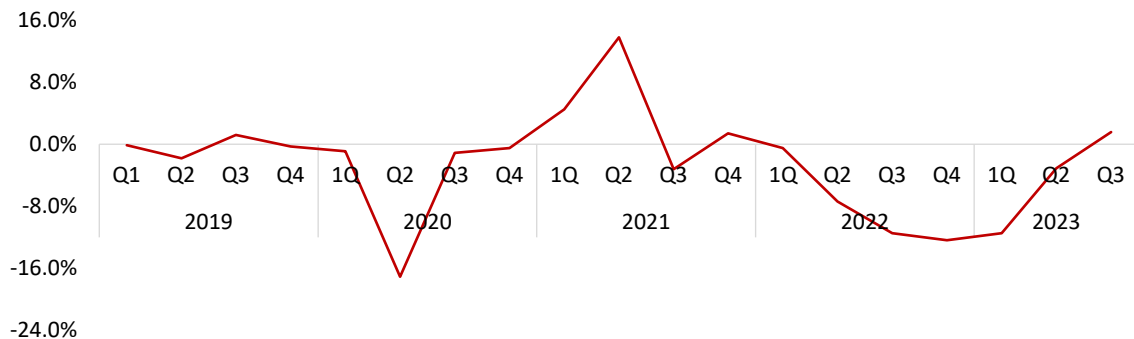


# Market Update

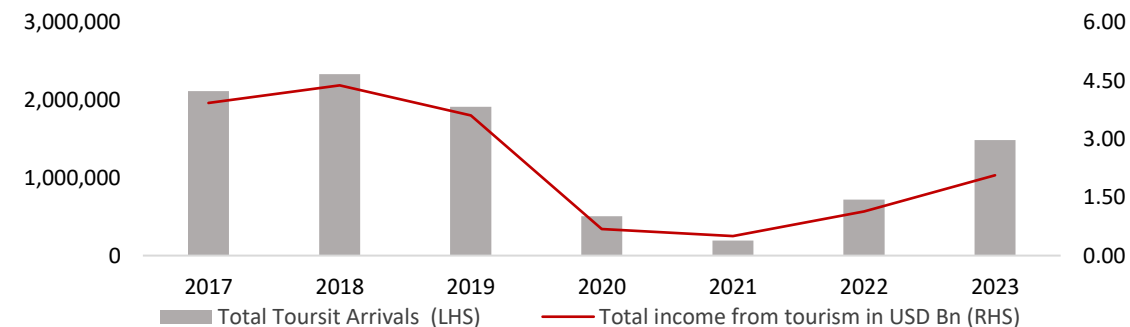


# Activities are gradually picking up, most indicators are showing positive signs of recovery

*GDP is on the rise- Household consumption to pick up*



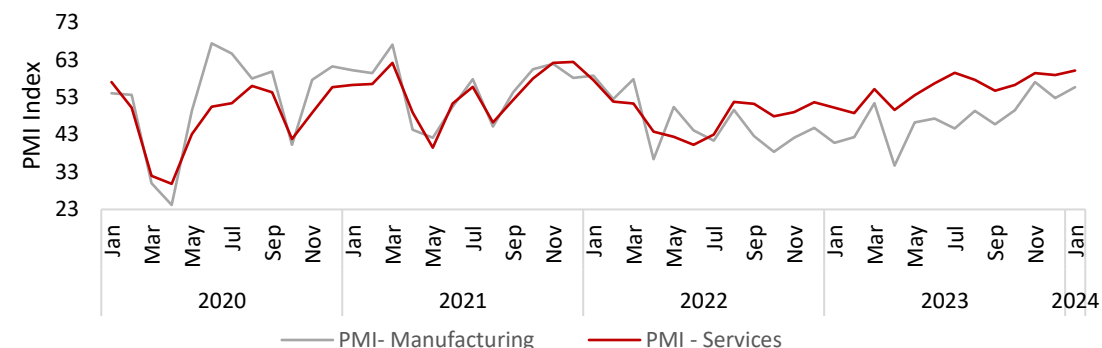
*Tourism arrivals & earnings are picking up significantly*



