



Czech Republic: a resilient or vulnerable economy?

Atradius Payment Practices Barometer





exports
partners

Top 5

- Germany
- Slovakia
- Poland
- France
- United Kingdom

Source: WTEEx

exports

Top 5

Vehicles

- Machinery including computers
- Electrical machinery, equipment
- Articles of iron or steel
- Plastics, plastic articles

Source: WTEEx

Economic expansion in the Czech Republic is forecast to remain positive over the coming months, with an average growth rate of about 3% this year. Despite this benign outlook, downside risks remain. Primary risks include rapid exchange rate appreciation affecting international competitiveness and sharp declines in external demand. These could be triggered by increased political uncertainty, as well as by a sudden escalation of international trade disputes or an unforeseen slowdown in the Eurozone.



Marketa Strzinkova, Atradius Country Manager for the Czech Republic commented on the Payment Practices Barometer report

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Being an open economy highly integrated into the international value chain, the Czech Republic has seen continued growth over recent years, and is now one of the main players in Eastern Europe. The key driver of growth is private consumption, sustained chiefly by favourable lending conditions and a marked increase in wages.

Although there is the need for structural reforms to ensure sustainable growth, the country has recently benefitted from robust export growth propelled by the improved international competitiveness of Czech businesses.

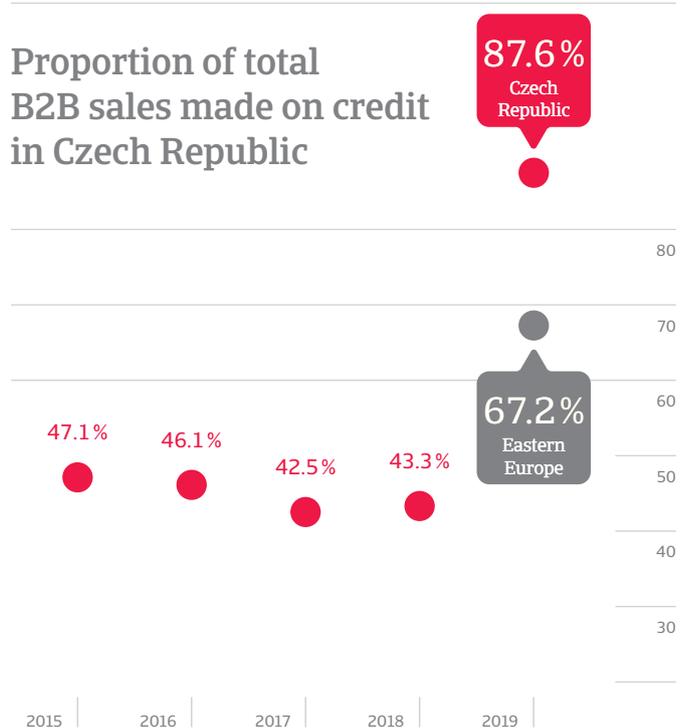
Despite this good performance, however, the Czech economy remains vulnerable to historic demographic changes that have resulted in pressure on the current labour pool, leading to many businesses exploring growth opportunities elsewhere, such as Southern Europe.

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Increased use of trade credit in the Czech Republic within the context of solid economic growth and strong trade flows

87.6% of the total value of Czech respondents' B2B sales was reported to be made on credit (up from 43.3% last year). This is far above the 67.2% average for Eastern Europe, and is the second highest in the region after that recorded in Slovakia (91.5%). This is likely to be a reflection of strong growth in household consumption driven by wage growth, decreasing unemployment rates and favourable lending conditions. Moreover, exports from the Czech Republic increased markedly over the past few years, supported by the country's improved international competitiveness. This may explain the frequent use of trade credit by Czech exporters that want to remain competitive on foreign markets.

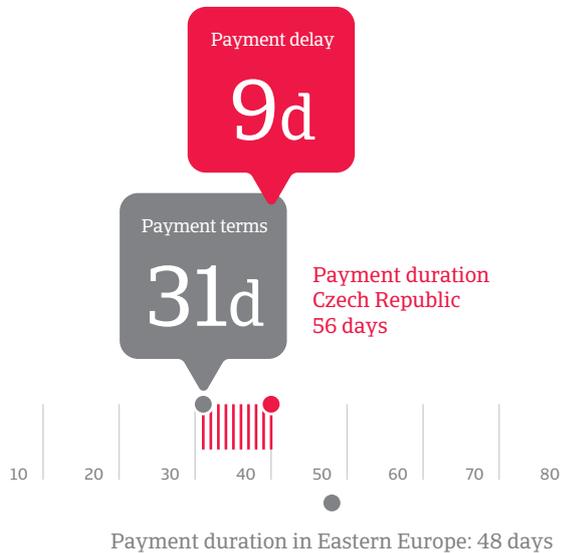
Proportion of total B2B sales made on credit in Czech Republic



