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COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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Latin America Corporate Payment Survey 2024
More restrictive credit terms and much longer payment delays

Coface conducts payment surveys for several different economies and regions. The objective of this survey for Latin America is to better understand the region's corporate payment habits and the health of its economy. The survey was carried out over the July – September 2024 period which saw 468 companies participate in the study across over 7 countries, including Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru.

Latin American companies face an economic environment still marked by challenges. Coface forecasts the region's GDP growth to keep a soft pace in 2024 – 2025 period (expanding by 2% and 2.1% in 2024 and 2025, respectively, after 2.2% in 2023). The lackluster economic momentum can be attributed to a gentle growth in global activity (including a gradual deceleration in the main market for exports: the US and China) and its side effect on commodity prices. As for monetary policy, central banks in the region have eased their policy rates since 2023 (in forefront to developed markets), though credit conditions remain tight (notably in Brazil, Colombia and Mexico). Importantly, to tame rising inflationary expectations, Brazil´s monetary authority decided to resume rate hikes in September 2024, representing a challenge for companies. Indeed, 36% of the respondents in Brazil cited interest rates as a main risk for the coming 12 months. Still, Latin American currencies have also faced depreciation pressures year-to-date amid local and external uncertainties (mainly the pace of rate cuts in the US). Finally, the ongoing transition between the El Niño weather phenomenon and the arrival of La Niña has been marked in the region by severe drought, which raises the alarm about risks for food and energy inflation, as well as for agricultural activity and energy supply in countries dependent on hydroelectric plants.

Amid this challenging landscape, companies in the region tightened credit conditions, with average payment terms reaching 53 days in 2024 (from 60 days in 2023). In addition, 51% reported payment delays and most said that the number of cases remained stable compared with the previous year. In Argentina, Brazil, Colombia and Mexico, many more companies reported an increase rather than a decrease in payment delays. Moreover, average delays became much longer in the last year (52 days, from 36 days) in all countries and almost all sectors. Overall, most companies believe that their business activity will improve in 2024 over 2023, despite expecting their country's general economy to remain stable in the same period. Still, when asked about the risks for the coming 12 months, lower economic activity was the main concern highlighted (cited by almost half of respondents). In addition, strong competition, high labor costs (squeezing profitability) and interest rates are among other major risks mentioned.

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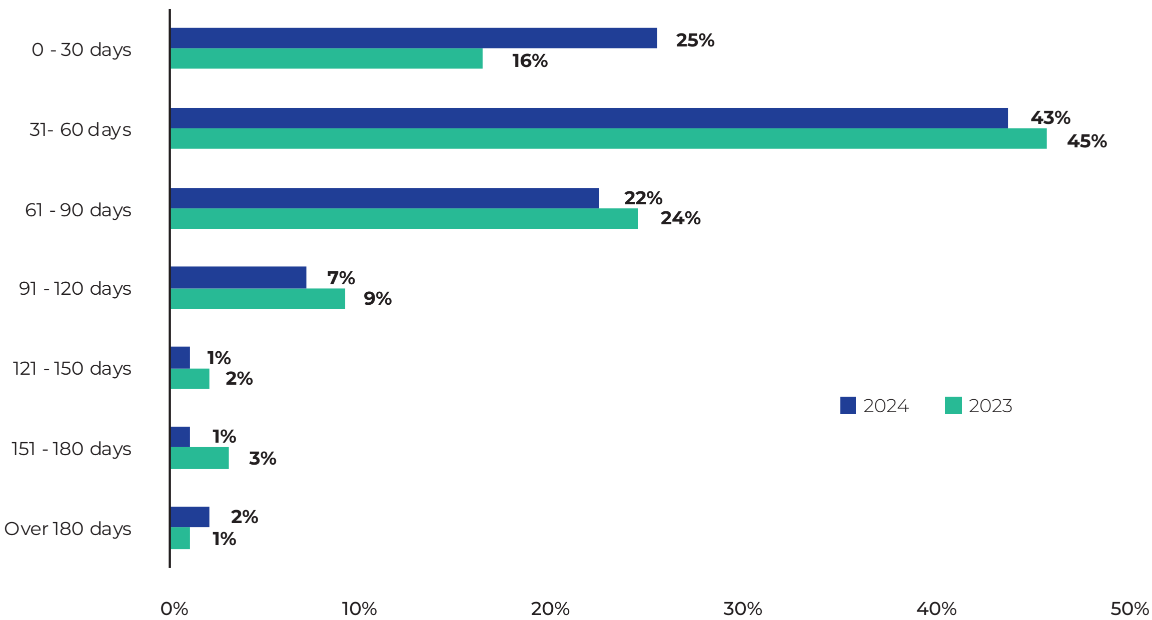
PAYMENT TERMS

Out of the Latin American companies we surveyed, 88% offered payment terms to their customers in 2024 (from 87% in 2023). Market practice was the main reason for offering payment terms. The credit period is generally short as 90% of our sample imposed average payment terms of up to 90 days (**Chart 1**). This tightening compared with 2023 (when the ratio was 85%) was registered in all countries. Therefore, average credit term decreased to 53 days in 2024, from 60 days in 2023. While most of the respondents continued to fall within the range of 31 to 60 days in 2023, it went down to 43% in 2024 (from 45% in 2023). The main change occurred in the 0 – 30 days range, which moved from 16% in 2023 to 25% in 2024.

