



Bulgaria: reliance on cash payments risks limiting trade

Atradius Payment Practices Barometer





exports
Top 5

Fuels
Manufactured goods
Machinery
Transport equipment
Chemicals

Source: Trading Economics

exports
partners

Top 5

Germany
Italy
Romania
Turkey
Greece

Source: Eurostat

Economic expansion in Bulgaria is expected to lose some momentum in 2019, but should remain strong at above 3%, spurred by robust household spending, strong wage growth and an improving labour market. A well-capitalised banking sector, which is also more resilient to shocks than in the past, offers businesses favourable conditions for access to financing. Bulgaria's long-term economic growth prospects, however, seem to be hampered by the slowdown in the euro area, Bulgaria's main trading partner, as well as the shortage of labour force.



Vladimir Vachov, Atradius Country Manager for Bulgaria commented on the report

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This year, the outlook for the Bulgarian economy is optimistic. The growth rate is forecast to remain above 3%, chiefly sustained by private consumption as a result of wage growth. Looking ahead, however, expectations might be lowered due to a number of internal and external factors that are forecast to negatively affect the business environment. Within the frame of the domestic economy, these include the enormous shortage of workforce, which risks hampering investments in the country, and the likelihood of difficulty in accessing bank financing, which could endanger businesses' liquidity position.

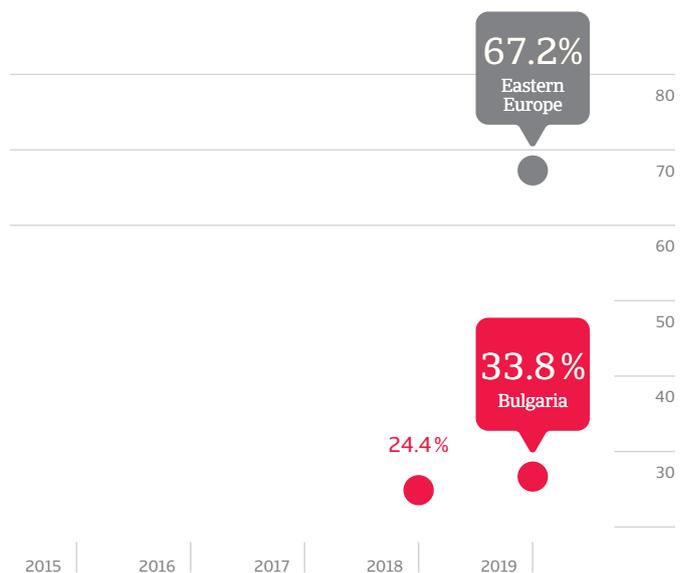
On the export performance side, the slowdown of the euro area which is Bulgaria's main export destination, as well as the ongoing and potentially escalating tensions in global trade relations, are expected to cast a shadow on the growth of the Bulgarian economy, which is highly dependent on exports.

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Bulgarian respondents are the most risk-averse in Eastern Europe, in respect to offering customers credit

Respondents in Bulgaria appear the most risk-averse in Eastern Europe when it comes to offering customer credit in B2B transactions, both domestically and abroad. Based on survey results, 33.6% of the total value of Bulgarian respondents' B2B sales was reported to be made on credit (up from 24.4% last year). This is far below the 67.2% average for Eastern Europe, and is the lowest in the region. This limited use of trade credit is likely to be a reflection of a payment culture that prioritises the security of payments in cash or in terms other than trade credit.

