

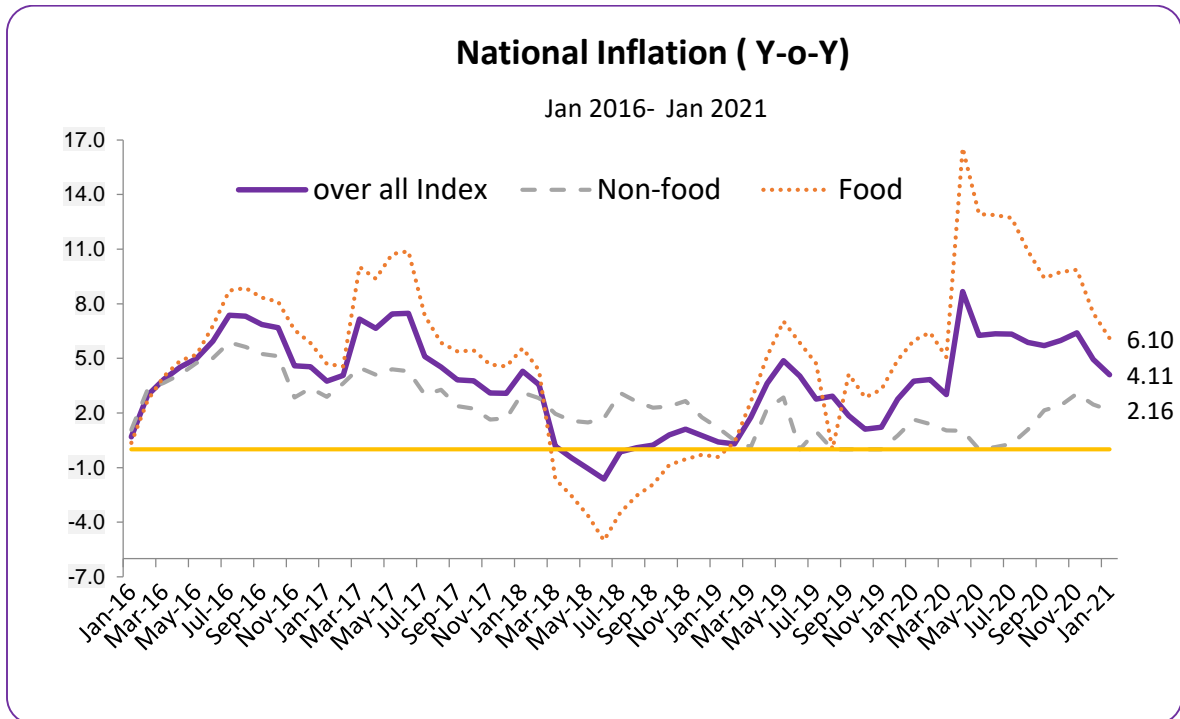


Da Afghanistan Bank

Monetary Policy Department

Monthly Inflation Report

January 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

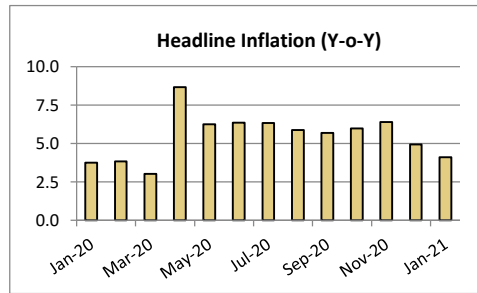
- Headline inflation decreased in the month of January 2020 year over year basis. The year over year inflation decreased to 4.11 percent in January from 4.95 percent observed in the previous month. This decrease is caused by lower prices of both food and non-food items.
- Food index which accounts for around 48 percent of the whole CPI decreased to 6.10 percent from 7.50 percent. In the meantime, non-food category which comprises about 52 percent of the overall index decreased to 2.16 percent from 2.47 percent.
- Core inflation when measured based on 30% trimmed mean decreased to 3.98 percent from 4.23 percent.
- Considering price changes in the short-term (month-to-month), headline inflation decreased to 0.26 percent from 0.31 percent. Based on this measure, food items decreased to 0.20 percent from 0.25 percent and non-food items also decreased to 0.32 percent from 0.36 percent.
- Based on Kabul CPI, headline inflation decreased to 3.41 percent from 3.59 percent (Year- over-Year). Food prices exhibited lower rate and non-food items also decreased in the capital Kabul, relatively food items decreased to 2.62 percent from 2.76 percent and non-food category also decreased to 3.95 percent from 4.15 percent in the period under review. Considering price changes in month to month basis, Kabul headline inflation increased to 0.52 percent from 0.15 percent.

