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Press Release

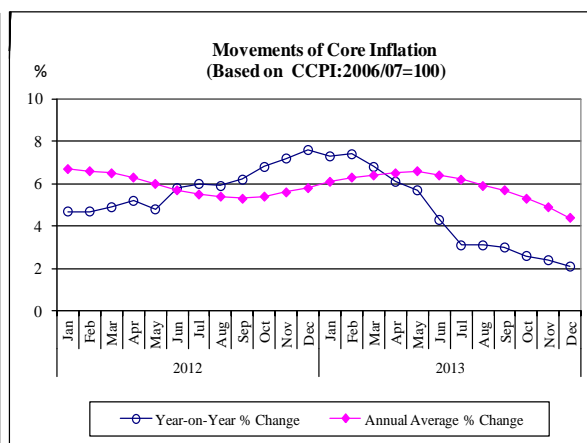
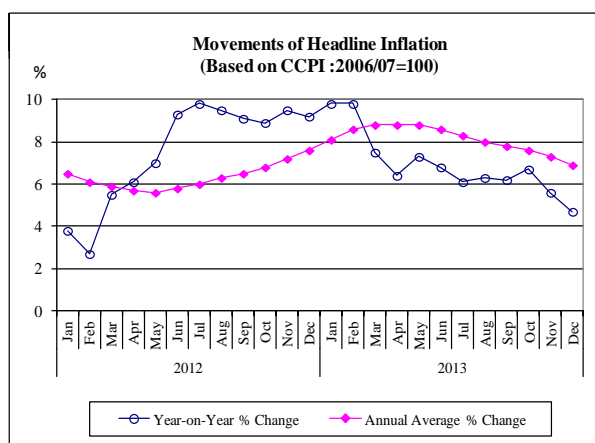
Issued By Statistics Department

Date 2013 – 12 – 31

Inflation stabilized at mid-single digit levels in December 2013

Inflation, which was contained within single digit levels for nearly five consecutive years, decelerated significantly to reach benign mid-single digit levels in December 2013. This is the longest period that inflation has remained at single digit levels, after the economy was liberalized.

The year-on-year headline inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), computed by the Department of Census and Statistics, decreased to 4.7 per cent in December 2013 compared to 9.2 per cent in December 2012, improving business and investor confidence. It was the lowest level recorded since March 2012. Consequently, the annual average rate of inflation also decelerated further to 6.9 per cent in December 2013, for the seventh consecutive month.



The contribution to the decline in annual average inflation to 6.9 per cent in 2013 came mainly from slowdown in the price increase in the Non-food category, which grew only by 6.1 per cent in 2013 against that of 10.0 per cent in 2012. The impact of the upward price revision of petrol, diesel, kerosene and bus fares on inflation was lower in 2013 than in 2012. As a result, the average price in the Transport sub-category increased only by 4.6 per cent. In addition, comparatively lower increase in the average prices in the sub-categories of Health (by 1.7 per cent); Furnishing, Household equipment and routine household maintenance (by 4.0 per cent); and Clothing and footwear (by 5.4 per cent) in 2013 than in 2012 contributed favourably to this decline. However, relatively high increase in the Food and non-alcoholic beverages category by 7.9 per cent in 2013 compared to 2012 had an upward pressure on inflation.

Core inflation, which captures underlying long-term trend of inflation, has also moved on a declining path in 2013 to record the lowest figure since its inception in 2007. The year-on-year core inflation has declined steadily, reaching its lowest at 2.1 per cent in December 2013 compared to 7.6 per cent in December 2012. The annual average core inflation also continued to decline since mid 2013 and reached 4.4 per cent by December 2013. This favourable development is a reflection of the effectiveness of prudent demand management policies of the Central Bank which have been implemented successfully in containing price pressure emanating from the demand side.