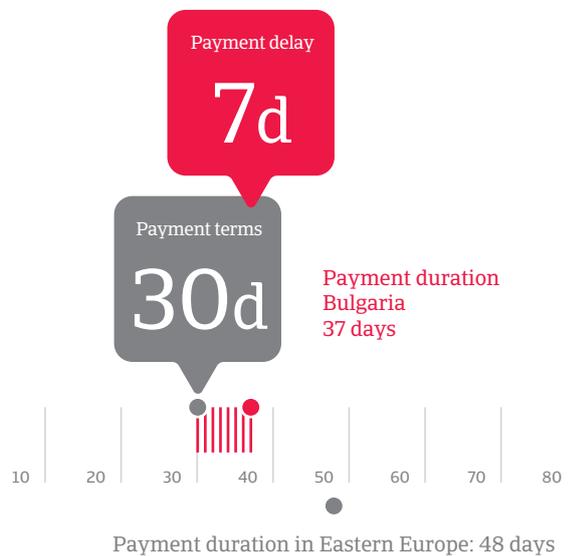
Proportion of total B2B sales made on credit in Bulgaria



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



Payment duration in Bulgaria



d = average days

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

Source: Atradius Payment Practices Barometer – September 2019

Bulgarian respondents' perception of trade credit risk far stronger than one year ago

Consistent with heightened perceptions of trade credit risk, respondents in Bulgaria reported requesting the settlement of B2B invoices much earlier than last year. Most respondents (82%) granted payment terms averaging 30 days from invoicing (down from 38 days last year). These are among the shortest in Eastern Europe (second only to Hungary) and compare to a regional average of 37 days. The shortening of payment timings recorded in Bulgaria is in contrast to the increase in average payment terms across all of the countries surveyed in Eastern Europe over the past year.

Bulgarian respondents are the most inclined in Eastern Europe to request payment on cash from B2B customers

Bulgarian respondents appear to have a heightened perception of the payment default risk arising from trading on credit terms. Most respondents (55%) reported that they request payment on cash or on terms other than trade credit from their B2B customers. Consistent with this observation, far more respondents in Bulgaria (30%) than in Eastern Europe (16%) reported they request secured forms of payment from their B2B customers. However, once a credit sale is made, respondents in Bulgaria focus on sending outstanding invoice

reminders (34% of in Bulgaria versus 36% in Eastern Europe). A good proportion also offers discounts for early settlement of invoices (30% compared to 39% in Eastern Europe). This despite the short payment terms granted to B2B customers for payment of invoices. This finding reinforces those seen earlier, pointing to the preference for the safety of cash payments as a distinctive feature of payment behaviour in Bulgaria.

Bulgarian respondents cash in past due invoices earlier than last year

Nearly 20% of the total value of B2B invoices issued by Bulgarian respondents over the past year remained outstanding at the due date. Bulgarian respondents cash in past due invoices significantly earlier than one year ago (37 days compared to 50 days last year). This is a consequence of improved payment timings from B2B customers, resulting in an average 13% increase in timely payments (79.4% of invoices paid on time compared to 70.1% one year ago). This may explain why more respondents in Bulgaria (56%) than in Eastern Europe (52%) reported no significant impact on business arising from customers' late payments over the past year. However, to manage potential cash shortfalls arising from customers' late payments 28% of respondents needed to delay payments to their own suppliers.

Respondents in Bulgaria more likely to request secured forms of payment from B2B customers should payment practices worsen over the coming months

Most Bulgarian respondents (57%) do not expect the payment practices of their B2B customers to change over the coming months. The majority of respondents held positive expectations about the domestic economy. This was reflected in the proportion of respondents anticipating improvement in customers' payment practices (37%) as opposed to those who expected deterioration (6%).

However, should the risk of customers' payment default worsen over the coming months, 75% of Bulgarian respondents said that they would more often request secured forms of payment from B2B customers should their payment practices worsen. 58% of respondents would intensify the use of outstanding invoice reminders and 54% would more frequently offer discounts to encourage customers to settle invoices earlier than the due date. Should conditions of access to bank financing deteriorate over the coming months, Bulgarian respondents would offset operational cost increases with a significant reduction of their investments in business growth.



23%

of the B2B invoices issued by respondents in the chemicals sector is past due.



Overview of payment practices in Bulgaria

By business sector

Respondents in the Bulgarian ICT/electronics set the longest payment terms

Bulgarian respondents in the ICT/electronics sector set the longest payment terms for their B2B customers (averaging 39 days from invoicing up from 33 days last year). Payment terms in the machines sector are also above the 30 days country average (34 days down from 45 last year). Respondents in the chemicals sector set the shortest average payment terms (27 days), which remained stable compared to one year ago.

