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**Current Trends of Inflation in Ethiopia: The case of  
food prices.**

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## **Abstract**

*One of the prime objectives of macroeconomic policy both in developed and developing countries are to achieve economic stability and ensure sustainable economic growth simultaneously with price stability. Ethiopia has experienced a historically unprecedented increase in inflation, mainly driven by cereal price inflation, which is among the highest in Sub-Saharan Africa. This study, therefore, seeks to identify the current rate, causes and impacts of high rates of inflation in the country by giving particular emphasis on food prices. As high and persistent inflation poses uncertainties in the economy and lead to slowdown of economic growth by discouraging domestic as well as foreign investment most importantly affecting the consumption pattern and saving by reducing real income. Thus, factors contributing for this inflationary pressure should be properly identified and needs to be tackled. In order to achieve these research objectives, inflation related data from Ethiopian statistical authority and other credible sources were collected and analysed. The finding of the study indicated that the purchasing power of Ethiopian Birr<sup>1</sup> deteriorated dramatically in the past three decades and identified key historical occurrences that contributed for this deterioration. Moreover, the study recommended to adopt various monetary and fiscal policy instruments to tackle the impacts of inflation.*

**Key Words:** *Inflation trends, Tigray war and inflation, consumer price index in Ethiopia, purchasing power of Birr.*

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<sup>1</sup> Birr is the official currency of Ethiopia. It has denominations of 5, 10,50,100 and 200.

## 1. Background and rationale of the study

Ethiopia is the second-most populous country in Africa, after Nigeria, with an estimated population of over 109 million inhabitants in 2020 (WB<sup>2</sup>, 2020). Of which, roughly 80 percent live in rural areas and derive their income primarily from agriculture-based activities, and the remaining residing in urban areas (CSA<sup>3</sup>, 2013). Despite the fact that Ethiopia is one of the poorest nations in the world, its economic growth has been accelerated at an unprecedented pace in the most recent decade.

Inflation measures a rise in the overall price level of goods and services in a given economy. It is a decline of purchasing power of a given currency (Ethiopian Birr in this case). A quantitative estimate of the rate at which the decline in purchasing power occurs can be revealed in the increment of an average price level of a basket of selected goods and services in the country during the study period. Individuals with tangible assets such as property and stocked commodities may like to see some inflation as that raise the value of their asset. But those holding cash may not like inflation, as it erodes the value of their cash (Adugna, 2021).

In Economic science, there are various price indexes which are used to measure inflation. The Consumer Price Index (CPI)<sup>4</sup> has been used throughout this research paper to measure inflation. The CPI measures the cost of buying a fixed basket of goods and services representative of the purchase of consumers. Inflation is measured by measuring the percentage change in the prices of a given basket goods over time as compared to the price in the base year: In Ethiopia the central Statistical Authority computes the CPI. The authority makes household expenditure survey every five years.

Through meticulously observing the likely adverse impacts of high inflation on the Ethiopian economy, the author has taken the initiative to conducted this study. The study basically aims at identifying the current rate, causes and impacts of high rates of inflation in the country by giving particular emphasis on food prices.

## 2. Approach and Methodology

The study was conducted based on both primary and secondary data. The primary data was collected through in-depth interviews using structured and unstructured questionnaires. The secondary data was obtained through a review of reports produced by relevant bodies including government authorities, non-government actors, and business communities. The information gathered from various primary and secondary sources was organized, analysed, and presented using a variety of qualitative and quantitative data analysis tools and techniques. Excel software applications were used to produce tables, graphs and charts, as well as different computations such as percentages, ratios and cross-tabulations.

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<sup>2</sup> WB: World Bank

<sup>3</sup> CSA: Central statistical Agency-Ethiopia

$$CPI = \frac{\text{Value of Basket in Current Year}}{\text{Value of Basket in Prior Year}} \times 100$$

### 3. Trends of Inflation in Ethiopia.

Historically between the period 1974 to 1991, Ethiopia was ruled by the *Derg*<sup>5</sup> military junta, this is also the period where there is a recorded inflation data in Ethiopia. According to (Menji, 2008) Inflation during the communist regime was low due to various reasons. During the *Derg*'s regime the price control by the government has kept prices stable. The government was also rationing goods at fixed prices to the public which in turn has contributed to the lower inflation attained during the *Derg* regime. In addition the lower and pegged exchange rate has also helped to lower the impact of international price hikes on Ethiopia. The annual average inflation was 5.2 percent between 1980-2002. Undoubtedly, this state-led economic policy had negative consequences. It stagnated the growth of the economy by hindering innovation, efficiency, and participation of the private sector in the economy.

