

AHK Sri Lanka Business Confidence Survey 2018

-1st Phase analysis-

Germany is the 4th biggest economy in the world and is becoming an increasingly important business partner for Sri Lanka. While most of the German brands are leading in their respective industry, some German companies are engaging predominantly with the Sri Lankan manufacturing sector. Currently, Germany stands at 4th place among the Sri Lanka's exports destinations. Also, Sri Lankan exports to Germany grew by 13% in 2017 to € 653 Mn. whereas the imports from Germany increased by 81% to € 570 Mn. Furthermore, the total direct investments to Sri Lanka from Germany amount to USD 1.2 Bn. in total and to USD 6 Mn. in the year 2017. This report will illustrate a summary of the Business Confidence Survey which was conducted by AHK Sri Lanka to gather and analyze the business climate in Sri Lanka as received by the German Companies.

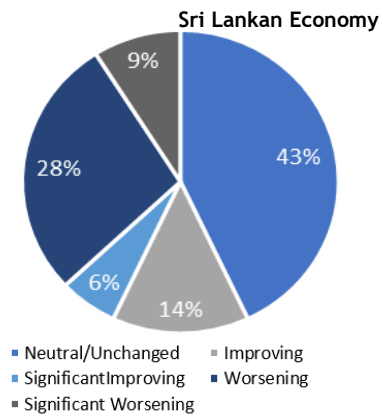
The first phase of the survey was conducted from 1st July to 5th September 2018. The survey consisted of 10 questions including general questions about the survey participants. 40% of the companies have responded to the survey, and out of these 73% have been doing business in Sri Lanka for more than 10 years. The industries in which the companies are engaged, were from the machinery and equipment, automobile, electronics and medical devices sectors. The local entities of German companies mainly operated in the field of production, sales/marketing followed by services and sourcing sectors.

Economic Outlook

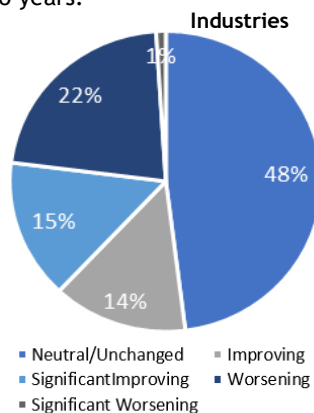
Q: How would you evaluate the economy and general outlook for your industry in Sri Lanka in 2018/2019?

Regarding the overall economic situation in Sri Lanka, 63% of respondents had a neutral or improving perception. While 43% evaluated that the Sri Lankan economic situation will be unchanged for another two years,

28% felt the situation will worsen in next years. 20% of the respondents expect an improving economic situation from the Sri Lankan side.

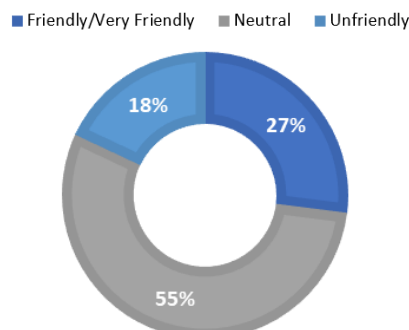


Regarding their respective industries, German companies' outlook resembled their perception of the economic situation in Sri Lanka, with 77% of the companies perceiving the situation in the industry as neutral or improving and only 22% expecting it to worsen in next two years.



Business Friendliness

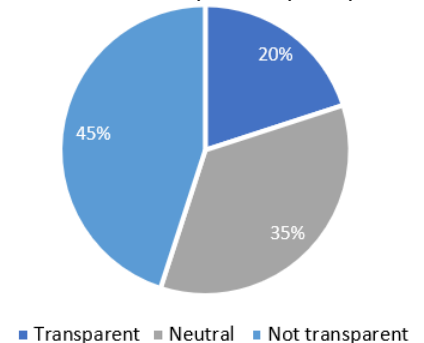
Q: How friendly do you consider local authorities in Sri Lanka towards your business operation?



