



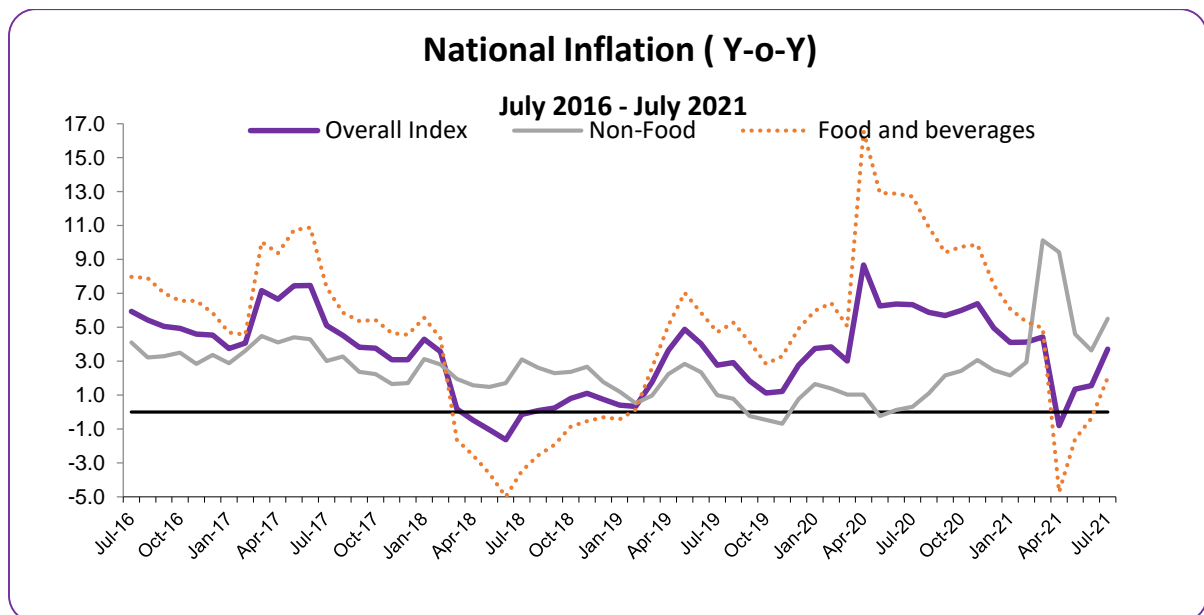
Da Afghanistan Bank

Monetary Policy Department

Real Sector

Monthly Inflation Report

July 2021



PREFACE

Based on 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 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 the 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 for 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.

An economy cannot have dynamic and sustainable growth if there are extreme fluctuations in the price level. MPD is committed to featuring, adapting and executing a prudent and sound monetary policy 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 the cost of living in Afghanistan. However, there are some other methods to measure movements in the 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 the previous items have been excluded and some of them have merged. The new changes to the basket will represent a good picture of the 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 items renamed as housing, electricity, water, and gas, and some of the previous

items under housing such as rent, construction materials, and fuel have been excluded. Meanwhile, in the non-food items, some items have been included such as recreation, culture, restaurants, and hotels.

The 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 in the reduction of the gap between production and dependency level of the local markets to imported goods. In addition, regarding the factors of inflation in Afghanistan, currently, several factors in the country 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 consumer 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 the transportation of goods and services through Pakistan and Iran, imperfect competition, the existence of a monopoly in the market, political and economic instability, and future uncertainty are the major contributors to the fluctuation in prices in the country. Besides those obstacles, the Monetary Policy Department has successfully maintained the inflation rate at a single digit and the inflation rate is still at a moderate level.

