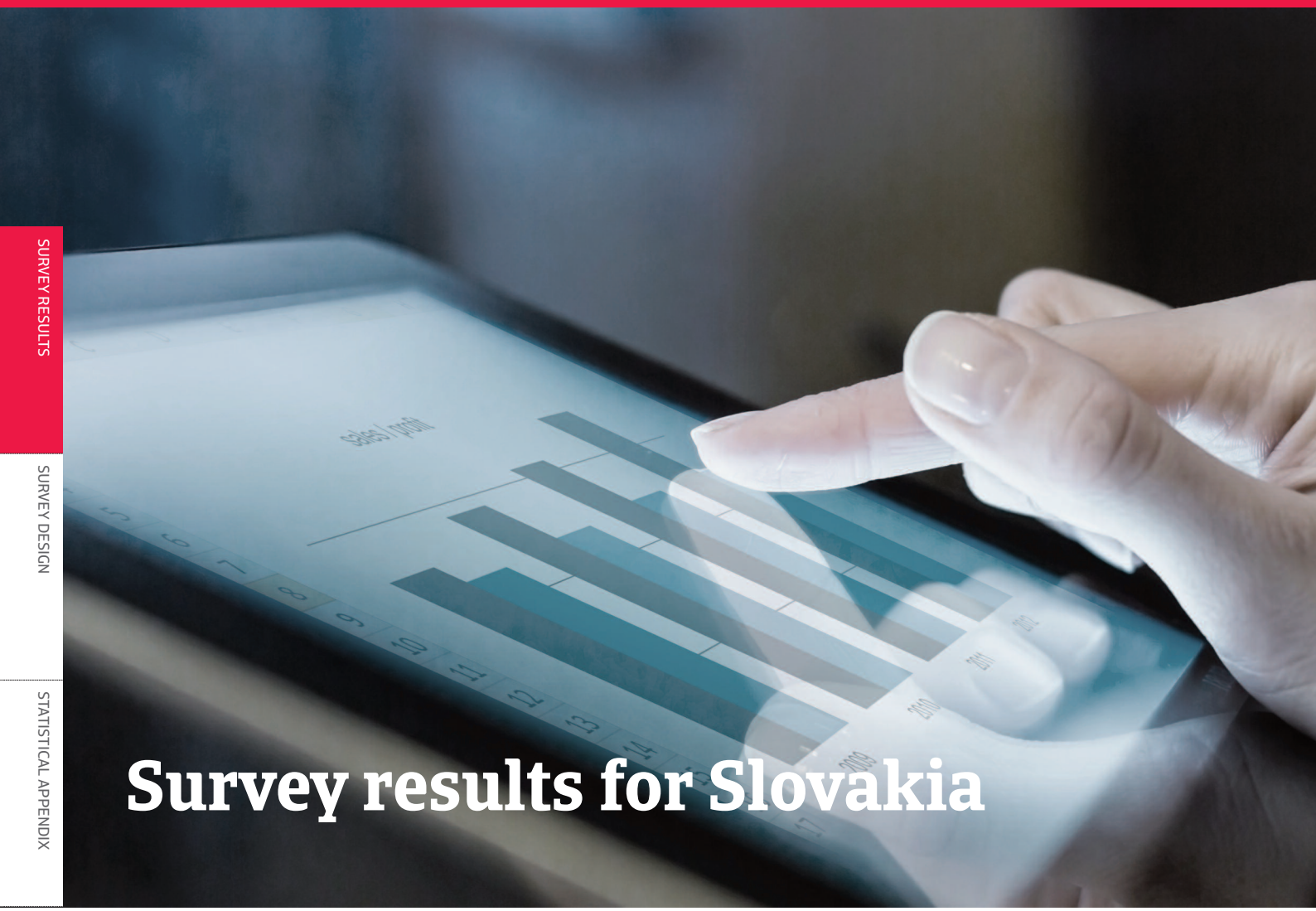
Atradius
Managing risk, enabling trade

November 2020

Slovakia: late payments and cost containment are 2021 business worries

Atradius Payment Practices Barometer



Survey results for Slovakia

The Atradius Payment Practices Barometer is an annual survey that assesses business payment behaviour throughout the world. The survey explores a range of topics including payment terms, payment delays, credit sales and DSO (Days Sales Outstanding).

