



**Da Afghanistan Bank**

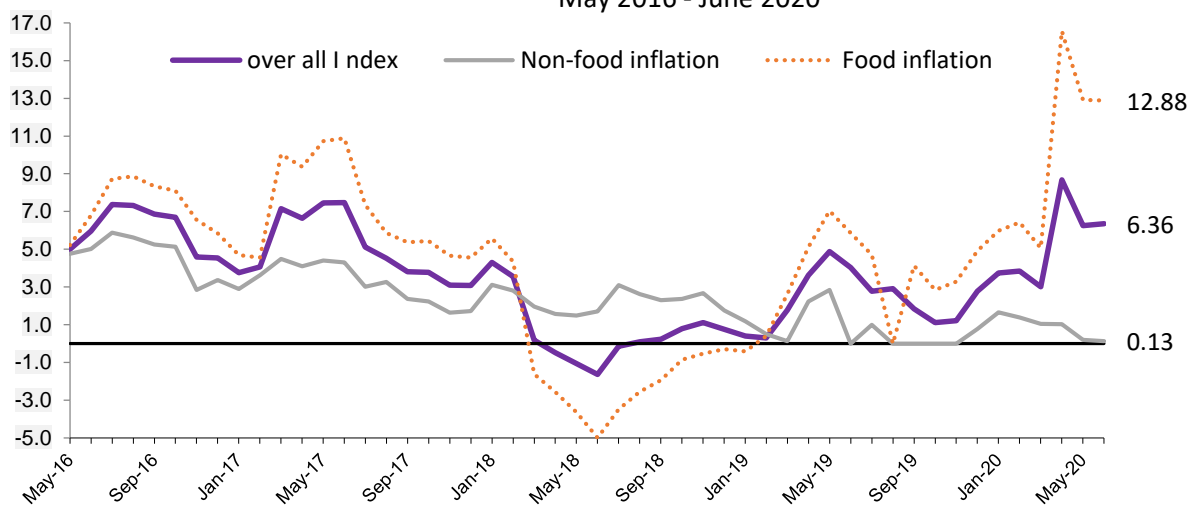
**Monetary Policy Department**

## Monthly Inflation Report

**June 2020**

### National Inflation ( Y-o-Y)

May 2016 - June 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 June 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

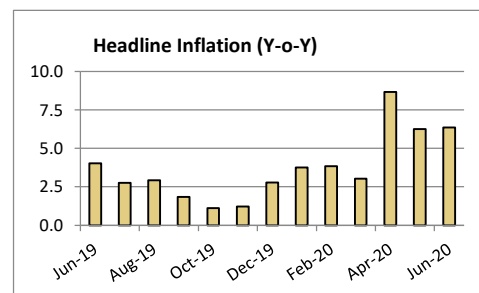
- Headline inflation increased in the month of June 2020 year over year basis. The year over year inflation increased to 6.36 percent in June from 6.26 percent observed in the previous month. This increase is caused by higher prices of non-food items.
- Food index which accounts for around 48 percent of the whole CPI decreased to 12.88 percent from 12.92 percent. In the meantime, non-food category which comprises about 52 percent of the overall index increased to 0.13 percent from -0.24 percent.
- Core inflation when measured based on 30% trimmed mean increased to 5.99 percent from 5.47 percent.
- Considering price changes in the short-term (month-to-month), headline inflation increased to -0.81 percent from -1.15 percent. Based on this measure, food items decreased to -1.87 percent from -1.74 percent and non-food items increased to 0.35 percent from -0.49 percent.
- Based on Kabul CPI, headline inflation increased to 4.47 percent from 2.88 percent. Food prices exhibited higher rate and non-food items also increased in the capital Kabul, relatively food items increased to 8.67 percent from 6.78 percent and non-food category also increased to 1.74 percent from 0.28 percent in the period under review.

