

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**February 2020**

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# 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 February 2020 year over year basis. The year over year inflation increased to 3.84 percent in February from3.75 percent observed in the previous month. This increase is caused by higher prices of food items.
* Food index which accounts for around 48 percent of the whole CPI increased to6.43 percent from 5.99percent. In the meantime, non-food category which comprises about 52 percent of the overall index decreased to 1.39 percent from 1.65 percent.
* Core inflation when measured based on 30% trimmed mean increased to 3.89 percent from 3.46 percent.
* Considering price changes in the short-term (month-to-month), headline inflationdecreased to -0.54 percent from 1.07 percent. Based on this measure, food items decreased to 0.02percent from 1.52percent and non-food items alsodecreased to -1.08 percent from 0.62 percent.
* Based on Kabul CPI, headline inflation decreased to3.70 percent from 4.14percent. Foodprices exhibiteda lowerrate and non-food items also decreased in the capital Kabul, relatively food itemsdecreased to 6.05 percent from 6.24percent and non-food categoryalso decreased to2.18 percent from 2.77percent in the period under review.

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| **Table 1.1. Headline Inflation (January 20- February 20)** | | | | | |
|  | | **Y-o-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **National CPI** | |  |  |  |  |
| **Headline** | | 3.75 | 3.84 | 1.07 | -0.54 |
| *Food and beverage* | | 5.99 | 6.43 | 1.52 | 0.02 |
| *Non-Food, tobacco and services* | | 1.65 | 1.39 | 0.62 | -1.08 |
| *CPI ex. B&C, O&F, and T* | | 4.22 | 4.05 | 0.94 | -0.46 |
| *Trimmed Mean* | | 3.46 | 3.89 |  |  |
| **Kabul CPI** | |  |  |  |  |
| **Headline** | | 4.14 | 3.70 | 0.69 | -1.57 |
| *Food and beverage* | | 6.24 | 6.05 | 1.35 | -1.55 |
| *Non-Food, tobacco and services* | | 2.77 | 2.18 | 0.26 | -1.59 |
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# HEADLINE INFLATION

Headline inflation increased in the month of February 2020. Observing the data, headline inflation increased to3.84percent from 3.75 percent (year over year). This increase is caused by higher prices of food items. Core measure of inflation when measured based on 30% trimmed mean increased to 3.89 percent, while it was calculated 3.46percent in the previous month.

Source: Da Afghanistan Bank/NSIA

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 February 2020. Observing the data, overall inflation decreased to a rate of -0.54 percent from 1.07 percent recorded in the previous month. During the reporting period, food items of the CPI also decreased to 0.02percent from 1.52 percent which led to deflation on month to month basis. Core measuresalso decreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportationdecreased to-0.46 percent from 0.94percent on month to month basis.

source: Da Afghanistan Bank/NSIA

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

FOOD INFLATION**increased** in February 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in February 2020, when measured on year over year basis, increased to 6.43 percent compared to 5.99 percent calculated in previous month. This increase came from higher prices of bread and cereals, meat, milk, cheese and eggs, oils and fats, sugar and sweets, and nonalcoholic beverages. Price of remaining items decreased from the previous month’s values.

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| **Table 2.2. Food Inflation(January 20- February 20)** | | | | | |
| **Items** | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **Food and Beverages** | 47.8 | 5.99 | 6.43 | 1.52 | 0.02 |
| *Bread and Cereals* | 14.6 | 3.45 | 4.29 | 1.32 | -0.39 |
| *Meat* | 7.5 | 8.63 | 9.28 | 0.67 | 0.26 |
| *Milk, cheese and eggs* | 4.7 | -3.21 | -2.63 | -1.14 | 0.21 |
| *Oils and fats* | 4.6 | 5.10 | 6.27 | 2.76 | -0.91 |
| *Fresh and dried fruits* | 5.0 | 3.58 | 3.06 | 0.96 | -0.07 |
| *Vegetables* | 6.0 | 16.44 | 15.90 | 5.85 | 1.29 |
| *Sugar and sweets* | 2.7 | 5.05 | 6.30 | -0.19 | -0.74 |
| *Spices* | 1.3 | 20.78 | 17.68 | 0.37 | 0.77 |
| *Non-alcoholic beverages* | 1.4 | 4.01 | 4.18 | 0.16 | 0.37 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

The month-to-month measure of food inflation showslower rate in the month of February compared to the previous reporting period. The latest data released by NSIA exhibits aninflation rate of 0.02 percent in the review period lower from 1.52 percentobserved in 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 to4.29percent from 3.45 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-index decreased to -0.39 percent from 1.32 percent.

