COFACE ECONOMIC PUBLICATIONS

MAY 2018

PAYMENT SURVEY

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Turkey Payment Survey 2018: Payment terms expand amid positive economic expectations

This is the first corporate payment survey in Turkey aiming at indicating how payment terms stand in different sectors, how companies manage credit management practices and evaluate future payment experiences. The data collection was conducted in January and February 2018 through phone calls with 2615 companies in 81 cities. While 73% of respondents said they sold with credit terms to their clients, 35.3% of them mentioned they do not have a department responsible for credit management. Only 0.1% said they have a department in charge of trade receivables management.

The average payment term for companies stood at 121 days. Large companies (having a total employee number of more than 250 people) are able to offer their clients longer payment terms, mainly due to their wider financial means. The maximum payment term offered by companies to their clients stood at 147 days. 46.1% of companies said their clients who paid them by check asked to extend the payment periods by a new check at the end of the payment term. The average payment delay after the initial payment term stood at 133 days.

Another important issue seems to be related to the cash flow management of companies. Despite strong growth dynamics of the country, 50% of respondents said their cash flow management deteriorated in 2017 from a year earlier and 71% expressed it became more difficult to make collections from the market. On the positive side, more than one third of respondents expressed their positive expectations about their sales volume in 2018. More than half of exporting companies said they expect their exports volume to increase in 2018 which is in line with Turkey's good export performance.

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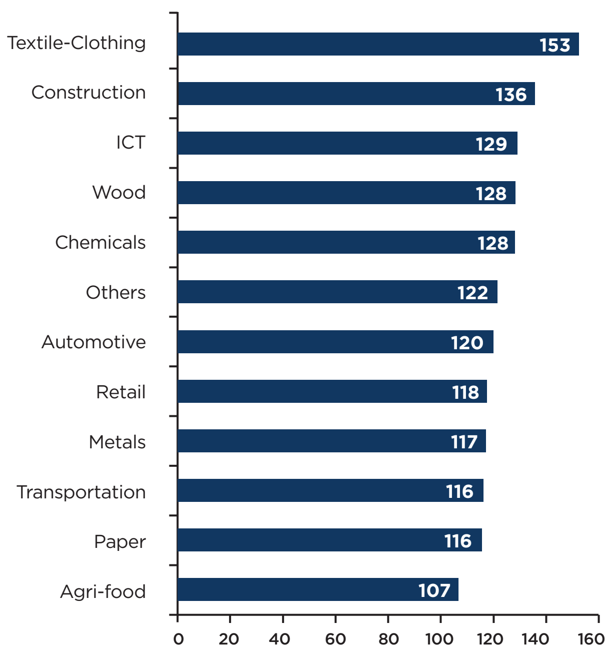
1 PAYMENT TERMS: MORE EXTENSION EXPECTED IN 2018

121 DAYS: average payment terms across the sectors

- The Turkish economy is dominated by credit sales. Among the participants 72.9% said they sold with credit terms to their clients. Total payment terms averaged at 121 days with majority standing between 61 to 90 days (28.3%), followed by 151 to 180 days (16.1%). Large companies with 250 and more employees are able to offer longer payment terms to their clients as 21.5% said their payment terms are longer than 181 days.

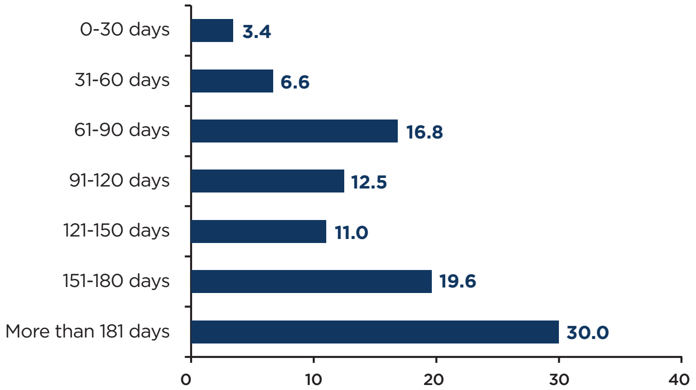
- However there are some differences among the sectors. Average payment terms are longer in textile-clothing, wood and construction. The agri-food sector offered shorter payment terms. Most respondents in this sector (nearly 60%) recorded average payment terms below 90 days.

