

PAYMENT SURVEY



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Germany Corporate Payment Survey 2022: Battered companies prepare for another crisis

The sixth edition of Coface's survey on corporate payment experience in Germany was conducted in July and August 2022¹, with 1,070 companies participating. This is the third edition done in the context of the COVID-19 pandemic, but the first to take into account the impact of the war in Ukraine and its effects on trade. One of the main takeaways of this year's survey is that payment behaviour has become slightly more restrictive: with a looming gas crisis, fewer companies are offering payment terms (71%) compared to last year (74%). Businesses remain cautious and prefer to cash-in as soon as possible. Accordingly, the preference for shorter credit terms remained unchanged: more than half of the surveyed companies requested payments to be made within 30 days, while ultra-long credit terms (120+ days) remained rare.

While two and a half years of a difficult and complex economic situation are taking their toll, the cost appears to be comparatively lower: the number and duration of payment delays has increased, but only slightly and from a very low initial level. Although payment discipline in 2022 deteriorated compared with 2021, with 65% of surveyed companies reporting payment delays (+6 pp year-on-year), it remains below the level observed in 2020 and far below pre-pandemic levels (82% on average). The average duration of payment delays increased to 28.7 days in 2022 (+1 day YoY), after shortening by seven days YoY in 2021. Most sectors (excluding paper-packing, agri-food, machinery and automotive) reported an increase in the duration of payment delays. Although the payment behaviour remains very positive, companies have never been this pessimistic about their business

outlook². While the view on the current situation for this year is roughly neutral - 23% of participants think their business situation is better than in 2021, 22% perceive it as worse -, the one for 2023 is very clear: 38% of surveyed companies are pessimistic regarding 2023, while only 14% are optimistic about their near future. The main reason is the significant amount of risks that companies are facing. Pre-existing risks, such as global production chain disruptions and rising non-energy commodity costs, remain the key concern for companies' export outlook in 2022. However, new risks – including the war in Ukraine and related sanctions, as well as rising energy prices – are also weighing on companies' minds. COVID-19 is currently a minor issue, although businesses are well aware of the economic risks linked to new mutations. Related to these risks, international market focus has shifted. German companies are focused less on the European Union and the United Kingdom, and more on non-EU countries, possibly to circumvent sanctions against Russia. In addition, China has lost some of its popularity, while the United States are once again a key export destination. With all these obstacles on the horizon, the question remains: in what shape are German companies entering the looming gas crisis? While 48% of participants had used public support over the last 12 months in 2021, they were still 30% in 2022, with 25% even using state aid in the 3 months preceding the end of public support in June 2022. It is unclear if these companies will be able to continue without the support measures, which is particularly relevant for companies using state-backed loans (31% of the participants who used support measures), as the loans require to start repayments two years after their admissions.

¹ The survey was conducted between 27 June and 14 August 2022.

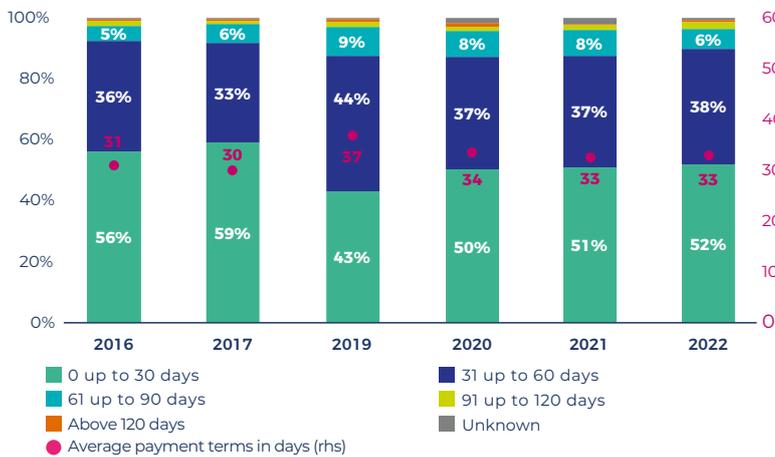
² Coface is publishing Germany Corporate Payment Surveys since 2016.