Persuent to the above historical review of inflation in Ethiopia, (Gebremeskel, 2020) states that the statistics of the previous two decades showed significant economic growth accompanied by low inflation to the mid-2000s; but from 2005, the growth process was accompanied by inflationary pressure. Inflation persisted to the extent that real interest rates fell within negative territory. The official inflation records were 2.5% up to 2004 and 15.1% thereafter. While it was envisaged for 11.1% economic growth, the performance achieved was 10.9%. The regional distribution of inflation shows that Dire-Dawa city reached the highest level, 37.1%, followed by Harari and Addis Ababa with 32.3% and 28.6%, respectively. Despite overall economic growth, inflationary pressure affected the great majority of the population forming inflation growth dilemma which has severe implications for the welfare of wage earners on the minimum wage, and pensioners on fixed incomes which are not subject to wage or income indexation in the context of Ethiopia.

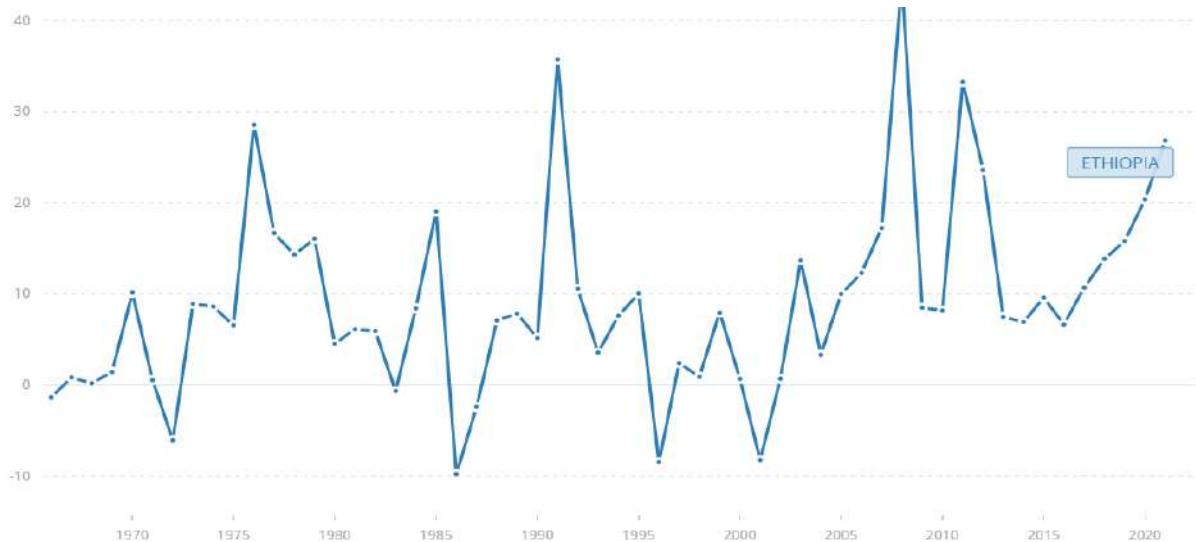
Generally, the highest inflation rate in Ethiopia was recorded during the fiscal year of 2007/2008<sup>6</sup> in which the rate climbed to 64.20% in July of 2008 while the food inflation recorded was 49 % in August 2008. The fiscal year 2007/2008 is a very crucial year in Ethiopia's inflation history. It is the year when Ethiopians globally celebrated the transition to Ethiopian third millennium, according to the Ethiopian calendar. Moreover, in 2008, Ethiopia had the highest rate of month-on-month food inflation rate in the developing world, at 3.5% per month. Most of this inflation is driven by higher staple food prices, such as maize, wheat and teff (Headey et al, 2012).

