



Market Watch

Ethiopia | June 2022

HIGHLIGHTS

- **Inflation:** Headline inflation hit a record 37.16 per cent in May year on year, its highest in a decade, due to the rising prices of food and non-food items. The average annual food inflation that stood at 23.2 percent in 2020 rose to 31.3 percent in 2021 and to 42.4 percent during the first five months of 2022 (Jan-May).
- **Exchange rates:** On the parallel market, 1USD exchanged for ETB 75 in June 2022.
- **Fuel:** In July 2022, the government increased the prices of diesel and benzene by 50 and 30 percent respectively. The price of diesel and benzene in July 2022 stands at 129 and 85 percent, above their respective prices a year earlier. The government will continue to provide fuel subsidy to public transport service providers while the subsidy for the other vehicles will be lifted step by step.
- **Prices in conflict-affected areas in Northern Ethiopia:** The prices of cereals and pulses particularly that of teff, maize, sorghum, wheat (grain and flour) rice, and fava beans stand at record high level in June in Tigray markets. Cereal and pulse prices in Adigrat market are higher by 70 to 309 percent compared to prices in Dessie in June 2022.
- **Market Price in Somali market:** The average nominal price of maize in nine markets monitored in Somali region surged by 87 percent in May 2021 compared to the corresponding values a year ago. The average shelf price of rice stood at 5,262 Birr/quintal in May 2022, an increase by 56 percent, year on year.
- **Terms of Trade (measure of purchasing power) in Somali region:** Average-sized male sheep/goat that could fetch 126 kg of maize in May 2021 in Gode market now brings only 70 kg of maize in May 2022, a reduction of purchasing power of pastoralists by 45 percent year on year.
- **Minimum Expenditure basket for food (MEB):** the MEB for a household required to meet its basic food needs in rural Somali jumped from 1,003 Birr/person/month in May 2021 to 1,591 Birr person/month in May 2022, an increase by 59 percent over one-year period.
- **Market and food security outlook:** The severe drought condition in the south and southeast, in Somali, parts of Oromia, SNNP and southwest regions, will continue to distress food security and livelihoods of pastoralist and agro-pastoralists. Unfortunately, there is a broad consensus from meteorological experts on a concrete risk that the *Dyer* 2022 rains (October-December 2022) could also fail, leading to a fifth poor season for south/south-eastern pastoral areas.

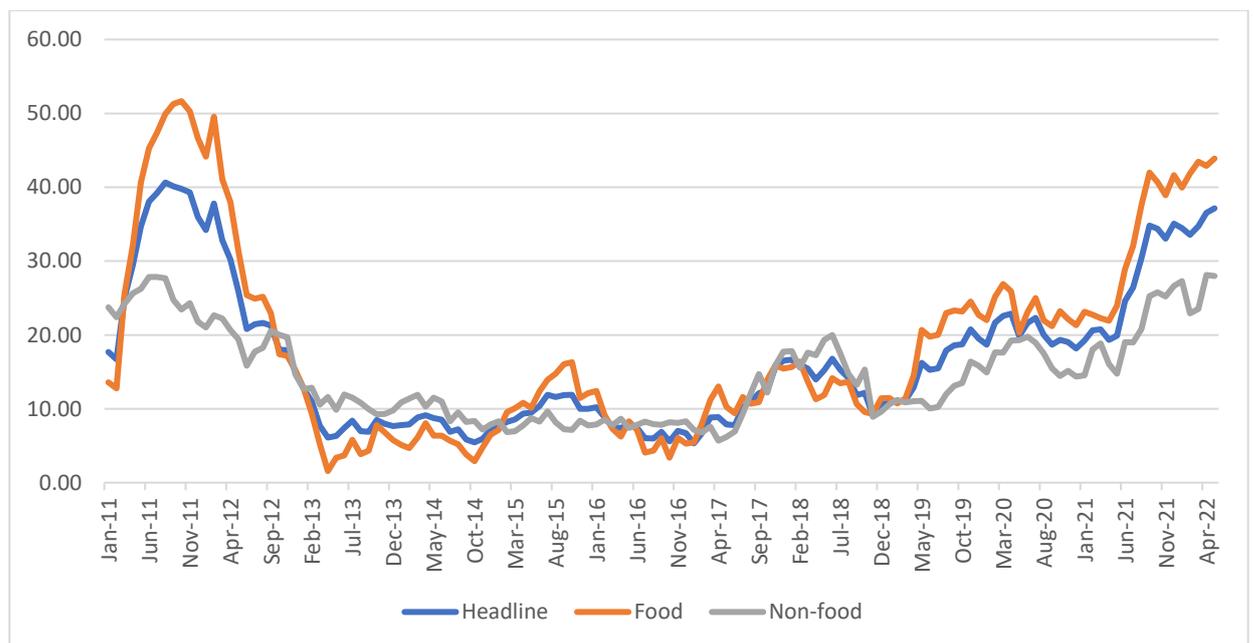


1. Inflation

1.1 Inflation accelerated to a fresh 10-year high in May 2022

Figure 1: Headline inflation hit a record 37.16 per cent in May year on year, its highest in a decade, due to the rising prices of food and non-food items, according to the data released by Ethiopian Statistics Services (ESS). The previous highest level of headline inflation was registered in August 2011, which was attributable to the low domestic food production and the high cost of oil and other imported goods in the global market. Despite inflation's upward trajectory since mid-2017, it spiked strongly in May 2021 and continued unabated. Accordingly, inflation continues to be a daunting macroeconomic challenge facing the Ethiopian economy over the past five years. The other challenges include high level of youth unemployment, debt burden, balance of payment deficits, steady depreciation of the Birr against major currencies, and low foreign exchange reserves. The impact of the Northern conflict, impact of COVID-19 pandemic, supply chain disruptions, recurrent drought in Southern and Southeastern Ethiopia, and spikes in the global food prices mainly due to the war in Ukraine are putting multiple pressure on inflation and the Ethiopian economy. The rising cost of living will most likely impact vulnerable households, pushing those least able to cope further into poverty and hunger.

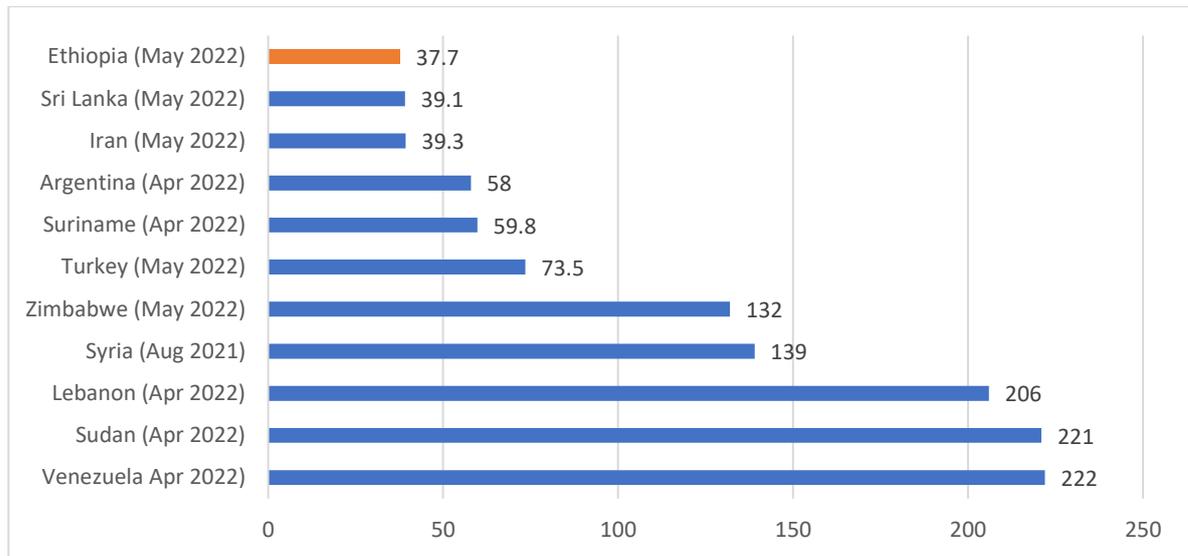
Figure 1: Inflation trends year-on-year (2011 to May 2022)



Source: Ethiopia Statistical Services (ESS) Consumer Price Index (CPI)

The headline inflation registered in May puts Ethiopia at the 11th position of highest inflation in the world.