Chart 1:
Average payment terms (days)



Source: Coface Payment Survey

Chart 2:
What is the maximum payment term you offered to your clients within the last year (2017)? (% of respondents)



Source: Coface Payment Survey

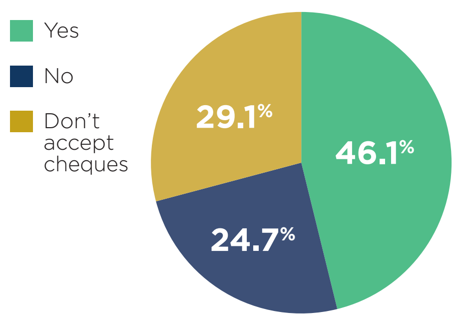
- The longest payment terms stood at 147 days on average among the companies with 30% of respondents saying their largest payment was above 181 days. Again larger companies have been able to lengthen their payments longer than 181 days (39.1%) thanks to their larger financial facilities.

- 46.1% of respondents said their clients propose them to extend the initial payment term by giving them a new check with longer maturity. This has become a more common practice in textile, automotive, ICT and metals sectors.

- Despite positive expectations about the economic growth performance (see below), 45% of respondents said they expect payment terms to lengthen in 2018 while 40.8% expect them to remain flat.

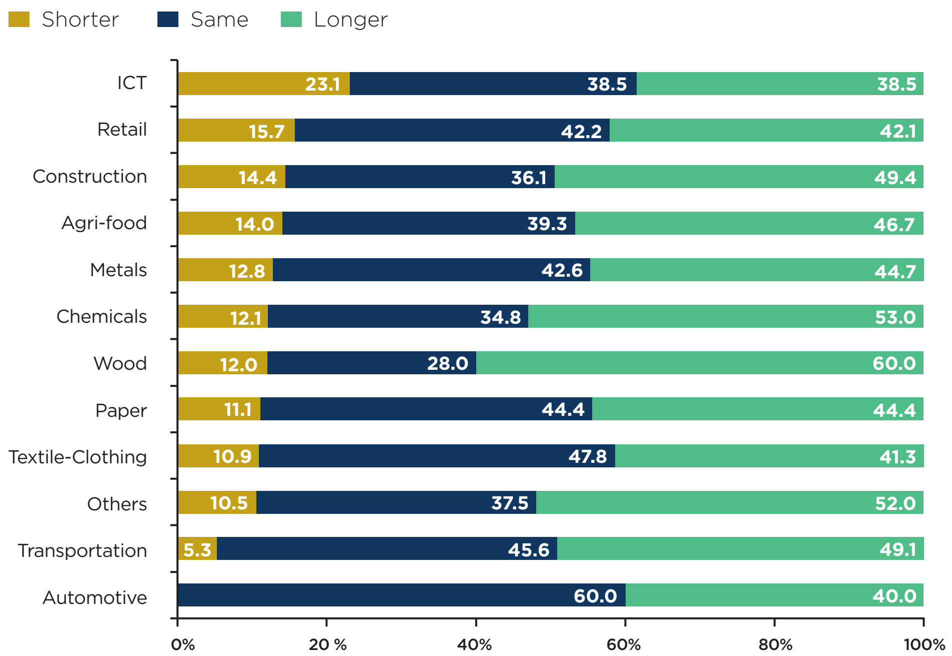
The longest payment terms (above 181 days) were recorded in the textile-clothing and construction sectors (36.4% and 22.2% of respondents, respectively).

Chart 3:
Does your client ask you to extend the initial payment term with a new cheque?



