

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**October 2020**

Contents

[PREFACE ii](#_Toc91671138)

[THE CONSUMER PRICE INDEX ii](#_Toc91671139)

[KEY POINTS 1](#_Toc91671140)

[HEADLINE INFLATION 2](#_Toc91671141)

[FOOD INFLATION 3](#_Toc91671142)

[NON-FOOD INFLATION 8](#_Toc91671143)

[CORE INFLATION 12](#_Toc91671144)

# 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 ofOctober 2020 year over year basis. The year over year inflation increased to 5.99 percent in October from 5.70 percent observed in the previous month. This increase is caused by higher prices of both food and non-food items.
* Food index which accounts for around 48 percent of the whole CPI increased to 9.75 percent from 9.41 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 2.42 percent from 2.16 percent.
* Core inflation when measured based on 30% trimmed mean increased to 5.47 percent from 4.23 percent.
* Considering price changes in the short-term (month-to-month), headline inflation increased to0.52 percent from -0.83 percent. Based on this measure, food items increased to 0.50 percent from -1.92 percent and non-food items alsoincreased to 0.55 percent from 0.30 percent.
* Based on Kabul CPI, headline inflation increased to 4.85 percent from 4.69 percent (Year- over-Year). Food prices exhibited lower rate and non-food items increased in the capital Kabul, relatively food items decreased to 6.30 percent from 6.37 percent and non-food category increased to 3.94 percent from 3.63 percent in the period under review. Considering price changes in month to month basis, Kabul headline inflation increased to 0.69 percent from -1.39 percent.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 1. Headline Inflation (September -October20)** | | | | | |
|  | | **Y-o-Y** | | **M-to-M** | |
| **September** | **October** | **September** | **October** |
| **National CPI** | |  |  |  |  |
| **Headline** | | 5.70 | 5.99 | -0.83 | 0.52 |
| *Food* | | 9.41 | 9.75 | -1.92 | 0.50 |
| *Non-Food* | | 2.16 | 2.42 | 0.30 | 0.55 |
| *CPI ex. B&C, O&F, and T* | | 4.47 | 5.39 | -0.69 | -1.16 |
| *Trimmed Mean* | | 4.23 | 5.47 |  |  |
| **Kabul CPI** | |  |  |  |  |
| **Headline** | | 4.69 | 4.85 | -1.39 | 0.69 |
| *Food* | | 6.37 | 6.30 | -3.74 | -0.50 |
| *Non-Food* | | 3.63 | 3.94 | 0.19 | 0.82 |
|  |
|  |
|  |

# HEADLINE INFLATION

Headline inflation increased in the month of October 2020. Observing the data, headline inflation increased to 5.99 percent from 5.70 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 5.47percent, while it was calculated 4.23 percent in the previous month.

Source: Da Afghanistan bank/NSIA

The short-term (month-to-month) change in inflation shows upward trends in the period under review. When measured on the month-to-month basis, headline inflation increased in October 2020. Observing the data, overall inflation increased to a rate of 0.52 percent from -0.83 percent recorded in the previous month. During the reporting period, food items of the CPI increased to 0.50 percent from -1.92 percent. Core measures decreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation decreased to -1.16 percent from -0.69 percent on month to month basis.

Source: Da Afghanistan Bank/NSIA

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

FOOD INFLATION**:**Food inflationincreased in month of October 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation inOctober 2020, when measured year over year basis, increased to 9.75 percent compared to 9.41percent calculated in previous month. This increases come from higher prices ofmeat, milk, cheese and eggs, vegetables, sugar and sweets.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 2. Food and Non-alcoholic beverage Inflation(September 20- October 20)** | | | | | |
| **Items** | **Weight** | **Y-o-Y** | | **M-to-M** | |
| **September** | **October** | **September** | **October** |
| **Food and Non-alcoholic Beverages** | 47.8 | 9.41 | 9.75 | -1.92 | 0.50 |
| *Bread and Cereals* | 14.6 | 14.49 | 12.43 | -1.62 | -1.54 |
| *Meat* | 7.5 | 9.72 | 10.96 | -0.76 | 0.67 |
| *Milk, cheese and eggs* | 4.7 | 2.16 | 3.30 | -1.52 | 1.15 |
| *Oils and fats* | 4.6 | 15.44 | 11.98 | -1.04 | -2.39 |
| *Fresh and dried fruits* | 5.0 | 13.15 | 10.52 | -6.38 | -1.65 |
| *Vegetables* | 6.0 | 2.06 | 11.97 | -3.06 | 11.00 |
| *Sugar and sweets* | 2.7 | 0.67 | 3.74 | -0.52 | -0.98 |
| *Spices* | 1.3 | -1.18 | -2.47 | 0.56 | 3.08 |
| *Non-alcoholic beverages* | 1.4 | 4.89 | 3.54 | 0.20 | 0.25 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

The month-to-month measure of food inflation also shows higherrate in the month of October compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 0.50 percent in the review period higher from -1.92 percent observed in the previous month.

