JANUARY 2020

COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

By Seltem Iyigun
Coface Economist
for the Middle East &
Turkey region based
in Istanbul, Turkey

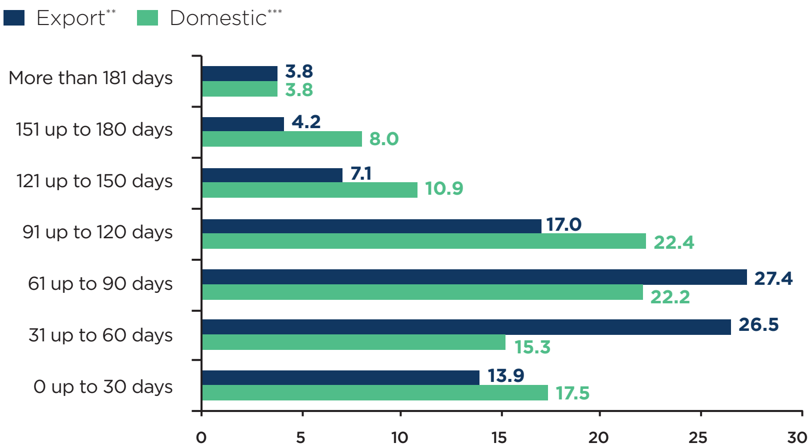
Turkey Payment Survey 2019: better picture in payment terms but companies are still cautious regarding economic prospects

This is the second edition of Coface's payment survey in Turkey, with 586 participating companies located in the country. This time, the survey reflects the private sector's perception of payment risks and their economic expectations, right after the recession that the economy went into during the second half of 2018. On the payment side, it seems that the deterioration of cash flows has slowed down and fewer companies expressed tougher conditions while making their payments. In 2019, the average payment term offered by Turkish companies to their clients stood nearly at 85 days on the domestic market and at 69 days on export markets. In 2017, companies reported that the average payment term was 108 days (without mentioning domestic or export markets). The main reason for this shortening seems to be the preference for short-term payments instead of taking the risk of non-payment in the longer term, after the currency shock of August 2018. Still, the average payment period remains long on an international scale. In Turkey, only 40.5% of surveyed companies request their export clients that payments be made within 60 days. On the domestic market, this ratio falls even lower at 33%. The ratio stands at 87% in Germany, 65% in Poland and 44% in China, regardless of domestic or export markets. On the payment delay side, we continue to see delays, albeit shorter ones. For Turkish companies, on the domestic market, payment delays averaged at 41 days. On the domestic front, almost half of the companies expect payment terms to lengthen and increase. This expectation is also confirmed on the sector level, with very few sectors expecting payment terms to be shortened domestically in 2020. Despite the recent balancing of macroeconomic dynamics, 44% of companies expect economic conditions to deteriorate in Turkey. Paper, pharmaceutical, metals, construction are among the most pessimistic sectors. Tougher conditions to access financing and narrower domestic demand are considered among the factors that would weigh on the payment capacity of companies. Key factors pushing companies to sell with term are mentioned, such as the liquidity squeeze of domestic clients and competition on export markets. Despite these challenges, the willingness to make new investments in 2020 remains high for some sectors such as pharmaceutical and agri-food. On the export side, automotive companies look comparatively more cautious with nearly 20% of participants reporting lower export revenues expectations for 2020, above the survey average of 9%. This is not surprising given the challenges faced by car producers on the global market (stricter regulations against environmental risks, slowdown of the global economy, lower sales and declining profitability).