Trade credit risk is highest in the Bulgarian chemicals sector

Trade credit risk in the Bulgarian chemicals sector has notably deteriorated over the past year, with 23.0% of the total value of B2B invoices past due. Over the past year, the most significant improvement in the speed of payments from B2B customers was observed in both the chemicals and the consumer durables sectors. Payment practices of B2B customers in the Bulgarian agri-food sector did not vary compared to one year ago.

Proportion of uncollectable receivables is highest in the chemicals sector

Across all industries surveyed in Bulgaria, the proportion of B2B receivables written off as uncollectable is less than 1%.

This reflects efficiency in collection of long term outstanding invoices as well a relatively moderate use of trade credit in transactions with B2B customers due to a preference for the safety of transactions on cash or cash equivalents. However, the highest proportion of B2B receivables written off as uncollectable was recorded in the chemicals sector (0.8%) followed by the construction sector (0.7%). Respondents from both the ICT/electronics and transport sectors proved to be the most efficient in the collection of long-term overdue receivables (write-off amounted to 0.1% of the total value of B2B invoices).





Overview of payment practices in Bulgaria

By business size

SMEs in Bulgaria set the longest average payment terms for B2B customers

Respondents from SMEs in Bulgaria extended the longest average payment terms to B2B customers (averaging 32 days). Micro enterprises offered the shortest payment terms, on average 27 days from the invoice date.

SMEs turn overdue invoices into cash much earlier than last year

20% of the total value of B2B invoices issued by respondents from Bulgarian SMEs were reported to be past due. However, due to an improvement in the payment behaviour of their B2B customers, SME businesses are now able to collect payment of past due invoices much earlier than in the past (on average 39 days after invoicing compared to 41 last year). The payment practices of the B2B customers of micro enterprises also improved, enabling micros to cash in overdue invoices within 33 days compared to 43 one year ago.

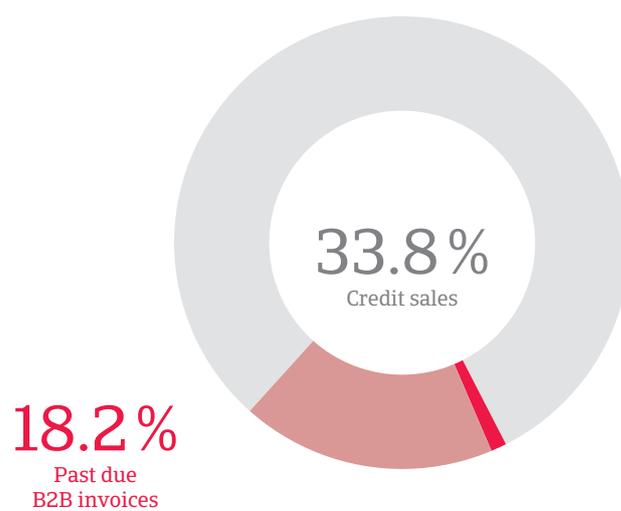
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It is essential that businesses protect their balance sheets and safeguard their cash flow and profits with credit management techniques – such as trade credit insurance - that enable them to grow the business, while minimising the related risks. This is especially important for businesses trading internationally that could lose out on opportunities if they adhere to the local cultural norm of preferring cash over credit.

Vladimir Vachov,
Atradius Country Manager for Bulgaria

Uncollectable B2B receivables in Bulgaria

(% of total value of B2B receivables)



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

SMEs recorded the highest rate of receivables written off as uncollectable

Over the past year, respondents from all business sizes surveyed in Bulgaria reported no significant variation in the proportion of write offs of uncollectable accounts. Despite the improvements in invoice to cash turnaround recorded by SMEs, the proportion of receivables written off as uncollectable was higher in this sector than any other business size surveyed. It is likely that SMEs are less efficient at collecting long-term past due payments than other businesses in Bulgaria.

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

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