

Voluntary Report – Voluntary - Public Distribution

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Report Name: Food Inflation Stands High in Ethiopia despite Policy Measures to Stabilize Prices

Country: Ethiopia

Post: Addis Ababa

Report Category: Agricultural Situation, Agriculture in the News, Agriculture in the Economy, National Plan, Policy and Program Announcements

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Report Highlights:

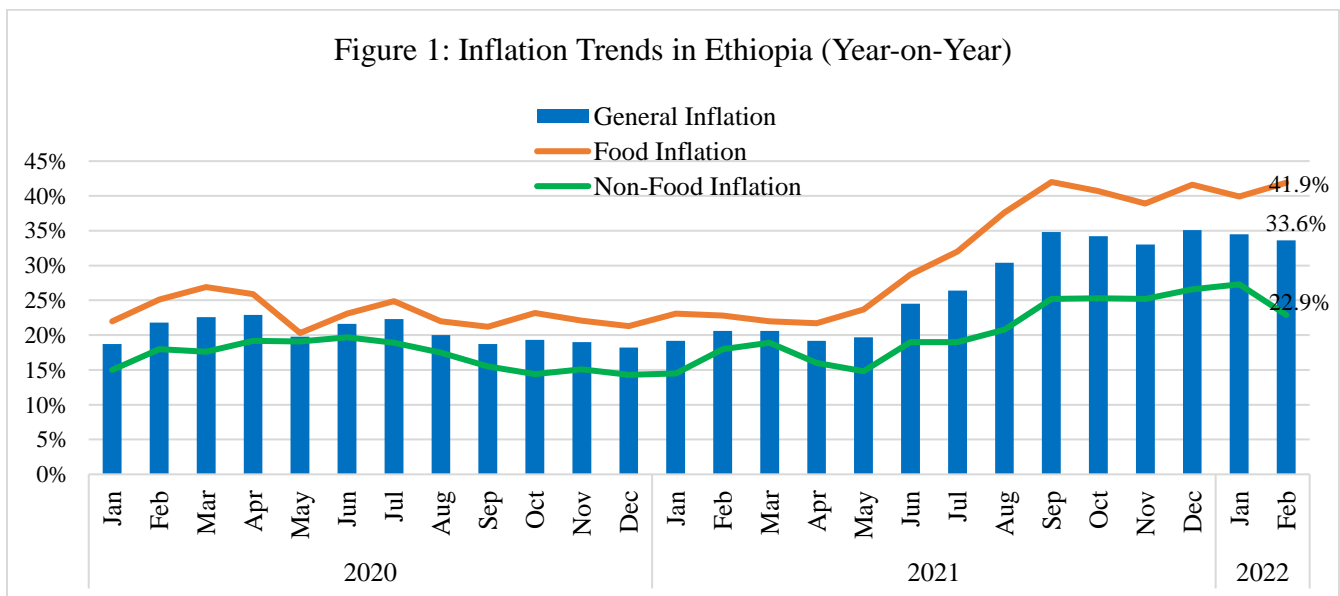
Ethiopia's inflation rate remains persistently high, reaching 33.6 percent in February 2022. The headline inflation in February 2022 is lower than the 34.5 percent recorded in January 2022. Food inflation stood at 41.9 percent in February, up from 39.9 percent the previous month. Non-food inflation declined to 22.9 percent from 27.3 percent registered in January 2022. The major factors driving food inflation are spikes in price of cooking oils and fats, non-alcoholic beverages, bread and cereals, fish and sea foods, dairy, and meat products. Weak domestic market supply due to agricultural production constraints and steady devaluation of the local currency are among the major factors contributing to the staggeringly high inflation levels. Although the Ethiopian government took various policy actions including monetary, fiscal, and structural measures to control price escalations, the inflation levels remain in the double digits.

Ethiopia’s Food Inflation Rate Remains Higher at Double-Digits

Inflation is one of the major macroeconomic challenges facing the Ethiopian Economy. 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 armed conflict in northern Ethiopia, agricultural production contractions, and supply chain disruptions induced by the COVID-19 pandemic have further aggravated the mounting inflation levels in the country. According to the International Monetary Fund (IMF), Ethiopia’s GDP is estimated to grow by only two percent in 2021, compared to growth rates ranging between six and ten percent during the previous five years. The general inflation rate is at a very high level, with its food component estimated at nearly 42 percent in February 2022. The rising food inflation is resulting in severe food access constraints for low-income and vulnerable households across the country.