SELTEM IYIGUN
Coface Economist,
Middle East & Turkey
Istanbul, Turkey

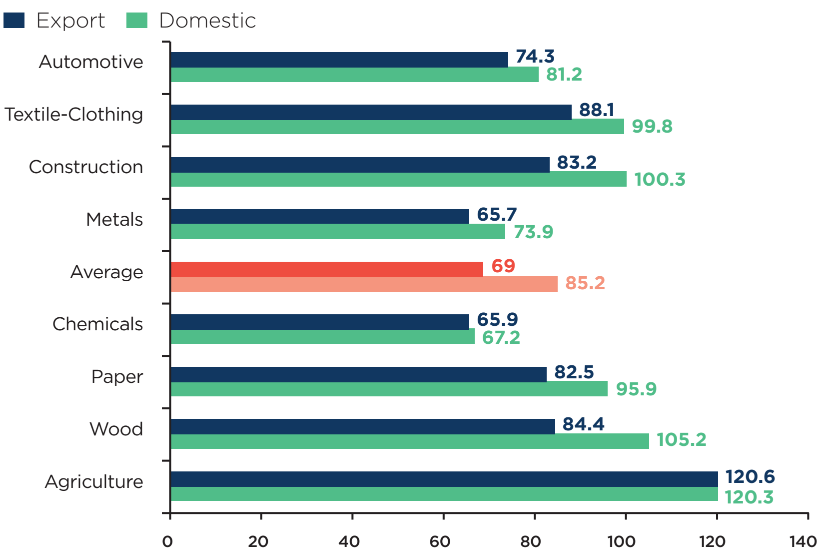
1 PAYMENT TERMS[1]: SHORTER TERMS REFLECT PREFERENCE FOR LIQUIDITY

Chart 1:
Average* credit periods (% of respondents)



*The answers of the companies participating in the survey have been considered 15 days for 0-30 days, 45 days for 31-60 days, 75days for 61-90 days, 105 days for 91-120 days, 135 days for 121-150 days, 165 days for 151-180 days, 200 days for above 200 days, and the average has been calculated.
** 452 answers
***550 answers
Source: Coface's payment Survey

Chart 2:
Hypothetical credit periods (days)



- In 2019, deterioration in cash flows seem to have stalled. In 2017, only 14% of companies reported an improvement in their cash flow compared to 26% of companies in 2019. At that time, the share of companies reporting that it became more difficult to pay on the market declined from 49% to 43%, indicating that credit remains an issue for the Turkish corporate sector despite recent improvements.

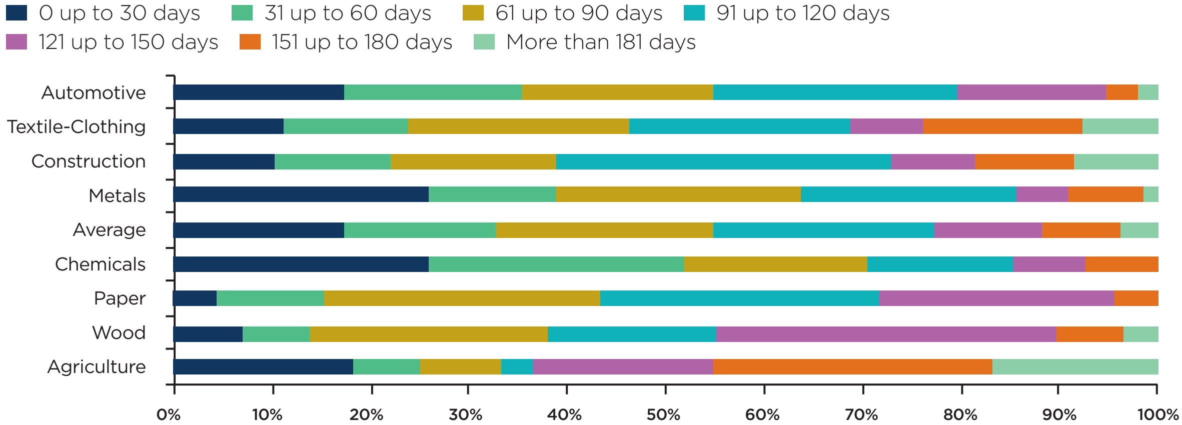
- The slowdown in domestic demand, which represents 2/3rds of the Turkish GDP, is one of the reasons explaining the credit issues of companies. Indeed, 44% of companies reported that their sales on the domestic market declined in 2019. Nearly 39% of companies expect their domestic sales to remain at the same level in 2020, while 35% expect them to increase. Expectations for exports are more positive with 65% of companies estimating their export sales will increase in 2020 and 25% expecting them to remain flat.

