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PANORAMA

ASIA CORPORATE PAYMENT SURVEY

May 2016

COFACE ECONOMIC PUBLICATIONS

By Coface Asia Pacific Economist



Coface conducts an annual survey to examine corporate payment trends and experiences in 8 selected economies¹ in the Asia Pacific region.

In 2015, credit extension practices remained largely in-line with those seen in previous years, although there were some signs of more prudent credit control. Nevertheless, overdue payment risks appear to have increased, adding to financial pressures on Asian companies. Overdue issues varied across different sectors, while the construction, industrial machinery & electronics and automotive & transportation sectors saw a deterioration in ultra-long overdue issues.

Construction appeared to be the most at risk sector in the Asia Pacific region. Its outlook for 2016 will probably remain subdued. Buying confidence is weak in both the private investment

and household sectors, against the backdrop of mounting global uncertainties. The next most vulnerable sector is that of industrial machinery & electronics. The squeeze on profit margins (due to increasing pressure on prices amid slowing inflation) could result in sector consolidations, if some companies within the segment resort to defensive strategies, using mergers and acquisitions (M&As) to strength their market power. The automotive and transportation sector saw a worrying deterioration in overdue issues in 2015, but we consider the non-payment risks to be manageable, due to buoyant demand which is benefitting from the rise of the middle income classes and the regional environment of low interest rates.

The pharmaceuticals sector is, unsurprisingly, a bright spot. Corporate payment experience in 2015 showed a clear improvement and the medium term outlook is positive,

with a structural increase in regional demand backed by the continuing rise of the middle classes and the ageing population. That being said, calls from both the government and the public for more affordable medicine could lead to intensifying price pressures.

On an economy by economy analysis, company payment experience improved in Australia and stabilised in Hong Kong and Japan. China, India and Singapore saw deteriorations in ultra-long overdue issues².

2016 is set to be a challenging year. Just over half of the companies surveyed remain cautious, viewing that the global economy is unlikely to pick up in 2016. With mounting global uncertainties, especially with the slowdown of growth in China (the region's largest economy), overall company payment experience in the 8 selected regional economies is likely to remain weak.

¹ The 8 economies are Australia, China, Hong Kong, India, Japan, Singapore, Taiwan, and Thailand.

² Thailand and Taiwan were the only economies with uncertain assessments. Despite the challenging economic situation, the survey findings showed improvements.