

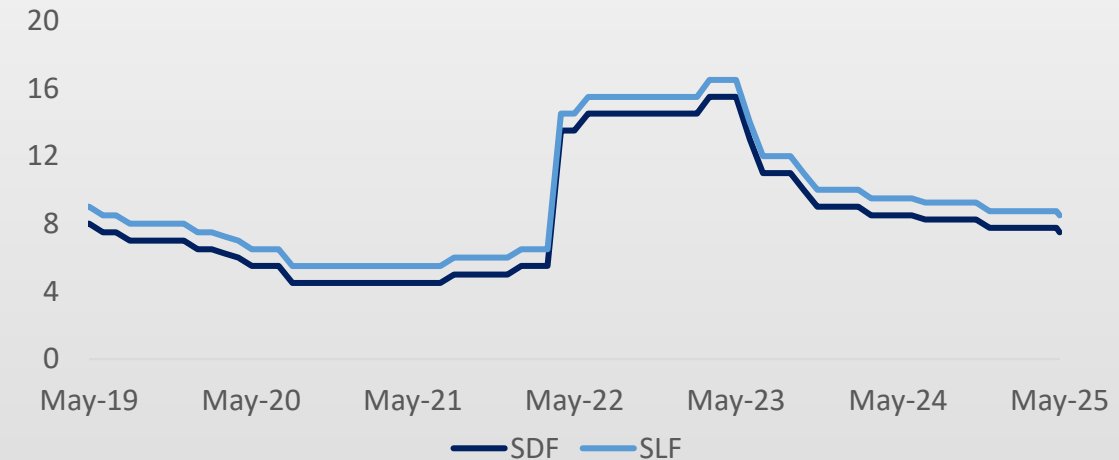
Market Update

Monetary Policy Review

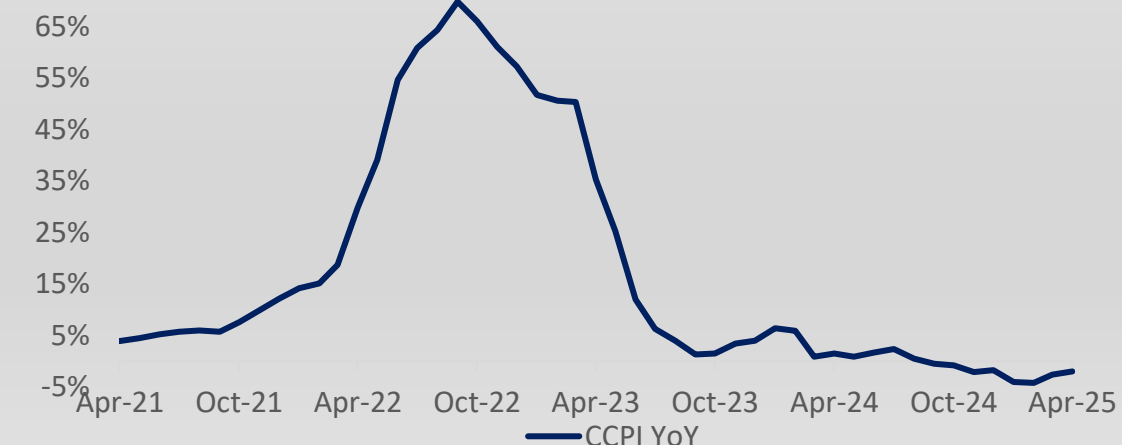
CBSL CUTS POLICY RATES BY 25BPS

- The Monetary Policy Board decided to reduce the overnight policy rates (OPR) by 25 bps to 7.75% at its meeting held yesterday, thereby easing monetary policy further. The Board believes that this measured easing of the monetary policy stance will help guide inflation towards the target of 5%, despite prevailing global uncertainties and currently subdued inflationary pressures. (Sri Lanka has reduced rates by 800bps since June 2023)
- Sri Lanka's economy grew by over 5% in 2024, surpassing all growth expectations. However, this momentum could slow down due to trade-related tensions stemming from recent tariff measures introduced by the Trump administration. These policies could potentially pose a threat to Sri Lankan economic recovery in our view, with likely disruptions to key export markets such as garments and rubber products which is a significant portion of Sri Lanka's export basket.
- Therefore, in our view, cutting policy rates in this context—marked by potential risks of weaker exports, subdued foreign direct investment, a slowdown in tourism, and heightened currency volatility—could help soften the domestic impact and support economic resilience.

CBSL reduce OPR by 25bps to 7.75%



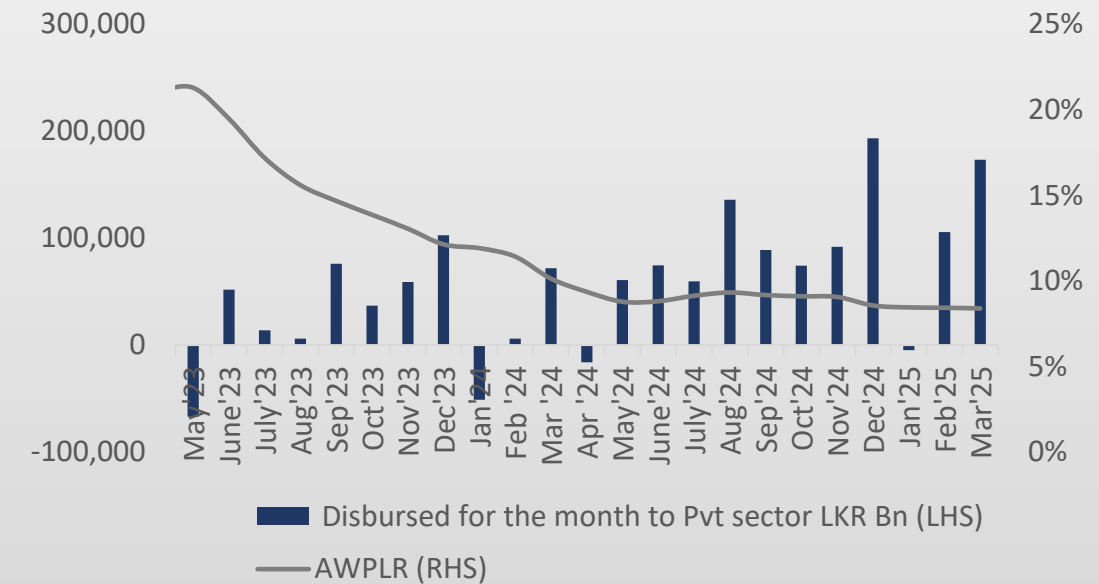
Inflation to turn positive in early 3Q'25 and gradually converge toward the 5% target



CBSL CUTS POLICY RATES BY 25BPS

- Cutting rates could stimulate the economy by supporting liquidity, lowering financing costs, boosting consumption and investment, and helping vulnerable sectors manage the impact of external shocks in our view.
- Inflation is meanwhile projected to turn positive in early 3Q'25 and gradually converge toward the 5% target, with core inflation also expected to increase steadily. Inflation expectations are becoming increasingly aligned with this target specially with base effect and anticipated cost reflective electricity price increases from 2H'25
- Domestic economic activity is progressing steadily, supported by strong private credit growth and lower market interest rates. Market rates have dropped by 20% since Dec'22 (AWPL was at 28.13% and now hovering around 8.58% levels) while private sector credit also picked up by 14% YOY in March'25 extending a total credit disbursement of over LKR 173Bn YTD.

Private sector credit grew by 14%YoY for Mar'25



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