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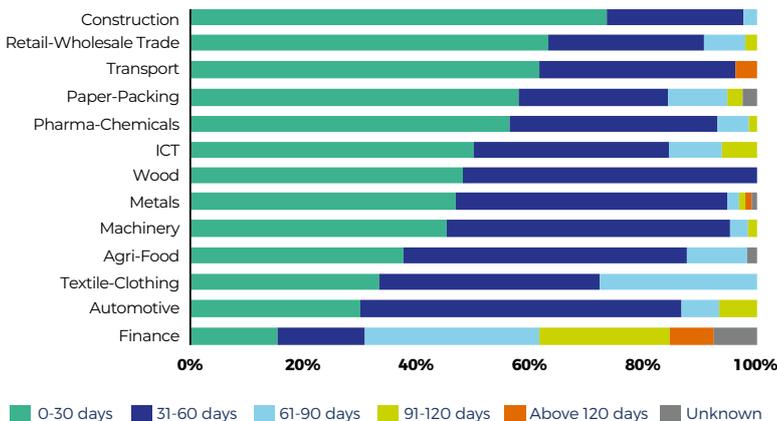
PAYMENT TERMS³: VIGILANT COMPANIES OFFER LESS PAYMENT TERMS

Chart 1:
Hypothetical payment terms in Germany over time⁴



Source: Coface Corporate Payment Survey Germany 2022

Chart 2:
Hypothetical payment terms in 2022 by sectors^{5,6}



Source: Coface Corporate Payment Survey Germany 2022

• According to the data of our payment survey, German companies are again getting a bit nervous in 2022 and provided less payment terms to their customers compared with 2021. While last year the share of companies that offered payment terms was at 74%, the figure dropped to 71% in 2022. The main driver of this development were companies who are mainly active in Germany, for which the share offering payment terms decreased from 73% to 68%, while the share for mainly exporting companies increased (from 77% to 81%). One explanation for this phenomenon could be the longer delivery times abroad. Nevertheless, this development of less payment terms on average is still noticeably different from the situation in 2020, as well as in pre-pandemic times. In the first year of the pandemic, only 62% of surveyed participants offered payment terms. The pre-pandemic⁸ average, however, was at 83%.

• Short-term payment terms (between 0 to 60 days) dominate the German business landscape. 90% of companies that provided payment terms requested payments to be made within 60 days in 2022, which is slightly higher than the share of the last three years (**Chart 1**). The distribution of the other time-ranges for payment terms has only marginally changed, which is why the average payment term in 2022 remained almost unchanged: 32.8 days compared with 32.6 days in 2021.

• Looking at sectors, construction still has the shortest payment terms: 73% of participants expect their invoices to be paid within the first 30 days (**Chart 2**). In 2022, 9 out of 13 sectors offered payment terms longer than 90 days, while ultra-long payment terms (above 120 days) remain relatively rare. Only 0.6% of participants offered them in 2022 and were from the transport, metals and finance sectors.



The average credit period has changed only marginally and increased by 0.2 days to 32.8 days.

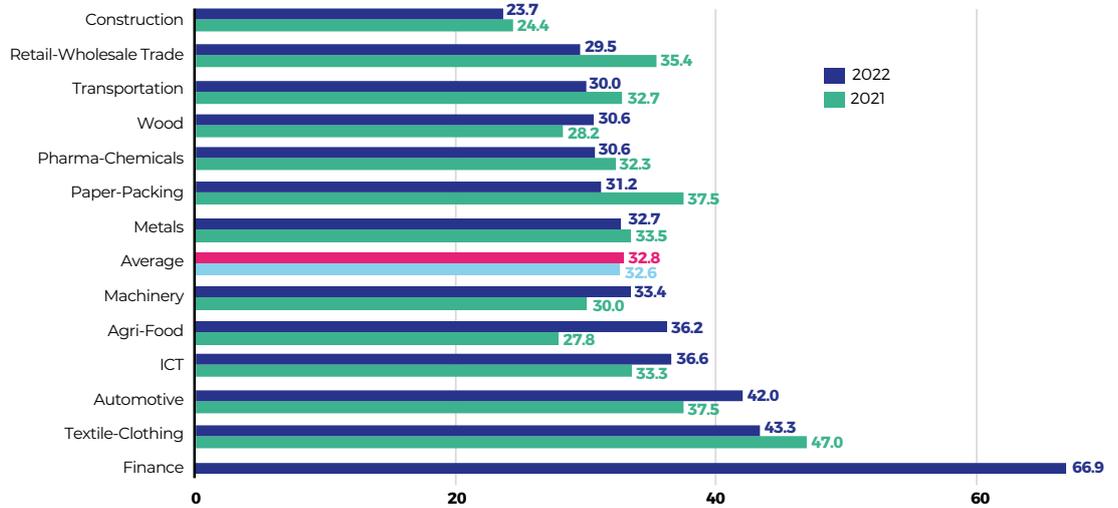
³ Payment term – the time-frame between when a customer purchases a product or service and when payment is due.