- Although average credit terms have shortened, the Turkish business sector is still dominated by comparatively long credits terms. In 2017, the average credit term offered to clients was 108 days. In 2019, it declined to 85 days on the domestic market and 69 days on export markets. However, payments made within 60 days concern only 40% of companies on export markets and 33% on the domestic market.

ONLY
33% OF COMPANIES on the domestic market
&
40% OF COMPANIES on export markets
request payments to be made within 60 days.

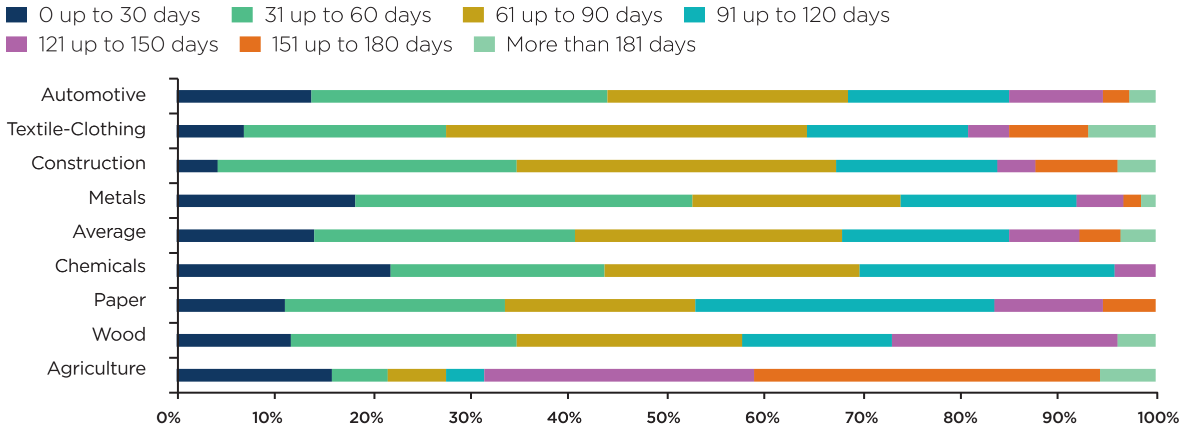
1 Payment term – the time-frame between when a customer purchases a product or service and when the payment is due.

Chart 3:
Average credit periods in sectors (domestic market, % of companies)



Source: Coface's payment survey

Chart 4:
Average credit periods in sectors (export markets, % of companies)

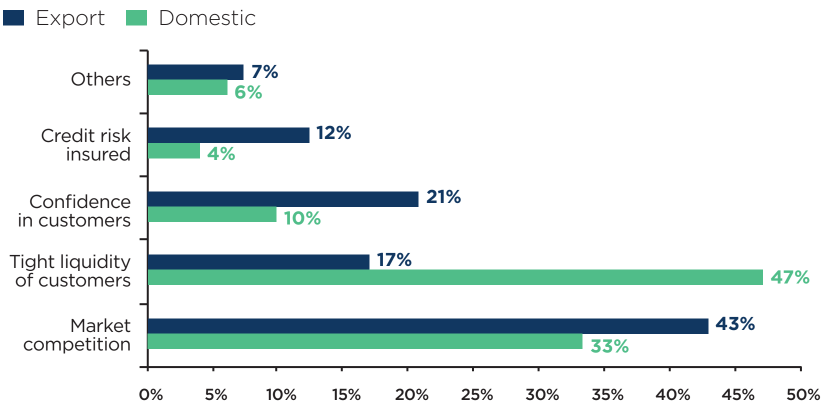


Source: Coface's payment survey

- Long credit terms still represent a challenge for companies. Credit terms longer than 120 days have been offered on the domestic market by 63% of agri-food companies, 45% of wood companies and 31% of textile-clothing companies.

- Regarding domestic sales, the longest credit terms have been offered by the agri-food sector with an average of 120 days. The shortest credit terms have been recorded in chemicals, with an average of 67.2 days. On export markets, rankings are similar.

