

Market Update

CBSL implements single policy interest rate ; cut rates to stimulate growth.

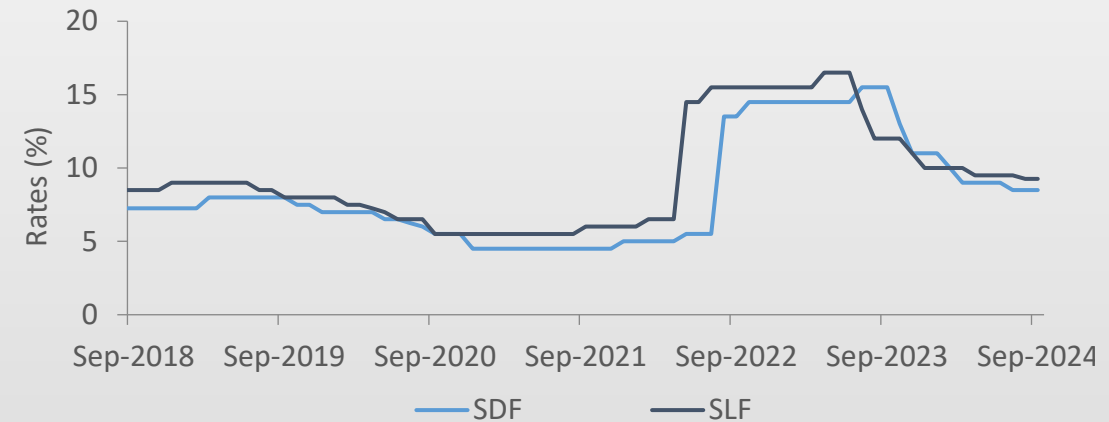
SL launches ISB's exchange after cabinet approval.

27th November 2024

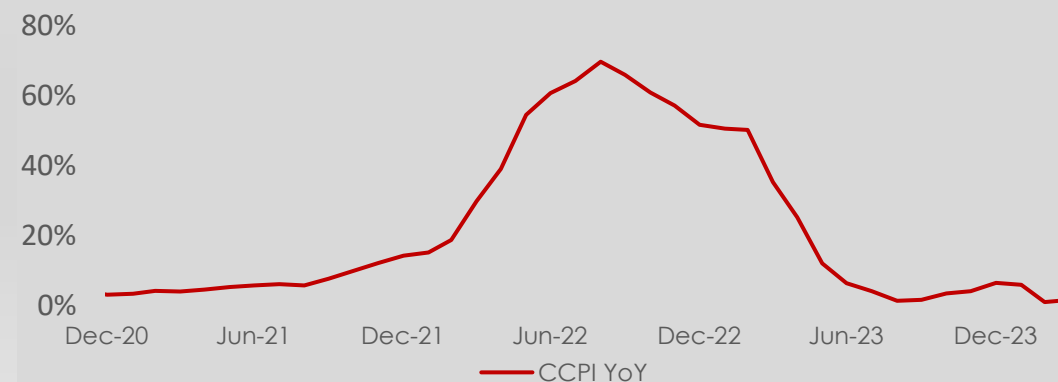
CBSL MOVED TO A SINGLE POLICY RATE, MATCHING GLOBAL STANDARDS

- The Central Bank of Sri Lanka has adopted a single policy interest rate, replacing the dual rate system, to strengthen monetary policy signaling and improve the efficiency and effectiveness of its transmission. The new rate, termed the Overnight Policy Rate (OPR), will replace the SDFR and SLFR as the central policy rates.
- The International Monetary Fund, which has a loan program with the country, recommended adopting a single benchmark rate to enhance policy transmission. Many advanced economies use a single policy rate, so adopting this system aligns Sri Lanka with global standards in our view. A single rate simplifies monetary policy, where single rate policy will ensure a more consistent and effective transmission of monetary policy through the economy, influencing lending rates and overall economic activity. We view managing a single policy rate could further reduce complexity for the CBSL, thereby enhancing market confidence.