As mostly Afghanistan is importing wheat flour from Kazakhstan and price of wheat flour in Kazakhstan increased to 24.2 percent in compare to same month of previous year, alsodue to widespread of corona virus across the country demand for purchase of food items especially wheat flour increased.

**Meat priceindex** which is weighted for around 7 percent of the CPI, increasedto9.28percent from 8.63 percent (year over year). When measured on the month to month basis, Price of this indexdecreased to 0.26percent from 0.67 percent.Smuggling of livestock especially sheep and goat from Afghanistan to neighboring countries mainly towards Iran increased to 80 percent during the period, which caused increase in this price index.

In February 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 increasedto-2.63percent (year over year) from -3.21 percent observed in previous month. When measured on the month-to-month basis, also increased to0.21 percent from -1.14 percent recorded in previous month. Due to wide spread of covid-19, some suppliers and traders have been storing food items which caused increase in this price of this index.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period increased to 6.27 percent from 5.10 (Y-o-Y). On the other hand, price of this indexdecreased to -0.91 percent from 2.76 percent on the month-to-month basis. Sun flower oil price in global market has increased overall by 2.10 percentin compare to previous month.Alsoincreases of tariff on imported goods from neighboring countries in previous months are the main factors that have pushed up price of this index.

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**Fresh and dried Fruits**pricesdecreased in the month of February 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to3.06 percent (year over year) from 3.58 percent recorded in the previous month. On the other hand, month-to-month basis, it also decreased to -0.07 percent from 0.96 percent. Afghanistan used to export 20 tons of fresh and dried fruits especially pine nuts china on weekly basis, but due to covid-19, this trade has been stopped and led to decrease the prices of this index

**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to 15.90 percent (year over year) from16.44 percent observed in the previous month. When measured on the month to month basis this indexis also decreasedto1.29 percent;however, it was recorded 5.85percent in the previous month.One of the main reason behind decrease of this index is Pakistan has increased tariff on the vegetables which are exporting to their country.

**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 to6.30percent (year over year) from5.05 percent. When measured on month to month basis, this index decreased to -0.74 from -0.19 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. As mostly sugar is being imported from Pakistan and the price of Sugar in Pakistan has increased to 25.39 percentin compare to same month of previous year, hence price of this index is 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 17.68 percent from 20.78 percent (Year over year). In addition, when measured on month to month basis, it increased to 0.77 percent from 0.37 percent.

**Non-alcoholic beverages**increased to 4.18percent in February from4.01 percent recorded in previous month. When compared on month to month basis it increased to 0.37 percent from 0.16 percent in the month of February 2020.since sugar is used as raw material in proccess of non- alcohlic beverage,so increase in price of sugar has inceased prices of non-alcholic beverages.

# NON-FOOD INFLATION

Inflation in non-food itemsexhibited downwards trend in the month of February 2020. On the year over year basis, non-food inflation decreased to 1.39percent from 1.65percent observed in the previous month. This decrease is mainly come from lower prices of housing, information and culture, restaurants and hotels.

