

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**February 2021**

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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 ofFebruary2021 on year over year basis. The year over year inflation increased to 4.13 percent in February from 4.11 percent observed in the previous month. This increase is caused by higher prices of non- food items while food items decreased during the period.
* Food index which accounts for around 48 percent of the whole CPI decreased to 5.32 percent from 6.10 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 2.95 percent from 2.16 percent.
* Core inflation when measured based on 30% trimmed mean decreased to 3.61percent from 3.98 percent.
* Considering price changes in the short-term (month-to-month), headline inflation decreased to-0.52percentfrom 0.26 percent. Based on this measure, food items decreased to -0.72percent from 0.20 percent and non-food items alsodecreased to -0.31 percent from 0.32percent.
* Based on Kabul CPI, headline inflation increased to 3.42 percent from 3.41 percent (Year- over-Year). Food prices exhibited lower ratecompare to the previews month and non-food item’s prices increased inthe capital Kabul, food items decreased to 1.73 percent from 2.62percent and non-food category increased to 4.56percent from 3.95 percent in the period under review. Considering price changes in month to month basis, Kabul headline inflation decreased to -1.56 percent from 0.52percent.

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| **Table 1. Headline Inflation (January 21–February21)** | | | | | |
|  | | **Y-o-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **National CPI** | |  |  |  |  |
| **Headline** | | 4.11 | 4.13 | 0.26 | -0.52 |
| *Food* | | 6.10 | 5.32 | 0.20 | -0.72 |
| *Non-Food* | | 2.16 | 2.95 | 0.32 | -0.31 |
| *CPI ex. B&C, O&F, and T* | | 3.43 | 3.14 | 0.08 | -0.74 |
| *Trimmed Mean* | | 3.98 | 3.61 |  |  |
| **Kabul CPI** | |  |  |  |  |
| **Headline** | | 3.41 | 3.42 | 0.52 | -1.56 |
| *Food* | | 2.62 | 1.73 | 1.22 | -2.41 |
| *Non-Food* | | 3.95 | 4.56 | 0.06 | -1.01 |
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# HEADLINE INFLATION

Headline inflation increased in the month of February 2021. Observing the data, headline inflation increased to 4.13 percent from 4.11percent (year over year). Most of this increase caused by higher prices of Non-foods items, while food itemsprices decreased during the period. Core measure of inflation when measured based on 30% trimmed mean decreased to 3.61percent, while it was calculated 3.98 percent 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 month-to-month basis, headline inflation decreased in February2021 compare to the previews month. Observing the data, overall inflation decreased to a rate of -0.52 percent in the month of February from 0.26 percent recorded in the previous month. During the reporting period, food items of the CPI month to month basis decreased to -0.72percent from 0.20 percent, and Non-Food items prices decreased to -0.31 percent in February from 0.32 in previous month,on the other hand, Core measures increased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation decreased to -0.74 percent from 0.08 percent on month to month basis.

Source: Da Afghanistan Bank/NSIA

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

FOOD INFLATION**:** Food inflationdeceased in month of February2021. Food and beverages items are weighted for 47.8 percent of the overall index. When measure year over year basis,food inflation decreased to 5.32 percent in the month of Februaryfrom 6.10percent calculated in previous month. This decrease comes from lower prices of meat, milk, cheese and eggs, fresh and dried fruits, vegetables, spices and non- alcoholic beverages.