**Table 1. Headline Inflation (May 20- June 20)**

	Y-o-Y		M-to-M	
	May	June	May	June
<b>National CPI</b>				
<b>Headline</b>	6.26	6.36	-1.15	-0.81
<i>Food</i>	12.92	12.88	-1.74	-1.87
<i>Non-Food</i>	-0.24	0.13	-0.49	0.35
<i>CPI ex. B&amp;C, O&amp;F, and T</i>	4.82	4.61	-1.79	-1.45
<i>Trimmed Mean</i>	5.47	5.99		
<b>Kabul CPI</b>				
<b>Headline</b>	2.88	4.47	-2.75	0.07
<i>Food</i>	6.78	8.67	-6.71	-1.39
<i>Non-Food</i>	0.28	1.74	0.27	1.11

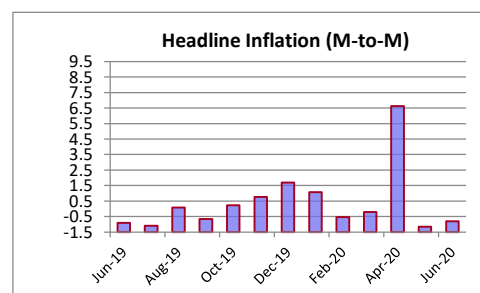
## HEADLINE INFLATION

Headline inflation increased in the month of June 2020. Observing the data, headline inflation increased to 6.36 percent from 6.26 percent (year over year). This increase is caused by higher prices of non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 5.99 percent, while it was calculated 5.47 percent in the previous month.

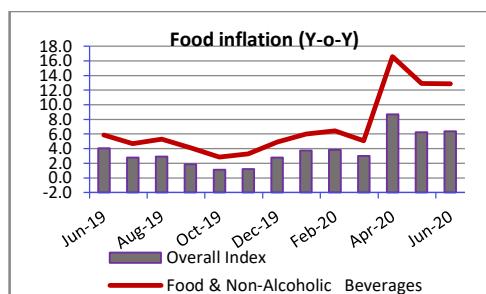


Source: Da Afghanistan bank/NSIA

The short-term (month-to-month) change in inflation shows upward trends in the period under review. When measured on the month-to-month basis, headline inflation increased in June 2020. Observing the data, overall inflation increased to a rate of -0.81 percent from -1.15 percent recorded in the previous month. During the reporting period, food items of the CPI also decreased to -1.87 percent from -1.74 percent. Core measures also decreased on the month-to-month basis. CPI excluding bread and cereals, oils and fats and transportation increased to -1.45 percent from -1.79 percent on month to month basis.



Source: Da Afghanistan Bank/NSIA



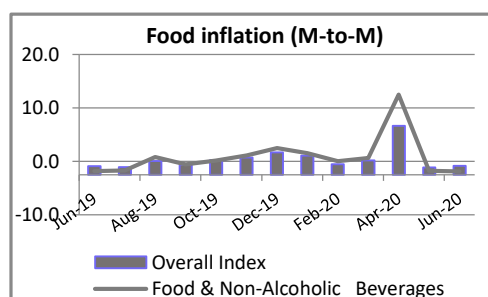
Source: Da Afghanistan Bank and/NSIA

**FOOD INFLATION:** Food inflation decreased in June 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in June 2020, when measured on year over year basis, decreased to 12.88 percent compared to 12.92 percent calculated in previous month. This decreases come from lower prices of milk chesse and eggs, vegetables, sugar and sweets, and nonalcoholic beverages.

Table 2. Food Inflation(May 20- June 20)

Items	Weight	Y-o-Y		M-to-M	
		May	June	May	June
<b>Food and Beverages</b>	47.8	12.92	12.88	-1.74	-1.87
<i>Bread and Cereals</i>	14.6	14.76	15.78	1.22	1.17
<i>Meat</i>	7.5	10.70	12.49	2.22	1.67
<i>Milk, cheese and eggs</i>	4.7	4.04	3.58	3.12	-0.86
<i>Oils and fats</i>	4.6	19.15	21.62	5.86	2.30
<i>Fresh and dried fruits</i>	5.0	10.35	10.88	1.05	-3.76
<i>Vegetables</i>	6.0	23.02	16.15	-17.96	-15.03
<i>Sugar and sweets</i>	2.7	3.66	3.59	0.65	1.15
<i>Spices</i>	1.3	9.59	11.57	-10.22	-4.80
<i>Non-alcoholic beverages</i>	1.4	4.13	4.08	1.15	0.58

