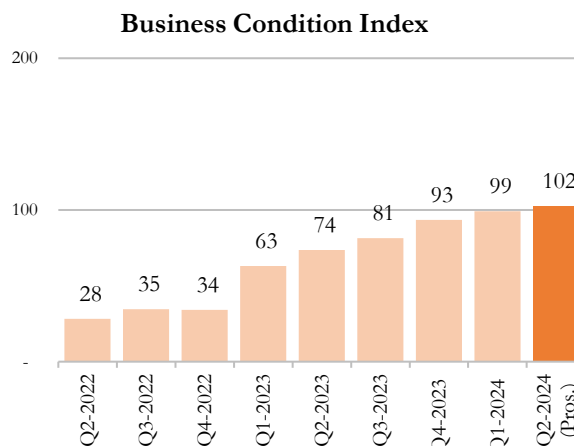




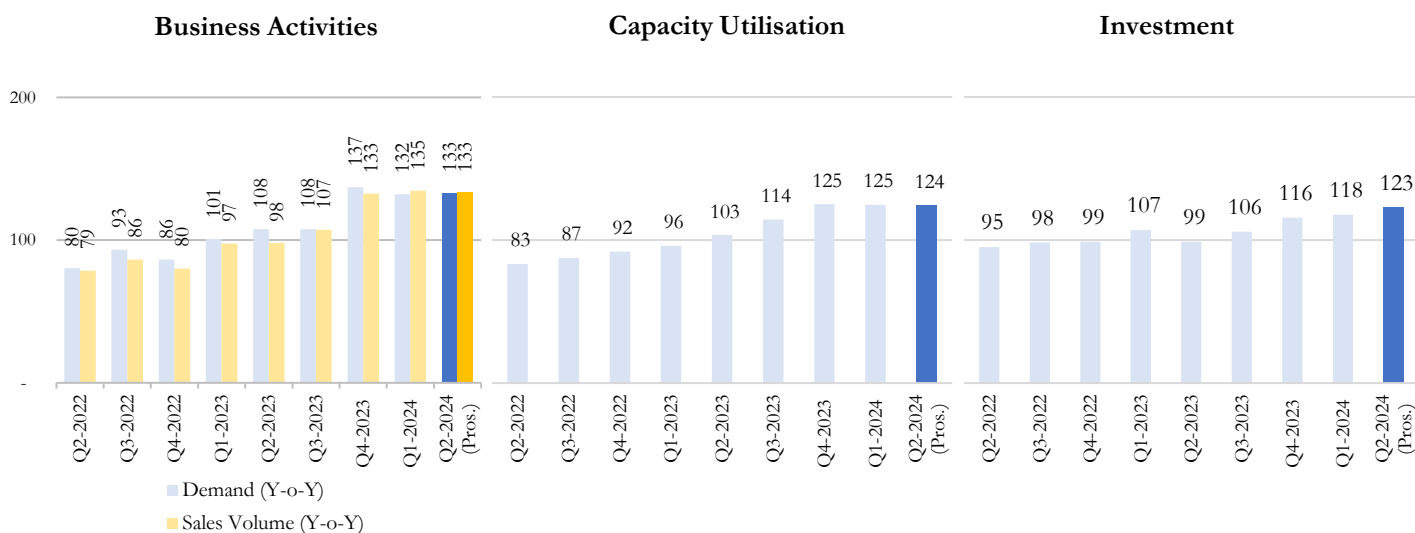
Business Condition

- The Business Condition Index, which captures the firms' assessment of the current and future business environment, indicates improvements in Q1 and Q2 2024.
- The outlook for Q2 2024 edged above the neutral threshold for the first time after Q1 2022. The main reason cited for this improvement was the enhanced macro-economic conditions.
- The sector-wise analysis indicates that this improvement in the outlook for Q2 2024 is driven by the Services sector.



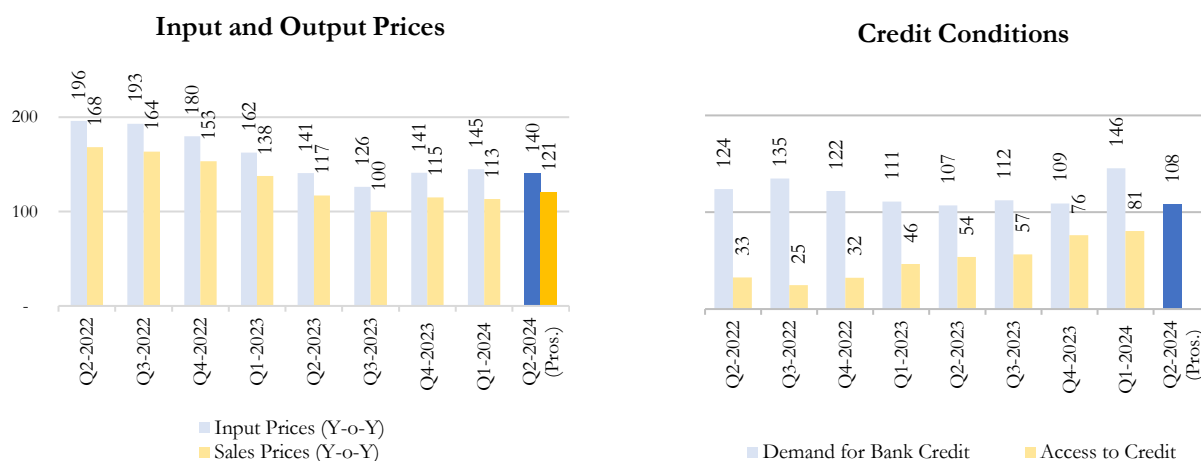
Outlook for Q2 2024

- Demand and sales volumes on a year-on-year basis are expected to improve in Q2 2024, mainly driven by the Industry and Services sectors, while the Agriculture sector to dip below the neutral threshold level. In line with this, capacity utilisation is expected to improve in Industry and Services sectors during Q2 2024.
- The balance of opinion on investment is expected to increase in Q2 2024, driven by the Industry and Services sectors, while Agriculture sector investments are expected to remain at the same level as in the previous year.



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).

- The firms expect both input and output prices to increase in Q2 2024 on a year-on-year basis.
- The balance of opinion on demand for bank credit, mainly intended for operational purposes, is expected to increase in Q2 2024. This increase would primarily be driven by the Agriculture and Industry sectors, while the Services sector expects demand for credit to decline on a year-on-year basis.



Developments in Q1 2024

- Considering the business activities, the balance of opinion on demand and sales volume improved in Q1 2024, driven by all three major economic activities.
- Capacity utilisation recorded an increase on a year-on-year basis in Q1 2024 with improved demand and sales. Meanwhile, the balance of opinion on investment also increased in Q1 2024.
- Firms reported increases in both input and output prices in Q1 2024 on a year-on-year basis. The increase in input prices was evident across all three major economic activities, while the increase in sales prices was only evident in the Services sector.
- The balance of opinion on demand for bank credit increased across all sectors in Q1 2024. However, the firms rated that access to credit remained tight during the quarter. The main reasons highlighted by the respondents were higher market lending rates than their expected levels and the increase in banks' credit standards.

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.