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| **Table 2.3. Non-Food , tobacco and services Inflation (January 20-February 20)** | | | | | |
|  | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **Non-Food, tobacco and services** | **52.2** | 1.65 | 1.39 | 0.62 | -1.08 |
| *Tobacco* | **0.3** | -1.65 | -0.73 | 0.11 | 0.63 |
| *Clothing* | **4.6** | 6.89 | 8.42 | 0.61 | 0.15 |
| *Housing,* | **19.1** | 0.89 | -1.23 | 1.49 | -3.18 |
| *Furnishing and household goods* | **11.9** | 1.02 | 1.42 | -0.05 | 0.46 |
| *Health* | **6.2** | 4.41 | 5.60 | -0.23 | 0.49 |
| *Transportation* | **4.3** | -4.69 | -3.86 | 0.71 | -2.00 |
| *Communication* | **1.7** | -3.93 | -3.60 | -0.18 | 0.23 |
| *Information and Culture* | **1.1** | 4.34 | 3.66 | 0.52 | 0.53 |
| *Education* | **0.4** | -0.85 | 0.80 | 0.13 | 0.03 |
| *Restaurants and Hotels* | **1.1** | 3.61 | 3.12 | -0.26 | -0.15 |
| *Miscellaneous* | **1.4** | 9.79 | 10.82 | 0.73 | 0.13 |
| Source: National Statistics and Information Authority (NSIA) / DAB |  |  |  |  |  |

Non-food inflation on the month-to-month basisexhibited also lower rate from its previous month’s value. Observing the data, it decreased to-1.08 percent from 0.62 percent.

**Clothing price index** which comprises around 4.6 percent of the overall index, increased in February 2020 to 8.42 percent (year over year), while it was calculated 6.89 percent in the previous month. This index alsodecreased on month to month basis turning around to 0.15 percent from 0.61 percent.

As most of our clothing has been importing from china and Pakistan, due to outbreak of corona virus, imports of clothing has been stopped from china and the price of cotton isincreased due to locusts’ attack on Pakistan cotton fields.

**Price index of housing, electricity, water and gas** decreased in February 2020. On year over year basis, this index decreased to -1.23 percent from 0.89 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 also decreased to -3.18 percent from 1.49 percent.

As most of gas supply is via Salang highway, in the previous month Salang high way was closed due to heavy snow fall which caused increase in gas price. In the month of February Salang high way re-openedand eased large supply to the domestic market.

**Price index of furnishing and household goods** increased in the month of February 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 1.42 percent from 1.02 percent. While on the month to month basis also increased to0.46 percent from -0.05 percent. Afghanistan is used to import 250 types of goods from china, but due to wide break of covid19, imports from china is suspended which cause increase in this price index.

**Price index of health** increased in the month of February 2020. Health index which comprises more than 6 percent of the overall CPI increased to 5.60percent from 4.41percent (year over year). While, measured on the month to month basis, it alsoincreased to 0.49 percent from -0.23 percent observed in the previous month.

**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis increased to -3.86percent from -4.69 percent recorded in the previous month. On the other hand, inflation rate on month to month basis is decreasedto-2.00percent from0.71percent. The main reason behind this increaseis higher prices of air tickets due to corona pandemic.

**Communication price index** during February 2020, increased to -3.60 percent (year over year) from-3.93 percent observed one month back. This index is increased on month to month basis turning around to 0.23percent from -0.18 percent. In addition, **price index of information and culture** recorded a rate of 3.66 percent (year over year) in February from its previous value of 4.34percent. On the month to month basis, this index increased to 0.53 percent from 0.52 percent.

**Education price index,** increased in the month of February. Observing the data, this index increased to0.80percent from-0.85 percent (year over year), while this index is decreased to 0.03 percent from0.13 percent (month to month).

During February 2020 price decreased in **Restaurants and hotels** (3.12 percent from 3.61 percent year on year basis), and increased to -0.15 percent from -0.26 percent on month to month basis. The services of wedding halls are decreased in winter season due to cold weather, hence the price of this index is decreased as well.

**Price index of Miscellaneous** increased to 10.82 percent from 9.79 percent on year-over-year basis. Meantime on the month-to-month basis, price index of miscellaneous decreased to 0.13 percent from 0.73 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 February 2020, trimmed mean (30 % of CPI) increased to 3.89 percent (year over year) from 3.46percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which decreased to 4.05 percent compared to 4.22percent recorded in the previous month. Inflation by this measure also decreased on month to month basis to-0.46 percent from 0.94 percent.