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COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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Latin America Payment Survey 2023 : Despite economic challenges, payment delays remain generally contained

Coface conducts payment surveys for several different economies and regions. The objective of this inaugural survey for Latin America is to better understand the region's corporate payment habits and the health of its economy. The survey was carried out over the April – May 2023 period which saw 330 companies participate in the study across 10 countries : Argentina, Brazil, Chile, Colombia, Guatemala, Ecuador, Mexico, Paraguay, Peru and Uruguay.

Latin American companies currently face a challenging economic environment. Coface forecasts the region's GDP growth to slip from 3.8 % in 2022 to 1.7 % in 2023. The softening economic momentum can be attributed to cooler global activity and its side effect on commodity prices, and on demand for Latin American exports through the price and volume effect. Additionally, most central banks in the region (notably those of Brazil, Chile, Colombia, Mexico and Peru) have also tightened monetary policy since the end of Q1 2021 in an attempt to tame rising inflationary pressures that were aggravated by the beginning of the war in Ukraine in February 2022. While inflation has recently started to ease across the region – Argentina is the main exception – and companies look forward to lower cost pressures as a result, consumer prices are likely to remain above the tolerance range of the central banks to converge towards their targets only by 2024. That said, while the monetary tightening cycle in the region now seems to have run its course, policy rates should remain restrictive in the short-term. Consequently, the tighter local and external credit conditions are expected to affect activity and companies' payment experience in 2023.

Despite this backdrop, the general picture on the payment experience in Latin America has so far remained broadly contained according to our survey. While 76 % of companies reported payment delays, most said that the number of cases remained stable in the period during 2022 to early 2023 compared with 2021. By country, the lion´s share of respondents in Ecuador cited a deterioration in payment experience over the period. In addition, in other countries except Mexico, many more companies reported an increase rather than a decrease in payment delays, reflecting a gradual deterioration in trade conditions. Overall, while the slowdown of economic activity is seen as the key risk for 2023, over 50% of companies surveyed expect their cash flow to improve and sales to increase (Argentina is an exception).

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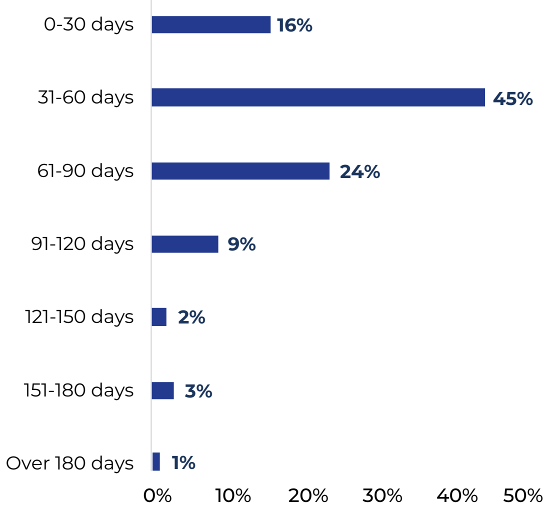
1 PAYMENT TERMS[1]: BROADLY OFFERED, BUT GENERALLY SHORT

Out of the Latin American companies we surveyed, 87 % offered payment terms to their customers in 2022-2023. The credit period is generally short as 85 % of our sample imposed average payment terms of up to 90 days **(Chart 1).** More specifically, most of the respondents fall within the range of 31 to 60 days (45 %). This timeframe was the most common throughout all seven of the region's largest economies (Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru) and also among companies of all sizes. In terms of sectors, with the exception of pharmaceuticals and construction, it was also the most common payment timeframe among the remaining 11 sectors.