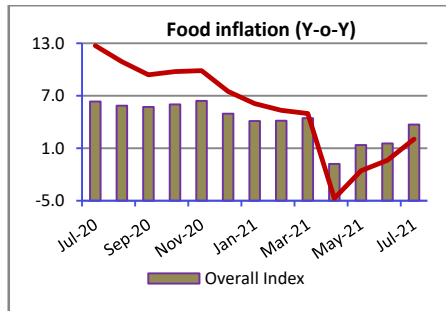
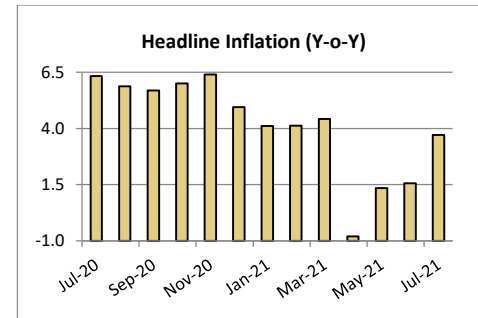
1- KEY POINTS

- Headline inflation decreased in July 2021 year over a yearly basis. The year-over-year inflation decreased to 3.71 percent in July from 6.33 percent observed in the previous year same month. This decrease is caused by lower prices of food and beverages items, while non-food items increased during the period.
- Food index which accounts for around 48 percent of the whole CPI decreased to 2.03 percent from 12.71 percent. In the meantime, a non-food category which comprises about 52 percent of the overall index increased to 5.50 percent from 0.31 percent.
- Core inflation when measured based on a 30% trimmed mean decreased to 2.82 percent from 5.28 percent.

Consumer Price index							
Year over Year Basis							
National CPI	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	Jun 2021	Jul 2021
Headline Inflation	4.11	4.13	4.42	-0.80	1.35	1.56	3.71
Food Items	6.10	5.32	4.96	-4.73	-1.60	-0.37	2.03
Non Food Items	2.16	2.95	3.88	3.60	4.60	3.63	5.50
Kabul CPI							
Headline Inflation	3.43	3.42	4.98	-0.39	5.30	4.36	6.54
Food Inflation	2.62	1.73	3.96	-7.36	4.76	5.82	7.04
Non Food Inflation	3.97	4.56	5.66	4.94	5.69	3.36	6.19

2.1 HEADLINE INFLATION

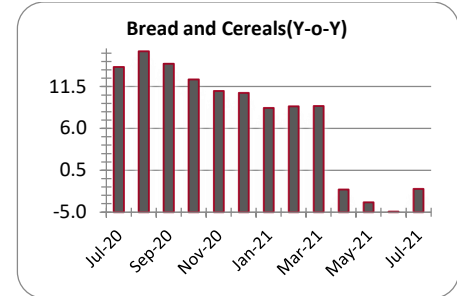
Headline inflation decreased in July 2021. Observing the data, headline inflation decreased to 3.71 percent from 6.33 percent (year over year). This decrease is caused by lower prices of food items. The core measure of inflation when measured based on a 30% trimmed mean decreased to 2.82 percent, while it was calculated at 5.28 percent in the previous year's same month.



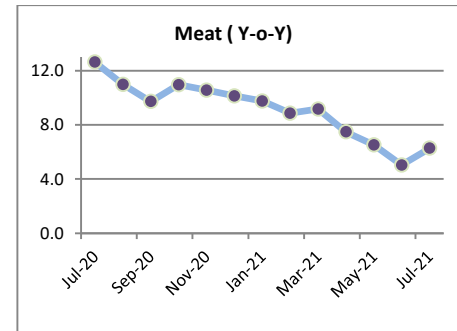
FOOD INFLATION: food item prices decreased in July 2021. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in July 2021, when measured on a year-over-year basis, decreased to 2.03 percent compared to 12.71 percent calculated in the previous year's same month. These decreases come from lower prices of bread and cereals, milk, cheese and eggs, oils and fats, vegetables, and spices.

National Consumer Price Index								
Items	Weight	Year over Year Basis						
		Jan	Feb	Mar	April	May	Jun	Jul
		2021	2021	2021	2021	2021	2021	2021
Food and Non-alcoholic Beverages	47.87	6.10	5.32	4.96	-4.73	-1.60	-0.37	2.03
Bread and Cereals	14.61	8.69	8.92	8.96	-2.04	-3.70	-4.93	-1.93
Meat	7.5	9.76	8.86	9.17	7.48	6.52	5.03	6.27
Milk, cheese, and eggs	4.7	5.95	3.33	3.51	0.69	-2.78	-2.42	1.13
Oil and Fats	4.58	14.87	16.16	18.78	15.87	13.72	15.8	17.27
Fresh and dried fruits	4.98	2.64	1.65	-0.27	-8.87	0.36	3.63	-2
Vegetables	6.01	-3.73	-6.78	-9.69	-30.91	-16.55	-9.68	-0.39
Sugar and sweets	2.47	5.60	6.25	7.08	3.69	3.19	2.44	3.71
Spices	1.29	-5.02	-6.85	-9.10	-21.35	-14.93	-12.75	-5.67
No-alcoholic beverages	1.36	3.05	2.17	2.14	2.36	1.75	2.22	1.65