Chart 5:
Reasons for offering payment terms



Source: Coface's payment survey

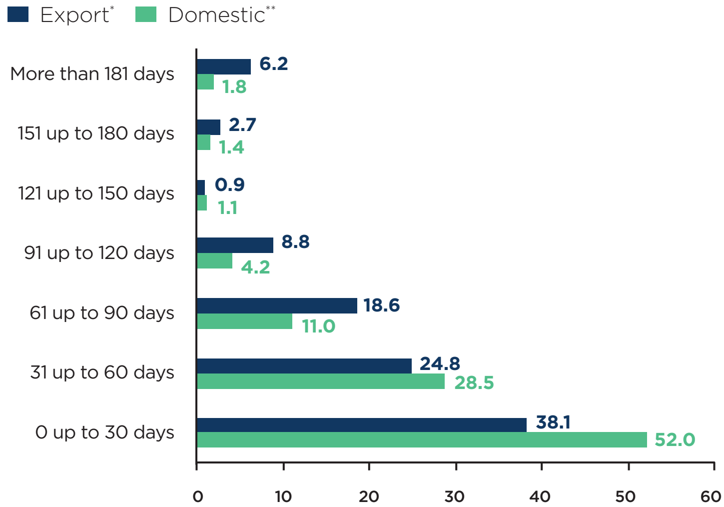
- Despite the shortening of credit terms offered by companies in 2019 compared to 2017, liquidity remains a key challenge for companies: 47% of companies reported that the main reason for them to sell with credit terms on the domestic market was their clients' liquidity issues. However, on the export side, market competition was expressed as the main reason for companies to offer credit terms.

- Regarding the future of payment experience, companies seem to have a more cautious view. Indeed, 46% of companies expect payment terms to lengthen on the domestic market in 2020, while 45% of companies expect longer terms on export markets. However, these ratios are very close with those who expect payment terms to remain the same on the domestic (45%) and export markets (44%).

Companies showed a preference for shortening the payment terms they offer to their clients.

2 PAYMENT DELAYS[2]: CONTINUOUS BUT SHORTER DELAYS

Chart 6:
Average payment delays (% of respondents)