*Fiscal position is now at comfortable levels; primary balance is now recording a surplus*

LKR Tn	2019	2020	2021	2022	Jan-Nov 23
Government Revenue	1.89	1.37	1.46	2.01	2.77
Government Expenses	3.34	3.04	3.52	4.47	4.79
Primary deficit / surplus	-0.54	-0.69	-1.01	-0.89	0.33
Budget deficit/ surplus	-1.44	-1.67	-2.06	-2.46	-2.02

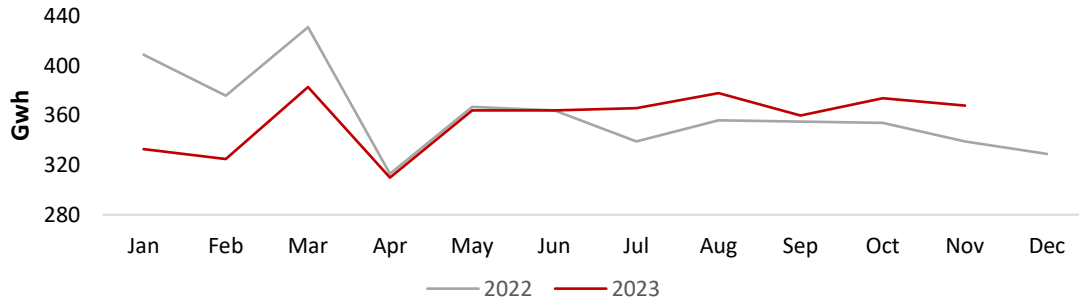
*Both manufacturing and services indices continued to expand.*



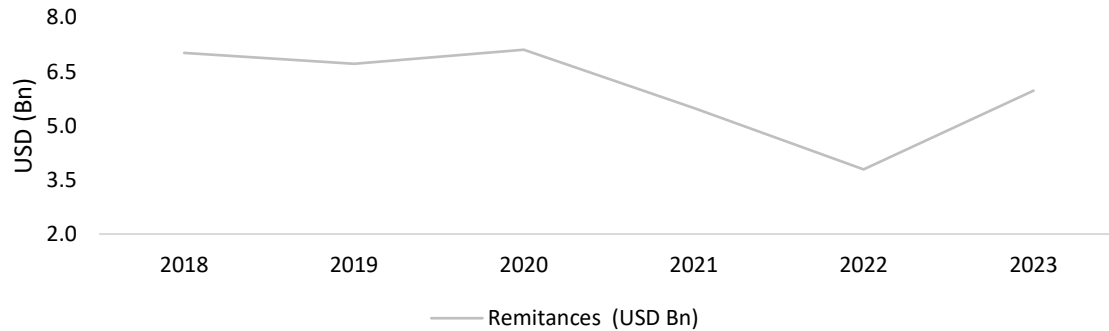


# BOP position turns positive , reserves now comfortably covers 3M of imports

*Electricity usage (industrywide) is on an upward trajectory indicating a pickup in economic activities*



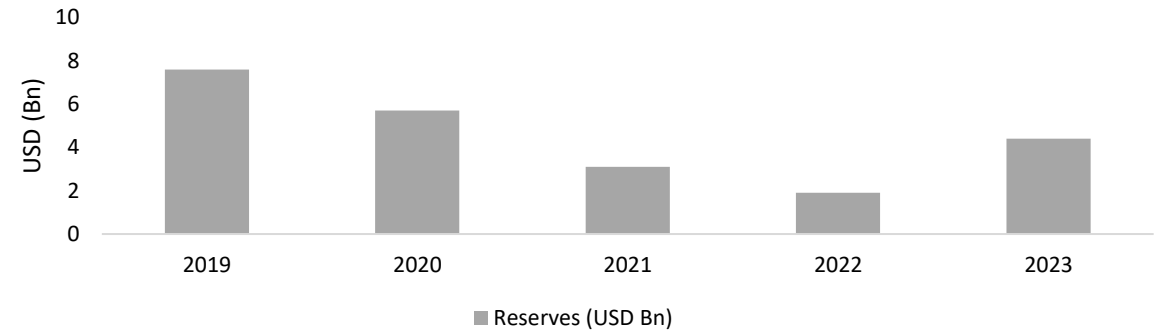
*Remittances nearing to pre pandemic levels*

