

INFLATION AND MONETARY POLICY

Dr. P Nandalal Weerasinghe

Chief Economist and Director of Economic Research
Central Bank of Sri Lanka

This article briefly reviews the concept, causes and the impact of inflation and policies of controlling inflation with a special focus on the implementation of monetary policy in Sri Lanka.

Inflation: Concept and Measurement

In economic theory and practice, “inflation” is the most widely discussed macroeconomic variable as it affects all stakeholders in an economy. For macroeconomic purposes, inflation is the continual rise in the general level of prices of goods and services in an economy over a period of time and it is different from temporary increases in prices. It can also be described as a decline in the real value of money, which is a loss of purchasing power in the medium of exchange. Basically, inflation occurs when the demand for goods and services expand more rapidly than the output.