The timeframe 31 to 60 days was the most common throughout Argentina, Brazil, Colombia, Mexico and Peru[1] and among companies of all sizes except for very small companies - with turnover up to USD 2 million[2]. In terms of sectors, it was also the most common payment timeframe in 9 out of 13 sectors, with agri-food, automotive, wood and paper being the exception.

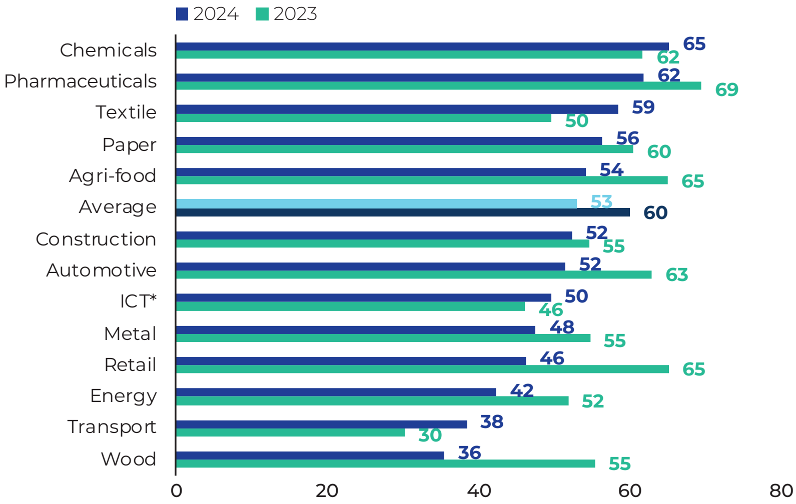
Chart 1:
Payment terms in Latin America



Source: Coface Payment Survey

1 In Chile 61 – 90 days was more recurrent, while in Ecuador 31 – 60 days and 61 – 90 days were tied
2 For this group, 31 – 60 days and 61 – 90 days were tied

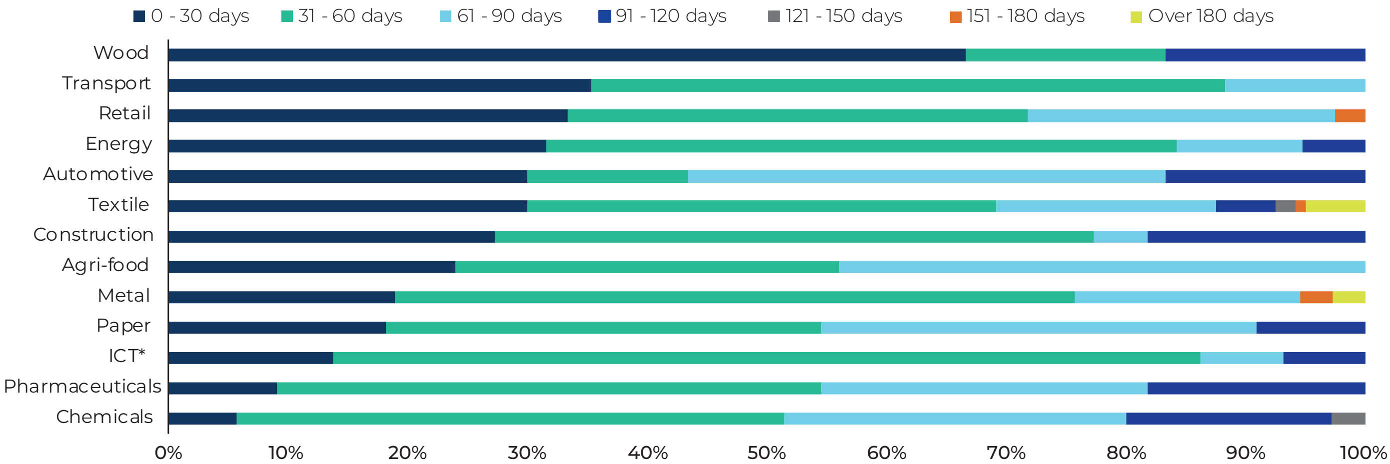
Chart 2:
Average payment terms by sectors (in days)