The survey provides us with the opportunity to hear directly from businesses and, this year, gives us insight into how businesses are coping with the COVID-19 pandemic and global recession.

In this report, you will find the survey results for Slovakia.

Tomas Mezirka, Atradius Country Manager for Slovakia commented on the report

"Prior to the pandemic recession businesses throughout Slovakia favoured the use of outstanding invoice reminders. Following the economic crisis, an increasing number of businesses turned to trade credit insurance.

Most of the respondents to the Atradius Payment Practices Barometer survey in Slovakia also told us they planned to continue using trade credit insurance going forward.

Strong credit management practices are more important than ever during times of economic stress. Offering credit to customers and prospects will help attract trade, but carries the risk of non-payment.

This increase in the use of credit insurance will help support trade in Slovakia and, I hope, will help the country through an economic crisis that has rocked the economy to its core."

Key takeaways

Slovakia tops poll for most businesses negatively impacted in Eastern Europe

A higher proportion of businesses in Slovakia reported a negative impact on profitability caused by the pandemic-induced economic crisis than in other country in Eastern Europe.

Economic crisis causes region's sharpest increase in late payments

Late payments increased in Slovakia by an average of 113%. Following the downturn in the economy, 49% of the total value of the B2B invoices issued by businesses remained unpaid at the due date. This compares to last year's 23% and represents an average 113% increase.

Slovakia has lowest average DSO in Eastern Europe

At just 73 days, Slovakia reported the lowest DSO (days sales outstanding) in Eastern Europe, well below the 103-day regional average. Strong credit management measures have also helped decrease the amount of overdue receivables written off as uncollectable (now down to 3% from 7% last year).

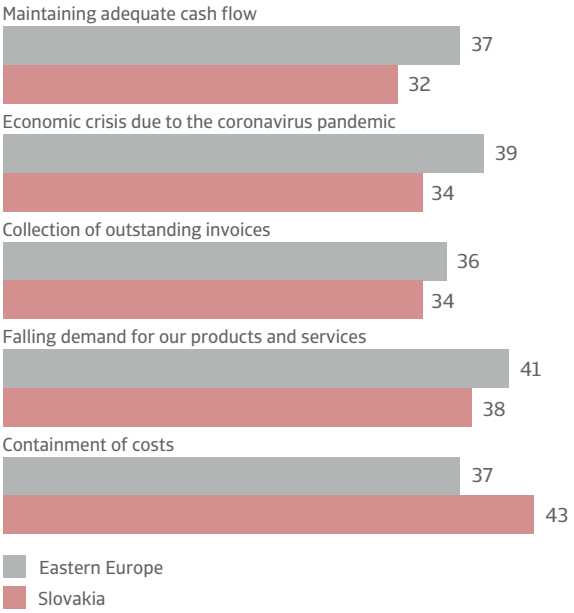
Significant number of businesses lay off staff

37% of respondents to the survey in Slovakia reported reducing the workforce in a bid to reduce costs caused by the impact of late payments. This was the cost reduction measure most frequently applied by the businesses polled in the country and is significantly greater than the 31% average for the region.

Optimism about local economy greater than 2021 global outlook

Most respondents (48%) felt that both the domestic economy and international trade will improve over the next six months. A similar percentage (47%) also felt the global economy would deteriorate over the same timeframe.

Slovakia: top 5 challenges to business profitability in 2021



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer – November 2020

Before and after the pandemic: almost black and white contrast for Slovakia

Prior to the onset of the COVID-19 pandemic and the global recession that followed, Slovakia's overall industry performance outlook was fair. Admittedly its heavy dependence on automotive made it vulnerable to adverse developments in that sector. But, growing employment and a rise in private consumption was supporting the economy and resulting in fairly good forecasts.

