Nation Lanka Equities (Pvt) Ltd.

Market Update

CBSL further relaxes policy rates as inflation cools down

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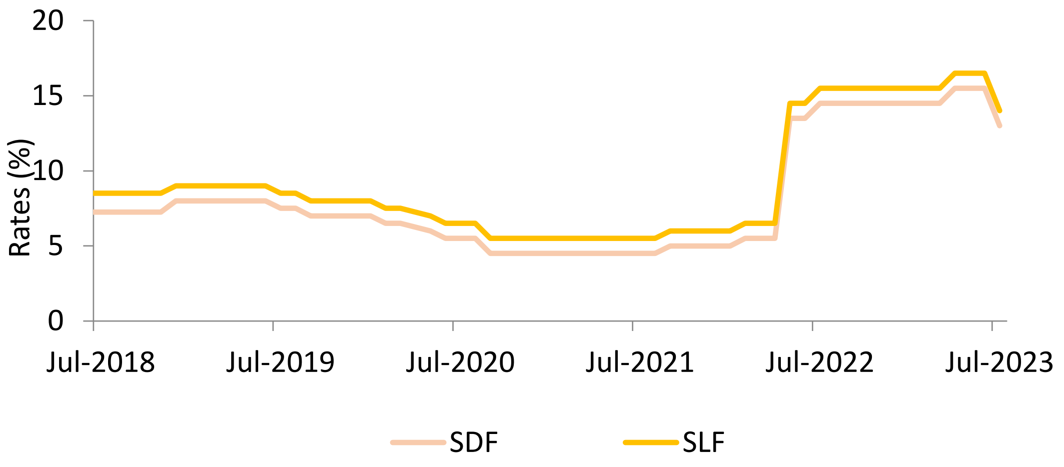
- CBSL cut its policy rates by further 200 bps adding up the cuts by 450bps since the last policy rate meeting held last month. Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank now stands at 11% and 12% respectively from 13% and 14%respectively, a clear stance on CBSL's gears in shifting its policy towards more economic stability and recovery.

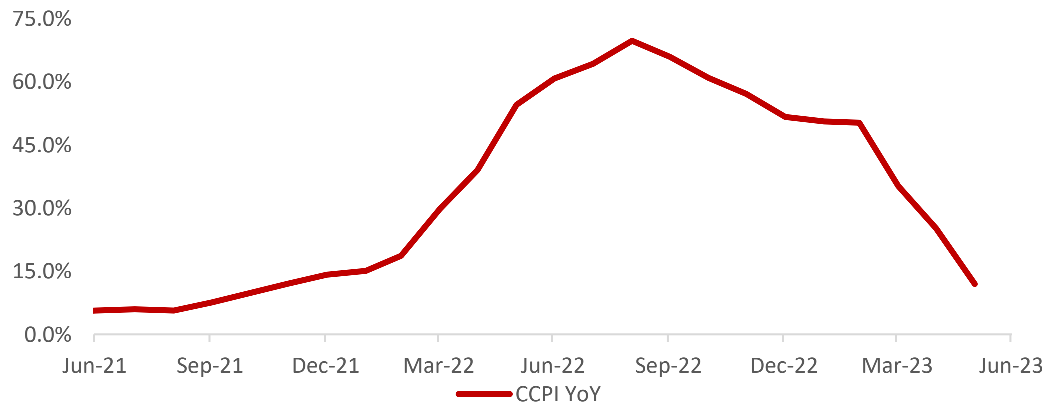
- The Board arrived at this decision with a view to easing monetary conditions as the disinflation process continues, firming inflation expectations that would help stabilize inflation at mid-single digit levels in the medium-term, giving room to support the country's economic recovery. Price levels are expected to drop even further due to base effect, higher supply, lower demand and recent appreciation of the LKR in our view.

- We expect the import bill to see a gradual increase specially with the large appreciation of the LKR and GOSL's relaxed import policy stance, and believe would help reverse the fall in private sector credit by 3Q'23

CBSL cuts rates by another 200bps, adding up the cuts to 450bps in a matter of two months