Figure 2: Top inflationary countries in the world



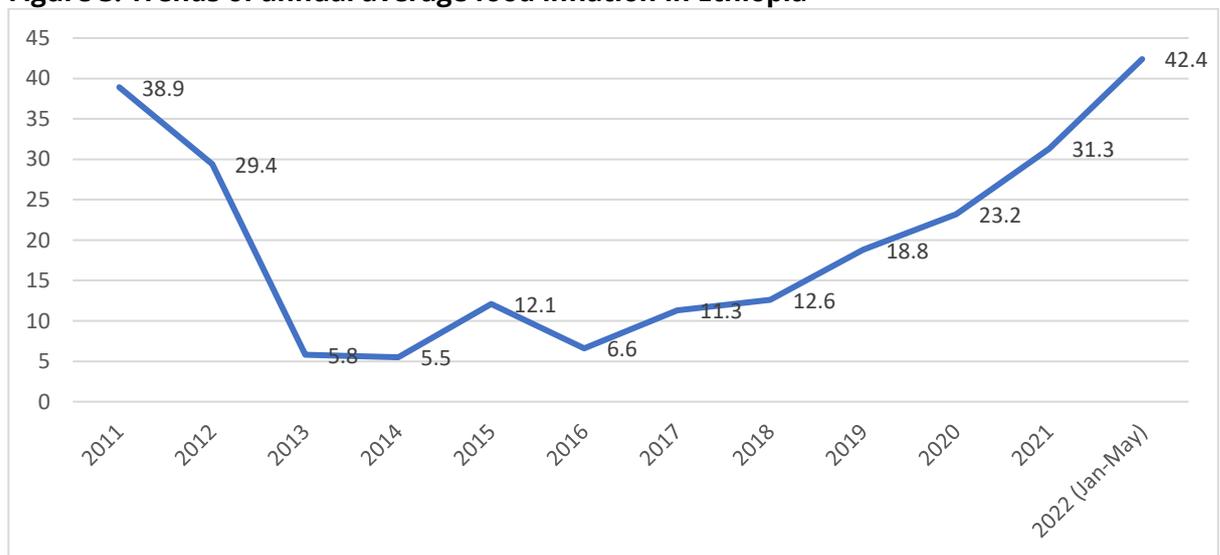
Source: Trading economics

1.2 Food inflation in May 2022 hit highest level in a decade

Figure 1: Food inflation hit 43.9 percent in May. Food inflation increased faster than headline inflation over the past several years. The rising price of wheat, edible oil, and fertilizer in the global market in particular transmits to the local market since Ethiopia is dependent on the international market for import.

Figure 3: The annual average food inflation, after going down in 2011 and 2012, remained relatively at lower level until it peaked up once more in 2017 and rose steadily. The average food inflation that stood at 23.2 percent in 2020 rose to 31.3 percent in 2021 and to 42.4 percent during the first five months of 2022 (Jan-May). The strong upward pressure in the prices of food is a cause of concern for the welfare of millions who rely on the market to access their food.

Figure 3: Trends of annual average food inflation in Ethiopia



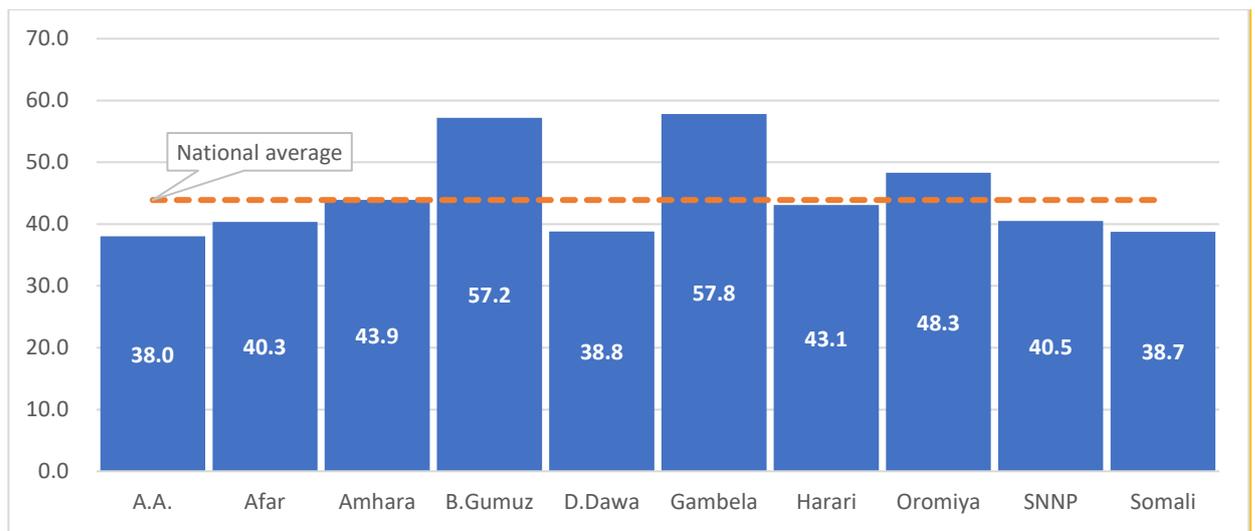
Source: ESS Consumer Price Index (CPI)



1.3 Food Inflation reported highest in Gambella, Benishangul Gumuz, and Oromiya

Figure 4: Gambella (57.8 percent) and Benishangul Gumuz (57.2 percent) registered extraordinary increase of food inflation in the reporting month. The food inflation reported in Oromiya region (48.3 percent) was also far higher than the national average. These three regions have been experiencing security problems that has contributed to the disruption of supply chain of commodities resulting in the above average food inflation registered in the month. Addis Ababa, Dire Dawa, and Somali exhibited relatively lower level of food inflation in the month.

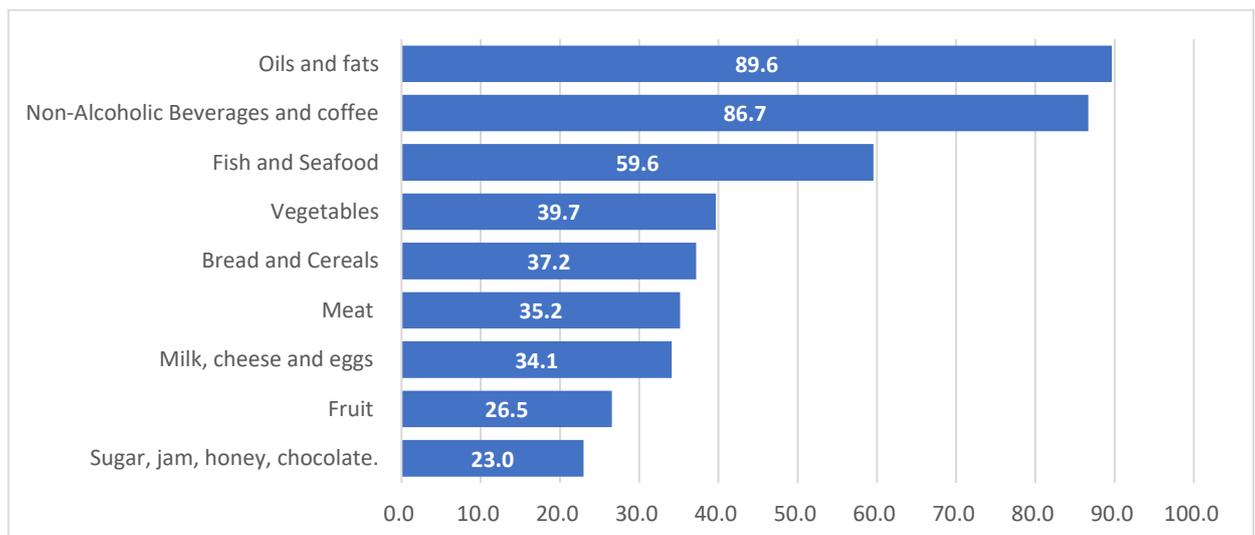
Figure 4: Year-on-Year food inflation by region, May 2022



Source: Ethiopian Statistical Services' Consumer Price Index (CPI)

1.4 The implication of the rise in price indices of food groups on the poorest quintile (bottom 20 percent) households.

Figure 5: Percentage change of the price indices of food groups year on year, May 2022



Source: ESS CPI, May 2022

The overall increase of the food index was the result of broad upticks across categories, but substantial increase was recorded on the indices of fats and oil, non-alcoholic beverages and coffee, fish and sea foods, bread and cereals, and vegetables. In this sub-section, the potential impacts of the rise in the indices of three food categories are discussed below.

