

South American Credit Risks: Political Uncertainty, Optimism

The political landscape in several South American countries has seen significant upheaval since the start of 2020. Notably countries such as Peru, Colombia and Argentina have faced adversity with elections and the complications between church and state. While extending credit and doing business with companies in these countries may have its risks, there may be hope in the near future.

FCIB's most recent Credit and Collections Survey highlighted Argentina, Brazil, Colombia and Peru, examining the latest risks in these countries that credit professionals should keep in mind when doing business there. A common thread revolves around credit managers' decisions to extend more credit but at longer terms than previous years.

From September 2019 to January 2020, credit managers with customers in Argentina saw the biggest bump in changing credit terms. In September 2019, 83% of credit managers extended credit while in January 2020, 86% did. The terms changed as well, with only 24% of transactions at 61-90 days in 2019, while in 2020, 40% of transactions were on these longer terms. Last year, the majority (42% of transactions) of terms were at 31-60 days, while this year, the majority (40% of transactions) are at 61-90 days.

Brazil, Colombia and Peru did not see as drastic a change in terms as Argentina, but political uncertainty mixed with shreds of optimism have some credit managers feeling more comfortable for the future. One credit manager who took the Brazil survey in January said "The economy in Brazil has improved somewhat, however the future is still uncertain. Know your customer. Corruption is still a problem," indicating Brazil may be stabilizing.

Colombia, which had its last major election in 2018, is now seeing the impact of the election on its markets. While refugees from Venezuela have been "creating a strain on the economy," according to one survey responder, credit managers have been extending credit to more customers in January as opposed to May 2019. In 2019, only 76% of customers were extended credit, compared to January's 93%.

Peru, which dealt with the political uncertainty of a major election in January 2020, may see some optimism moving forward. The country elected an entirely new congress, starting anew into the rest of 2020. Esther Hale, ICCE, who does business in Peru said the future for Peru's new government will have a positive impact on the economy.

"Constituents are currently optimistic about the future and new government," Hale said. "... Payment terms have not changed, but credit limits have been reduced."

Symptoms of political uncertainty emerged more in the January 2019 results compared to the January 2020 results. Payment delays increased in 2020 compared to 2019—from 26% to 39%—while in 2018, the majority of respondents saw no changes in payment delays.

Likely a cause of political uncertainty, 39% of respondents in 2020 said payment delays were increasing, which is up compared to 2019 (26%) and 2018 (5%). Comparatively, a majority of respondents—55% in 2020, 41% in 2019 and 63% in 2018—saw no change in payment delays.

While the coronavirus will impact the Peruvian government and test the new administration, the optimism from credit managers is still sprinkled with a bit of precaution. Many credit managers

including Claire Yurek, CCE, CICP, credit manager for Waterous Company with customers in Peru, recommends selling on advance payments to ensure the money reaches her company. Many of her sales are infrequent and are through the government, and practicing due diligence makes her work as a credit manager that much easier with Peruvian customers.

—Christie Citranglo, editorial associate