Source: Coface Payment Survey

Chart 4:
How do you expect payment terms to change in 2018? (% of respondents)



Source: Coface Payment Survey

2 **PAYMENT DELAYS:** ON AVERAGE 133 DAYS WITH THE AUTOMOTIVE AND TEXTILE-CLOTHING SECTORS SUFFERING THE MOST

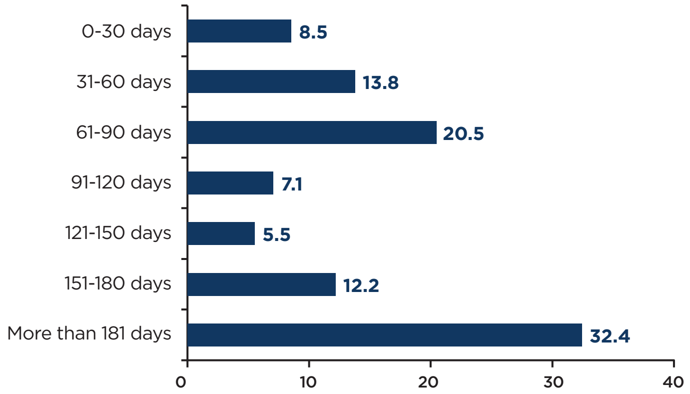
- Payment delays appear to be a general case for Turkish businesses. 55.5% of respondents said payments delays increased in 2017 compared with a year earlier. On average, payment delays stood at 133 days. Longest delays had been recorded in automotive, textile-clothing, retail and transportation.

- Majority of the respondents (41.3%) said total overdue payments over 1 year accounted for between 1% to 5% of their annual turnover. However those for which it represented more than 5% of the annual turnover accounted for 44.5% of respondents (out of 1706 companies answering this question).

- Expectations on the evolution of payment delays over the next year is quite balanced with 47.4% of companies anticipating an increase in payment delays and 41.1% expecting them to remain flat.

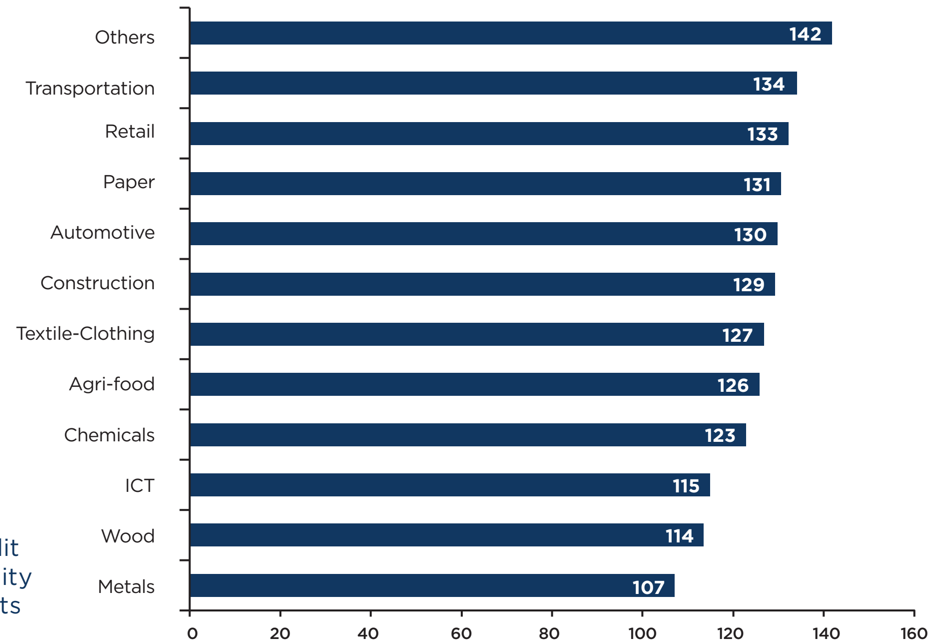
- 50% of respondents said their cash flow deteriorated last year from a year earlier while 35.8% said it remained the same. Cash flow management is very important for Turkish companies as the economy is exposed to sudden and wide fluctuations in the foreign exchange rates. In periods of sharp lira depreciation, companies hit by rising costs of imported raw materials and lower profit margins.