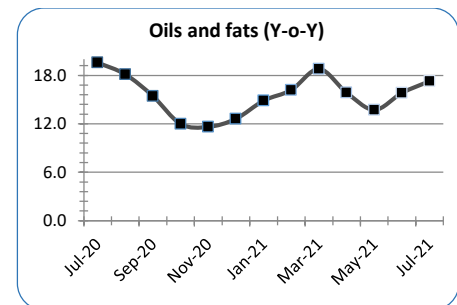
The price index of bread and cereals which accounts for about 15 percent of the consumer price index decreased to -1.93 percent from 12.71 percent (year over year). Reaching the time of harvest for cereals and at the other hand, security problems caused the traders to sell their stored cereals cheaply, at the result price index of this item decreased.



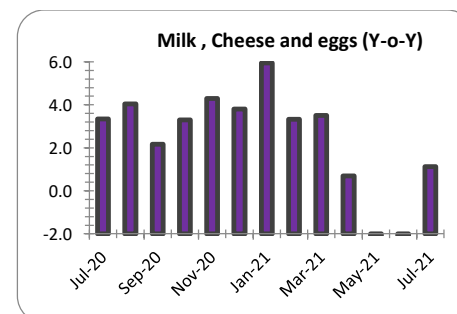
The meat price index which is weighted for around 7 percent of the CPI, decreased to 6.27 percent from 12.63 percent (year over year). The decrease in demand for meat by the government from contractors caused to decrease in the price of meat.

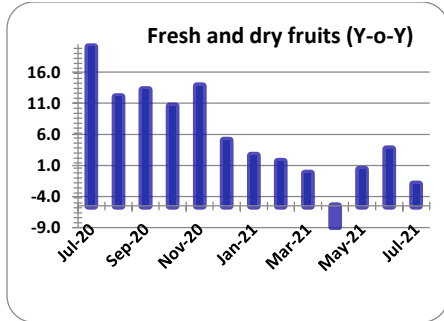


Oils and Fats index which comprises 4.6 percent of the overall index, during the period decreased to 17.27 percent from 19.60 (Y-o-Y). The decrease of price index for this item at producing countries especially Malesia and Russia, at the other hand production of sesame and armor oil are the main reasons to decrease this index.

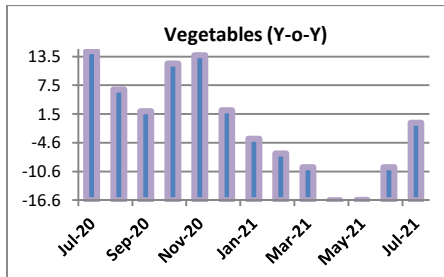


The price index of milk, cheese, and eggs which comprises around 5 percent of the overall index showed lower prices. During the review period, this index decreased to 1.13 percent (year over year) from 3.35 percent observed in the previous month. Increasing the number of farms, especially in Herat and Jalalabad provinces caused to decrease in the price of the index.

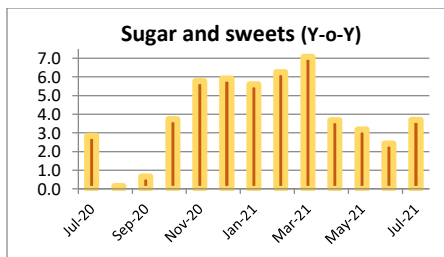




Fresh and dried Fruit prices decreased in July 2021. Observing the data, during the review period, this index which comprises 5 percent of the whole index decreased to -2.00 percent (year over year) from 20.05 percent recorded in the previous month. The main reasons for decreasing this item are, the decrease in export of fresh and dried fruit due to security problems and closing up the borders.



