

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**January 2020**

Contents

[PREFACE ii](#_Toc90981846)

[THE CONSUMER PRICE INDEX ii](#_Toc90981847)

[KEY POINTS 1](#_Toc90981848)

[HEADLINE INFLATION 2](#_Toc90981849)

[FOOD INFLATION 3](#_Toc90981850)

[NON-FOOD INFLATION 7](#_Toc90981851)

[CORE INFLATION 12](#_Toc90981852)

# PREFACE

Based on the article 2 of Da Afghanistan Bank (DAB) law, the primary objective of DAB is to maintain price stability, which is a situation where inflation is low enough that it no longer has a substantial effect on people’s economic decisions.

Generally, the aim of the Monetary Policy Department (MPD) is the price stability and reaps benefit from low inflation in the economy. Besides, MPD is responsible to design and implement sound and prudent monetary policy to contribute to economic growth and strengthen financial stability.

Inflation always refers to an increase in the overall price level, which showed by national currency. Inflation does not refer to an increase in the cost of one product or service or even several products. Prices tend to go up when demand for goods and services exceeds the economy’s capacity to meet the extreme demand of goods and services.

MPD evaluates changes in inflation by monitoring several different price indices. A price index measures changes in the price of a basket of consumer goods and services. They also consider several price indices, because different indices track different products and services, and since indices are calculated differently, therefore, various indexes can send diverse signals about inflation.

It is obvious that an economy cannot have a dynamic and sustainable growth if there are extreme fluctuations in the price level. MPD is committed to feature, adapt and execute a prudent and sound monetary policy in order to maintain inflation in a single digit up to an acceptable level and strengthen its dynamic contribution to the economic growth considering the economic performance of the country and the stability in the country as a whole.

# THE CONSUMER PRICE INDEX

The Consumer Price Index (CPI) is a broad measure of cost of living in Afghanistan. However, there are some other methods to measure movements in price level, but still the CPI is accepted and known as the most important indicator due to its widespread use.

The National Statistics and Information Authority (NSIA)have brought some changes in the CPI basket in both base-year (changed to April 2015 from March 2011) and items. As a result, significant changes can be observed in the current weight and index. The CPI basket has changed as some of previous items have excluded and some of them have merged. The new changes to the basket will represent a good picture of inflation trend. For example, in the Food items, beverages now merged with Food main item, tea and beverages, which came under the Food items replaced by non-alcoholic beverages. In the Non-food items, housing item renamed as housing, electricity, water and gas and some of the previous items under housing such as rent, construction materials and fuel have excluded. Meanwhile, in the non-food items some items have been included such as recreation, culture, restaurants, and hotels.

Weight of any item in the basket reflects the percentage that the item has in the total basket and reflects typical consumer spending patterns. For instance, since people usually spend more on food than health, changes in the price of food have a bigger impact on the index than changes in the price of health.

***A CONCISE REVIEW OF INFLATION IN AFGHANISTAN***

From a long run perspective, the inflationary prospects can only be favorable, controllable and manageable by the central bank if the economic policies, strategies and plans could lead and result to reduction of the gap of production and dependency level of the local markets to imported goods. In addition, regarding the factors of inflation in Afghanistan, currently there are a number of factors in the country that play role in unfavorable price movements. The main driver of inflation in Afghanistan is imported inflation from the major trading partners of the country such as Pakistan and Iran. As mentioned above, the country is deeply dependent on importing consuming goods from abroad, thus the inflation of these countries directly affects the inflationary prospects in Afghanistan.

Low level of production in the country, high level of dollarization, non-existence of a proper transportation system inside the country, cross border issues in transportation of goods and services through Pakistan and Iran, imperfect competition, existence of monopoly in the market, political and economic instability, and future uncertainty are the major contributors to the fluctuation in prices in the country. Beside those obstacles, the Monetary Policy Department has successfully maintained the inflation rate in a single digit and the inflation rate is still at a moderate level