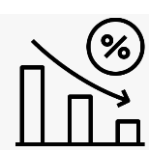


*Balance of payment position has turned positive*

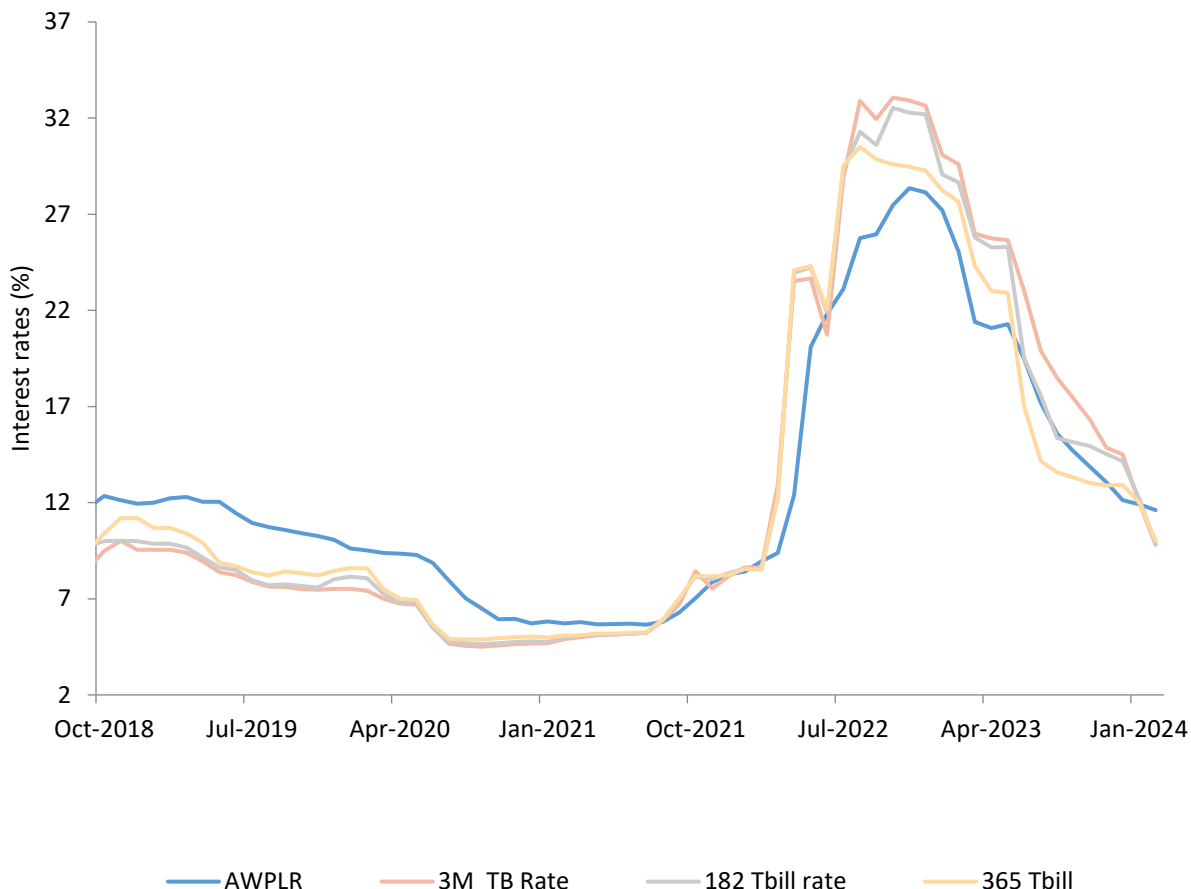
USD Bn	2018	2019	2020	2021	2022	2023
Exports	11.89	11.94	10.05	12.50	13.11	11.91
Imports	22.23	19.94	16.06	20.64	18.29	16.81
Trade Balance	-10.34	-8.00	-6.01	-8.14	-5.18	-4.90
BOP surplus/deficit	-1.10	0.38	-2.33	-3.97	-2.81	2.83

