

**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Inflation Report**

**September 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 decreased in the month ofSeptember 2020 year over year basis. The year over year inflation decreased to 5.70 percent in September from 5.88 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while non-food items increased during the period.
* Food index which accounts for around 48 percent of the whole CPI decreased to 9.41 percent from 10.90 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 2.16 percent from 1.10 percent.
* Core inflation when measured based on 30% trimmed mean decreased to 4.23 percent from 4.38percent.
* Considering price changes in the short-term (month-to-month), headline inflation decreased to-0.83 percent from -0.34 percent. Based on this measure, food items decreased to -1.92 percent from -1.24 percent and non-food items decreased to 0.30 percent from 0.61 percent.
* Based on Kabul CPI, headline inflation increased to 4.69 percent from 4.07 percent (Year- over-Year). Food prices exhibited lower rate and non-food items increased in the capital Kabul, relatively food items decreased to 6.37 percent from 7.30 percent and non-food category increased to 3.63 percent from 2.00 percent in the period under review.Considering price changes in month to month basis, Kabul headline inflation decreased to -1.39 percent from -0.29 percent.

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| **Table 1. Headline Inflation (August 20- September20)** | | | | | |
|  | | **Y-o-Y** | | **M-to-M** | |
| **August** | **September** | **August** | **September** |
| **National CPI** | |  |  |  |  |
| **Headline** | | 5.88 | 5.70 | -0.34 | -0.83 |
| *Food* | | 10.90 | 9.41 | -1.24 | -1.92 |
| *Non-Food* | | 1.10 | 2.16 | 0.61 | 0.30 |
| *CPI ex. B&C, O&F, and T* | | 4.27 | 4.47 | -0.39 | -0.69 |
| *Trimmed Mean* | | 4.38 | 4.23 |  |  |
| **Kabul CPI** | |  |  |  |  |
| **Headline** | | 4.07 | 4.69 | -0.29 | -1.39 |
| *Food* | | 7.30 | 6.37 | -2.16 | -3.74 |
| *Non-Food* | | 2.00 | 3.63 | 1.02 | 0.19 |
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# HEADLINE INFLATION

Headline inflation decreased in the month of September 2020. Observing the data, headline inflation decreased to 5.70 percent from 5.88 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 4.23percent, while it was calculated 4.38 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 the month-to-month basis, headline inflation decreased in September 2020. Observing the data, overall inflation decreased to a rate of -0.83 percent from -0.34 percent recorded in the previous month. During the reporting period, food items of the CPI decreased to -1.92 percent from -1.24 percent. Core measures also decreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation decreased to -0.69 percent from -0.39 percent on month to month basis.

Source: Da Afghanistan Bank/NSIA

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

FOOD INFLATION: Food inflationdecreased in month of September 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation inSeptember 2020, when measured year over year basis, decreased to 9.41 percent compared to 10.90percent calculated in previous month. This decreases come from lower prices of bread and cereals, meat, milk, cheese and eggs, oils and fats, and vegetables.

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| **Table 2. Food and Non-alcoholic beverage Inflation(August20- September 20)** | | | | | |
| **Items** | **Weight** | **Y-o-Y** | | **M-to-M** | |
| **August** | **September** | **August** | **September** |
| **Food and Non-alcoholic Beverages** | 47.8 | 10.90 | 9.41 | -1.24 | -1.92 |
| *Bread and Cereals* | 14.6 | 16.13 | 14.49 | 0.37 | -1.62 |
| *Meat* | 7.5 | 10.98 | 9.72 | 0.43 | -0.76 |
| *Milk, cheese and eggs* | 4.7 | 4.05 | 2.16 | -0.42 | -1.52 |
| *Oils and fats* | 4.6 | 18.13 | 15.44 | -1.96 | -1.04 |
| *Fresh and dried fruits* | 5.0 | 12.03 | 13.15 | -7.31 | -6.38 |
| *Vegetables* | 6.0 | 6.56 | 2.06 | -3.81 | -3.06 |
| *Sugar and sweets* | 2.7 | 0.15 | 0.67 | 1.51 | -0.52 |
| *Spices* | 1.3 | -1.26 | -1.18 | -0.40 | 0.56 |
| *Non-alcoholic beverages* | 1.4 | 4.84 | 4.89 | 0.14 | 0.20 |
| **Source :***Da Afghanistan Bank /NSIA* |  |  |  |  |  |

The month-to-month measure of food inflation shows lower rate in the month of September compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.92 percent in the review period lower from -1.24 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 14.49 percent from 16.13 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-indexes also decreased to -1.62 percent from 0.37percent.