Inflation to decline to single digit levels by end of 2023E



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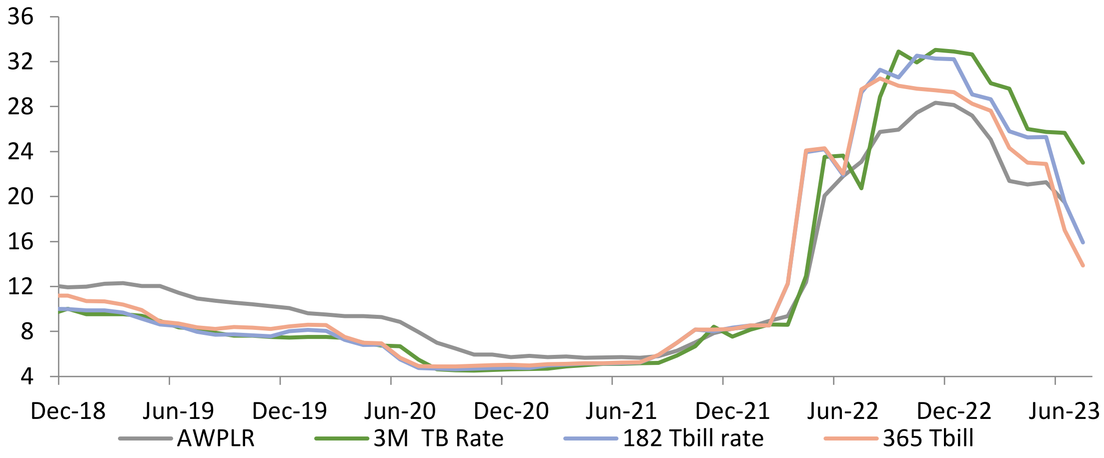
- Easing of monetary conditions, improvements in forex reserves, relaxation of import restrictions and the finalizing of the debt restructuring talks should now start stimulating the economy as fast as 3Q'23 giving ample room for more consumption, investments and employment opportunities.

- We see Sri Lanka's economy recovering and returning to positive territory by next year specially with the endorsement by IMF help unlocking more funds by other multilateral agencies(WB, ADB), improved fiscal position, renewed investor interest and advances in debt talks eventually help easing balance of payment situation. Sri Lanka is estimated to have exceeded USD3.5Bn of reserves by now (including Chinese SWAP of USD 1.4Bn), a clear positive on the external front. Rising worker remittances and tourism should also help ease balance-of-payments constraints in our view.

Rates have already reacted to, DDR with short term rates falling by a significant 5.21% from last week and brining the down the rates by 14.85% YTD



Declining rates to boost activities in CSE

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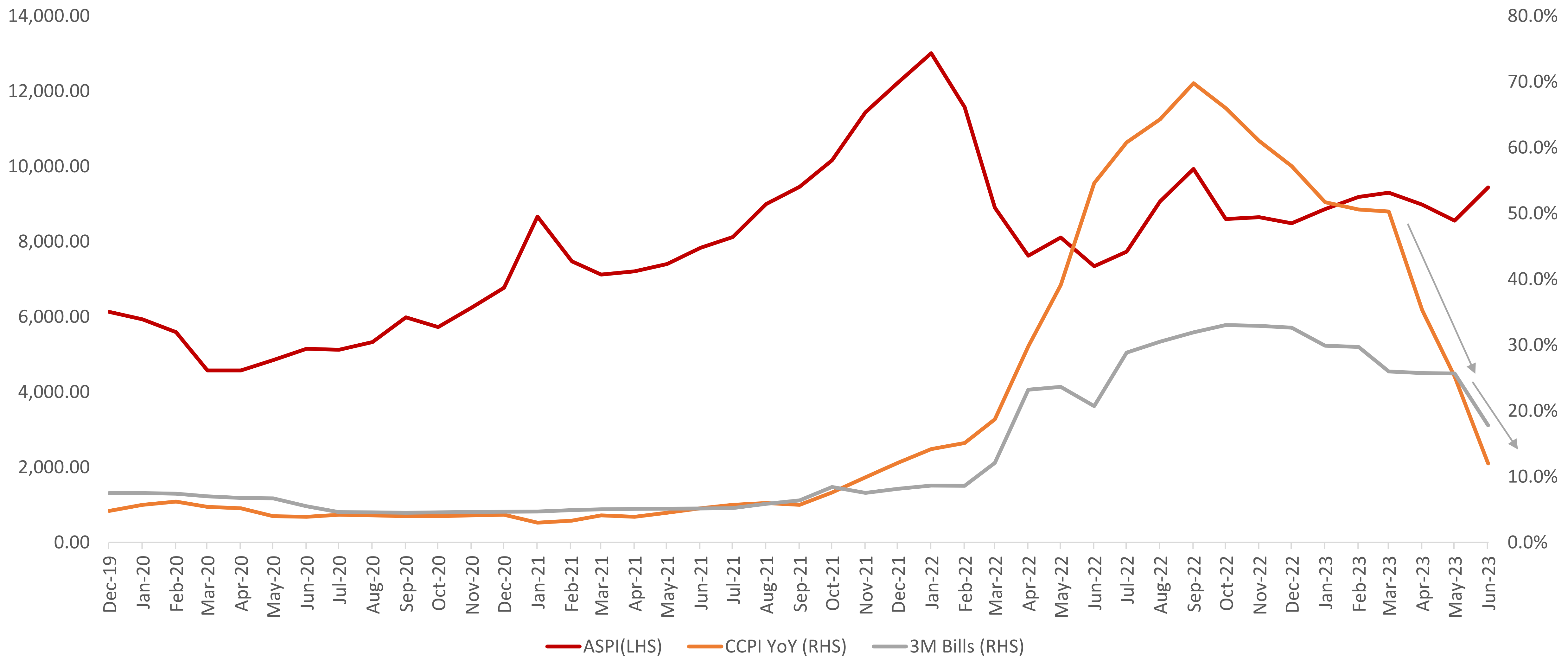