Source: Coface Payment Survey

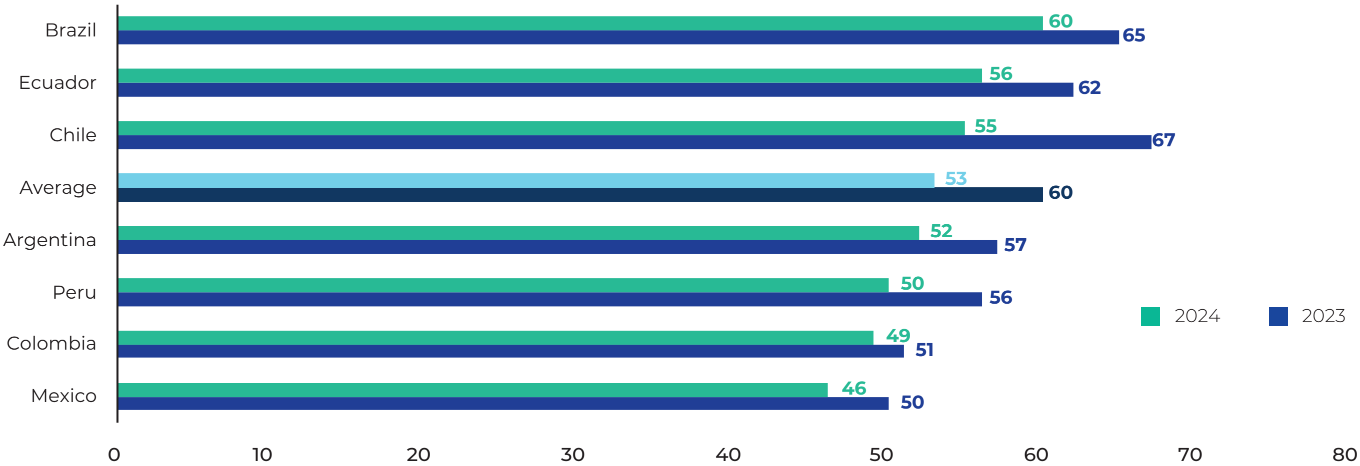
In a sectoral split, the most restrictive sector (with most sales on short payment terms of up to 30 days) was wood (67%), with the average payment term being 36 days (**Charts 2 and 3**). Conversely, the most generous sectors offering long average payment terms include chemicals (20% with credit periods of over 90 days), pharmaceuticals (18 %), construction (18 %) and automotive (17 %). Only four out of thirteen sectors reported a lengthening of payment terms in 2024 compared with 2023, including textiles, which reported the widest extension of payment terms, by 9 days. As for countries, average payment terms tightened in all countries, notably in Chile (12 days less in 2024 compared with 2023, **chart 4**). Furthermore, Mexico recorded the shortest term (46 days) in 2024, while Brazil the longest (60 days).

Chart 3:
Payment terms by sector



Source: Coface Payment Survey

Chart 4:
Average payment terms by country (in days)

