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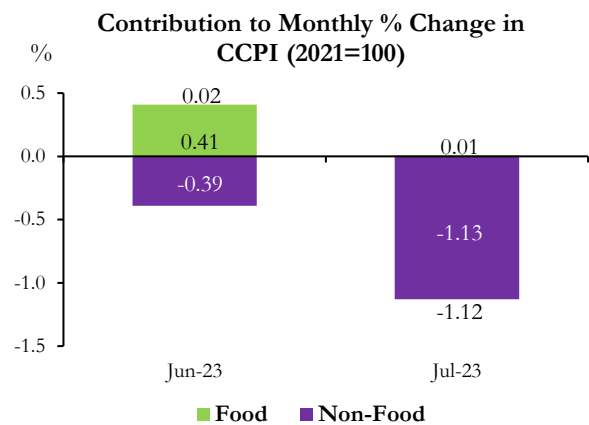
Date 31.07.2023

CCPI based headline inflation is back in single digit levels in July 2023 after nineteen months

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 6.3% in July 2023 from 12.0% in June 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 July 2023.

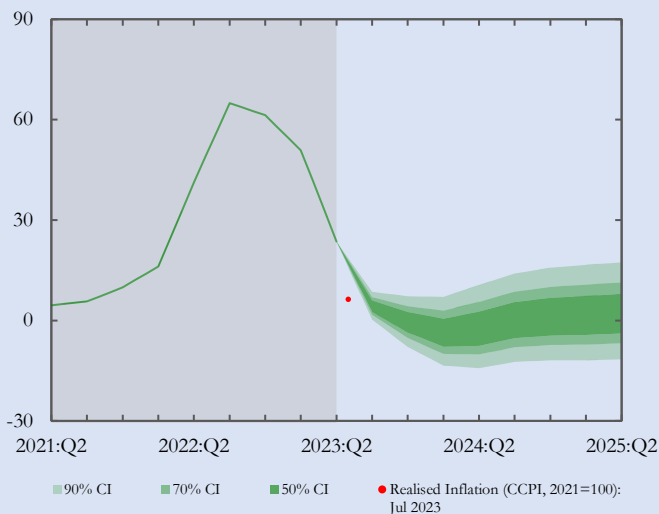
The Food category, nearly after four years, recorded a deflation (Y-o-Y) of 1.4% in July 2023 compared to the inflation of 4.1% observed in June 2023. Meanwhile, the Non-Food inflation (Y-o-Y) decreased further to 10.5% in July 2023 from 16.2% in June 2023. Monthly change of CCPI recorded at -1.12% in July 2023 due to the combined effect of price decreases of -1.13% observed in the items of Non-Food category and the marginal price increases of 0.01% recorded in the items of Food category. The core inflation (Y-o-Y), which reflects the underlying inflation in the economy, decreased to 6.1% in July 2023 from 9.8% in June 2023.

Inflation CCPI (2021=100)	June 2023	July 2023
Index Value	192.3	190.2
Monthly Change (%)	0.0	-1.1
Y-o-Y Inflation (%)	12.0	6.3



Looking ahead, based on the available information, inflation is expected to moderate further and stabilise around the targeted level over the medium term. This disinflation process is supported by the lagged impact of tight monetary and fiscal policies, improvements on the supply side, the softening of energy and food inflation, and the favourable base effect.

Headline Inflation Projections^a
 CCPI,^b quarterly, 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 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 and their passthrough to domestic prices etc. Nevertheless, possible upside risks, such as potential demand pressures that could develop with the expected revival of economic activity, and depreciation pressure on the exchange rate, if any, resulting from the relaxation of import restrictions and capital flow measures could exert upward pressures to the projections.