Table 1. Headline Inflation (December 20 -January21)

	Y-o-Y		M-to-M	
	December	January	December	January
National CPI				
Headline	4.95	4.11	0.31	0.26
<i>Food</i>	7.50	6.10	0.25	0.20
<i>Non-Food</i>	2.47	2.16	0.36	0.32
<i>CPI ex. B&C, O&F, and T</i>	4.32	3.43	0.07	0.08
<i>Trimmed Mean</i>	4.23	3.98		
Kabul CPI				
Headline	3.59	3.41	0.15	0.52
<i>Food</i>	2.76	2.62	-0.17	1.22
<i>Non-Food</i>	4.15	3.95	0.36	0.06

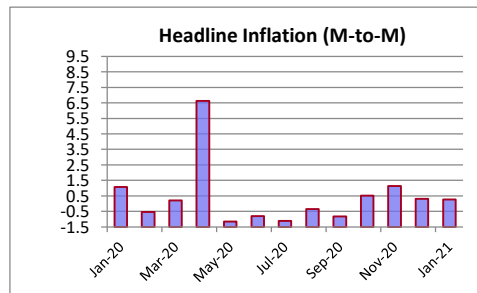
HEADLINE INFLATION

Headline inflation decreased in the month of January 2021. Observing the data, headline inflation decreased to 4.11 percent from 4.95 percent (year over year). This decrease is caused by lower prices of both food and non- food items. Core measure of inflation when measured based on 30% trimmed mean decreased to 3.98 percent, while it was calculated 4.23 percent in the previous month.



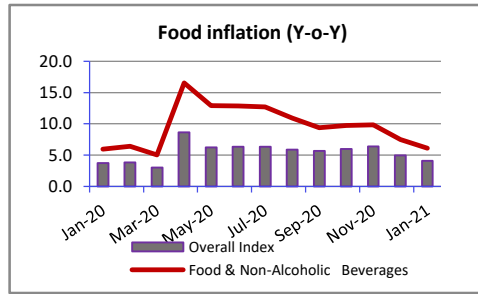
Source: Da Afghanistan bank/NSIA

The short-term (month-to-month) change in inflation shows downward trends in the period under review. When measured on the month-to-month basis, headline inflation decreased in January 2021. Observing the data, overall inflation decreased to a rate of 0.26 percent from 0.31 percent recorded in the previous month. During the reporting period, food items of the CPI decreased to 0.20 percent from 0.25 percent. Core measures increased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation increased to 0.08 percent from 0.07 percent on month to month basis.



Source: Da Afghanistan Bank/NSIA

FOOD INFLATION: Food inflation decreased in month of January 2021. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in January 2021, when measured year over year basis, decreased to 6.10 percent compared to 7.50 percent calculated in previous month. This decrease come from lower prices of bread and cereals, meat, sugar, fresh and dried fruits, vegetables, spices, and non- alcoholic drinks.



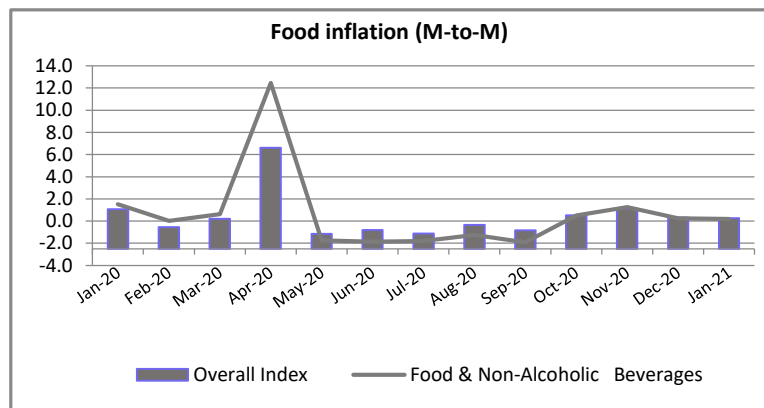
Source: Da Afghanistan Bank and/NSIA

Table 2. Food and Non-alcoholic beverage Inflation (December 20- January 21)

