



**DA AFGHANISTAN BANK**

**MONETARY POLICY DEPARTMENT**

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**MONTHLY INFLATION REPORT**

**April 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.

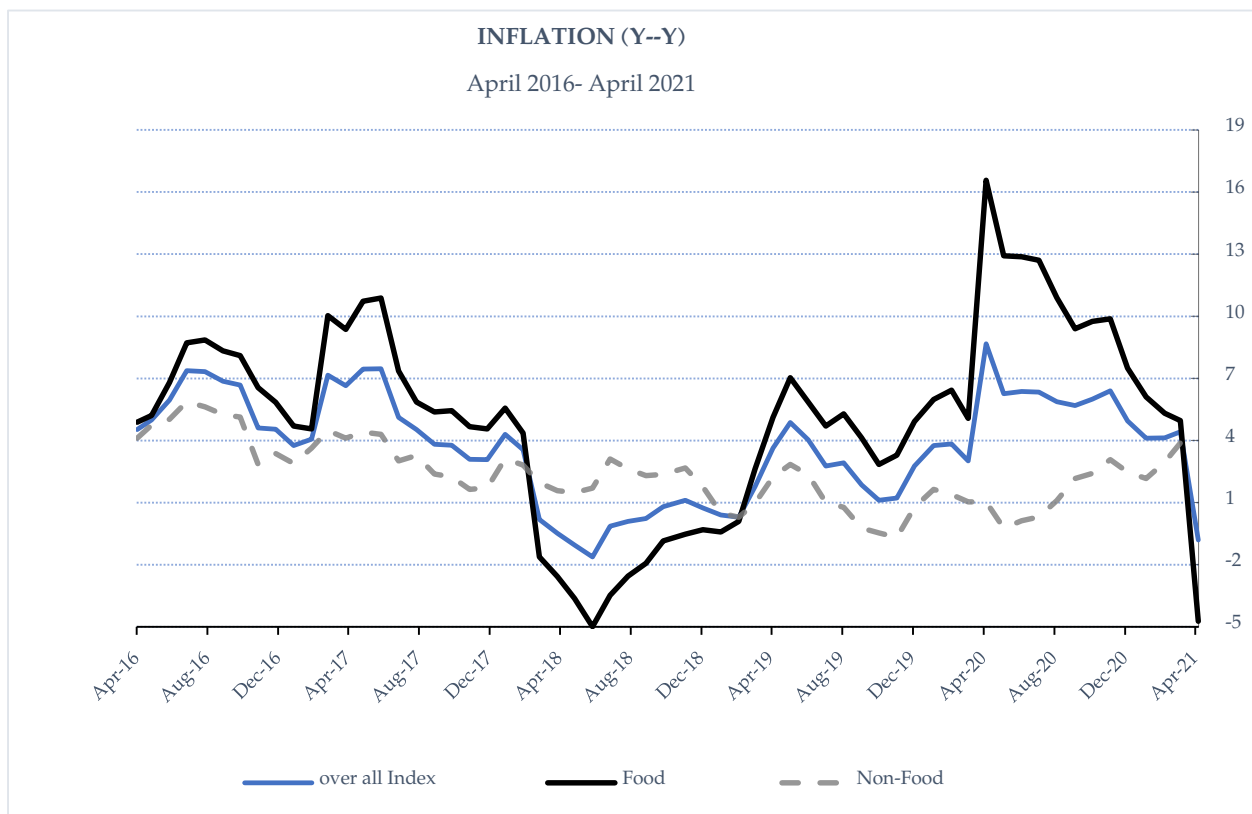
## A CONCISE REVIEW OF INFLATION IN AFGHANISTAN

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 significantly decreased in the month of April 2021 year over year basis. The year over year inflation decreased to -0.80 percent in April from 4.42 percent observed in the previous month. This increase 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 -4.73 percent from 4.96 percent. in addition, non-food category which comprises about 52 percent of the overall index decreased to 3.60 percent from 3.88 percent.
- Core inflation when measured based on 30% trimmed mean decreased to 2.26 percent from 3.78 percent.
- Based on Kabul CPI, headline inflation decreased to -0.4 percent from 4.98 percent (Year- over-Year). Food prices exhibited lower rate compare to the previous month and non-food item's prices also decreased in the capital Kabul, food items decreased to -7.4 percent from 3.96 percent and non-food category also decreased to 4.96 percent from 5.66 percent in the period under review.