*Reserves improved to cover over 3m of imports*





# Interest rates have fallen to single digits; governments' robust fiscal policy stance to help reduce additional borrowings



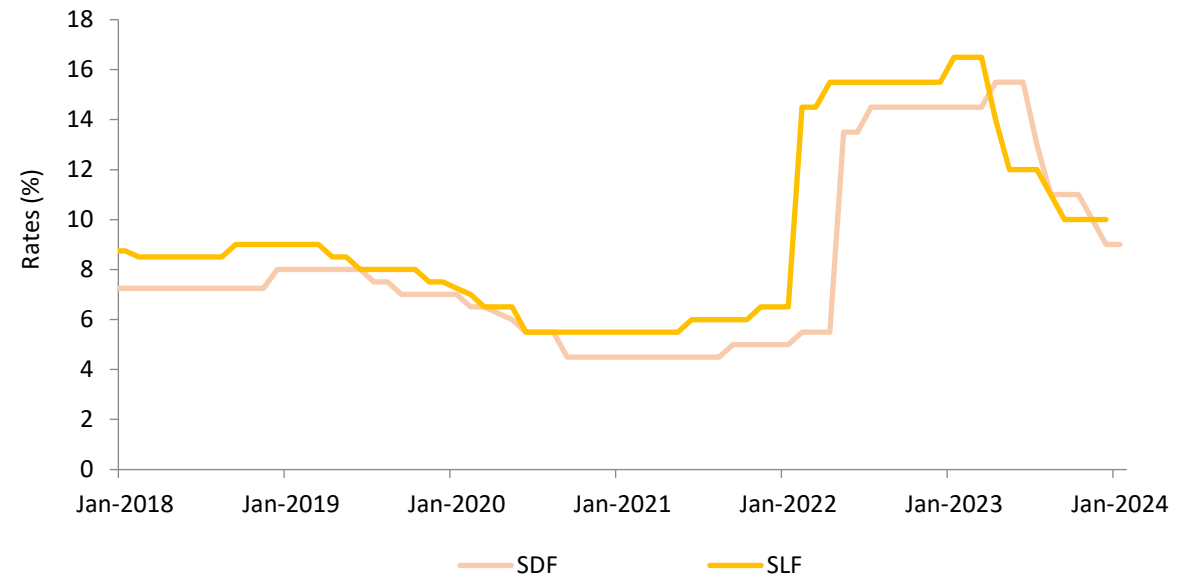
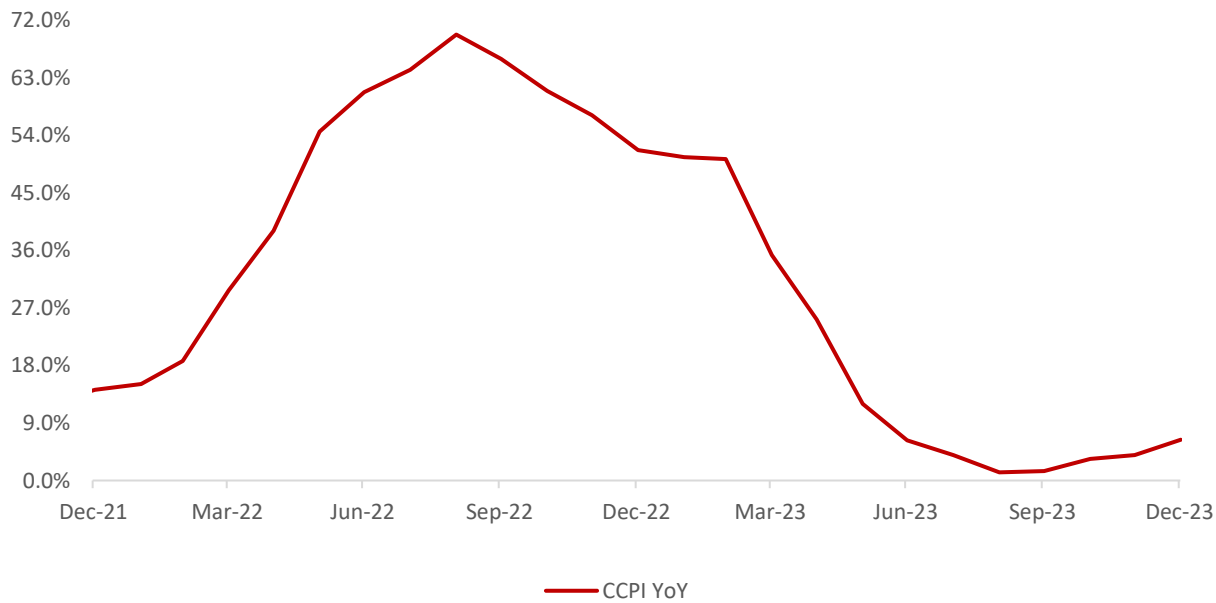
- SL's 3M,6M and 12M treasury bill rates plummeted to single digits for the first time since early 2022 to 9.79%, 9.86% and 10.02% respectively , resulting in a massive 23.26% , 22.67% and 19.58% reduction since its high in October 2022.
- Governments' strong fiscal policy stance helped lower additional borrowings as higher revenue collections resulted in a primary surplus that led to significant reduction in rates.



