

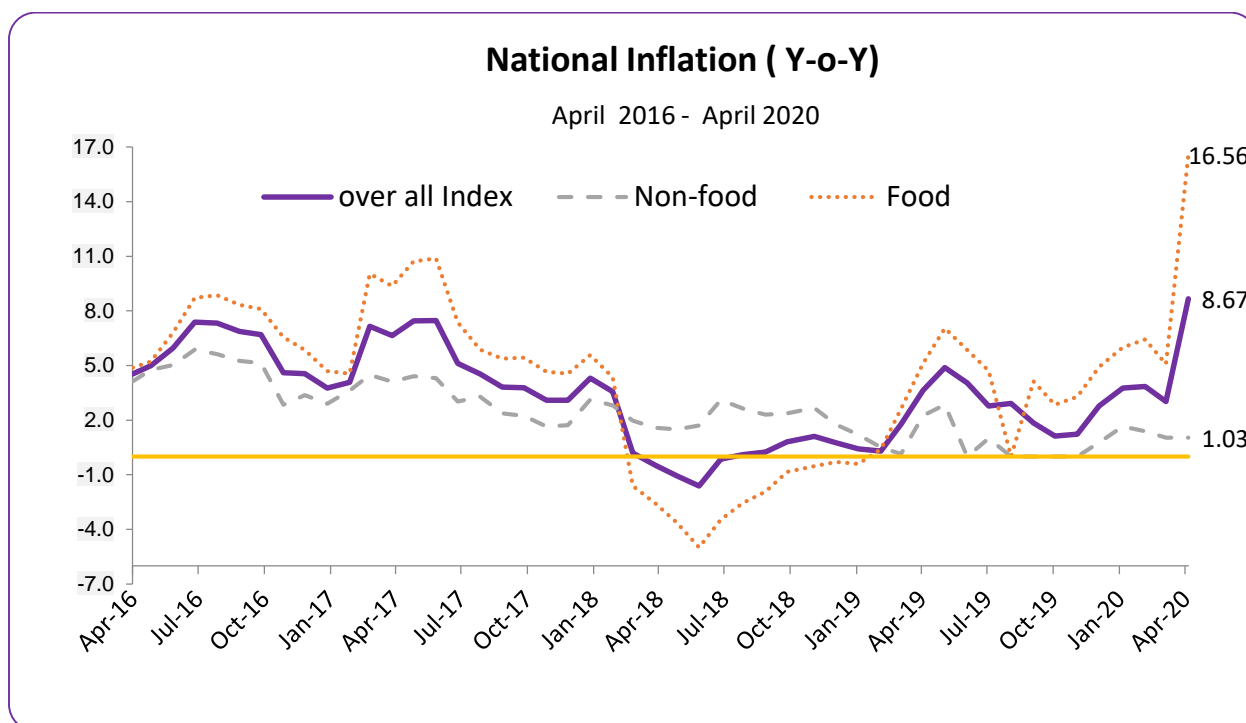


Da Afghanistan Bank

Monetary Policy Department

Monthly Inflation Report

April 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 increased in the month of April 2020 year over year basis. The year over year inflation increased to 8.67 percent in April from 3.02 percent observed in the previous month. This increase is caused by higher prices of food while non-food items decreased during the period.
- Food index which accounts for around 48 percent of the whole CPI increased to 16.56 percent from 5.07 percent. In the meantime, non-food category which comprises about 52 percent of the overall index decreased to 1.03 percent from 1.04 percent.
- Core inflation when measured based on 30% trimmed mean increased to 6.36 percent from 3.35 percent.
- Considering price changes in the short-term (month-to-month), headline inflation increased to 6.62 percent from 0.20 percent. Based on this measure, food and non-alcoholic beverage items increased to 12.45 percent from 0.63 percent and non-food items also increased to 0.79 percent from -0.22 percent.
- Based on Kabul CPI, headline inflation increased to 7.50 percent from 1.96 percent. Food prices exhibited higher rate and non-food items decreased in the capital Kabul, relatively food items increased to 16.68 percent from 2.35 percent and non-food category decreased to 1.40 percent from 1.71 percent in the period under review.

