

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**August 2020**

Contents

[PREFACE ii](#_Toc91670576)

[THE CONSUMER PRICE INDEX ii](#_Toc91670577)

[KEY POINTS 1](#_Toc91670578)

[HEADLINE INFLATION 2](#_Toc91670579)

[FOOD INFLATION 3](#_Toc91670580)

[NON-FOOD INFLATION 7](#_Toc91670581)

[CORE INFLATION 11](#_Toc91670582)

# 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 decreased in the month of August 2020 year over year basis. The year over year inflation decreased to 5.88 percent in August from 6.33 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while nonfood items increased during the period.
* Food index which accounts for around 48 percent of the whole CPI decreased to 10.90 percent from 12.71 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 1.10 percent from 0.31 percent.
* Core inflation when measured based on 30% trimmed mean decreased to 4.38 percent from 5.28 percent.
* Considering price changes in the short-term (month-to-month), headline inflation decreased to-0.34 percent from -1.11 percent. Based on this measure, food items increased to -1.24 percent from -1.81 percent and non-food items increased to 0.61 percent from -0.35 percent.
* Based on Kabul CPI, headline inflation decreased to 4.07 percent from 4.69 percent. Food prices exhibited lower rate and non-food items increased in the capital Kabul, relatively food items decreased to 7.30 percent from 9.99 percent and non-food category increased to 2.00 percent from 1.30 percent in the period under review.

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| **Table 1. Headline Inflation (July 20- August20)** | | | | | |
|  | | **Y-o-Y** | | **M-to-M** | |
| **July** | **August** | **July** | **August** |
| **National CPI** | |  |  |  |  |
| **Headline** | | 6.33 | 5.88 | -1.11 | -0.34 |
| *Food* | | 12.71 | 10.90 | -1.81 | -1.24 |
| *Non-Food* | | 0.31 | 1.10 | -0.35 | 0.61 |
| *CPI ex. B&C, O&F, and T* | | 5.23 | 4.27 | -0.93 | -0.39 |
| *Trimmed Mean* | | 5.28 | 4.38 |  |  |
| **Kabul CPI** | |  |  |  |  |
| **Headline** | | 4.69 | 4.07 | -0.93 | -0.29 |
| *Food* | | 9.99 | 7.30 | -0.88 | -2.16 |
| *Non-Food* | | 1.30 | 2.00 | -0.96 | 1.02 |
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# HEADLINE INFLATION

Headline inflation decreased in the month of July 2020. Observing the data, headline inflation decreased to 5.88 percent from 6.33 percent (year over year). This decrease is caused by lower prices of food items, while non-food item increased during the period. Core measure of inflation when measured based on 30% trimmed mean decreased to 4.38 percent, while it was calculated 5.28 percent in the previous month.

Source: Da Afghanistan bank/NSIA

The short-term (month-to-month) change in inflation shows upwards trends in the period under review. When measured on the month-to-month basis, headline inflation increased in August 2020. Observing the data, overall inflation increased to a rate of -0.34 percent from -1.11 percent recorded in the previous month. During the reporting period, food items of the CPI increased to -1.24 percent from -1.81 percent. Core measures also increased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation increased to -0.39 percent from -0.93 percent on month to month basis.

Source: Da Afghanistan Bank/NSIA

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

FOOD INFLATIONdecreased in month of August 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation inAugust 2020, when measured year over year basis, decreased to 10.90 percent compared to 12.71 percent calculated in previous month. This decreases come from lower prices of meat, oils and fats, fresh and dried fruits, vegetables, sugar and sweets, spices and non-alcoholic beverages.

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| **Table 2. Food and Non-alcoholic beverage Inflation(July20- August 20)** | | | | | |
| **Items** | **Weight** | **Y-o-Y** | | **M-to-M** | |
| **July** | **August** | **July** | **August** |
| **Food and Non-alcoholic Beverages** | 47.8 | 12.71 | 10.90 | -1.81 | -1.24 |
| *Bread and Cereals* | 14.6 | 14.07 | 16.13 | -1.41 | 0.37 |
| *Meat* | 7.5 | 12.63 | 10.98 | 1.26 | 0.43 |
| *Milk, cheese and eggs* | 4.7 | 3.35 | 4.05 | -0.96 | -0.42 |
| *Oils and fats* | 4.6 | 19.60 | 18.13 | 0.02 | -1.96 |
| *Fresh and dried fruits* | 5.0 | 20.05 | 12.03 | 1.79 | -7.31 |
| *Vegetables* | 6.0 | 14.60 | 6.56 | -11.85 | -3.81 |
| *Sugar and sweets* | 2.7 | 2.84 | 0.15 | 0.10 | 1.51 |
| *Spices* | 1.3 | 1.70 | -1.26 | -9.69 | -0.40 |
| *Non-alcoholic beverages* | 1.4 | 5.15 | 4.84 | 0.51 | 0.14 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