Ethiopia has been struggling with a high rate of inflation since the past five years mainly driven by spikes in food prices. Despite policy measures taken by the Government of Ethiopia (GOE) to keep inflation at single digit levels, inflation remains high at double digits. Official figures from Central Statistics (CSA) indicate that Ethiopia’s headline inflation in February 2022 slightly decreased to 33.6 percent from 34.5 percent in January 2022. During the same period, food inflation increased to 41.9 percent from 39.9 percent in January, while non-food inflation declined to 22.9 percent from 27.3 percent in the preceding month. The food inflation constituted 54 percent of the general inflation. Cooking oil, non-alcoholic beverages, bread and cereal price increases account for most of the rise in food prices. Refer to figure 2 for a summary of year-on-year changes in Consumer Price Indices (CPI) for food commodities.

Figure 1 below portrays Ethiopia’s inflation trends by food and non-food components.



Source: Data from Central Statistics Agency (CSA), CPI Reports

Food Inflation by Regional State: In terms of food inflation, CSA figures indicate that Harari regional state recorded the highest inflation rate at 49.9 percent, followed by Gambella region (48.3 percent) and Benishangul-Gumuz region (47.7 percent). The Addis Ababa city registered the lowest rate of inflation reaching 35.9 percent, while Dire Dawa and Afar regions had the second and third lowest inflation figures at 37.9 percent and 39.2 percent, respectively. See figure 4 for details.

Major Factors Driving Food Inflation: Devaluation of the local currency and weak domestic food supply resulting from agricultural production constraints are major factors driving food prices in the country. Generally, there have been upward inflationary trends since 2017 coinciding with the GOE's policy measure taken in devaluating the local currency against a basket of major foreign currencies aimed at stimulating exports. Data from the National Bank of Ethiopia shows that the average official exchange rate in March 2022 of one USD is approximately exchanged at 51 ETB. Between February 2017 and February 2022, the local currency is depreciated by 28 percent. Past trends also reveal that major inflationary episodes in Ethiopia occurred during periods of recurrent drought and armed conflict in the country. Currently, the impact of armed conflict in northern Ethiopia and severe drought in the eastern parts of the country are exerting upward pressure on food prices. Furthermore, weak domestic market supply driven by limitations in agricultural production, rise in government spending due to the armed conflict, and increase in the price of fuel are contributing to the rising food inflation levels.

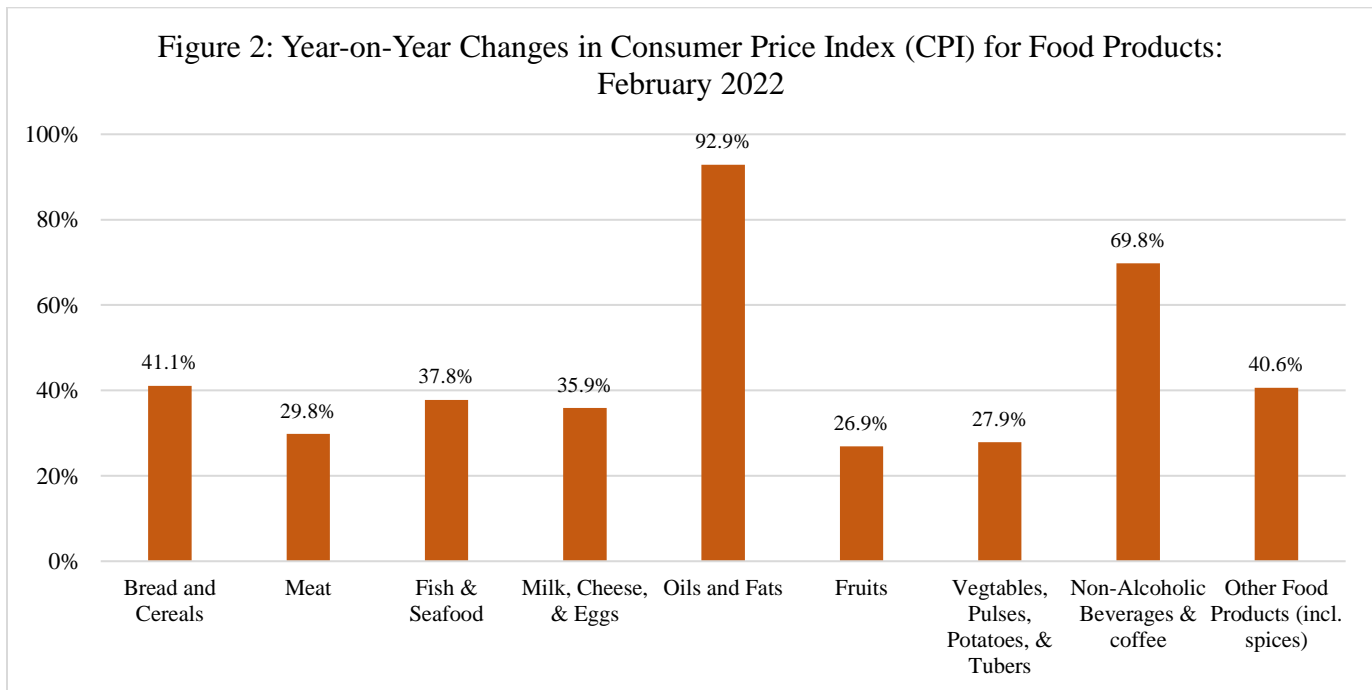
Government Policy Measures to Curb Inflation: The GOE took various policy actions including monetary, fiscal, and structural measures to limit the rising inflation levels in food items. Some of the policy measures implemented by the GOE include exemption of import tariffs and taxes, subsidies on imports, market price controls, and implementation of other fiscal and monetary policy instruments.