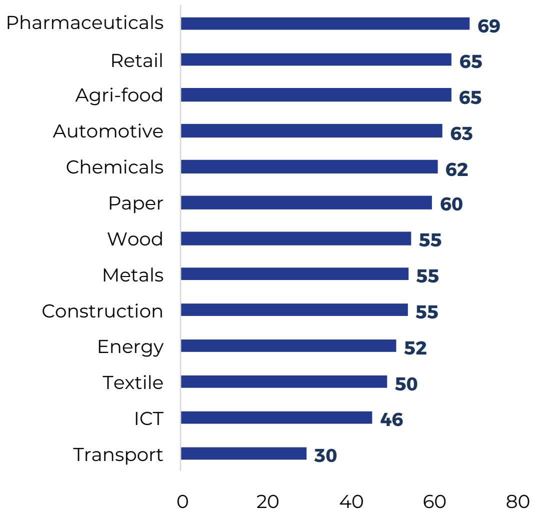
In a sectoral split, transport is the most restrictive sector where half of surveyed companies offered the shortest credit periods, with the average payment term being 30 days (**Charts 2 and 3**). Conversely, the most generous sectors offering long average payment terms include agri-food (25 % with credit periods of over 90 days), retail (18 %), paper (17 %), automotive (17 %) and wood (17 %).

Chart 1:
Average payment terms
in days



Source: Coface Payment Survey

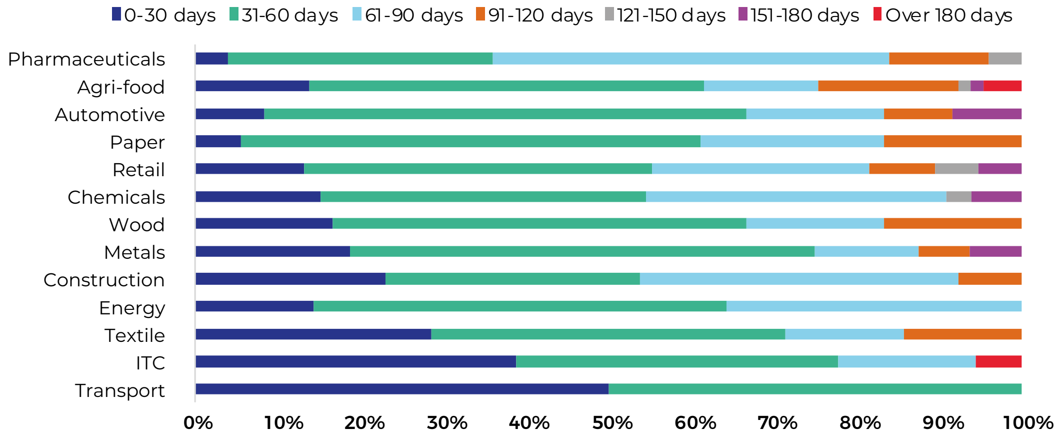
Chart 2:
Average payment terms by sector
(days)