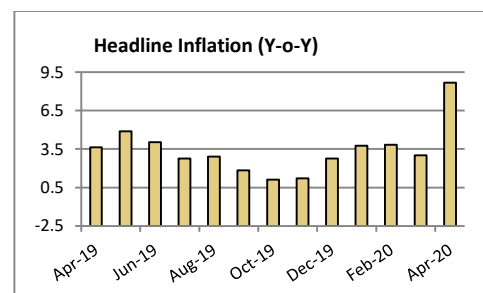
Table 1.1. Headline Inflation (March 20- April 20)

	Y-o-Y		M-to-M	
	March	April	March	April
National CPI				
Headline	3.02	8.67	0.20	6.62
<i>Food and Non-alcoholic beverages</i>	5.07	16.56	0.63	12.45
<i>Non-Food, Tobacco and services</i>	1.04	1.03	-0.22	0.79
<i>CPI ex. B&C, O&F, and T</i>	3.10	7.84	0.32	6.12
<i>Trimmed Mean</i>	3.35	6.36		
Kabul CPI				
Headline	1.96	7.50	-0.44	7.01
<i>Food and Non-alcoholic beverages</i>	2.35	16.68	-0.90	15.93
<i>Non-Food, Tobacco and services</i>	1.71	1.40	-0.13	1.06

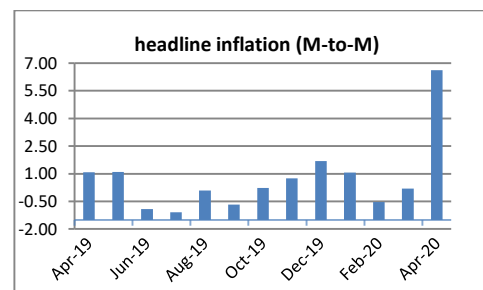
HEADLINE INFLATION

Headline inflation increased in the month of April 2020. Observing the data, headline inflation increased to 8.67 percent from 3.02 percent (year over year). This increase is caused by higher prices of food items. Core measure of inflation when measured based on 30% trimmed mean increased to 6.36 percent, while it was calculated 3.35 percent in the previous month.

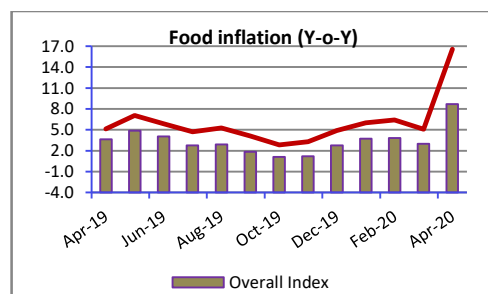
The short-term (month-to-month) change in inflation shows upward trends in the period under review. When measured on the month-to-month basis, headline inflation increased in April 2020. Observing the data, overall inflation increased to a rate of 6.62 percent from 0.20 percent recorded in the previous month. During the reporting period, food items of the CPI also increased to 12.45 percent from 0.63 percent. Core measures also increased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation increased to 6.12 percent from 0.32 percent on month to month basis.



Source: Da Afghanistan Bank/NSIA



Source: Da Afghanistan Bank/NSIA



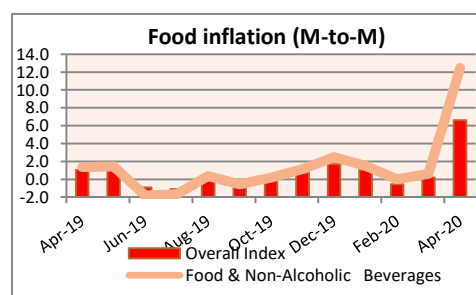
Source: Da Afghanistan Bank and/NSIA

FOOD INFLATION: Food inflation increased in April 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in April 2020, when measured on year over year basis, increased to 16.56 percent compared to 5.07 percent calculated in previous month. This increase came from higher prices of bread and cereals, meat, milk, cheese and eggs, oils and fats, fresh and dried fruits, vegetables, sugar and sweets, spices and non- alcoholic beverages.

Table 2.2. Food & beverages and non-alcoholic beverage Inflation(March 20- April 20)

Items	Weight	Y-o-Y		M-to-M	
		March	April	March	April
Food and Beverages	47.8	5.07	16.56	0.63	12.45
<i>Bread and Cereals</i>	14.6	3.76	15.19	0.26	10.89
<i>Meat</i>	7.5	8.67	12.03	0.04	3.45
<i>Milk, cheese and eggs</i>	4.7	-3.27	0.02	-0.65	3.40
<i>Oils and fats</i>	4.6	7.22	13.41	-0.46	5.78
<i>Fresh and dried fruits</i>	5.0	4.50	14.32	5.17	18.99
<i>Vegetables</i>	6.0	8.17	43.46	0.79	36.93
<i>Sugar and sweets</i>	2.7	1.08	7.40	-0.65	3.66
<i>Spices</i>	1.3	18.78	30.82	1.29	15.33
<i>Non-alcoholic beverages</i>	1.4	3.45	3.72	0.11	-0.77

