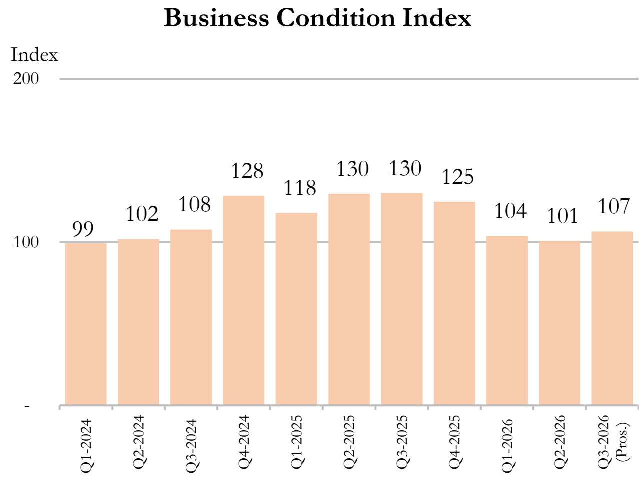
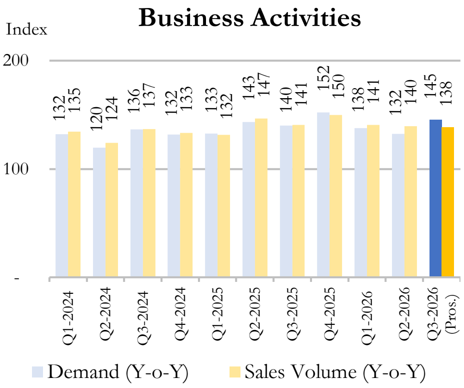
Business Condition

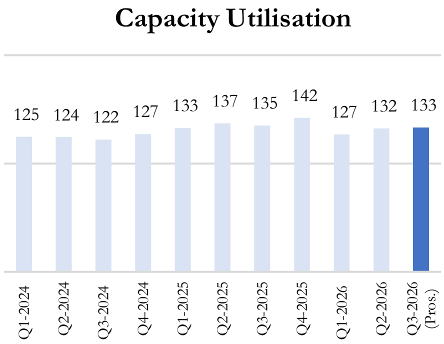
- The Business Condition Index, which captures firms' assessments of the current and future business environment, eased in Q2 2026 amid heightened macroeconomic uncertainties arising from the conflict in the Middle East, but remained marginally above the neutral threshold. Expectations for Q3 2026 pointed to a relative improvement in business confidence following the easing of global tensions.
- Sectoral developments indicated that the slowdown in overall business sentiment was driven primarily by weaker sentiment in the Agriculture and Industry sectors, whereas the Services sector remained resilient.

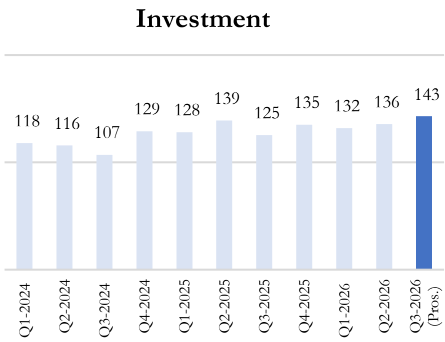


Outlook for Q3 2026

- Demand and sales volumes are projected to expand year-on-year in Q3 2026, steered primarily by the Industry and Services sectors, whereas Agriculture is expected to remain below the neutral threshold. In line with these broader demand conditions, capacity utilisation is projected to improve during Q3 2026.
- The balance of opinion on investment is expected to improve in Q3 2026, mainly driven by the Industry and Services sectors, where most firms are expected to invest for expansion.

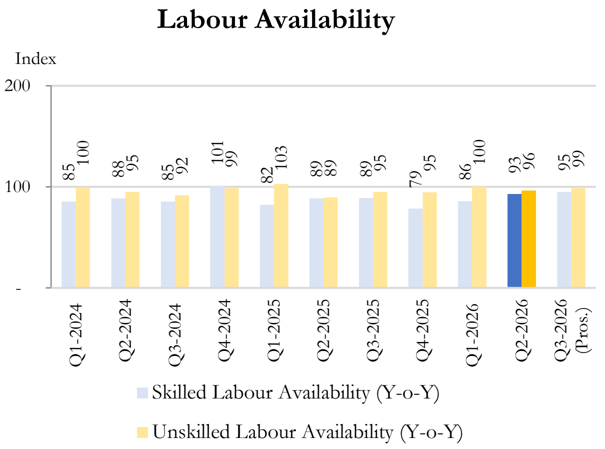


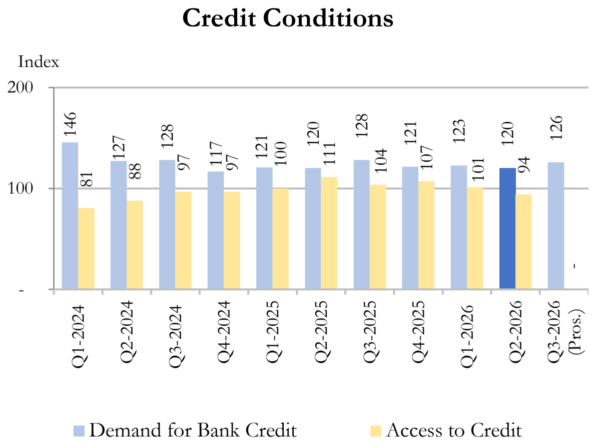




[1] The Statistics Department of the Central Bank of Sri Lanka initiated a quarterly Business Outlook Survey (BOS) in the second Quarter of 2014 to assess current and future business conditions. The BOS summarises opinions expressed by the respondents of around 100 firms, which were selected in accordance 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).

- Both skilled and unskilled labour availability is projected to remain below the neutral threshold in Q3 2026.
- The balance of opinion on bank credit demand is expected to increase in Q3 2026, which is largely for operational purposes.





Developments in Q2 2026

- The Industry and Services sectors buoyed overall sales and demand volume indices in Q2 2026, driving an improvement in overall business activities while Agriculture remained broadly around the neutral threshold. The overall capacity utilisation improved on a year-on-year basis in Q2 2026 while the balance of opinion on investment also improved.
- Firms reported a notable increase in input and output prices in Q2 2026 on a year-on- year basis, which was evident in all three sectors.
- The balance of opinion on demand for bank credit increased across all sectors in Q2 2026, while credit accessibility was reported as broadly normal during the quarter. Among respondents perceiving credit conditions as 'tight', the primary headwinds cited were higher-than-expected market lending rates and prevailing balance sheet constraints.

How the Index is Compiled

Business Sentiment Index$(\mathrm{BSI})_k = \sum_{i=1}^{n} \frac{x_i}{n} \times 100 + 100$ 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 $= \sum_{k=1}^{K} w_k \times \mathrm{BSI}_k$, where w_k: GDP weight of k^{th} sector.