

Market Update

Monetary Policy Review

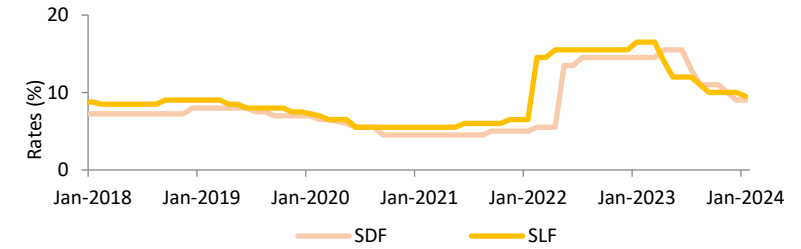


CBSL cuts rates further by 50bps

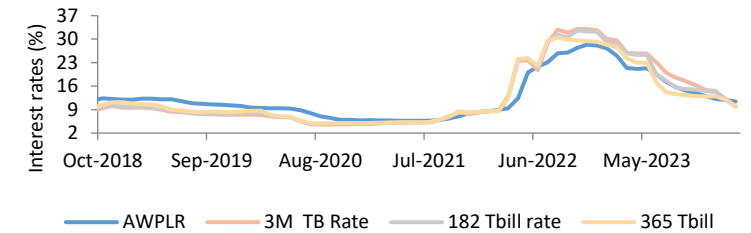
- CBSL cut its policy rates for the fifth time since June 2023, with Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank reducing by 50 bps to 8.5% and 9.5% respectively.
- The Board arrived at this decision following a careful analysis of the current and expected developments in the domestic and global economy, with the aim of achieving and maintaining inflation at the targeted level of 5% over the medium term, while enabling the economy to reach and stabilize at the potential level.
- CBSL expects that the possible upside risks to inflation in the near term would not materially change the medium-term, as economic activity is projected to remain below par. Easing off temporary uptick in inflation driven by the VAT amendments coupled with recent adjustment in electricity tariff, moderation in food prices, base effect and appreciation of LKR should further offset the inflation pressure in our view.

- The prevailing accommodative monetary policy stance along with the reduction of policy interest rates are expected to induce a further reduction in market lending rates and encourage the expansion of credit to the private sector by LCBs in the period ahead (AWPLR now stands at 11.04% down by 17.41% compared to its peak in Nov'22. 3M, 6M and 1Yr Tbill rates have declined by 22.82%, 22.18% and 19.22% respectively from its high to end at 10.23%, 10.35% and 10.38% by 20th March 2024)
- Credit to the private sector which expanded from June'23, though witnessed a contraction in Jan'24 partly due to the valuation effects arising from the appreciation of LKR and possible post festive season settlements experienced, preliminary data for February indicates a resumption in disbursements. The adjustment in policy rates and lower market rates are therefore expected to further encourage credit growth.

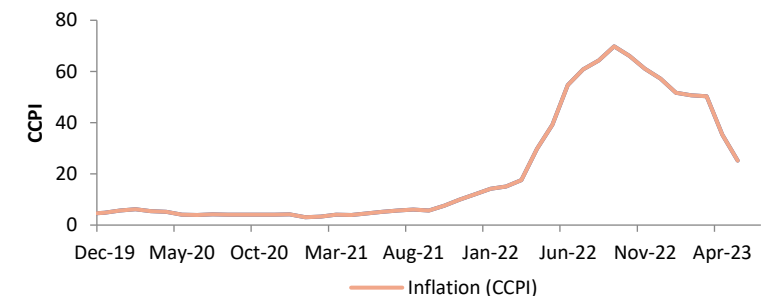
CBSL cuts rates by another 50bps, making cumulative rate cut of 700bps since June '23



12M Tbill rates have dropped by 2.55% YTD, AWPLR currently hovers around 11%



Inflation to be on target due to below par activities, reduced electricity tariff, stronger LKR



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