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| **Table 2. Food and Non-alcoholic beverage Inflation(January21- February 21)** | | | | | |
| **Items** | **Weight** | **Y-o-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **Food and Non-alcoholic Beverages** | 47.8 | 6.10 | 5.32 | 0.20 | -0.72 |
| *Bread and Cereals* | 14.6 | 8.69 | 8.92 | -0.51 | -018 |
| *Meat* | 7.5 | 9.76 | 8.86 | 0.32 | -0.56 |
| *Milk, cheese and eggs* | 4.7 | 5.95 | 3.33 | 0.90 | -2.26 |
| *Oils and fats* | 4.6 | 14.87 | 16.16 | 4.82 | 0.21 |
| *Fresh and dried fruits* | 5.0 | 2.64 | 1.65 | -1.33 | -1.03 |
| *Vegetables* | 6.0 | -3.73 | -6.78 | -0.30 | -1.91 |
| *Sugar and sweets* | 2.7 | 5.60 | 6.25 | -0.49 | -0.12 |
| *Spices* | 1.3 | -5.02 | -6.85 | -1.06 | -1.18 |
| *Non-alcoholic beverages* | 1.4 | 3.05 | 2.17 | -0.18 | -0.49 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

And also when measuremonth-to-month food inflation decreased in the month of February comparedto the previous month. The latest data released by NSIA exhibits an inflation rate of -0.72percent in the review period lower than0.20percent 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 increased to 8.92 percent in the month of February from 8.69 percent in previews month (year over year). also when measured on the month-to-month basis, this sub-indexes are increased to -0.18 percent from -0.51percent.Increase in the prices of this index is correlated to international market prices, wheat flour and rice prices in interantional market has been increased compared to same month of previous year,the prices of wheat flour and rice has increased by 39% and 23.7 % respectively.

**Meat price index** which is weighted for around 7 percent of the CPI, decreased to 8.86 percent in the month of February from 9.76percent in previews month (year over year).When measured on month-to- month basis, this index decreased to -0.56percent in the month of February from 0.32percent January.

The main reasons behind decrease in the prices of this index are the increase of fish farms, total 350 fish farms have been built throughout the country during this year which caused increase in level of fish production and local supply to the market. andincrease in poultry farms in some provinces like Khust and Ningarahar which has increased the local supply to the market.and also increase of illegal imports of chicken from neighboring countries is considered another reason behind decrease in the prices of this index.

In month ofFebruary 2021, **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 has decreased to 3.33percent (year over year) in the month of February from 5.95 percent observed in previous month. When measured on the month-to-month basis, this index decreased to -2.26 percent in the month of February from 0.90percent recorded in previous month. Increase in number of poultry and diary production farms inside the country has caused decrease in the prices of this index.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period this index has increased (Y-o-Y) to 16.16percent in the month of February from 14.87 percent recorded in the previews month., on the other hand price of this index (M-to-M) decreased to 0.21 percent in the month of February from 4.82percent in previews month. The reason behind increase in the prices of mentioned index is international market prices, sun flower oil, olive oil, and corn oil price in international market has increased by 8 percent, 42 percent and 50 percent respectively.

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**Fresh and dried Fruits** prices decreased in the month of February 2021. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 1.65 percent (year over year) in the month of February from 2.64 percent recorded in the previous month. While measuring month-to-month basis this index increased in the month of February to -1.03 percent from -1.33 percent compare to the previews month. The main reasons behind decrease in the prices of this index are, increased in production of Dried Plum in Kandahar and Ghazni provinces and also production of citrus in Ningarhar and pomegranate yield in Farah, and also Pistachio production increased by 64 percent in Badakhshan province during the period.

**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to -6.78percent (year over year) in the month of February from -3.73 percent observed in the previous month. when measured on the month to month basis this index has decreased to -1.91 percent in the month of February; however, it was recorded -0.30percent in the previous month. Reason behind decreased in the prices of this index is increased in the harvest of vegetables in provinces of Ningarhar and Laghman during the period, which has increased domestic supply to the market during the period.

**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 6.25 percent (year over year) in the month of February from 5.60 percent recorded in the previews month. And also when measured month to month basis, this index increased to -0.12 in the month of February from -0.49 percent in previews month. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. Reasons behind increased in the prices of this index are increase of sugar prices in Iran and Pakistan, as most of the sugar imports from neighboring countries such as Iran and Pakistanand increase in prices of sugar in Pakistan and Iran has pushed up the domesticprices of this indexin local markets.