- *Tariff and Tax Exemptions:* In September 2021, the GOE removed customs tariffs and value added taxes levied on imports of essential food commodities such as wheat, sugar, rice, edible oils, pasta, and chicken eggs.
- *Import Subsidies:* the GOE imports food commodities including wheat, sugar, rice, and cooking oils using public coffers to bridge local supply gap and stabilize the domestic market. These imported food commodities are distributed through local consumer associations and cooperative unions at subsidized prices.
- *Franco-Valuta Scheme:* Since April 2021, the GOE put in place the franco-valuta scheme to ease the escalating food inflation through issuing special import permits for food products such as wheat, sugar, cooking oils, rice, and powder milk.
- *Price Controls:* To curtail the inflationary pressure, the GOE regulates the local market by enforcing price caps on essential food items including sugar, wheat flour, and edible oils and non-food products such as petrol.
- *Import Substitutions:* The GOE follows import substitution strategy particularly to expand local production of wheat and edible oil. Ethiopia annually imports substantial volume of wheat and

palm oil from abroad. The GOE is striving to substitute imports by increasing local productions of wheat using irrigation farming. Similarly, large-scale edible oil plants are being erected to expand domestic production and substitute edible oils imports.

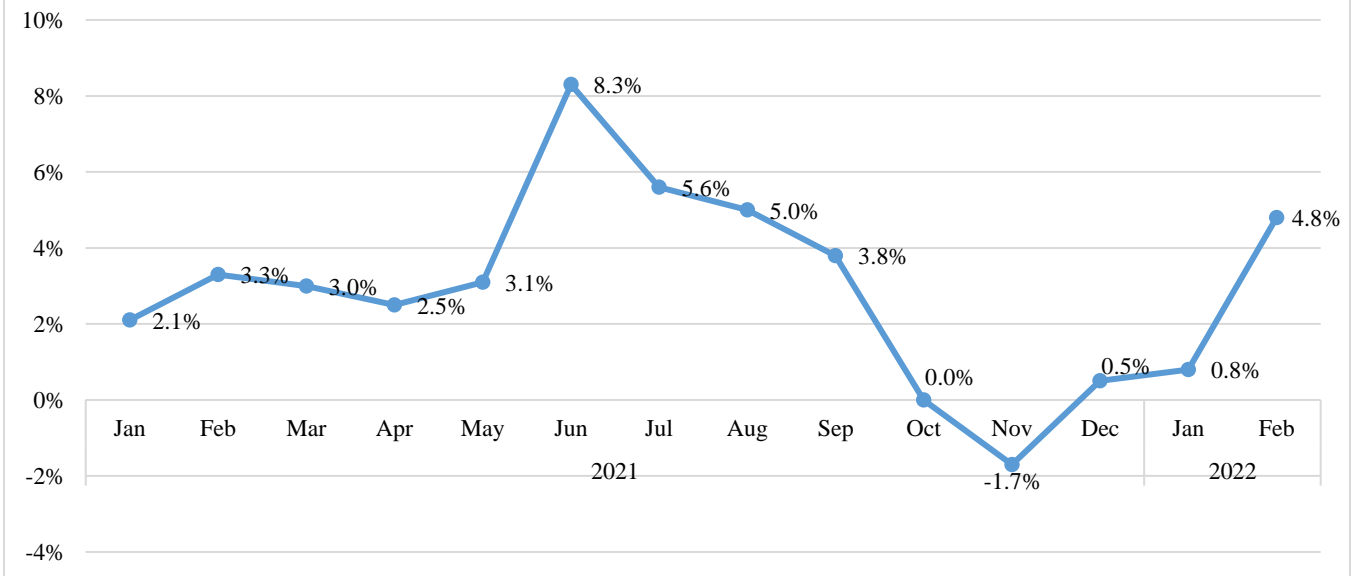
- *Sunday Markets:* Since October 2021, local authorities are expanding Sunday markets where major food products are available at discounted prices by linking producers and consumers directly. The Sunday market initiative aims to bolster the local market by removing intermediaries in the supply chain and lowering food prices to consumers up to 30 percent.
- *Other Monetary and Fiscal Policies:* The GOE took monetary and fiscal policy measures to reduce inflation and stabilize the market. Some of the policy measures include raising the minimum reserve requirement for banks from five percent to ten percent, doubling the statutory reserve requirement for commercial lenders and increasing the amount of foreign currency that banks must remit to the central bank.