Source: Coface Payment Survey

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

Chart 3:
Hypothetical payment terms by sector

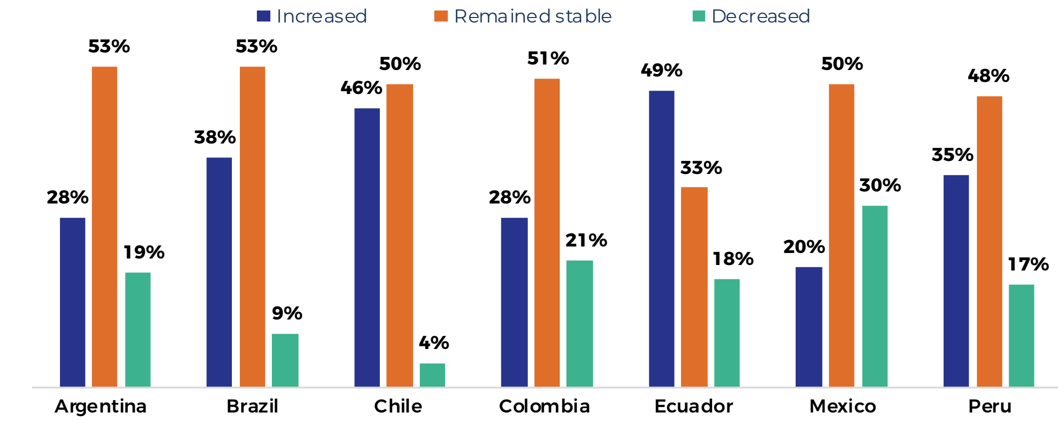


Source: Coface Payment Survey

2 PAYMENT DELAYS[2] VERY FREQUENT; FINANCIAL DIFFICULTY THE MAIN CAUSE

Delays in payment appear to be very frequent among Latin American businesses. Of the companies surveyed, 76 % declared that they experienced payment delays. The ratio exceeds the 50 % threshold in all economies and across the thirteen sectors. Nonetheless, when asked if payment delays increased in 2022 - 2023 compared with 2021, most companies said that the number of payment delays remained stable. By country, only in Ecuador did the majority of corporates (49 %) cite a deterioration during the period **(Chart 4)**. In addition, in other countries except Mexico, many more companies reported an increase rather than a decrease in payment delays, reflecting a gradual deterioration in trade conditions. In sector terms, retailers were the only group in which the number of companies that reported an increase in cases (37 %) exceeded breakeven (35 %) and decrease (28 %). The situation was stable in the remaining sectors. According to national statistics, insolvency cases in Latin America remained well contained between 2020 and 2022 (at least for countries where data are available, such as Brazil, Chile and Colombia). However, Brazil has bucked the trend since the beginning of 2023. Between January and April 2023, 382 companies filed for Chapter XI protection and 346 filed for bankruptcy, i.e., a respective year-on-year increase of 39 % and 34 %.

Chart 4:
Payment delays by country*

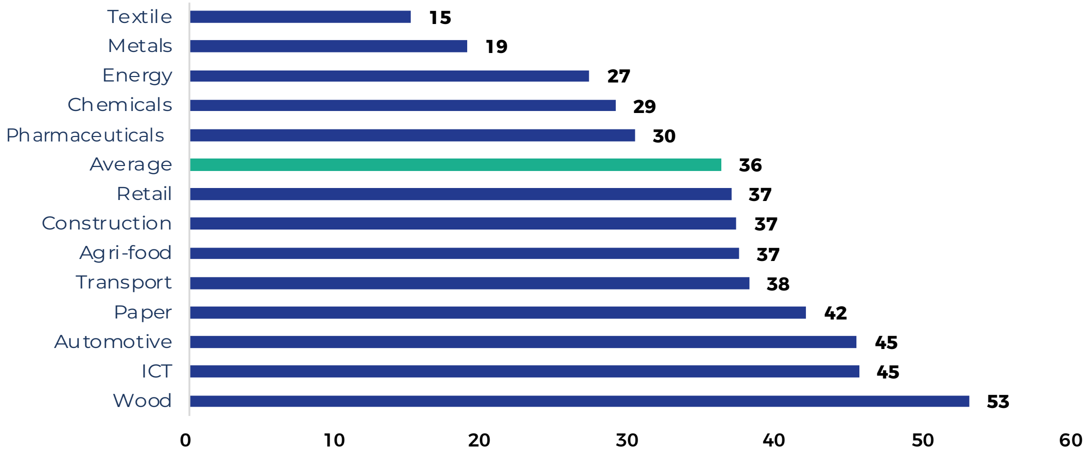


Source: Coface Payment Survey

*Data for Uruguay, Paraguay and Guatemala are not displayed as the number of respondents from these countries is too small to be representative