Then the virus spread through the world and the pandemic-induced economic crisis hit Slovakia hard. Out of all of the countries polled in Eastern Europe for the Atradius Payment Practices Barometer, more businesses in Slovakia reported a negative impact on profitability than anywhere else in the region.

There are several potential reasons for this. The first is that businesses in Slovakia were carrying the region's highest levels of capital costs. Respondents to the poll told use that they had to borrow the finance to cover poor cash flow.

The second reason, a severe drop in sales volume, negatively impacted profitability while also compounding issues with cash flow. In fact, Slovakia ranks second in the region for the percentage of respondents (59%) who said that the economic crisis negatively impacted revenue and cash flow. This means that the capital costs could not be offset by revenue or cash flow, resulting in a negative impact on profitability.

When asked about how they viewed the future, the majority told us that they expected the global economy to deteriorate in 2021. However, a similar percentage felt optimistic about the domestic economy and viewed 2021 in a positive light.

Main survey results for Slovakia

- **Businesses delay paying bills as part of measures to protect viability**
  Businesses throughout Slovakia employ a variety of measures in a bid to protect their financial viability in the face of the pandemic-led economic crisis. Nearly 40% of businesses polled told us that they needed to delay payments to their suppliers in an attempt to protect cash flow. 37% reported managing the increased costs caused by the late payments by laying off members of their work force.

  Other methods used to speed up invoice-to-cash turnaround include invoice payment reminders (reported by 60% of survey respondents), adjustment of credit terms (59%) and swifter attempts to collect on overdue invoices (53%).

  The success of these measures is reflected in the significant decrease in overdue receivables written off as uncollectable (to 3% from 7% last year) and to an average 73-day DSO (the lowest in Eastern Europe).

- **Longer payment terms offered to B2B customers**
  Prior to the pandemic, payment terms offered by businesses in Slovakia averaged 33 days from invoicing. Following the economic downturn, longer payment terms (on average eight days longer) were given by a sizeable percentage (41%) of the survey respondents.

  This suggests it may be a fairly common business practice, part of a wider trend of lengthening payment terms already observed last year. However, the majority of businesses (58%) told us that they had kept payment terms unchanged and just 1% reported offering shorter terms.

"In the difficult economic times we are experiencing due to the pandemic, concerns about securing payment are grave.
Strategic credit management, including the use of credit insurance as a form of payment protection, helped us cope with unwelcome strain on cash flow."

Credit Manager – SME – Metals

Atradius Payment Practices Barometer – November 2020

Such a high percentage of businesses maintaining or even lengthening payments terms may contradict expectations of business behaviour in such a heightened insolvency environment where more relaxed payment terms represent more risk. However, along with the majority of businesses in Eastern Europe, respondents to our survey told us that they needed to offer credit and attractive payment terms in order to make the sale. This, in part at least, further highlights the significant liquidity shortages that businesses in Slovakia have experienced due to the pandemic and might indicate a wider trend across Eastern Europe.

- **Majority of businesses turn down requests for trade credit**

Perhaps in a bid to minimise the risk of customer payment default, it is worth noting that alongside offering longer payment terms to some customers, the majority of businesses in Slovakia actually turned down requests for trade credit. Most of the suppliers polled (68%) said they had turned down requests of trade credit from B2B customers (mainly SMEs) more often than before the pandemic, due to a deterioration in creditworthiness.

A reflection of this can be seen in the significant drop in the total value of B2B credit sales by businesses in Slovakia. Trade credit is currently involved in 46% of Slovakia's B2B sales, compared to last year's 91%. This is also attributable to the drop in sales volume due to the demand shocks borne by some industries. However, levels of credit sales remained stable compared to last year for a sizeable percentage of businesses (53%). In addition, a modest proportion (20%) reported having more often accepted trade credit requests from their B2B customers than before the pandemic.

This tended to involve mainly large enterprises in the agriculture, food and beverage and chemicals and pharmaceuticals industries. They told us that they did this in order to support sales, chiefly on the domestic market, that would have not been possible otherwise due to the liquidity squeeze experienced by their B2B customers during the pandemic.