Most recently, the Ukraine-Russia conflict is also impacting the local food market by signaling price increases mainly for edible oils and wheat. Amid the ongoing conflict between the two countries and expected logistics disruptions, the local edible oil market witnessed a supply shockwave where domestic price has skyrocketed by nearly 50 percent. Both Ukraine and Russia are major suppliers of wheat, crude and refined cooking oils (especially sunflower oil), and other agricultural inputs to Ethiopia.



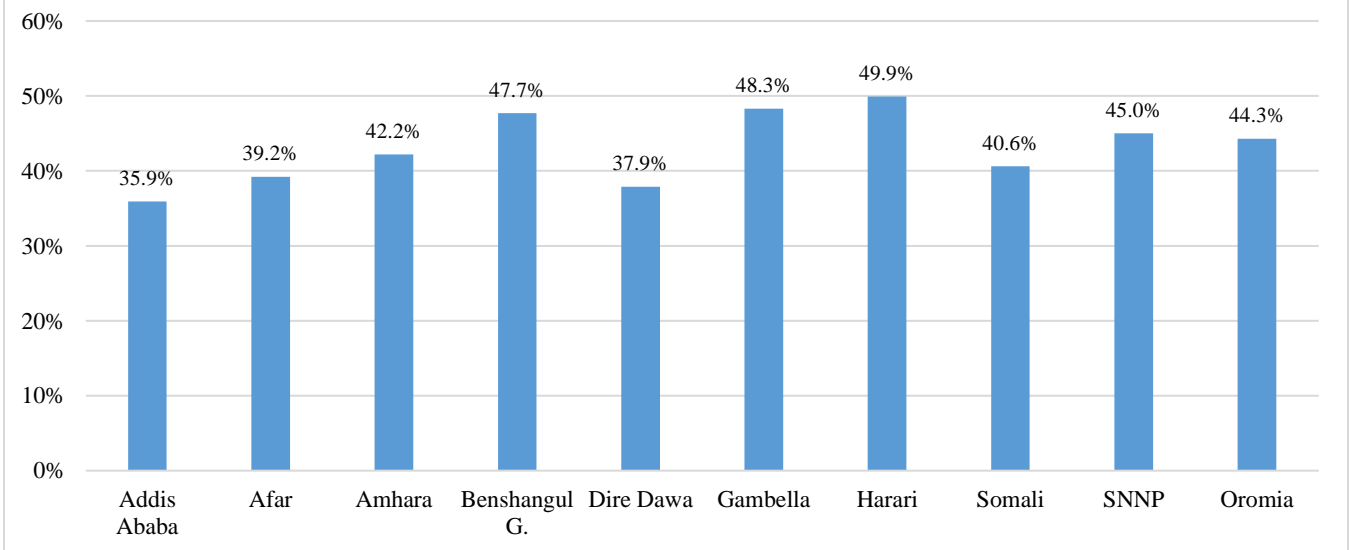
Source: Central Statistics Agency (CSA), CPI Report, February 2022

Figure 3: Month-on-Month CPI Changes for Food Products



Source: Central Statistics Agency (CSA)

Figure 4: Year-on-Year Food Inflation by Region in February 2022



Source: Central Statistics Agency (CSA)

Attachments:

No Attachments.