The month-to-month measure of food inflation shows higher rate in the month of August compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.24 percent in the review period higher from -1.81 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 increased to 16.13 percent from 14.07 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-indexes also increased to 0.37 percent from -1.41percent.

Locust swarms has been caused massive damage to the crops in Pakistan especially wheat crops damaged by the locust attack due to which the cross border smuggling of wheat has been increased to Pakistan which has caused increase in the price of this index.

**Meat price index** which is weighted for around 7 percent of the CPI, decreased to 10.98 percent from 12.63 percent (year over year).When measured on the month-to- month basis, this index also decreased to 0.43 percent from 1.26 percent. The main reason behind decreased in the price of this index is the notable contribution of poultry forms in the country; especially in the Balkh Province, which reach to 620 poultry forms which caused increase in supply of meat in domestic market.

In August 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 increased to 4.05 percent (year over year) from 3.35 percent observed in previous month. When measured on the month-to-month basis, also increased to -0.42 percent from -0.96 percent recorded in previous month.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period this index has decreased to 18.13 percent from 19.60 (Y-o-Y). And also, price of this index decreased to -1.96 percent from 0.02 percent on the month-to-month basis.

The reasons behind decrease in the price of this index is the increase in oil imports to the country via railway. During the period almost 8,200 wagons through Hiratan, Mazar, Aqina and Torghondi railways has been imported which carrying 494,381 tons of goods which also oil included.

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**Fresh and dried Fruits** prices decreased in the month of August 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 12.03 percent (year over year) from 20.05 percent recorded in the previous month. Measuring month-to-month basisthis index also decreased in the month of August to -7.31 percent from 1.79 percent compare to the previews month.

Due to lack of international market demand for agricultural products such as dried and fresh fruits has increased domestic supply which caused decrease in the price of mentioned index. For instance, the production of water melon especially in Kunduz province has reached to 100 metric tons but due to lack of demand in the international markets and increase of supply in domestic market, the price of water melon decreased in domestic market.

**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to 6.56 percent (year over year) from 14.60 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to -3.81 percent; however, it was recorded -11.85 percent in the previous month.

The main reason behind decrease of this index is the seasonality effect and improvement in agriculture technologies which lead to 40 percent increase in the harvest of vegetables during the period.

**Price index of sugar and sweets** decreased year over year basis. This index which comprises around 2.7 percent of the consumer price index decreased to 0.15 percent (year over year) from 2.84 percent.

On the other hand, when measured month to month basis, this index increased to 1.51 from 0.10 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

The main reasons behind the price decrease of this index are increase of 11 percent in the production of honey in Farah province and 11.12 percent decrease in the price of sugar in Pakistan.

**Spices**

During the reporting period, there was decrease in **spices price index**. Observing the data, this index significantly decreased to -1.26 percent from 1.70 percent (Year over year). In addition, when measured on month to month basis, increased to -0.40 percent from -9.69 percent.

**Non-alcoholic beverages** decreased to 4.84 percent in August from 5.15 percent recorded in previous month, measuring on month to month basis it also decreased in the month of August 0.14 percent from 0.51 percent.

Since sugar is used as raw material in process of non- alcoholic beverage, an increase in price of sugar has direct effect on this price index.

# NON-FOOD INFLATION

Inflation in non-food items exhibited upwards trend in the month of August 2020. Year over year basis, non-food inflation increased to 1.10 percent from 0.31 percent observed in the previous month. This increase mainly comes from higher prices of housing, electricity, water and gas, furnishing and households, transportation, communication, education, restaurants and hotels.