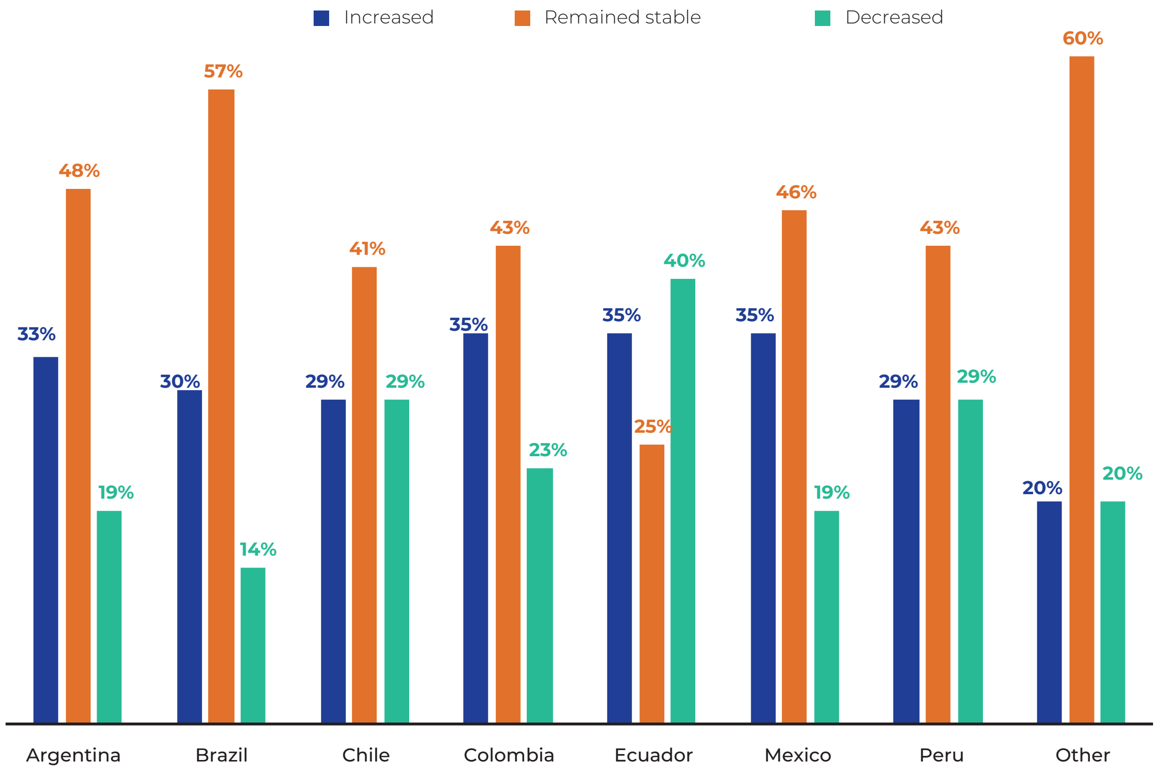


Source: Coface Payment Survey

2 PAYMENT DELAYS

Delays in payment appear to be frequent among Latin American businesses. Of the companies surveyed, 51% declared that they have experienced payment delays. The ratio exceeds the 50% threshold in two economies (Brazil and Colombia) and across eight sectors (construction, energy, ICT, metals, chemical, paper, textile and transport). Nonetheless, when asked if payment delays increased in 2024 compared with 2023, most companies said that the number of payment delays remained stable. By country, only in Ecuador did the majority of companies (40%) report an improvement during the period (**chart 5**). However, it is worth remembering that in the previous year, the country was the only one where most respondents cited a deterioration in the payment experience (49% in 2023). This means that a weak basis of comparison may help explain the result obtained in 2024, which is surprising considering that Ecuador's GDP growth is expected to slow sharply to 0.3% this year (compared to 2.4% in 2023). In Argentina, Brazil, Colombia and Mexico, many more companies reported an increase rather than a decrease in payment delays, reflecting a gradual deteriorating in trade conditions. It worth mentioning that, according to national statistics, the number of companies that asked for Chapter XI protection in Latin America increased significantly in 2023 and early 2024 (at least for countries where recent data are available, such as Brazil and Colombia). Brazil has bucked the trend with 1,480 companies requesting restructuring between

Chart 5:
Payment delay by country

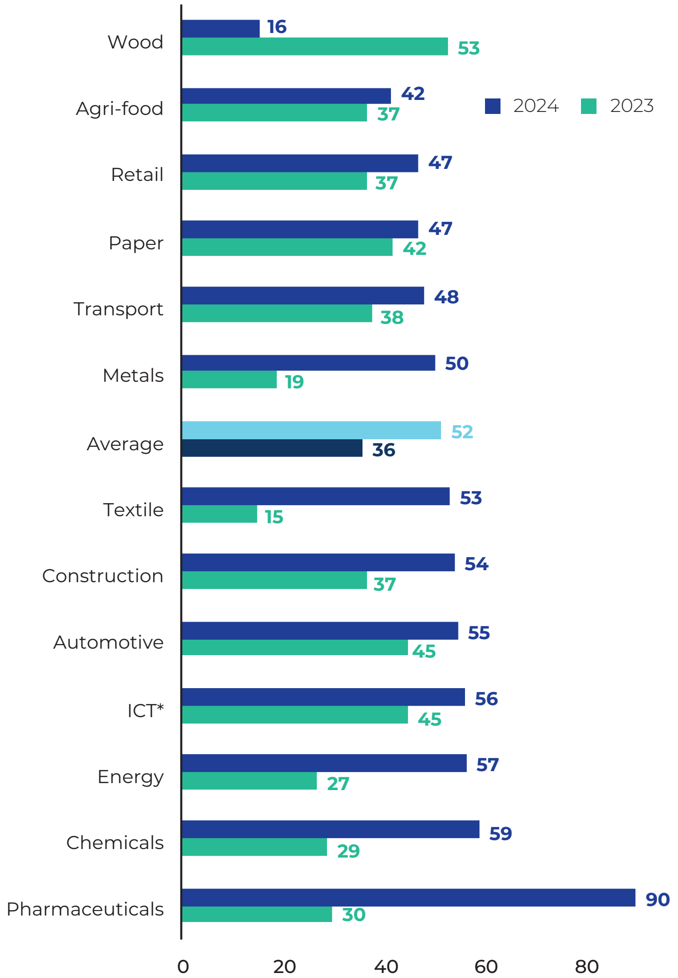


Source: Coface Payment Survey

January and August 2024, an increase of 78% year-on-year and coming from a high comparison base (cases rose 68% compared to the previous year in the entire year 2023). Agri-food, construction and paper reported an increase in payment delays compared with 2023. Meanwhile, increase prevail over decrease for ICT, metals, pharmaceuticals and transport.