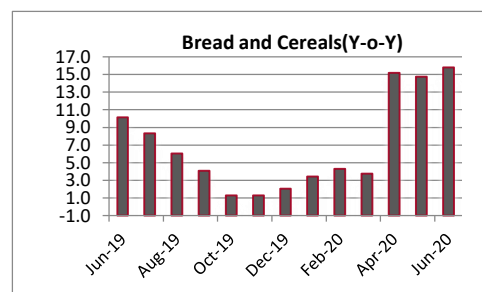
Sourced: Da Afghanistan Bank /NSIA



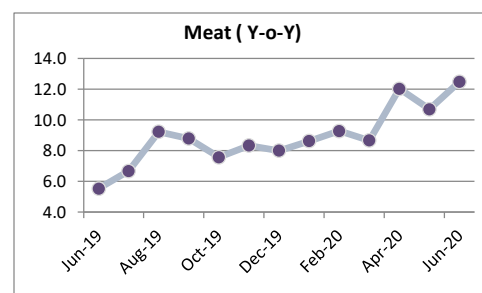
Source: Da Afghanistan Bank and/NSIA

The month-to-month measure of food inflation shows lower rate in the month of June compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.87 percent in the review period lower from -1.74 percent observed in the previous month. In this category bread and cereals, meat, milk, cheese and eggs, oils and fats, fresh and dried fruits, and nonalcoholic beverage have decreased compared to the previous month.

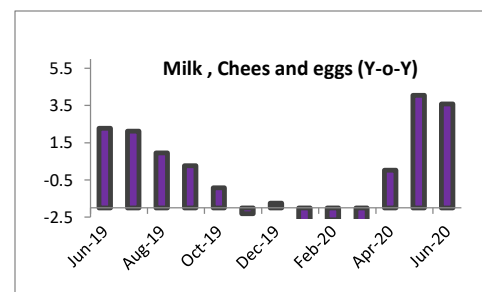
**Price index of bread and cereals** which accounts for about 15 percent of the consumer price index increased to 15.78 percent from 14.76 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-index decreased to 1.17 percent from 1.22 percent. The smuggling of wheat from Kunduz and Helmand provinces to Pakistanis the main cause of increased price in the index.



**Meat price index** which is weighted for around 7 percent of the CPI, increased to 12.49 percent from 10.70 percent (year over year). When measured on the month to month basis, Price of this index decreased to 1.67 percent from 2.22 percent. Smuggling of livestock's such as sheep from Afghanistan to neighboring counties mainly towards Iran and turkey has led to decrease the local supply which caused price increase of this index during the period.



In June 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed lower prices. During the review period, this index decreased to 3.58 percent (year over year) from 4.04 percent observed in previous month. When measured on the month-to-month basis, also decreased to -0.86 percent from 3.12 percent recorded in previous month. In the previous month the price of milk, cheese and eggs in the country had increased due to city lockdown and inadequacy supply chain from poultry farms to domestic market now eased of restrictions and smooth supply chain helped to bring back the price of mentioned index to the normal level.





**Oils and Fats index** which comprises 4.6 percent of overall index, during the period increased to 21.62 percent from 19.15 (Y-o-Y). On the other hand, price of this index is decreased to 2.30 percent from 5.86 percent on the month-to-month basis.

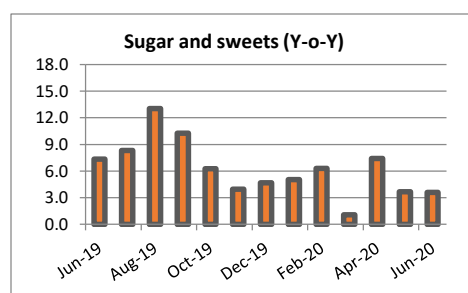
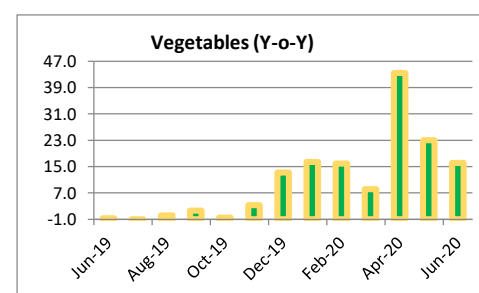
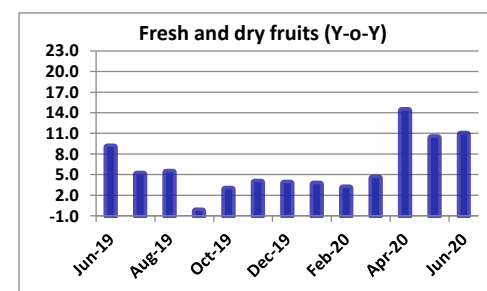
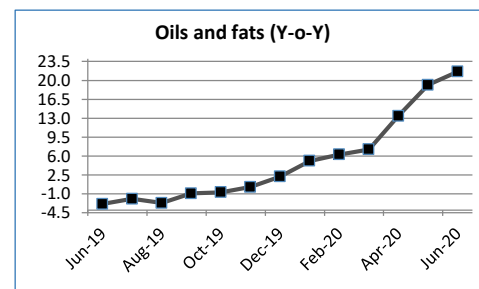
**Fresh and dried Fruit** prices increased in the month of June 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index increased to 10.88 percent (year over year) from 10.35 percent recorded in the previous month. On the other hand, month-to-month basis, it decreased to -3.76 percent from 1.05 percent. One of the main