2 Payment delay – the period between the due date of payment and the date the payment is actually made.

Chart 5:
Average payment delays
(days) by sector

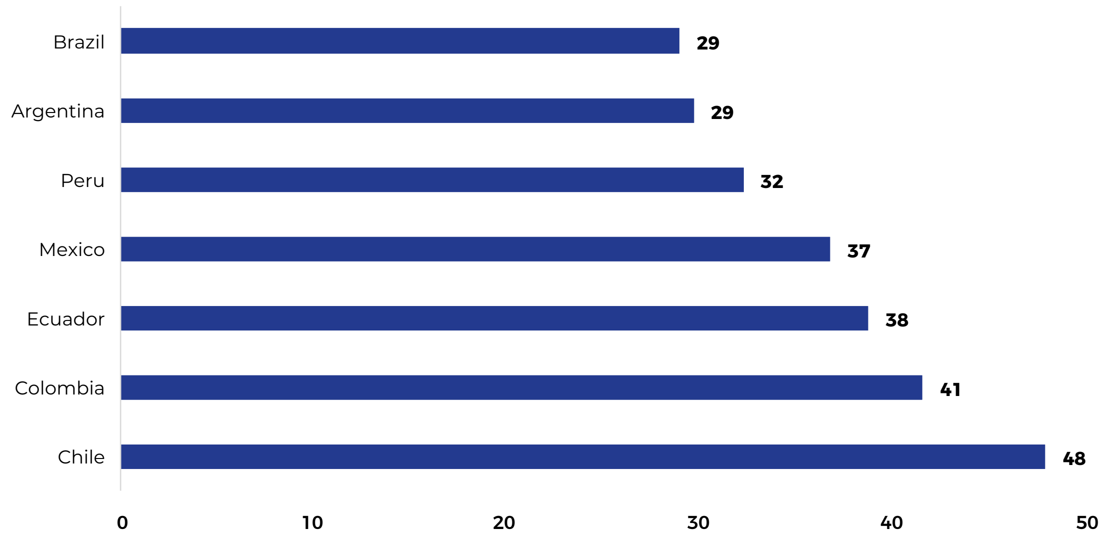


Source: Coface Payment Survey

Average payment delays stood at 36 days. In addition, 82 % of surveyed companies reported average payment delays of up to 60 days. Delays between 60 and 150 days were reported by 18 %, and very long delays exceeding 150 days were quite unusual (less than 1 % of respondents). At sector level, wood, ICT and automotive experienced the longest payment delays **(Chart 5)**. By contrast, the textile sector (15 days) and metals sector (19 days) registered the shortest delays. On a country basis, Brazil and Argentina reported the shortest average payment delay (29 days), while Chile observed the largest (48 days) **(Chart 6)**. Moreover, 53 % of surveyed companies said that delays of over six months represented less than 0.5 % of their turnover, whereas they exceeded 20 % of turnover for only 2 % of respondents.

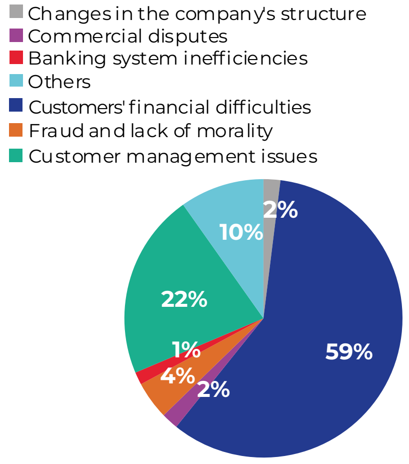
When questioned about the main reason for payment delays **(Chart 7)**, a vast majority

Chart 6:
Average payment delays
(days) by country*



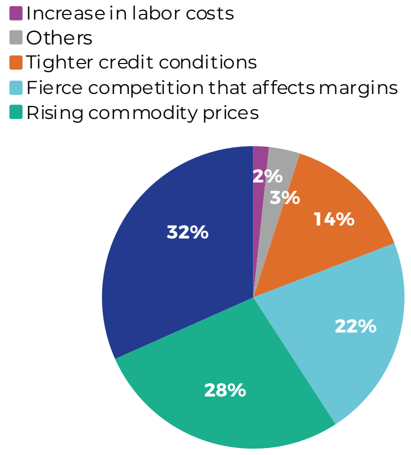
*Data for Uruguay, Paraguay and Guatemala are not displayed since the number of respondents from these countries is too small to be representative
Source: Coface Payment Survey