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| **Table 3. Non-Food Inflation (July 20 - August 20)** | | | | | |
|  | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **July** | **August** | **July** | **August** |
| **Non-Food** | **52.2** | 0.31 | 1.10 | -0.35 | 0.61 |
| *Tobacco* | **0.3** | 2.73 | 2.46 | 0.05 | 0.06 |
| *Clothing* | **4.6** | 6.77 | 5.38 | -0.78 | 0.16 |
| *Housing,* | **19.1** | -2.77 | -0.75 | 0.14 | 1.46 |
| *Furnishing and household goods* | **11.9** | 1.89 | 2.38 | 0.43 | 0.49 |
| *Health* | **6.2** | 8.72 | 8.10 | 0.19 | -0.29 |
| *Transportation* | **4.3** | -14.76 | -13.76 | -5.10 | -0.19 |
| *Communication* | **1.7** | -2.06 | -0.99 | -0.07 | 0.20 |
| *Information and Culture* | **1.1** | 0.68 | -0.45 | -1.85 | 0.07 |
| *Education* | **0.4** | 1.16 | 2.56 | 0.01 | 1.29 |
| *Restaurants and Hotels* | **1.1** | -1.20 | 3.13 | -1.89 | 0.98 |
| *Miscellaneous* | **1.4** | 13.37 | 11.99 | 0.33 | -0.02 |
| 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 0.61 percent from -0.35 percent.

**Clothing price index** which comprises around 4.6 percent of the overall index, decreased in August 2020 to 5.38 percent (year over year), while it was calculated 6.77 percent in the previous month. On the other hand, this index increased on month to month basis turning to 0.16 percent from -0.78 percent. as most of clothing are importing from Pakistan since the price of clothing and foot wear has been decreased by 1.38 percent in Pakistan as compare to same month of previous year, therefor the price of this index has decreased inside the country.

**Price index of housing, electricity, water and gas** increased in August 2020. On year over year basis, this index increased to -0.75 percent from -2.77 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 1.46 percent from 0.14 percent. the reasons behind increase of this index are; the price of natural gas in global markets has increased by 2.69 percent as compare to the same month of the previous year which has direct effect on this price index.

**Price index of furnishing and household goods** increased in the month of August 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 2.38 percent from 1.89 percent. in the meantime,when measured on month to month basis this index also increased to 0.49 percent from 0.43 percent. Due to preparationandcelebration ofEid-ul-Adha the public demand for purchasing furnishing and household goods has increased which has caused increase in the price of this index.

**Price index of Health** decreased in the month of August 2020. Health index which comprises more than 6 percent of the overall CPI decreased to 8.10 percent from 8.72 percent (year over year). At the same time when measured on the month to month basis, it also decreased in the month of August to -0.29 percent from 0.19 percent observed in the previous month. As the number of covid-19 patients have been reduced in the country, therefore demand for purchasing medicine has been declined which caused decrease in price of this index.

**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis increased to -13.76 percent from -14.76 percent recorded in the previous month. While measuring month to month basis this index also increased to -0.19 percent from -5.10 percent compare to the previews month.

**Communication price index** during August 2020, increased to -0.99 percent (year over year) from -2.06percent observed one month back. This index also increased on month to month basis turning around to 0.20 percent from -0.07 percent.

with the eased of restriction, reopening full time offices, universities and other institutions demand for the mentioned index has increased which caused increased in the price of this index.

In addition, **price index of information and culture** recorded a rate of -0.45 percent (year over year) in August from its previous value of 0.68 percent. On the month to month basis, this index increased to 0.07 percent from -1.85 percent.

**Education price index,** increased in the month of August. Observing the data, this index increased to 2.56 percent from 1.16 percent (year over year), this index is increased to 1.29 percent from 0.01 percent (month to month).

Previously in order to prevent covid-19 pandemic, education centers were closed which caused decrease in price of this index, now with reopening of education centers especially schools, price of this index has been increased.

During August 2020 price increased in **Restaurants and hotels** (3.13 percent from -1.20 percent year on year basis), and increased to 0.98 percent from -1.89 percent on month to month basis. During the month of August, the prices of bread and cereals and natural gas has been increased, also with the decrease of Covid- 19 cases demand for holding parties in Restaurants and hotels has increased which has direct effect on this index, therefore the price of this index has increased.

**Price index of Miscellaneous** decreased to 11.99 percent from 13.37 percent on year-over-year basis. On the meantime when measuring on month-to-month basis, price index of miscellaneous also decreased to -0.02 percent from 0.33 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 August 2020, trimmed mean (30 % of CPI) decreased to 4.38 percent (year over year) from 5.28 percent 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 4.27 percent compared to 5.23 percent recorded in the previous month. Inflation by this measure increased on month to month basis to -0.39 percent from -0.93 percent.