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## **Asia Corporate Payment Survey 2020: COVID-19 will overturn last year's incipient recovery**

After a 2019 that was dominated by trade tensions between the United States and China, Coface has observed an incipient recovery in Asia (excluding China), supported by supply chain shifts and additional liquidity from the US Federal Reserve<sup>1</sup>. Average payment terms improved in 2019, rising to 67 days compared to 69 days in 2018. And while 65% of companies reported experiencing payment delays in 2019 (63% in 2018), the average payment duration decreased to 85 days in 2019, down from 88 days in 2018.

However, this recovery will prove short-lived, as the COVID-19 pandemic severely threatens the growth outlook, with many economies in the region expected to experience their biggest contraction since the Asian Financial Crisis in 1997-1998.

On a GDP-weighted basis, the growth rate of Asia's economies will fall to 0.3% in 2020 (-0.65% excluding China). This can be compared to the 2019 growth rate of 4.6%, or even the 1998 rate, which – despite everything – was still higher: 2.9% (0.76% excluding China).

### **Disparities in payment periods and late payments between countries**

2019 saw the first improvement in average payment terms since 2015. The longest payment terms were in Japan (91 days), China (86 days) and Taiwan (72 days), while all other economies in the Asian countries surveyed had payment terms below average. At the opposite end of the spectrum was Australia, with a 36-day period.

Payment delays were longest in China (96 days), Malaysia (84), and Singapore (71). Since 2019, payment delays have increased in Thailand (up 7 days to 69) and in Malaysia and Taiwan (both up to 2 days to 67).

The majority of respondents (48%) said that the main driver of the increase in payments delays was customers' financial difficulties. These difficulties predominantly came from fierce competition impacting margins (41%) and a lack of financial resources (22%).

### **Contrasting situations across sectors: energy, ICT and construction struggling**

Average payment terms were longest for the energy, information & communications technology (ICT), and construction sectors, with more than 20% of companies offering payment terms of 120 days or more.

These same sectors also recorded the longest payment delays, with 24%, 28% and 26% of respondents reporting payment delays of 120 days or more, respectively.

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<sup>1</sup> Coface's 2020 survey on business payments covered more than 2,500 companies in Asia located in 9 countries (Australia, China, Hong Kong, India, Japan, Malaysia, Singapore, Taiwan and Thailand). Data was compiled in the fourth quarter of 2019, therefore these figures do not take into account the impact of the COVID-19 pandemic on the economy in the Asia-Pacific region.

## **The study of the ratio of ultra-long payments delays shows a risk of cash flow deterioration in certain regions and sectors**

Payments delays and cash flow risks often go hand in hand. To assess cash flow risks, Coface studies the ratio of ultra-long payment delays (ULPD, over 180 days). When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. In Coface's experience, across the world, 80% of ultra-long payment delays (ULPDs, over 180 days) are never paid.

The proportion of the Asian companies studied who were experiencing ULPDs exceeding 2% of annual turnover fell to 31% in 2019, down from 38% in 2018. However, a closer look reveals that this "recovery" is equivocal: the number of companies reporting ULPDs exceeding 10% of annual turnover remained constant in 2019 (13%).

Excluding China, the highest proportion of companies with ULPDs exceeding 10% of annual turnover were in Malaysia (7%), Singapore (7%) and Thailand (6%). Similarly, the proportion of countries reporting ULPDs exceeding 10% of annual turnover was highest for the transport, energy, and construction sectors.

## **2020 will be marked by the worst recession since the Asian financial crisis of 1997-1998.**

Coface expects the Asia-Pacific region to contract sharply in 2020 (except for China and India among the nine economies studied), before rebounding in 2021. The contraction in GDP will be most marked in Thailand (-5.0%), Hong Kong (-4.0%), Singapore (-3.5%), Japan (-3.0%), Malaysia (-2.0%) and Australia (-1.9%), in a context of a slowdown in the tourism industry and world trade.

According to Coface forecasts, GDP growth rebound will not rebound until 2021, reaching 6.2% (4.65% excluding China).

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