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

**Price index of bread and cereals** which accounts for about 15 percent of the consumer price index decreased to 12.43 percent from 14.49 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-indexes increased to -1.54 percent from -1.62percent.

The main contributions behind the price decrease of this index are; rice harvest throughout the country has increased, rice processing factory has established in the Kunduz Province that has the capacity to process 140 tons of rice in 24 hours, in addition, due to favorable weather condition and heavy rainfalls during the year the wheat yield has reached to 5.1 million metric tons.

**Meat price index** which is weighted for around 7 percent of the CPI, increased to 10.96 percent from 9.72 percent (year over year).When measured on the month-to- month basis, this index also increased to 0.67 percent from -0.76 percent.reason behind increase of this is the import of chicken meat from Iran has been reduced and as a result the price of chicken meat increased in country. Another reason is seasonal effect, in the current season the grass gets dried and reduced, the formers face problem feeding the livestock during the period.

In October 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed higher prices. During the review period, this index has increased to 3.30 percent (year over year) from 2.16 percent observed in previous month. When measured on the month-to-month basis, it also increased to 1.15 percent from -1.52 percent recorded in previous month.

Afghanistan imports most of their dairy products and chicken eggs from neighboring countries; especially from Iran. Recently, the prices of dairy products and chicken eggs has increased in Iran, which has a direct effect on the domestic prices of the mentioned index.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period this index has decreased to 11.98 percent from 15.44 (Y-o-Y). And also, price of this index decreased to -2.39 percent from -1.04percent on the month-to-month basis.

Vegetable oil and cotton seed oil production factories in country has strengthened the domestic production of oils which has increased the domestic supply throughout the country which has caused decreased in price of oils in domestic markets.

|  |  |
| --- | --- |
|  |  |

**Fresh and dried Fruits** prices decreased in the month of October 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 10.52 percent (year over year) from 13.15 percent recorded in the previous month. Measuring month-to-month basisthis index increased in the month of Octoberto -1.65 percent from -6.38 percent compare to the previews month.

The main reasons behind the decrease of this index are; fig production in the provinces of Herat, Faryab and Kandahar, has notable increased of and pistachio yields in Badghees and Badakhshan provinces also increased. This year the apple harvest has been increased, especially in the provinces of Maidan Wardak and Bamyan. The pomegranate yield in the province of Kapisa has increased by 12 percent as compared to previous year. On other hand, the export of pomegranates also decreased to the neighboring countries due lockdown measures. In addition, the grapes yield in the province of Kapisa shown 28 percent increase as compared to the previous year which has resulted lower prices of this index.

**Vegetables price index** which is dedicated for 6.56percent of the overall index, increased to 11.97percent (year over year) from 2.06 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to 11.00 percent; however, it was recorded -3.06 percent in the previous month.

one of the main reasons behind increase of this price index is seasonal effect, normally during the autumn season price of this index gets increase. Also many cold storage has started working, which has the capacity to store and not to be sold at cheap price during this season in market.

**Price index of sugar and sweets** increased year over year basis. This index which comprises around 2.7 percent of the consumer price index increased to 3.74 percent (year over year) from 0.67 percent.

On the other hand, when measured month to month basis, this index decreased to -0.98 from -0.52 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

as most of the sugar has been importing from neighboring countries such as Iran, and UAE, Malaysia, India and Turkmenistan, the increase of sugar price in Iran and UAE. Also decrease in the import of sugar from Malaysia, India and Turkmenistan has led to increase the prices in domestic market.

**Spices**

During the reporting period, there was a decrease in Spices price index. Observing the data, this index significantly decreased to -2.47 percent from -1.18 percent (Year over Year). In addition, when measured on month to month basis, increased to 3.08 percent from 0.56 percent.

The main reason behind the price decrease of this index is the huge garlic harvest in the country which has increased domestic supply, and also Afghanistan is importing black pepper from India and the price of this index has decreased in India, therefore, the price of this index is dropped in the domestic markets as well.

**Non- alcoholic beverages** decreased to 3.54 percent in October from 4.89 percent recorded in previous month, measuring on month to monthbasis it increased in the month of October 0.25 percent from 0.20 percent.

the reason behind decrease of this index is seasonal changes, as demand for purchase of non-alcoholic beverages declines during this period, therefore the price of this index is also decreased.

