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CENTRAL BANK OF SRI LANKA

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# **Press Release**

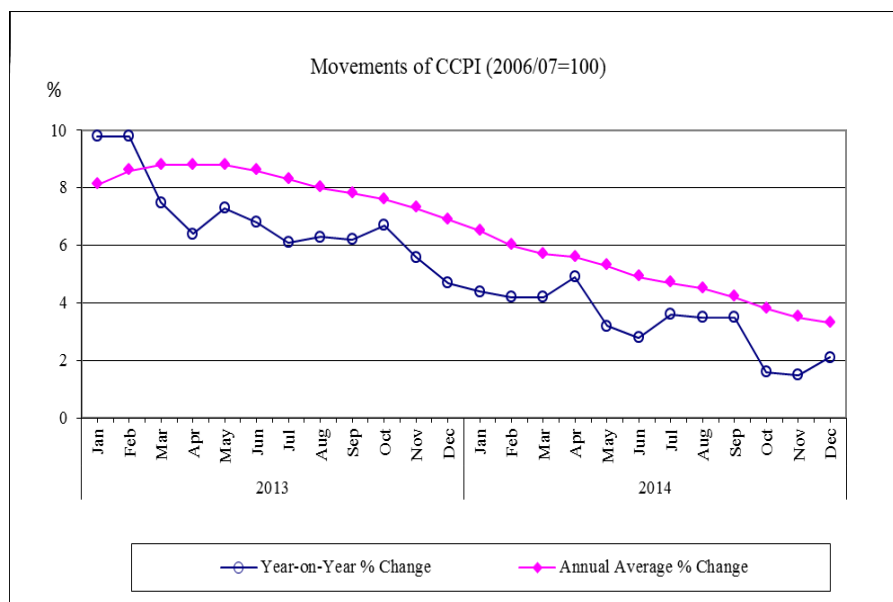
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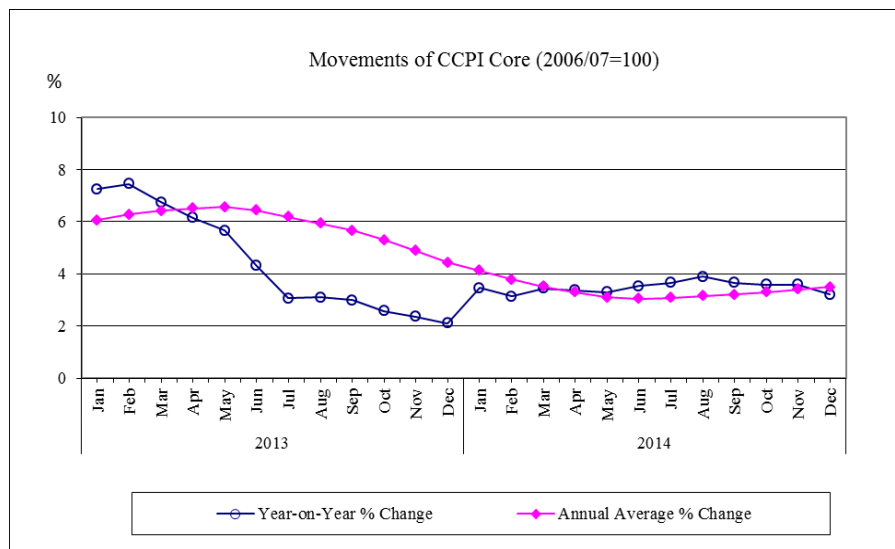
## **Inflation reached low single digit levels by end 2014**

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 to 2.1 per cent in December 2014 compared to 4.7 per cent in December 2013 on a year-on-year basis. Annual Average inflation which followed a declining trend for nineteen consecutive months reached 3.3 per cent in December 2014 from 6.9 per cent in December 2013. This is, by far the longest period that both year-on-year inflation (71 months) and annual average inflation (65 months) have continuously remained at single digit levels, after the economy was liberalized.

Prudent monetary management, relatively stable exchange rate, moderation in prices of both food and non-food imported items, supply side improvements, downward revisions in administered prices of electricity and water tariffs, LP Gas and fuel and timely fiscal policy measures introduced to contain supply side disturbances in harmony with monetary policy measures helped maintain inflation at low levels during 2014.



The contribution to the decline in annual average inflation to 3.3 per cent in 2014 came mainly from slowdown in the price increase in the Non-food category, which grew only by 2.8 per cent in 2014 against that of 6.1 per cent in 2013. This was supported by the downward revision of Electricity and Water tariffs and fuel prices which were effected during the latter months of 2014. As a result, the average price in the Housing, Water, Electricity, Gas and other Fuels sub-category increased only by 1.1 per cent during 2014. In addition, the slow increase in prices of items in Clothing and footwear sub-category than in 2013 contributed favourably to this decline. However, relatively high increase in the Food and non-alcoholic beverages sub-category by 3.8 per cent in 2014 compared to 2013 exerted an upward pressure on inflation.



Core inflation, which captures underlying long-term trend of inflation, decreased from 4.4 per cent in December 2013 to 3.5 per cent in December 2014 on an annual average basis. The year-on-year core inflation, which showed a mixed movement with low volatility, increased from 2.1 per cent in December 2013 to 3.2 per cent in December 2014.