SL to adopt a single rate policy , replacing the dual system



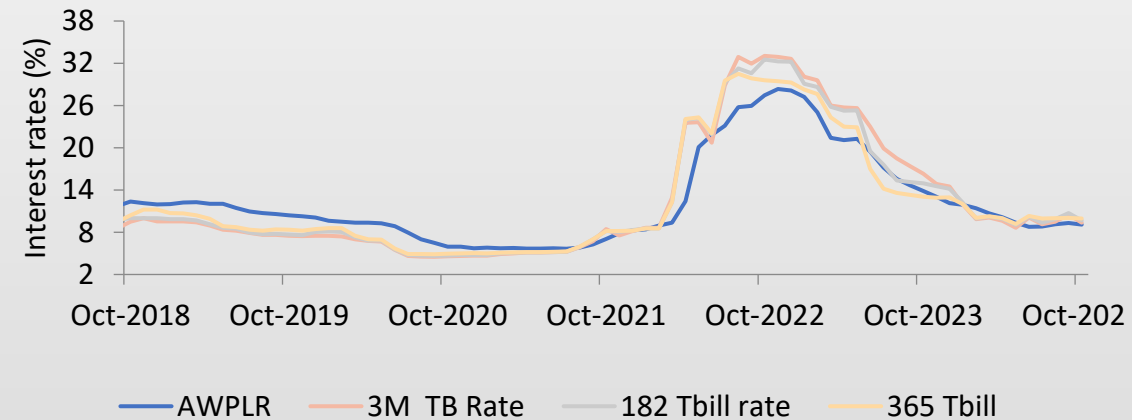
Inflation is projected to remain in the deflation range and gradually increase by mid-2025, aligning with the CBSL's target rate of 5%.



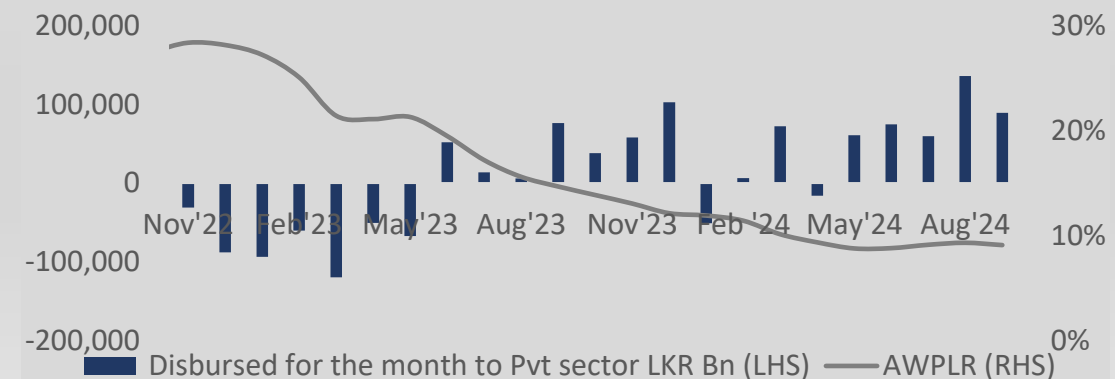
CBSL CUTS RATES BY ANOTHER 50BPS TO STIMULATE GROWTH

- The Board decided to ease the monetary policy stance after thoroughly evaluating current and anticipated domestic and global economic conditions, including associated risks and uncertainties. With this change, CBSL reduced the rates by 50bps, setting the Overnight Policy Rate (OPI) at 8%. With this change, the effective reduction in policy rates would be around 50bps (CBSL has cut rates by 1125bps since easing of monetary policy stance in June'23) from the Average Weighted Call Money Rate (AWMCR), which continues to serve as the operating target of the Flexible Inflation Targeting (FIT) framework (Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) will no longer be considered policy interest rates of the CBSL).
- In our view, changes in the OPI will be more effectively reflected in the broader economy and financial markets. We expect the AWPLR to fall to 8.5%-8.7% by the end of 2024E (from the current 9.08%), supporting private sector credit growth to reach the mid-to-high teens by 2025E, further bolstered by increased economic activity (private sector credit growth picked up by 8.8% by Sep'24)

Reducing single rate policy rate to lead to more efficient transmission in market rates .