⁴ Due to technical reasons, Coface did not publish a Corporate Payment Survey for Germany in 2018.

⁵ Due to the high participation last year and this year, it is now possible to show data for the agri-food and wood sectors separately. Before, they were showed as a combined sector. In addition, this year the finance sector was introduced in the payment survey. Before, these answers were collected under "other sectors".

⁶ ICT = Information and Communication Technology

Chart 3:
Average payment terms (in days)⁷

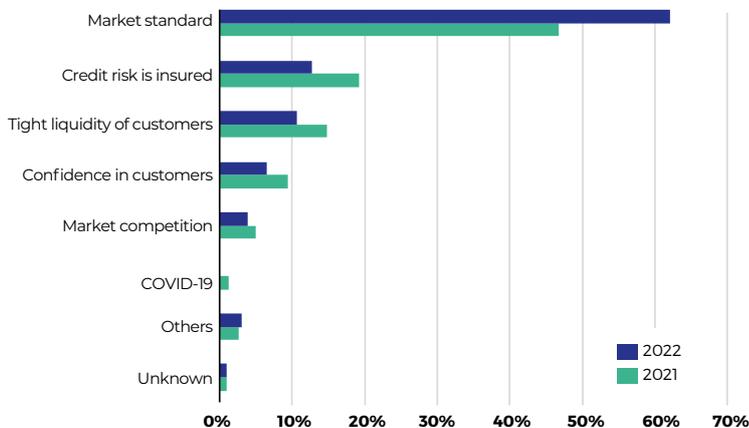


Source: Coface Corporate Payment Survey Germany 2022

- While the average payment terms of all participating companies have changed only marginally, changes in individual sectors were noticeable in 2022 (**Chart 3**). A strong increase - of over a week - was observed in the agri-food sector. Conversely, paper-packing (-6.3 days) and retail-wholesale trade (-5.9 days) reported the strongest declines in their average payment terms. As indicated above, construction remained the sector with the shortest payment terms (23.7 days on average), while finance (included as a separate sector in this survey for the first time) had the most generous payment terms with 67 days, followed by textile-clothing with 43 days.
- When looking for explanations for the evolution in payment terms, our survey hints to two directions.

On the one hand, companies seem more vigilant and therefore are reducing the duration of payment terms. On the other hand, technical reasons force them to provide (longer) payment terms. When asking about the reasons behind the availability of payment terms, our participants primarily named market standards with a record share of 62%. This could be connected to the ongoing supply-chain issues. Indeed, although it was not an own answer-possibility, 1% explicitly named long delivery times as a reason for (longer) payment terms as the invoice reaches the customer faster than the goods. Besides that, the environment seems to be riskier and the confidence in customers is decreasing to a low level (only observed before in 2019) (**Chart 4**).

Chart 4:
Reasons for offering payment terms



Source: Coface Corporate Payment Survey Germany 2022

In 2022,
71%

of our survey participants offered payment terms, a reduction of 3 percentage-points compared with 2021.

