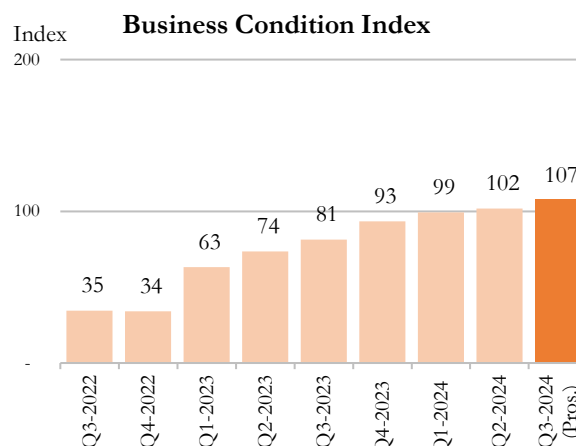


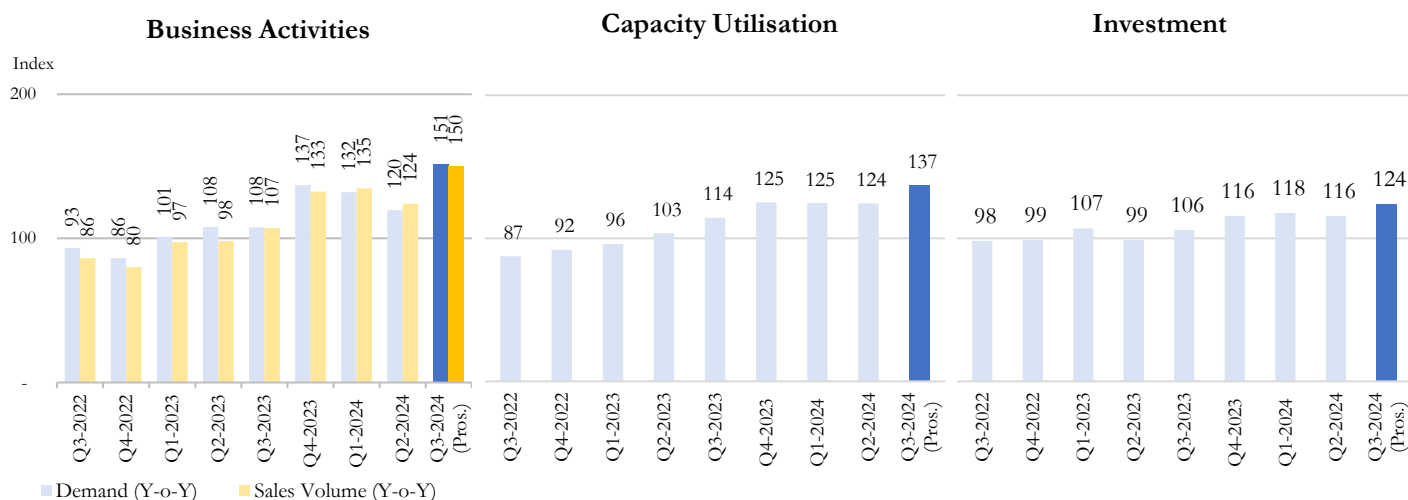
Business Condition

- The Business Condition Index, which captures the firms' assessment of the current and future business environment, surpassed the neutral threshold in Q2 2024 for the first time since Q4 2016. The outlook for Q3 2024 also remained above the neutral threshold.
- The improved macroeconomic conditions were highlighted as the main reason for this improvement.
- The sector-wise analysis indicated that the Services and Industry sectors drove these improvements in Q2 and Q3 2024.



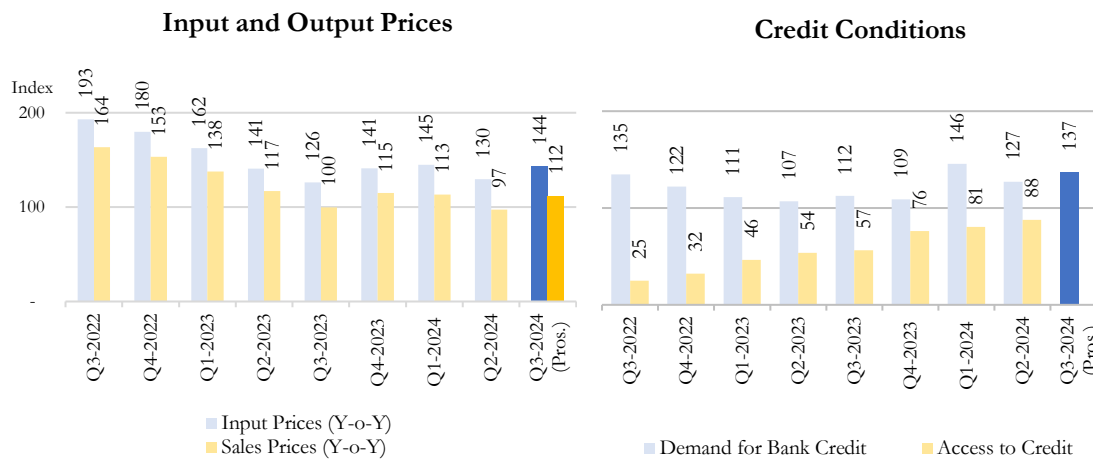
Outlook for Q3 2024

- Demand and sales volumes are expected to improve on a year-on-year basis in Q3 2024, mainly driven by the Industry and Services sectors, while the Agriculture sector is expected to remain below the neutral threshold. In line with the overall developments in demand and sales, capacity utilisation is expected to improve during Q3 2024.
- The balance of opinion on investment is expected to improve in Q3 2024, mainly driven by the Industry and Services sectors. Unlike in the previous quarters, where most of the firms invested in maintaining their existing facilities, the majority expected to invest in expansionary purposes, during this survey round.



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 Q3 2024 on a year-on-year basis.
- The balance of opinion on demand for bank credit, mainly intended for operational purposes, is expected to improve in Q3 2024. All three sectors are expected to drive this increase.



Developments in Q2 2024

- Considering the business activities, the balance of opinion on demand and sales improved in volume terms in Q2 2024, driven by the Industry and Services sectors, while that of the Agriculture sector dipped below the neutral threshold.
- The overall capacity utilisation recorded an increase on a year-on-year basis in Q2 2024 with increased demand and sales. Meanwhile, the balance of opinion on investment also improved in Q2 2024.
- Firms reported an increase in input prices, while output prices marginally declined in Q2 2024 on a year-on-year basis. The increase in input prices was evident in Agriculture and Services sectors, while the decline in sales prices was observed in Agriculture and Industry sectors.
- The balance of opinion on demand for bank credit improved across all sectors in Q2 2024. However, a continuous tightening in credit accessibility was reported during the quarter. The main reasons highlighted by respondents were higher than expected market lending rates and the increased standards in bank lending facilities.

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.