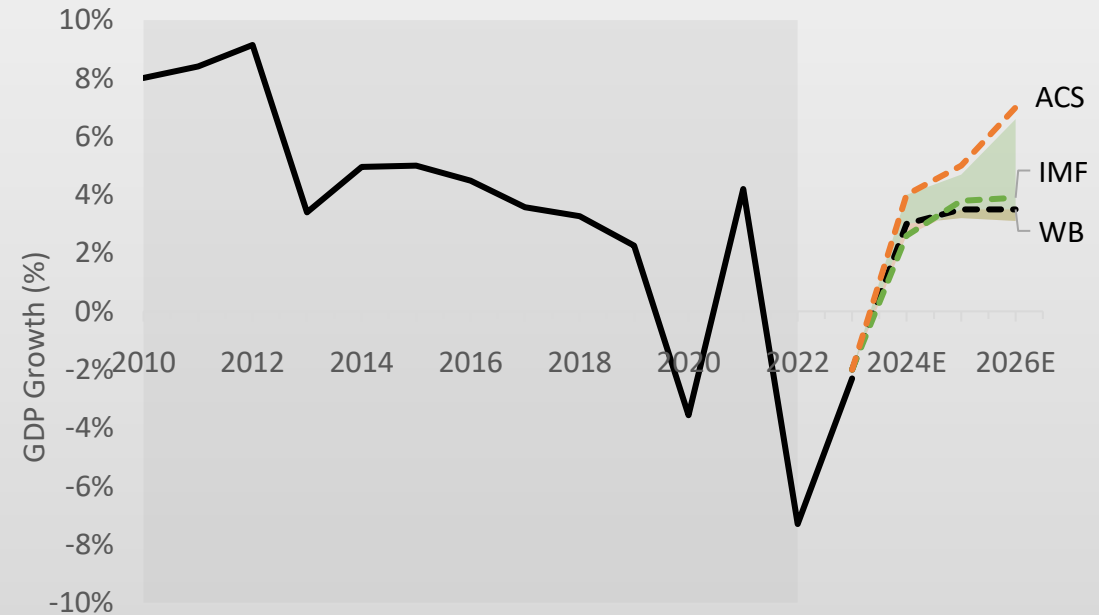
Private sector credit to pick up to mid to high teens by 2025E, underpinned by lower rates and a revival in economic activity.



SL'S MACRO ECONOMIC OUTLOOK REMAINS STABLE

- Sri Lanka is also witnessing improvements in earnings from tourism and workers' remittances during this period, contributing positively to external current account. Gross officials too is now standing at USD 6.5Bn by Oct'24 (from USD 1.8Bn in April'22) which also contributed towards easing of monetary policy stance.
- Sri Lanka's macroeconomic outlook meanwhile also remains stable, with GDP growing at 4.7% in 2Q'24 and expanding well over 5% YoY in 1H'24. ACS as outlined previously, is positive on the economic recovery than some of the conservative predictions taken by other institutions. Low economic base, higher remittances and tourism earnings, SL's strategic geographical location, relief through debt restructuring coupled with political stability and reforms should push the GDP growth to comfortably over >5%-6% levels on YoY basis in our view.