**Spices**

During the reporting period, prices of this index has decreased compart to the previews month. Observing the data, prices of this index (Y-o-Y) decreased to -6.85 percent in February from -5.02 percent in addition, when measured on month to month basis, it also decreased to -1.18 percent in the month of February from -1.06 percent recorded in previews month. The reasons behind decreased in the prices of this index is the operation of BustanSabz Agriculture company which has capacity to produce 20 metric tons of Tomato paste per hours, and also salt company has started operation in Laghman province which has the capacity to produce one ton of salt per hour~~.~~

N**on- alcoholic beverages** decreased to 2.17 percent in February from 3.05 percent recorded in previous month, measuring on month to month basis this index has also decreased in the month of February to -0.49 percent from -0.18 percent recorded in previews month. Reason behind increase in the prices of this index is the increase in number of non- alcoholic drink companies inside the country which has increased the domestic supply of non-alcoholic drinks inside the country. And also tea price in international market has decreased by-4 percent in the month of February compare to same month of previous year.

# NON-FOOD INFLATION

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| **Table 3. Non- Food Inflation (January 21- February 21)** | | | | | |
| **Items** | **Weight** | **Y-o-Y** | | **M-to-M** | |
| **January** | **February** | **January** | **February** |
| **Non-Food** | **52.2** | 2.16 | 2.95 | 0.32 | -0.31 |
| *Tobacco* | **0.3** | 4.97 | 5.35 | 0.47 | 1.00 |
| *Clothing* | **4.6** | 6.93 | 5.51 | -0.03 | -1.18 |
| *Housing,* | **19.1** | -0.28 | 2.16 | -0.14 | -0.81 |
| *Furnishing and household goods* | **11.9** | 6.08 | 5.40 | 0.94 | -0.18 |
| *Health* | **6.2** | 6.08 | 5.73 | -0.13 | 0.15 |
| *Transportation* | **4.3** | -11.81 | -8.34 | 1.32 | 1.86 |
| *Communication* | **1.7** | -0.66 | -0.68 | -0.06 | 0.21 |
| *Information and Culture* | **1.1** | 1.30 | 0.58 | -0.71 | -0.18 |
| *Education* | **0.4** | 5.48 | 5.08 | 1.14 | -0.35 |
| *Restaurants and Hotels* | **1.1** | -0.14 | -0.39 | -0.08 | -0.40 |
| *Miscellaneous* | 1.4 | 9.05 | 8.38 | 2.08 | -0.49 |

Inflation in non-food items exhibited upwards trend in the month of February 2021. on year over year basis, non-food inflation increased to 2.95 percent in the month of February from 2.16 percent observed in the previous month. This increase mainly comes from higher prices of housing, restaurant and hotels, information and culture, and transportation.

Source: National Statistics and Information Authority (NSIA) / DAB

Non-food inflation on month-to-month basis exhibited slightly lowerrate in the month of February from its previous month’s value. Observing the data, it decreased to -0.31percent in the month of February from 0.32 percent recorded in previews month.

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**Tobacco price index** which comprises 0.3 percent of the overall index, increased in February 2021 to 5.35 from4.97 (year over year basis) recorded in previews month. Meanwhile,when measured month to month basis, this index hasalso increased to 1.00 percent in the month of February from0.47 percent recorded in previews month. The reason behind increased in the prices of this index is tobacco international prices, 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, decreased in February 2021 to 5.51 percent (year over year), while it was calculated 6.93percent in the previous month. This index also decreased on month to month basis turning to -1.18 percent in the month of February from -0.03 percent recorded in previews month. The main contribution behind decrease in the price of this index is increase in production of cotton throughout the country especially in Nimroz,Helmand and Balkh provinces compared to the previous year, also domestic shoes production increased the domestic supply during the period.