# Inflation to stabilize at 5%-6% levels , rate cuts to be in the cards by 2Q'24

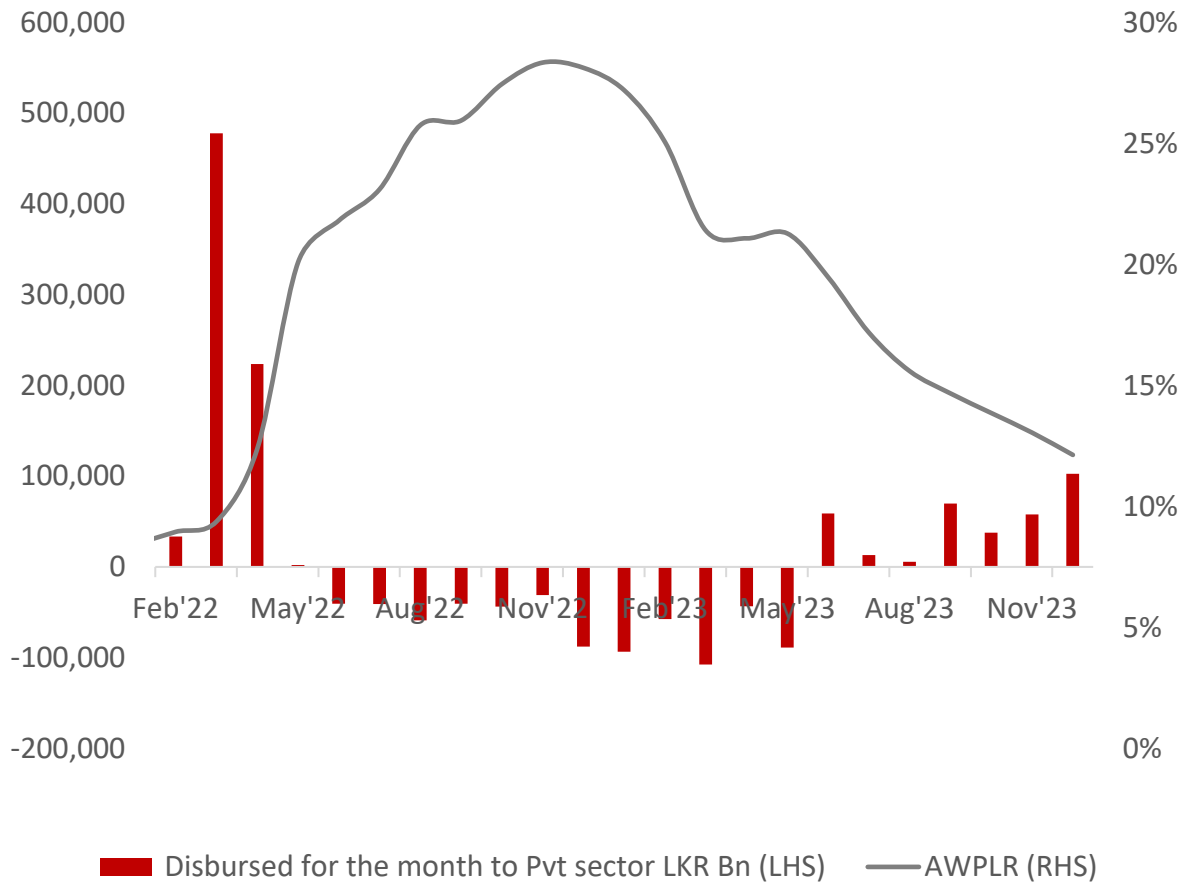
*We expect the inflation to stabilize at 5%-6% levels after a slight uptick with VAT impact and rise in energy bill*