Items	Weight	Y-o-Y		M-to-M	
		December	January	December	January
Food and Non-alcoholic Beverages	47.8	7.50	6.10	0.25	0.20
<i>Bread and Cereals</i>	14.6	10.69	8.69	0.56	-0.51
<i>Meat</i>	7.5	10.13	9.76	0.09	0.32
<i>Milk, cheese and eggs</i>	4.7	3.81	5.95	0.51	0.90
<i>Oils and fats</i>	4.6	12.61	14.87	2.92	4.82
<i>Fresh and dried fruits</i>	5.0	5.03	2.64	-5.13	-1.33
<i>Vegetables</i>	6.0	2.20	-3.73	1.65	-0.30
<i>Sugar and sweets</i>	2.7	5.92	5.60	0.79	-0.49
<i>Spices</i>	1.3	-3.64	-5.02	1.21	-1.06
<i>Non-alcoholic beverages</i>	1.4	3.40	3.05	0.61	-0.18

Source :Da Afghanistan Bank /NSIA

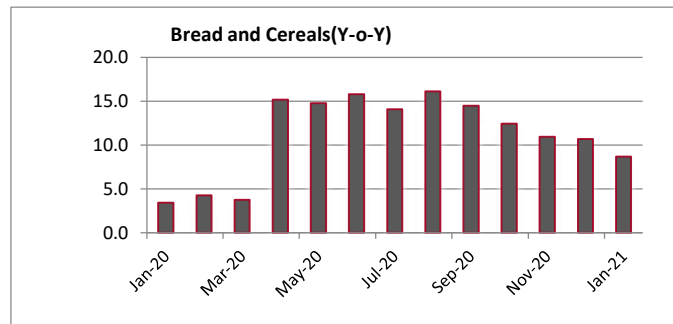
The month-to-month measure of food inflation also shows lower rate in the month of January compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 0.20 percent in the review period lower from 0.25 percent observed in the previous month.



Source: Da Afghanistan Bank and/NSIA

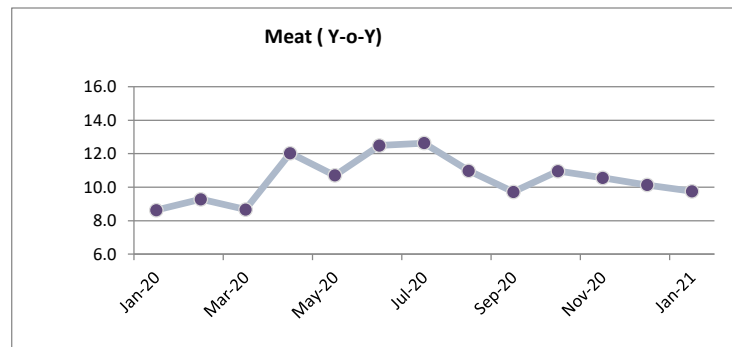
Price index of bread and cereals which accounts for about 15 percent of the consumer price index decreased to 8.69 percent in the month of January 2021 compared to 10.69 percent in previous month (year over year). also when measured on the month-to-month basis, this sub-indexes decreased to -0.51 percent from 0.56 percent.

The main contributions behind the price decrease of this index are; rice yield has been increased by 15 percent in current year compared to the previous year, and also corn yield and production of corn increased throughout the country which led to decrease the prices of mentioned index in the period under review.