Chart 5:
Average payment delays (% of respondents)



Source: Coface Payment Survey

Chart 6:
Average payment delays per sector (days)



Source: Coface Payment Survey

44.1%
OF COMPANIES
said they sell with credit terms due to the liquidity problems of their clients

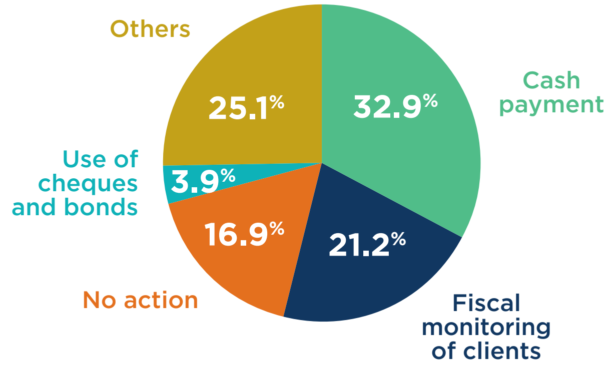
Accordingly, 49.3% of respondents said it became more difficult to make their payments during last year with ICT and chemicals struggling the most. On the other hand 71.1% of respondents said making collections from the market became more difficult.

- Despite this lack of payments and deterioration in cash flow, companies struggled to take actions against debtors with only 16.4% asking for third party services (arbitration or legal procedures). 44.4% of respondents said they compensated losses from companies' own equities while 40.8% applied for loans.

- Difficulties in debt collection were indicated as the principal reason of the deterioration in cash flow (51.8%). It also caused other serious issues such as restraining growth potential of the company, revenue losses, additional interest rate costs and stopping hiring processes. 26.7% of respondents said it even caused bankruptcy risks.

- These risks push companies to get cash payments (32.9%) as a measure against non-payment risk. Yet the share of respondents who said taking any precaution against the non-payment risk stands at 16.9%. On average it takes 76 days to companies to enforce sanctions in case of an overdue payment.

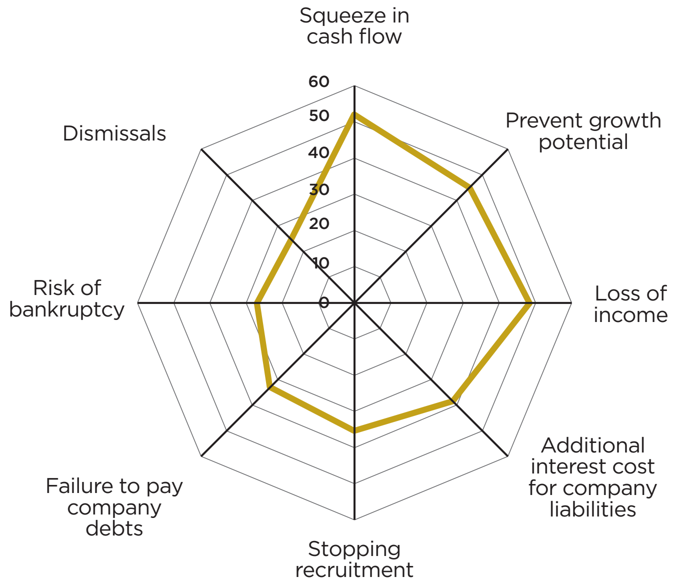
Chart 7:
Measures against non-payment risk (% of respondents)



Source: Coface Payment Survey

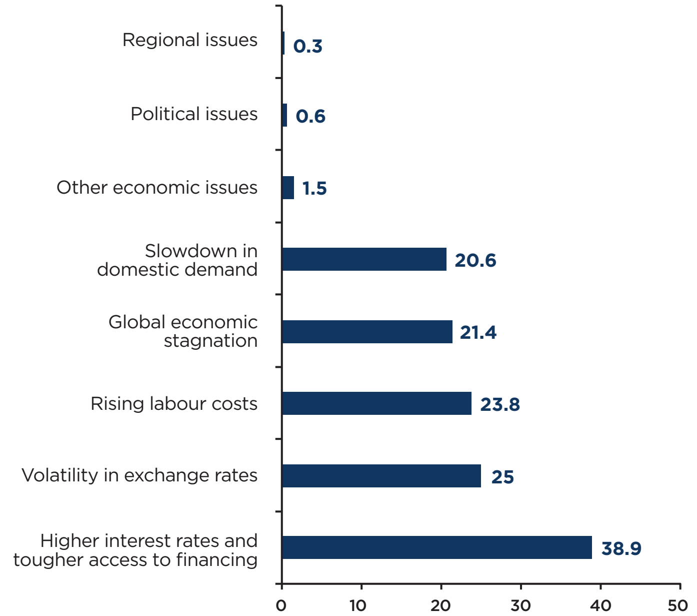
Payment delays above 181 days are mostly recorded in the automotive and textile-clothing sectors (50% and 35.5% of respondents, respectively).