Sample: companies interviewed (active in domestic and foreign markets)
 Source: Atradius Payment Practices Barometer – September 2019



Payment duration in Czech Republic



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – September 2019

Czech respondents give B2B customers more time to pay invoices than last year

Suppliers surveyed in the Czech Republic reported that they gave their B2B customers more time than last year to settle invoices. This relaxation of the payment timings may explain the increase in sales on credit seen earlier. Most Czech respondents (76%) granted payment terms averaging 31 days from invoicing (up from 26 days last year). This compares to a regional average of 37 days.

Czech respondents are more inclined to send dunning letters (outstanding invoice reminders) than their peers in Eastern Europe

In line with the increased supply of trade credit and the longer time given to B2B customers to pay invoices, Czech respondents appear to have a heightened perception of trade credit risk arising from trading on credit terms. To protect their business from customers' payment default, Czech respondents seem to focus strongly on dunning activities (outstanding invoice reminders). This is performed far more often by respondents in the Czech Republic (68%) than by those in Eastern Europe overall (39%). Credit checks on prospective customers prior to any trade credit decision are performed by 52% of Czech respondents. This is comparatively lower than

the percentage that favours the dunning approach, but far more often than by their peers in Eastern Europe overall (39% of respondents). Interestingly, a far higher percentage of respondents in the Czech Republic (43%) than in Eastern Europe (32%) reported they request payment on cash terms from B2B customers. This finding highlights that settling payment on cash is still a very common payment method in the Czech Republic, accounting for a large proportion of B2B transactions.

One quarter of B2B invoices in the Czech Republic remain unpaid at the due date

Approximately one quarter of the total value of B2B invoices issued by Czech respondents over the past year remained outstanding at the due date. Despite improved payment timings from B2B customers, resulting in an average 14% increase in timely payments (74.3% of invoices paid on time compared to 65.2% one year ago), Czech respondents do not cash in overdue invoices significantly earlier than last year (40 days compared to 41 days last year). To manage potential liquidity constraints arising from late payments and alleviate the financial pressures, Czech respondents needed to pay their own suppliers late or take corrective measures to solve cash flow issues (22% of respondents). 3 in 5 respondents, however, reported no significant impact on business arising from late payments. This is consistent with Czech respondents' sharp focus of on cash flow management seen earlier.

Czech respondents expect the payment practices of their B2B customers to remain stable over the coming months

Most Czech respondents (73%) do not expect the payment practices of their B2B customers to change over the coming months. 12% anticipate improvement and 15% expect deterioration resulting in increased late payments and write offs of uncollectable accounts. As the banks in the Czech Republic are healthy and highly profitable, businesses do not express concern that access to bank financing might become more troublesome over the coming months. However, should the Czech Republic become vulnerable to external shocks, caused for example by escalating trade wars adversely impacting export trade flows, Czech respondents would offset operational cost increases with a significant reduction of their investments in business growth.

Transport



36.8%

of the total value of B2B invoices issued by suppliers surveyed in the Czech transport sector was past due.



Overview of payment practices in the Czech Republic

By business sector

Payment terms in the Czech machines sector are much shorter than a year ago

Contrary to what was observed across all the industries surveyed in the Czech Republic, payment terms granted to B2B customers in the machines sector are much shorter than last year (averaging 32 days down from 44 days last year). Respondents in the agri-food sector set the shortest average payment terms (22 days), which remained stable compared to one year ago.

Trade credit risk is highest in the Czech transport sector

Trade credit risk in the Czech Republic has significantly worsened in the transport sector, where 36.8% of the total value of B2B invoices remained unpaid at the due date. Over the past year, the most significant improvements in the speed of payments from B2B customers was observed in both the chemicals and the consumer durables sectors. Payment practices of B2B customers in the Czech agri-food sector remained substantially unchanged.

Proportion of uncollectable receivables is highest in the consumer durables sector

The consumer durables sector in the Czech Republic recorded the highest proportion of B2B receivables written off as un-

collectable (2.6%). The consumer durables and chemicals sectors followed at 2.2%. The machines and agri-food sectors can be found at the lower end of the scale, with the proportion of receivables written off as uncollectable recorded as an average of 1.4% and 1.1% respectively.

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Uncertainties affecting global trade and external demands from its main trade partners have the potential to negatively affect the Czech business environment over the coming months, and encourage businesses to urgently focus on effective credit management to safeguard their cash flow and profitability.