# NON-FOOD INFLATION

Inflation in non-food items exhibited upwards trend in the month of October 2020. Year over year basis, non-food inflation increased to 2.42 percent from 2.16percent observed in the previous month. This increase mainly comes from higher prices of clothing, furnishing, electricity, water and gas, transportation, communication, information and culture, education, and miscellaneous.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table3. Non-Food Inflation (September 20 - October 20)** | | | | | |
|  | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **September** | **October** | **September** | **October** |
| **Non-Food** | **52.2** | 2.16 | 2.42 | 0.30 | 0.55 |
| *Tobacco* | **0.3** | 2.73 | 3.11 | 0.02 | 0.00 |
| *Clothing* | **4.6** | 7.84 | 8.64 | 1.21 | 1.47 |
| *Housing,* | **19.1** | 1.03 | 0.56 | 0.29 | 0.87 |
| *Furnishing and household goods* | **11.9** | 3.40 | 4.30 | 0.65 | 0.08 |
| *Health* | **6.2** | 7.82 | 7.42 | -0.83 | -0.06 |
| *Transportation* | **4.3** | -13.38 | -12.22 | 0.01 | 0.38 |
| *Communication* | **1.7** | -0.58 | -0.33 | -0.14 | 0.37 |
| *Information and Culture* | **1.1** | 0.72 | 3.46 | 0.77 | 0.59 |
| *Education* | **0.4** | 4.35 | 5.29 | 1.39 | 1.47 |
| *Restaurants and Hotels* | **1.1** | 2.31 | 2.22 | 0.53 | 0.06 |
| *Miscellaneous* | **1.4** | 9.49 | 9.52 | -0.24 | 0.78 |
| Source: National Statistics and Information Authority (NSIA) / DAB |  |  |  |  |  |

Non-food inflation on the month-to-month basis exhibited higher rate from its previous month’s value. Observing the data, it increased to 0.55 percent from 0.30 percent.

**Tobacco price index** which comprises 0.3 percent of the overall index, increased in October 2020 to 3.11from 2.73 (year over year basis). On the other hand,when measured month to month basis, this index is decreased to 0.00 from 0.02 percent.

The tobacco excise has increased by 12.5 percent since September 2020 in global market, resulting in an average 20 pack of cigarettes costing more than $35 in international market.

**Clothing price index** which comprises around 4.6 percent of the overall index, increased in October 2020 to 8.64 percent (year over year), while it was calculated 7.84 percent in the previous month. On the other hand, this index also increased on month to month basis turning to 1.47 percent from 1.21 percent.

the main contribution behind increase of this index are demand for purchase of autumn season cloths has increased, also mostly clothing index are importing from Pakistan and due to locust attack on cotton field in Pakistan,the price of clothing indexhas increased which also led to increase domestic price throughout the country.

**Price index of housing, electricity, water and gas** decreased in October 2020. On year over year basis, this index decreased to 0.56 percent from 1.03 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 0.87 percent from 0.29 percent.

The reason behind decrease of this index is the prices of natural gas in international market has decreased by 6.87 percent compare to same month of previous year.

**Price index of furnishing and household goods** increased in the month of October 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 4.30 percent from 3.40percent. in the meantime, when measured on month to month basis this index decreased to 0.08 percent from 0.65.

most of the household goods import from neighbor’s countries, particularly from Iran and Pakistan and price of household goods in Iran has increased, and cotton production in Pakistan has decreased which led to increase the price of mentioned index. also Afghanistan import during the period has beendecreased from neighbors’ countries which has led to increase the domestic prices of mentioned index.

**Price index of Health** decreased in the month of October 2020. Health index which comprises more than 6 percent of the overall CPI decreased to 7.42 percent from 7.82 percent (year over year). At the same time when measured on the month to month basis, it increased in the month of Octoberto -0.06 percent from -0.83 percent observed in the previous month.

the main reason behind decrease of this index is china 's donation of $ 1 million worth of health supplies to the Afghanistan government, also as most of Afghanistan health index are importing from neighboring countries especially from Pakistan, the price of medicine in Pakistan has decreased by 1.46 percent in the period under review.

**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis increased to -12.22 percent from -13.38 percent recorded in the previous month. Measuring month tomonth basis this index also increased to 0.38 percent from 0.01 percent compare to the previews month.

one of the reasons behind increase of this index is the demand decrease for public transportation due to spread of covid-19 in public transportation which has led to increase demand for bicycles and related mean of transport in market. Also import of petroleum has been decreased during the period.

**Communication price index** during October2020, increased to -0.33 percent (year over year) from -0.58 percent observed one month back. This index also increased on month to month basis turning around to 0.37 percent from -0.14 percent.

In addition, **price index of information and culture** recorded a rate of 3.46 percent (year over year) in Octoberfrom its previous value of 0.72 percent. On the month to month basis, this index decreased to 0.59percent from 0.77 percent.

with the reopening of education centers demand for purchase of stationery has increased.

**Education price index,** increased in the month of October. Observing the data, this index increased to 5.29 percent from 4.35 percent (year over year), this index is also increased to 1.47 percent from 1.39 percent (month to month).

demand for English and science courses has increased which caused increased in fee of mentioned index

During October 2020 price decreased in **Restaurants and hotels** (2.22 percent from 2.31percent year on year basis), also decreased to 0.06 percent from 0.53percent on month to month basis.

one of the main reason behind decrease in the prices of this index is decrease in price of bread and cereals, oils and fats and gas during the period.

**Price index of Miscellaneous** increased to 9.52 percent from 9.49 percent on year-over-year basis. On the meantime when measuring on month-to-month basis, price index of miscellaneous also increased to 0.78percent from -0.24 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 October 2020, trimmed mean (30 % of CPI) increased to 5.47 percent (year over year) from 4.23 percent 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 5.39 percent compared to 4.47 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to 1.16 percent from -0.69 percent.