Chart 8:
What do payment delays cause the most in your company?



Source: Coface Payment Survey

Chart 9:
In 2018, which of the following factors do you expect will affect the most your buyers' inability to pay their debts? *(several answers possible)*

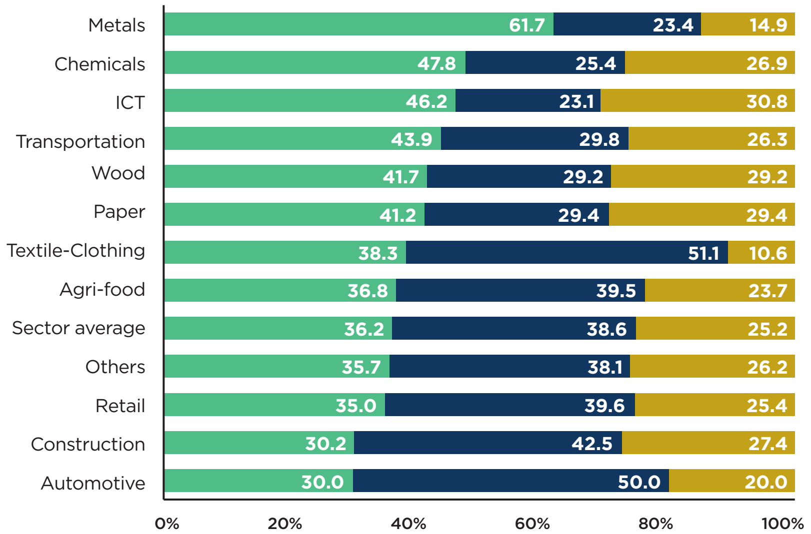


Source: Coface Payment Survey

3 POSITIVE ECONOMIC EXPECTATIONS REGARDING ECONOMIC PERFORMANCE AND EXPORTS

- Solid growth in Turkish economy sustains favorable expectations about sales with 36.8% of respondents expecting an increase in 2018. In a sectoral split, acceleration in sales is expected in metals, chemicals and ICT. In automotive, construction, textile-clothing and retail, sales are mostly expected to remain flat.

Chart 10:
How do you expect your sales to perfom in 2018? (% of respondents)



Source: Coface Payment Survey

- 17.5% of participants said they export their products and services. 55.4% of exporting companies said they expect an increase in their exports as well. This is in line with Turkey's macroeconomic dynamics. Driven by solid growth in European countries, Turkey's main trading partners, Turkey's exports rose 10% in 2017 from a year earlier. This trend is expected to continue with the lira's depreciation, continued increase in global trade volumes and the growth in Europe.

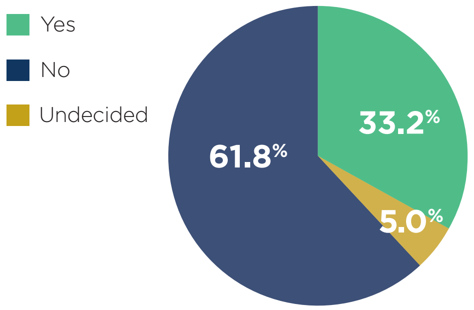
- 61.8% of companies do not plan to invest to expand their capacities or for a new business while 33.2% plan to do so. New investments are mostly considered in automotive, chemicals and paper.

- Turkey's economy expanded by 7.4% in 2017, driven by strong growth in industry, services and construction. This strong performance has resulted in fairly optimistic perspectives among respondents. 37.9% said they expect economy to improve in 2018 while 34.3% said economic conditions would remain the same.

