

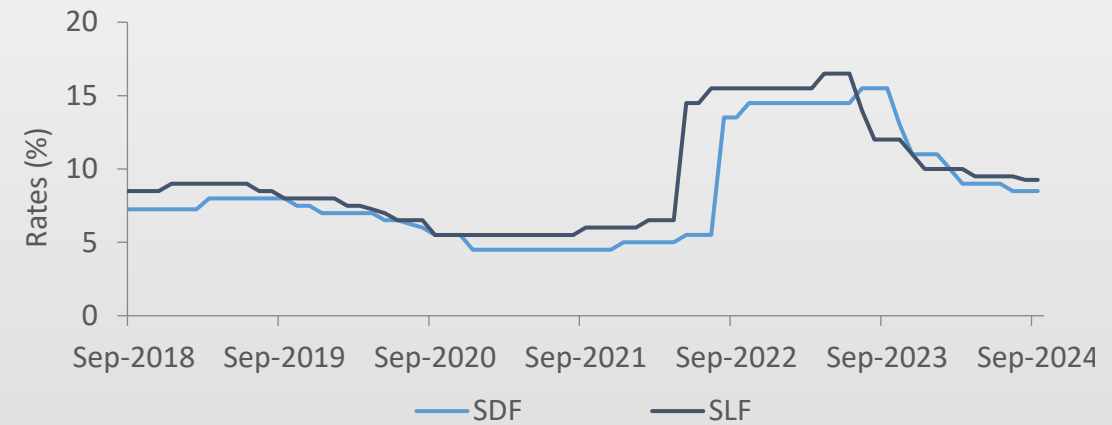
Market Update

Monetary Policy Review

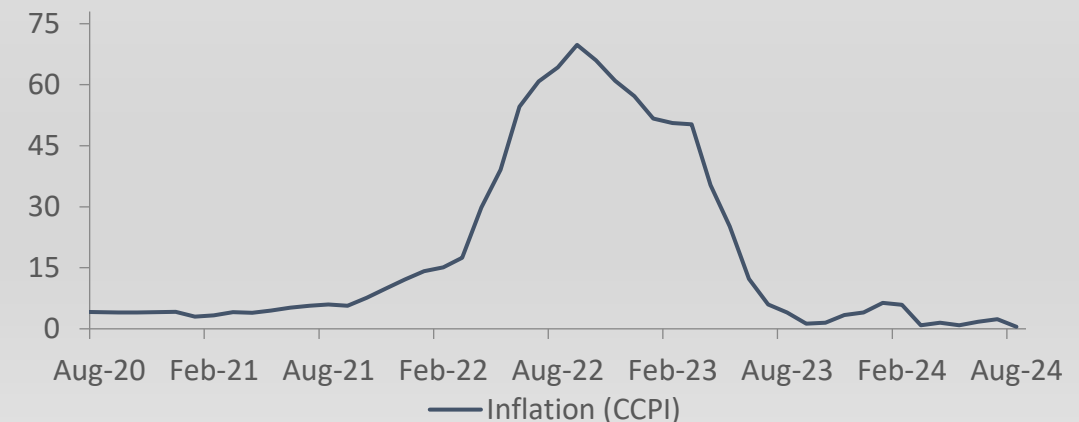
CBSL MAINTAINS POLICY RATES AT THEIR CURRENT LEVELS

- The Monetary Policy Board of the Central Bank of Sri Lanka, at its meeting held on September 26, 2024, decided to maintain the **Standing Deposit Facility Rate (SDFR) at 8.25%** and the **Standing Lending Facility Rate (SLFR) at 9.25%**.
- The Board made this decision after carefully assessing recent and anticipated macroeconomic trends and potential risks, both domestically and globally to ensure inflation aligns with the 5% target over the medium term.
- Further, the Board viewed that inflation is likely to remain well below the target of 5%, with a possibility of deflation in the near term driven by changes to administratively determined prices and easing of supply conditions.
- CBSL meanwhile intends to implement a Single Policy Interest Rate mechanism in near future, as recommended by IMF to target on the middle of a policy corridor.