# KEY POINTS

* Headline inflation increased in the month of January 2020 year over year basis. The year over year inflation increased to 3.75 percent in January from2.77 percent observed in the previous month. This increase is caused by higher prices of both food and non-foods items.
* Food index which accounts for around 48 percent of the whole CPI increased to5.99 percent from 4.91 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 1.65 percent from 0.77 percent.
* Core inflation when measured based on 30% trimmed mean increased to 3.46 percent from 3.26percent.
* Considering price changes in the short-term (month-to-month), headline inflation decreasedto1.07percent from 1.69 percent. Based on this measure, food items decreased to 1.52percent from 2.46percent and non-food items alsodecreased to 0.62percent from 0.95 percent.
* Based on Kabul CPI, headline inflation increased to 4.14 percent from 3.48percent. Food pricesexhibitedhigher rateand non-food itemsalso increased in the capital Kabul, relatively food items increased to 6.24 percent from 5.98percent and non-food category also increased to2.77 percent from 1.88percent in the period under review.

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| **Table 1.1. Headline Inflation (December19- January 20)** | | | | | |
|  | **Y-o-Y** | | **M-to-M** | | |
| **December** | **January** | **December** | | **January** |
| **National CPI** |  |  |  | |  |
| **Headline** | 2.77 | 3.75 | 1.69 | | 1.07 |
| *Food* | 4.91 | 5.99 | 2.46 | | 1.52 |
| *Non-Food* | 0.77 | 1.65 | 0.95 | | 0.62 |
| *CPI ex. B&C, O&F, and T* | 3.48 | 4.22 | 1.94 | | 0.94 |
| *Trimmed Mean* | 3.26 | 3.46 |  | |  |
| **Kabul CPI** |  |  |  | |  |
| **Headline** | 3.48 | 4.14 | 2.75 | | 0.69 |
| *Food* | 5.98 | 6.24 | 4.74 | | 1.35 |
| *Non-Food* | 1.88 | 2.77 | 1.47 | | 0.26 |
| Source: National Statistics and Information Authority (NSIA) / DAB | | | |

# HEADLINE INFLATION

Headline inflation increased in the month of January 2020. Observing the data, headline inflation increased to3.75percent from 2.77 percent (year over year). This increase is caused by higher prices of both food and non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 3.46 percent, while it was calculated 3.26percent in the previous month.

The short-term (month-to-month) change in inflation shows downward trends in the period under review. When measured on the month-to-month basis, headline inflationdecreasedin January 2020. Observing the data, overall inflation decreased to a rate of 1.07 percent from 1.69 percent recorded in the previous month. During the reporting period, food items of the CPI also decreased to 1.52percent from 2.46 percent which contributed to inflation on month to month basis. Core measures alsodecreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation decreased to0.94 percent from 1.94 percent on month to month basis.

Source: Da Afghanistan Bank/NSIA

**Source:** *Da Afghanistan Bank and/NSIA*

FOOD INFLATION: Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation inJanuary 2020, when measured on year over year basis, increased to 5.99 percent compared to 4.91 percent calculated in previous month. This increase came from higher prices of bread and cereals, meat, vegetables, sugar and sweets, and oils and fats. Price of remaining items decreased from the previous month’s values.

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| **Table 2.2. Food and Non-alcoholic beverage Inflation(December 19- Jan 20)** | | | | | |
| **Items** | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **December** | **January** | **December** | **January** |
| **Food and Non-alcoholic Beverages** | 47.8 | 4.91 | 5.99 | 2.46 | 1.52 |
| *Bread and Cereals* | 14.6 | 2.06 | 3.45 | 0.77 | 1.32 |
| *Meat* | 7.5 | 8.00 | 8.63 | 0.48 | 0.67 |
| *Milk, cheese and eggs* | 4.7 | -1.74 | -3.21 | 0.97 | -1.14 |
| *Oils and fats* | 4.6 | 2.18 | 5.10 | 2.02 | 2.76 |
| *Fresh and dried fruits* | 5.0 | 3.74 | 3.58 | 2.74 | 0.96 |
| *Vegetables* | 6.0 | 13.24 | 16.44 | 13.14 | 5.85 |
| *Sugar and sweets* | 2.7 | 4.66 | 5.05 | 0.64 | -0.19 |
| *Spices* | 1.3 | 21.34 | 20.78 | -0.20 | 0.37 |
| *Non-alcoholic beverages* | 1.4 | 4.10 | 4.01 | 0.14 | 0.16 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

The month-to-month measure of food inflation represented lower rate in the month of January compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 1.52 percent in the review period lower from 2.46 percent observedin the previous month.

