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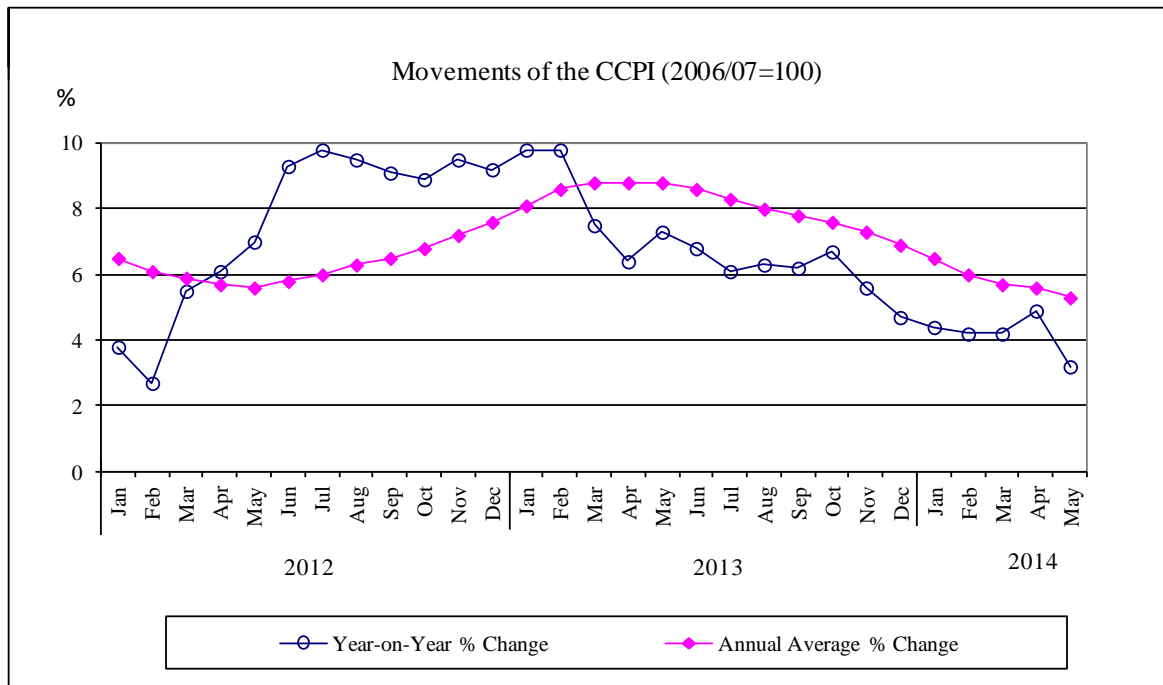
Press Release

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Inflation drops significantly in May 2014

Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI) (2006/07=100), which is computed by the Department of Census and Statistics, decreased considerably to 3.2 per cent in May 2014, on a year-on-year (YoY) basis, from 4.9 per cent in the previous month, reaching the lowest rate recorded since March 2012. Annual average inflation also moderated further to 5.3 per cent in May 2014 from 5.6 per cent in April 2014, following the decelerating trend observed since June 2013.



The sharp deceleration of inflation was a result of the moderation in prices of some items in the Non-food category and the high base prevailed in May 2013. Within Non-food category, the prices in the sub category of Housing, Water, Electricity, Gas and Other Fuels decreased by 0.1 per cent during the month, although the sub category of Clothing and Footwear increased by 0.1 per cent. However, all the other sub categories including Furnishing, Household Equipment and Routine Household Maintenance; Transport; Communication; Recreation and Culture; Education; Health; and Miscellaneous Goods and Services remained unchanged during the month.

Meanwhile, the prices of items in the Food and Non-alcoholic beverages category, which increased by 1.3 per cent in May 2014 compared to the previous month was the main contributor to the monthly increase in the CCPI. Within the Food category, price increases were recorded in almost all the varieties of vegetables, fresh fish, potatoes, red onion, big onion, green chilies, some of the condiments and sugar. However, prices of some varieties of fruits and eggs decreased significantly during the month.

Core inflation declined both on YoY and annual average basis in May 2014. Accordingly, annual average core inflation, which decelerated steadily from June 2013, reached 3.1 per cent in May 2014, the lowest recorded level since its inception. YoY core inflation also declined marginally to 3.3 per cent in May from 3.4 per cent in April 2014. This favourable movement reflects the impact of demand management policy that effectively checked the growth in aggregate demand.