CBSL maintains SDF at 8.25% and SLF at 9.25%



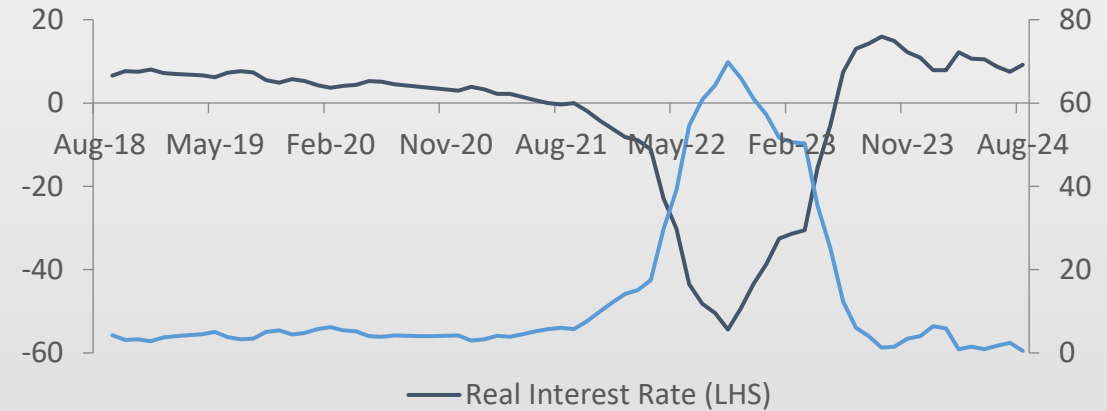
Inflation remains well below the CBSL target level of 5%



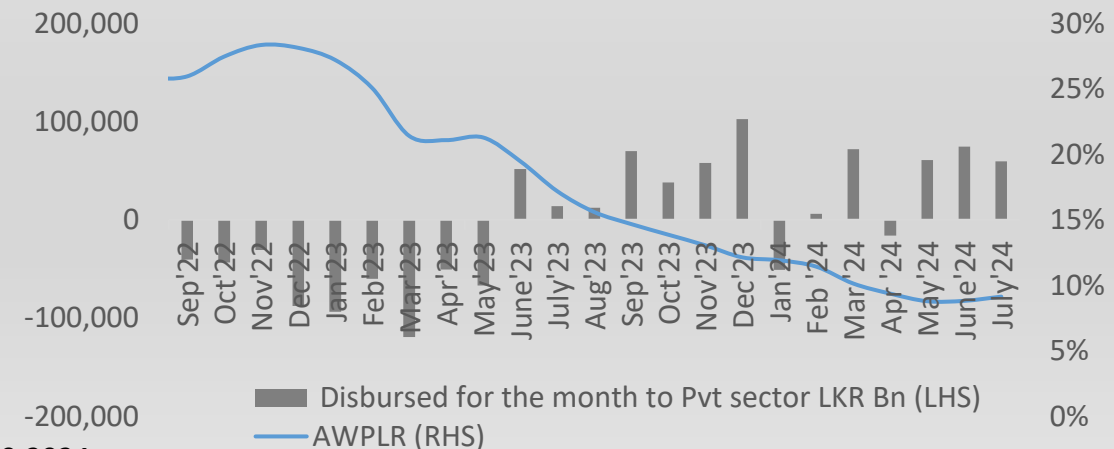
POLICY DIRECTION MAY INFLUENCE THE FUTURE MONETARY POLICY STANCE

- We also think that CBSL will wait for greater clarity on the new government's policy direction, especially concerning upcoming negotiations on the IMF parameters under EEF arrangement. We also believe that the new administration will have limited space to negotiate as IMF will likely agree to adjustments only if the new administration presents credible alternative policies that align with the program's goals. Budget 2025, to be presented in Jan'25 after the interim budget in Nov'24, therefore will incorporate these negotiated terms in our view.
- Although CBSL has the capacity to lower policy rates, specially with real interest rates remaining elevated, we believe that the CBSL will wait for more policy certainty before adjusting its monetary policy stance.
- Interest rates meanwhile that edged up due to market uncertainties leading up to the elections meanwhile should ease with a stable political environment and clearer policy direction in our view. (AWPLR moved up by 60 bps from 8.81% to 9.38% while 3M T bill rates edged up by 135 bps to 10.49 % with in the past two months). Private sector credit growth has already been moving up with credit growth improving by 8.8% YoY.

