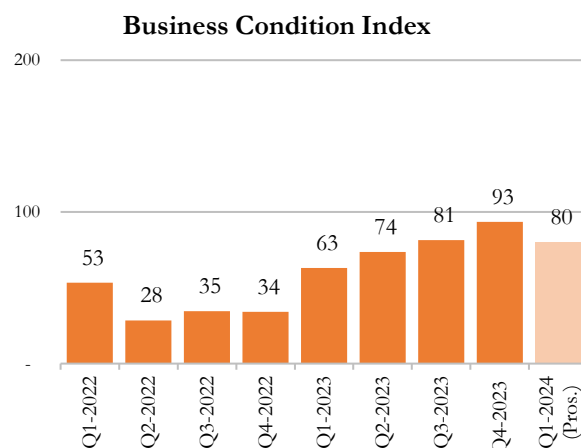


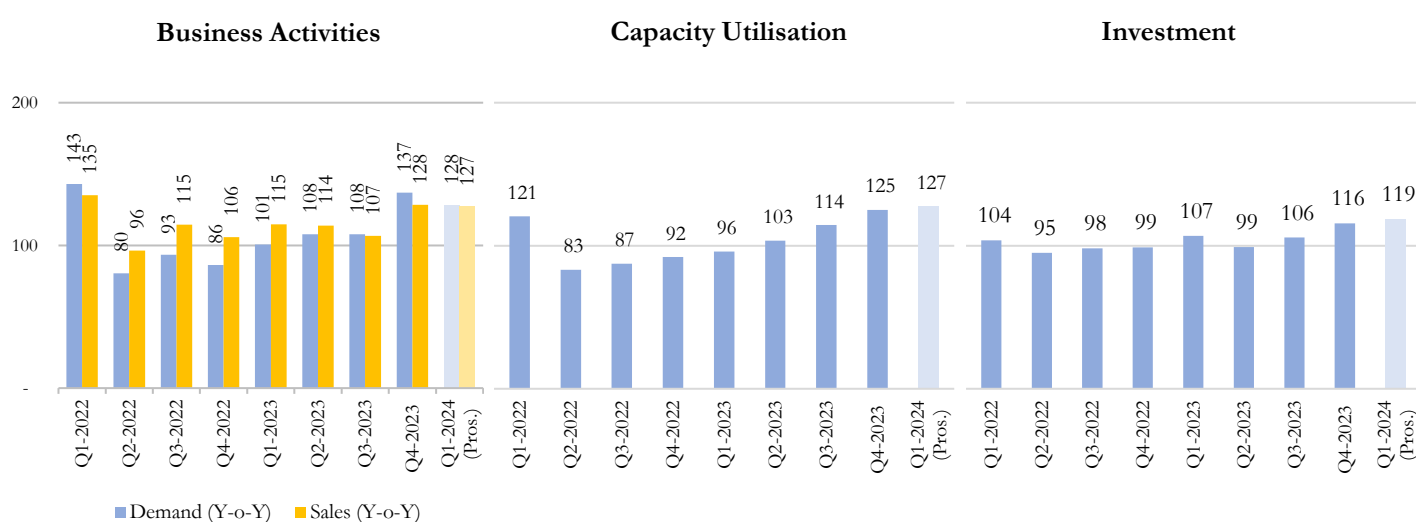
Executive Summary

- The Business Condition Index, which captures the firms' assessment of the current business environment, edged up recording the highest index value since Q1 2022.
- The edging up of the index in Q4 2023 was mainly driven by the improved sentiments of the firms in the Services sector.
- However, the index remained below the neutral level indicating that the overall business situation is still subdued. The business condition index is expected to stay below the threshold in Q1 2024 as well.
- As per the survey respondents, despite observed improvements in demand, sales and investments, high price levels and increased tax rates act as major obstacles for optimal business conditions.