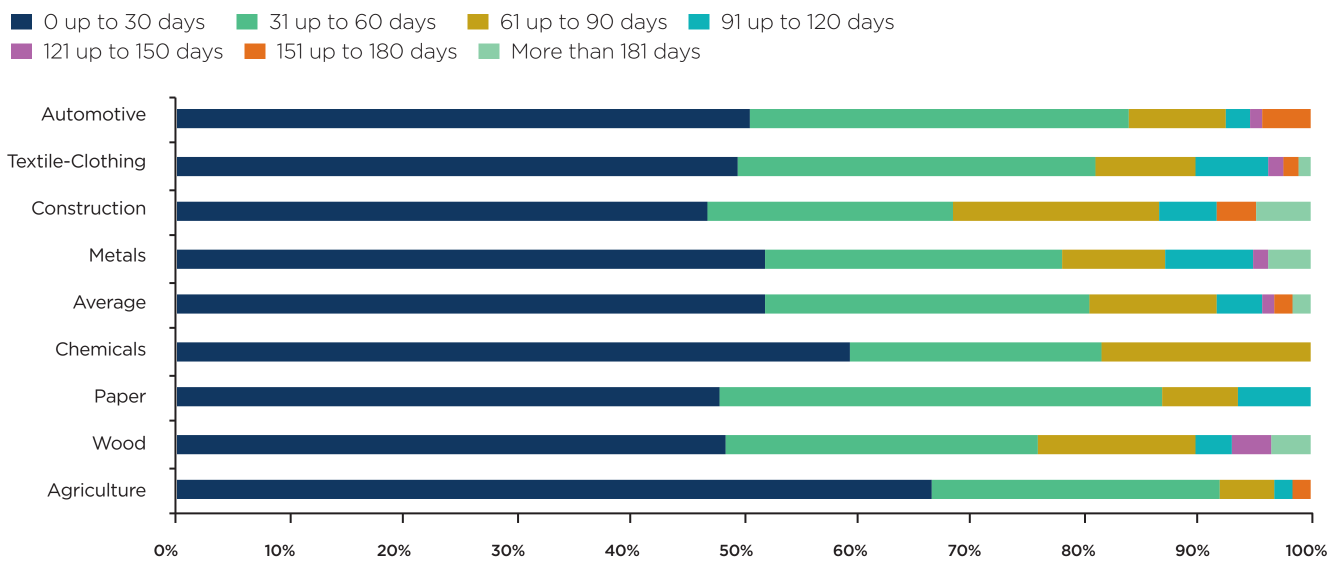


* 113 answers
**554 answers
Source: Coface's payment survey

- Since the publishing of the last payment survey in 2017, payment delays have declined. The average payment delay time decreased to 40.7 days for domestic sales and to 58.1 days for export sales.
- On the domestic market, 81% of companies experienced average payment delays up to 60 days. Delays between 60 and 150 days have been reported by 16% of companies and long delays above 150 days by 3% of companies.

The average payment delay time stood at 40.7 days on the domestic market and at 58.1 days on export markets.

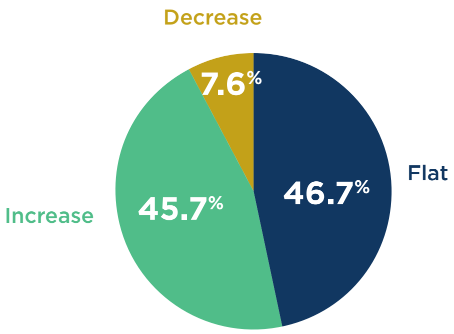
Chart 7:
Average payment delays in sectors (domestic market, % of companies)



Source: Coface's payment survey

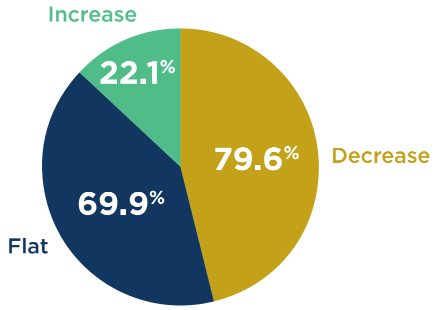
2 Payment delays: the period between the due date of payment and the date the payment is made.

Chart 8:
How will payment delays on the domestic market change during 2020?



Source: Coface's payment survey

Chart 9:
How will payment delays on export markets change during 2020?



Source: Coface's payment survey

- On export markets, 63% of companies experienced average payment delays up to 60 days. Delays between 60 and 150 days were reported by 28% of companies and long delays above 150 days by only 9% of companies. These results indicate that long delays have declined significantly since the last survey, in which delays above 150 days were at 45%.

- At the sector level, the longest payment delays on the domestic market were experienced by construction and wood, with an average delay of 51.3 and 45 days respectively.

- Long payment delays of more than a year account for a small share of companies' export revenues. 57% of companies expressed that long payment delays corresponded to a level lower than 1% of their export revenues, while 29% said they corresponded to 1-5% of them. Still, 26% of surveyed companies reported that delays in export payments hinder their growth potential, while 25% reported that they cause cash squeeze.

- Companies act relatively quick in case of a non-payment on export markets. 71% of surveyed companies said they take action within 60 days in case of a non-payment. In order to cover the non-payment risk on the export market, 37% of companies stated they take down payments and 20% said that they request their clients to make a financial evaluation. On the domestic market, 39% of companies reported that they compensate the losses related to a non-payment from their capital, while 28% said they contract loans.

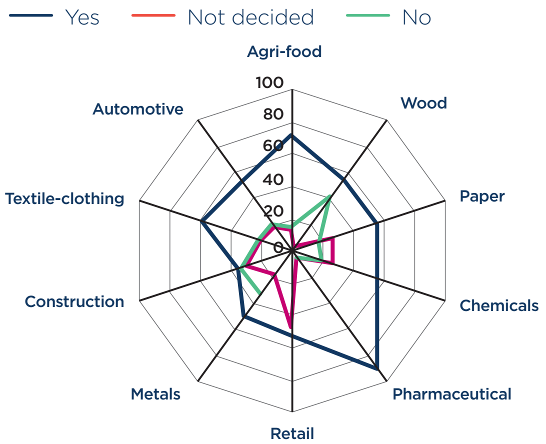
26%
OF SURVEYED COMPANIES reported that payment delays hinder their growth potential

- Regarding the level of payment delays in 2020, expectations for stabilization or extension are very close. On the export front, 47% of companies expect payment delays to stabilize while 46% expect them to increase. The picture is very similar on the domestic market.