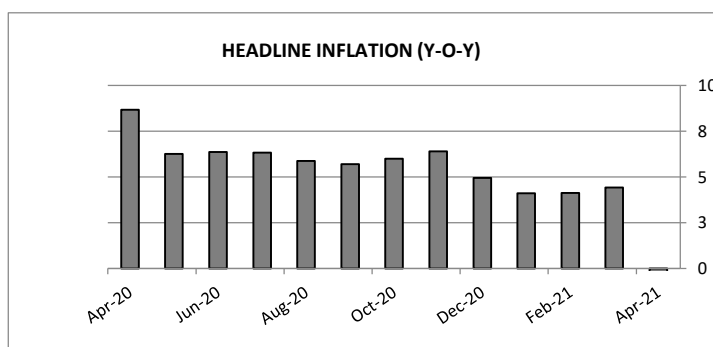
## HEADLINE INFLATION

Headline inflation decreased in the month of April 2021. Observing the data, headline inflation decreased to -0.80 percent from 4.42 percent (year over year). Most of this increase caused by lower prices of food items, while non- food items prices slightly decreased during the period. Core measure of inflation when measured based on 30% trimmed mean decreased to 2.26 percent, while it was calculated 3.78 percent in the previous month.

## HEADLINE INFLATION

	Y-o-Y					
	January 2021	February 2021	March 2021	April 2021	May Forecast	June Forecast
<b>Headline</b>	4	4	4	-1	0.4	2
<b>Food</b>	6	5	5	-5	-3	0.3
<b>Non-Food</b>	2	3	4	4	4	6
<b>Kabul CPI</b>						
<b>Headline</b>	3	3	5	-0.4		
<b>Food</b>	3	2	4	-7		
<b>Non-Food</b>	4	5	6	5		

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



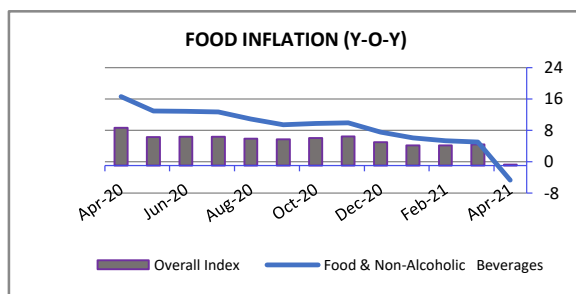
## FOOD INFLATION

Food inflation decreased in month of April 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 -4.73 percent in the month of April from 4.96 percent calculated in previous month. This decrease comes from lower prices of bread and cereals, meat, oils and fats, Milk, cheese and eggs, fresh and dried fruits, sugar and sweets, vegetables, and spices.

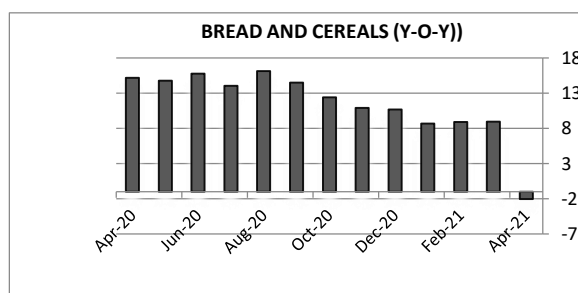
## FOOD AND NON-ALCOHOLIC BEVERAGE

Items	Weight	Y-o-Y			
		January	February	March	April
	48	6	5	5	-5
<b>Bread and Cereals</b>	15	9	9	9	-2
<b>Meat</b>	7	10	9	9	7
<b>Milk, cheese and eggs</b>	5	6	3	4	1
<b>Oils and fats</b>	5	15	16	19	16
<b>Fresh and dried fruits</b>	5	3	2	-0.3	-9
<b>Vegetables</b>	6	-4	-7	-10	-31
<b>Sugar and sweets</b>	3	6	6	7	4
<b>Spices</b>	1	-5	-7	-9	-21
<b>Non-alcoholic beverages</b>	1	3	2	2	2