- **Slovakia reverses trend for assessing customers and prospects**

We asked businesses in Slovakia what sources of information they used to assess the creditworthiness of customers and prospects both before and after the onset of the pandemic recession. Before the recession financial statements were used most often to assess creditworthiness (55% of respondents). During the pandemic this changed, with internal sources (information provided from the customer), jumping to first place in terms of popularity. The slowdown and deterioration in B2B customer payment habits, including the higher default risk, led many of the businesses we polled in Slovakia to

strengthen their approach to customer assessments. In addition, a sizeable percentage of respondents (15%) said that during the pandemic they started using trade references, which also echoes a more direct approach to gathering information on customers and prospects.

To mitigate the risks inherent in offering trade credit to B2B customers, 92% of the businesses surveyed in Slovakia reported using one or more credit management tools. Prior to the onset of the pandemic recession, most businesses in Slovakia (60%) favoured using outstanding invoice reminders to speed up the settlement of bills. 21% of businesses told us that they used this method of dunning letters more often after the economic downturn. Interestingly, an even higher percentage (32%), turned to credit insurance to mitigate risk as they continued to trade during the recession. This figure was only matched by the percentage of businesses offering discounts for early payment of invoices and surpassed (35%) by businesses seeking securitisation.

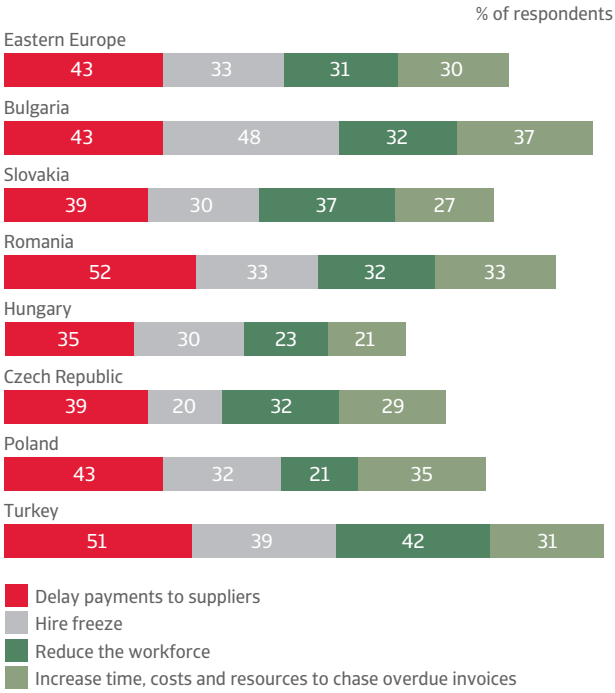
- **Cautious optimism expressed for 2021 customer creditworthiness and domestic economy**

Seeing light at the end of the tunnel, businesses in Slovakia expect the creditworthiness of their B2B customers to improve over the next six months (reported by 43% of the businesses polled). This could be a reflection of the cautious optimism expressed by many businesses that the domestic economy would improve. 36% of businesses told us they expected no change in creditworthiness and 21% were braced for deterioration.
In contrast, the majority of businesses polled (47%) believe the global economy will deteriorate further during 2021. This is at odds with the slightly more optimistic view that the domestic economy will improve over the same timeframe (expressed by 48%).

When asked for their opinion on the international trade outlook, businesses in Slovakia were evenly split. 40% told us they thought international trade would improve, 40% said it would deteriorate and 20% thought there would be no change.

When looking forward to 2021, containment of costs causes the greatest concern for businesses in Slovakia. 43% of businesses polled in the country expressed concern about this, in comparison to an average of 37% across Eastern Europe.