The main reason behind decrease of this index areincrease of rice harvest in the country, particularly in Hirat Province which shows 25 percent increase in rice production, and wheat yield reached to 5.1 million metric tons during the period. Also 290,000 tons of goods including food items imported viaChabahar port railway line to the country which has increase the food supply and decreased the mentioned index prices.

**Meat price index** which is weighted for around 7 percent of the CPI, decreased to 9.72 percent from 10.98 percent (year over year).When measured on the month-to- month basis, this index also decreased to -0.76 percent from 0.43 percent.The main reason behind decreased in the price of this index is increase of poultry forms throughout the country; also fish farming industry has recently increased in number of provinces which has increased supply to the domestic market during the year.

In September 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed lowerprices. During the review period, this index decreased to 2.16 percent (year over year) from 4.05 percent observed in previous month. When measured on the month-to-month basis, also decreased to -1.52 percent from -0.42 percent recorded in previous month.

One of the main reason behind the decrease of this index is the increased of poultry farms and dairy processing packages to 1,500 poor families in Bamyan Province in order to improve living and economic conditions.

**Oils and Fats index** which comprises 4.6 percent of overall index, during the period this index has decreased to 15.44 percent from 18.13 (Y-o-Y). And also, price of this index increased to -1.04 percent from -1.96 percent on the month-to-month basis.

The vegetable oil and cotton seed oil production factories restarted their operation during the year in Balkh provinceafter lockdown due to Covid-19. which increased supply to the domestic market andincrease in the production of oils which has caused decreased in the price of mentioned index in domestic market. and also reopening of Spinboldak border caused increase in import of goods in domestic market.

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**Fresh and dried Fruits** prices increased in the month of September 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index increased to 13.15 percent (year over year) from 12.03 percent recorded in the previous month. Measuring month-to-month basisthis index also increased in the month of Septemberto -6.38 percent from -7.31 percent compare to the previews month.

Main reasons behind increase of this index are; eased ofCovid- 19 measurements, which increased export of fresh and dried fruits through the air corridors, especially export of grapes, pomegranates have been increased. Another reason for increased in the price of this index was heavyrainfall during the flowering period of the yield which has destroyed the harvest by almost 50 percent in Saripul Province.

**Vegetables price index** which is dedicated for 6.56 percent of the overall index, decreased to 2.06 percent (year over year) from 6.56 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to -3.06 percent; however, it was recorded -3.81 percent in the previous month.

The main reasons behind decreasedof this index are sufficient rainfall, distribution and utilization of highly modified seeds and fertilizers to 10 thousand farmers and technical and professional assistance on how to grow and harvest crops. The above factors caused increased in the harvest of vegetable in the country especially in Saripul province which shows 40 percent increase during the period. Also the domestic production of vegetables, particularly onions, potatoes are increase which has increased domestic supply.

**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 0.67 percent (year over year) from 0.15 percent.

On the other hand, when measured month to month basis, this index decreased to -0.52 from 1.51 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 imports from Pakistan, and the production of sugar has been decreased in Pakistan which led to increase prices in Afghanistan as well.

**Spices**

During the reporting period, there was an increase in Spices price index. Observing the data, this index significantly increased to -1.18 percent from -1.26 percent (Year over Year). In addition, when measured on month to month basis, increased to 0.56 percent from -0.40 percent.

**Non- alcoholic beverages** increased to 4.89 percent in September from 4.84 percent recorded in previous month, measuring on month to month basis it also increased in the month of September 0.20 percent from 0.14 percent.

Since sugar is used as raw material in process on 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 September 2020. Year over year basis, non-food inflation increased to 2.16 percent from 1.10percent observed in the previous month. This increase mainly comes from higher prices of clothing, housing, furnishing and household goods, transportation, communication, information and culture, and education.