- Looking through the sectors, chemicals, textile-clothing and automotive seem to be more optimistic about future delays on the domestic market during 2020, as at least 50% of the companies operating in those sectors said they expect payment delays to remain flat.

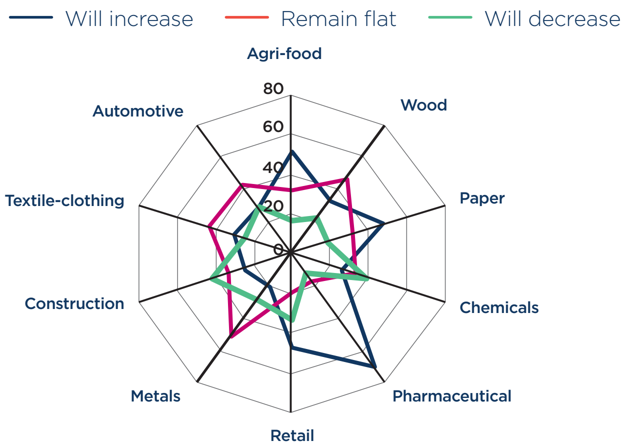
3 ECONOMIC EXPECTATIONS: WILLINGNESS FOR NEW INVESTMENTS INCREASES DESPITE CAUTIOUS ECONOMIC EXPECTATIONS

Chart 10:
Do you consider making new investments/growing your business in 2020? (% of respondents)



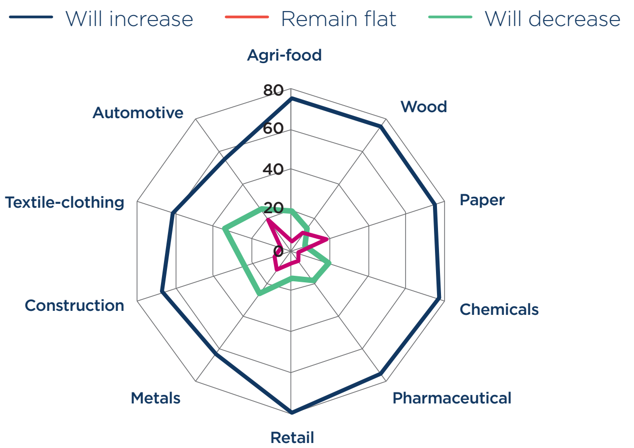
Source: Coface's payment survey

Chart 11:
How will your domestic sales change in 2020? (% of respondents)



Source: Coface's payment survey

Chart 12:
How will your export sales change in 2020? (% of respondents)



