

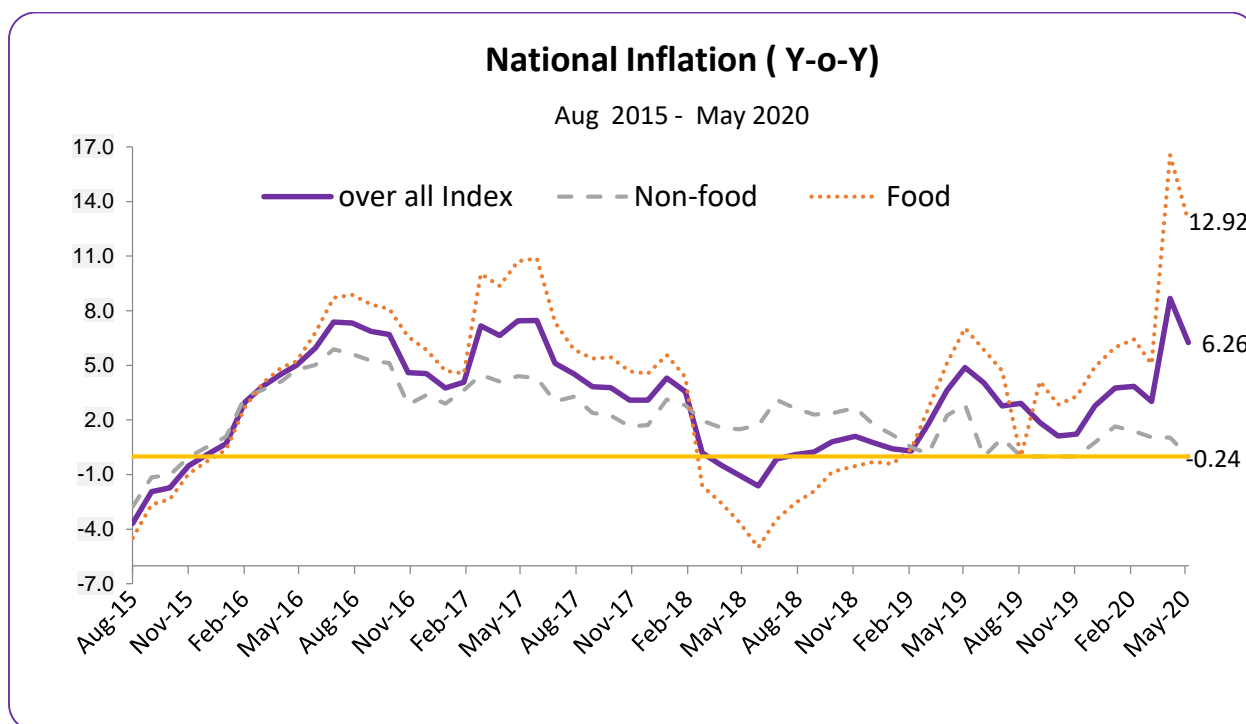


Da Afghanistan Bank

Monetary Policy Department

Monthly Inflation Report

May 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 May2015 from May 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 May 2020 year over year basis. The year over year inflation decreased to 6.26 percent in May from 8.67 percent observed in the previous month. This decrease is caused by lower prices of food and non-food items.
- Food index which accounts for around 48 percent of the whole CPI decreased to 12.92 percent from 16.56 percent. In the meantime, non-food category which comprises about 52 percent of the overall index decreased to -0.24 percent from 1.03 percent.
- Core inflation when measured based on 30% trimmed mean decreased to 5.47 percent from 6.36 percent.
- Considering price changes in the short-term (month-to-month), headline inflation decreased to -1.15 percent from 6.62 percent. Based on this measure, food items decreased to -1.74 percent from 12.45 percent and non-food items also decreased to -0.49 percent from 0.79 percent.
- Based on Kabul CPI, headline inflation decreased to 2.88 percent from 7.50 percent. Food prices exhibited lower rate and non-food items also decreased in the capital Kabul, relatively food items decreased to 6.78 percent from 16.68 percent and non-food category decreased to 0.28 percent from 1.40 percent in the period under review.

