

Slovakia: A strong economy underpinned by private consumption and export growth

Atradius Payment Practices Barometer





exports

Top5**Vehicles****Electrical machinery, equipment****Machinery including computers****Iron, steel****Mineral fuels including oil**

Source: WTEEx

exports
partners**Top5****Germany****Czech Republic****Poland****France****Italy**

Source: WTEEx

Real GDP growth in Slovakia is forecast to remain strong - 3.3% - this year and to slow slightly down to 3.2% in 2020. This positive outlook is underpinned by the synergy between robust private consumption and significant growth in exports.

However, Slovakia remains very vulnerable to a downturn in the Eurozone, the main destination of its industrial exports.



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

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Despite an expected moderate slowdown this year, economic growth in Slovakia is forecast to remain notably above the average for the European Union. Private consumption is forecast to continue to be one of the primary drivers of the economic expansion, and exports are expected to grow 3.3% in 2019 due to large foreign investments, which have increased productivity and export opportunities.

However, medium to long-term economic growth prospects in Slovakia are likely to be adversely impacted by internal and external factors. These are expected to undermine business confidence and increase the credit risk of Slovakian businesses along the value chain.

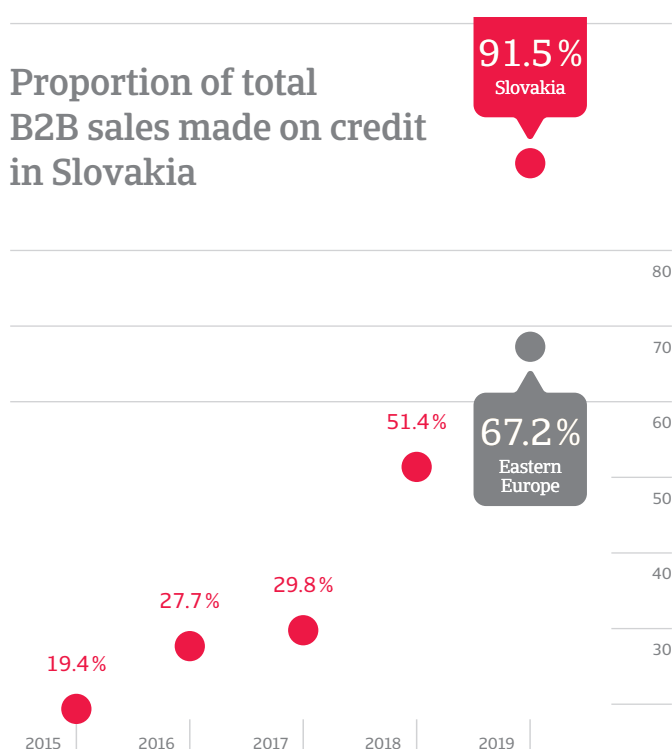
It has become increasingly essential for businesses to evaluate and manage the risk of bad debt, while extending sales opportunities towards creditworthy customers.

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Slovakian respondents are the most inclined in Eastern Europe to offer consumer credit to their B2B customers

Respondents in Slovakia appear to be the most inclined in Eastern Europe to offer consumer credit to their B2B customers domestically and abroad. Based on survey findings, 91.5% of the total value of respondents' B2B sales was reported to be made on credit (up from 51.4% last year). This is markedly above the 67.2% average for Eastern Europe, and is the highest in the region. The notable increase in sales to B2B customers transacted on credit terms by Slovakian respondents is likely to be a reflection of the recent upward trend of private consumption, which is expected to remain the key driver of growth in the coming months. Furthermore, it may reflect dynamic export flows, which increased significantly over the past few years, partially due to substantial investments in the manufacturing sector, the core export sector of the Slovak economy.