Source: Da Afghanistan Bank /NSIA



The month-to-month measure of food inflation shows higher rate in

Source: Da Afghanistan Bank and/NSIA

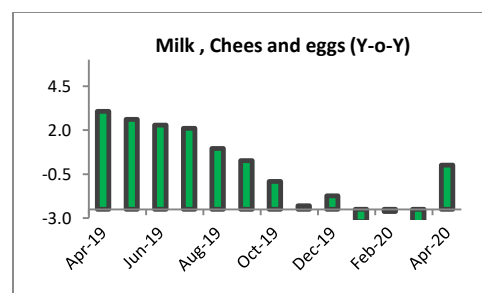
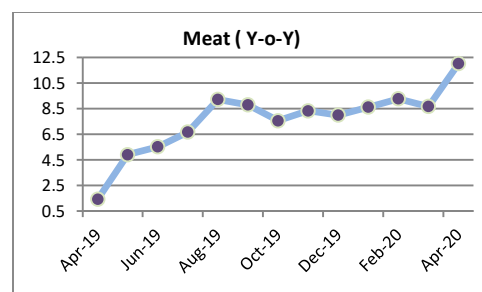
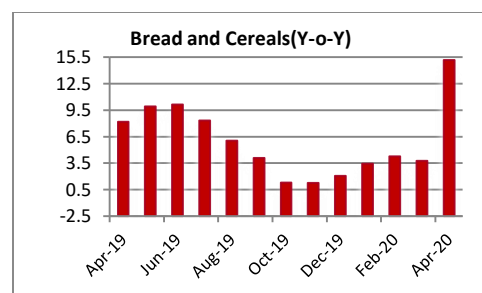
the month of April compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 12.45 percent in the review period higher from 0.63 percent observed in the previous month. In this category bread and cereals, meat, milk, cheese and eggs, fresh and dried fruits, oils and fats, sugar and sweets, vegetables, and spices have increased in compared to previous month.

Price index of bread and cereals which accounts for about 15percent of the consumer price index increased to 15.19 percent from 3.76 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-index also increased to 10.89 percent from 0.26 percent.

Afghanistan imports wheat and wheat flour mostly from neighboring country Kazakhstan, but due to covid-19 restrictions Kazakhstan had closed its borders for kinds of trade in between these two countries. On other hand the local traders stored huge quantity of wheat and wheat flour. Because of these two factors, the supply side of the index notably decreased and the demand for this commodity increased which caused increase in this price index.

Meat price index which is weighted for around 7 percent of the CPI, increased to 12.03 percent from 8.67 percent (year over year). When measured on the month to month basis, Price of this index also increased to 3.45 percent from 0.04 percent. The main reason of high price of this index is the dropping production of the commodity in the local markets and inadequate import of chicken meet and chicken feeding seeds.

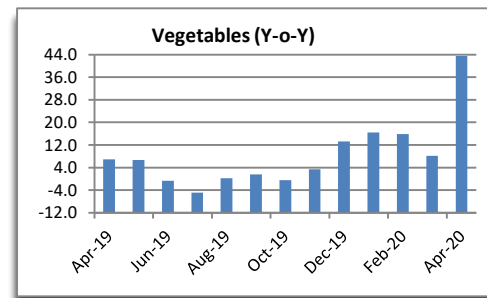
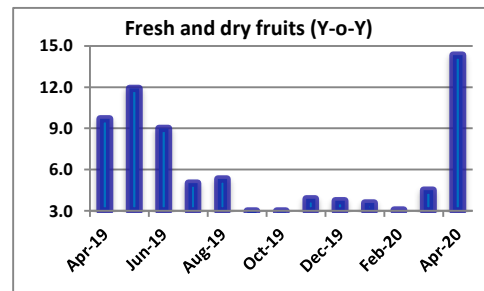
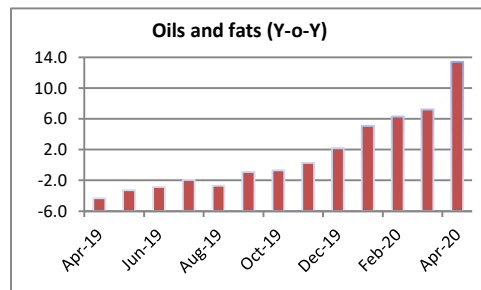
In April 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed higher prices. During the review period, this index increased to 0.02 percent (year over year) from -3.27 percent observed in previous month. When measured on the month-to-month basis, also increased to 3.40 percent from -0.65 percent recorded in previous month. Due to wide spread of covid-19, closure of borders and limitation on importing from neighboring countries, eggs price increased up to 50 percent inside the country.



