2012 CEO Business Outlook Survey by MTI Market Research

Despite concerns about the global economic outlook, Sri Lankan businesses seem confident that the local economy and their own businesses will perform even better in 2012. However, there are some underlying concerns with regards to FDI, Inflation, Balance of Payment, Interest Rates and Governance. This is the essence of the 2012 CEO Business Outlook Survey conducted by MTI Market Research (www.mtimarketresearch.com) . The survey covered over 100 Sri Lankan CEOs from diverse sectors.

Global Worries

75% of the respondents feel that in 2012 the global economy will either remain depressed (66%) or further slide (9%). The Euro Zone and North America, which together represents 58% of the global economy still represents 46% of Sri Lanka's exports, therefore reduced consumption levels in these markets is likely to impact Sri Lanka. In this regards, Sri Lanka's strategy of export diversification to Asia and other emerging markets is a prudent move, but requires significant market development to convert the intent to export earnings. The fact that even the BRICS have started to downward revise their growth rates and resorted to devaluation is certainly a concern for emerging markets like Sri Lanka.

Tea, which is Sri Lanka's second highest export earner (US$ 1.4billion) depends significantly on the Middle East, Russia and the neighboring former Soviet States. Most of these markets are likely to see a continuation of the socio-political challenges, the only consolation being that tea is an integral part of the staple diet.

Above all, another 2008 style global financial crisis remains the biggest short term threat to the global economy

Sri Lanka will march on!

By contrast, almost 90% of the respondents feel that the Sri Lankan economy will either stabilize (65%) or even accelerate (24%). This certainly is an encouraging sign of optimism and comes on the back of 2 ½ years of exceptionally high economic growth, the tangible results of this has been experienced across most sectors.

75% expect the global economy to remain depressed – yet 90% feel that the Sri Lankan economy will stabilize or accelerate

The fact that 75% expect the global economy to remain depressed or slide further, yet almost 90% feel that the Sri Lankan economy will stabilize or accelerate, is an interesting paradox! While the optimism of the local business community (even in the face of global challenges) needs to be commended, we should not lose touch with global 'ground reality'.

The silver lining for Sri Lanka would be the strength of our apparel industry (that caters to some of the world's top brands, while making remarkable progress in moving further on the value chain) and the tourism industry that benefits from the end of the war, the relatively undiscovered product (in Sri Lanka) and relatively low expectations from the first time traveler to the Island.

Sri Lankan businesses expect an even better 2012

Interestingly, 58% expect their business to do better in 2012 compared to their performance in 2011, while another 31% expect the same level of performance as in 2011. Only a minority of 11% expect a slide in 2012.

58% of Sri Lankan businesses expect 2012 to be better than 2011
31% expect it to be the same as 2011

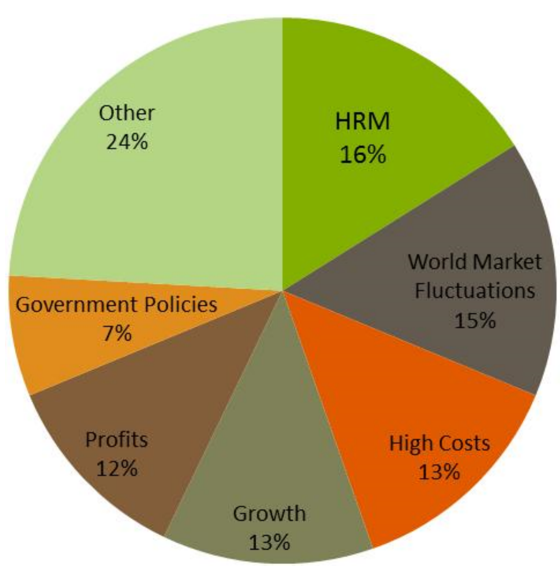
Business Challenges

HR retention is viewed as the single most weighing issue with a consideration of 17.5% of the respondents reflecting HR related matters as their main business challenge. High utility costs (14.6%) and Expansion (13.6%) are also considered as a challenge to businesses in the next 12 months. At the same time, adding on to the bottom line worries of the decision makers is the challenge of profit generation (12.6%).

The top 6 Challenges for the Sri Lankan Economy

	% of respondents
Low FDI	13.5
Exchange Rates	12.0
Inflation	10.5
Balance of Payment	10.5
Interest Rate	9.0
Good Governance	8.3

In 2012, the main business challenge will be:



Ground Reality – verbatim response from some of the CEOs

- To recruit the right caliber of employees to cater to our expansion plans.
- Retain customers, staff and innovate our business.
- To manage costs to ensure good margins.
- Rising interest rates, volatile commodity prices and increasing electricity tariffs.
- Financial stability in the Middle East and Europe.
- Depressed economies resulting in less buying power.
- Strengthen the fundamentals and take off to next level.
- Cost of borrowings to remain at present levels.
- Ability to respond fast to changing needs in the market