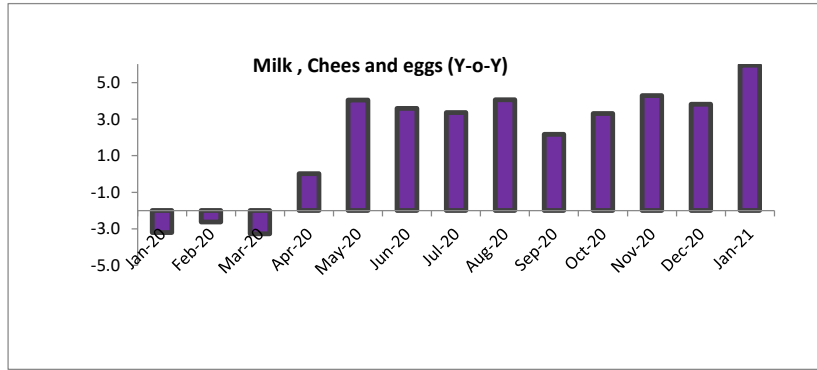
Meat price index which is weighted for around 7 percent of the CPI, decreased to 9.76 percent in the month of January 2021 from 10.13 percent in the previous month (year over year). When measured on the month-to-month basis, this index increased to 0.32 percent from 0.09 percent.

The main reasons behind decrease in the prices of this index are total 350 fish farms has been built throughout the country during this year which caused increase in level of fish production. fish production has increased by 1500 tons this year compared to previous year. Also increase in poultry farms in some provinces like Khust and Ningarahar which led to increase the local supply to the market.



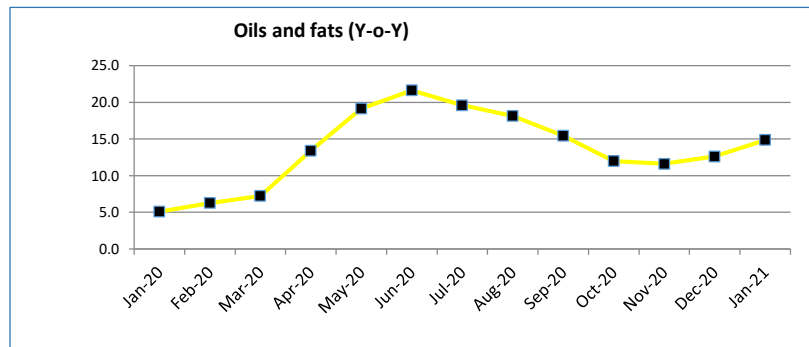
In January 2021, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed higher prices. During the review period, this index has increased to 5.95 percent (year over year) in the month of January from 3.81 percent observed in previous month. When measured on the month-to-month basis, this index also increased to 0.90 percent from 0.51 percent recorded in previous month.

one of the main reasons behind increase in the prices this index is seasonal effect, normally in winter season demand for purchase of eggs increase. And also fresh milk and powder milk price in Pakistan has increased which has direct effect on this price index.



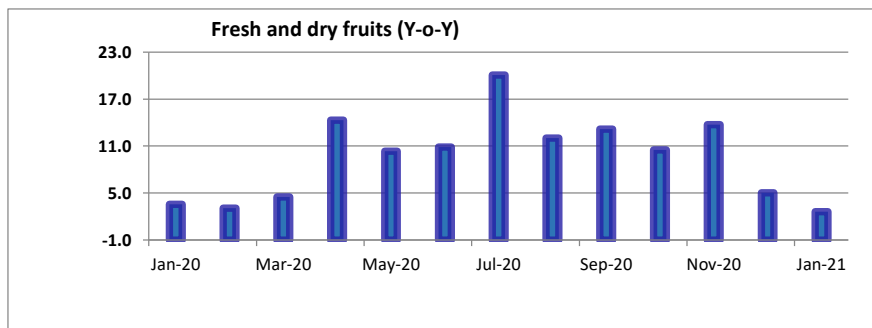
Oils and Fats index which comprises 4.6 percent of overall index, during the period this index has increased to 14.87 percent from 12.61 (Y-o-Y). And also, price of this index increased to 4.82 percent from 2.92 percent on the month-to-month basis.

increase in the price of mentioned index is correlated with international prices, sun flower oil and olive oil price in international market has increased by 6 percent and 29 percent respectively.



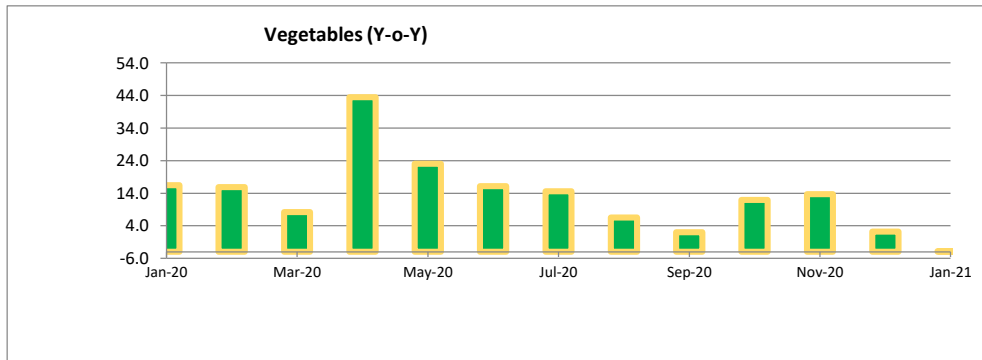
Fresh and dried Fruits prices decreased in the month of January 2021. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 2.64 percent (year over year) in the month of January from 5.03 percent recorded in the previous month. Measuring month-to-month basis this index increased in the month of January to -1.33 percent from -5.13 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 Pistachio production increased by 64 percent in Badakhshan province during the period which has increase the local supply.



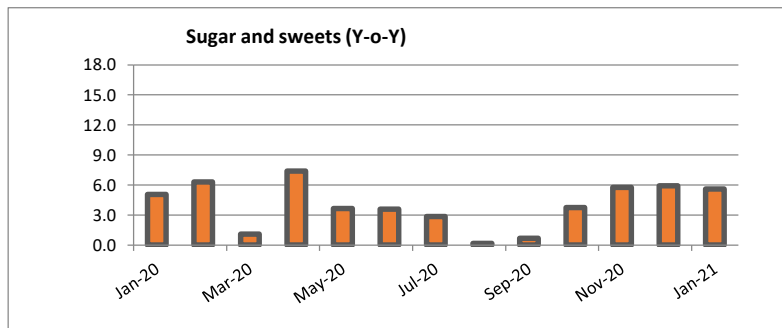
Vegetables price index which is dedicated for 6 percent of the overall index, decreased to -3.73 percent (year over year) from 2.20 percent observed in the previous month. when measured on the month to month basis this index has also decreased to -0.30 percent; however, it was recorded 1.65 percent in the previous month.

Main contributions behind decrease in the prices of this index is production of Tomato in Ningarhar province has increased and cauliflower production in Laghman province reached to more than 22 thousand tons and bean crop production in Baghlan, Wardak and Takhar provinces is increased.



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 5.60 percent (year over year) in the month of January 2021 from 5.92 percent observed in previous month. And also when measured month to month basis, this index decreased to -0.49 from 0.79 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

main reason behind decrease in the prices of this index is increase in honey production, honey production has been increased in Paktika, Balkh, Kandahar and Kunar provinces. And also due to winter seasons productions of soft drinks and demand for soft drinks decrease.



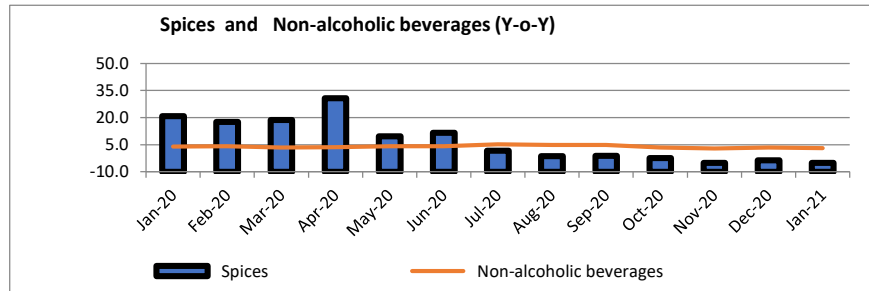
Spices

During the reporting period, there was a decrease in Spices price index. Observing the data, this index decreased to -5.02 percent in the month of January 2021 from -3.64 percent observed in the previous month (Year over Year). In addition, when measured on month to month basis, it also decreased to -1.06 percent from 1.21 percent.

with the establishment of Bustan Sabz Agriculture company which has capacity to produce 20 metric tons of Tomato paste per hours has caused to decrease in prices of this index during the period. also garlic yield in provinces of Helmand has increased which led to increase the supply to the domestic market.

Non- alcoholic beverages decreased to 3.05 percent in January from 3.40 percent recorded in previous month, measuring on month to month basis also decreased in the month of January -0.18 percent from 0.61 percent.

since sugar is used as raw material in process of nonalcoholic drinks, therefore decrease in the prices of sugar caused decrease in price of non-alcoholic drinks. And also mostly in this season demand for non-alcoholic cold drinks decrease which has decreased the prices of this index.



NON-FOOD INFLATION

Inflation in non-food items exhibited downwards trend in the month of January 2021. Year over year basis, non-food inflation decreased to 2.16 percent from 2.47 percent observed in the previous month. This decrease mainly comes from lower prices of clothing, housing, and information and culture.

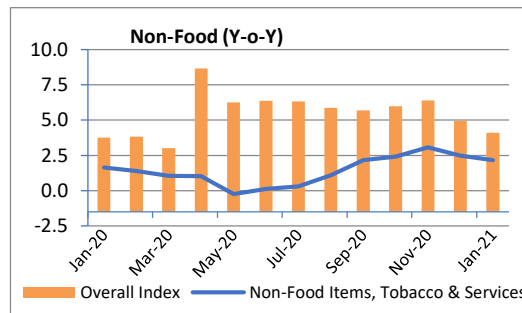
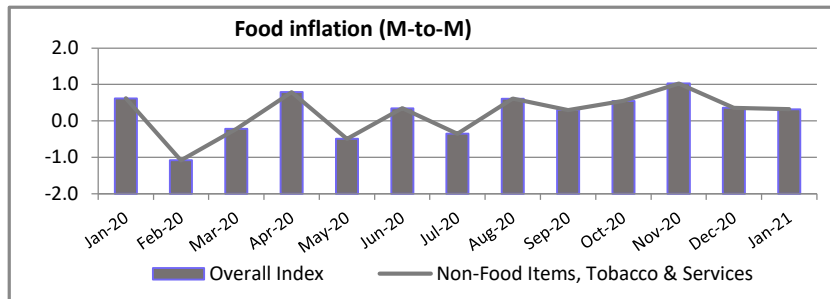


Table 3. Non-Food Inflation (December 20 - January 21)

	Weight	Y-on-Y		M-to-M	
		December	January	December	January
Non-Food	52.2	2.47	2.16	0.36	0.32
<i>Tobacco</i>	0.3	4.60	4.97	0.34	0.47
<i>Clothing</i>	4.6	7.61	6.93	1.32	-0.03
<i>Housing,</i>	19.1	1.34	-0.28	0.18	-0.14
<i>Furnishing and household goods</i>	11.9	5.03	6.08	0.49	0.94
<i>Health</i>	6.2	5.98	6.08	-0.24	-0.13
<i>Transportation</i>	4.3	-12.35	-11.81	0.86	1.32
<i>Communication</i>	1.7	-0.77	-0.66	-0.66	-0.06
<i>Information and Culture</i>	1.1	2.55	1.30	0.30	-0.71
<i>Education</i>	0.4	4.43	5.48	-0.97	1.14
<i>Restaurants and Hotels</i>	1.1	-0.32	-0.14	0.72	-0.08
<i>Miscellaneous</i>	1.4	7.61	9.05	0.37	2.08

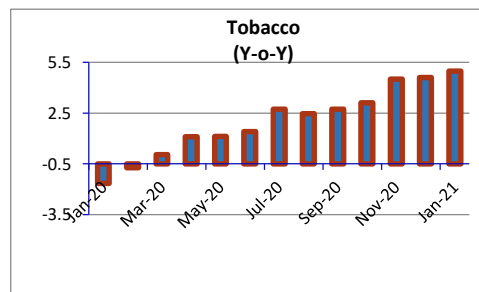
Source: National Statistics and Information Authority (NSIA) / DAB

Non-food inflation on the month-to-month basis exhibited slightly lower rate from its previous month's value. Observing the data, it decreased to 0.32 percent from 0.36 percent.



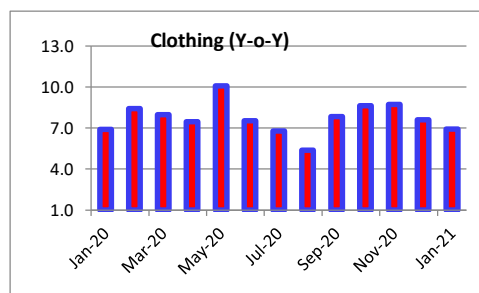
Tobacco price index which comprises 0.3 percent of the overall index, increased in January 2021 to 4.97 from 4.60 (year over year basis). Meanwhile, when measured month to month basis, this index is also increased to 0.47 from 0.34 percent.

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.

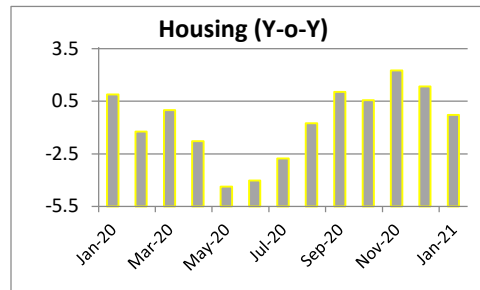


Clothing price index which comprises around 4.6 percent of the overall index, decreased in January 2021 to 6.93 percent (year over year), while it was calculated 7.61 percent in the previous month. This index also decreased on month to month basis turning to -0.03 percent from 1.32 percent.

The main contribution behind decrease in the price of this index is increase in production of cotton in the country especially in Helmand and Balkh provinces compared to the previous year, which caused increase in domestic supply during the period.

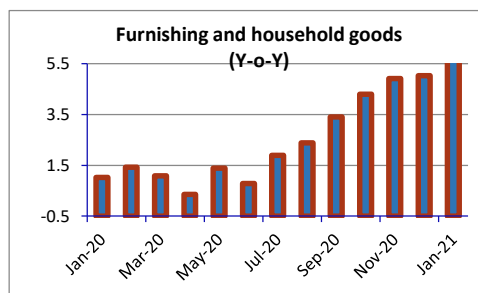


Price index of housing, electricity, water and gas decreased in January 2021. When measure year over year basis, this index decreased to -0.28 percent from 1.34 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index also decreased to -0.14 percent from 0.18 percent.



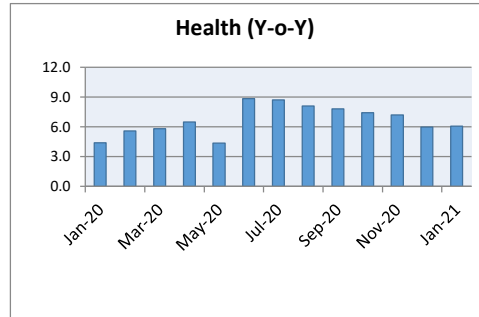
Afghanistan has imported non-oil items worth 1.2 billion USD from neighboring country Iran, in the Past eight months. These items include iron, steel bars and Cement. Also earlier at month of December Afghanistan received the first Cargo of Iranian export (mainly cement) through the newly- constructed Khaf- Herat railway. Also five solar electricity production company has started operation in Herat province during the period. Reduction of house rent and decrease in the demand for construction of house due to cold weather are considered as the main reasons behind decrease in the prices of index during the period.

Price index of furnishing and household goods increased in the month of January 2021. This index which holds a healthy weight of 12 percent in the CPI, increased to 6.08 percent from 5.03 percent. in the meantime, when measured on month to month basis this index also increased to 0.94 percent from 0.49. Due to cold weather, demand for purchase of blankets, stove and heater has increased during the period which caused increase in price of this index.



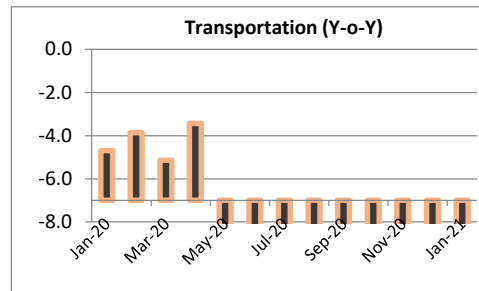
Price index of Health increased in the month of January 2021. Health index which comprises more than 6 percent of the overall CPI increased to 6.08 percent from 5.98 percent (year over year). At the same time when measured on the month to month basis, it increased in the month of January to -0.13 percent from -0.24 percent observed in the previous month.

main reason for increase in the price of this index is that, ingredients for production of medicines has been increased in Pakistan and Iran.



Transportation price index accounts for 4.3 percent of the whole index. Observing the data, transportation index year over year basis increased to -11.81 percent from -12.35 percent recorded in the previous month. Measuring month to month basis this index also increased to 1.32 percent from 0.86 percent compare to the previous month.

Crude oil price in international market has increased by 10 percent compared to the previous month. Also most of oil tankers enter to Kabul via north zone of the country and due to heavy snowfall in Salang highway, Kabul's routes with the northern provinces had been blocked for few days, which has decreased the local market supply and led to increase the price of oil in Kabul.



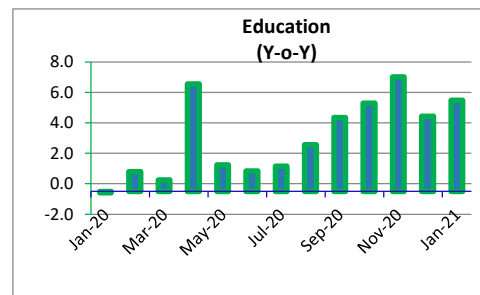
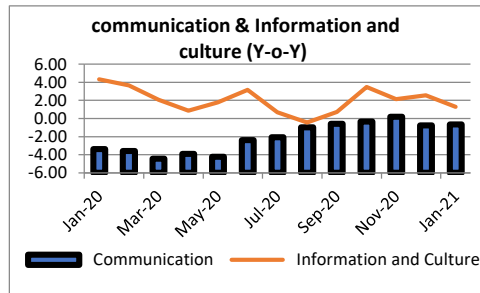
Communication price index during January 2021, increased to -0.66 percent (year over year) from -0.77 percent observed in previous month. This index also increased on month to month basis turning around to -0.06 percent from -0.66 percent.

In addition, **price index of information and culture** recorded a rate of 1.30 percent (year over year) in January from its previous value of 2.55 percent. On month to month basis, this index decreased to -0.71 percent from 0.30 percent.

one of the main reason behind decrease of this index is the first ever paper factory has started operation in Kabul, this factory has the capacity to produce 120 tons of paper daily.

Education price index, increased in the month of January. Observing the data, this index increased to 5.48 percent from 4.43 percent (year over year), this index is increased to 1.14 percent from -0.97 percent (month

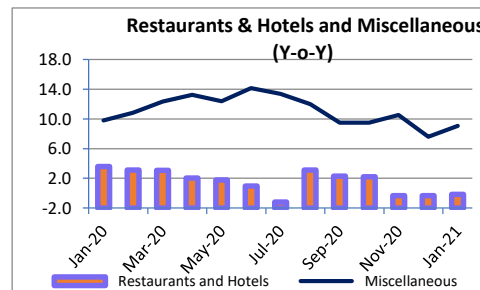
to month). One of the main reason behind increase in the prices of index is seasonal effect, during the winter season and schools and universities holidays, demand for short courses such as English and science increased.



During January 2021 price increased in **Restaurants and hotels** (-0.14 percent from -0.32 percent year on year basis), when measured on month to month basis this index is decreased to -0.08 percent from 0.72 percent.

the main reason behind increase in the prices of this index is increase in prices of oil and fats and milk cheese and eggs during the period.

Price index of Miscellaneous increased to 9.05 percent from 7.61 percent on year-over-year basis. On the meantime when measuring on month-to-month basis, price index of miscellaneous also increased to 2.08 percent from 0.37 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 January 2021, trimmed mean (30 % of CPI) decreased to 3.98 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 decreased to 3.43 percent compared to 4.32 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 0.08 percent from 0.07 percent.