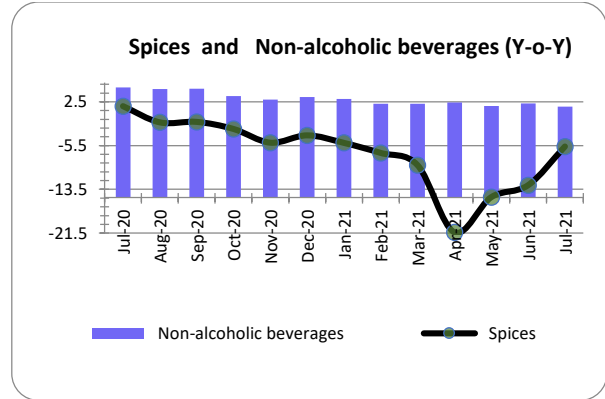
The vegetable price index which is dedicated for 6 percent of the overall index, decreased to -0.39 percent (year over year) from 14.60 percent observed in the previous year's same month. Decrease in exports of vegetables due to closing up the border with neighboring countries and the nonexistence of cold stores for internal products caused to decrease in the price of this index.



The price index of sugar and sweets increased on a year-over-year basis. This index which comprises around 2.7 percent of the consumer price index, increased to 3.71 percent (year over year) from 2.84 percent

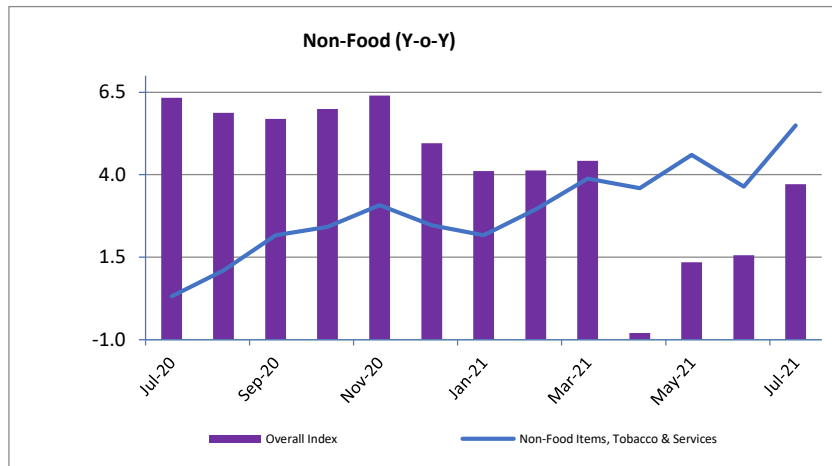
spices price index during the reporting period, there was a decrease in this index. Observing the data, this index significantly decreased to -5.67 percent from 1.70 percent (Year over year).

Non-alcoholic beverages decreased to 1.65 percent in July from 5.15 percent recorded in the previous year same month. With increasing the private producing companies of nonalcoholic beverages especially water companies caused to decrease the price of this index.



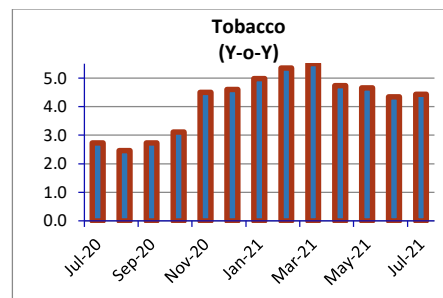
NON-FOOD INFLATION

Inflation in non-food items exhibited an upwards trend in July 2021. On the year over year basis, non-food inflation increased to 5.50 percent from 0.31 percent observed in the previous year's same month.