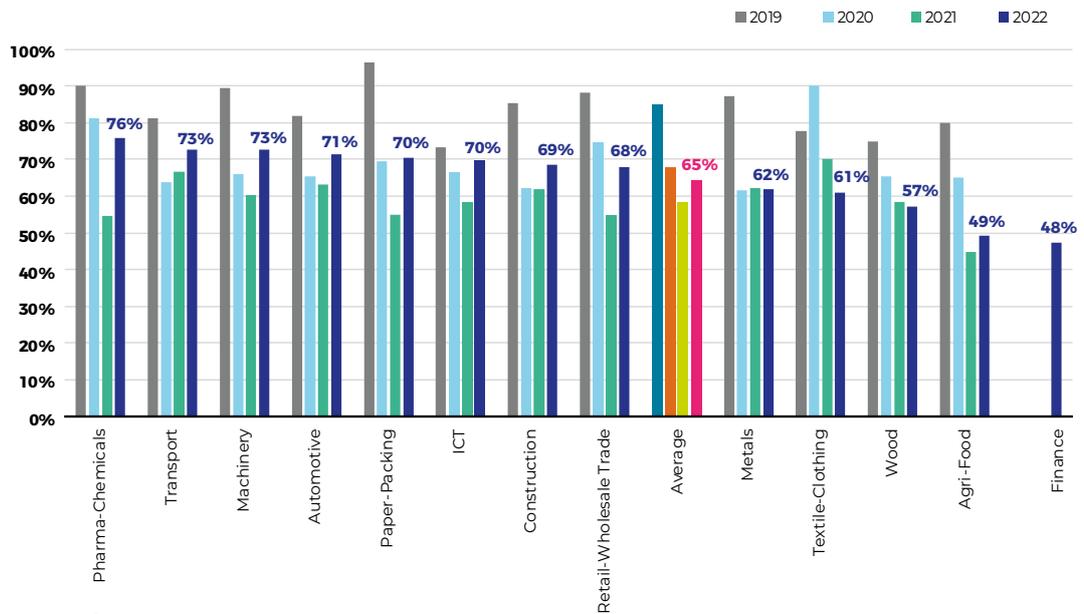
⁷ We ask our participants to give answers in time-ranges. As our lowest category is 0 to 30 days, the minimum average payment term is 15 days in our survey. We keep the category 0 to 30 days, although in Germany the "normal" payment term begins at 14 days, to make the data comparable to the results of our other international corporate payment surveys.

⁸ Coface published payment surveys in the years 2016, 2017 and 2019.



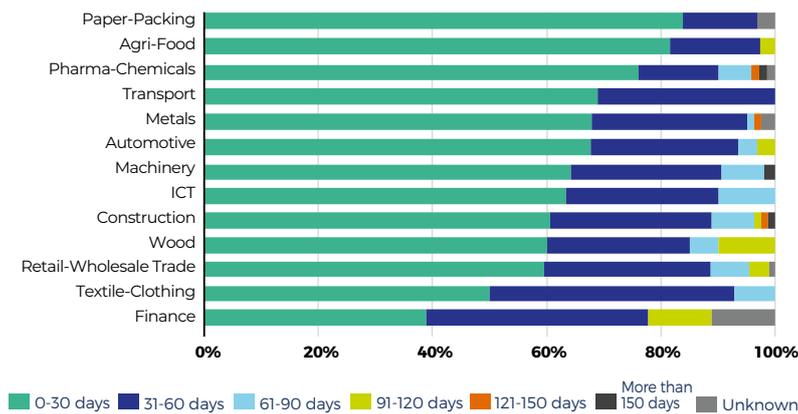
2 PAYMENT DELAYS⁹ COMPANIES STILL GET PAID FAST

Chart 5:
Share of companies reporting payment delays by sector and year



Source: Coface Corporate Payment Survey Germany 2022

Chart 6:
Hypothetical payment delays in 2022 by sectors



Source: Coface Corporate Payment Survey Germany 2022

• Since the publishing of our previous payment survey in 2021, the number of payment delays increased slightly from the low of 59% in 2021 to 65% in 2022. This is still below the 2020 figure (68%) and far below the pre-pandemic average of 82%. With the exception of textile-clothing, metals and wood, the numbers of payment delays increased in all sectors in 2022. However, while less than half of all participating companies in the finance and the agri-food sector reported late payments, the figure was at 76% in the pharmaceuticals sector, where the increase was the most noticeable with a surge of 21 percentage points (**Chart 5**).

• The paper-packing sector is where companies waited for the shortest time after the due date of payment this year. In this sector, the vast majority of surveyed companies reported delays no longer than 30 days and no company indicated delays above 60 days. In contrast, some companies had to wait over 150 days for their money in machinery (1.9% of all participating machinery companies), pharmaceuticals (1.4%) and construction (1.2%) (**Chart 6**). Last year, only the metals sector reported ultra-long payment delays of over 150 days.