The following graphical presentation of Ethiopia's inflation trend was adopted from World Bank's inflation data for Ethiopia.

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<sup>5</sup> Derg means "committee" in Amharic. This appellation refers to the committee of military officers who led the government when it seized power between 1974-1991.

<sup>6</sup> The Ethiopian third millennium (Amharic: የኢትዮጵያ ሶስተኛው ሚሊኒየም), also frequently called the Ethiopian Millennium, was a New Year event in Ethiopia celebrating the transition to third millennium in the Ethiopian calendar, on 11 September 2007.



**Source: (WB, inflation consumer prices (annual %) Data- Ethiopia)**

As can be seen above, country-level inflation rate reached above 50% in 2007/8, with the highest rate in the same year and the lowest before (1970). The economic impact of this high rate of inflation post 2000s in Ethiopia has been immense across the country. For instance, it disproportionately impacted the low-income households, raises cost of living, and raises Interest rates.

#### **4. Current trends of inflation (2020-2023)**

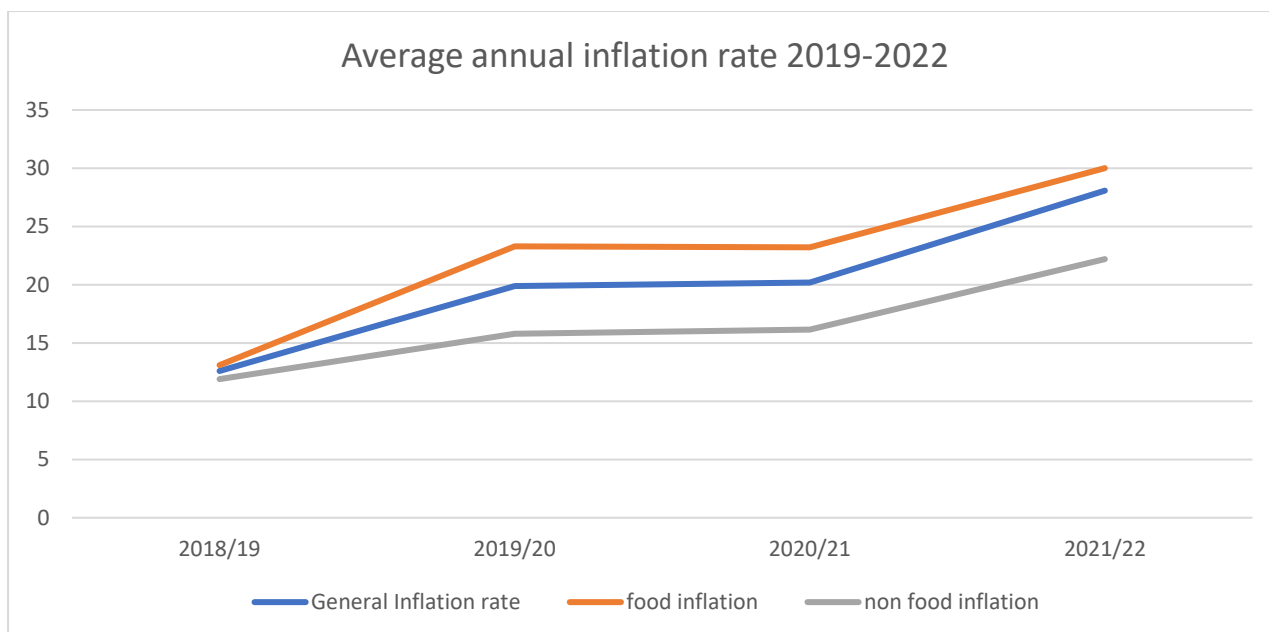
One of the notable influences in the analysis of trends of inflation in recent years in Ethiopia is the *Tigray war*. The Tigray War was an armed conflict that lasted from 3 November 2020 to 3 November 2022. The war was primarily fought in the Tigray Region of Ethiopia between the Ethiopian federal government and Eritrea on one side, and the Tigray People's Liberation Front (TPLF) on the other. This 2-year civil war has killed thousands of people and seriously aggravated the country's already disastrous humanitarian situation and highly impacted the country's infant economy.