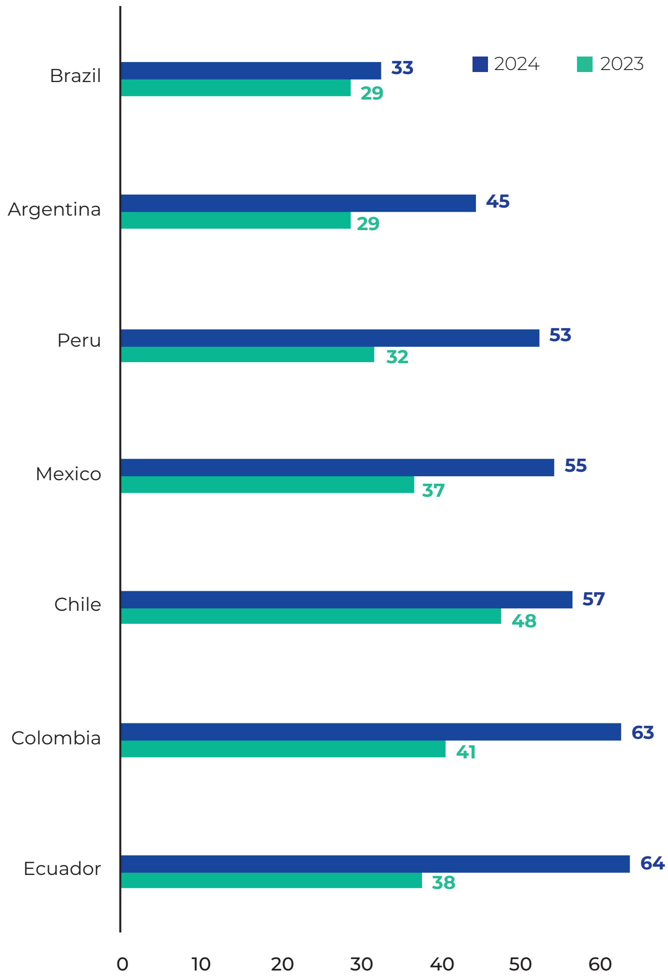
Average payment delays reached 52 days, thus a significant lengthening compared to 2023 (plus 16 days). This year, "only" 69% of surveyed companies reported average payment delays of up to 60 days (from 82% in 2023). On the contrary, delays between 60 and 150 days became more common and were reported by 25% (from 18% in 2023). Similarly, very long delays exceeding 150 days (albeit still unusual) reached 6% from less than 1% of respondents in 2023. This movement was widespread at sectoral level, apart from wood, which registered a shortening (**chart 6**). Delays in payments for pharmaceuticals and textiles recorded the biggest increase in a year with +60 and 38 days, respectively. Moreover, all countries observed an increase in average length of delays (**chart 7**). Brazil and Argentina continued to report the shortest average payment delays (33 and 45 days), while Ecuador observed the largest (64 days). Still, Ecuador (plus 26 days), Colombia (plus 22 days) and Peru (plus 21 days) registered the biggest climb in one year. Moreover, 43% of surveyed companies said that delays of over six months represented less than 0.5% of their revenue (53% in 2023), whereas they exceeded 20% of revenue for only 1% of respondents (2% in 2023).