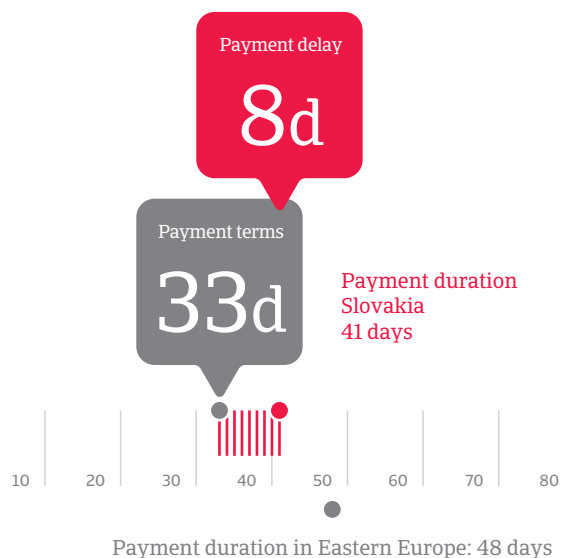
Proportion of total B2B sales made on credit in Slovakia



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



Payment duration in Slovakia



d = average days

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

Source: Atradius Payment Practices Barometer – September 2019

Payment terms extended by Slovakian respondents are not much longer than last year

Despite being the most inclined to offer customer credit in B2B trade, and being far more likely to sell on credit than one year ago, respondents in Slovakia do not appear similarly oriented towards setting more relaxed payment terms. Most Slovakian respondents (77%) requested payment of invoices from B2B customers on average within 33 days from invoicing (compared to 31 days last year). This is below the 37-day regional average. The substantial stability of the payments terms granted by Slovakian respondents point to a strong focus on securing a trade-off between the benefits and costs of offering customer credit.

Slovakian credit management is centred on dunning activity and the assessment of customer creditworthiness

In line with the increased supply of trade credit, Slovakian respondents focus on ensuring that the costs of extending credit do not outweigh the benefits. This may explain why they are far more active (57% of respondents) than their peers in Eastern Europe (36%) in using dunning letters (outstanding invoice reminders). This may also be why far fewer respondents in Slovakia (5%) than in Eastern Europe (12%) use professional

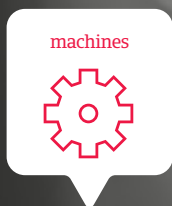
collections services to cash in their outstanding receivables. However, prior to any trade credit decision, a risk assessment of prospective customers is performed by respondents in Slovakia far more frequently (53%) than by their peers in Eastern Europe (39%). This finding corroborates that seen earlier in regards to the strong focus of Slovakian respondents on securing a trade-off between the benefits and costs of the extension of customer credit.

One quarter of Slovakian respondents requested a bank overdraft extension to minimise the impact of late payments

Over the past year, average payment timings by B2B customers of Slovakian respondents improved. This resulted in an average 4 p.p. increase in timely payments (76.2% of invoices paid on time compared to 72.1% one year ago). Consequently, respondents in Slovakia cash in overdue payments on average three days earlier than last year (at 41 days from invoicing, down from 45 days last year). Despite this, 22% of the total value of B2B invoices issued by Slovakian respondents over the past year remained outstanding at the due date. To manage potential cash shortfalls arising from late payments, one quarter of Slovakian respondents needed to pay their own suppliers late or request a bank overdraft extension. 54% of respondents, however, reported no significant impact on business arising from late payments. This is consistent with Slovakian respondents' sharp focus of trade receivables management seen earlier.

Far more respondents in Slovakia than in Eastern Europe expect customers' payment practices to remain stable over the coming months

Far more respondents in Slovakia (81%) than in Eastern Europe overall (60%) expect the payment practices of their B2B customers to remain unchanged over the coming months. However, should customer payment practices deteriorate, Slovakian respondents say they would respond by intensifying their assessments of customer creditworthiness and by focusing on collecting overdue payments. As the Slovakian banking sector is generally well-capitalised and supportive of businesses' borrowing requests, 75% of respondents in the country do not expect access to bank financing to become more difficult over the coming months. However, should economic activity slow down causing operational cost increases, 53% of Slovakian respondents would restrict growth due to shortage of capital and 40% would reduce workforce through layoffs or hiring freezes.



44 days

Average payment terms granted to B2B customers from respondents in the Slovakian machines sector



Overview of payment practices in Slovakia

By business sector

Payment terms in the Slovakian machines sector are much longer than a year ago

Payment terms granted by Slovakian respondents to B2B customers in the machines sector are the longest observed in the country (averaging 44 days up from 33 days last year). This is likely a reflection of efforts from businesses in the sector to remain competitive on foreign markets by extending longer timings for invoice settlement. Respondents in the construction sector set the shortest payment terms (averaging 28 days), which remained stable compared to one year ago.