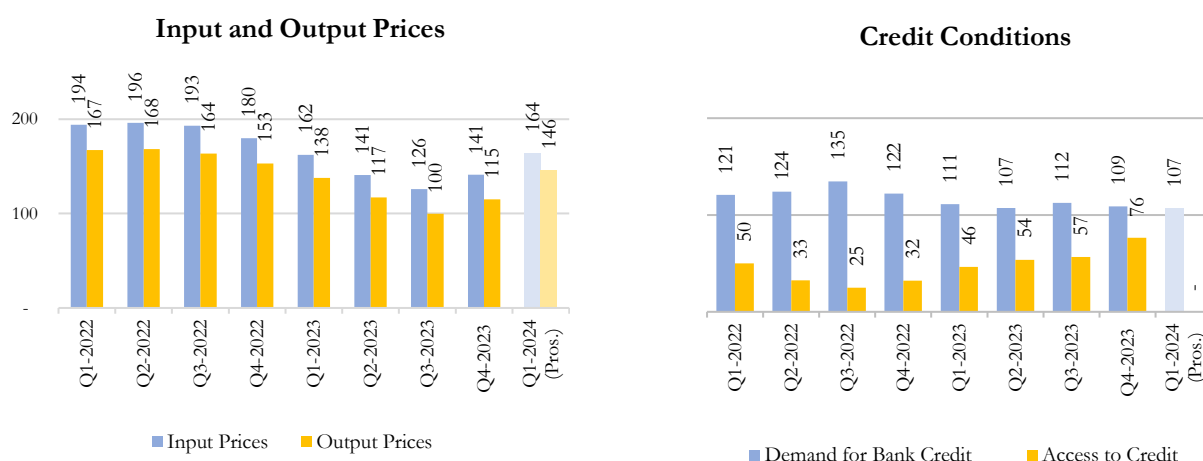
Developments in Q4 2023

- Considering the business activities, the balance of opinion on demand and sales revenue improved in Q4 2023, driven by the firms in Industry and Services sectors.
- On a year-on-year basis, firms observed an increase in capacity utilisation in Q4 2023 with improved demand and sales. Meanwhile, the balance of opinion on investment also increased in Q4 2023.



¹ Statistics Department of the Central Bank of Sri Lanka initiated a quarterly Business Outlook Survey (BOS) in Quarter 2, 2014 to assess current and future business conditions. BOS summarises opinions expressed by the respondents of around 100 firms, which were selected in accordance with the composition of Sri Lanka's Gross Domestic Product based on a structured questionnaire. The survey responses are translated into Business Sentiment Indices (BSIs), and the balance of opinion (Percentage of firms reporting growth minus the percentage reporting contraction) can vary between 0 and 200 (BSI>100 - improved/increased, BSI=100 - unchanged/neutral, BSI<100 - worsened/decreased).

- Firms reported increases in both input and output prices in Q4 2023 on a year-on-year basis. However, the number of respondents who experienced an increase in input prices was higher than those who increased their output prices. This reflects that the firms were compelled to absorb their input cost pressure to retain their sales.
- The balance of opinion on demand for bank credit increased in Q4 2023. However, the firms rated that access to credit remained tight during the quarter, as market lending rates were still higher than their financial capacity.



Outlook for Q1 2024

- Firms' outlook on demand and sales revenue is expected to improve in Q1 2024 mainly driven by the Industry and Services sectors while Agriculture sector remained at the modest level. In line with this, capacity utilisation is also expected to improve in Q1 2024.
- The balance of opinion on investment is expected to increase in Q1 2024, driven by all the major economic sectors.
- On a year-on-year basis, firms expect both input and output prices to increase in Q1 2024. The increase in input prices is expected in all three major economic activities, yet the output price increase is expected to be driven by the firms in Industry and Services sectors.
- The balance of opinion on demand for bank credit, mainly intending for operational purposes, is expected to increase in Q1 2024.
- Most respondents were concerned about the impact of Value Added Tax (VAT) increase as it affects both prices and consumer demand. Furthermore, they face significant challenges to restore consumer demand and recover sales volume due to weakened consumer spending in the market.

How the Index is Compiled

Business Sentiment Index(BSI)_k = $\sum_{i=1}^n \frac{x_i}{n} \times 100 + 100$ is the BSI of k^{th} sector.

x_i takes values of +1, 0 or -1 depending on the answer given by enterprise i .

n is the number of reporting units in the sector sample.

Combined BSI = $\sum_{k=1}^K w_k \times BSI_k$, where w_k : GDP weight of k^{th} sector.