**Price index of housing, electricity, water and gas** increased in February 2021. When measure year over year basis, this index increased to 2.16 percent in the month of Februaryfrom -0.28 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 -0.81 percent in the month of February from -0.14 percent recorded in the previews month. Main contribution behind increase in the prices of this index are, Gas price in international markethas increased compare to same month of previous year. Also due to cold weather demand for consumption of Coal, charcoal, firewood and liquid gas and other fuel material has increased.

**Price index of furnishing and household goods** decreased in the month of February 2021. This index which holds a healthy weight of 12 percent in the CPI, decreased to 5.40 percent in the month of February from 6.08 percent recorded in previews month. in the meantime, when measured on month to month basis this index also decreased to -0.18 percent in the month of February from 0.94 recorded in previews month. The reasons behind decrease in the prices of this index are the increase in thelevel of domestic production furnishing and household goods, during the year has increased,now Afghanistan is able to produce 56 out 100 essential consumer goods domestically. And also the first plastic dishes factory has started operation in Laghman province, with a capacity of producing more than 1200 types of plastic container in 24 hours.

**Price index of Health** decreased in the month of February2021. Health index which comprises more than 6 percent of the overall CPI decreased to 5.73percent in the month of February from 6.08percent recorded in previews month (year over year). when measured on the month to month basis, it increased in the month of February to 0.15 percent from -0.13percent observed in the previous month. Reason behind decrease in the prices of this index is illegal imports of medicines, Afghanistan supplies 90 percent of its needed medicine through imports from foreign countries, and 70 percent of these medicine enters to market illegally and without tax payments, which caused decrease in price of this index in domestic market.

**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year over year basis increased to -8.34 percent in the month of February from -11.81 percent recorded in the previous month. Measuring month tomonth basis this index also increased to 1.86 percent in the month of February from 1.32 percent compare to the previews month. Reason behind increase in the prices of this index is increase of oil prices in international market, Crude oil prices in international market hasincreased to 12.65 percent and gasoline prices increased by 11.4 percent in the month of February compared to same month of previous year. And also due to the fire at Islam Qala customs, supply to the domestic market has decreased and theprices of fuel in domestic market has increased.

**Communication price index** during February 2021, decreased to -0.68 percent (year over year) from -0.66percent observed one month back. This index increased on month to month basis turning around to 0.21 percent in the month of February from -0.06percent recorded in previews month.

In addition, **price index of information and culture** recorded a rate of 0.58 percent (year over year) in February from its previous value of 1.30 percent. On month to month basis, this index increased to -0.18 percent in the month of February from -0.71percent recorded in previews month. Reason behind decrease of this index is increase of domestic factories and supply to the domestic market, first ever paper factory has started operation in Kabul, this factory has the capacity to produce 120 tons of paper daily.

**Education price index,** decreased in the month of February2021. Education index which comprises 0.4 percent of the overall CPI decreased to 5.08 percent in the month of February from 5.48 percent recorded in the previews month (year over year), when measured on the month to month basis, it decreased in the month of February to -0.35 percent from 1.14 percent observed in the previous month.

**Restaurants and Hotels price index,** decreased in the month of February2021. This index which comprises 1.1 percent of the overall CPI decreased to -0.39 percent in the month of February from -0.14 percent recorded in the previews month (year over year), when measured on the month to month basis, it decreased in the month of February to -0.40 percent from -0.08 percent observed in the previous month.

Reason behind decrease of this index is decrease in price of food and beverages during the period.

**Price index of Miscellaneous** decreased in the month of February 2021 to 8.38 percent from 9.05percent recorded in the previous month (Year-over-Year), when measured on the month to month basis, it decreased to -0.49 percent in the month of February from 2.08 percent observed in the previous month.

# 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 2021, trimmed mean (30 % of CPI) decreased to 3.61percent (year over year) from 3.98percent 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 3.14 percent compared to 3.43percent recorded in the previous month. Inflation by this measure decreased on month to month basis to -0.74 percent in the month of February from 0.08 percent recorded in previous month.