Trade credit risk is highest in the Slovakian construction sector

With one quarter of the total value of B2B invoices remaining unpaid at the due date, the Slovakian construction sector shows the highest level of trade credit risk on the domestic market. The most marked improvements in the speed of payments from B2B customers were observed in both the agri-food and ICT/electronics sectors. Payment practices of B2B customers in the Slovakian consumer durables sector remained substantially unchanged.

Proportion of uncollectable receivables is highest in the chemicals sector

The highest proportion of B2B receivables written off as uncollectable was observed in the chemicals sector (2.1%). The machines sector follows at 2.0%. The agri-food sector can be found at the lower end of the scale, with the proportion of receivables written off as uncollectable recorded as an average of less than 1%.

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The credit terms offered to B2B customers play a key role in the competitive strategy of a business. Credit insurance allows companies to gain competitive advantages through the extension of longer credit terms to customers.

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Owner - SME - Machines industry



Overview of payment practices in Slovakia

By business size

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

Respondents from large enterprises in Slovakia extended the longest average payment terms to B2B customers (averaging 50 days). Micro enterprises offered the shortest payment terms, on average 24 days from the invoice date.

Slovakian micro enterprises are the fastest to turn overdue invoices into cash

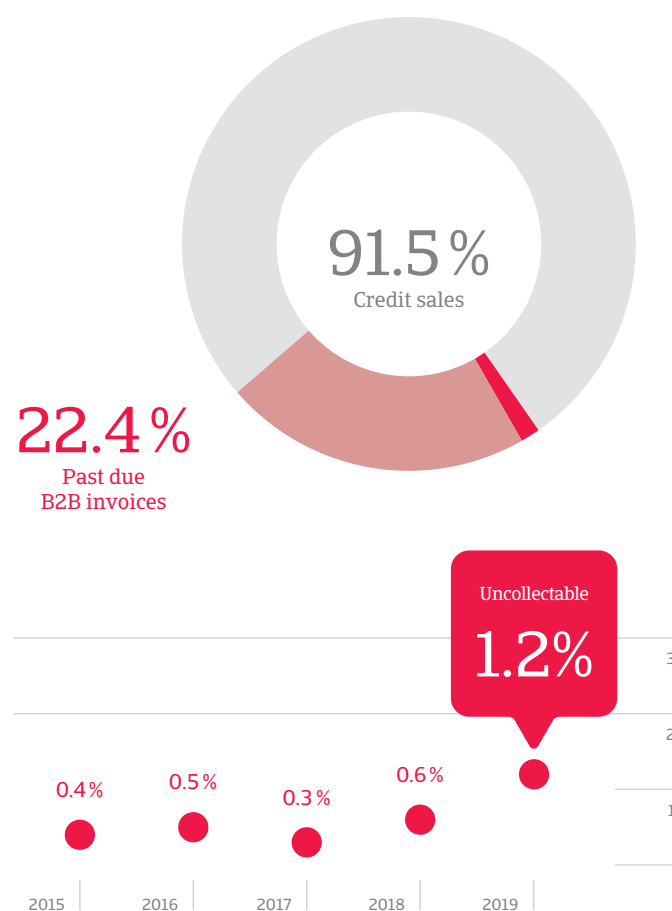
Consistent with the improvement in the average time it takes Slovakian respondents to cash in past due invoices, micro enterprises in Slovakia are now the quickest in collecting past due payments. This occurs on average 31 days after invoicing, compared to 43 days last year. In contrast, it takes SMEs 46 days (up from 44 last year) and large enterprises 54 days (up from 41 last year) to turn past due invoices into cash.

Large enterprises are less efficient in collecting long-term outstanding receivables than last year

SMEs in Slovakia appear to be comparatively less efficient than micro and large enterprises when it comes to collecting long-term outstanding receivables. Over the past year, write offs of uncollectable accounts from Slovakian SMEs saw a significant increase to 1.3% compared to 0.4% last year. In contrast, large enterprises experienced a fairly modest increase in the proportion of receivables written off as uncollectable (by 1.2% up from less than 1% last year). The level of write-offs of uncollectable accounts in micro enterprises remained stable over the past year at 1.1%.

Uncollectable B2B receivables in Slovakia

(% of total value of B2B receivables)



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

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 Slovakia** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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