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

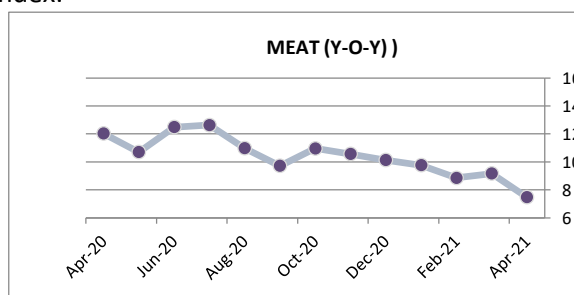


**Price index of bread and cereals** which accounts for about 15 percent of the consumer price index decreased to -2.04 percent in the month of April 2021 compared to 8.96 percent in previous month (year over year). Main contribution behind decrease of this index are , covid -19 lockdown, as Afghanistan is imported based economy and during April 20 due to covid-19 restriction and border closure price of this index inclined inside the country and in current month prices are back to normal level. Also rice price in international market has decreased to -12.2 percent compared to the same month of previous year. Addition to this, corn harvest has increased during the year 2021 thoroughout the country, especially in Laghman province.



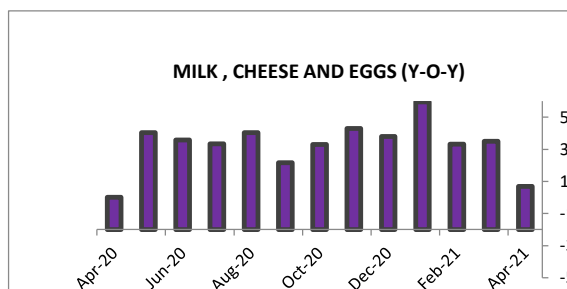
**Meat Price index** which is weighted 7.5 percent of the CPI, decreased to 7.48 percent in the month of April from 9.17 percent in previous month (year over year).

Increase in number of poultry and fish farms in country increased the local supply to the market and also increase of illegal imports of chicken from neighboring countries is considered another reason behind decrease in the prices of this index.

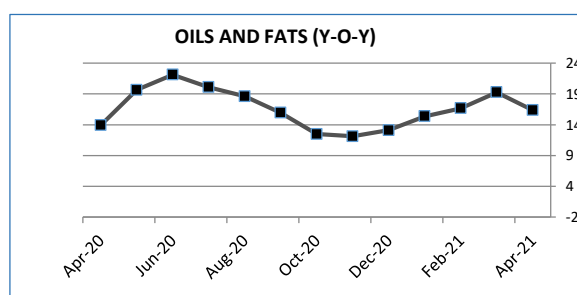


In month of April 2021, **price index of milk, cheese and eggs** which comprises 4.7 percent of the overall index showed lower prices during the review period, this index has decreased to 0.69 percent (year over year) in the month of April from 3.51 percent observed in previous month of the same year.

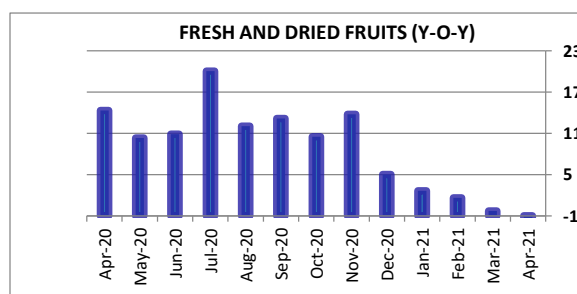
Reason behind decrease in the prices of this is the increase in domestic production of the mentioned index, Afghanistan consume about two billion eggs yearly and 30 percent is produced domestically. Increase in number of poultry and dairly production farms during the year 2021 decreased prices of this index in country during the period.