reasons behind increase of this index is export of 150 tons of dried fruits to India after long hiatus. Also due to covid-19, price of fresh fruits which contain vitamin C is increased.

**Vegetables price index** which is dedicated for 6 percent of the overall index, decreased to 16.15 percent (year over year) from 23.02 percent observed in the previous month. When measured on the month to month basis this index is increased to -15.03 percent; however, it was recorded -17.96 percent in the previous month. Due to seasonality effects price of this index has decreased.

**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 3.59 percent (year over year) from 3.66 percent. When measured on month to month basis, this index increased to 1.15 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.

One of the main reasons behind decrease of this index is bee keeping and honey production has significantly increased in recent years, honey production in country increased by 50 percent. Also corona virus crisis has weakened the consumption of sugar during the period.

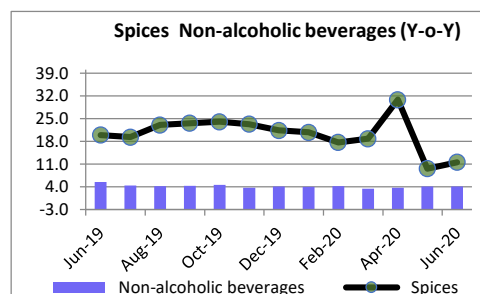


**Spices** : During the reporting period, there was an increase in spices price index. Observing the data, this index increased to 11.57 percent from 9.59 percent (Year over year). In addition, when measured on month to month basis, it also increased to -4.80 percent from -10.22 percent.

The main reason behind increase of this index is due to covid-19 pandemic, demand for purchasing of spices such as turmeric, cinnamon, and ginger has been increased.

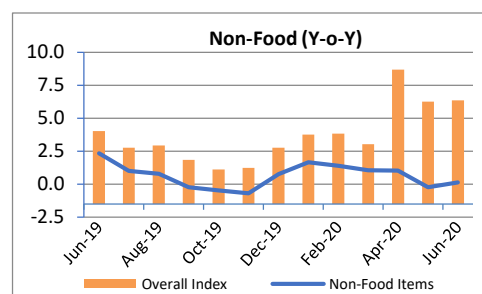
**Non-alcoholic beverages** decreased to 4.08 percent in June from 4.13 percent recorded in previous month. Measuring on month to month basis it decreased to 0.58 percent from 1.15 percent in the month of June 2020.

Since sugar is used as one of the raw materials in process of non - alcoholic beverage production, so an decrease in price of sugar has direct effect on price of this index.



## NON-FOOD INFLATION

Inflation in non-food items exhibited upwards trend in the month of June 2020. On the year over year basis, non-food inflation increased to 0.13 percent from -0.24 percent observed in the previous month. This increase mainly come from higher prices of housing, health, communication, information and culture and miscellaneous.

