Eastern Europe: trade credit risk expected to rise, as economic growth loses steam

Atradius Payment Practices Barometer
Economic growth in Eastern Europe is projected to remain solid this year, despite losing steam mainly because of poor growth prospects for Turkey. However, the key drivers of growth in the region remain a resilient domestic demand and rising wages. On the export performance side, uncertainties surrounding global trade are weakening trade prospects and casting a shadow on business confidence.
To support domestic and export trade, respondents in Eastern Europe offer customer credit more often than last year

Suppliers surveyed in Eastern Europe transacted on average 67.2% of the total value of their sales to B2B customers on credit (up from 38.8% one year ago). The sharp increase in the proportion of credit-based sales in Eastern Europe is highly likely to be caused by business efforts to sustain domestic demand, which appears to be the key driver of economic growth in the region. It may also be a reflection of business desire to enhance their competitiveness on foreign markets and gain a greater export market share. Against this general background, the use of B2B trade credit varies markedly across the countries surveyed in the region. Respondents in Slovakia appear to be the most inclined to offer consumer credit to their B2B customers (91.5% of the total value of their B2B sales was reported to be made on credit, up from 51.4% last year). Across the other countries surveyed in the region, the proportion of B2B sales made on credit ranges from a high of 87.6% (up from 43.3% last year) in the Czech Republic, to a low of 48.5% (up from 30.5% one year ago) in Poland. With 33.6% of the total value of their B2B sales made on credit (up from 24.4% last year), Bulgarian respondents seem to have the least trade credit friendly approach in the region.

Proportion of total B2B sales made on credit in Eastern Europe

Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – September 2019
Except for Bulgaria, average payment terms in Eastern Europe are longer than one year ago

Besides offering trade credit more often than last year, suppliers surveyed in Eastern Europe appear equally likely to give their B2B customers more time to settle invoices. Payment from B2B customers is requested by at least 37 days from invoicing, namely three days longer than last year. On a country basis, the payment terms set for B2B customers in Hungary (29 days), Bulgaria (30 days), the Czech Republic (31 days) and Slovakia (33 days) appear to be tighter than those given in Poland (38 days), Romania (40 days) and Turkey (59 days). It is worth noting that Bulgaria stands out in Eastern Europe as the country where payment terms set for B2B customers are significantly shorter than one year ago. This finding, which suggests that Bulgarian respondents have a stronger perception of trade credit risk, is in line with that seen earlier in respect to their sharp aversion to offering customer credit.

Assessing prospective customer creditworthiness and sending dunning letters (outstanding invoice reminders) are the most common credit management techniques used in Eastern Europe

The credit management techniques that suppliers surveyed in Eastern Europe appear to use most often are the assessment of the prospective buyer’s creditworthiness prior to any trade credit decision (as reported by 39% of respondents) and dunning activities (outstanding invoice reminders) as reported by 36% of respondents. On a country perspective, the most active in performing both credit quality assessments and dunning activities are respondents in the Czech Republic (68% and 52% respectively) and in Slovakia (57% and 53% respectively). Suppliers surveyed in Bulgaria are the most inclined in Eastern Europe to request payment on cash or on terms other than trade credit from their B2B customers (55% of respondents compared to 32% in Eastern Europe). Turkey follows with 44% of respondents using the same credit management technique.

Late payments by B2B customers causes the most impact in Turkey and the least impact in Bulgaria

Consistent with increased timely payments from customers (73.3% of invoices paid on time compared to 64.3% one year ago), suppliers surveyed in Eastern Europe could significantly shorten their invoices to cash turnaround to an average of 48 days, down from 55 last year. Despite this, an average of 24.4% of the total value of B2B invoices issued by suppliers surveyed in Eastern Europe over the past year remained outstanding at the due date. This percentage peaks in Turkey at 41.5% dropping to 18.2% in Bulgaria. Across all the other countries surveyed in Eastern Europe, it ranges from a high of 28.8% in Poland to a low of 18.7% in Romania. In terms of invoice to cash turnaround, Poland stands out as the country where it increased by two days (at 56 days from 54 last year) instead of decreasing. However, to manage potential liquidity issues arising from late payments, most often suppliers surveyed in Eastern Europe delayed payment to their own suppliers (as reported by 27% of respondents). This was particularly the
of respondents in Eastern Europe delayed payments to their own suppliers to manage cash shortfalls arising from B2B customers’ late payments.