Chart 7:
Main reason for payment delay



Source: Coface Payment Survey

Chart 8:
Main reason for payment delay



Source: Coface Payment Survey

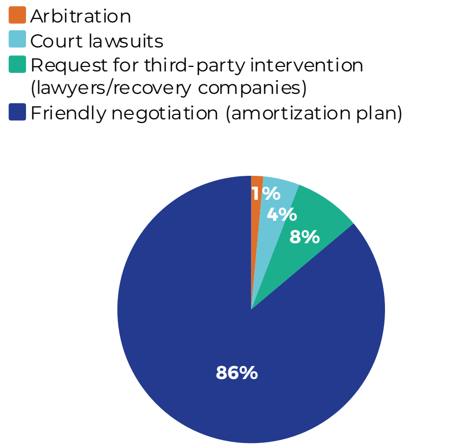
(59 %) cited financial difficulties experienced by customers, followed by management issues (22 %). More specifically, among the group that cited financial difficulties **(Chart 8)**, the main factor raised was slow economic growth in the local market (32 %), followed by rising commodity prices (28 %) and fierce competition that crimps margins (22 %). Growth momentum is gradually losing steam in the region, while the sharp rise in commodity prices, which reached a peak in mid-2022, has strongly affected companies' costs.

Regarding the responses taken to address non-payment, the broad majority (86 %) believe friendly negotiation to be the most effective tool **(Chart 9)**. Only a few companies preferred third-party intervention (8 %), court orders (4 %) and arbitration (2 %). Overall, the outcome is not surprising given the time it takes in Latin America to obtain court orders and the costs involved.

In an attempt to protect themselves against default, request for secure payment methods seemed to be the preferred practice of the companies surveyed (56 %), followed by management of purchaser credibility and, last, reserve of doubtful debtors (48 % and 15 %, respectively).

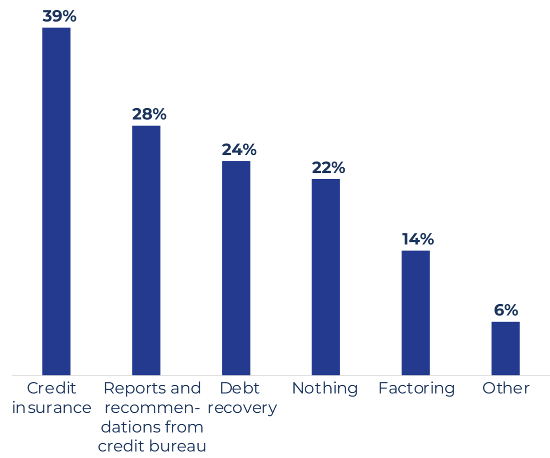
Regarding the credit management tools that are usually used **(Chart 10)**, credit insurance coverage was the most cited by respondents, followed by reports and recommendations from credit bureau and debt recovery bodies. It is worth mentioning that 22 % failed to implement any protection tool whatsoever.

Chart 9:
The most effective action in case of non-payment



Source: Coface Payment Survey

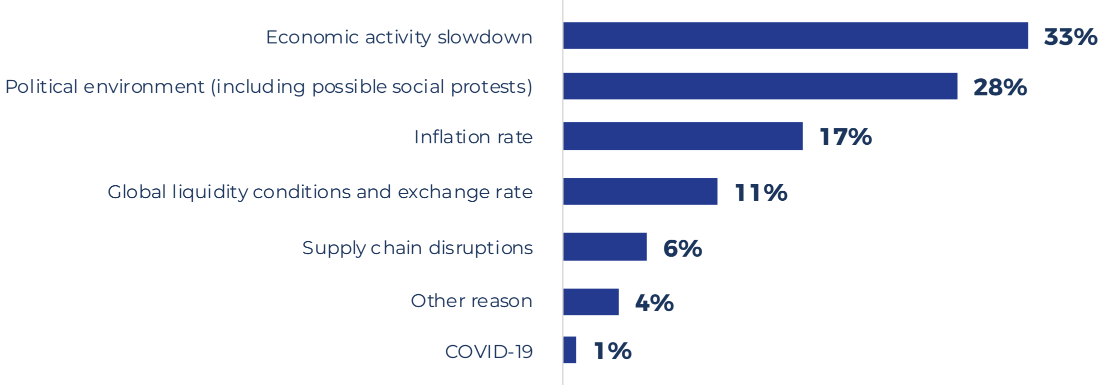
Chart 10:
Main reason for customers financial difficulties



