

## May inflation eases to 4% on base effects

■ Authorities rule out possibility of higher prices in 2020

Sri Lanka's headline inflation measured by the Colombo Consumer Price Index declined to 4.0 percent during the twelve months to May, decelerating from 5.2 percent in April due to higher base effects that prevailed in the same month last year.

Sri Lanka's prices have been easing since March as demand has been muted due to coronavirus-related lockdowns curtailed spending to mostly essentials as people were sheltering at homes with limited economic activities.

The Central Bank last week defended its 4 to 6 percent inflation target through the end of this year despite some substantial monetary and fiscal stimulus as economic growth is projected at well below its potential as the pandemic grounded the economy to a halt for two months. Although some fear that the record-low interest rates, other liquidity support schemes by the Central Bank and the fiscal stimulus, which put money in people's hands during lockdowns, could lead to higher prices, but authorities rule out the possibility of overheating of the economy as growth for 2020 is projected at a muted 1.5 percent, from 4.5 percent earlier.

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