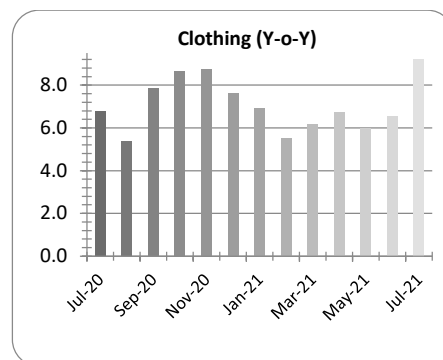


National Consumer Price index								
Year over Year Basis								
Items	Weight	Jan	Feb	Mar	April	May	Jun	Jul
		2021	2021	2021	2021	2021	2021	2021
Non-Food	52.22	2.16	2.95	3.88	3.6	4.6	3.63	5.5
Tobacco	0.32	4.97	5.35	5.5	4.73	4.65	4.34	4.43
Clothing	4.56	6.93	5.51	6.16	6.72	6.01	6.53	9.23
Housing,	19.1	-0.28	2.16	2.51	2.53	4.78	2.99	4.86
Furnishing and household goods	11.93	6.08	5.4	6.62	6.13	5.4	5.96	6.67
Health	6.23	6.08	5.73	5.35	4.14	3.18	-0.76	-1.20
Transportation	4.32	-11.81	-8.34	-2.42	-2.07	5.08	6.51	17.02
Communication	1.69	-0.66	-0.68	0.76	0.54	0.38	-0.03	0.6
Information and Culture	1.14	1.3	0.58	1.9	0.78	0.78	-0.18	2.25
Education	0.36	5.48	5.08	5.02	6.13	6.27	5.65	5.52
Restaurants and Hotels	1.13	-0.14	-0.39	0.3	-0.06	0.18	0.36	2.75
Miscellaneous	1.43	9.05	8.38	6.35	4.14	4.62	1.72	1.26

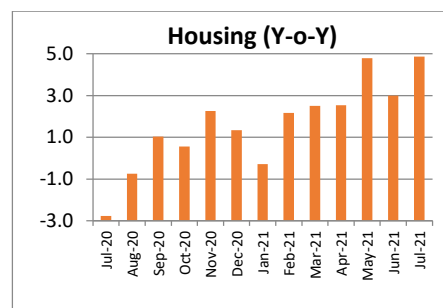
The tobacco price index which comprises a 0.3 percent of overall index, increased to 4.43 percent from 2.73 percent in July 2021 year over year basis.



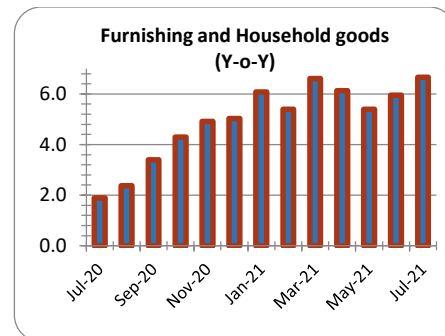
The clothing price index which comprises around 4.6 percent of the overall index, increased in July 2021 to 9.23 percent (year over year), while it was calculated at 6.77 percent in the previous year's same month. Closing up the customs, especially Herat and Kandahar customs due to security problems and the value decrease of AFN against USD caused to increase in the price of clothing.



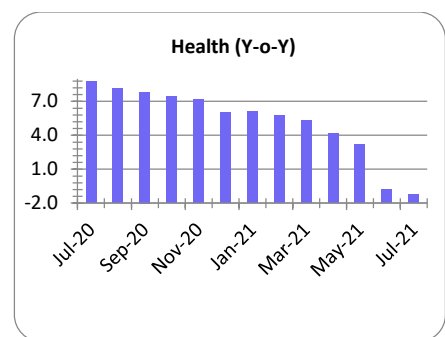
The price index of housing, electricity, water, and gas increased in July 2021. On a year-over-year basis, this index increased to 4.86 percent from -2.77 percent observed in the previous year same month. This index is dedicated to more than 19 percent of the whole index, therefore, any changes in its price may significantly affect the overall CPI. The main reason for increasing this index is the increase in the price of liquid gas due to the closing of ways and fire burning in Islam Qala custom.



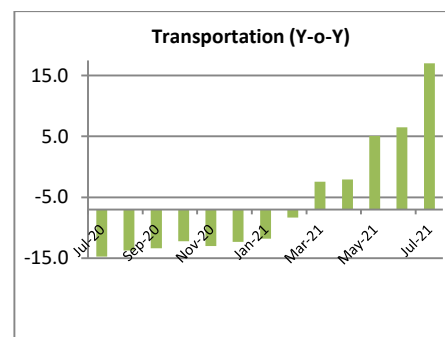
The price index of furnishing and household goods increased in July 2021. This index which holds a healthy weight of 12 percent in the CPI, increased to 6.67 percent from 1.89 percent. The decrease of AFN value against foreign currencies especially USD and the decrease in imports from neighboring countries are the main reasons for increasing this index.