Fats and Oils:

Figure 5: The index for fats and oils had been the most stable component of the food index that showed little volatility over the past several years. However, underpinned by the global spike in vegetable oil prices due to extreme weather in Latin America, labor shortage in Asia and recently due to the war in Ukraine, steady and strong upward price pressure was registered particularly since June 2021. In May 2022, the price index of fats and oils spiked by 89.6 percent from the corresponding value a year earlier and by 5.1 percent from the previous month. Sunflower oil, which sold for 110 Birr per liter in May 2021 in Addis Ababa market shot to 200 Birr per liter in May 2022. The poorest 20 percent (poorest quintile) of households in Ethiopia derive 10 percent of their dietary energy from vegetable oils and they spend 8 percent of their food budget on oil and fat. The recent spike in the prices of vegetable oil is likely to decrease the overall consumption of food calories consumed by the poor households as they will be coerced to buy smaller quantities. This will undermine the total energy intake, with short term implications of acute malnutrition (wasting).

Breads and Cereals: The index for cereals and bread rose by 37.2 percent year on year and 19 percent month-on-month. Cereals constitute around 41 percent of the overall household food expenditure and 66 percent of the overall calorie source for the bottom 20 percent of the households. The rise in the prices of cereals of such a magnitude could likely deplete the purchasing power of the poorest 20 percent households. Households may adjust by cutting down consumption of other foods (including fruits and vegetables, animal source foods, etc) and non-food expenditure (including health and education) to accommodate basic staples for sustenance. Such a shift will have negative consequences for nutrition status.

Vegetables and fruits: The price indices for vegetables and fruits hiked by 39.7 percent and 26.5 percent, respectively, in May 2022, compared to prices a year ago. On average, vegetables and fruits constitute around 9.6 percent and 0.3 percent of household expenditure of the poorest 20 percent of households in Ethiopia. The extraordinary rise in the prices of vegetables and fruits prohibits poor households to buy and consume fruits and vegetables, which are the primary source of many micronutrients essential for human growth and health. Inflationary tendencies place a heavy food access burden for poor households who earn income through employment as their bargaining power is depleted since their wage/salary is not indexed to changes in the cost of living.

1.5 Measures taken to mitigate the impacts of the inflation

- The ministry of Finance has relaxed the Franco Valuta privilege to importers of basic food items including edible oil, wheat, sugar, baby milk and rice. The privilege will allow importers that have their own foreign currency to import these items free of tax. The government had issued a directive a year ago that allowed importers who have a minimum of 250,000 USD to import on Franco valuta as long as the source of the foreign currency is verified by the National Bank of Ethiopia. The latest amendment has lifted the minimum requirement and the verification.¹

¹ Some analysts suggest that this measure has already posed another unintended repercussion on the foreign

- Addis Ababa City administration facilitated Sunday markets in multiple sites in the city that provide basic commodities at discounted prices. The markets are dominated by consumers' cooperatives. The weekly markets are visited by the residents of the city due to their relatively lower prices. The city administration provides loan to the unions so that they can supply the commodities at lower prices.
- The Government of Ethiopia (GoE) has embarked on an effort to fully substitute wheat imports through the expansion of summer wheat production in the country. The Programme intends to enhance the production of wheat through the provision of irrigation schemes, better input supply, and mechanized farming in the lowland and central parts of the country. According to the Ministry of Agriculture, Ethiopia is undertaking the cultivation of summer wheat on over 400,000 hectares of land across the country. In the current dry season, some 2.4MT of wheat is expected to be harvested from the land covered by the Programme. The GoE has also hinted that the country may start wheat exports by next year.
- The Office of the First Lady is engaged in the construction of mega bakery and flour factories in 10 cities, to provide bread at affordable prices to the low-income community, The mega factory in Addis Ababa is already operational and supplementing the bread provision by Sheger Bakery and Flour Factory, a plant established through a public-private partnership in mid-2020.
- Addis Ababa city administration has announced that extension of the measure banning landlords to increase house rent price until further notice. The resolution that has been introduced in August 2021 and renewed every three months bans landlords in the capital from increasing house rents or evicting tenants². Other regional governments are also following suit and announcing the same measures. As house rents are very high and have been increasing steadily in Addis Ababa and some major cities, these measures are expected to relieve employed workers and self-employed poor households from increased burden of rent.
- In the effort to mitigate the escalating inflation, the GoE is considering to open-up Ethiopia's retail sector to foreign companies³.
- The GoE announced 15 billion birrs for fertilizer subsidy for farmers.

exchange market. The parallel market became a major source of forex for Franco Valuta importers, which is alleged to have led to the spike in the exchange rate of Birr against major currencies in the parallel market abruptly. Some experts suggest that, although goods are available in the market because of the Franco valuta privilege, their prices are very high because of the expensive forex acquisition costs and increasing global prices. (See: <https://qz.com/africa/2185006/inflation-in-ethiopia-has-remained-above-25-percent-for-a-year/>)

² The other measures taken are discussed in section 3 of this report.

³ <https://addisstandard.com/analysis-as-rising-prices-inflation-grips-ethiopia-government-to-open-up-retail-sector-to-foreign-companies/>



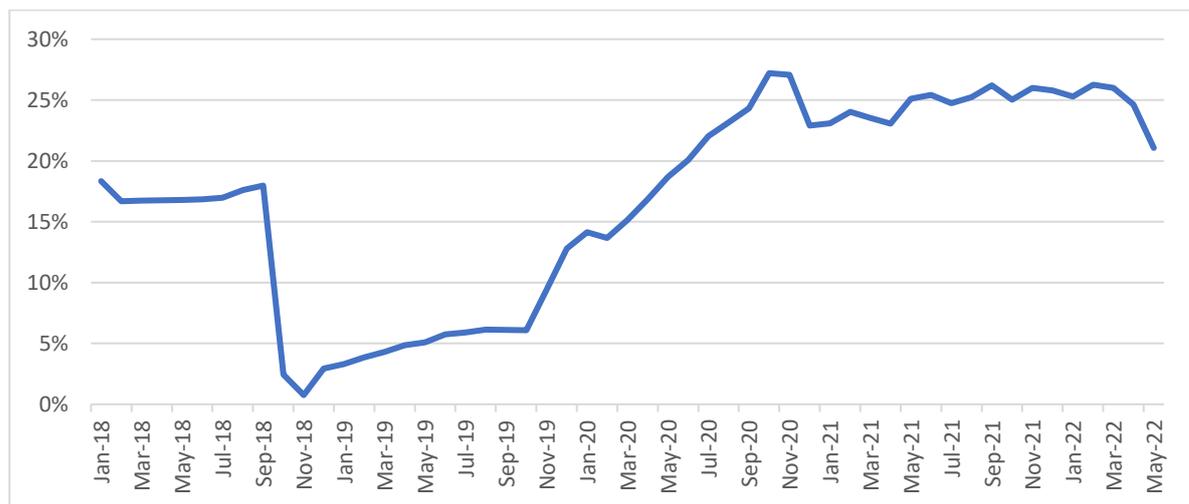
2. Currency Exchange Rates

2.1 The gap between the official and parallel markets jumped to a staggering 46 percent in May, 2022

Commercial banks exchanged the Ethiopian Birr at 51.49 to the US dollar in May, up from 51.19 in April, a 0.59 percent change compared to April.

Figure 6: In a bid to encourage exports and imports substitution by lowering costs to exporters and producers, the National Bank of Ethiopia has been implementing a creeping devaluation of the Birr since November 2019. It remained contentious whether the devaluation has brought the intended outcomes or not. The Ethiopian Birr, as measured by the exchange rate against US dollar, has been losing its value by 25 to 26 percent year on year between May 2021 to March 2022. The pace of devaluation slowed down in April and reached down to 21 percent (year on year) in May 2022.