Interestingly, half of the respondents in Eastern Europe reported no significant impact on business arising from late payments.

Four in five respondents in Eastern Europe expect access to bank finance to remain the same or become more difficult over the coming months.

3 in 5 suppliers surveyed in Eastern Europe do not expect payment practices of their B2B customers to change over the coming months. The most confident in this respect are respondents from Slovakia (81%), whereas the most pessimistic are those from Turkey (21%). Respondents expecting a change in customers’ payment practices, however, appear to be almost equally split, with more respondents anticipating deterioration (21%, highest in Turkey at 48%) than improvement (19%, highest in Bulgaria at 37%). As late payments from customers imply the need to arrange for funds to carry on business operations, 4 in 5 suppliers surveyed in Eastern Europe expressed concern that external borrowing conditions might remain unchanged or become more troublesome over the coming months. The most worried about a more difficult access to bank financing over the coming months are respondents from Turkey (53% compared to 26% in Eastern Europe), while the least concerned are those from Bulgaria (9%). However, should access to bank financing tighten in the short to medium term, suppliers surveyed in the region would offset the expected increase in capital cost chiefly by reducing investment in business growth and workforce, this latter through layoffs or hiring freezes.

Thomas Langen, Senior Regional Director Germany, Central and Eastern Europe of Atradius, commented on the report:

“Strategic management of the risk of customers’ payment default and securing the receivables with an Atradius credit insurance are essential to avoid severe liquidity issues and to pave the way to grow the business safely.”
Overview of payment practices in Eastern Europe

By business sector

Payment terms in the manufacturing sector are the longest in Eastern Europe

Respondents from the manufacturing sector in Eastern Europe extended the longest payment terms to their B2B customers (averaging 41 days from invoicing). Average payment terms across the other sectors surveyed in Eastern Europe range from 36 days in the wholesale/retail/distribution sector to 33 days in the services sector. By country and industry, the longest payment terms are granted by suppliers surveyed in the Slovakian machines industry (averaging 44 days up from 33 days last year). This is followed by Bulgarian ICT/electronics industry (39 days from 33 days last year), the Romanian construction industry (45 days compared to 47 last year) and the Turkish consumer durables sector (73 days from 48 days last year). Above average payment terms are granted by suppliers surveyed in the Polish construction industry (46 days compared to 49 days last year) and in the Hungarian chemicals industry (40 days compared to 32 days last year).

At regional level, trade credit risk is highest in wholesale/retail/distribution sector

The payment practices of customers across all the business sectors surveyed in Eastern Europe (manufacturing, wholesale/retail/distribution and services) improved over the past year, resulting in increased timely payments (73.4% of invoices paid on time compared to 64.3% one year ago). Consequently, suppliers surveyed in the region could significantly shorten their invoices to cash turnaround to an average of 47 days, down from 56 last year. Despite this, an average of 24.4% of the total value of B2B invoices issued by suppliers surveyed in Eastern Europe over the past year remained outstanding at the due date. The hardest hit by late payments from B2B customers is the wholesale/retail/distribution sector. By country and industry, over the past year trade credit risk has significantly deteriorated in the Polish construction and ICT/electronics sectors, followed by the transport sector in the Czech Republic. In Turkey, trade credit risk has significantly deteriorated in the agri-food sector, where over half of the total value of invoices remained unpaid at the due date.