Chart 6:
Average payment delays (days) by sector



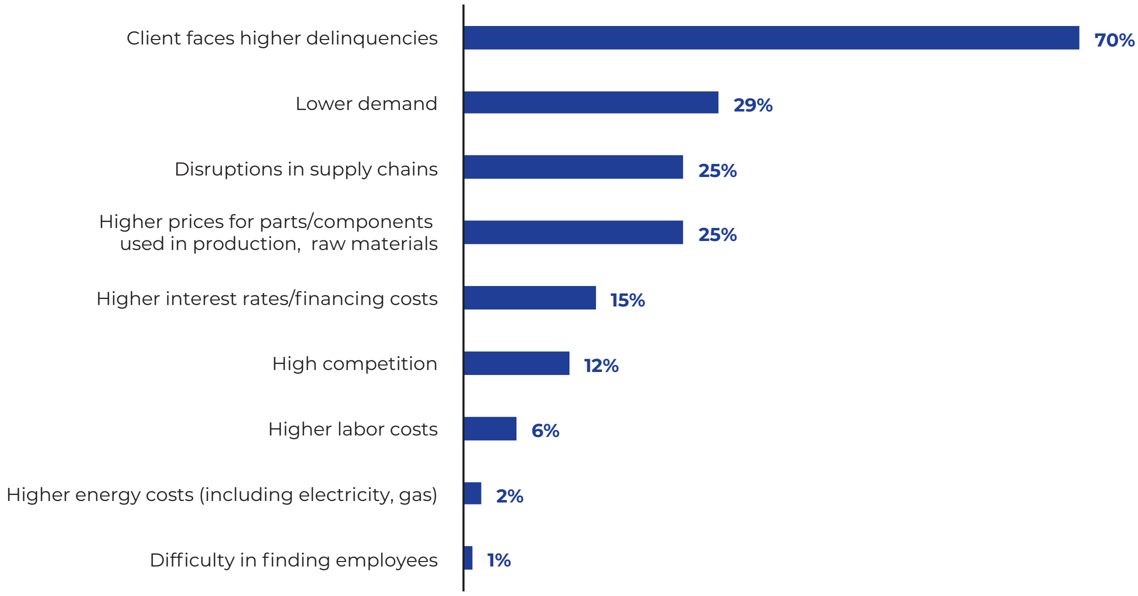
Source: Coface Payment Survey

Chart 7:
Average payment delays (days) by country



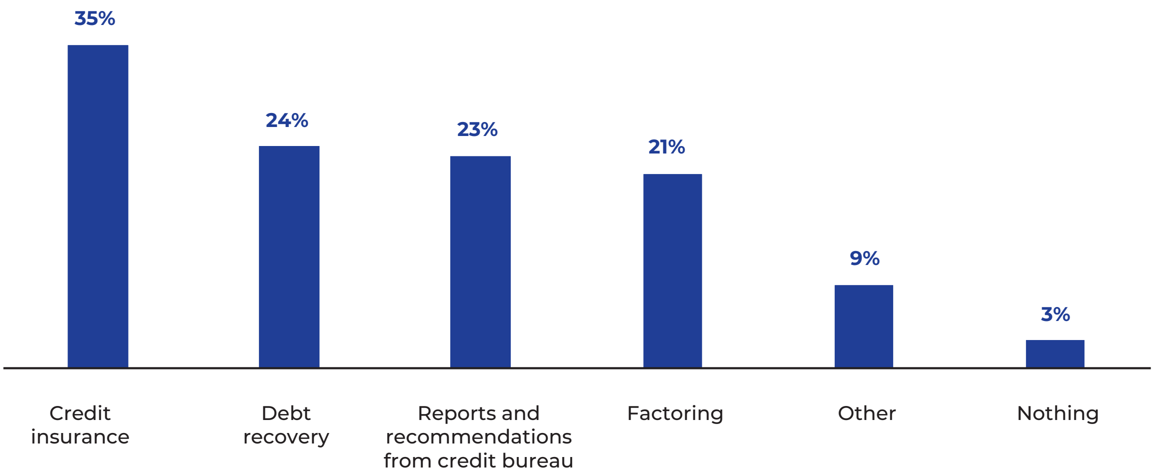
Source: Coface Payment Survey

Chart 8:
The main reasons for non-payments in the last 6 months (multiple answers were possible)



Source: Coface Payment Survey

Chart 9:
Credit management tool(s) used (multiple answers were possible)



Source: Coface Payment Survey

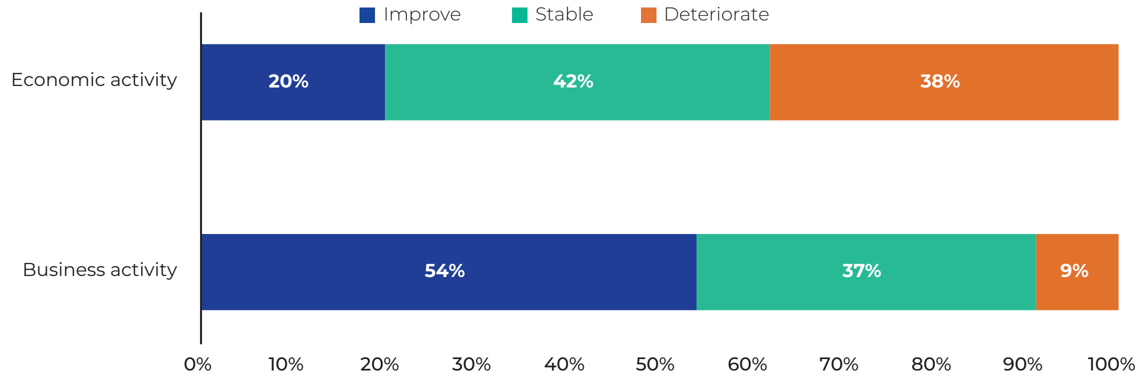
When questioned about the main reason for payment delays (**Chart 8**), higher delinquencies faced by customers was the most cited reason (70%), followed by lower demand (29%). In fact, growth momentum have remained weak in the region in the 2023-2024 period.

Regarding the credit management tools that are usually used (**Chart 9**), credit insurance coverage was the most cited by respondents, followed by reports and recommendations from credit bureau and debt recovery bodies. It is worth mentioning that 3% failed to implement any protection tool whatsoever.

3 EXPECTATIONS

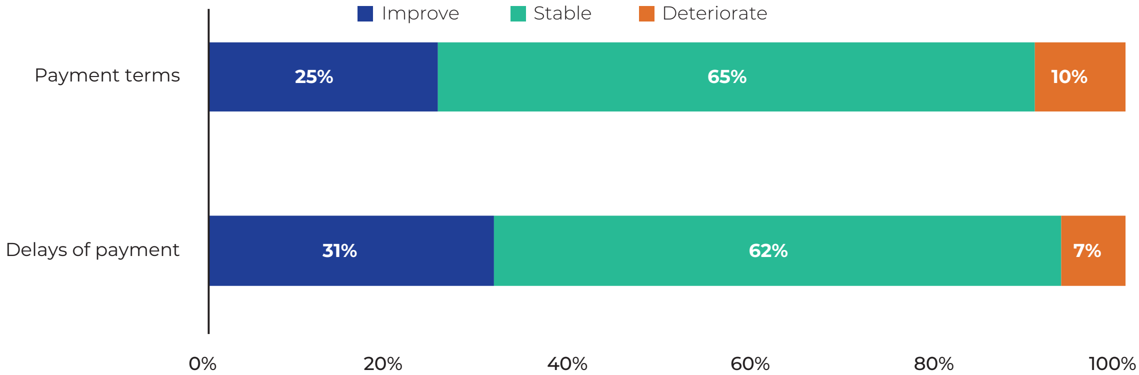
Most companies expect economic activity to remain stable in 2024 compared to 2023 (followed by a loss of strength, **chart 10**). However, more than 50% of respondents believe that their business activity will improve over the same period (only 9% expect to deteriorate). In terms of countries, except for Ecuador (stability prevailed), companies in the other countries expect their business activity to evolve favorably. Moreover, the outcome is quite surprisingly for Argentina, since the country has faced a second year of recession in a row, marked by an even deeper slide this year. However, it is important to note that most respondents in the country are from the agri-food sector. The latter improved strongly in 2024, following the severe drought that affected its performance last year. In terms of sector, automobiles, wood and transport are the only ones expecting stability (no one predicts a deterioration). Regarding payment terms and behavior (**chart 11**), the majority believe that there will be no change in the next six months. Stability prevailed in all countries and sectors.

