COFACE
ECONOMIC PUBLICATIONS

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PAYMENT
SURVEY

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

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Coface's 2020 China Corporate Payment Survey looks at the payment behaviour of over 1,000 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. Notwithstanding this caveat, our survey shows a deterioration in payment behaviour in 2019, which ultimately does not bode well for Chinese companies in the context of weaker activity in 2020. Coface expects growth to fall to 1.0%, the lowest level in 30 years, so given the historic correlation between economic activity and payment delays, we anticipate a sharp deterioration in 2020.

Average payment terms remained stable at 86 days in 2019. However, the percentage of respondents offering average credit terms exceeding 120 days increased to 23% in 2019, up from 20% in 2018 and 12% in 2017. In practice, 50% of respondents offered maximum payment terms exceeding 120 days. Payment delays also deteriorated, with the proportion of companies experiencing payment delays that exceed 120 days increasing to 37% in 2019 from 31% in 2018. More ominously, the proportion of respondents experiencing ultra-long payment delays (ULPDs, over 180 days) that exceed 10% of their annual turnover increased to 27% in 2019, up from 21% in 2018. 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.

Coface expects an increase in bond defaults and insolvencies amongst sectors that experienced a build-up in cash flow risks in 2019. 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%). ICT recorded the highest increase in payment delays on the back of US-China trade war disruptions, deteriorating by 12 days to reach 102 days. While all sectors are exposed to these risks, sectors that entered the crisis from a position of strength 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 60% 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.

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