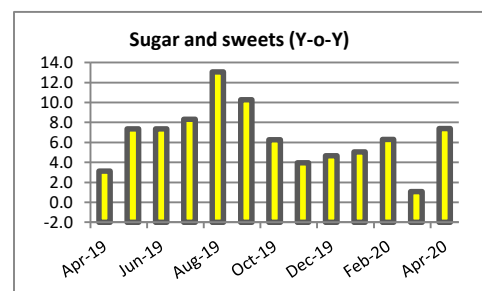
Oils and Fats index which comprises 4.6 percent of overall index, during the period increased to 13.41 percent from 7.22 (Y-o-Y). On the other hand, price of this index also increased to 5.78 percent from -0.46 percent on the month-to-month basis. Sun flower oil price per metric ton increased by 2.68 percent in compare to same month of previous year in global market. Also another reason is the closure of borders and cities lockdown has affected the local supply side which led to increase the mentioned index prices.

Fresh and dried Fruits prices increased in the month of April 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index increased to 14.32 percent (year over year) from 4.50 percent recorded in the previous month. On the other hand, month-to-month basis, it also significantly increased to 18.99 percent from 5.17 percent. Due to covid-19, demand for fresh fruits containing vitamin C is increased.

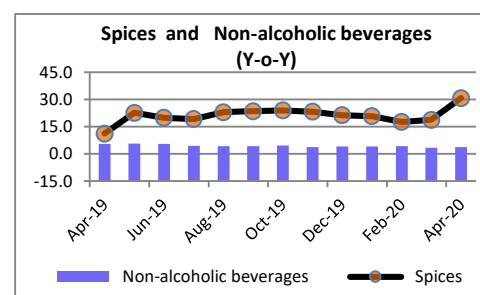
Vegetables price index which is dedicated for 6 percent of the overall index, increased to 43.46 percent (year over year) from 8.17 percent observed in the previous month. When measured on the month to month basis this index is also increased to 36.93 percent; however, it was recorded 0.79 percent in the previous month. Transport limitation and cities lockdown caused in sufficient local supply in the market and as a result price of this index is increased.



Price index of sugar and sweets increased on year over year basis. This index which comprises around 2.7 percent of the consumer price index increased to 7.40 percent (year over year) from 1.08 percent. When measured on month to month basis, this index increased to 3.66 from -0.65 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. Increase in price of transportation during the period and the closure of Pakistan and Afghanistan borders due to covid-19, has led to increase in the prices of this index.



Spices During the reporting period, there was an increase in **spices price index**. Observing the data, this index increased to 30.82 percent from 18.78 percent (Year over year). In addition, when measured on month to month basis, it also increased to 15.33 percent from 1.29 percent.



As most of spices are importing from India and Pakistan, due to closure of borders and suspension of import in wake of covid-19 prices of this index has been increased.

Non-alcoholic beverages increased to 3.72 percent in April from 3.45 percent recorded in previous month. When compared on month to month basis it decreased to -0.07 percent from 0.11 percent in the month of April 2020.

Closure of borders and transit restriction on imported items, increase in price beverage contains vitamin C, high cost of sugar which is used as ingredient of beverage caused to push up price of this index.

NON-FOOD INFLATION

Inflation in non-food items exhibited downwards trend in the month of April 2020. On the year over year basis, non-food inflation decreased to 1.03 percent from 1.04 percent observed in the previous month. This decrease is mainly come from lower prices of clothing, housing, furnishing and household goods, transportation, information and culture, restaurants and hotels.