Source: Coface Payment Survey

3 2023 EXPECTATIONS
DESPITE A CHALLENGING ECONOMIC OUTLOOK, COMPANIES ARE BROADLY BULLISH ABOUT HOW THEIR SALES AND CASH FLOW WILL PERFORM

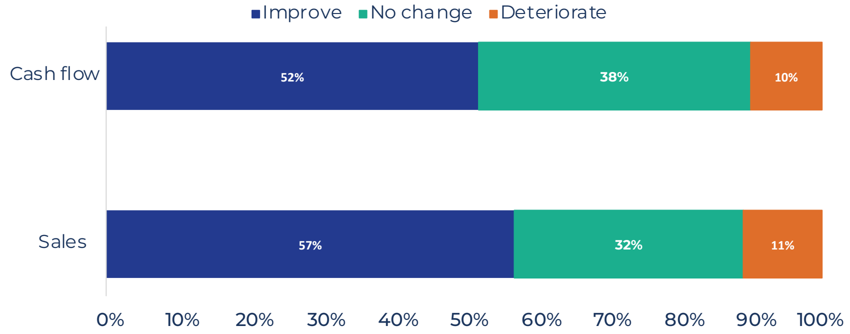
Chart 11:
Which of the factors below do you consider the greatest risk for your business in 2023



Looking forward, 33 % of respondents cited the slowdown in economic activity as the greatest risk for their business in 2023 **(Chart 11)**. On that score, Coface expects growth momentum in Latin America to lose steam amid decelerating global activity and due to the lag effect from strong monetary policy tightening by central banks in the region since 2021. As a result, Latin America's economy is expected to grow by 1.7 % in 2023, down from estimated GDP growth of 3.8 % in 2022. The political environment is deemed the second main risk among the surveyed companies (28 %). The region has faced a series of social protests in recent years. Although triggered by different reasons, these social upheavals usually stem from the same cause: dissatisfaction over high inequality, eroding household purchasing power and the perception of rampant corruption. Businesses ranked as their third and fourth main concerns inflation (17 %), and global liquidity and exchange rates (11 %), respectively. Regarding inflation, apart from Argentina, the indicator in the region's six other largest economies has already begun to recede from the peaks reached in 2022 and early 2023. However, convergence towards the targets established by the respective monetary authorities has yet to materialise and is not expected until 2024. That said, monetary policy is likely to remain restrictive in the coming months. The central banks of Chile and Brazil may be the first to start implementing rate cuts, the first of which is likely to take place in Q3 2023; however, the downward trend should be very gradual.

Although the abovementioned challenging economic and political landscape represent risks for companies operating in Latin America, when asked about how they expect their sales and cash flow to perform in 2023, the companies surveyed were broadly bullish. Over 50 % of the respondents believe that their cash flow will improve and that sales will increase **(Chart 12)**. On a country basis, most companies in Brazil, Chile, Colombia, and Peru expect cash flow to improve, while those in Argentina, Ecuador and Mexico expect no change. In terms of sales, most businesses in Brazil, Chile, Colombia, Ecuador and Peru expect a better outcome in 2023, while Mexico is expected to remain stable. Last, the majority in Argentina expect sales to soften (37 %). Coface forecasts GDP to drop by 3.5 % in 2023 on the back of a massive drought that has harmed the agricultural sector, as well as mounting macroeconomic imbalances such as skyrocketing inflation and import restrictions amid eroding foreign currency reserves.