⁹ Payment delays – the period between the due date of payment and the date the payment is made.

Chart 7:
Average payment delays by sectors (in days)



Source: Coface Corporate Payment Survey Germany 2022

- The average duration of payment delays increased by one day, from 27.7 days to 28.7 days (**Chart 7**), and remains one of the shortest average delays in our time series¹⁰. Most sectors - excluding paper-packing, agri-food, machinery and automotive - reported an increase in the duration of payment delays. The strongest increase was reported in ICT (+11.5 days). However, all of these companies had a relatively low initial level. Companies operating in the paper-packing sector now have the shortest waiting time with an average of 18.4 days, while companies in the finance sector need the most patience with an average waiting time of 35 days (which is still below the highest level of 2021 i.e. 35.8 days in the machinery sector). Although we see increases in the waiting times, they remain short in historical perspective, given that surveyed companies had to wait 41 days on average after the due date for payment of their invoices in 2016 and 2017.
- Adding payment terms (if any) to payment delays indicates the total waiting time between the purchase of a product and the payment of the invoice. This indicator – known as days sales outstanding (DSO) – changed only marginally from 51.1 days in 2021 to 51.4 days in 2022. The fastest paying sector this year is transport, with a hypothetical DSO of 44 days in 2022. Textile-clothing remained the sector with the longest DSO, albeit the waiting time decreased sharply from 77.7 days in 2021 to 66.1 days in 2022.
- According to our survey results, the reasons behind payment delays remained mainly related to financial difficulties. However, this share has noticeably decreased from 46% last year to 38% this year. Instead, other explanations like supply-chain issues, the war in Ukraine or management problems were increasingly named. When asked about the reason for the financial difficulties, 38% of participants answered rising costs of commodities, input-goods and other production costs (compared to only 7% in 2021).

The second most frequently mentioned reason for financial difficulties was supply chain issues, cited by 13% of the participants (10% in 2021), followed by high competitive pressure (11% in 2022 vs. 14% in 2021) and lower demand in Germany (10% 2022 vs. 20% in 2021, the main reason at that time). The COVID-19 pandemic and its impact on the economy, however, lost its significance and was not named anymore.

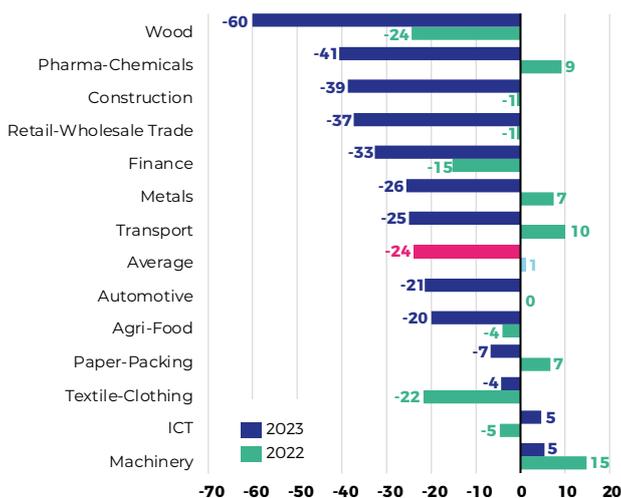
- The financial risks associated with late payments for German companies remains moderate in 2022, but have increased. In total, 7.2% of participants reported that the share of overdue payments between 6 months and 2 years represented 2% or more of their annual turnover, an increase of 2.8 percentage points compared with 2021. Nevertheless, the level of around 7% is roughly the same as 2020 and far below the pre-pandemic average of 10.5%. In the sectoral comparison, the results diverge. While no company in the wood sector reported a higher share of longer payment delays relative to their annual turnover, 12% of companies in the automotive sector and in the ICT sector confirmed this situation for 2022. In construction, ICT and machinery, there are some companies which reported that the share of overdue payments between 6 months and 2 years represented even more than 10% of their annual turnover.

The duration of the average payment delay increased by one day to 28.7 days in 2022. Nevertheless, this is the second lowest payment delay average since the beginning of the time series in 2016.

¹⁰ The first Coface Corporate Payment Survey for Germany was published in 2016.