*Policy rates could drop another 100bps by 2Q'24 in our view to stimulate investments and consumption.*



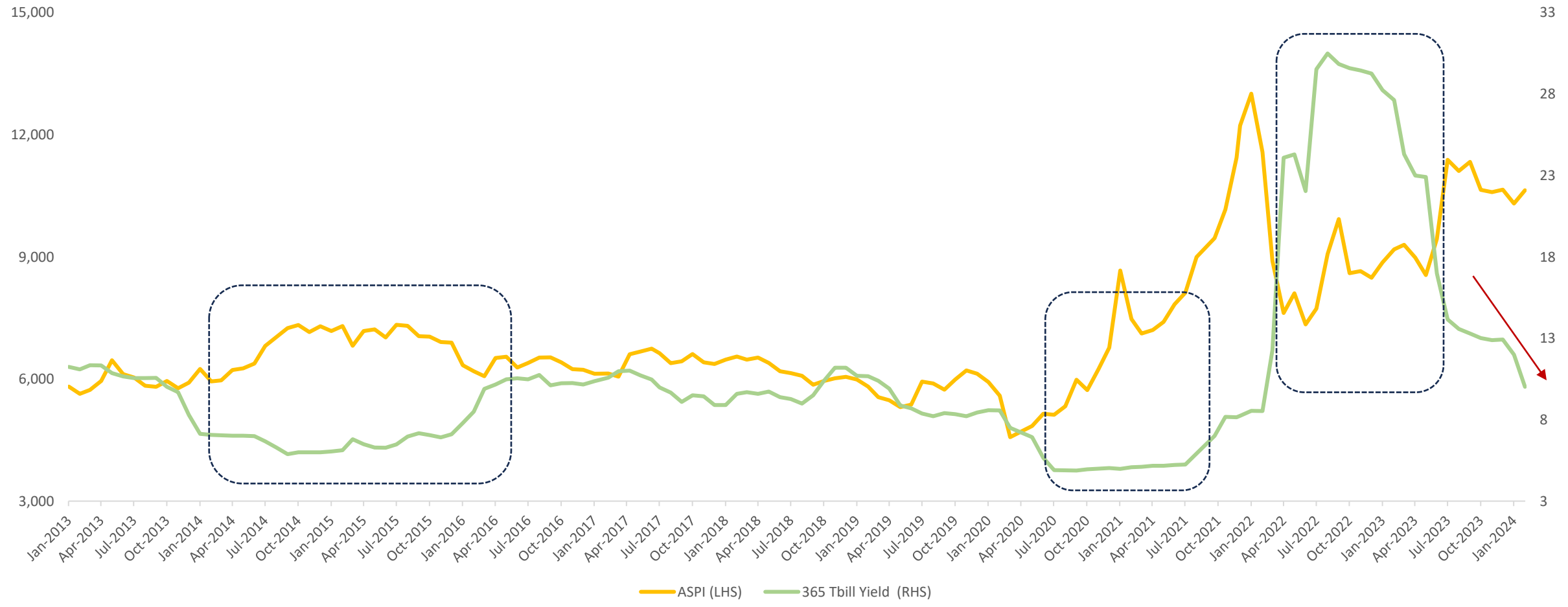


# Private sector credit growth set to accelerate



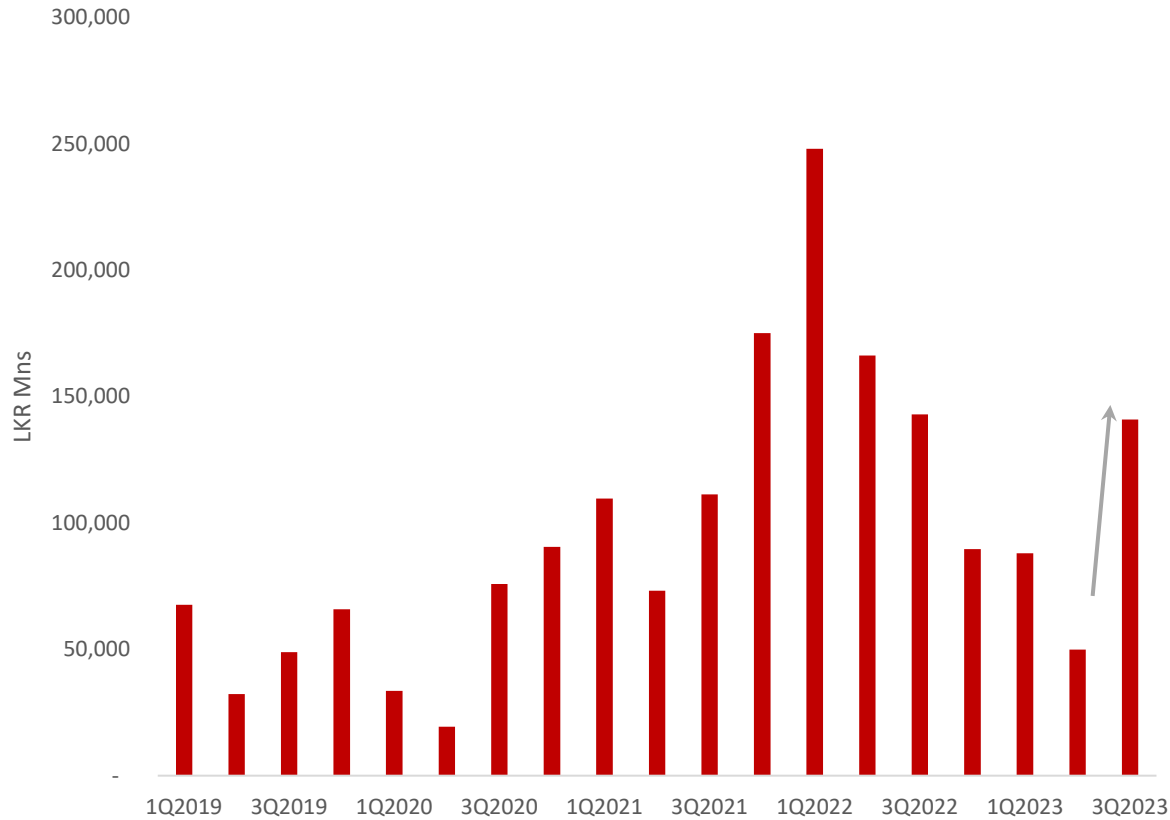
- Private sector credit growth started picking up since June'23 after 12 consecutive months of decline. December'23 disbursements soared by a significant LKR 102.5Bn.
- We could see a sharp pick up in credit growth specially with banks and financial institutions encouraging loan disbursements on the back of low G Sec rates and lower cost of funds (specially with deposit rates plummeting at much faster rate ).
- Banks have also lost its arbitrage opportunity specially with yields on loans now exceeding yields generated by government securities. Banks therefore be more inclined towards disbursing loans as it looks more lucrative.