Proportion of uncollectable receivables in Eastern Europe is highest in the manufacturing sector

In line with the relaxed timings for invoice payment seen earlier, the manufacturing sector in Eastern Europe recorded the highest proportion of B2B receivables written off as uncollectable (1.8%). The wholesale/retail/distribution and the services sectors follow with 1.4% and 1.5% respectively. By country and industry, the machines sector in Poland recorded the highest proportion of B2B receivables written off as uncollectable (3.7%). Turkey follows with 3.5%, 3.2% and 3.1% of B2B receivables written off as uncollectable in the ICT/electronics, agri-food and chemicals sectors respectively. Markedly above the average for Eastern Europe is also the proportion of B2B receivables written off as uncollectable the consumer durables sector in the Czech Republic (2.6%).

Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – September 2019

67.2% of the total value of the sales of Eastern European suppliers to their B2B customers was made on credit (up from 38.8% one year ago).

Atradius Payment Practices Barometer – September 2019
Overview of payment practices in Eastern Europe

By business size

**Large enterprises in Eastern Europe set the longest average payment terms for B2B customers**

Respondents from large enterprises in Eastern Europe extended the longest average payment terms to B2B customers (50 days). Micro enterprises offered the shortest payment terms (averaging 32 days from the invoice date). Eastern European SMEs set payment terms averaging 39 days from invoicing. For a detailed overview by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Eastern Europe.

**Large enterprises in Eastern Europe the slowest to cash in overdue invoices**

Compared to one year ago, micro enterprises in Eastern Europe recorded the highest increase in the proportion of B2B invoices paid on time (+12% on average). This compares to a +7.8% of timely payments recorded by SMEs, and to no variation in the proportion of invoices paid on time from customers of large enterprises. That said, past due invoices recorded by Eastern European micro enterprises now account for 21.3% of the total value of their B2B invoices, compared to 26.2% for SMEs and 26.0% for large enterprises. In terms of invoice to cash turnaround, micro enterprises appear to be the quickest in cashing past due invoices in (at 41 days down from 49 days last year). SMEs follow at 51 days (down from 59 one year ago), while it takes large enterprises the longest to collect past due payments (at 62 days up from 59 last year). For a detailed overview by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Eastern Europe.

**Large enterprises recorded the highest rate of receivables written off as uncollectable**

Consistent with being the slowest in collecting payment of overdue invoices, large enterprises in Eastern Europe display the largest proportion of B2B receivables written off as uncollectable, at 2.8% up from 1.3% last year. This increase points to a deterioration of the efficiency in collection of long-term overdue payments over the past year. SMEs and micro enterprises fared better (with 1.7% of 1.3% respectively recorded as write offs). However, last year the proportion of receivables written off as uncollectable was less than 1%.
Survey design for Eastern Europe

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the ‘Atradius Payment Practices Barometer’. In this report focusing on Eastern Europe, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from seven countries (Czech Republic, Hungary, Poland, Slovakia, Turkey, Bulgaria and Romania) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 1,516 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

Survey scope

- Basic population: companies from seven countries (Czech Republic, Hungary, Poland, Slovakia, Turkey, Bulgaria and Romania) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=1,516 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q3 of 2019.

Sample overview – Total interviews = 1,516

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<th>Country</th>
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<tr>
<td>Poland</td>
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<td>Czech Republic</td>
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<td>Hungary</td>
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<td>Slovakia</td>
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<td>Turkey</td>
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<tr>
<td>Bulgaria</td>
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<td>13.8%</td>
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<tr>
<td>Romania</td>
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<tr>
<th>Industry</th>
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<tbody>
<tr>
<td>Manufacturing</td>
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<tr>
<td>Wholesale trade/Retail</td>
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<td>Distribution</td>
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<td>Services</td>
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<th>Business size</th>
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<tr>
<td>Micro enterprises</td>
<td>615</td>
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<td>SME (Small/Medium enterprises)</td>
<td>493</td>
<td>32.5%</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>408</td>
<td>26.9%</td>
</tr>
</tbody>
</table>

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

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Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Eastern Europe. This is part of the September 2019 Payment Practices Barometer of Atradius, available at www.atradius.com/publications

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For more insights into the B2B receivables collection practices in Eastern Europe and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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