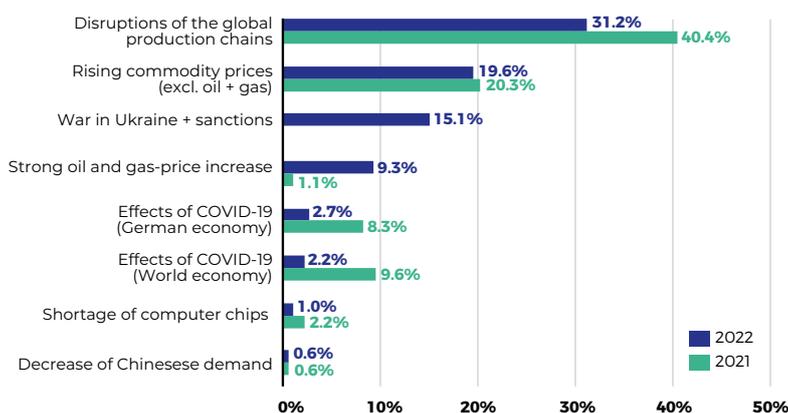
3 ECONOMIC EXPECTATIONS COMPANIES ARE VERY PESSIMISTIC ABOUT THEIR FUTURE

Chart 8:
What is the current business situation for the year 2022 and what is the business outlook for your company for 2023 compared to the year before? (figures in balance points¹¹)



Source: Coface Corporate Payment Survey Germany 2022

Chart 9:
What is the main risk for your export business in the future?



Source: Coface Corporate Payment Survey Germany 2022

Participants were never so pessimistic about the future. 38% of all respondents expect worse business conditions in 2023 compared with 2022, while 14% are more optimistic for 2023.

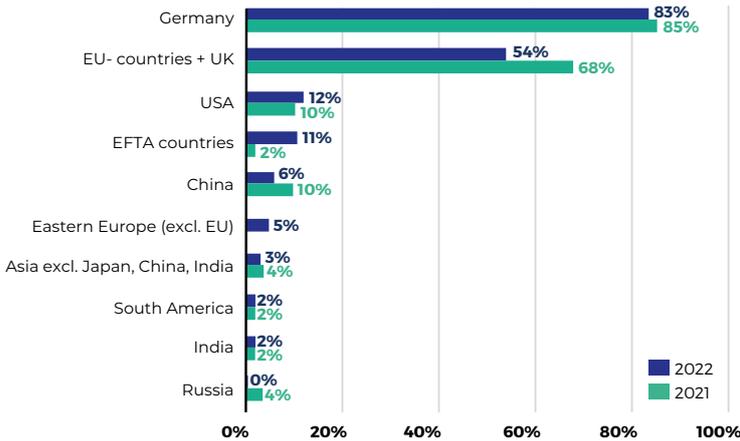
Companies' assessment of the economic situation in 2022 is relatively neutral compared with last year. 23% think that their situation has improved compared to 2021, while 22% said it worsened. In total, the balance of answers is +1 point, therefore neutral (**Chart 8**). Here, it is important to remember that there was a hard lockdown in Germany in the first months of 2021 and that it took until late summer 2021 for all population groups to have access to vaccines. Therefore, the neutral level of 1 is not a positive sign, but shows that on average the economic situation remained the same in 2022 relative to 2021. Furthermore, companies have never been this pessimistic about the next year¹². 38% of the survey's participants expect a deterioration of their business situation in 2023 compared with 14% who are optimistic for the coming year. Pessimism is observable in almost all sectors. The wood sector is on average the most pessimistic about its business future (-60 points), followed by the pharma-chemicals sector (-41 points), construction (-39 points) and retail-wholesale trade (-37 points). These sectors seem to be the ones that are suffering the most from the current drought in Germany, strong rising commodity and consumption prices, as well as supply-chain bottlenecks. The only two sectors that are a bit optimistic on average for the coming year are ICT (+5 points) and machinery (+5 points).