 **Lower rates to benefit equities, specially with fixed income securities now yielding lower returns**





# Broad market earnings set to rebound

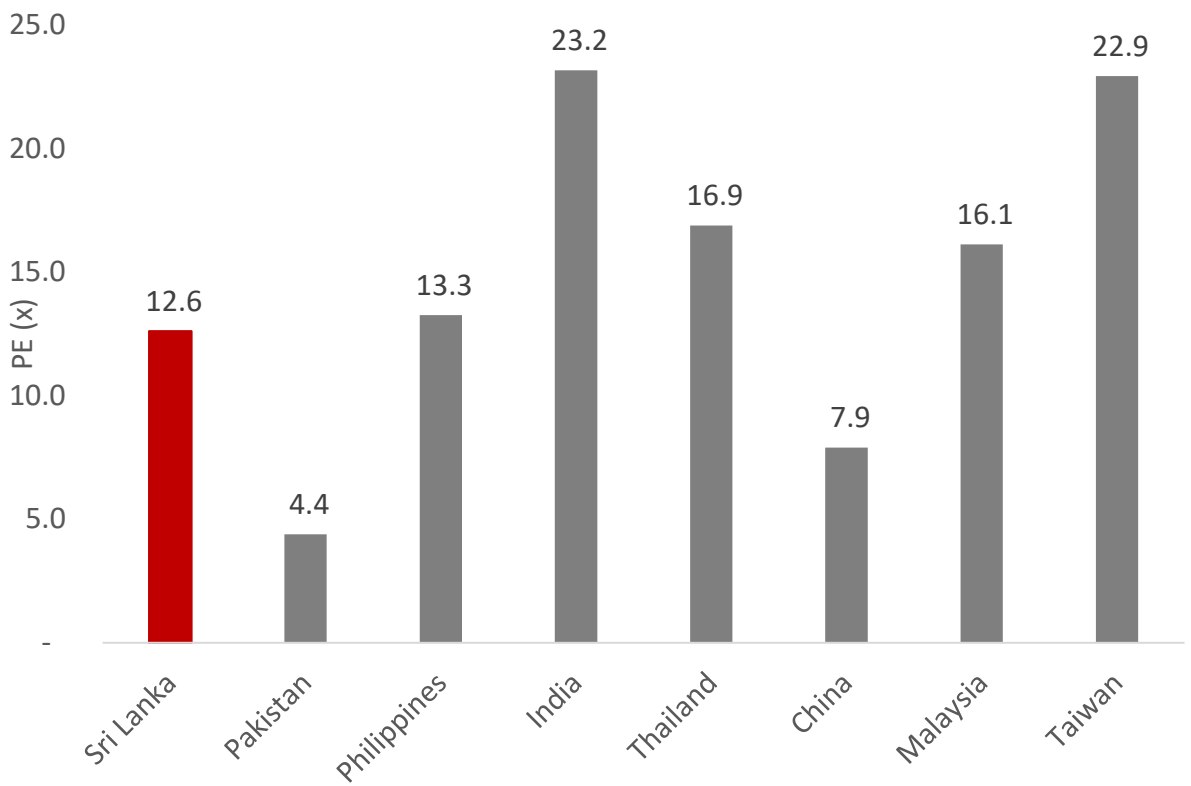


- We expect the earnings to rebound specially in sectors such as banking (through higher credit growth, interests in deposits adjusting at much higher pace resulting in lower cost of funds) , tourism ( with increased tourist arrivals) and consumer staples ( with lower interest rates, higher income levels and improved economic activities) in the near term followed by other sectors which is poised to grow with gradual pick up in economic activities
- Furthermore, companies with higher gearing is expected to benefit with declining rates as interest rates have now halved while relatively lower commodity prices are projected to reflect through improved margins.





# Valuations still look attractive compared to impending earnings



- Sri Lanka still trades at a significant discount to some of its closest peers such as India, Thailand , Malaysia and Philippines.
- Valuations are expected to get even more attractive specially with earnings picking up along with improved activities, further reduction in rates and with successful debt negotiations which could conclude by 2H'24 in our view.

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