Chart 10:
Expected economic and business activities in 2024 compared with 2023



Source: Coface Payment Survey

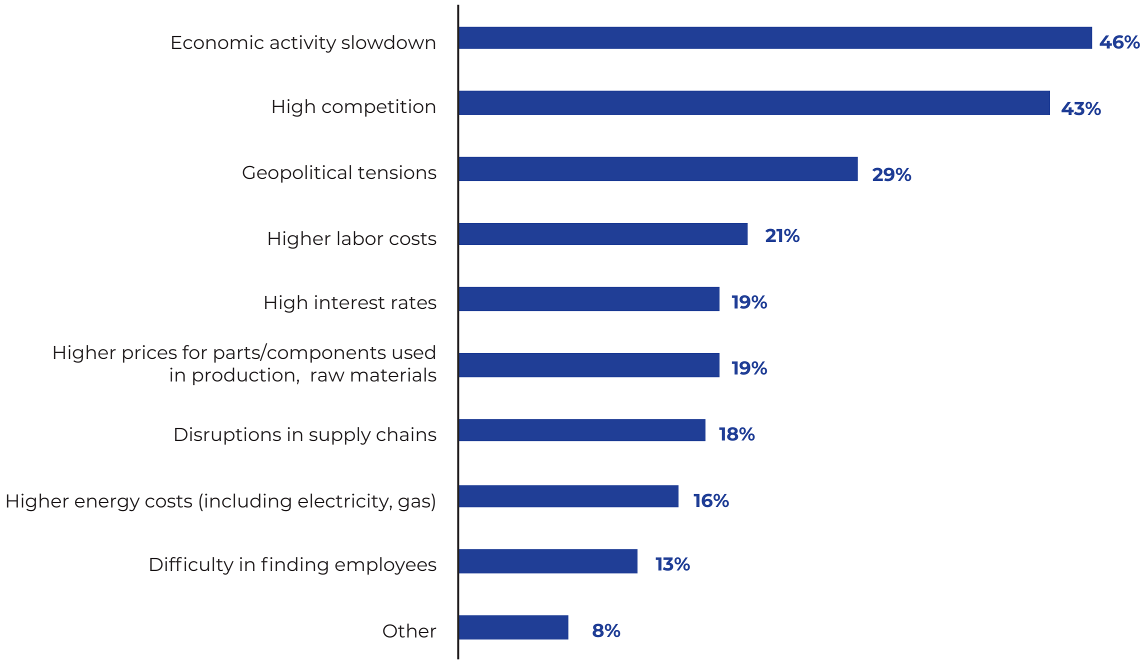
Chart 11:
Expected evolution of payment terms and delays in the next six months



Source: Coface Payment Survey

Despite the somewhat bullish view regarding their business activity relatively to 2023, when asked about major risks in the next 12 months, 46% of respondents cited a slowdown in economic activity as a great risk for business over the next 12 months (**Chart 12**). On that score, Coface expects Latin America's GDP growth rate to remain broadly stable at lacklustre level in 2025 (+ 2.1%, from + 2.0% in 2024). The slight improvement would be driven mainly by Argentina´s economy, which should see some recovery next year after two years in a row in recession (therefore, a weak base effect). Overall growth dynamics in the region are affected by dull global GDP growth, still tight credit conditions in most countries (although improving) and limited fiscal room for implementing stimulus. High competition was the second main risk highlighted among the companies surveyed (43%), followed by global geopolitical tensions (29%) and high labor costs (21%). Regarding the latter risk, several Latin American governments have increased minimum wages above inflation in recent years, such as Brazil, Colombia and Mexico, a trend that is expected to continue in the coming years (pressuring companies´costs). In fifth position, comes high interest rates, as monetary authorities are expected to continue cutting rates throughout 2025, implying in relatively less restrictive credit conditions. However, in Brazil, 36% of respondents cited interest rates. Indeed, the country´s central bank has resumed raising rates since September 2024 (currently at 10.75%), in a context of rising inflation expectations. We expect the Selic rate to continue to be tightened through Q1 2025 and to be slowly cut from late Q3 2025 onwards. This poses a challenge for companies, since in real terms the reference rate was at 6.3% in September 2024. Regarding energy prices, mentioned by 16% of respondents, it should be noted that Latin America has been facing a prolonged drought and record temperatures related to the El Niño weather phenomenon, which bodes ill for the region's electricity system. This is because, in many countries (such as Brazil, Colombia and Ecuador), the system is highly dependent on hydroelectric power. Some countries are currently facing electricity supply strains (such as Ecuador), while others have increased tariffs preventively (such as Brazil). Alongside, Chile is also raising electricity tariffs, which had been frozen since the social protests of Q4 2019. In addition, Argentina has adjusted repressed utility prices, while in Colombia the government tries to reduce fuel subsidies. Lastly, among other things, exchange rate volatility was the main risk highlighted. In fact, Latin American currencies have generally depreciated in the year to date, in a context of uncertainty both externally (mainly the pace of interest rate cuts in the US) and internally (such as budgetary concerns in Brazil and Colombia or political ones in Mexico).