Real interest rates are higher due to lower inflation



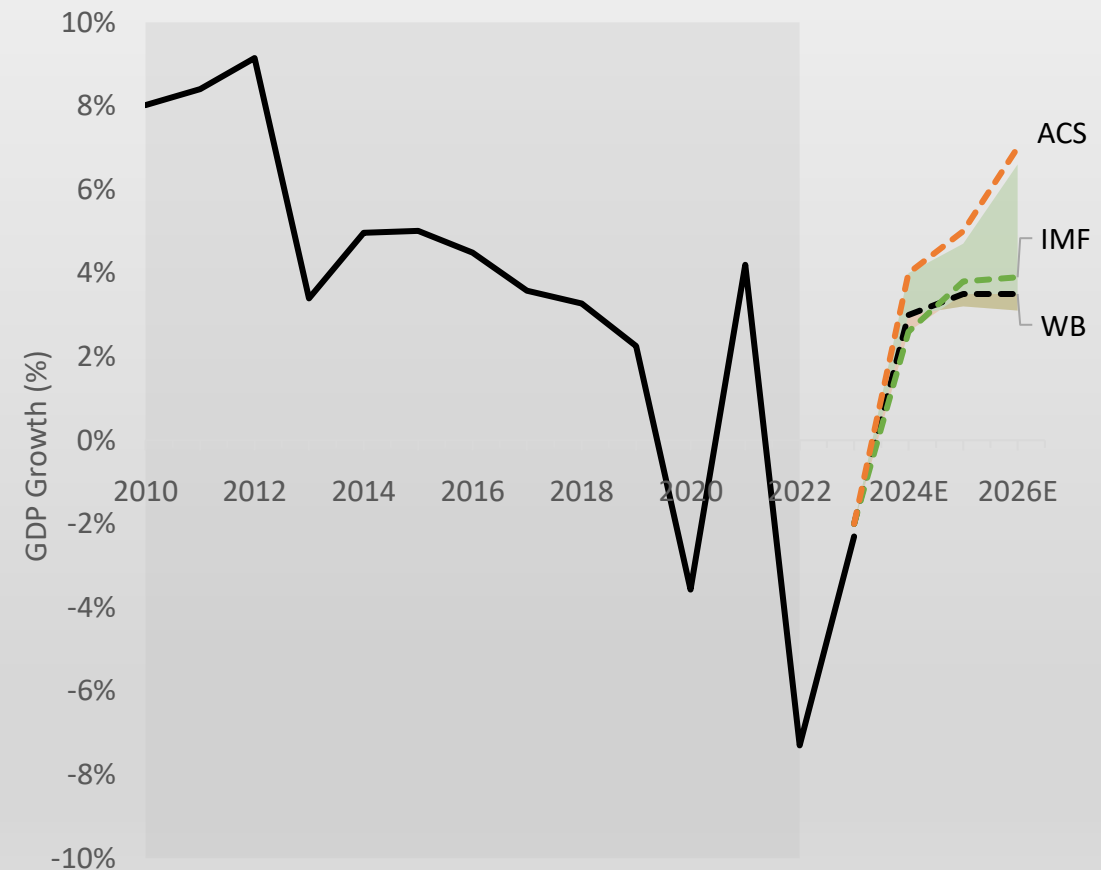
Private sector credit on an upward swing



SL'S MACRO ECONOMIC OUTLOOK REMAINS STABLE

- 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.
- Since inflation is projected to stay below the targeted mid single digit level, we anticipate the CBSL will continue to lower interest rates to support economic recovery as reducing borrowing cost is essential for stimulating growth as it encourages both investments and consumer spending, both crucial for driving economic activities.

Economy set to return to high growth path



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