Most of the German companies feel that local authorities are neither friendly nor unfriendly to fulfill their requirements. Yet, while 73% responded with neutral and improving, 27% believed that it is easy to work with the local authorities since they are friendly.

Q: Please rate your access to public tenders. How transparent are public tender procedures?

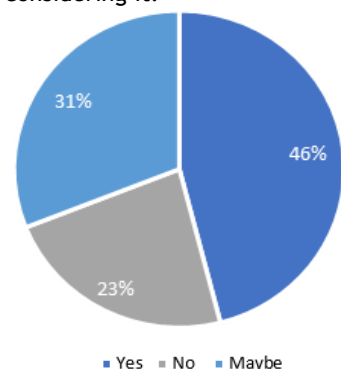
In terms of tender procedures, more than 45% German companies stated that the government tender procedure is not transparent and it should be developed further. 35% were neutral and 20% stated a positive perception.



Investment Climate

Q: Is your Sri Lankan business operation planning any investments at new locations in Sri Lanka within the next 2 years?

German companies are very interested in investments in new locations in Sri Lanka. This year, 46% of the participants stated that their business operation in Sri Lanka is planning an investment of any kind at a new location in Sri Lanka within the next 2 years and 31% are considering it.

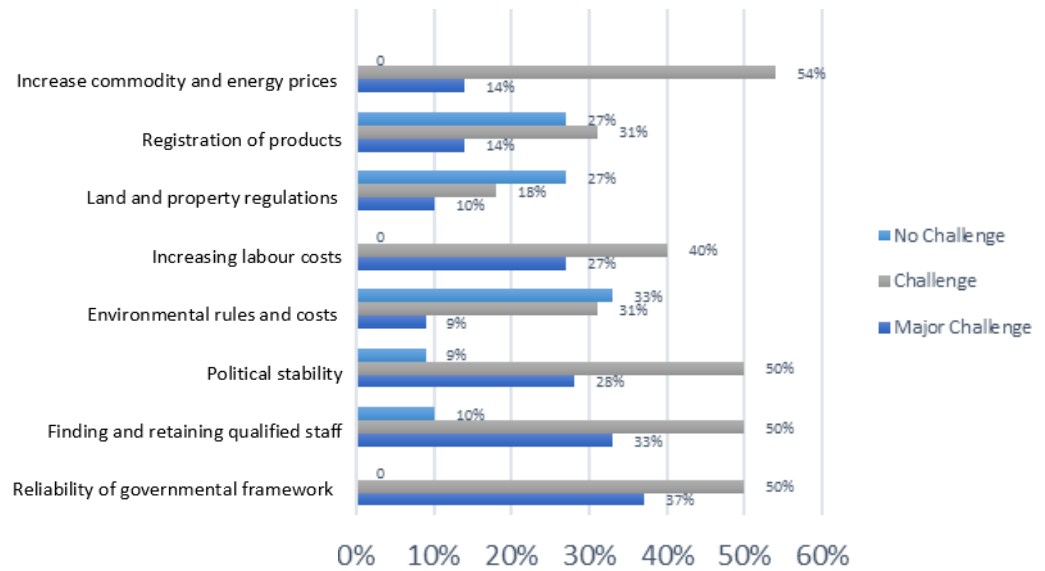


Major Challenges

Q: Please evaluate your current business challenges.

Among major business challenges, reliability of governmental framework stood at the top, being challenging for 37% of the German companies. Additionally, finding and retaining qualified staff have created another major challenge for 33% of the total respondents. Further, a lack of faith in the political stability was seen as a major challenge. 54% have clearly emphasized that increased commodity and energy prices became a challenge for them as they run their business in Sri Lanka.

Most of the German companies felt that the environmental rules and costs are not representing serious challenges for them.



The first phase of the survey results shows that the expectations of German companies in Sri Lanka are rather neutral for the upcoming year. Yet, German companies are confronted with different challenges and limitations that need to be addressed in the near future.

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