Press Release

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Business-to-business payment behavior in Europe: the gaps are widening

Analysis and forecasts by credit insurer Euler Hermes

- **Significant gaps now, could widen in 2012: northern vs. southern countries, between sectors**
- **Deterioration requires increased effort to comply with 2013 EU directive on late payments**
- **Germany payment periods shorter than France in all sectors**

In March 2013, a European directive setting out a maximum inter-company payment period of 60 days becomes effective. It aims to eliminate late payments that distress the business climate and weaken company cash positions, particularly during crises and when access to bank financing is difficult.

"*The 2008/9 financial crisis and its many secondary effects led to a deterioration in the quality of inter-company payments in Europe, increasing payment periods, delays and payment defaults overall, »* explains Ludovic Subran, chief economist at Euler Hermes. "*The enhanced 2013 legal framework is designed to reduce and harmonize payment periods within the EU. The differences between countries - which can now vary from 24 days in Germany to over 100 in Italy - indicate that convergence will be difficult to achieve in the short term. The economic situation in southern European countries aggravates these differences. Companies in that region will need to work twice as hard to align with the new standard," he adds*.

An analysis conducted by Euler Hermes on payment behavior by country and by sector shows significant differences between countries and between business sectors.

A three-speed Europe

The country analysis[1] identifies a "three Europes" scenario, with differences both in standard payment periods and in variations between 2000-2010.

- **Germany and Poland:** Payment periods are already below the 60 days required by the European directive. Germany leads with an average client payment period of 24 days in 2010, down by 21% between 2000 and 2010.
- **France and Belgium:** Both countries brought their payment periods into line with the 60-day requirement over the last decade. Following a 10% reduction since 2000, the client payment period in France in 2010 was 61 days. A primary cause was the 2009 introduction of the French LME law to modernize the economy; it anticipated the European directive by introducing a payment period of 60 days.
- **Spain, Italy and Portugal:** Payment periods are much longer than the norm – ranging from 80 - 100 days - having risen sharply since 2009*. "Too fast a reduction in contractual payment periods, notably in southern Europe, could increase the number of payment defaults in the immediate term and further weaken the industrial fabric of these countries," notes* Ludovic Subran.

2012-2013: Country gaps set to widen, greater effort needed

Payment periods in 2012 are generally expected to reflect economic developments. In countries that show the most favourable growth outlook, such as Germany and Poland, payment periods should contract. Hardest hit countries, particularly those with a negative growth outlook such as Italy, Portugal and Spain, face a clear risk of payment periods increasing. "*The deterioration in payment periods will*

[1] Analysis and forecasts conducted on a group of seven countries (Belgium, France, Germany Italy, Poland, Portugal and Spain). Data from BACH database and Euler Hermes.

increase pressure on company cash positions and force them to look for other sources of financing," explains Virginie Reboul, Euler Hermes economist. "*While Poland should see its payment periods fall by 2% in 2012, Spain will likely see an increase of 2.5%, bringing its average payment period to five days more than the 75-day target set out under the law of July 2010.".*

As the 2013 growth outlook is expected to improve relative to 2012, an improvement in business-to-business payment periods is also expected. This will be limited for southern European countries, which will require greater effort to achieve the European directive targets.

Notable differences between sectors

A sector-based analysis[2] of business payment periods shows two areas of clear difference: between business sectors within countries, and for a single business sector across different countries.

Construction and IT services: In most countries, these two sectors show the longest payment periods, averaging 91 and 76 days respectively.

- IT services are impacted by the bargaining power of large clients, who can impose their own payment periods on IT sector players.
- Payment periods in construction, characterised as a very local sector, tend to lengthen when the economic environment deteriorates. Spain is a typical example: the supplier payment period has reached a record 157 days.

Chemical industry: With an average client payment period of 65 days, this sector made significant progress after the severe 2008-2009 slowdown in activity. Spain is particularly notable: companies reduced their payment periods by 30% since 2006.

Automotive sector: The sector achieved the shortest payment periods (average of 37 days) following concerted efforts by clients and sub-contractors, notably in northern Europe. Organised discussions helped harmonise payment periods and avoid sub-contractors being penalised. Foundries are a notable example of this cooperation, with client and supplier payment periods of 54 and 53 days respectively.

Germany payment periods half that of France

Payment times in Germany can vary from 20 days for automobile parts makers to 52 days in IT services. Payment times in France vary from 41 days in the automotive sector to 95 days in IT services. *"In France's industrial sector, implementation of the LME law reduced payment periods to around 60 days, but exceptions remain in cyclical sectors. Discussions organised in the automotive sector demonstrated that greater sector convergence is possible,"* concludes Ludovic Subran.

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[2] Analysis conducted on a group of nine countries (Germany, Belgium, Spain, France, Italy, UK, Sweden, Denmark and Norway) and in eight key sectors: aeronautical equipment manufacturers, air transport, automotive, chemical, construction, forging, IT services and pharmacy. Data from Euler Hermes.

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