

AHK Sri Lanka World Business Outlook Fall 2024

Results of a survey among German companies
in Sri Lanka



AHK Sri Lanka Business Barometer Fall 2024

Introduction

The AHK Sri Lanka Business Barometer Fall 2024 offers a comprehensive analysis of the sentiments and expectations of German companies operating in Sri Lanka. As part of the broader AHK World Business Outlook, this survey was conducted by the German Chambers of Commerce Abroad (AHKs) between 23 September and 16 October 2024. The global survey gathered feedback from 3,500 German companies worldwide, with 55 companies operating in Sri Lanka contributing to the Sri Lankan segment.

With a participation rate of 52.88%, the Sri Lanka survey provides a reliable and representative snapshot of these companies' experiences. This report examines the economic outlook, business performance, and challenges they face, highlighting their resilience and cautious optimism in the Sri Lankan market.

Representing a diverse range of industries and varying significantly in size and structure, the surveyed companies offer valuable insights into the unique dynamics of German business operations in Sri Lanka.

Industry Representation:

- Manufacturing and Construction: 32.73%
- Trade: 29.09%
- Services: 38.18%

Company Size (by Employees):

- Less than 100 employees: 38.18%
- 100 to 1,000 employees: 30.91%
- More than 1,000 employees: 30.91%



Company Type:

- Subsidiary/branch/representation of a German company: 74.55%
- Local company with a branch in Germany: 3.64%
- Local company without a branch in Germany: 12.73%
- International company with a branch in Germany: 3.64%
- International company without a branch in Germany: 5.45%

Economic Outlook for 2024/25

German companies in Sri Lanka have demonstrated growing optimism about the country's economic prospects. A striking 43.64% of respondents believe that the local economy will improve in the next 12 months, significantly up from 28% in Fall 2023. This figure is notably higher than the average optimism seen across the Asia-Pacific region (excluding Greater China), where only 15% of companies expect improved economic conditions. In contrast, optimism in the EU27 has declined significantly, with a balance of -18 points, indicating more companies expect the economic situation to worsen.

Despite uncertainties surrounding the Sri Lankan presidential elections, the stability anticipated by local businesses stands in stark contrast to the broader cautious sentiment seen across Asia and the EU27.

Business Performance and Sentiment

The survey reflects a marked improvement in business sentiment among German companies in Sri Lanka. The proportion of companies rating their current business situation as "Good" rose to 38.18%, nearly doubling from 20.69% in Fall 2023. This improvement underscores the resilience of German businesses in Sri Lanka amidst external challenges. Meanwhile, 52.73% of respondents rated their situation as "Satisfactory," showcasing a broad base of stable operations. However, only a limited number of businesses, 9.09%, reported facing unfavourable conditions, indicating that challenges persist for a minority of companies.

This performance in Sri Lanka, reflects the upward trend in Asia-Pacific sentiment (44% reporting "Good"), and it outpaces performance in Greater China (29%) and the EU27 (29%).

Future Business Development

Exchange rate volatility (71.70%) and economic policy conditions (67.92%) have emerged as the most significant risks for German companies operating in Sri Lanka. These concerns are consistent with those reported across the Asia-Pacific region, where fluctuating exchange rates and inconsistent policy environments pose ongoing challenges. In Sri Lanka, exchange rate volatility remains a pressing issue due to the Rupee's strengthening against the Dollar, which impacts export competitiveness and raw material costs. Additional challenges include rising labour costs, as well as increasing prices for energy and raw materials, further straining business operations.

Beyond these primary challenges, companies also highlighted several specific risks:



- Climate change impacts, particularly on agricultural productivity
- Growing competition and market saturation in certain sectors
- Geopolitical tensions and their economic ripple effects
- Influx of poor-quality products in critical markets, particularly life-saving goods, underscoring the need for stringent quality controls
- A lack of multilingual staff, limiting operational efficiency in certain industries

Interestingly, concerns about demand-related risks are comparatively lower in Sri Lanka, with only 32.08% of respondents identifying them as a challenge. This is significantly below the Asia-Pacific regional average of 51% and the EU27, where inflation and policy uncertainties dominate the risk landscape. This suggests that Sri Lanka offers a relatively stable market for demand-driven industries, providing a degree of predictability amidst other uncertainties.

Notably, supply chain disruptions, a critical issue in previous years, have significantly eased, offering businesses some relief in managing logistics and operations. This improvement marks a positive development, reflecting efforts to stabilize infrastructure and streamline processes.

Competitiveness and Long-term Trends

German companies have demonstrated strong competitive positioning in Sri Lanka over the past five years. Nearly 42.31% of respondents reported improvements in their competitiveness, highlighting their ability to adapt and thrive in the local market. A further 40.38% indicated stable conditions, suggesting that most businesses have either maintained or enhanced their market presence. These trends underscore the opportunities available in Sri Lanka, despite the broader challenges that companies face.

Sri Lanka's performance is in line with the Asia-Pacific regional average of 44% and reflects the ability of businesses in Sri Lanka to adapt and grow despite external challenges.

Global and Regional Context

As part of the Asia-Pacific region, Sri Lanka stands out for its positive economic and business outlook among German companies, especially when compared to the EU27. While European markets grapple with declining optimism and policy-driven challenges, Sri Lanka presents a relatively stable and growth-oriented environment. German companies in Sri Lanka reflect a higher degree of confidence than their counterparts in Greater China and other parts of the EU27, further emphasizing the country's strategic importance.

Conclusion

The AHK Sri Lanka World Business Outlook Fall 2024 underscores the growing confidence of German companies in Sri Lanka, despite challenges such as exchange rate volatility and economic policy uncertainties. Positioned within the Asia-Pacific region and tied to the EU27 through their German roots, these companies highlight Sri Lanka's potential as a dynamic and competitive market. The country's optimism and growth trajectory exceed both regional and European benchmarks, making it a key market for sustained investment and strategic growth. However, addressing the identified risks will be essential for leveraging these opportunities and ensuring continued success.