From the findings of a study conducted by (CIPE<sup>7</sup>, 2023) the war has not only impacted the economies of the Afar, Amhara, and Tigray regions but the economy of the overall country at both the macro and micro levels. The war in northern Ethiopia greatly affected the macroeconomic performance of the country and contributed to a decline in GDP growth, the expansion of the fiscal deficit, and a considerable increase in the price of food items. Additionally, the war has affected multiple dimensions of the businesses of MSMEs<sup>8</sup> and marginal economic actors. This has manifested through the destruction of assets, shortage of inputs, and market inaccessibility. Additional challenges identified by marginal economic actors include the blocking of banking and telecom services, lack of transportation, and the spread of disinformation during the war.

The following graphical illustration depicts the trend of inflation in Ethiopia from the fiscal year 2018/19 to 2021/22. The data was collected from the reports of the National Bank of Ethiopia (NBE) and Central Statistical Agency (CSA).

<sup>7</sup> CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

<sup>8</sup> Micro Small and Medium Enterprises.



Source: National Bank of Ethiopia (NBE) 2020,2021 and 2022 reports.

As can be seen above, Headline inflation was 12.6 percent in 2018/19, food inflation on the same year was on 13.1 percent and non-food inflation was 11.9 Percent, one can see from these data that the inflation rates during the 2019 and before were high but was in a range of manageable magnitude. However, after the commencement of the Tigray conflict all the three indicators showed an alarming trajectory increment.

The persistent inflationary pressure from November 2020, in addition to the war is driven by a range of factors including the mismatch between aggregate supply and demand, the political and unrest in several parts of the country, the high commodity prices in the global market, and the loose monetary and fiscal policies. After remaining at more than 20 percent for the year 2020/21 food inflation alarmingly increased to 30.01 percent in the 2021/22 fiscal year.

## 5. Conclusion and Recommendation

Evidence from NBE, WB and CSA sources show that since the beginning of the 2000s Ethiopian economic growth has been accompanied by inflationary pressure. Currently, in Ethiopia Inflation is one of the major macroeconomic challenges. In addition, unemployment, slow economic growth, debt burden, balance of payment deficits, steady depreciation of the national currency, and low foreign exchange reserves are among the top challenges restraining the economy. In 2020 and 2021, increased government spending related to the Tigray war, agricultural production contractions, and supply chain disruptions induced by the COVID-19 pandemic have further aggravated the mounting inflation levels in the country. Moreover inflation in the country is showing alarming increment in the past 2/3 decades.

Based on the findings of the study, the author recommends the following measures may help in reducing inflation in Ethiopia.

- **Tight Monetary Policy:** A tightening of monetary policy is necessary for a reduction of the inflation rate. Since it would be difficult to realize sufficient reduction of inflation only by monetary policy, without impacting on economic growth, a reduction of inflation inertia through removal of structural factors is needed.
- **Identifying and regularly monitoring key inflationary commodities:** The commodities whose inflationary pressure can potentially or permanently perpetuate inflation should be identified regularly and the results used for inflation forecasts. This would help the monetary authority (the NBE) to

effectively identify the causes of price changes. These commodities include Fuel, Fertilizer, and food stuffs like *Teff*<sup>9</sup> and wheat.

- **Effective management of public expenditures:** The government has to cut its public expenditure to reduce its budget deficit. The huge budget deficit that the country is facing is pushing NBE to print more money and inject in to the economy. This measure has to be managed effectively.
- **Promote the culture of national savings:** Since the gross national saving plays a critical role in reducing inflation especially in the short run, the government has to take various measures including increasing interest rates to increase the public saving while encouraging business firms and households to rise the private saving. This policy direction not only will lessen the rate of inflation but also will provide potential investors with adequate investible funds.
- **Ensuring political dialogue and democratic administration:** as presented in the previous sections, the Tigray war resulted in massive political and economic deterioration in the country, by taking lessons from this horrible occurrence the government and political actors in the country need to settle their political differences in a civilized and democratic manner, other than settling disputes with an armed conflicts.

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<sup>9</sup> In Ethiopia and Eritrea, teff is the most common cereal crop used to make engera (the staple food In the two countries)

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