**Source:** *Da Afghanistan Bank and/NSIA*

**Price index of bread and cereals** which accounts for about 15percent of the consumer price index increased to3.45percent in January 20 from 2.06 percent observed in previous period (year over year). in meantime, when measured on the month-to-month basis, this sub-index also increased to 1.32 percent from 0.77 percent.

As mostly Afghanistan is importing food items from Pakistan and wheat flour from kazakhistan, food crisis in Pakistan and rising demand for wheat in kazakhistan caused increase in price of this index.

**Meat priceindex** which is weighted for around 7 percent of the CPI,increased to8.63percent in January 20 from 8.00 percent observed in previous month (year over year). When measured on the month to month basis, Price of this index alsoincreased to 0.67percent from 0.48 percent.

In January 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed lower prices. During the review period, this index decreasedto-3.21percent (year over year) from -1.74 percent observed in previous month.When measured on the month-to-month basis, also decreased to-1.14percent from 0.97 percent recorded in previous month. The main reason behind decrease of this index is milk production capacity has increased to more than 1.9 million liters per year throughout the country, and poultry farm products have increased in country especially in Kandahar province.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period increased to 5.10 percent from 2.18 (Y-o-Y). Also it is increased to 2.76 percent from 2.02 percent on the month-to-month basis. Sun flower oil price has increased to 3.46 percent in global market in compare to previous month, also Afghanistan has increased tariff on imported goods in previous months which is another factor that caused increase in this price index.

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**Fresh and dried Fruits** pricesdecreased in the month of January 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to3.58 percent (year over year) from 3.74 percent recorded in the previous month. On month-to-month basis, it also decreased to 0.96 percent from 2.74 percent. Major contribution behind decrease of this index are 15 percent increase of raisin yields in Kandahar province, increase of 12.5 percent almond yields in kunduz province and also citrus yields increased to 7000 metrics tones from 4000 metrics tones in Ningarhar province during the period under review.

**Vegetables price index** which is dedicated for 6 percent of the overall index, increased to 16.44 percent (year over year) from13.24 percent observed in the previous month. While thisindex decreased on the month-to-month basis to5.85percent; however, it was recorded 13.14percent in the previous month. Normally vegetable prices increase in winter season due to decrease in production and increase of demand.

**Price index of sugar and sweets** increased onyear over year basis. This index which comprises around 2.7 percent of the consumer price index increased to5.05 percent (year over year) from4.66percent. When measured on month to month basis, this index decreased to -0.19 from 0.64 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. Afghanistan imported 8.25 percent of sugar from Pakistan during fourth quarter of current year, and sugar price in Pakistan increased from 9.24 percent to 26.39 percent in month of January, hence price of this index increased as well.

**Spices and Non- alcoholic beverages**

During the reporting period, there was adecrease in **spices price index**. Observing the data, this index decreased to 20.78 percent from 21.34 percent (Year over year). In addition, when measured on month to month basis, it increased to 0.37 percent from -0.20 percent.**Non-alcoholic beverages**also decreased to 4.01 percent in January from4.10 percent recorded in previous month. When compared on month to month basis it increased to 0.16 percent from 0.14 percent in the month of January 2020.

# NON-FOOD INFLATION

Inflation in non-food itemsexhibited upward trend in the month of January 2020. On the year over year basis, non-food inflation increased to 1.65 percent from 0.77percent observed in the previous month. The inflationary pressure on this index came from higherprices ofhousing, electricity, water and gas, furnishing and households, transportation, communication, information and culture.