ASPI at all time low, signaling value

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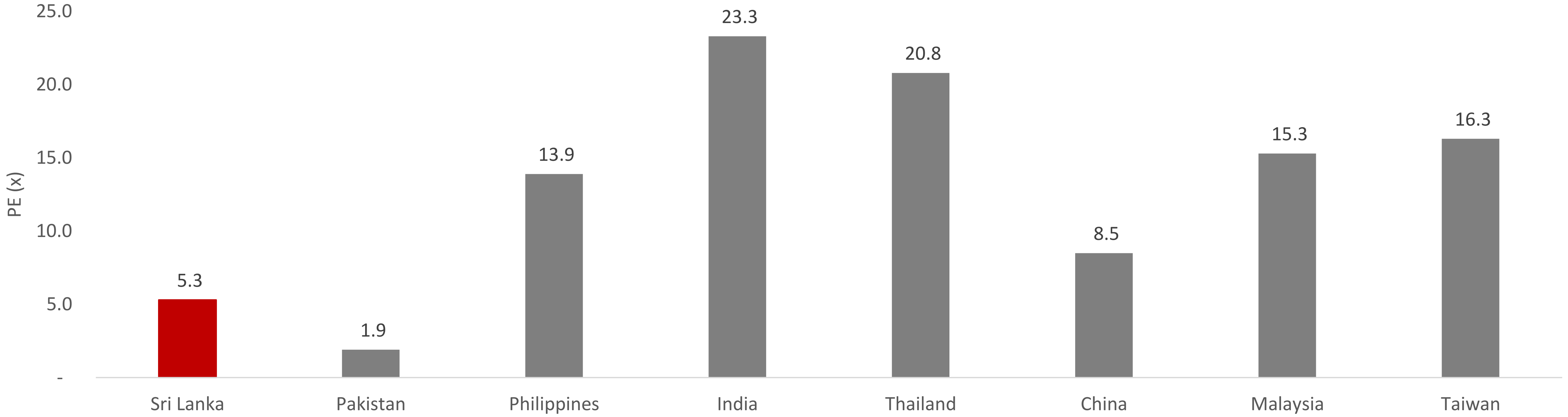

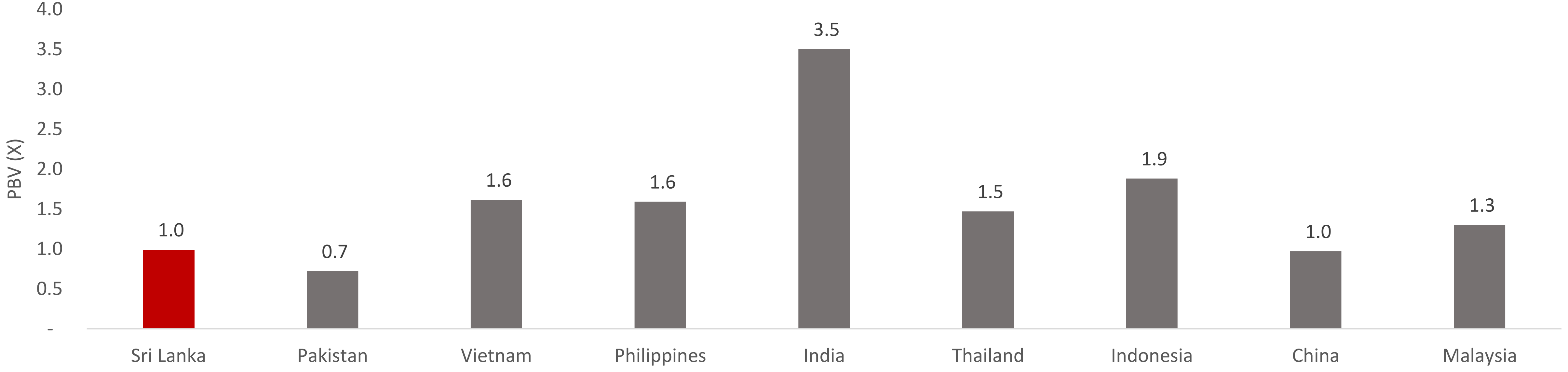

Prices as at 04.06.2023

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