Eastern Europe: top 4 measures to manage liquidity issues due to the impact of the pandemic



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer – November 2020

Slovakia: impact of the COVID 19-induced economic crisis on industries

AGRI-FOOD

Late payments and cash flow

- Late payments in the industry increased by 110% due to the pandemic-induced economic crisis (42% of the total value of B2B invoices in the industry is overdue, significantly up from last year's 20%).
- Average DSO increases of 10% or more were reported by 85% of respondents. Currently DSO in the industry stands at a 37-day average.
- 61% of the survey respondents told us the pandemic-induced economic crisis had impacted their revenue. 50% of businesses in the agri-food industry reported an impact on cash flow.
- To contain costs due to the upsurge in late payments, businesses in the industry needed to delay payments to their own suppliers, increase time and resources to chase unpaid invoices and reduce the workforce.

Approach to credit quality assessments

- After the onset of the pandemic recession, agri-food businesses changed the way they approached credit checks and began to engage directly with their customers more often. Financial statements and other data provided directly from the customer are now the most commonly used sources for creditworthiness assessments.
- Once credit information is collected, priority is given to both the financial flexibility and the profitability of the customer to assess creditworthiness. The survey respondents said these would remain areas of focus for the next six months.

Approach to credit management

- Following the onset of the COVID-19 pandemic-led economic crisis, businesses in Slovakia's agri-food industry worked harder to protect cash flow. They requested payment on cash and used outstanding invoice reminders most often, but also started to use factoring services more, as well as resorting to self-insurance. Businesses in the industry told us that over the next six months they plan to make wider use of payment guarantees.
- More respondents expect their B2B customers' creditworthiness to improve (55%) than those expecting deterioration (12%).
- Fall in demand (expressed by 41% of respondents), the containment of costs and the cost of collecting outstanding invoices (both at 35%) are considered the greatest challenges to profitability in 2021.

2021 industry outlook

- More respondents (55%) expect the domestic economy to improve over the next six months than those expecting it to get worse (37%). The same goes for international trade (45% optimistic, 36% pessimistic). We could not identify a clear-cut opinion about the future of the global economy (41% optimistic, 40% pessimistic).

CHEMICALS

Late payments and cash flow

- Late payments in the industry increased by 95% due to the pandemic-induced economic crisis (39% of the total value of B2B invoices in the industry is overdue, significantly up from last year's 20%).
- Average DSO increases of 10% or more were reported by 95% of respondents. Currently DSO in the industry stands at a 92-day average.
- The pandemic-induced economic crisis has hit revenue and cash flow in the industry (70% and 68% respectively).
- To contain costs due to the upsurge in late payments, businesses in the industry most commonly responded by reducing the workforce and introducing freezes on hiring.

Approach to credit quality assessments

- Businesses in the chemicals sector most often assess their customers' creditworthiness through financial statements (34%) and bank references (32%). During the economic crisis, information provided directly by the customer jumped to first place in the list of common sources, complementing the above-mentioned sources.

- Once credit information is collected, priority is given to the financial flexibility and the generation of cash of the customer to assess its creditworthiness. The survey respondents said these would remain areas of focus for the next six months.

Approach to credit management

- During the economic crisis, respondents in the industry used trade credit insurance more frequently, and started resorting to self-insurance. Outstanding invoice remainders, adjustment of credit terms and overdue invoices sent swiftly to collections are the most-often used credit management tools in the industry. Businesses told us they would continue to use these over the next six months.
- 48% of businesses do not expect to see a change in their B2B customers' creditworthiness. 39% expect improvement and 14% deterioration.
- Businesses consider the greatest challenges to profitability in 2021 to include the containment of costs (46% of respondents), and the continuation of the economic crisis due to the pandemic (46%).

2021 industry outlook

- More respondents (48%) expect the domestic economy to deteriorate over the next six months than those expecting an improvement (41%). The same goes for international trade (28% optimistic, 51% pessimistic) and for the global economy (35% optimistic, 57% pessimistic).