Figure 6: Year on year devaluation of Birr against US dollar



Source: Computed from the data availed by National Bank of Ethiopia

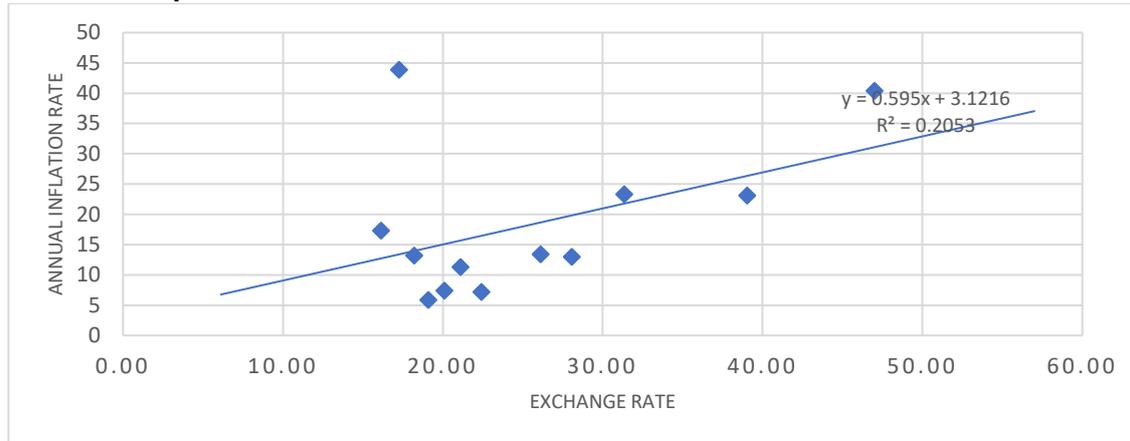
Figure 7: The devaluation measure is criticized by some experts as one major cause fueling inflation directly through raising the price of imports and indirectly by raising the import bill of the government, which is a big spender in the economy. Since Ethiopia largely relies on imported goods and services, particularly fuel, and agricultural inputs like fertilizer, the population at large will suffer from the rise in prices caused by the devalued birr⁴. The loss in the value of the Birr against major foreign currencies makes it more expensive to acquire imported goods, consequently dictating the final price consumers have to pay for purchase. This leads to a rise in domestic food prices for imported items and to increasing domestic food prices in general through substitution of these items with less expensive ones and shifting consumption.⁵

⁴ <https://www.readcube.com/articles/10.2139%2Fssrn.1688561>

⁵ https://docs.wfp.org/api/documents/WFP-0000107215/download/?_ga=2.224731418.142423274.1655440485-881270715.1563446975



Figure 7: The relationship between devaluation of Birr against USD and annualized inflation rate in Ethiopia



Source: Computed based on WFP and ESS data

Several traders rely on the parallel market to access foreign currency to import goods and services as getting foreign currency from the legal channel is difficult, albeit exchange of foreign currency on parallel market is illegal in Ethiopia. The exchange rate in the parallel market is about 68 to 75 Birr. The gap between the official and parallel markets, which stood around 17 percent in January, jumped to a staggering 46 percent in May, the widest gap registered between the two rates since June 2019.

Figure 8: Percentage difference between parallel and official market exchange rates (Birr against USD)



Source: Computed based on the NBE (official exchange rate) and WFP (parallel market exchange rate)

2.2 Government measures to ameliorate the challenges related to Foreign Currency exchange and financial sector

- The National Bank of Ethiopia (NBE) has reduced the reserve requirement for all banks from 10 percent to 7 percent. This measure reversed the directive introduced in September 2021 that increased the reserve requirement from 5 percent to 10 percent in the effort to curb the inflation. The monetary policy could help alleviate the liquidity problems the banks are facing and increase the amount they can avail for loan. However, this may also contribute to the exacerbation of the inflation further.

- The NBE downgraded all bank branches in Togo Wuchalle, the border town between Ethiopian Somali region and Somaliland, to the status of subbranch which limits deposit and withdrawal for local residents only. It is reported that the town is an epicenter of illicit operators trading currencies and contraband activities. The subbranches in Togo Wuchalle will not have the authority of transferring, financing, and providing foreign exchange services, according to the new rule.
- NBE announced the prohibition of decentralized digital currencies and Birr is the only legal tender in Ethiopia. The bank announced that increasing use of cryptocurrencies like bitcoin is being used for informal financial transactions and money laundering schemes. NBE reiterated that cryptocurrency is not a legitimate form of payment in Ethiopia and citizens should avoid using them⁶.

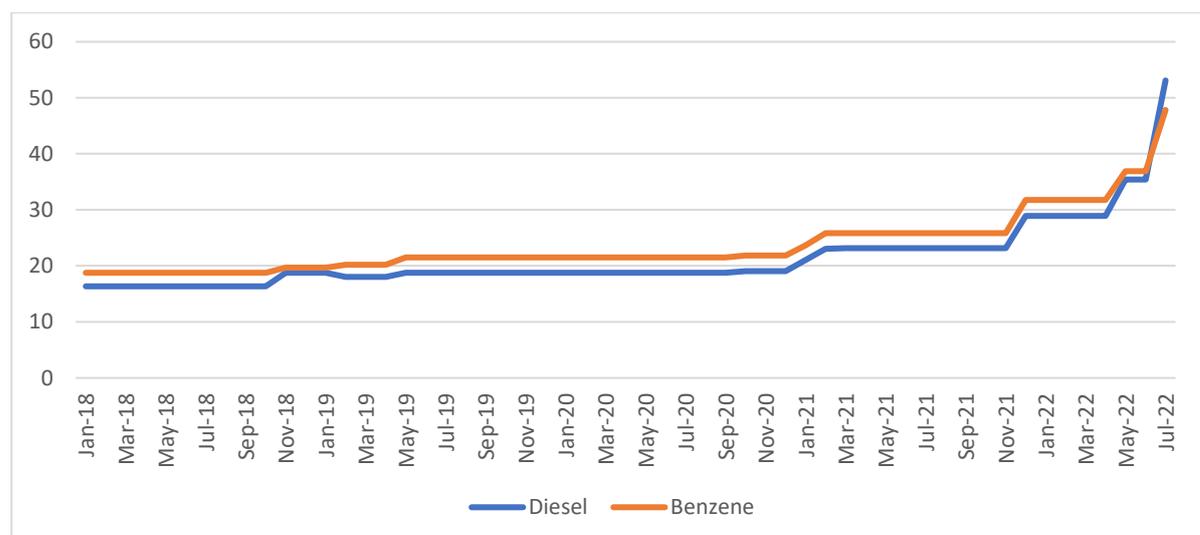
3. The implications of the escalating prices of fuel and fertilizer to food security in Ethiopia

3.1 Fuel

i) the Government to lift fuel subsidy step by step

Figure 9: Following fuel price increase in the international market, the Government introduced fuel price increase four times in 2021 and 2022. In July 2022, the government increased the prices of diesel and benzene by 50 percent and 30 percent respectively. The price of diesel and benzene in July 2022 stand 129 percent and 85 percent above their respective prices a year earlier. In June 2022, the pumping price of fuel in Ethiopia is the 23rd cheapest in the world and the third cheapest in Sub-Saharan Africa.⁷

Figure 9: Pumping prices of benzene and diesel in Addis Ababa



Source: WFP Market Database, July 2022

⁶ <https://nbe.gov.et/5-3/>

⁷ https://www.globalpetrolprices.com/gasoline_prices/

ii) Government to introduce “targeted fuel subsidy”

According to a statement issued by the government officials on May 7, the price of petrol would have reached 73 birr per litre at the current international price without the subsidy, which is more than 100% of the June pumping price in Addis Ababa.

The government has decided to lift fuel subsidies step by step and limit the subsidy to specific service providers. The “targeted subsidy” is set to be launched in July 2022. Fuel subsidies are primarily for public transport vehicles including Anbessa bus, Sheger bus, midi-bus intown transportation, taxis (including three-wheelers vehicles), and cross-country transport vehicles. Subsidies for public transport vehicles is set to decline progressively every year, and it will be completely lifted after the fifth year from now. The targeted subsidy is meant to reduce the cost of transportation and not to harm the low-income community. However, the exclusion of trucks and agriculture machines (tractors, water pump, etc.) from the subsidy scheme is still an issue of concern that may contribute the exacerbation of inflation.

iii) The rise in fuel price to exacerbate inflation further

With fuel and electricity accounting for 10 percent of the national CPI, an increase in the fuel price can easily translate to a direct rise on the headline inflation. As fuel is pivotal in every sector of the economy, it could also lead to second-order inflationary effects on food and non-food costs as producers and traders transfer their fuel costs to consumers. Production and distribution of food also has costs that are intrinsically tied to the fuel price which leaves them with no alternative but to pass on at least some of the cost increases to consumers.

3.2 Fertilizer

Global fertilizer prices have risen by nearly 30 percent since the start of 2022, following last year’s 80 percent surge, driven by a confluence of factors, including surging input costs, supply disruptions caused by sanctions (Belarus and Russia), and export restrictions (China). The Ethiopian Agricultural Businesses Corporation (EABC), the sole importer of fertilizers to Ethiopia, paid 650 dollars for a ton of new compound fertilizer (NPS), more than double the average of 280 dollars last year. The government also has to pay 1000 USD/MT to import Urea fertilizer, although the initial offer was 710 Birr/MT⁸. The GoE has been preparing to provide 15.1 million quintals of fertilizer during this budget year, of which 12.8 million quintals have been purchased this year while the remaining quantities were carried over from the previous year.⁹

As a result of the spike in the buying price, the selling price of fertilizer to farmers was set around 4,900 Birr/quintal, which stands out to around 200 percent of the price level in the previous year. Given the repercussion of sky-rocketed price of fertilizer for a country that derive 32.5 percent of its GDP from agriculture and engage 66 percent of the population in the sector¹⁰, the Government later decided to provide 15 billion Birr in subsidy to the price of fertilizer, which pushed the retail price downwards to around 3,500 Birr/quintal. This means, as a result of the Federal Government subsidy, the retail price of fertilizer has dropped 40 percent, but it is still twice as much as the retail price in the previous year. Pronounced price increase of such a magnitude will lead to lower affordability of fertilizer for poor subsistence farmers and ultimately lower use levels.