Economy set to return to high growth path



	2024E	2025E
World Bank	4.4%	3.5%
IMF	2%	2.7%
ADB	2.6%	2.8%
CBSL	4.5%-5%	NA
ACS	5.5%-6%	>5%

POSITIVE MOMENTUM SHOWN IN MANY MACRO INDICATORS

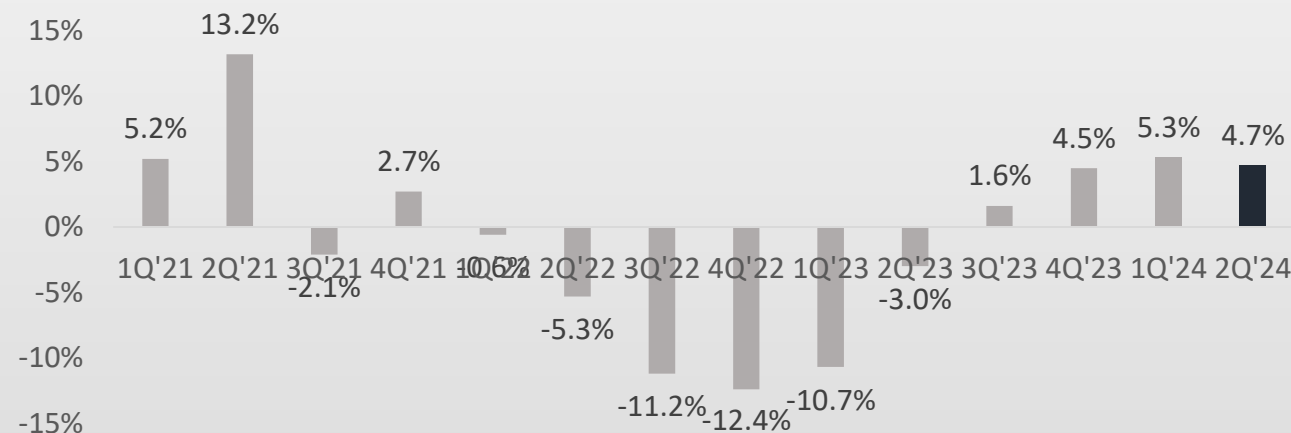
PMI for both manufacturing & services is trending upwards, indicating higher activities



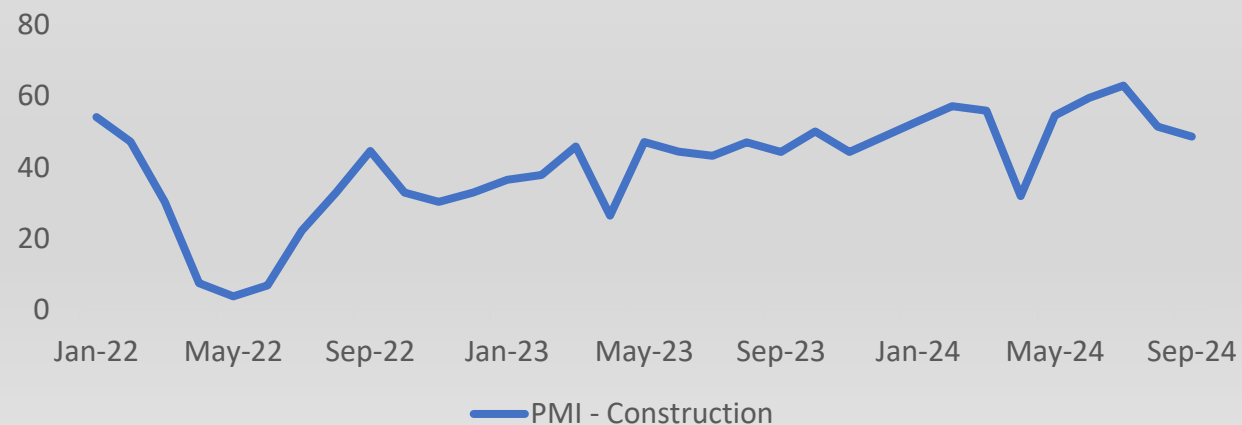
Business Confidence has strengthened significantly