54% OF COMPANIES expect the size of the workforce to remain the same in 2018

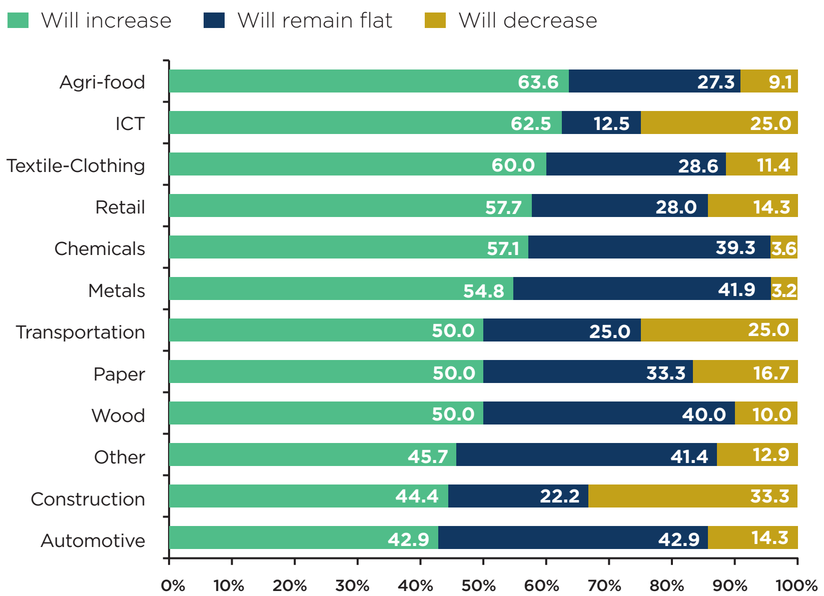
Higher interest rates and tougher access to financing are expected to be the main reasons behind non-payments in 2018.

Chart 11:
Do you plan to invest in 2018?



Source: Coface Payment Survey

Chart 12:
How do you expect your exports to perform in 2018?

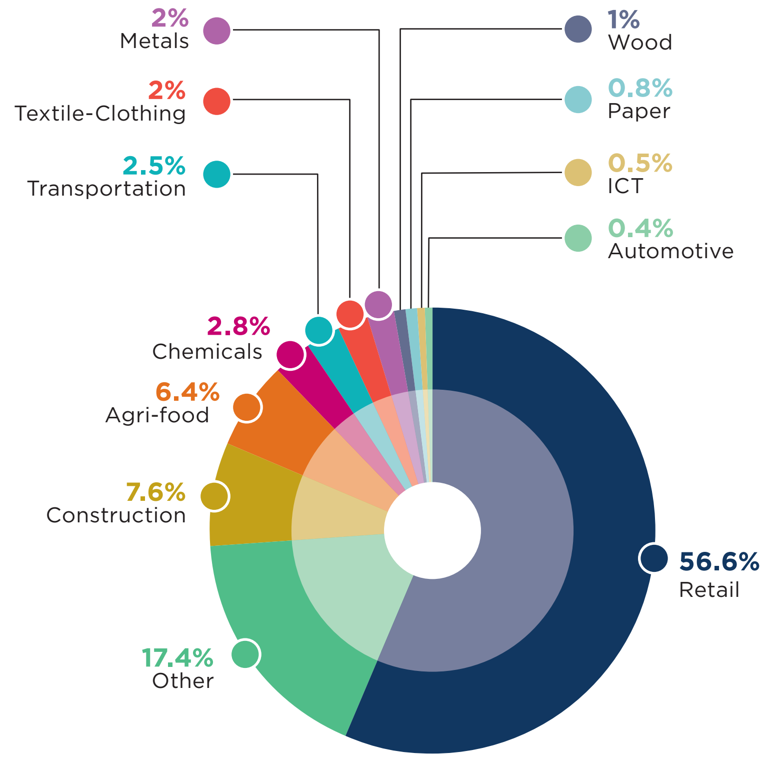


Source: Coface Payment Survey

APPENDIX

BREAKDOWN BY COMPANY SIZE

BREAKDOWN PER SECTOR



GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

Sector analysis had been conducted on 2,400 companies which communicated the name of their sector of activity.

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