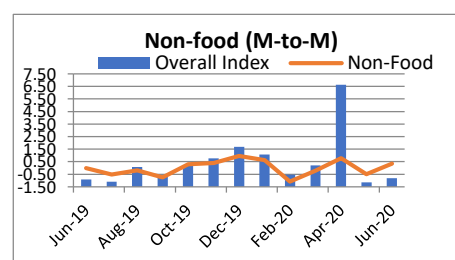


**Table 3. Non-Food Inflation (May 20-June 20)**

	Weight	Y-on-Y		M-to-M	
		May	June	May	June
<b>Non-Food</b>	<b>52.2</b>	-0.24	0.13	-0.49	0.35
Tobacco	0.3	1.12	1.40	0.39	0.29
Clothing	4.6	10.08	7.54	3.34	-1.59
Housing,	19.1	-4.38	-4.02	-2.44	0.16
Furnishing and household goods	11.9	1.39	0.78	1.68	-0.60
Health	6.2	4.36	8.86	0.47	4.60
Transportation	4.3	-10.14	-10.44	-6.37	-0.12
Communication	1.7	-4.22	-2.40	0.32	-0.20
Information and Culture	1.1	1.77	3.15	0.90	0.70
Education	0.4	1.24	0.83	-0.01	0.07
Restaurants and Hotels	1.1	1.76	0.97	0.29	0.09
Miscellaneous	1.4	12.40	14.17	0.71	1.14

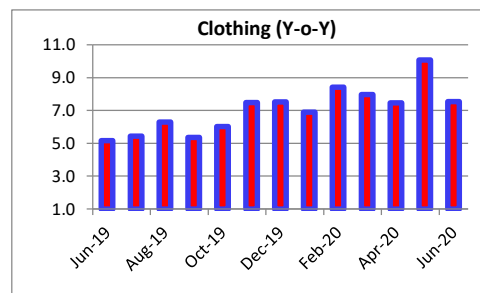
Source: National Statistics and Information Authority (NSIA) / DAB

Non-food inflation on the month-to-month basis exhibited higher rate from its previous month's value. Observing the data, it increased to 0.35 percent from -0.49 percent. During the period under review, the prices of housing, health, transportation, and education and miscellaneous increased.

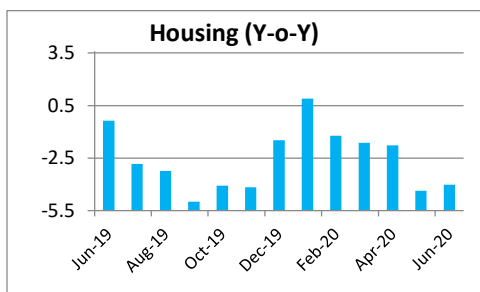


**Clothing price index** which comprises around 4.6 percent of the overall index, decreased in June 2020 to 7.54 percent (year over year), while it was calculated 10.08 percent in the previous month. This index also decreased on month to month basis turning around to -1.59 percent from 3.34 percent. Lower demand for purchasing cloths and footwear due to covid-19 pandemic, has decreased the price of this index.

basis increased to -0.12

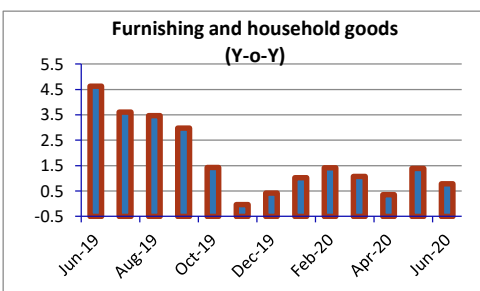


**Price index of housing, electricity, water and gas** increased in June 2020. On year over year basis, this index increased to -4.02 percent from -4.38 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index increased to 0.16 percent from -2.44 percent.

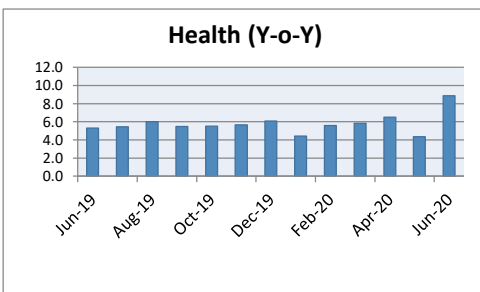


percent from -6.37 percent.

**Price index of furnishing and household goods** decreased in the month of June 2020. This index which holds a healthy weight of 12 percent in the CPI, decreased to 0.78 percent from 1.39 percent. While on the month to month basis this index also decreased to -0.60 percent from 1.68 percent. Demand has been decreased for purchasing furnishing and household goods due to Covid-19 pandemic.