Sri Lanka recorded an economic growth of 5% for 1H'24



PMI for Construction is growing, signaling an expansion in sector

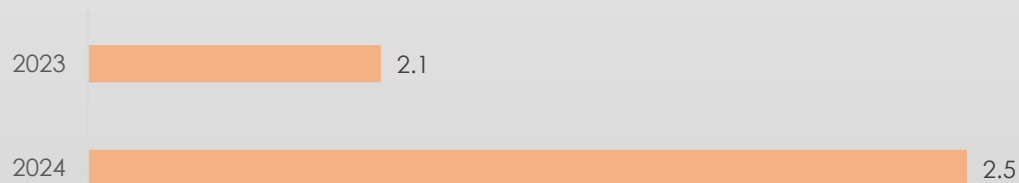


TOURISM & REMITTANCES CONTRIBUTE TO ACHIEVING A POSITIVE CURRENT ACCOUNT BALANCE.

By October 2024, Sri Lanka had already exceeded its total number of tourist arrivals for 2023.



By October 2024, Tourism income touched USD 2.5Bn



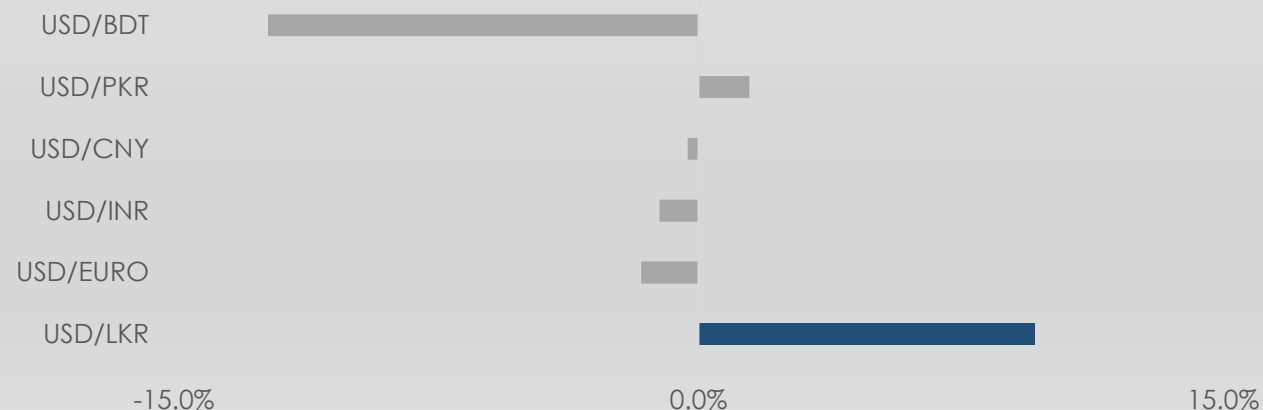
By October 2024, 91% of the worker remittance income from 2023 had already been achieved.



Gross Official Reserves surpassed well above the IMF target of USD 5.6Bn for 2024



LKR has already appreciated by 11.3% YTD against USD



SL LAUNCHES ISB'S EXCHANGE AFTER CABINET APPROVAL

- Sri Lanka has officially launched the restructuring of its International Sovereign Bonds (ISBs), totaling USD12.55Bn, as part of its debt restructuring agenda. The exchange, approved by the Cabinet, invites bondholders to tender their bonds for new instruments by December 12, 2024,
- Additionally, both the IMF and Sri Lanka's Official Creditor Committee have confirmed that the proposed features of the new instruments align with the parameters of the IMF-supported programme and the Comparability of Treatment principle.
- Under the baseline scenario, the country is projected to reduce debt service payments by approximately USD 9.5Bn over the four-year IMF programme period, cut the average coupon rate on bonds to 4.4% from 6.4%, and extend the average maturity profile by over five years.
- IMF staff and Sri Lankan authorities meanwhile also reached a staff-level agreement on economic policies for the third review of Sri Lanka's economic reform program under the Extended Fund Facility (EFF). Upon approval by IMF Management and the Executive Board, Sri Lanka will gain access to approximately USD 333 Mn in financing.

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