

October inflation picks up to 5.4% amid uptrend in food prices

Sri Lanka's inflation inched higher towards the upper band desired by the Central Bank in October due to a sharp increase in the food prices and the base effects coming from the same month last year.

The headline inflation measured according to the Colombo Consumer Price Index (CCPI) rose 5.4 percent in October on a year-on-year basis, accelerating from 5 percent a month ago.

The increase in the headline inflation on month-on-month

basis eased to 0.2 percent, from 0.8 percent, due to month-on-month fall in non-food prices.

The October reading of the prices points to the inflation reaching to its upper band of the Central Bank's desired range of 4 to 6 percent range for 2019.

The Central Bank last month held its key policy rates after cutting rates twice this year as it expects its earlier policy action to permeate through to the real economy.

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However, it is yet to see a meaningful growth in the private sector credit, and analysts say little can be expected until after the election cycle is over towards the first half of 2020.

Analysts also caution that monetary accommodation comes with the risks of higher prices and increased corporate and household debt levels, both of which could lead to a full-blown crisis when the Central Bank has to

reverse its monetary policy stance. The Monetary Board in October indicated that it has reached the end of its easing cycle.

Meanwhile, the so-called core prices, which measure inflation barring the impact of the mostly volatile commodities such as food and energy, rose by 5.5 percent in October, compared to 5.6 percent growth in September.

The October prices are largely pushed up by the increase in food prices, which rose by 6.8 percent, a significant increase from the 3.0 percent increase in September.

This was caused by the lower supply from the middle phase of the Yala harvesting seasons affected by the prevailing adverse weather conditions.

The prices of rice, chicken, milk powder, coconut, vegetables, big and red onions rose during the month, offsetting the declines in very few commodities which included sea fish.

Meanwhile, the increase in food and beverage prices during October on month-on-month basis was 1.6 percent compared to 2.4 percent in September.

The non-food inflation rose by 4.8 percent in October from 5.7 percent in September as prices of health and LP gas categories eased.

The government slashed prices of household LP gas during October and the current shortage of supply is believed to have been partly caused by the knee-jerk price reduction by the government which did not consult the two suppliers - State supplier Litro Gas and the private sector supplier Laugfs Gas.

As a result, the non-food inflation contracted in October by 0.4 percent from the 0.1 percent increase in prices in September. As the country is nearing a crucial presidential election in mid November and the year-end festive season, increased spending is expected, which could propel the prices towards the remainder of the year as pent-up demand for bank credit is also expected to take effect by this time.