main destination of sales?



Source: Coface Payment Survey

GLOSSARY

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

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

MARS 2024 — Layout: increa by Printvallée — Photo: iStock

COFACE SA
1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com

FOR TRADE