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| **Table 3. Non-Food Inflation (August 20 - September 20)** | | | | | |
|  | **Weight** | **Y-on-Y** | | **M-to-M** | |
| **August** | **September** | **August** | **September** |
| **Non-Food** | **52.2** | 1.10 | 2.16 | 0.61 | 0.30 |
| *Tobacco* | **0.3** | 2.46 | 2.73 | 0.06 | 0.02 |
| *Clothing* | **4.6** | 5.38 | 7.84 | 0.16 | 1.21 |
| *Housing,* | **19.1** | -0.75 | 1.03 | 1.46 | 0.29 |
| *Furnishing and household goods* | **11.9** | 2.38 | 3.40 | 0.49 | 0.65 |
| *Health* | **6.2** | 8.10 | 7.82 | -0.29 | -0.83 |
| *Transportation* | **4.3** | -13.76 | -13.38 | -0.19 | 0.01 |
| *Communication* | **1.7** | -0.99 | -0.58 | 0.20 | -0.14 |
| *Information and Culture* | **1.1** | -0.45 | 0.72 | 0.07 | 0.77 |
| *Education* | **0.4** | 2.56 | 4.35 | 1.29 | 1.39 |
| *Restaurants and Hotels* | **1.1** | 3.13 | 2.31 | 0.98 | 0.53 |
| *Miscellaneous* | **1.4** | 11.99 | 9.49 | -0.02 | -0.24 |
| Source: National Statistics and Information Authority (NSIA) / DAB |  |  |  |  |  |

Non-food inflation on the month-to-month basis exhibited lower rate from its previous month’s value. Observing the data, it decreased to 0.30 percent from 0.61 percent.

**Clothing price index** which comprises around 4.6 percent of the overall index, increased in September 2020 to 7.84 percent (year over year), while it was calculated 5.38 percent in the previous month. On the other hand, this index increased on month to month basis turning to 1.21 percent from 0.16 percent.

most of the clothing index are importing from Pakistan, and the cotton production has decreased in Pakistan by 35 percent this year, also a comparison of first six months of 2020 in compare with first six months of 2019 shows Afghanistan import have decreasedby 23 percent which has led to increase the price of this index.

**Price index of housing, electricity, water and gas** increased in September 2020. On year over year basis, this index increased to 1.03 percent from -0.75 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 decreased to 0.29 percent from 1.46 percent.

one of the main reasons behind increase of this index is 290.000 tons of commercial material has entered into the country via railways,which also include construction and petroleum materials.

**Price index of furnishing and household goods** increased in the month of September 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 3.40 percent from 2.38 percent. in the meantime, when measured on month to month basis this index also increased to 0.65 percent from 0.49

A comparison of the first six months of 2020 with the first six months of 2019 shows that Afghanistan's imports have fallen by 23 percent which has decreased the supply to the domestic market which led to increase the prices of mentioned index.

**Price index of Health** decreased in the month of September 2020. Health index which comprises more than 6 percent of the overall CPI decreased to 7.82 percent from 8.10 percent (year over year). At the same time when measured on the month to month basis, it also decreased in the month of September to -0.83 percent from -0.29 percent observed in the previous month.

the main contribution behind decrease of this index are South Korea and Republic of Turkey handed over shipments of medical supplies to the government of Afghanistan in order to fight against covid-19. also as number of covid-19 patients compare to previous months have been reduced in the country, therefore, demand for purchase of 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 -13.38 percent from -13.76 percent recorded in the previous month. Measuring month tomonth basis this index also increased to 0.01 percent from -0.19 percent compare to the previews month.

with the increase of aviation sector activity after covid-19 pandemic, price of this index has increased.

**Communication price index** during September 2020, increased to -0.58 percent (year over year) from -0.99percent observed one month back. This index also decreased on month to month basis turning around to -0.14 percent from 0.20 percent.

In addition, **price index of information and culture** recorded a rate of 0.72 percent (year over year) in September from its previous value of -0.45 percent. On the month to month basis, this index increased to 0.77percent from 0.07 percent.

**Education price index,** increased in the month of September. Observing the data, this index increased to 4.35 percent from 2.56 percent (year over year), this index is also increased to 1.39 percent from 1.29 percent (month to month).

With the reduction of covid-19 cases in country, and reopening of education centers demand for this index has been increased.

During September 2020 price decreased in **Restaurants and hotels** (2.31 percent from 3.13percent year on year basis), and increased to 0.53 percent from 0.98 percent on month to month basis. Food and beverages items price decreased during the period which caused decrease in price of this index during the period.

**Price index of Miscellaneous** decreased to 9.49 percent from 11.99 percent on year-over-year basis. On the meantime when measuring on month-to-month basis, price index of miscellaneous also decreased to -0.24 percent from -0.02 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 September 2020, trimmed mean (30 % of CPI) decreased to 4.23percent (year over year) from 4.38 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 4.47 percent compared to 4.27 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to -0.69 percent from -0.39 percent.