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Marketa Strzinkova, Atradius Country Manager for the Czech Republic



Overview of payment practices in the Czech Republic

By business size

Large enterprises in the Czech Republic set the longest average payment terms for B2B customers

Respondents from large enterprises in the Czech Republic extended the longest average payment terms to B2B customers (averaging 36 days). Micro enterprises offered the shortest payment terms, on average 25 days from the invoice date.

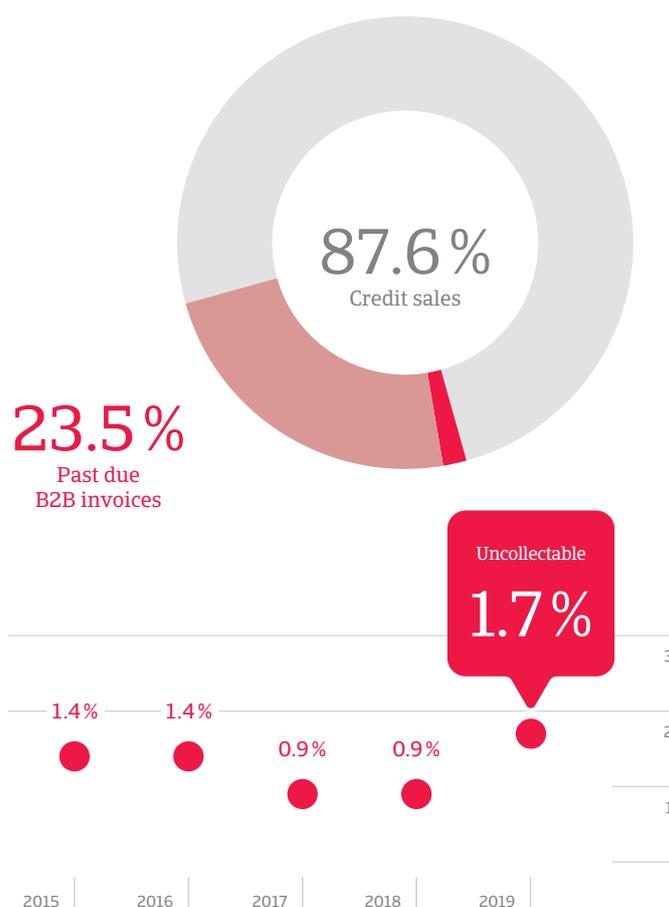
Large enterprises the slowest to turn overdue invoices into cash

Over the past year, large enterprises in the Czech Republic recorded the highest increase in late payments (+12% on average). Due to this variation, overdue invoices in large enterprises now account for 31.8% of the total value of B2B invoices. Because of this deterioration, large Czech enterprises are now the slowest to collect payment of invoices (45 days compared to 40 last year). Over the past year, average payment duration improved for both Czech SMEs and micro enterprises. These latter now collect payment on average 3 days faster than one year ago. In contrast, it takes SMEs almost the same time as last year to cash in overdue payments (44 days compared to 43 one year ago).



Uncollectable B2B receivables in Czech Republic

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – September 2019

Large enterprises recorded the highest rate of receivables written off as uncollectable

Over the past year, Czech large enterprises recorded an increase in write offs of uncollectable accounts (2.2% compared to 2.0% last year). This is in line with the recorded increase in late payments. It is worth noting, however, that micro enterprises and SMEs also saw an increase in the proportion of receivables written off as uncollectable (by 1.3% and by 0.9% respectively).

Survey design for Eastern Europe

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Eastern Europe, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from seven countries (Czech Republic, Hungary, Poland, Slovakia, Turkey, Bulgaria and Romania) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 1.516 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

Survey scope

- Basic population: companies from seven countries (Czech Republic, Hungary, Poland, Slovakia, Turkey, Bulgaria and Romania) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=1,516 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q3 of 2019.

Sample overview – Total interviews = 1,516

Country	n	%
Poland	214	13.6%
Czech Republic	266	17.5%
Hungary	206	14.0%
Slovakia	201	13.2%
Turkey	222	14.6%
Bulgaria	206	13.8%
Romania	200	13.2%

Industry	n	%
Manufacturing	587	38.7%
Wholesale trade/ Retail trade / Distribution	841	55.5%
Services	88	5.8%

Business size	n	%
Micro enterprises	615	40.6%
SME (Small/Medium enterprises)	493	32.5%
Large enterprises	408	26.9%

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

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Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Eastern Europe. This is part of the September 2019 Payment Practices Barometer of Atradius, available at

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For more **insights into the B2B receivables collection practices in the Czech Republic** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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