**Oils and Fats** which comprises 4.6 percent of overall index, during the period this index has decreased (Y-o-Y) to 15.87 percent in the month of April from 18.87 percent recorded in the previous month. Main reasons behind decrease in the prices of this index are, sesame oil and olive oil production increased in country which increased domestic supply and decreased prices of this index during the period.

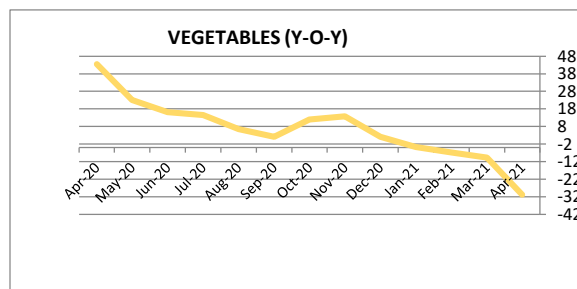


**Fresh and dried Fruits** prices decreased in the month of April 2021. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to -8.87 percent (year over year) in the month of April from -0.27 percent recorded in the previous month. the main reasons behind decrease of this price index are, production of straw berry, fresh figs, citrus and walnut increased in country which has increased domestic supply during the period. Also during April 20 demand due to covid-19 for consumption of fresh fruits containing vitamin C was very high which caused increased in price of fruits in domestic market and in current month price of this index returned to pre- pandemic level.

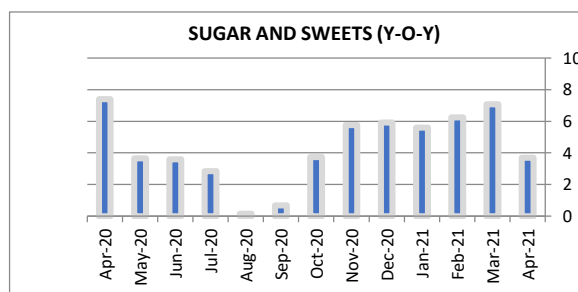


**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to -30.91 percent (year over year) in the month of April from -9.69 percent observed in the previous month. During April 20, price of this index increased mainly due to Covid-19, transport limitation and insufficient local supply and in current month prices are returned to normal level.



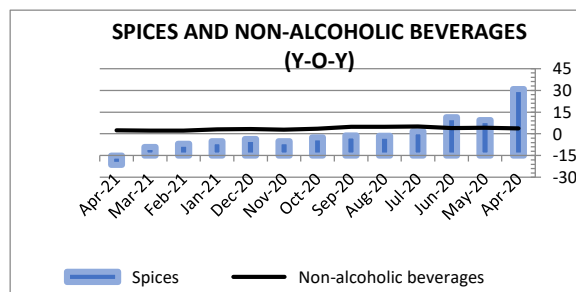


**Price index of sugar and sweets** decreased year over year basis. This index which comprises around 2.7 percent of the consumer price index decreased to 3.69 percent (year over year) in the month of April from 7.08 percent recorded in the previous month. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. Reasons behind decrease in the price of this index are increase in production of sugar in India, Afghanistan during the first quarter of 2021, imported most of sugar from India and sugar production in India has increased about 15.89 percent since October 2020. At the same time honey production in the country especially in provinces of Khust, Paktia and Ningarhar has increased during the year, 2500 tons of honey produced in country which has decreased the price of this index during the period.



**Spices index** during the reporting period has decreased compared to the previous month. Observing the data, prices of this index (Y-o-Y) decreased to -21.35 percent in April from -9.10 percent. Main contribution behind decrease in the prices of this index is, the inauguration of Bustan Sabz Agriculture company which has capacity to produce 20 metric tons of Tomato paste per hours, and also salt factory has started operation in Laghman province which has the capacity to produce one ton of salt per hour. In addition, increase in the supply of garlic decreased prices of garlic in market, considered another reason behind decrease in the prices of this index.

**Non- alcoholic beverages** inflation on Year over year basis is recorded at 2.36 percent in April 2021 as compared to 2.14 percent in the previous month.



