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CENTRAL BANK OF SRI LANKA

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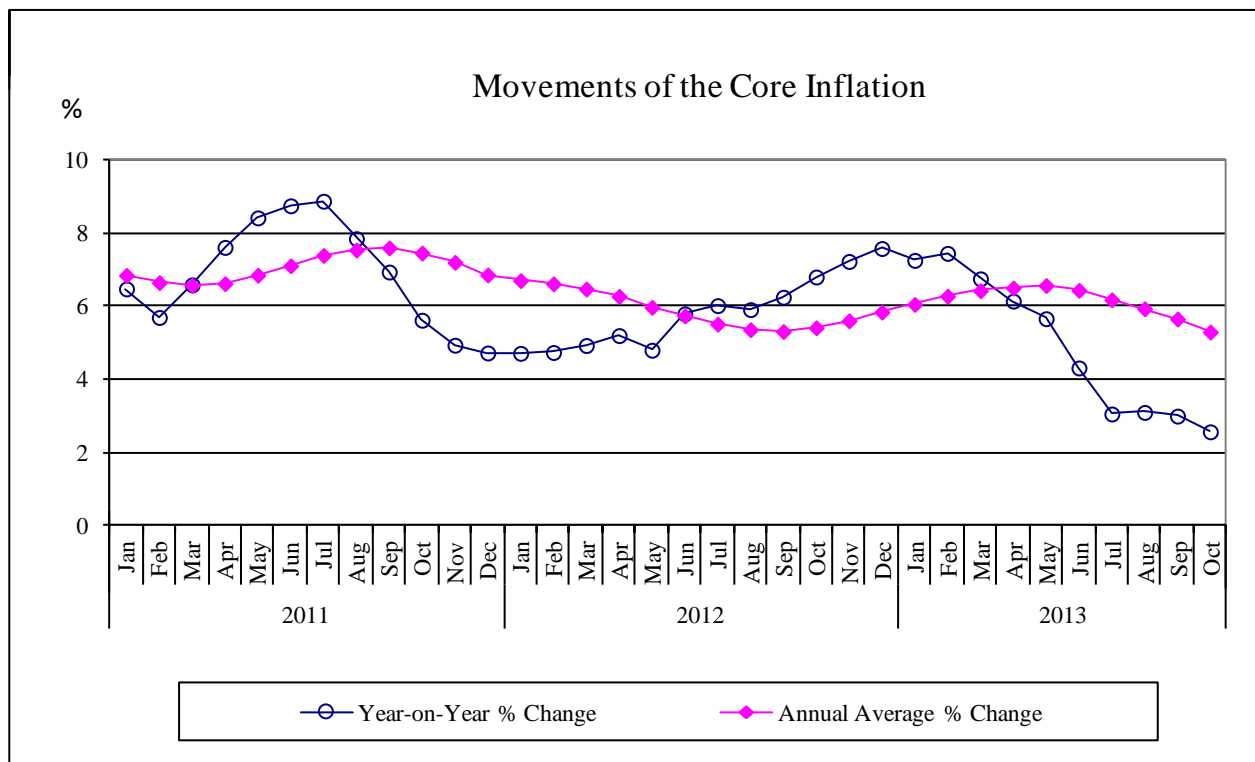
# Press Release

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## Core inflation continues its decelerating trend

Core inflation, which captures underlying long-term trend of the inflation, has continued its declining trend in terms of both year-on-year (YoY) and annual average basis over the last few months. Core inflation is computed by excluding the items that have short term volatile prices from the basket of the Colombo Consumers' Price index (CCPI 2006/07=100). Accordingly, the year-on-year core inflation which was over 7 per cent during the first two months of the year, decelerated to 2.6 per cent in October 2013, reaching the lowest rate ever recorded since its introduction in 2007. Meanwhile, the annual average core inflation also moved on a declining path continuously to reach 5.3 per cent in October 2013 for the fifth successive month as compared to 6.4 per cent in June 2013.



The contribution to the slowdown of the year-on-year core inflation came mainly from Non-Food category which grew only by 1.4 per cent in October 2013. Within the Non-Food category, the price increases were reported in the sub-categories of Education (by 0.9 per cent); Health (by 0.7 per cent); Housing, Water, Electricity, Gas and Other Fuels (by 0.7 per cent) and Transport (by 0.4 per cent). Meanwhile, the prices in the Communication sub category remained unchanged during the month.

The favorable movement observed in the core inflation is a reflection of the effectiveness of prudent demand management policies of the Central Bank which have been successful in containing the underlying core inflation. With the favourable outlook for domestic demand and supply conditions and the absence of upward pressures from international commodity prices, core inflation is projected to remain subdued during the rest of the year as well.