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| **Table 2.3. Non-Food Inflation (December 19- January 20)** | | | | | |
|  | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **December** | **January** | **December** | **January** |
| **Non-Food** | **52.2** | 0.77 | 1.65 | 0.95 | 0.62 |
| *Tobacco* | **0.3** | -2.18 | -1.65 | 0.24 | 0.11 |
| *Clothing* | **4.6** | 7.52 | 6.89 | 2.37 | 0.61 |
| *Housing,* | **19.1** | -1.49 | 0.89 | 1.08 | 1.49 |
| *Furnishing and household goods* | **11.9** | 0.42 | 1.02 | 0.39 | -0.05 |
| *Health* | **6.2** | 6.08 | 4.41 | 0.90 | -0.23 |
| *Transportation* | **4.3** | -6.18 | -4.69 | 0.09 | 0.71 |
| *Communication* | **1.7** | -4.43 | -3.39 | 0.32 | -0.18 |
| *Information and Culture* | **1.1** | 4.33 | 4.34 | -0.10 | 0.52 |
| *Education* | **0.4** | 1.58 | -0.85 | 1.49 | 0.13 |
| *Restaurants and Hotels* | **1.1** | 4.26 | 3.61 | 0.68 | -0.26 |
| *Miscellaneous* | **1.4** | 9.83 | 9.79 | 3.09 | 0.73 |
| Source: National Statistics and Information Authority (NSIA) / DAB |  |  |  |  |  |

Non-food inflation on the month-to-month basis exhibitedlower rate from its previous month’s value. Observing the data, on month to month basis decreased to 0.62 percent from 0.95 percent.

**Clothing price index** which comprises around 4.6 percent of the overall index, decreased in January 2020 to 6.89 percent (year over year), while it was calculated 7.52 percent in the previous month. It also decreased on month to month basis turning around to 0.61 percent from 2.37 percent.

**Price index of housing, electricity, water and gas** increased in January 2020. On year over year basis, this index increased to 0.89 percent from -1.49 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index increased to 1.49 percent from 1.08 percent. As mostly fuel is importing from Hiratan border and due to closure of Salang highway as a result of heavy snow fall, gas price massively increased during the periods.

**Price index of furnishing and household goods** increased in the month of January 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 1.02 percent from 0.42 percent. While on the month to month basis it decreased to-0.05 percent from 0.39 percent. The main reason behind this increase is the increase of demand for furnishing and household goods. As most of furnishing and household goods imported from Pakistan and price of this index has increased by0.04 percent in Pakistan, which has direct effect on this price index.

**Price index of health** decreased in the month of January 2020. Health index which comprises more than 6 percent of the overall CPI decreased to 4.41 percent from 6.08percent (year over year). While, measured on the month to month basis, it alsodecreased to -0.23 percent from 0.90 percent observed in the previous month. This decrease is mainly because of 15 percent reduction in price of89 items of medicines in Pakistan.

**Transportation price index**accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis increased to -4.69percent from -6.18 percent recorded in the previous month. On the other hand, inflation rate on month to month basis is also increased to0.71percent from0.09percent. The main reason behind increase of this index is increase of oil price due to closure of highways as result of heavy snow during the period.

Due to heavy snow falls during the period and closure of highways caused decrease in price of this index.

**Communication price index** during January 2020, increased to -3.39 percent (year over year) from-4.43percent observed one month back. This index decreased on month to month basis turning around to -0.18percent from 0.32 percent. In addition, **price index of information and culture** recorded a rate of 4.34 percent (year over year) in January from its previous value of 4.33 percent. On the month to month basis, this index increased to 0.52 percent from -0.10 percent.

**Education price index,** decreased in the month of January. Observing the data, this index decreased to-0.85percent from 1.58 percent (year over year), and also decreased to 0.13 percent from1.49 percent (month to month).

During January 2020 price decreased in **Restaurants and hotels** (3.61 percent from 4.26 percent year on year basis), and decreased to -0.26 percent from 0.68 percent on month to month basis. It is mainly due to increase in price index of foods and gas.

**Price index of Miscellaneous** decreased to 9.79 percent from 9.83 percent on year-over-year basis. Meantime on the month-to-month basis, price index of miscellaneous also decreased to 0.73 percent from 3.09 percent in the period under review.

# CORE INFLATION

Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which may be seasonal or other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI.

One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During January 2020, trimmed mean (30 % of CPI) increased to 3.46 percent (year over year) from 3.26percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which increased to 4.22 percent compared to 3.48percent recorded in the previous month. Inflation by this measure decreased on month to month basis to0.94 percent from 1.94 percent.