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PRESS RELEASE

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Coface study on companies' payment behaviour in China

Stabilized overall financial situation for Chinese companies, despite difficulties in accessing credit

For its ninth study intended to provide a better understanding of domestic payment behaviour of Chinese companies, Coface interviewed over 1,300 companies in various sectors and with different legal profiles between October and December 2011.

Despite the slowdown in activity in 2011 given the halt of the fiscal stimulus package, tighter monetary policy and the deceleration in external demand, Chinese companies' payment behaviour remained globally satisfactory with sales on credit rising sharply. Nevertheless, cash asset problems, competition and more difficult access to financing for small businesses which were the main causes of payment delays in 2011, will continue to affect corporate financial strength in 2012. Budget stimulus measures may however attenuate economic risks and support activity.

- **90% of Chinese companies now use credit transactions**

Credit sales have become the main source of financing for companies in China since the 2008 crisis. The proportion of companies using this method rose to 90% in 2011 compared to only 65% four years ago. The phenomenon can be attributed to the need to deal with the competition (53% of companies responding to the survey) and to greater confidence between business partners (23.5% of respondents). Fewer companies are forced to offer credit terms of payment owing to cash asset problems faced by their clients (17% in 2011, compared to 25% in 2010).

Although credit sales are becoming more widespread, credit terms contracted in 2011. Nearly 75% of transactions are negotiated at 60 days (and less), which attenuates the risk, whilst transactions at 90 days (and more) are increasingly rare and concern primarily one-off contracts.

- **Payment delays are more frequent, but for shorter periods**

One of the logical consequences of growing credit sales is that Chinese companies suffer more frequently from payment delays by local buyers. This amounts to 79% of companies, compared to 67.4% in 2010. It should be noted, however, that in 2008 over 90% of companies experienced overdue payments.

On the other hand, payment delays are for shorter periods. Only 10% exceed 90 days after the due date. 36.5% of invoices are paid within 30 days of the due date, a figure that has been improving, uninterrupted, since 2008.

Three vulnerable sectors are an exception to the overall trend: construction, steel and textiles, in which payment delays are often over 60 days. The solar power industry should also be monitored given over-capacity and over-production of new energy sources. It is in full growth despite low consumption on the domestic market following excessively high prices and the absence of any government subsidy policy.

As it was the case last year, the main cause of payment delays is still clients' difficult financial position, which was noted by 63% of companies, due to the combination of cash asset issues, competition and lack of access to external financing.

- **Concerns in 2012: companies and insufficient access to credit facilities**

In 2012 Chinese growth could continue to slow down and could amount to 8% over the year. Coface experience in China indicates that access to bank financing is increasingly limited for private sector companies and in particular small businesses. This is also indicated by the study results: nearly one third of companies taking part in the study stated that the main danger in 2012 was insufficient access to credit facilities.

As bank financing is granted mostly to public sector companies (60% of financing allocated to state-owned companies and local authorities), small businesses must resort to alternative sources of financing such as 'shadow banking'. This informal credit market has grown as a result of credit market distortion generated by the current organisation of the Chinese financial sector, but is very fragile. The bankruptcies that took place in Wenzhou last October spread rapidly throughout the sector and exacerbated companies' difficulties.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2011, the Group posted a consolidated turnover of €1.6 billion. 4,600 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 157 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 250 underwriters.

In France, Coface manages export public guarantees on behalf of the French state.

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