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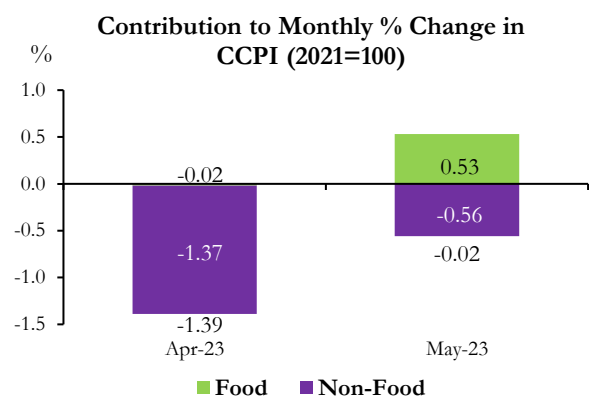
Date 31.05.2023

CCPI based headline inflation continued to record a sharp decline in May 2023

Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2021=100)¹ decreased to 25.2% in May 2023 from 35.3% in April 2023. The decline in the headline inflation is broadly in line with the disinflation path envisaged by the Central Bank of Sri Lanka (CBSL) in April 2023.

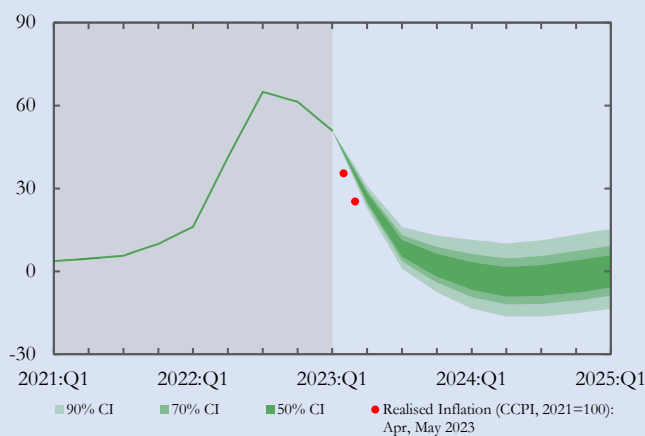
The Food inflation (Y-o-Y) decreased to 21.5% in May 2023 from 30.6% in April 2023, while the Non-Food inflation (Y-o-Y) decreased to 27.0% in May 2023 from 37.6% in April 2023. Monthly change of CCPI recorded at -0.02% in May 2023. This small monthly change was due to the netting off of price decreases observed in the items of Non-Food category, which was -0.56% by the price increases observed in the Food category, which was 0.53%. The core inflation (Y-o-Y), which reflects the underlying inflation in the economy, decreased to 20.3% in May 2023 from 27.8% in April 2023.

Inflation CCPI (2021=100)	April 2023	May 2023
Index Value	192.3	192.3
Monthly Change (%)	-1.4	0.0
Y-o-Y Inflation (%)	35.3	25.2



Looking ahead, based on the available information, the declining trend of inflation is expected to continue, bringing down inflation towards single digit levels in Q3 2023, faster-than-projected earlier. This disinflation process is supported by the lagged impact of tight monetary and fiscal policies, strengthening of the Sri Lanka rupee, reduction in fuel and gas prices, normalisation of food prices and the favourable impact of statistical base effect.

Headline Inflation Projections^a
 CCPI,^b quarterly average, y-o-y, %



The inflation fan chart depicted here illustrates the uncertainty surrounding the baseline projections using confidence bands of gradually fading colours. Given the prevailing domestic and global economic uncertainties and geopolitical tensions, the risks associated with the current projections are much higher than in normal times. In particular, there are downside risks to baseline projections arising from faster normalisation of supply conditions, possible quicker than expected easing of world commodity prices, softening of imported inflation due to strengthening of the Sri Lanka rupee, and expected downward revisions to electricity bill etc. Nevertheless, possible upside risks, such as potential demand pressures that could develop with the expected revival of activity and any possible pressure on the exchange rate resulting from relaxation of import restrictions could exert upward pressures to the projections.