Chart 12:
Which of the factors below do you consider a major risk for your business in the next 12 months



Source: Coface Payment Survey

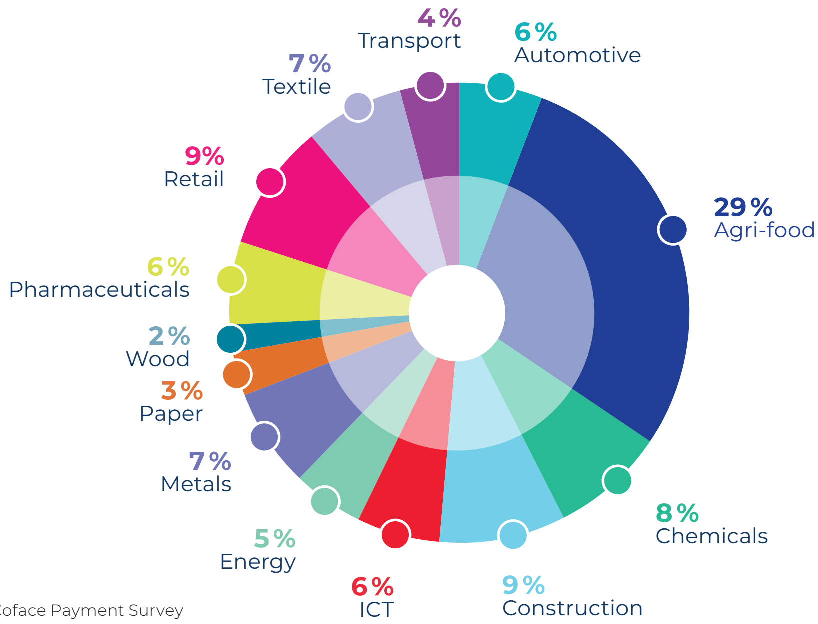
APPENDIX

A TOTAL OF

468

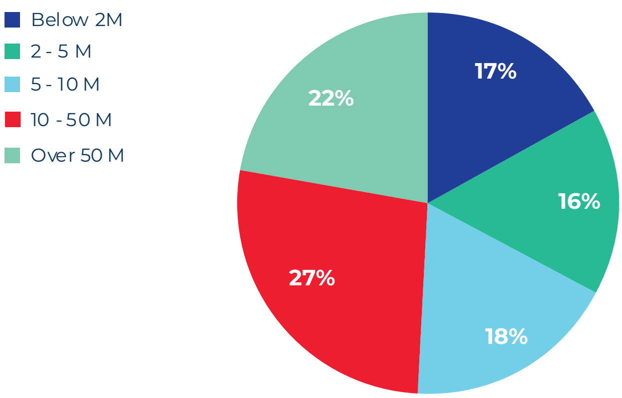
COMPANIES PARTICIPATED
IN THE PAYMENT SURVEY

SECTORS OF COMPANIES SURVEYED



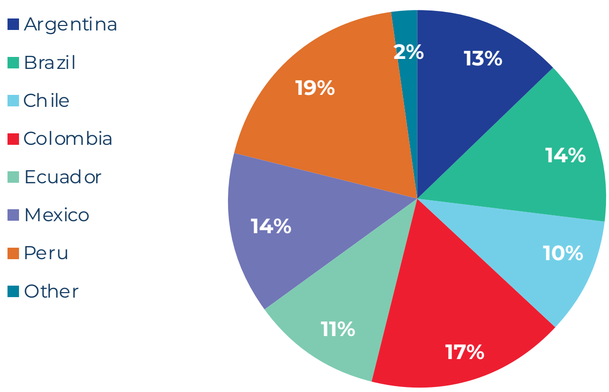
Source: Coface Payment Survey

SIZE OF COMPANIES BY TURNOVER (in M USD)



Source: Coface Payment Survey

COUNTRY OF ORIGIN



Source: Coface Payment Survey

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