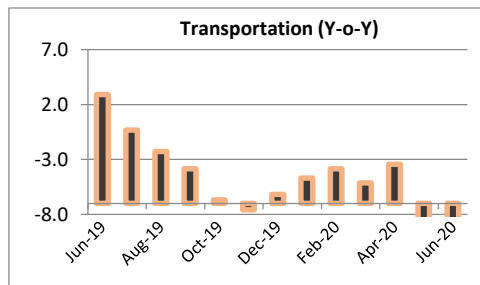


**Price index of Health** increased in the month of June 2020. Health index which comprises more than 6 percent of the overall CPI increased to 8.86 percent from 4.36 percent (year over year). While, measured on the month to month basis, it also increased to 4.60 percent from 0.47 percent observed in the previous month. Covid-19 pandemic, in Afghanistan has led to unprecedented rise in price of medicines in country.



Even some of medicines are not available in market specially medicines which works for corona virus which has increased the demand for the medicines.

**Transportation price index** accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis decreased to -10.44 percent from -10.14 percent recorded in the previous month. On the other hand, inflation rate month to month



The main reason behind decrease of this index is diesel and crude oil prices decreased respectively to -39 percent and -34 percent in global markets.

**Communication price index** during June 2020, increased to -2.40 percent (year over year) from -4.22 percent observed one month back. On the other hand, this index also decreased on month to month basis turning around to -0.20 percent from 0.32 percent. With closure of education centers and focus on online education demand for purchasing mobile phones, tablets, laptops and other mobile accessories increased.

In addition, **price index of information and culture** recorded a rate of 3.15 percent (year over year) in June from its previous value of 1.77 percent. On the month to month basis, this index decreased to 0.70 percent from 0.90 percent.

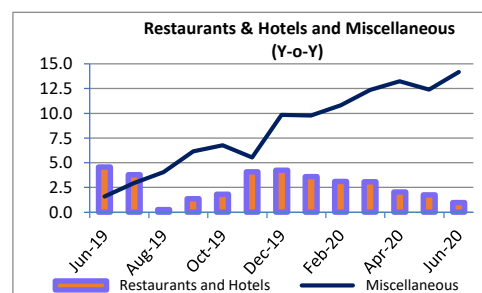
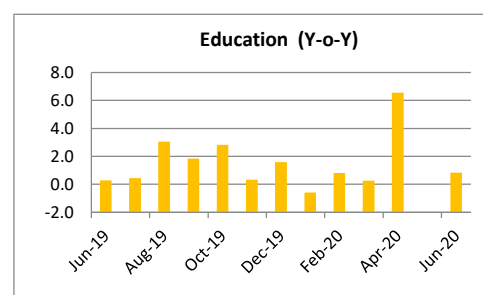
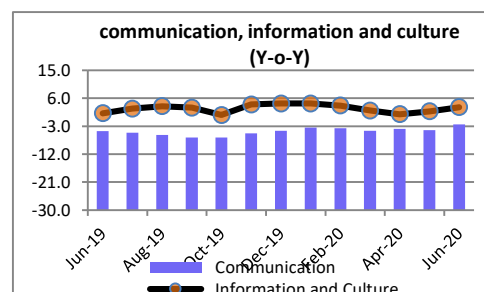
**Education price index**, decreased in the month of June. Observing the data, this index decreased to 0.83 percent from 1.24 percent (year over year), this index is increased to 0.07 percent from -0.01 percent (month to month).

Closure of educational centers in order to prevent spread of corona virus is the main reason behind decrease of this index.

During June 2020 price decreased in **Restaurants and hotels** (0.97percent from 1.76 percent year on year basis), and decreased to 0.09 percent from 0.29 percent on month to month basis. Due to lockdown of cities and closure of hotels and restaurants in order to prevent wide spread of covid-19, price of this index is decreased.

**Price index of Miscellaneous** increased to 14.17 percent from 12.40 percent on year-over-year basis. Meantime on the month-to-month basis, price index of miscellaneous also increased to 1.14 percent from 0.71 percent in the period under review.

During the quarantine the use of washing materials in order to combat the covid-19 pandemic, is increased.



## 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 June 2020, trimmed mean (30 % of CPI) increased to 5.99 percent (year over year) from 5.47 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 4.61 percent compared to 4.82 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to -1.45 percent from -1.79 percent.