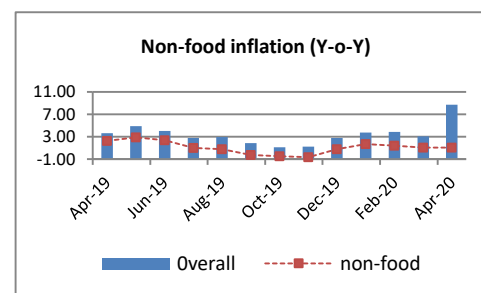
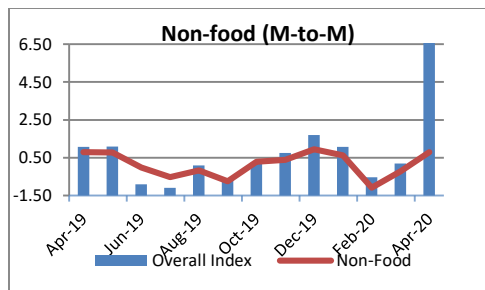


Table 2.3. Non-Food, Tobacco and Services Inflation (March 20 - April 20)

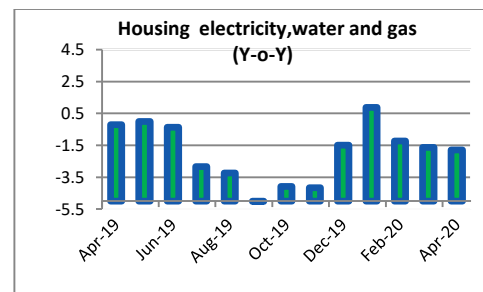
	Weight	Y-on-Y		M-to-M	
		March	April	March	April
Non-Food	52.2	1.04	1.03	-0.22	0.79
<i>Tobacco</i>	0.3	0.04	1.11	0.77	1.17
<i>Clothing</i>	4.6	7.97	7.47	-0.68	0.13
<i>Housing,</i>	19.1	-1.63	-1.78	-0.42	1.15
<i>Furnishing and household goods</i>	11.9	1.08	0.35	0.27	0.42
<i>Health</i>	6.2	5.83	6.50	0.55	0.88
<i>Transportation</i>	4.3	-5.14	-3.44	-1.57	1.35
<i>Communication</i>	1.7	-4.42	-3.89	-1.01	-0.04
<i>Information and Culture</i>	1.1	2.07	0.87	-1.28	0.14
<i>Education</i>	0.4	0.26	6.55	0.11	0.13
<i>Restaurants and Hotels</i>	1.1	3.09	2.03	-0.45	0.04
<i>Miscellaneous</i>	1.4	12.35	13.23	1.32	1.69

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

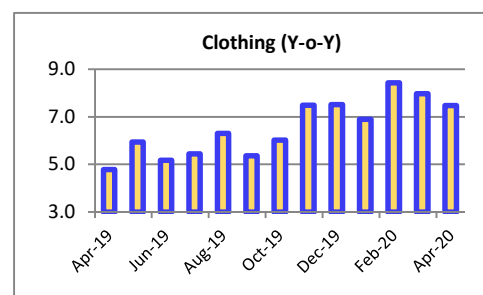
Non-food inflation on the month-to-month basis exhibited higher rate from its previous month's value. Observing the data, it increased to 0.79 percent from -0.22 percent.



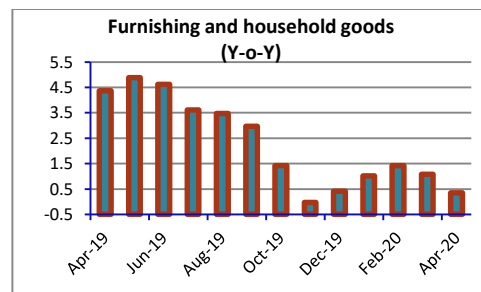
Clothing price index which comprises around 4.6 percent of the overall index, decreased in April 2020 to 7.47 percent (year over year), while it was calculated 7.97 percent in the previous month. This index also decreased on month to month basis turning around to 0.13 percent from -0.68 percent. Due to Covid-19 and cities lockdown demand has been decreased for purchasing cloths.



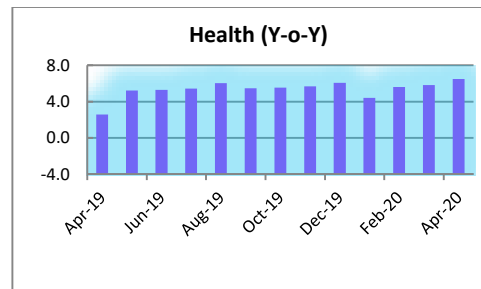
Price index of housing, electricity, water and gas decreased in April 2020. On year over year basis, this index decreased to -1.78 percent from -1.63 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index increased to 1.15 percent from -0.42 percent. Natural gas price in global market has dropped by -36 percent in compare to same month of previous year.