Source: Coface's payment survey

35%
OF COMPANIES
expect their domestic sales to increase in 2020

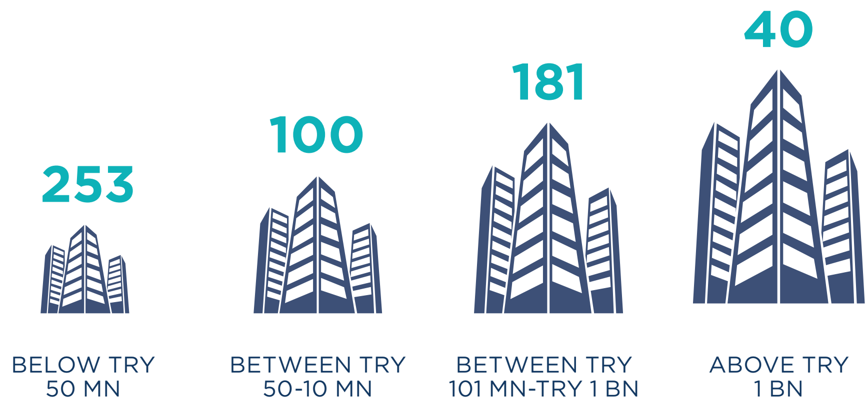
- Despite their cautious approach vis-à-vis economic conditions in 2020, companies seem to have a higher appetite for growing their business and/or making new investments. The share of companies with willingness to make new investments in 2020 remains the largest in pharmaceutical (89%), agri-food (73%), and textile-clothing (58%).
- Nearly 40% of companies expect their domestic sales to rise in 2020. The largest share of companies expressing their expectations for higher domestic sales is again in pharmaceutical (71%) and to a lesser extent agri-food (52%) and paper (48%). This seems to be in line with the recent balancing of the Turkish economy. Indeed, the economy went out of recession in the first quarter of 2019 and grew by 1.6% in Q1 2019 and 1.2% in Q2 2019, on a quarterly basis. Lower annual inflation (at 12% end-2019 compared to its peak of 25% in September 2018) has allowed the central bank to cut its policy rate by 12 percentage points to 14% since September 2018. Assuming that the Turkish lira remains stable, lower interest rates and declining inflation would support domestic demand (which accounts for 2/3rds of GDP) in the coming quarters. By contrast, the sectors that have the most pessimistic view on future domestic sales are construction, chemicals and retail.
- Regarding exports, 65% of companies expect their export sales to rise in 2020. The share of companies expecting higher export sales in 2020 has varied between 61% and 80%, except the automotive companies out of which only 56% expressed higher export sales expectations. This is in line with challenging demand conditions and slower economic growth in Europe, which remains their key client.

58% of companies consider growing their business or making new investments in 2020 while 21% expect Turkey's economic conditions to improve.

APPENDIX

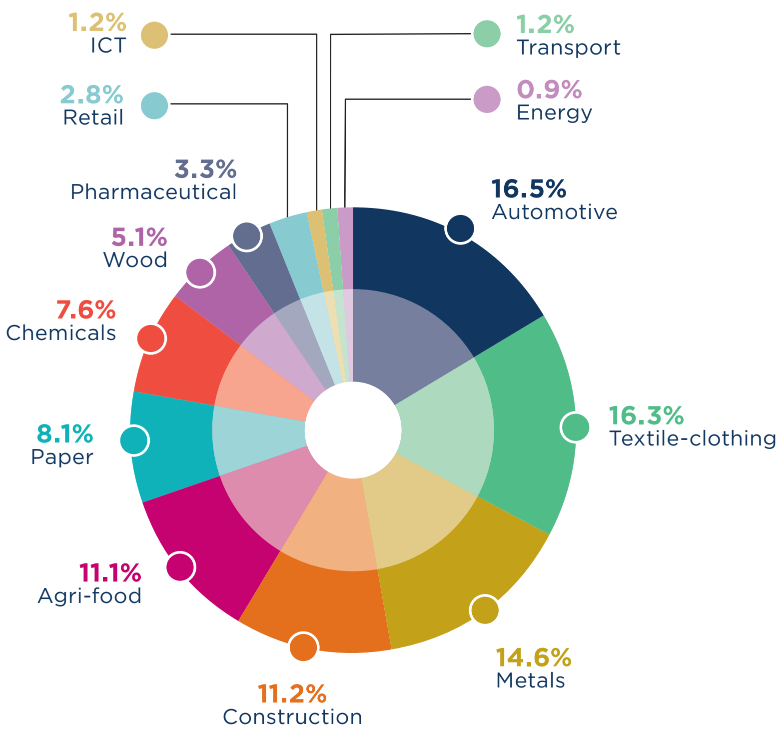
Who were the respondents?

SIZE OF THE COMPANIES BY TURNOVER



Source: Coface's payment survey

SECTORS OF COMPANIES SURVEYED



Source: Coface's payment survey

GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

January 2020 — Layout: increa ✻ — Photo: Shutterstock

COFACE SA
1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com

coface FOR TRADE