STEEL-
METALS

Late payments and cash flow

- Late payments in the industry increased by 55% due to the pandemic-induced economic crisis (51% of the total value of B2B invoices in the industry is overdue, significantly up from last year's 33%).
- Average DSO increases of 10% or more were reported by all of respondents. Currently DSO in the industry stands at a 32-day average.
- The pandemic-induced economic crisis has hit revenue and cash flow (both reported by 67% of respondents), as well as sales volume (65%) of businesses in the industry.
- To contain costs due to the upsurge in late payments, businesses in the industry most often delayed payments to their own suppliers (42%) and introduced with hiring freezes (40%).

Approach to credit quality assessments

- Businesses in the steels/metals industries most often assess customers' creditworthiness through credit bureau reports (50%) and information provided directly by the customer (40%). In a list of assessment approaches, this latter jumped first place during 8he economic crisis, complementing the above-mentioned reports.
- Once credit information is collected, priority is given to both the financial flexibility and the debt capacity of the customer when assessing creditworthiness. The survey respondents said these would remain areas of focus for the next six months, along with assessments of the customer's profitability.

Approach to credit management

- During the economic crisis the credit management tools used most often by respondents included: the adjustment of credit terms, sending overdue invoices to collections more quickly and trade credit insurance. In particular, respondents started using trade credit insurance more frequently, as well as resorting to debts securitisation. Businesses told us they would also use self-insurance more often over the next six months than before the onset of the pandemic.
- 50% of businesses expect to see an improvement in their B2B customers' creditworthiness. 23% expect no change and 28% deterioration.
- Businesses consider the greatest challenges to profitability in 2021 to include maintaining adequate cash flow (45% of respondents) and a fall in demand for products and services due to the pandemic (43%).

2021 industry outlook

- More respondents (70%) expect the domestic economy to improve over the next six months than those expecting an improvement (10%). The same goes for international trade (57% optimistic, 25% pessimistic) and for the global economy (55% optimistic, 33% pessimistic).

ELECTRONICS

Late payments and cash flow

- Late payments in the Slovakian electronics industry affect 51% of the total value of B2B invoices (significantly up from last year's 33%). Due to the pandemic-induced economic crisis, 40% of respondents reported having to wait longer to cash in overdue invoices, on average up to 20 days past the due date.
- Average DSO increases of up to 10% were reported by 63% of respondents. 35% of respondents reported DSO increases of more than 10%. Currently DSO in the Slovakian electronics industry stands at a 100-day average (lower than the 108-day industry average in Eastern Europe).
- Most of the survey respondents from the industry (55%, compared to 59% at regional level) told us the pandemic-induced economic crisis has negatively impacted their revenue, while 46% of respondents (in line with the regional average for the industry) reported a negative impact on cash flow.
- To limit cost and liquidity issues caused by late payments, businesses from Slovakia's electronics industry reporting cutting jobs (39%) and delaying payments to suppliers (35%).

Approach to credit quality assessments

- After the onset of the pandemic recession, respondents from the Slovakian electronics industry did not change the way they approached credit checks and continued to rely on information available from financial statements and trade references (reported by 40% of respondents in each case).
- Once credit information is collected, businesses from the Slovakian electronics industry told us that they focus on the customer's payment history, profitability and capacity to generate cash. Respondents told us they plan to maintain this approach over the coming months.

Approach to credit management

- Following the onset of the pandemic-led economic crisis, survey respondents in the Slovakian electronics industry intensified their efforts to reduce the impact of payment default on the business. This included sending outstanding invoice reminders (54% of respondents) and adjusting credit terms (52%). Over the coming months, 50% of businesses polled in the industry plan to make a wider use of trade credit insurance.
- 44% of businesses polled expect B2B customer creditworthiness to improve (slightly lower than the 49% reported by the industry at regional level). Only 19% expect deterioration over the coming months (compared to 22% in the region overall).
- Most of the businesses polled in the Slovakian electronics industry consider containment of costs to be the greatest challenge to profitability in 2021. This was expressed by 53% of respondents, compared to 37% in the industry at regional level. The second most commonly cited challenge is a fall in demand (41% of respondents, compared to 44% in the industry at regional level).