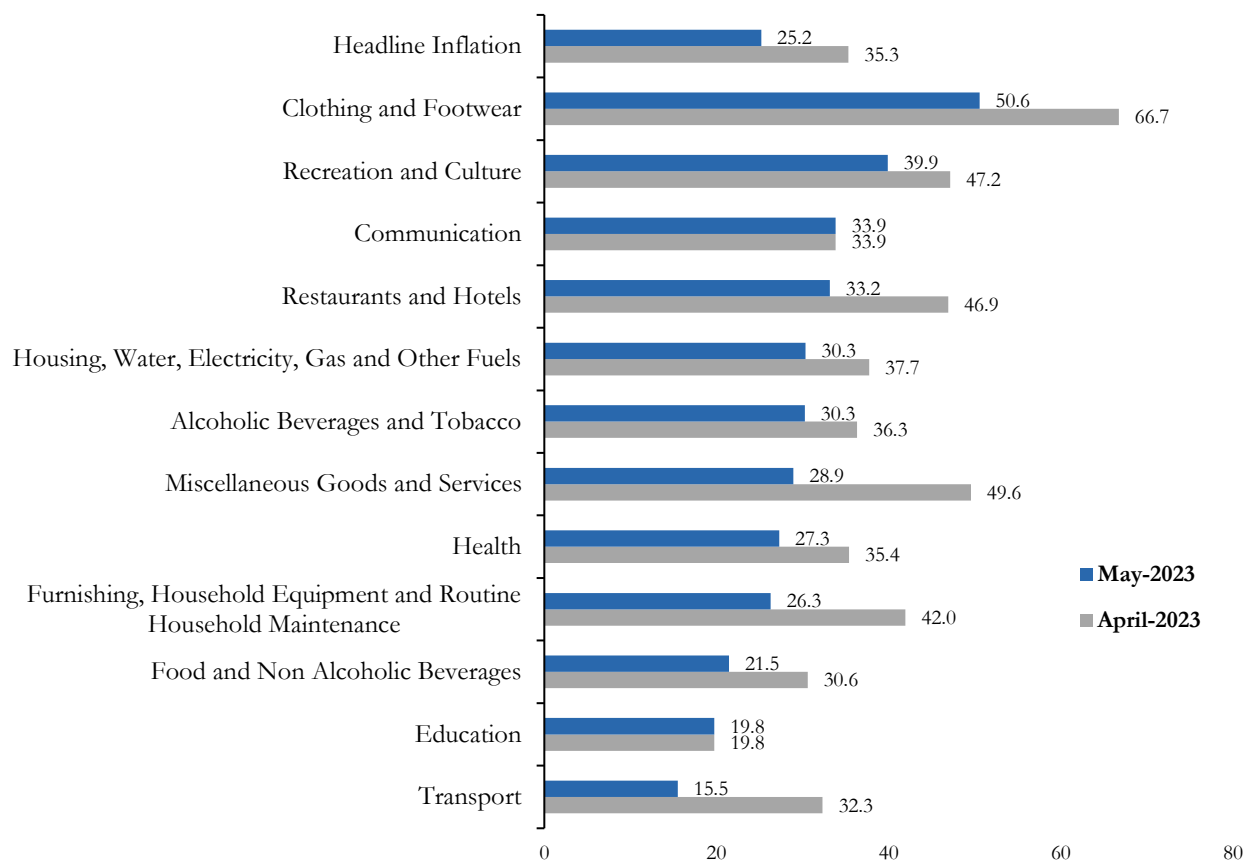
Source: Central Bank Staff Projections

a/ The Central Bank revises its medium-term inflation projections on a quarterly basis, along with the release of GDP estimates by the DCS. The projections displayed in the fan chart reflect the available data, and assumptions and judgements made at the April 2023 forecast round.

b/ Realised data up to Q4 2022 are based on the CCPI (2013=100), while data for Q1 2023 are based on the CCPI (2021=100). Projections are based on all available data.

¹ The Colombo Consumer Price Index (CCPI, 2021=100) is compiled by the Department of Census and Statistics (DCS) to indicate average changes in the prices of goods and services purchased by households in urban areas of Colombo district.

CCPI (2021=100) based Headline Inflation by Subcategory (Y-o-Y % Change)



Movement of the CCPI (2021=100)

Period		Index Number		Monthly % Change		Y-o-Y % Change	
Year	Month	CCPI	CCPI (Core)	CCPI	CCPI (Core)	CCPI	CCPI (Core)
2022	June	171.7	154.7	11.8	8.8	-	-
	July	178.9	160.9	4.2	4.0	-	-
	August	182.8	163.6	2.2	1.7	-	-
	September	189.3	168.8	3.6	3.2	-	-
	October	188.5	170.4	-0.4	0.9	-	-
	November	187.1	171.1	-0.7	0.4	-	-
	December	187.6	171.5	0.3	0.2	-	-
2023	January	188.6	172.4	0.5	0.5	51.7	45.6
	February	189.5	172.3	0.5	-0.1	50.6	43.6
	March	195.0	171.9	2.9	-0.2	50.3	39.1
	April	192.3	171.5	-1.4	-0.2	35.3	27.8
	May	192.3	171.0	0.0	-0.3	25.2	20.3

Source: Department of Census and Statistics