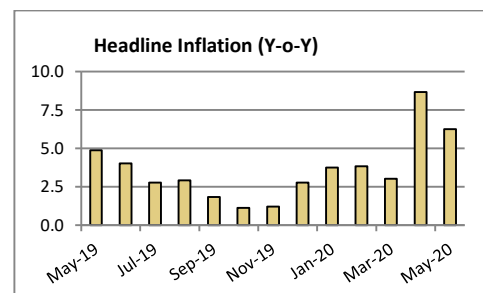
Headline Inflation (April 20-May 20)

	Y-o-Y		M-to-M	
	April	May	April	May
National CPI				
Headline	8.67	6.26	6.62	-1.15
<i>Food and Non-alcoholic beverage</i>	16.56	12.92	12.45	-1.74
<i>Non-Food</i>	1.03	-0.24	0.79	-0.49
<i>CPI ex. B&C, O&F, and T</i>	7.84	4.82	6.12	-1.79
<i>Trimmed Mean</i>	6.36	5.47		
Kabul CPI				
Headline	7.50	2.88	7.01	-2.75
<i>Food and Non-alcoholic beverage</i>	16.68	6.78	15.93	-6.71
<i>Non-Food</i>	1.40	0.28	1.06	0.27

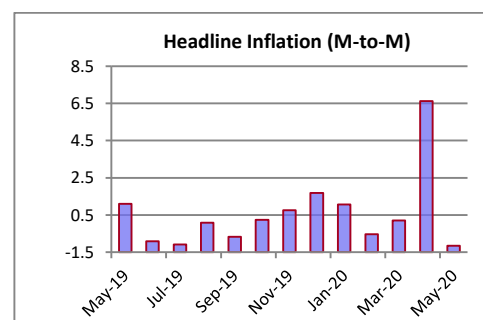
HEADLINE INFLATION

Headline inflation decreased in the month of May2020. Observing the data, headline inflation decreased to 6.26 percent from 8.67 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 5.47 percent, while it was calculated 6.36 percent in the previous month.

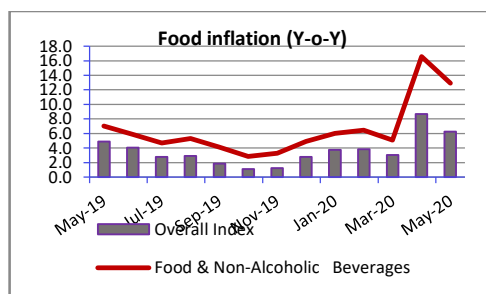
The short-term (month-to-month) change in inflation shows downward trends in the period under review. When measured on the month-to-month basis, headline inflation decreased in May2020. Observing the data, overall inflation decreased to a rate of -1.15 percent from 6.62 percent recorded in the previous month. During the reporting period, food items of the CPI also decreased to -1.74 percent from 12.45 percent. Core measures also decreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation decreased to -1.79 percent from 6.12 percent on month to month basis.



Source: Da Afghanistan Bank/NSIA



Source: Da Afghanistan Bank/NSIA



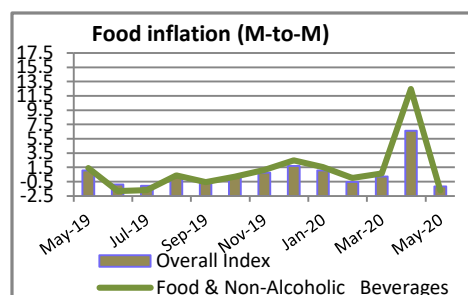
Source: Da Afghanistan Bank and/NSIA

FOOD INFLATION: Food inflation decreased in May2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in May 2020, when measured on year over year basis, decreased to 12.92 percent compared to 16.56 percent calculated in previous month. This decrease came from lower prices of bread and cereals, meat, fresh and dried fruits, vegetables, sugar and sweets and spices.

Food and Non-alcoholic beverage Inflation (April 20- May 20)

Items	Weight	Y-o-Y		M-to-M	
		April	May	April	May
Food and Beverages	47.8	16.56	12.92	12.45	-1.74
<i>Bread and Cereals</i>	14.6	15.19	14.76	10.89	1.22
<i>Meat</i>	7.5	12.03	10.70	3.45	2.22
<i>Milk, cheese and eggs</i>	4.7	0.02	4.04	3.40	3.12
<i>Oils and fats</i>	4.6	13.41	19.15	5.78	5.86
<i>Fresh and dried fruits</i>	5.0	14.32	10.35	18.99	1.05
<i>Vegetables</i>	6.0	43.46	23.02	36.93	-17.96
<i>Sugar and sweets</i>	2.7	7.40	3.66	3.66	0.65
<i>Spices</i>	1.3	30.82	9.59	15.33	-10.22
<i>Non-alcoholic beverages</i>	1.4	3.72	4.13	-0.07	1.15

Sourced: Da Afghanistan Bank /NSIA



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

Source: Da Afghanistan Bank and/NSIA

the month of May compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.74 percent in the review period higher from 12.45percentobserved in the previous month. In this category except oils and fats and non-alcoholic beverage the prices of all other items are decreased.

Price index of bread and cereals which accounts for about 15 percent of the consumer price index decreased to 14.76 percent from 15.19 percent (year over year). When measured on the month-to-month basis, this sub-index also decreased to 1.22 percent from 10.89 percent.

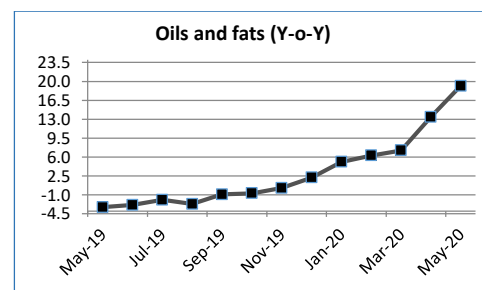
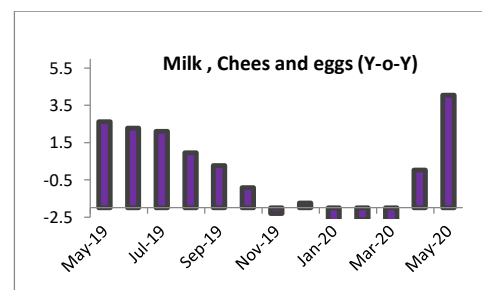
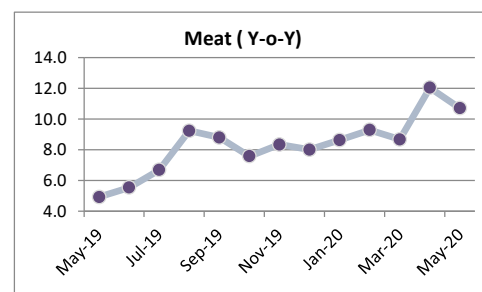
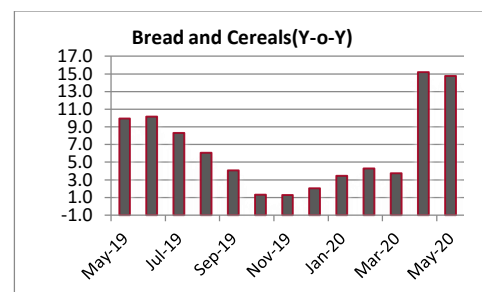
the main reason behind decrease of this index are, the donation of 75000 tons of wheat to the Afghan government which has increased supply side and increase of domestic production of wheat inside the country.

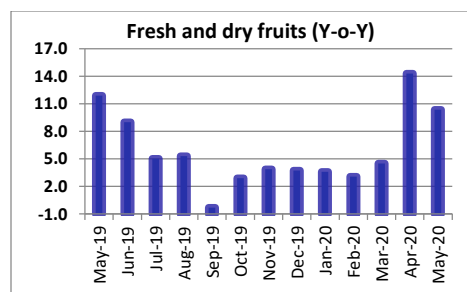
Meat price index which is weighted for around 7 percent of the CPI, decreased to 10.70 percent from 12.03 percent (year over year). When measured on the month to month basis, Price of this index also decreased to 2.22 percent from 3.45percent.

In the previous month the import of chicken from neighboring countries were restricted due to wide spread of covid-19, that caused unprecedented increase in price of chicken meat in domestic markets, thus the government has released imports of chicken from neighboring countries especially from Iran. Also the establishment of poultry farms in the capital and other provinces has increased supply side and resulted a decrease of 2.52 percent in the price of chicken meat as compare to the previous month.

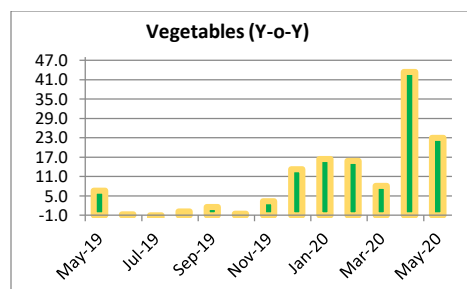
In May2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed higher prices. During the review period, this index increased to 4.04 percent (year over year) from 0.02 percent observed in previous month. When measured on the month-to-month basis, decreased to 3.12 percent from 3.40 percent recorded in previous month.

Oils and Fats index which comprises 4.6 percent of overall index, during the period increased to 19.15 percent from 13.41 (Y-o-Y). This index also increased to 5.86 percent from 5.78 percent on the month-to-month basis. One of the main reasons due to which the price of this index has increased is the restricted on import of commodities and closure of borders because of covid-19 pandemic.

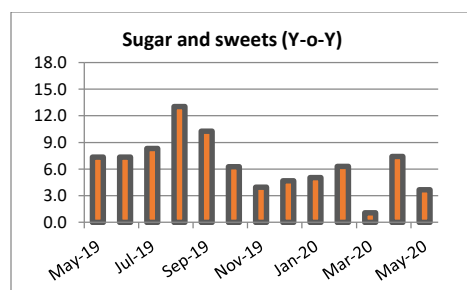




Fresh and dried Fruit prices decreased in the month of May2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 10.35 percent (year over year) from 14.32 percent recorded in the previous month. On the other hand, month-to-month basis, it also significantly decreased to 1.05 percent from 18.99 percent. The main reason behind decrease of this index is the seasonality effect.



Vegetables price index which is dedicated for 6 percent of the overall index, decreased to 23.02 percent (year over year) from 43.46 percent observed in the previous month. When measured on the month to month basis this index is also decreased to-17.96percent; however, it was recorded 36.93 percent in the previous month. The main reason behind decrease of this index is the seasonality effect.



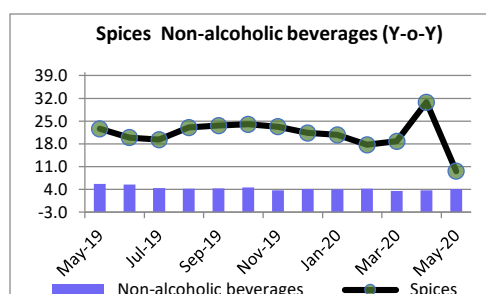
Price index of sugar and sweets decreased on year over year basis. This index which comprises around 2.7 percent of the consumer price index decreased to 3.66 percent (year over year) from 7.40 percent. When measured on month to month basis, this index decreased to 0.65 from 3.66 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

The price of sugar in India is low and the government of Afghanistan has imported sugar in the first quarter of the year 1399 mostly from India. On other hand, the price of sugar has also dropped to 11.1 percent as compare to the same month of previous year in the global markets. Therefore, the price of this index is decreased.

Spices During the reporting period, there was a decrease in spices price index. Observing the data, this index decreased to 9.59 percent from 30.82 percent (Year over year). In addition, when measured on month to month basis, it also decreased to -10.22 percent from 15.33 percent.

The main reason behind decrease of this index is the ease of restrictions on imports from neighboring countries.

Non-alcoholic beverages increased to 4.13 percent in May from 3.72 percent recorded in previous month. When compared on month to month basis it increased to 1.15 percent from -0.07 percent in the month of May2020.



NON-FOOD INFLATION

Inflation in non-food items exhibited downwards trend in the month of May 2020. On the year over year basis, non-food inflation decreased to -0.24 percent from 1.03 percent observed in the previous month. This decrease is mainly come from lower prices of housing, health, transportation, communication, education, restaurants and hotels and miscellaneous.

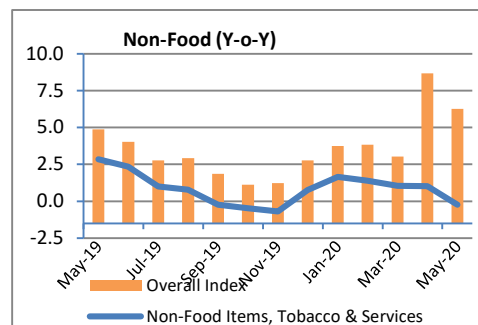
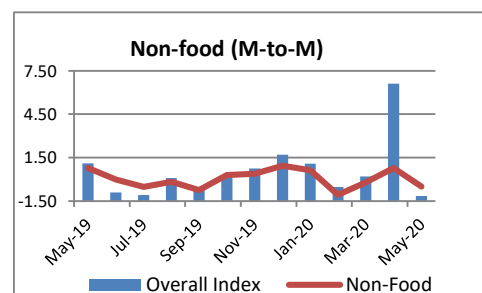


Table 2.3. Non-Food Inflation (April 20-May 20)

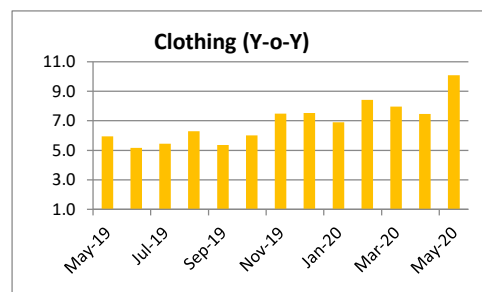
	Weight	Y-on-Y		M-to-M	
		April	May	April	May
Non-Food	52.2	1.03	-0.24	0.79	-0.49
<i>Tobacco</i>	0.3	1.11	1.12	1.17	0.39
<i>Clothing</i>	4.6	7.47	10.08	0.13	3.34
<i>Housing,</i>	19.1	-1.78	-4.38	1.15	-2.44
<i>Furnishing and household goods</i>	11.9	0.35	1.39	0.42	1.68
<i>Health</i>	6.2	6.50	4.36	0.88	0.47
<i>Transportation</i>	4.3	-3.44	-10.14	1.35	-6.37
<i>Communication</i>	1.7	-3.89	-4.22	-0.04	0.32
<i>Information and Culture</i>	1.1	0.87	1.77	0.14	0.90
<i>Education</i>	0.4	6.55	1.24	0.13	-0.01
<i>Restaurants and Hotels</i>	1.1	2.03	1.76	0.04	0.29
<i>Miscellaneous</i>	1.4	13.23	12.40	1.69	0.71

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

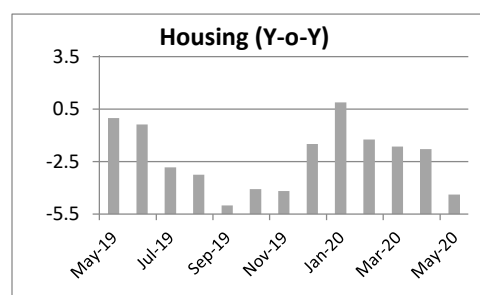
Non-food inflation on the month-to-month basis exhibited lower rate from its previous month's value. Observing the data, it decreased to -0.49 percent from 0.79 percent. During the period under review, the prices of housing, health, transportation, and education and miscellaneous decreased.



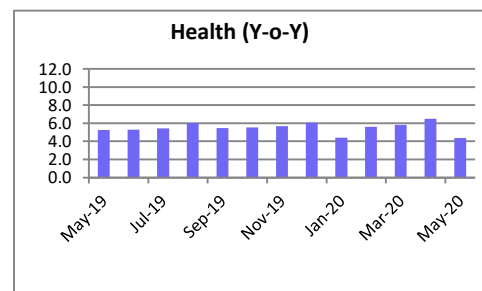
Clothing price index which comprises around 4.6 percent of the overall index, increased in May 2020 to 10.08 percent (year over year), while it was calculated 7.47 percent in the previous month. This index also increased on month to month basis turning around to 3.34 percent from 0.13 percent. For the preparation of Eid-al-Fitr event, the public demand for purchasing cloths and footwear increased. As the government imports most of this commodities from Pakistan and the price of this index is increased by 2 percent in Pakistan which has direct effect on price of this index.



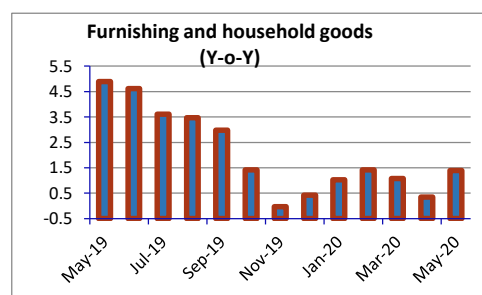
Price index of housing, electricity, water and gas decreased in May2020. On year over year basis, this index decreased to -4.38 percent from -1.78 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index decreased to -2.44 percent from 1.15percent. Natural gas price decreased by -33 percent in global market.



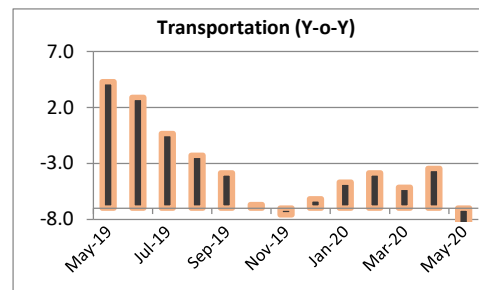
Price index of furnishing and household goods increased in the month of May2020. This index which holds a healthy weight of 11.9 percent in the CPI, increased to 1.39 percent from 0.35 percent. While on the month to month basis also increased to 1.68 percent from 0.42 percent. The demand for this index is increased due to the event of Eid-al-Fitr.



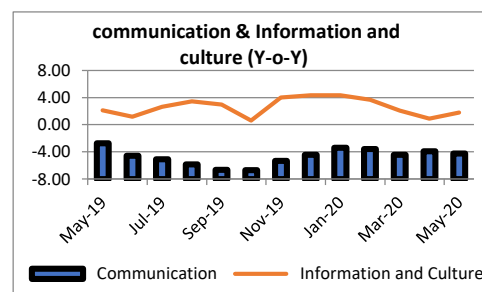
Price index of Health decreased in the month of May2020. Health index which comprises more than 6 percent of the overall CPI decreased to 4.36 percent from 6.50 percent (year over year). While, measured on the month to month basis, it decreased to 0.47 percent from 0.88 percent observed in the previous month. The main reason behind the decrease of price of this index is the Indian government's donation of 100,000 Paracetamol tablets and 50,000 Hydroxychlorine tablets to Afghanistan during covid-19 pandemic, which has increased supply of mentioned index.



Transportation price index accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis decreased to -10.14 percent from -3.44 percent recorded in the previous month. Inflation rate on month to month basis also decreased to -6.37 percent from 1.35 percent. Oil prices have dropped sharply due to Corona virus pandemic. Diesel and crude oil price decreased by -56 percent and -54 percent respectively in global market.

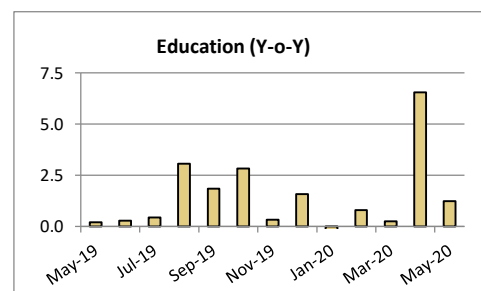


Communication price index during May 2020, decreased to -4.22 percent (year over year) from -3.89 percent observed one month back. This index is increased on month to month basis turning around to 0.32 percent from -0.04 percent.



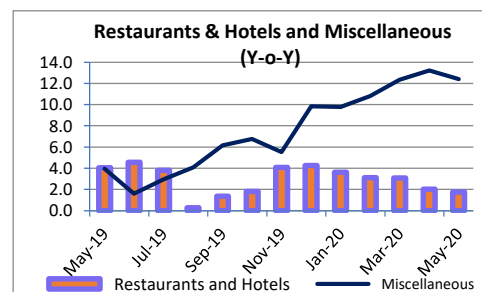
Ministry of telecommunication decrease internet prices in order to facilitate online users during quarantine time.

In addition, **price index of information and culture** recorded a rate of 1.77 percent (year over year) in May from its previous value of 0.87 percent. On the month to month basis, this index increased to 0.90 percent from 0.14 percent.



Education price index, decreased in the month of April. Observing the data, this index decreased to 1.24 percent from 6.55 percent (year over year), this index is also decreased to -0.01 percent from 0.13 percent (month to month). Due to covid-19 and closure of educational centers demand for purchase of stationary is decreased.

During May2020 price decreased in **Restaurants and hotels** (1.76 percent from 2.03 percent year on year basis), and increased to 0.29 percent from 0.04 percent on month to month basis. Lockdown of cities and closure of hotels and restaurants in order to prevent wide spread of covid-19 price of this index has decreased.



Price index of Miscellaneous decreased to 12.40 percent from 13.23 percent on year-over-year basis. Meantime on the month-to-month basis, price index of miscellaneous decreased to 0.71 percent from 1.69 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 May2020, trimmed mean (30 % of CPI) decreased to 5.47 percent (year over year) from 6.36 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 4.82 percent compared to 7.84 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to -1.79 percent from 6.12 percent.