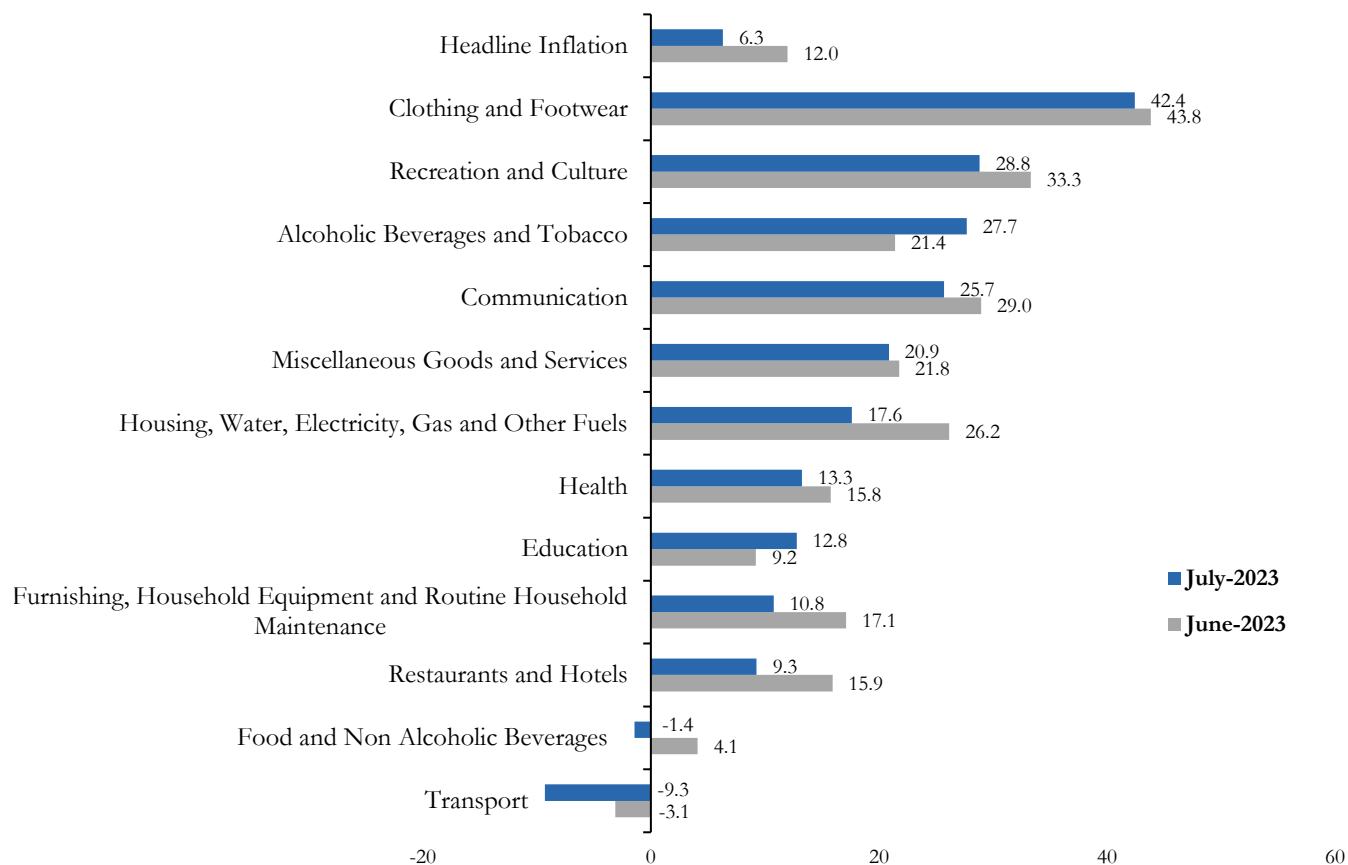
Source: Central Bank Staff Projections

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 July 2023 forecast round.

b/ Realised data up to Q4 2022 are based on the CCPI (2013=100), while rest of the realised data 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	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
	June	192.3	169.9	0.0	-0.6	12.0	9.8
	July	190.2	170.7	-1.1	0.5	6.3	6.1

Source: Department of Census and Statistics