⁸ <https://addisfortune.news/minister-oumer-brings-smile-to-farmers-face/>

⁹ <https://www.ena.et/en/?p=36260>

¹⁰ <https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202020-2021/2020-21%20Annual%20Report.pdf>



This would obviously lead to lower food production in the upcoming *Meher* season. In connection with higher production cost and lower production, food prices will rise further at a time when food insecurity is at a record high due to the combined effects of the conflict, drought, and Covid-19. The effect of the war in Ukraine will further fuel the already high inflation and consumers will have to bear the brunt of imported inflation at the end.

4. Market dynamics in Conflict-affected areas of Afar, Amhara, and Tigray

Table 1 compares prices of key food commodities in conflict-affected areas of Amhara (Debark, Sekota woredas), Tigray (Adigrat, Adwa, Wukro, and Shire), Afar (Asayita, Chifra, and Dalfage) to that of Dessie market, a source market for Eastern Amhara, Afar and before the conflict for Tigray as well. Prices in conflict-affected areas that are higher by 20 percent compared to that of Dessie are marked in red icons, between -20 to 20 percent relative to prices in Dessie are marked in yellow, and below -20 percent of Dessie prices are marked in green icons.

Grain prices in Debark market that serve the local community and thousands of IDPs from the nearby areas of Zarema, Addi Arikay, Telemt, and Maytsemri, exhibit little variance with prices in Dessie. All grain prices in Debark are within the -11 to 7 percent range of prices in Dessie, except rice, which is being sold 73 percent above prices in Dessie market.

The daily wage rate of unskilled labor in Debark is 20 percent lower than the Dessie wage market, possibly because of the abundant supply of labor from the IDPs. The price level in Sekota town which hosts thousands of IDPs from Waghimra zone, is relatively higher, sorghum (56 percent higher), rice (30 percent), and tomato (48 percent) as compared to the prices in Dessie.

In Chifra market in Afar, prices of maize, sorghum, and wheat flour were higher compared with Dessie by 33 percent, 40 percent, and 30 percent respectively. Consumers in Afar have to spend 19 to 30 percent more to buy rice from the local markets as compared to that of Dessie.

Prices in Tigray: Cereals and pulses in Tigray are exceptionally high compared to prices in the reference market of Dessie. Particularly the prices of teff, maize, sorghum, wheat (grain and flour) rice, and fava beans have skyrocketed in Tigray markets. Cereal and pulse prices in Adigrat, Tigray are higher by 70 to 309 percent compared to prices in Dessie in June 2022. Similarly, prices in Adwa are higher by 68 to 294 percent) in Shire by 33 to 267 percent), and in Wukro by 78 to 223 percent).

Vegetable oil prices in Tigray are higher by 58 to 99 percent compared to prices Dessie. Fava beans, the type of pulse commonly used to prepare the most commonly consumed sauce (Shiro) being sold at price levels 151 to 306 percent higher than that of Dessie. The sky rocketed price of key staples in Tigray markets is attributable to the below average production in the region in the *Meher* harvest season compounded by disruption of normal trade routes that used to connect Tigray to surplus producing areas of Ethiopia, the non-functioning of transportation service within the region due to the prohibitive fuel prices in Tigray.

Onion and potato are relatively cheaper in Tigray markets as compared to the reference market. On the other hand, the wage for daily labourers is 30 to 59 percent lower than the corresponding



values in Dessie, which may be explained by the excessive supply of labor compared to the limited demand in the market. In all assessed markets of Amhara, Afar, and Tigray, goat and sheep are being sold at far more cheaper prices as compared to that of the Dessie market. However, the markets in Tigray provide goat and sheep at significantly low prices, which implies excessive supply in the market that outstripped the constrained demand.

Table 1: Prices of key food commodities in conflict affected markets in Afar, Amhara, and Tigray as compared to Dessie market, June 2022

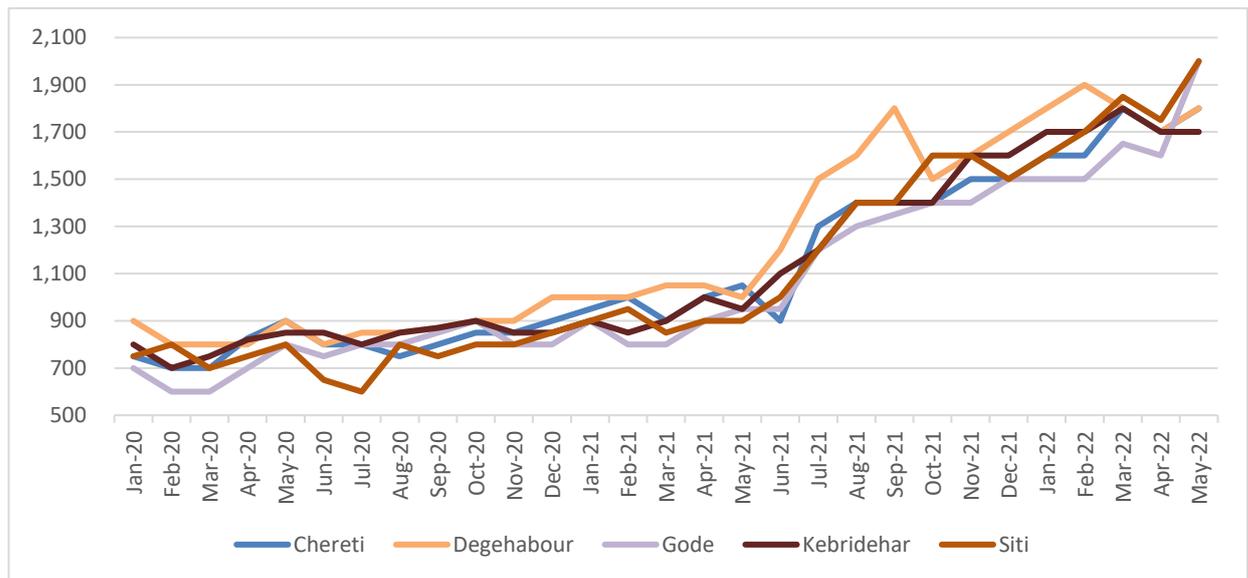
Commodity	Unit	Amhara					Tigray								Afar						
		Dessie		Debark		Sekota		Adigrat		Adwa		Shire		Wukro		Asayita		Chifra		Dalfage	
		Birr/Unit	% of Dessie																		
Teff Mixed	kg	45		42	-7%	47	5%	81	81%	76	70%	71	60%	80	78%	55	23%				
Wheat white	kg	39		35	-11%	40	2%	71	82%	66	68%	52	33%	79	102%	39	-1%	34	-13%	32	-18%
Maize white	kg	28		26	-6%	28	-1%	70	151%	62	124%	51	82%	79	185%	25	-10%	37	33%	28	1%
Sorghum white	kg	25		26	4%	39	56%	60	142%	65	158%	49	94%	59	137%			35	40%		
Wheat Flour	kg	61		55	-10%	40	-34%	104	71%	105	72%	115	89%	114	87%						
Rice	kg	46		80	73%	60	30%	162	251%	182	294%	170	267%	149	223%	55	19%	60	30%	60	30%
Fava beans	kg	43		44	1%	40	-8%	176	306%	128	195%	113	159%	109	151%						
Edible Oil	kg	216		200	-7%	210	-3%	342	58%	389	80%	431	99%	401	86%	200	-7%	200	-7%	200	-7%
Onion	kg	43		46	7%	50	16%	21	52%	23	47%	20	53%	22	49%	50	16%	50	16%	50	16%
Tomato	kg	27		35	30%	40	48%	19	30%	28	5%	37	38%	16	41%	60	122%	40	48%	50	85%
Banana	kg	57		60	5%	62	9%	84	47%	74	29%	79	38%	90	58%						
Goat (Local)	Head	7,260		3,340	-54%	4,020	-45%	2,270	-69%	2,260	-69%	2,267	-69%	2,230	-69%	4,000	-45%	3,500	-52%	3,450	-52%
Sheep (Local)	head	4,730		3,520	-26%	3,160	-33%	2,130	-55%	2,180	-54%	1,967	-58%	2,000	-58%	3,500	-26%	2,550	-46%	3,500	-26%
Unskilled labour wage	daily	250		200	-20%	280	12%	176	-30%	102	-59%	150	-40%	162	-35%			300	20%	200	-20%

Source: WFP market monitoring

5. Price trends of food commodities in drought-affected Somali region markets

Maize is used among the Somalis to prepare traditional meals: Maize constitutes around 12 percent of the dietary energy consumption in Somali region. The supply of coarse maize to Somali markets is primarily sourced from the surplus-producing areas of central Ethiopia and to some extent from the limited riverine and rain-fed production in the region. Thus, the price change in the Central Ethiopia market will automatically be reflected in prices of maize in Somali markets. Echoing the price trend of maize at national level, the price of maize in Somali markets picked in June 2021 and increased steadily. The average nominal price of maize in nine markets monitored in Somali region surged by 87 percent in May 2021 compared to the corresponding values a year ago. Over the past 12 months between May 2021 to May 2022, the nominal price of maize in Somali region has shot up by 67 to 122 percent in the assessed markets. In May 2022, the least price of maize was reported in Filtu market at 3200 Birr/quintal while the highest price was recorded in Warder market where a quintal of maize was being sold at 4,400 Birr/quintal.

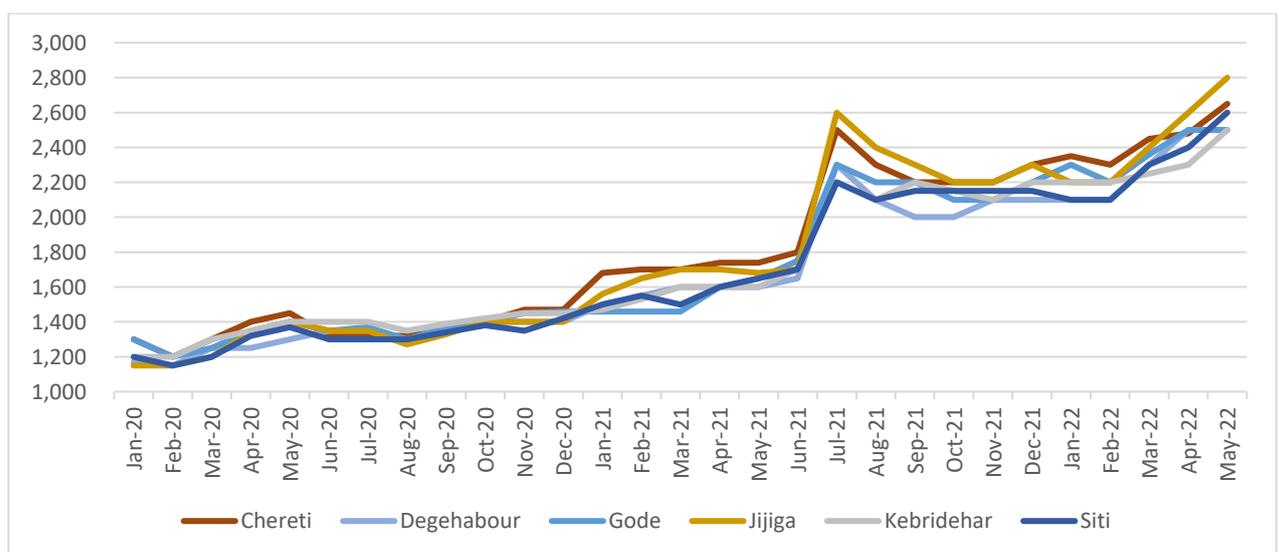
Figure 10: Price trends of maize (Birr/50 kg) in Somali region markets



Source: WFP survey

Rice constitutes an important source of dietary energy consumption in Somali region, with most of the rice sourced through informal import via Somaliland, Somalia, and Djibouti. The greater import dependence for rice supply in Somali region has resulted in strong global price transmission to domestic prices. After the sudden spike in July 2021 by 36 percent month on month, which coincided with the abrupt depreciation of Birr against USD in the parallel market, rice price in Somali markets stabilized at elevated levels due to improvement of the exchange rate of Birr against major currencies in the parallel market. The price trended upwards since February 2022 and reached record high in May 2022, echoing the recent international price trends and the corresponding depreciation of Birr in the parallel market. The average shelf price of rice stood at 5262 Birr/quintal in May 2022, which rose 56 percent year on year.

Figure 11: Price trends of rice (Birr/50 kg) in Somali region markets



Source: WFP survey



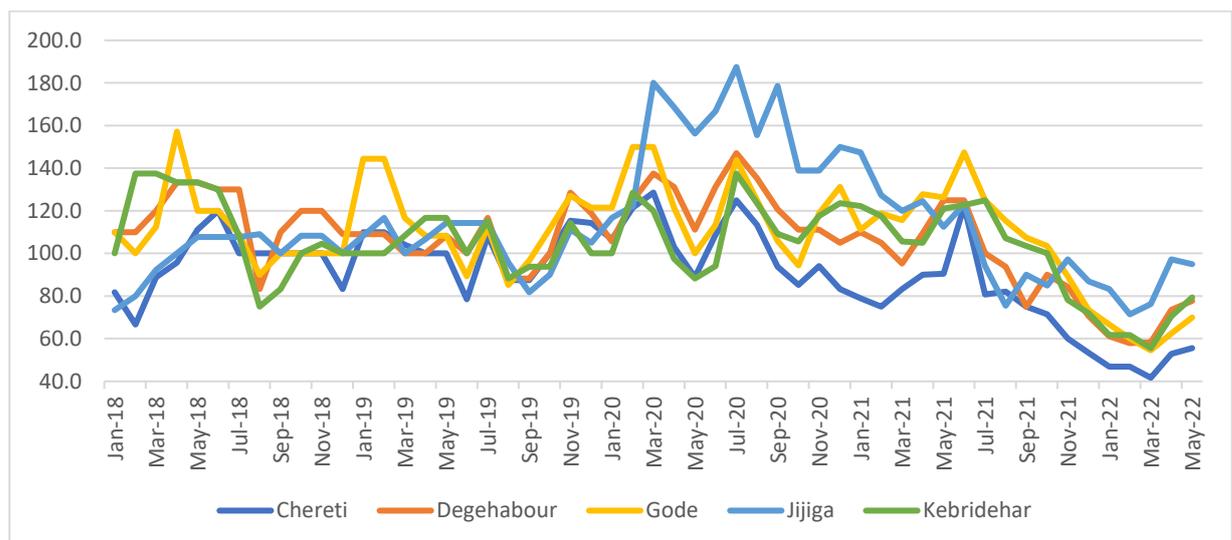
5. Terms of Trade (ToT): Shoat to Maize and Shoat to wheat flour in Somali region markets

Somali Region is experiencing severe drought in nine out of eleven zones. Significant livestock death and crop loss have been reported. The purchasing power of pastoralists in Somali region is primarily dependent on livestock prices. They have to sell their livestock to buy staple grains and non-food items. Term of trade (ToTs) are computed for shoat (Sheep and Goat) and commonly consumed food items such as maize and wheat flour to indicate the trends of the purchasing power of pastoralist households in Somali region

5.1 Shoat to maize:

Figure 12: ToT between shoat (sheep and goat) and maize: after steady deterioration for successive months since July 2021 due to the poor performance of consecutive rains, the ToT exhibited slight improvement in April and May 2022 as a result of modest improvements in pasture as some rains were received during the *Gu* 2022, although still below normal. Average-sized male sheep/goat that could fetch 126 kg of maize in May 2021 in Gode market now brings only 70 kg of maize in May 2022, a reduction of purchasing power of pastoralists by 45 percent year on year. In Deghabur market the ToT has deteriorated from 133.3 Kg to 77.3 Kg of maize during the same period. The erosion of pastoralist livelihoods because of the failure of four consecutive rains in Somali region will take years to recover.

Figure 12: Terms of trade (ToT) in Somali markets: Shoat to maize



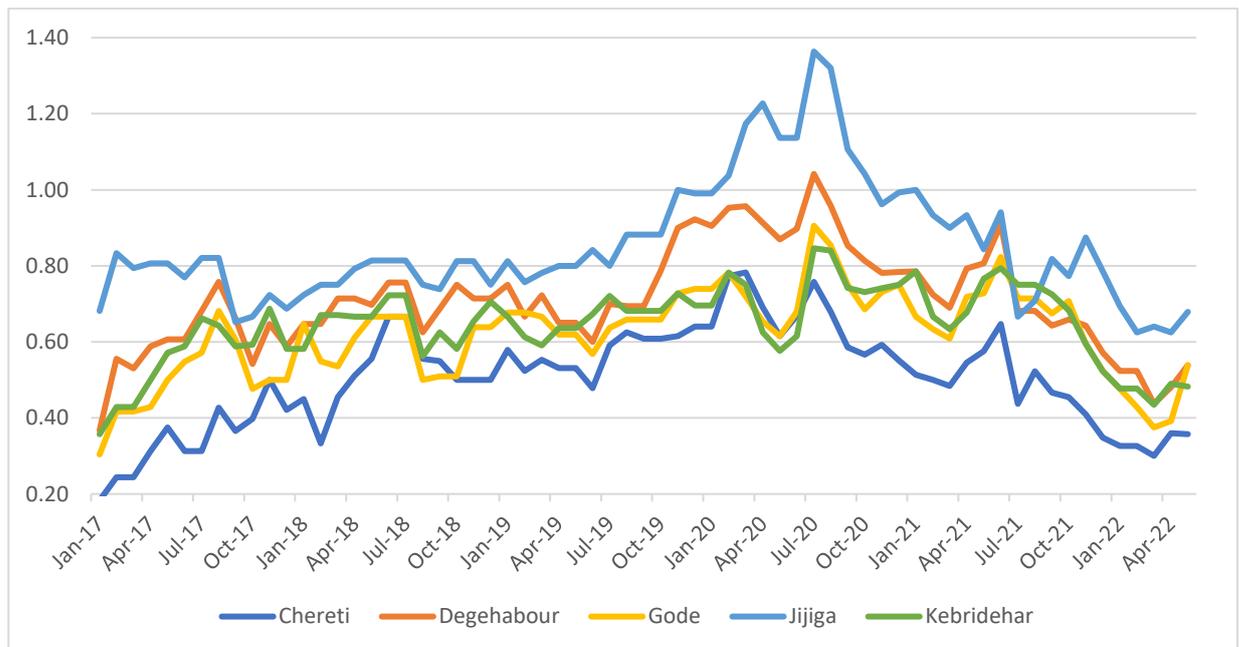
Source: WFP Market Price Monitoring Surveys

5.2 Shoat to wheat flour:

Figure 13: Even though the ToT has shown slight improvement in April and May 2022 compared to preceding months, it is still far below the level in the same month of the previous year. An average-sized male sheep/goat that could fetch 77 kg of wheat flour in May 2021 in Kebrideahr

market now brings only 48 kg of wheat flour in May 2022, indicating a deterioration of purchasing power of pastoralists by 38 percent year on year. In Chereti market, ToT deteriorated from 58 Kg to 36 Kg of wheat flour during the same period. Under such circumstances, poor households are forced to buy significantly less quantities of food compared to the quantities they purchased one year ago, or they are forced to switch to less preferred and cheaper substitute food items to cope with the price hikes.

Figure 13: Terms of trade (ToT) in Somali markets: Shoat to wheat flour



Source: WFP Market Price Monitoring Surveys

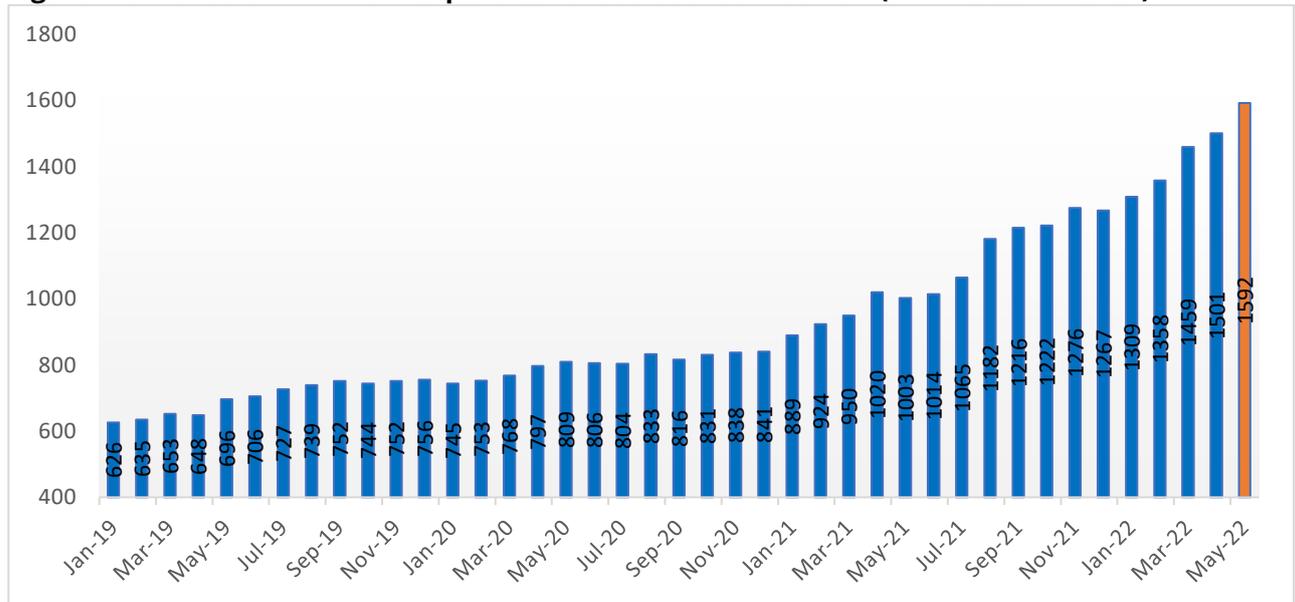


6. Minimum Expenditure Basket (food) in Somali¹¹

Figure 14: The MEB for a household required to meet its basic food needs in rural Somali jumped from 1,003 Birr/person/month in May 2021 to 1,591 Birr person/month in May 2022, an increase of 59 percent over one-year period. This means households needed to spend 59 percent more money to meet their essential food needs in rural Somali. The food MEB remained at elevated level since July/August 2021. The main driver for the strong month-on-month increase in the cost of living is partly associated with the surge in the prices of cereal particularly that of wheat flour, maize, rice, and sorghum.

¹¹ The minimum expenditure food basket (MEB) is set based on the consumption patterns of households and capabilities to meet their essential food needs (consuming between 2,000 to 2,200 Kcal per person per day). In the construction of the MEB, reference is made with the 2016 Household Consumption expenditure Survey (HCES) carried out by the Central Statistical Agency and costed using the prevailing prices of the items in the local markets.

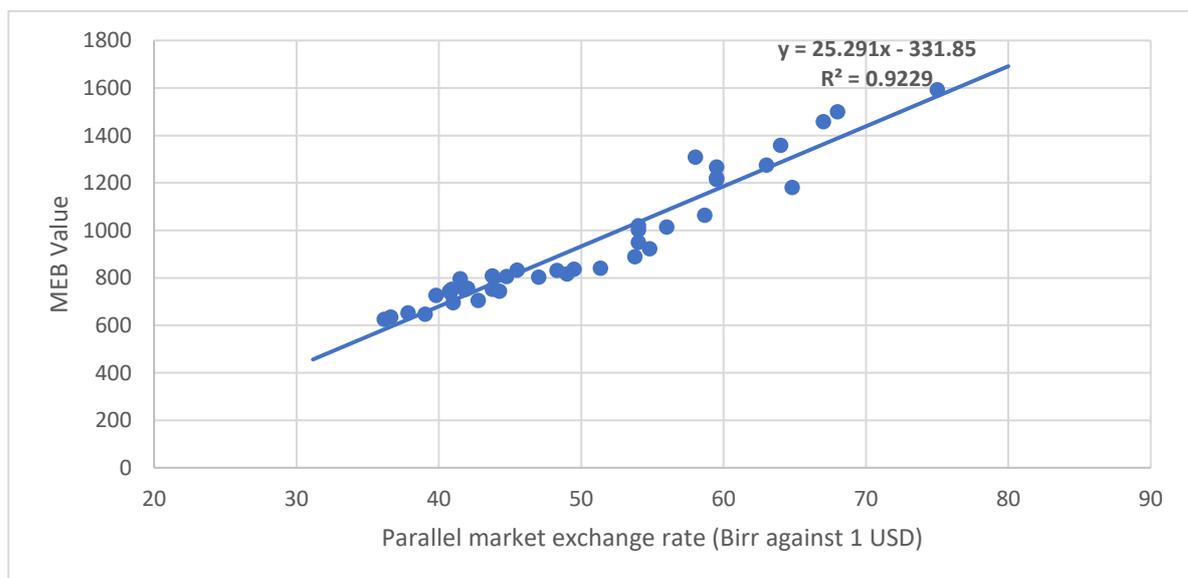
Figure 14: Trends of minimum expenditure food basket in Somali (Birr/Person/Month)



Source: WFP Market Price Monitoring Surveys

Figure 15: As suggested elsewhere in this report, traders in Somali region heavily depend on the parallel market to obtain foreign currency to import food and non-food commodities from outside. Accordingly, the below scatterplot and the simple regression line fitted show a strong positive relationship between the exchange rate of Birr against USD in the parallel market and the value of the minimum expenditure basket (MEB) in Somali region. The points in the graph are tightly clustered around the regression line suggesting that strong linear relationship between the parallel market exchange rate and the value of MEB. As suggested by the very high (92.3 percent) R-Squared value, the exchange rate in the parallel market is strong predictor of the value of MEB in Somali market.

Figure 15: The relationship between exchange rate in the parallel market and the value of MEB (food) in Somali region



The continual increase of the MEB value could imply that households are not able to meet their immediate food needs because of the increase in the cost of food unless their income has also increased proportionally. With the prevailing drought condition that depleted the livelihood opportunities of the Somali pastoralists, the income of households is more likely to decrease. The average Productive Safety Net Programme wage rate for Somali for the 2014 Ethiopian Fiscal year that begun as of July 2021 stands at 355 Birr /client/month, as such the transfer covers slightly around 22 percent of the food needs of rural households in May 2022.



6. Markets & Food Security Outlook

- The severe drought condition in the south and southeast, in Somali, parts of Oromia, SNNP and southwest regions will continue to distress food security and livelihoods of pastoralist and agro-pastoralists. Unfortunately, there is a broad consensus from meteorological experts on a concrete risk that the *Dyer* 2022 rains (October-December 2022 rains) could also fail leading to a fifth poor season¹². In addition, food imports, a crucial source of rice and processed staples such as wheat flour and pasta are becoming more costly following the increased cost of the US dollar in the parallel market and the price increase in the international market. Should these forecasts materialize, the already severe humanitarian emergency in the region would deepen even further.
- Very high food prices in Tigray, amidst shortage of fuel and transportation within the region and disruption of food supply from other regions, on which Tigray was dependent, and challenges related to continued food assistance to the most vulnerable, are worrisome for the food insecurity of the population in Tigray.
- A very high concentration of internally displaced persons in the conflict-affected areas in northern Ethiopia, amidst the production loss due to the conflict, and poor *Belg* rain in Belg producing areas will further pressure food prices upwards and undermine food security of the population, both displaced and host. The poor *Sugum*, March to May rains in Afar, almost no rains during this time, has led to dry conditions. This coupled with the still felt conflict impact and general high food prices is negatively affecting already fragile food security in the region.
- The Ukraine war will continue to pose challenge to the Ethiopian economy through increased cost of fuel, fertilizer, wheat, vegetable oil, steel and iron. Given that these are strategic items in the economy, the demand for these items is inelastic and as a result shred further the scarce foreign currency reserves in the country. As the traders pass the increased cost to the consumers, poor households will be disproportionately affected, and the food security status of more households will be jeopardized in the coming months.
- Despite the subsidy provided by the government on the price of fertilizer, the selling price of fertilizer (which is almost double of the price in the previous year) is still unaffordable for the significant number of subsistence farmers, which consequently decrease the level of fertilizer use. This may lead to lower food production in the upcoming *meher* season. In connection with higher production cost and lower production, food prices may rise further at a time when food insecurity is at a record high due to the combined effects of the conflict, drought, and Covid-19.

¹² <https://docs.wfp.org/api/documents/WFP-0000140462/download/>

Annex I: Price movement of commodities in Somali markets, May 2022

Market	Commodity	Price (ETB/Kg)	Price Change (%)					
			1 month		3 Months		1 Year	
Chereti	Maize: w/sale (50 kg)	1800	6%	▲	13%	▲	71%	▲
Chereti	Milk Camel (1 Liter)	75	7%	▲	25%	▲	114%	▲
Chereti	Milk Cattle (1 Liter)	70	8%	▲	17%	▲	100%	▲
Chereti	Oxen : Export Grade 1	13000	30%	▲	63%	▲	53%	▲
Chereti	Oxen : Export Grade 2	12000	33%	▲	71%	▲	64%	▲
Chereti	Oxen : Export Grade 3	9500	27%	▲	46%	▲	46%	▲
Chereti	Oxen : Local (Slaughter)	8500	21%	▲	42%	▲	6%	▶
Chereti	Rice: w/sale (50 kg)	2650	7%	▲	15%	▲	52%	▲
Chereti	Shoat : Export	3000	25%	▲	50%	▲	36%	▲
Chereti	Shoat : Local (Breeding)	1400	17%	▲	56%	▲	17%	▶
Chereti	Shoat : Local (Slaughter)	2000	11%	▲	33%	▲	5%	▶
Chereti	Sorghum: w/sale (50 kg)	3000	50%	▲	67%	▲	114%	▲
Chereti	Sugar: w/sale (50 kg)	3000	20%	▲	20%	▲	74%	▲
Chereti	Unskilled labour rates (per day)	400	-11%	▼	-11%	▼	33%	▲
Chereti	Water prices per 20 lit Jerrycan	7	-30%	▼	-30%	▼	40%	▲
Chereti	Wheat flour (50 kg)	2800	12%	▲	22%	▲	70%	▲
Chereti	Wheat relief w/sale (50 kg)	1800	20%	▲	0%	▶	80%	▲
Degehabour	Maize: w/sale (50 kg)	1800	6%	▲	-5%	▶	80%	▲
Degehabour	Milk Camel (1 Liter)	75	7%	▲	7%	▶	50%	▲
Degehabour	Milk Cattle (1 Liter)	70	0%	▶	0%	▶	40%	▲
Degehabour	Oxen : Export Grade 3	13500	8%	▲	23%	▲	23%	▲
Degehabour	Oxen : Local (Slaughter)	11000	10%	▲	10%	▲	5%	▶
Degehabour	Rice: w/sale (50 kg)	2500	0%	▶	19%	▲	56%	▲
Degehabour	Shoat : Export	3000	15%	▲	30%	▲	15%	▶
Degehabour	Shoat : Local (Breeding)	1600	7%	▲	33%	▲	45%	▲
Degehabour	Shoat : Local (Slaughter)	2800	12%	▲	27%	▲	12%	▶
Degehabour	Sorghum: w/sale (50 kg)	2700	35%	▲	35%	▲	170%	▲
Degehabour	Sugar: w/sale (50 kg)	2800	17%	▲	22%	▲	65%	▲
Degehabour	Unskilled labour rates (per day)	340	13%	▲	13%	▲	13%	▶
Degehabour	Water prices per 20 lit Jerrycan	10	0%	▶	43%	▲	100%	▲
Degehabour	Wheat flour (50 kg)	2600	0%	▶	24%	▲	68%	▲
Degehabour	Wheat relief w/sale (50 kg)	2000	18%	▲	0%	▶	100%	▲
Fik	Maize: w/sale (50 kg)	1800	6%	▲	6%	▶	100%	▲
Fik	Milk Camel (1 Liter)	70	0%	▶	27%	▲	56%	▲
Fik	Milk Cattle (1 Liter)	65	0%	▶	18%	▲	44%	▲
Fik	Oxen : Local (Slaughter)	15000	11%	▲	50%	▲	67%	▲
Fik	Rice: w/sale (50 kg)	2900	16%	▲	26%	▲	66%	▲
Fik	Shoat : Export	2900	12%	▲	38%	▲	16%	▶
Fik	Shoat : Local (Breeding)	1700	21%	▲	55%	▲	70%	▲
Fik	Shoat : Local (Slaughter)	3000	7%	▲	25%	▲	36%	▲
Fik	Sorghum: w/sale (50 kg)	2200	16%	▲	22%	▲	100%	▲
Fik	Sugar: w/sale (50 kg)	2500	0%	▶	4%	▶	40%	▲
Fik	Unskilled labour rates (per day)	300	-14%	▼	-14%	▼	-14%	▶
Fik	Water prices per 20 lit Jerrycan	8	14%	▲	60%	▲	60%	▲
Fik	Wheat flour (50 kg)	2900	7%	▲	32%	▲	76%	▲



Market	Commodity	Price (ETB/Kg)	Price Change (%)		
			1 month	3 Months	1 Year
Fik	Wheat relief w/sale (50 kg)	2500	14% ▲	19% ▲	92% ▲
Gode	Maize: w/sale (50 kg)	2000	25% ▲	33% ▲	111% ▲
Gode	Milk Camel (1 Liter)	70	-13% ▼	17% ▲	75% ▲
Gode	Milk Cattle (1 Liter)	70	0% ►	27% ▲	100% ▲
Gode	Oxen : Export Grade 1	17000	55% ▲	70% ▲	70% ▲
Gode	Oxen : Export Grade 2	15000	58% ▲	67% ▲	76% ▲
Gode	Oxen : Export Grade 3	12000	41% ▲	50% ▲	50% ