

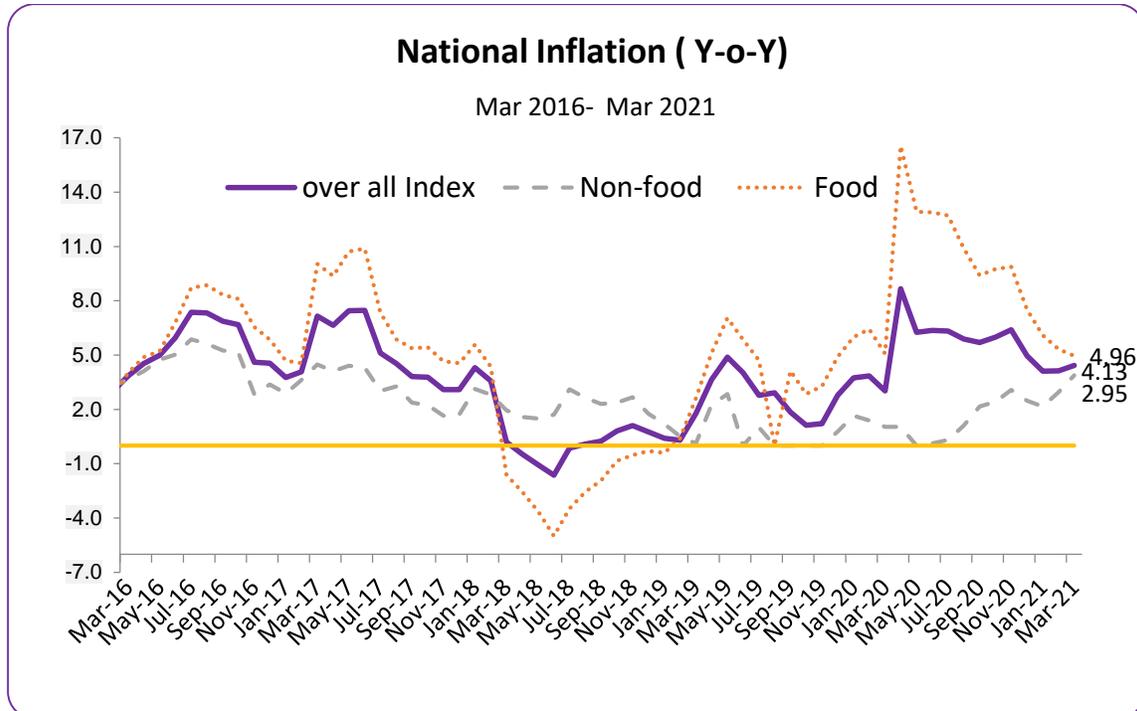


## Da Afghanistan Bank

### Monetary Policy Department

# Monthly Inflation Report

March 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

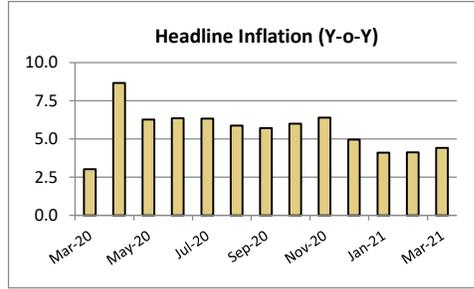
- Headline inflation increased in the month of March 2021 year over year basis. The year over year inflation increased to 4.42 percent in March from 4.13 percent observed in the previous month. This increase is caused by higher prices of non- food items while food items decreased during the period.
- Food index which accounts for around 48 percent of the whole CPI decreased to 4.96 percent from 5.32 percent. on the other hand, non-food category which comprises about 52 percent of the overall index increased to 3.88 percent from 2.95 percent.
- Core inflation when measured based on 30% trimmed mean increased to 3.78 percent from 3.61 percent.
- Considering price changes in the short-term (month-to-month), headline inflation increased to 0.48 percent from -0.52 percent. Based on this measure, food items increased to 0.29 percent from -0.72 percent and non-food items also increased to 0.68 percent from -0.31 percent.
- Based on Kabul CPI, headline inflation increased to 4.98 percent from 3.42 percent (Year- over-Year). Food prices exhibited higher rate compare to the previous month and non-food item’s prices also increased in the capital Kabul, food items increased to 3.96 percent from 1.73 percent and non-food category increased to 5.66 percent from 4.56 percent in the period under review. Considering price changes in month to month basis, Kabul headline inflation increased to 1.06 percent from -1.56 percent.

Table 1. Headline Inflation (February 21 –March21)

	February	Y-o-Y March		M-to-M February	March
<b>National CPI</b>					
<b>Headline</b>	4.13	4.42		-0.52	0.48
<i>Food</i>	5.32	4.96		-0.72	0.29
<i>Non-Food</i>	2.95	3.88		-0.31	0.68
<i>CPI ex. B&amp;C, O&amp;F, and T</i>	3.14	3.05		-0.74	0.23
<i>Trimmed Mean</i>	3.61	3.78			
<b>Kabul CPI</b>					
<b>Headline</b>	3.42	4.98		-1.56	1.06
<i>Food</i>	1.73	3.96		-2.41	1.28
<i>Non-Food</i>	4.56	5.66		-1.01	0.93

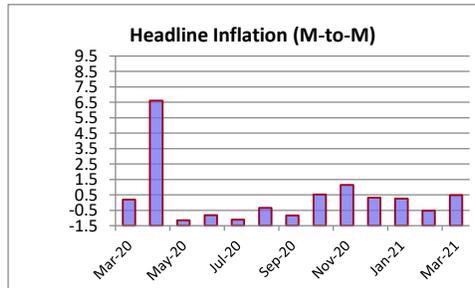
## HEADLINE INFLATION

Headline inflation increased in the month of March2021. Observing the data, headline inflation increased to 4.42 percent from 4.13 percent (year over year). Most of this increase caused by higher prices of Non-foods items, while food items prices decreased during the period. Core measure of inflation when measured based on 30% trimmed mean increased to 3.78 percent, while it was calculated 3.61 percent in the previous month.



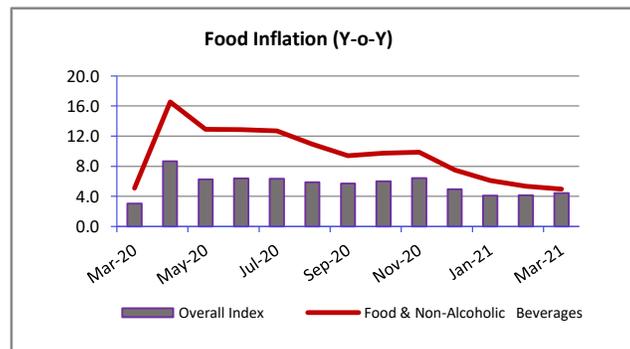
Source: Da Afghanistan bank/NSIA

The short-term (month-to-month) change in inflation shows upward trends in the period under review. When measured on month-to-month basis, headline inflation increased in March 2021 compare to the previous month. Observing the data, overall inflation increased to a rate of 0.48 percent in the month of March from -0.52 percent recorded in the previous month. During the reporting period, food items of the CPI month to month basis increased to 0.29 percent from -0.72 percent, and Non-Food items prices increased to 0.68 percent in March from -0.31 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 increased to 0.23 percent from -0.74 percent on month to month basis.



Source: Da Afghanistan Bank/NSIA

**FOOD INFLATION:** Food inflation decreased in month of March 2021. Food and beverages items are weighted for 47.8 percent of the overall index. When measure year over year basis, food inflation decreased to 4.96 percent in the month of March from 5.32 percent calculated in previous month. This decrease comes from lower prices of bread and cereals, Milk, cheese and eggs, fresh and dried fruits, vegetables, spices and non-alcoholic drinks.

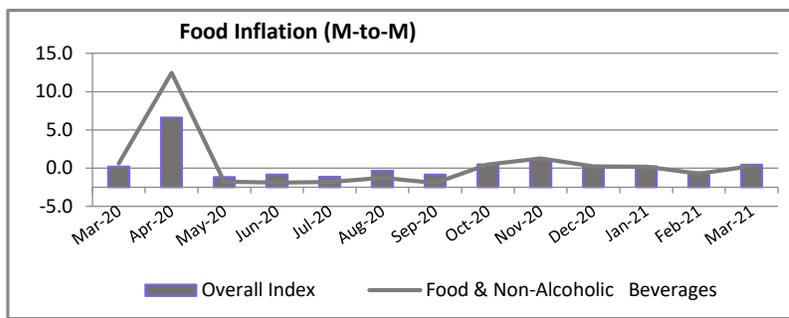


Source: Da Afghanistan Bank and NSIA

**Table 2. Food and Non-alcoholic beverage Inflation (February 21- March 21)**

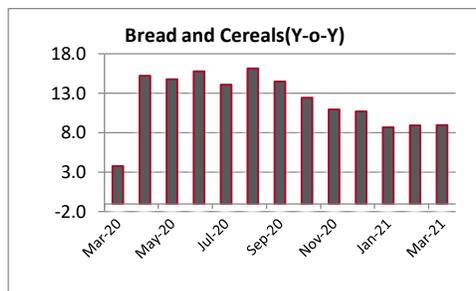
Items	Weights	Y-o-Y		M-to-M	
		February	March	February	March
<b>Food and Non-alcoholic Beverages</b>	47.8	5.32	4.96	-0.72	0.29
<i>Bread and Cereals</i>	14.6	8.92	8.96	-0.18	0.30
<i>Meat</i>	7.5	8.86	9.17	-0.56	0.32
<i>Milk, cheese and eggs</i>	4.7	3.33	3.51	-2.26	-0.48
<i>Oils and fats</i>	4.6	16.16	18.78	0.21	1.79
<i>Fresh and dried fruits</i>	5.0	1.65	-0.27	-1.03	3.18
<i>Vegetables</i>	6.0	-6.78	-9.69	-1.91	-2.37
<i>Sugar and sweets</i>	2.7	6.25	7.08	-0.12	0.12
<i>Spices</i>	1.3	-6.85	-9.10	-1.18	-1.15
<i>Non-alcoholic beverages</i>	1.4	2.17	2.14	-0.49	0.08

Source :Da Afghanistan Bank /NSIA

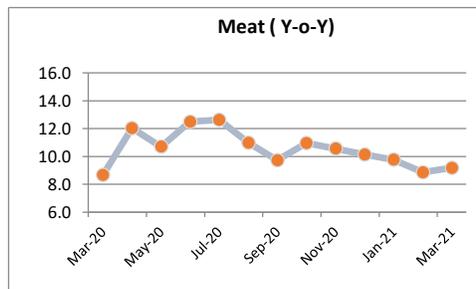


On month to month basis, food inflation is recorded at 0.29 percent in March 2021 as compared to -0.72 percent in the previous month.

**Price index of bread and cereals** which accounts for about 15 percent of the consumer price index slightly increased to 8.96 percent in the month of March 2021 compared to 8.92 percent in previous month (year over year). Also when measured on the month-to-month basis, this sub-indexes are increased to 0.30 percent from -0.18 percent. 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 the same month of previous year, the prices of wheat flour and rice has increased by 28 percent and 6.28 % respectively.

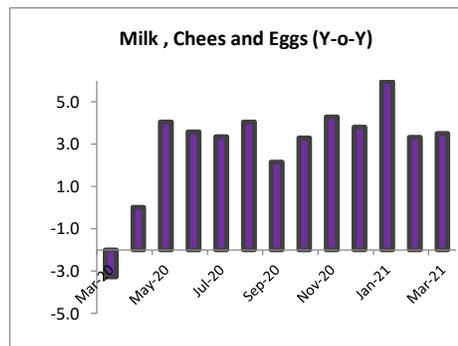


**Meat Price index** which is weighted 7.5 percent of the CPI, increased to 9.17 percent in the month of March from 8.86 percent in previous month (year over year). when measured on month -to- month basis this index is recorded at 0.32 percent in March 2021 as compared to -0.56 in the previous month. Main contribution behind increase of this price index are as Mostly Afghanistan import meat from trade partner countries such as Iran and Pakistan and price of chicken meat in Pakistan has increased by 40 percent



and also price of chicken meat in Iran increased as well, which has pushed up price of this index during the period under review.

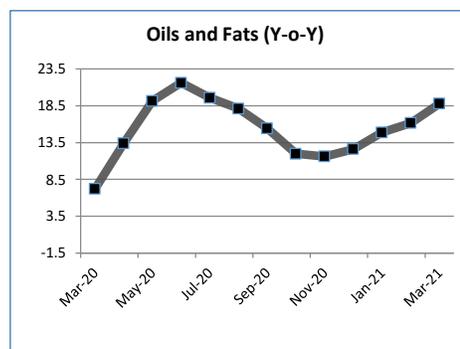
In month of March 2021, **price index of milk, cheese and eggs** which comprises 4.7 percent of the overall index showed higher prices during the review period, this index has increased to 3.51 percent (year over year) in the month of March from 3.33 percent observed in previous month. When measured on the month-to-month basis, this index increased to -0.48 percent in the month of March from -2.26 percent recorded in previous month. the main reasons behind increase of this price index is, as mostly liquid and powder milk imports from Pakistan and price of milk in Pakistan has increased to 14.7 percent, which has pushed up price of this index during the period.



**Oils and Fats index** which comprises 4.6 percent of overall index, during the period this index has increased (Y-o-Y) to 18.87 percent in the month of March from 16.16 percent recorded in the previous month. On month to month basis, this

index is recorded at 1.79 percent in March 2021 as compared to 0.21 percent observed in previous 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 22 percent, 51 percent and 43 percent respectively.

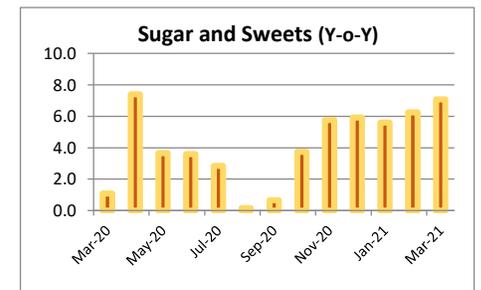
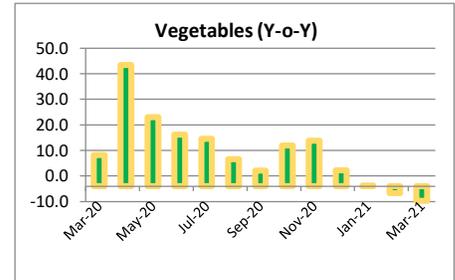
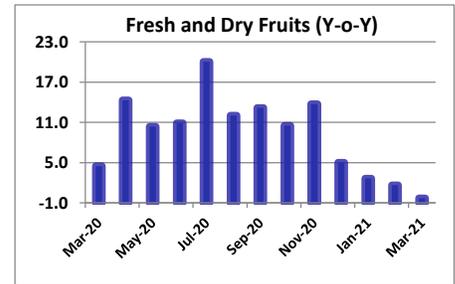


**Fresh and dried Fruits** prices decreased in the month of March 2021. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to -0.27 percent (year over year) in the month of March from 1.65 percent recorded in the previous month. While measuring month-to-month basis this index increased in the month of March to 3.18 percent from -1.03 percent compare to the previous month. the main reasons behind decrease of this price index are, production of straw berry, citrus and walnut increased in country which has increased domestic supply during the period. Also Afghanistan export has decreased to 20 percent during the period which caused decrease in price of this index in domestic market.

**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to -9.69 percent (year over year) in the month of March from -6.78 percent observed in the previous month. When measured on the month to month basis this index has decreased to -2.37 percent in the month of February; however, it was recorded -1.91 percent in the previous month. harvest of vegetables inclined by 15-20 percent throughout the country especially okra, soya bean, and bell pepper harvest

**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 7.08 percent (year over year) in the month of March from 6.25 percent recorded in the previous month. And also when measured month to month basis, this index increased to 0.12 in the month of March from -0.12 percent in previous 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 is increase of sugar prices in international market, sugar price in global market has increased by 30 percent in international market which has pushed up the domestic prices of this index in local markets.

increased which has increased domestic supply during the period.

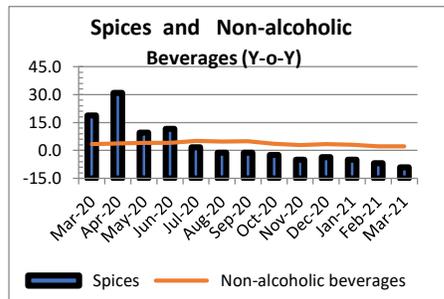


## Spices

During the reporting period, prices of this index has decreased compared to the previous month. Observing the data, prices of this index (Y-o-Y) decreased to -9.10 percent in March from -6.85 percent in addition, while measuring on month to month basis, this index is increased to -1.15 percent in the month of March from -1.18 percent recorded in previous month. Main contribution behind decrease in the prices of this index are, the operation of Bustan Sabz 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.

**Non- alcoholic beverages** inflation on Year over year basis is recorded at 2.14 percent in March 2021 as compared to 2.17 percent in the previous month.

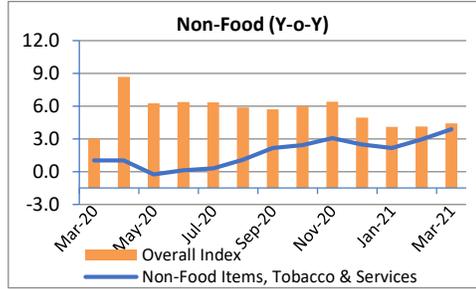
When measuring on month to month basis this this index is also increased to 0.08 percent in March as compared to -0.49 percent in previous month.



## NON-FOOD INFLATION

**Table 3. Non- Food Inflation (February 21- March21)**

Items	Weight	Y-o-Y		M-to-M	
		February	March	February	March
<b>Non-Food</b>	<b>52.2</b>	2.95	3.88	-0.31	0.68
<i>Tobacco</i>	<b>0.3</b>	5.35	5.50	1.00	0.91
<i>Clothing</i>	<b>4.6</b>	5.51	6.16	-1.18	-0.08
<i>Housing,</i>	<b>19.1</b>	2.16	2.51	-0.81	-0.08
<i>Furnishing and household goods</i>	<b>11.9</b>	5.40	6.62	-0.18	1.43
<i>Health</i>	<b>6.2</b>	5.73	5.35	0.15	0.18
<i>Transportation</i>	<b>4.3</b>	-8.34	-2.42	1.86	4.78
<i>Communication</i>	<b>1.7</b>	-0.68	0.76	0.21	0.43
<i>Information and Culture</i>	<b>1.1</b>	0.58	1.90	-0.18	0.02
<i>Education</i>	<b>0.4</b>	5.08	5.02	-0.35	0.05
<i>Restaurants and Hotels</i>	<b>1.1</b>	-0.39	0.30	-0.40	0.24
<i>Miscellaneous</i>	<b>1.4</b>	8.38	6.35	-0.49	-0.58

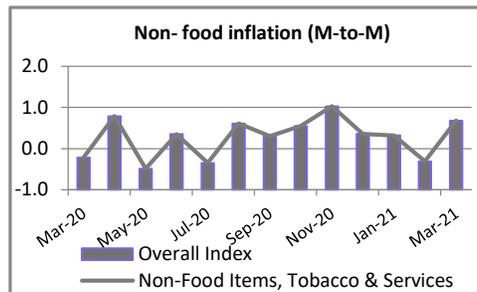


Source: National Statistics and Information Authority (NSIA) / DAB

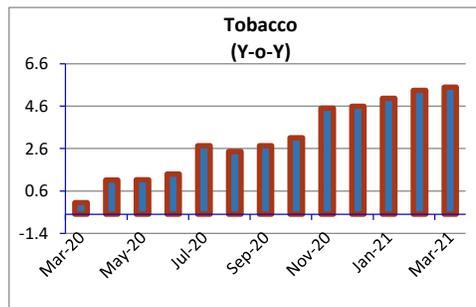
Inflation in non-food items exhibited upwards trend in the month of March 2021. On year over year basis, non-food inflation increased to 3.88 percent in the month of March from 2.95 percent observed in the previous month. This increase mainly comes from higher prices of tobacco, clothing, housing,

Furnishing and household goods, transportation, communication information and culture and restaurants and hotels.

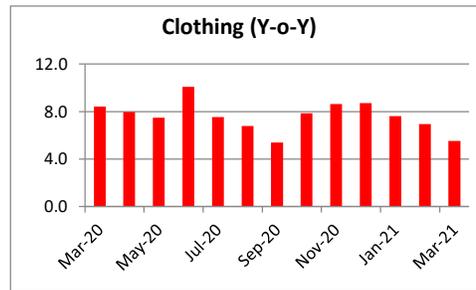
Non-food inflation on month-to-month basis exhibited higher rate in the month of March from its previous month's value. Observing the data, it increased to 0.68 percent in the month of March from -0.31 percent recorded in previous month.



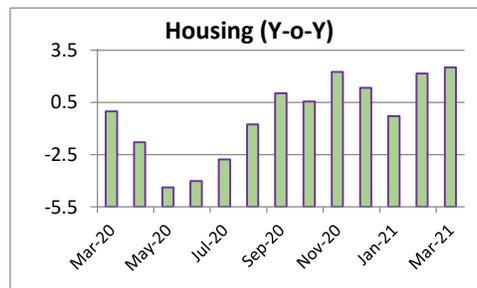
**Tobacco price index** which comprises 0.3 percent of the overall index, decreased in March 2021 to 5.50 from 5.35 (year over year basis) recorded in previous month. At same time, when measured month to month basis, this index has decreased to 0.91 percent in the month of March from 1.00 percent recorded in previous 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.



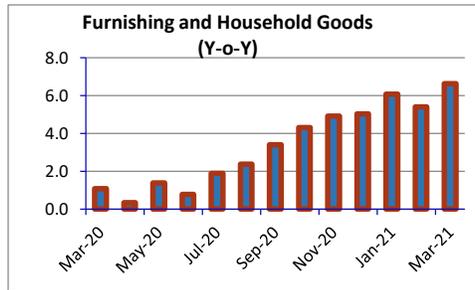
**Clothing price index** which comprises around 4.6 percent of the overall index, increased in March 2021 to 6.16 percent (year over year), while it was calculated 5.51 percent in the previous month. This index also increased on month to month basis turning to -0.08 percent in the month of March from -1.18 percent recorded in previous month. As Afghanistan is mostly importing clothing and footwear from foreign countries, especially from Turkey, China and Pakistan, price of this index during the month March 21 rose in Turkey, China and Pakistan by 7.43 percent, 0.1 percent and 10.72 percent respectively. Also due to new year preparation demand for purchase of clothing and footwear has increased inside the country which has pushed up price of this index during the period.



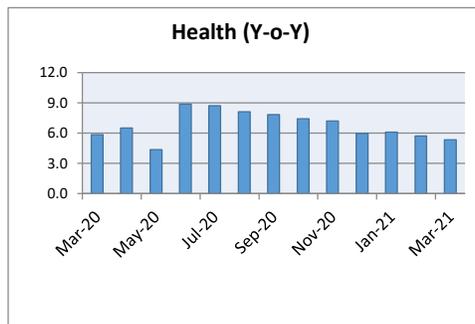
**Price index of housing, electricity, water and gas** increased in March 2021. When measure year over year basis, this index increased to 2.51 percent in the month of March from 2.16 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index also increased to -0.08 percent in the month of March from -0.81 percent recorded in the previous month. main contribution behind increase of this price index are, Gas price and construction materials price in international market has increased in compare to same month of previous year. natural gas price and coal price increased in global market as a result of cold winter and supply disruption. construction material price inclined to 2.4 in global market due to seasonality effect. And also due to the fire at Islam Qala customs, and Nimroz customs supply to the domestic market has decreased and the prices of gas in domestic market has increased.



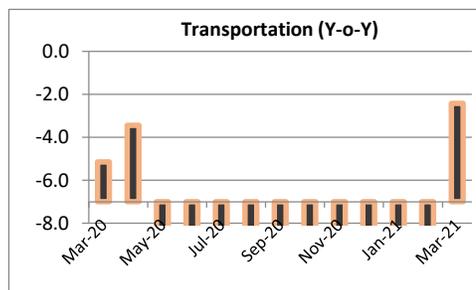
**Price index of furnishing and household goods** increased in the month of March 2021. This index which holds a healthy weight of 12 percent in the CPI, increased to 6.62 percent in the month of March from 5.40 percent recorded in previous month. in the meantime, when measured on month to month basis this index also increased to 1.43 percent in the month of March from -0.18 recorded in previous month. as mostly housing and furnishing goods are mainly importing from foreign countries such as Iran and Pakistan, Iranian rugs export has decreased to 5 percent during the year 1399. meanwhile price of furnishing and household in Pakistan and Iran during the period went up by 8.85 and 6.6 percent respectively.



**Price index of Health** decreased in the month of March 2021. Health index which comprises more than 6 percent of the overall CPI decreased to 5.35 percent in the month of March from 5.73 percent recorded in previous month (year over year). when measured on the month to month basis, it increased in the month of March to 0.18 percent from 0.15 percent 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 medicines enters to market illegally and without tax payments.

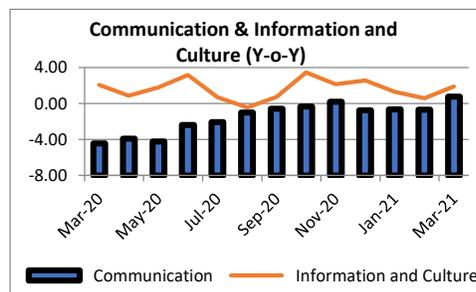


**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year over year basis increased to -2.42 percent in the month of March from -8.34 percent recorded in the previous month. Measuring month to month basis this index also increased to 4.78 percent in the month of March from 1.86 percent compare to the previous month. Reason behind increase in the prices of this index is increase of oil prices in international market. crude oil price has increased since second quarter of 2020 higher price of crude oil is primarily as result of lower crude oil production by member of OPEC. during the month of March 2021 the average price of one barrel of Brent crude oil was 65.41 U. S dollars, this is nearly double from the average monthly price one year prior. And also due to the fire at Islam Qala customs, and Nimroz customs supply to the domestic market has decreased and the prices of fuel in domestic market has increased.



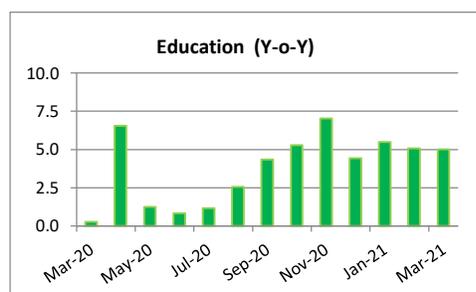
**Communication price index** during March2021, increased to 0.76 percent (year over year) from -0.68 percent observed one month back. This index increased on month to month basis turning around to 0.43 percent in the month of March from 0.21 percent recorded in previous month. one of the main reasons behind increase of this index is increase of smartphone price is in global market, smart phone prices has increased in global market due to shortfall of material and high demand during the period.

In addition, **price index of information and culture** recorded a rate of 1.90 percent (year over year) in March from its previous value of 0.58 percent. On month to month basis, this index increased to 0.02 percent in the month of March from -0.18 percent recorded in previous month. with the opening of schools and university demand for purchase of stationery such as note book, white paper has increased which pushed up price of this index during the period.

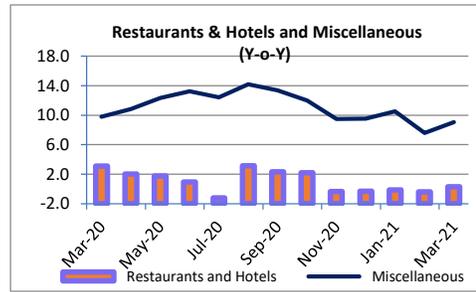


**Education price index**, decreased in the month of February2021. Education index which comprises 0.4 percent of the overall CPI decreased to 5.02 percent in the month of March from 5.08 percent recorded in the previous month (year over year), when measured on the month to month basis, it increased in the month of March to 0.05 percent from -0.35 percent observed in the previous month.

With the opening of school’s demand for winter courses has decreased which decreased related courses fees during the period.



**Restaurants and Hotels price index**, increased in the month of February2021. This index which comprises 1.1 percent of the overall CPI increased to 0.30 percent in the month of March from -0.39 percent recorded in the previous month (year over year), when measured on the month to month basis, this index is also increased in the month of March to 0.24 percent from -0.40 percent observed in the previous month. Reason behind increase of this index is increase in price of oil and fats, sugar and sweets and meat during the period.



**Price index of Miscellaneous** decreased in the month of March 2021 to 6.35 percent from 8.38 percent recorded in the previous month (Year-over-Year), when measured on the month to month basis, it decreased to -0.58 percent in the month of March from -0.49 percent observed in the previous month. main contribution behind decrease of this index are the first detergent manufacturing factory has started operation in Bamyan province also tissue paper factory in Kandahar, which has the capacity to produce 13000 tons of paper per day has expended its operation during the march 2021 which has increased domestic supply and decreased price of this index during the period.

### 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 March2021, trimmed mean (30 % of CPI) increased to 3.78 percent (year over year) from 3.61 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 3.05 percent compared to 3.14 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 0.23 percent in the month of March from -0.74 percent recorded in previous month.