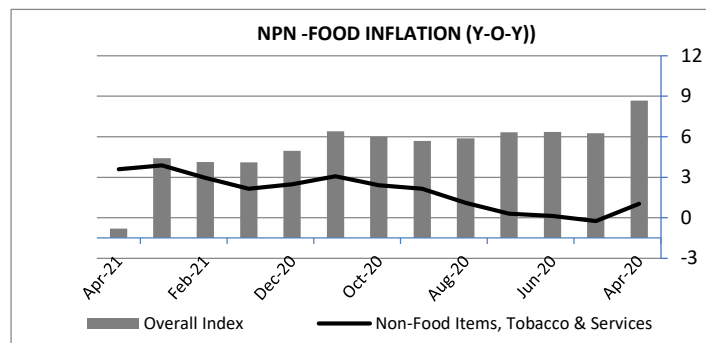
## NON FOOD INFLATION

Inflation in non-food items exhibited downwards trend in the month of April 2021. On year over year basis, non-food inflation decreased to 3.60 percent in the month of April from 3.88 percent observed in the previous month. This decrease mainly comes from lower prices of tobacco, furnishing and households, health, communication, information and culture, restaurants and hotels and miscellaneous.

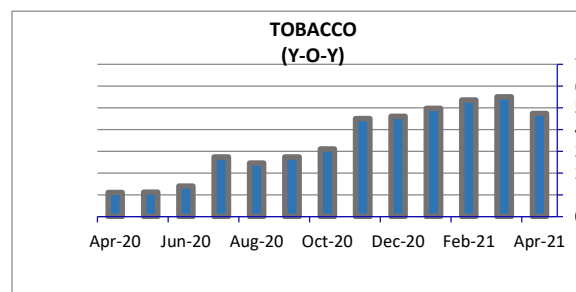
### NON- FOOD INFLATION

Items	Weight	January 2021	February 2021	March 2021	April 2021
	52	2	3	4	4
<b>Tobacco</b>	<b>0.3</b>	5	5	6	5
<b>Clothing</b>	<b>5</b>	7	6	6	7
<b>Housing,</b>	<b>19</b>	-0.3	2	3	3
<b>Furnishing and household goods</b>	<b>12</b>	6	5	7	6
<b>Health</b>	<b>6</b>	6	6	5	4
<b>Transportation</b>	<b>4</b>	-12	-8	-2	-2
<b>Communication</b>	<b>2</b>	-1	-1	1	1
<b>Information and Culture</b>	<b>1</b>	1	1	2	1
<b>Education</b>	<b>0.4</b>	5	5	5	6
<b>Restaurants and Hotels</b>	<b>1</b>	-0.1	-0.4	0.3	-0.1
<b>Miscellaneous</b>	<b>1</b>	9	8	6	4

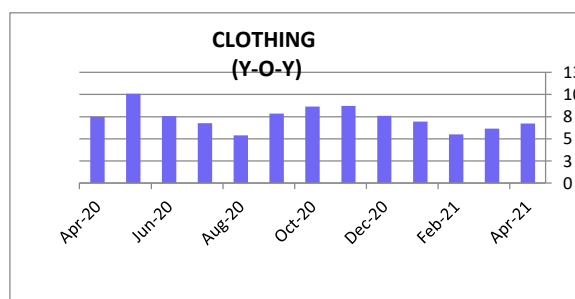
Source: National Statistics and Information Authority (NSIA) / DAB



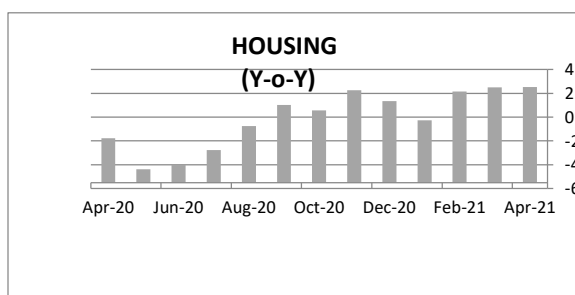
**Tobacco price index** which comprises 0.3 percent of the overall index, decreased in April 2021 to 4.73 from 5.50 (year over year basis) recorded in previous month.