Chart 12:
Expected business cash flow and sales in 2023 compared to 2022

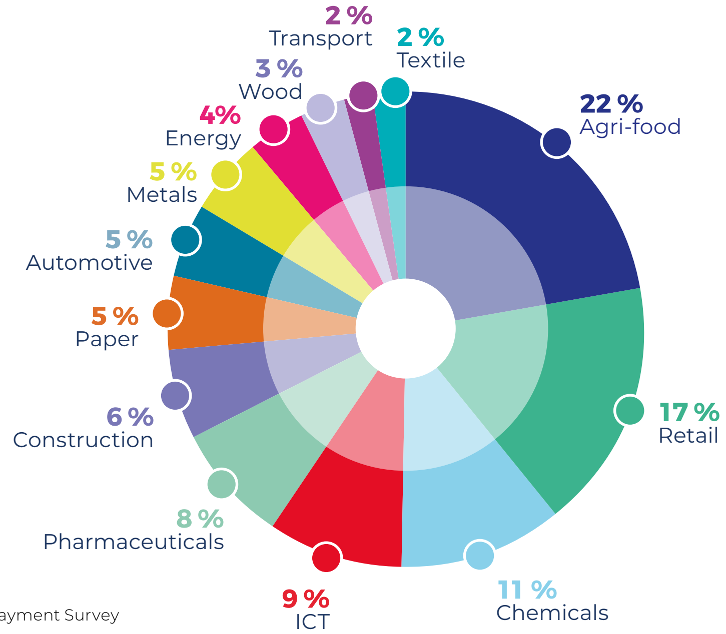


Source: Coface Payment Survey

APPENDIX

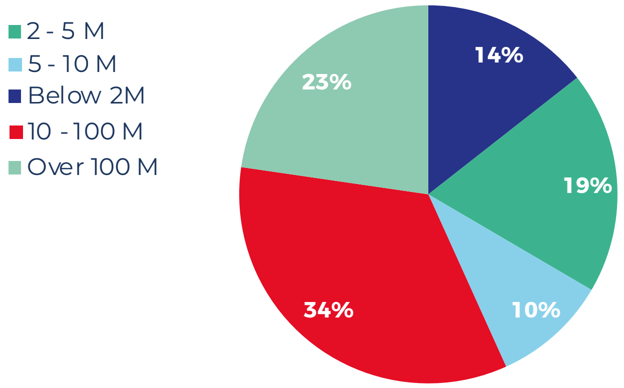
A TOTAL OF
330
COMPANIES PARTICIPATED IN THE PAYMENT SURVEY

SECTORS OF COMPANIES SURVEYED



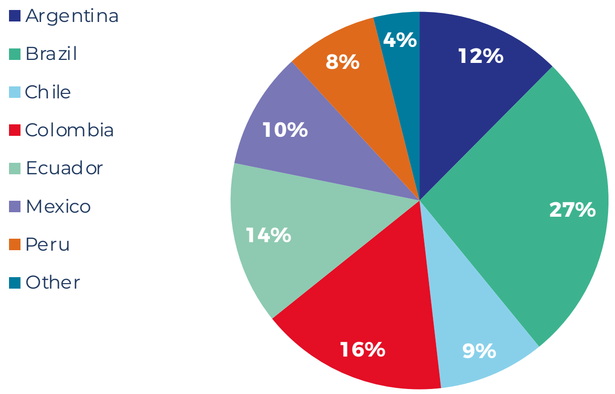
Source: Coface Payment Survey

SIZE OF COMPANIES BY TURNOVER (in M USD)

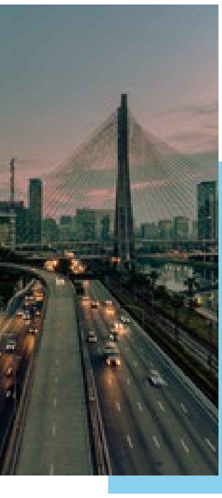


Source: Coface Payment Survey

COUNTRY OF ORIGIN



Source: Coface Payment Survey



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