According to our survey results, the main risk for export operations in 2022 remains disruptions of global production chains, which was cited by 31% of participants (**Chart 9**). Rising non-energy commodity costs were already a big topic in 2021 and remained so in 2022 with 20% of answers. However, on the global stage, the new risks are the war in Ukraine and the related sanctions around it worldwide (15%), followed by the strong price increases of crude oil and gas - which seemed to be a minor topic in the summer of 2021, but is now all the more important (9%). Although the COVID-19 pandemic is far from over, companies now expect that its impact on their export business is limited. In addition, "older" risks to trade, such as the shortage of computer chips or the decrease in Chinese demand (despite the sharp slowdown in Chinese growth in 2022) were only named tentatively. On the other hand, several participants answered in the comments to this question that they could not decide what the main risk for their export business is, as actually all of them are seen as important.

¹¹ Balance points = share of people expecting a better economic situation than the year before – share of people expecting a worse economic situation than the year before

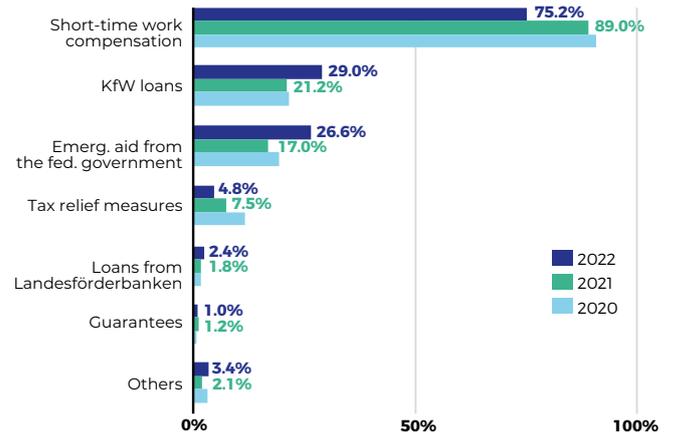
¹² There were years when the current economic situation was seen more negative, but this is the first year with such negative expectation levels for the coming year.

Chart 10:
What are the markets with the biggest opportunities for you in the coming year? (max. three answers possible)



Source: Coface Corporate Payment Survey Germany 2022

Chart 11:
What kind of State aid measures did you take advantage of in terms of the COVID-19 crisis? (several answers are possible)



Source: Coface Corporate Payment Survey Germany 2022

- In 2022, Germany remains the country with the most opportunities for surveyed companies (unsurprisingly, as 69% of respondents are mainly active on the German market). The importance of Germany has however decreased from 91% in 2020 to 85% in 2021 and down to 83% in 2022 (before the pandemic it was 81% in 2019)¹³ (**Chart 10**). One reason for this decrease could be the ongoing normalization process after the safe-haven effect from the COVID-19 pandemic (during a major crisis, companies tend to do more business on their home market than abroad, because they have a better overview of the situation). However, another trend is also visible this year. Less people see their business opportunities in the EU, but more in the EFTA countries¹⁴ and in Eastern Europe outside of the EU. The strong sanctions and countersanctions between the EU and Russia could be the main reason for that, as well as the attempt to circumvent them. Outside of Europe, the U.S. seems to be more attractive in our survey than China, which could be a reaction to the deterioration of the economic outlook for China or the new tensions between China and the U.S. around their relationship with Taiwan.
- After more than two years of pandemic, Germany seems on the edge of another recession. However, questions remain: in which condition German

companies will enter these difficult times? What burdens remain from the COVID-19 crisis? Between summer 2021 and this summer, still 30% of the participants took advantage of State aid connected with the COVID-19 crisis (down from 48% in 2021). Even in the last three months prior to the termination of State support in end-June 2022 (i.e. between March and June 2022), still 25% used State support. This year, the most popular support measure remained the furlough scheme. Probably due to the economic recovery from the pandemic, only 75% of participants who used State aid applied for furlough in 2022 (**Chart 11**)¹⁵. Compared to last year, loans from the Kreditanstalt für Wiederaufbau (KfW), the main German federal development bank, got more popular (29%) and the emergency aid from the federal government ("Überbrückungshilfen") was also used a lot. From all of these measures only the loans/guarantees have to be paid back (the tax relief measures are related to expanded depreciation options and higher tax allowances in Germany). In case of the KfW loans, there are at maximum two years of grace before the company has to start paying back the loan. This means that for many companies, the repayment time is actually starting now, when the economic outlook is very pessimistic. This could lead to a noticeable increase of payment delays in 2023.

¹³ In this question, participants were able to choose several answers. This is why the share of the answers do not add up to 100%.