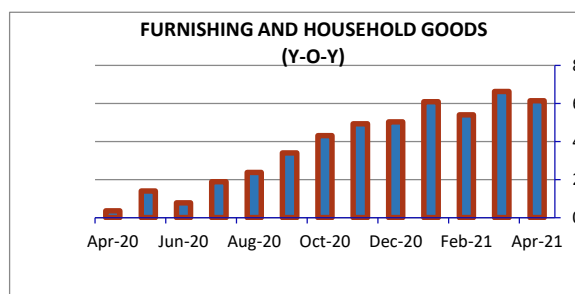
**Clothing price index** which comprises around 4.6 percent of the overall index, increased in April 2021 to 6.72 percent (year over year), while it was calculated 6.16 percent in the previous month. As Afghanistan mostly importing clothing and footwear from foreign countries, especially from Turkey, China and Pakistan, price of clothing and footwear during the month of April 21 increased in Turkey, China and Pakistan by 7.6 percent, 0.2 percent and 11.87 percent respectively. Also cotton price in international market increased by 42.9 percent compared to same month of previous year.



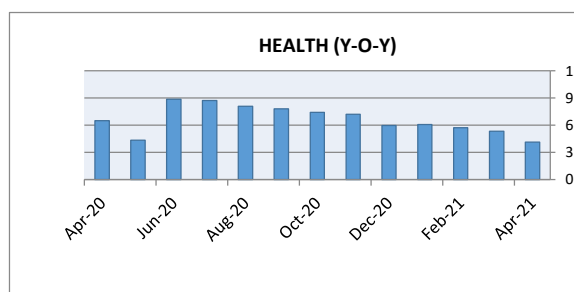
**Price index of housing, electricity, water and gas** increased in the month of April 2021. When measured year over year basis, this index increased to 2.53 percent in the month of April from 2.51 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Main contribution behind increase of this price index is, Natural Gas Prices, Natural Gas price has increased by 51% in international market compared to same month of previous year. At the same time due to fuel tanker explosion in Islam Qala customs port, and Nimroz customs port, supply to the domestic market has decreased and the prices of natural gas in domestic market has increased also. Brishna sherkat has increased electricity price during the period which caused increase in price of this index during the period.



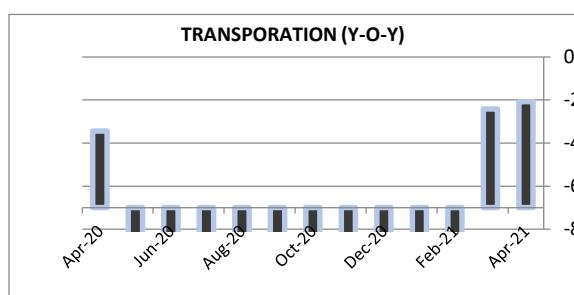
**Price index of furnishing and household goods** decreased in the month of April 2021. This index which holds a healthy weight of 12 percent in the CPI, decreased to 6.13 percent in the month of April from 6.62 percent recorded in previous month. Carpet export has dropped by 90 percent following the closure of air corridors this caused decrease in price of carpet in domestic market. Also furniture production and cotton production in country increased which has increased domestic supply and decreased price of this index during the period.



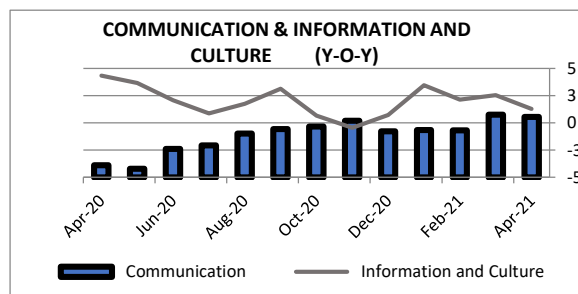
**Price index of Health** decreased in the month of April 2021. Health index which comprises more than 6 percent of the overall CPI decreased to 4.14 percent in the month of April from 5.35 percent recorded in previous month (year over year). Reason behind decrease in the prices of this index is illegal 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. Another reason behind decrease of this index is covid-19 lockdown, as Afghanistan is imported based economy and during April 20, due to covid-19 restriction and border closure price of this index inclined and now price of this index returned to normal level.



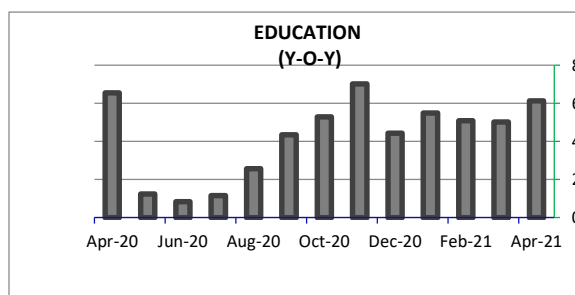
**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year over year basis increased to -2.07 percent in the month of April from -2.42 percent recorded in the previous month. Reason behind increase in the prices of this index is increase of oil prices in international market. In April 2021, the average price of one barrel of Brent crude oil is 64.81 US dollars, this is more than three times the average monthly price of one year prior.



**Communication price index** during April 2021, decreased to 0.54 percent (year over year) from 0.76 percent observed one month back. In addition, **price index of information and culture** recorded a rate of 0.78 percent (year over year) in April from its previous value of 1.90 percent.



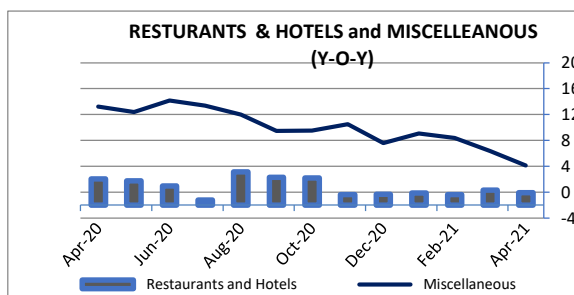
**Education price index** increased in the month of April 2021. Education price index which comprises 0.4 percent of the overall CPI increased to 6.13 percent in the month of April from 5.02 percent recorded in the previous month (year over year). In April 20, due to closure of educational centers most education fees decreased and in current month courses fees returned to normal level and increased price of this index.



**Restaurants and Hotels price index decreased** in the month of April 2021. This index which comprises 1.1 percent of the overall CPI decreased to -0.06 percent in the month of April from 0.30 percent recorded in the previous month (year over year).

Reason behind decrease of this index decrease in the prices of food items especially bread and cereals, oil and fats, milk, cheese and eggs, vegetables, sugar and sweets and spices during the period.

**Price index of Miscellaneous** decreased in the month of April 2021 to 4.14 percent from 6.35 percent recorded in the previous month (Year-over-Year). 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 papers per day, 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 April 2021, trimmed mean (30 % of CPI) decreased to 2.26 percent (year over year) from 3.78 percent observed in the previous month.

CPI excluding **bread and cereals, oils and fats, and transportation**, which decreased to -1.46 percent compared to 3.05 percent recorded in the previous month.

**CPI ex. Housing and transportation**, decreased to -1.41 percent in April 2021, compared to 5.18 percent observed in previous month (year over year).

**CPI ex. Food & Beverages** decreased to 3.60 percent in the month of April 2021 compared to 3.88 percent in previous month (year over year).

**CPI ex. Food, Beverages & Transportation** decreased to 4.09 percent in the month of April 2021 compared to 4.42 percent in previous month (year over year).

**CPI ex. Transportation** significantly decreased to -0.7 percent in the month of April 2021 compared to 4.7 percent in previous month (year over year).

### CORE INFLATION

Y-o-Y

	January 2021	February 2021	March 2021	April 2021
<i>CPI ex. B&amp;C, O&amp;F, and T</i>	3	3	3	-1
<i>Trimmed Mean</i>	4	4	4	2
<i>CPI ex. H and T</i>	5	5	5	-1
<i>CPI ex. Food &amp; Beverages</i>	2	3	4	4
<i>CPI ex. Transportation</i>	5	5	5	-1
<i>CPI ex. Food, Beverages &amp; Transportation</i>	3	4	4	4