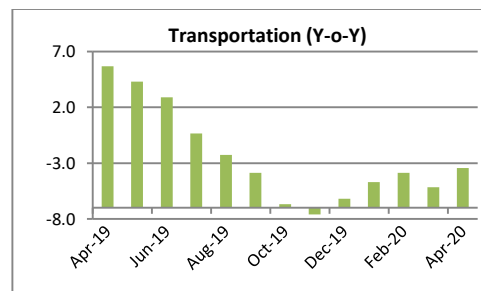
Price index of furnishing and household goods decreased in the month of April 2020. This index which holds a healthy weight of 11.9 percent in the CPI, decreased to 0.35 percent from 1.08 percent. While on the month to month basis also increased to 0.42 percent from 0.27 percent. Due to Covid-19, demand for purchasing of this index has been decreased.



Price index of health increased in the month of April 2020. Health index which comprises more than 6 percent of the overall CPI increased to 6.50 percent from 5.83 percent (year over year). While, measured on the month to month basis, it also increased to 0.88 percent from 0.55 percent observed in the previous month. The main reason behind increase of this index is Covid-19 pandemic, closure of borders and high demand for medical accessories and as well as prices increased for most of anti – biotic medicines and Vitamin C.



Transportation price index accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis increased to -3.44 percent from -5.14 percent recorded in the previous month. On the other hand, inflation rate on month to month basis is increased to 1.35 percent from -1.57 percent. During cities lockdown and transport limitations, the taxi fare is increased compared to any other time.



Communication price index during April 2020, increased to -4.42 percent (year over year) from -3.60 percent observed one month back. This index is decreased on month to month basis turning around to -1.01 percent from 0.23 percent.

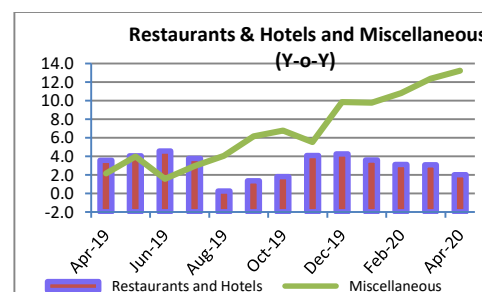
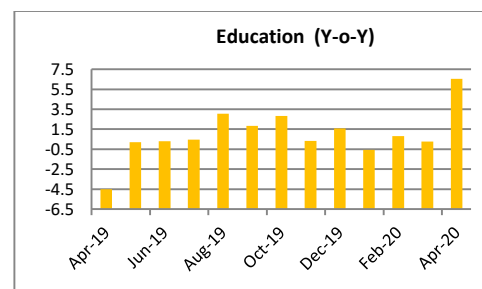
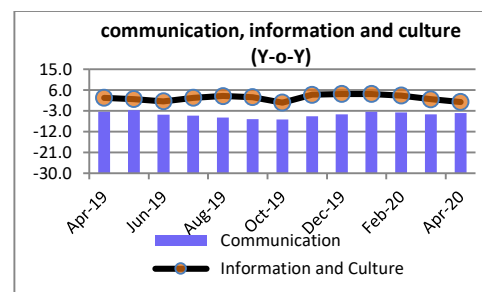
With closure of education centers, demand for online education and purchasing of mobile phone seats has increased. Also other factors such as disturbing global supply chain due to covid-19, closure of borders and transit restrictions on imported goods caused increase in the prices of this index .

In addition, **price index of information and culture** recorded a rate of 0.87 percent (year over year) in April from its previous value of 2.07 percent. On the month to month basis, this index decreased to -1.28 percent from 0.14 percent.

Education price index, increased in the month of April. Observing the data, this index increased to 6.55 percent from-0.26 percent (year over year), this index is also increased to 0.13 percent from 0.11 percent (month to month).

During April 2020 price decreased in **Restaurants and hotels** (2.03 percent from 3.09 percent year on year basis), and increased to 0.04 percent from -0.45 percent on month to month basis. Lockdown of cities and closure of hotels and restaurants in order to prevent spreads of covid-19, caused decrease in price of this index.

Price index of Miscellaneous increased to 13.23 percent from 12.35 percent on year-over-year basis. Meantime on the month-to-month basis, price index of miscellaneous also increased to 1.69 percent from 1.32 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 April 2020, trimmed mean (30 % of CPI) increased to 6.36 percent (year over year) from 3.35 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 7.84 percent compared to 3.10 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 6.12 percent from 0.32 percent.