¹⁴ Switzerland, Norway, Lichtenstein and Iceland

¹⁵ Again, several answers were possible per participant.



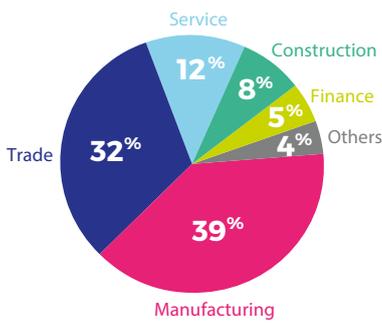
APPENDIX



A TOTAL OF
1,070
COMPANIES PARTICIPATED
IN THE PAYMENT SURVEY

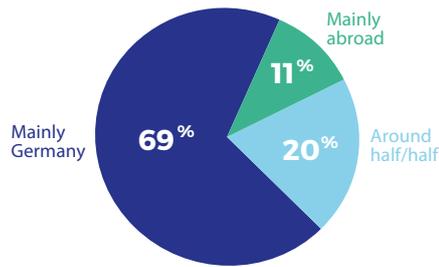
Who were the respondents?

MAIN BUSINESS ACTIVITY



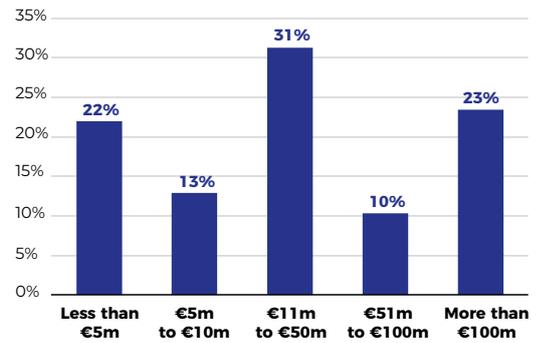
Source: Coface Corporate Payment Survey Germany 2022

RELEVANT MARKET



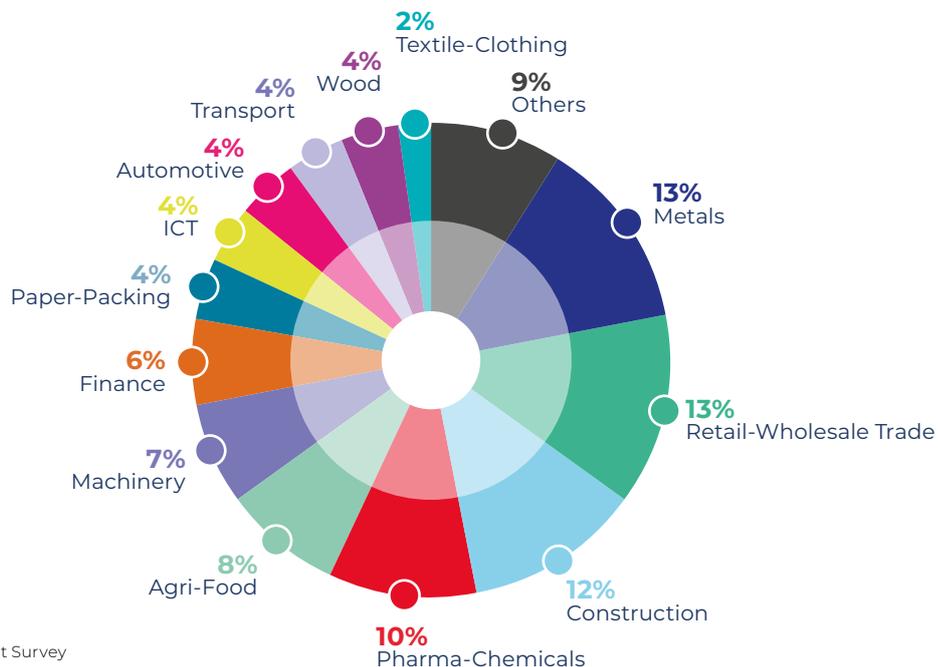
Source: Coface Corporate Payment Survey Germany 2022

SIZE BY TURNOVER



Source: Coface Corporate Payment Survey Germany 2022

SECTORS OF SURVEYED COMPANIES



Source: Coface Corporate Payment Survey Germany 2022

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.

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