2021 industry outlook

- In the Slovakian electronics industry, significantly more respondents expect the domestic economy to improve over the coming months (49%, compared to 63% in the industry at regional level) than those expecting it to get worse (38%, regional average: 27%). Similar opinions were expressed about the future of the global economy (47% optimistic, 38% pessimistic) and of international trade (48% optimistic, 28% pessimistic).

BUSINESS SERVICES

Late payments and cash flow

- Late payments in the Slovakian business services sector affect 52% of the total value of B2B invoices in the industry (significantly up from last year's 27%). 33% of respondents reported having to wait longer to cash in overdue invoices, up to 20 days on average.
- Average DSO increases of up to 10% were reported by 72% of respondents. 15% of respondents reported DSO increases of more than 10%. Currently DSO in the Slovakian business services sector stands at a 101-day average (longer than the 97-day industry average in Eastern Europe).
- Most of the survey respondents from the sector (63%, in line with the regional average) told us the pandemic-induced economic crisis has negatively affected their revenue, while 69% of respondents (above the 58% regional average for the sector) reported a negative impact on cash flow.
- To avoid liquidity shortages caused by B2B late payments, 44% of respondents from the Slovakian business services sector delayed payments to suppliers (regional average: 42%). In addition, 40% of respondents told us they had to reduce their workforce to keep costs under control (regional average: 38%).

Approach to credit quality assessments

- Following the onset of the pandemic economic crisis, respondents from the Slovakian business services sector did not change the way they approached credit checks. They continued to rely on customer financial statements (46% of respondents), as well as bank and trade references (37% in each case).
- Once credit information is collected, respondents in the Slovakian business services sector told us that they focus on both the customer's profitability and financial flexibility. Respondents in the sector told us they plan to maintain this approach over the coming months.

Approach to credit management

- Following the onset of the pandemic-led economic crisis, survey respondents in the Slovakian business services sector tried reduce the risk of payment defaults on their business by sending outstanding invoice reminders. This was reported by 68% of respondents, in line with the industry average for the region. Over the coming months, businesses told us they plan to use invoice reminders more often.
- 39% of respondents in the Slovakian business service sector expect their B2B customers' creditworthiness to deteriorate over the coming months (regional average: 36%). In contrast just 28% expect to see improvement, compared to 30% in the region overall.
- Businesses polled in the Slovakian business services sector consider 2021's greatest challenge to profitability to be the continuation of the economic crisis. This was expressed by 44% of respondents, compared to 47% in the sector at regional level. 41% of businesses polled consider containment of costs to be the greatest challenge to profitability next year. (regional average: 32%).

2021 industry outlook

- Significantly more respondents (54%, compared to 49% in the sector at regional level) expect the domestic economy to deteriorate over the coming months than those expecting it to get better (29%, compared to 31% in the region). The same goes for the future of the global economy (29% optimistic, 58% pessimistic) and of international trade (36% optimistic, 47% pessimistic).

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 2020 edition of the Atradius Payment Practices Barometer, companies from seven countries (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey) have been surveyed. Due to a change in research methodology for this survey, year-on-year comparisons are not feasible for some of the results, although last year's values are used as a benchmark where possible throughout the survey.

Using a questionnaire, CSA Research conducted 1,403 interviews. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of country data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** 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=1,403 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to four classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration.
  Interview period: Q3 2020.

Sample overview – Total interviews = 1,403

Country	Interviews	%
Bulgaria	200	14.2
Czech Republic	201	14.3
Hungary	200	14.2
Poland	202	14.3
Romania	200	14.2
Slovakia	200	14.2
Turkey	200	14.2

Business sector (total Eastern Europe)	Interviews	%
Manufacturing	540	38.5
Wholesale trade	324	23.1
Retail trade/Distribution	261	18.6
Services	278	19.8

Business size (total Eastern Europe)	Interviews	%
Micro enterprises	323	23.0
SME – Small enterprises	402	28.6
SME – Medium enterprises	352	25.1
Large enterprises	326	23.3

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Eastern Europe. This is part of the November 2020 Payment Practices Barometer of Atradius, available at

www.atradius.com/publications/

Download in PDF format (English only).

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