The price index of Health decreased in July 2021. The health index which comprises more than 6 percent of the overall CPI decreased to -1.20 percent from 8.72 percent (year over year). As a result of security problems, smuggling medicines have been imported to the country and decreased the price of this item.

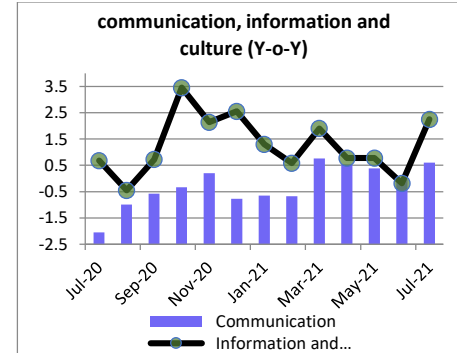


The transportation price index accounts for 4.3 percent of the whole index. Observing the data, the transportation index year on year basis increased to 17.02 percent from -14.76 percent recorded in the previous year same month. The global price increase of fuel and the fire burning in Islam Qala custom caused to increase in this index.

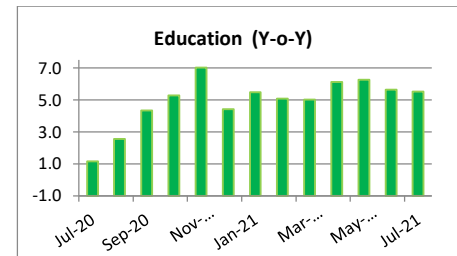


The communication price index during July 2021, increased to 0.60 percent (year over year) from -2.06 percent.

The price index of information and culture recorded a rate of 2.25 percent (year over year) in July 2021 from its previous value of 0.68 percent.

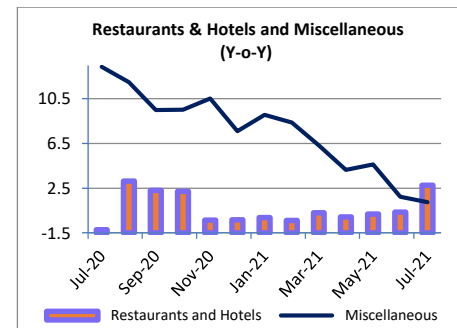


The education price index increased in July 2021. Observing the data, this index increased to 5.52 percent from 1.16 percent (year over year),



Restaurants and hotels During July 2021 price index of this item increased to 2.75 percent from -0.120 percent, on year-over-year basis.

Price increase of liquid gas and reopening of hotels and restaurants after covid-19 quarantine are the reasons for increasing this index.



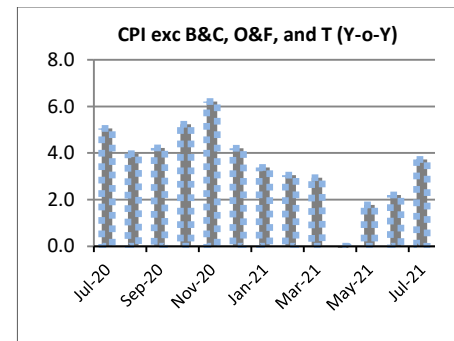
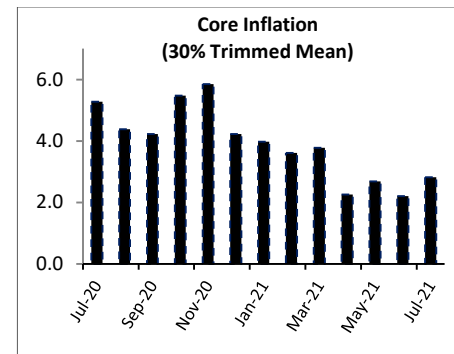
The price index of Miscellaneous decreased to 1.26 percent from 13.37 percent on a year-over-year basis.

CORE INFLATION

The 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 on 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 July 2021, the trimmed mean (30 % of CPI) decreased to 2.82 percent (year over year) from 5.28 percent observed in the previous year same month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which decreased to 3.72 percent compared to 5.06 percent recorded in the previous month.



Core Measure							
Year over Year Basis							
Items	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	Jun 2021	Jul 2021
Trimmed mean (%30)	3.98	3.61	3.78	2.26	2.68	2.21	2.82
CPI ex. B& C, O&F, And T	3.38	3.05	2.94	-1.30	1.77	2.20	3.72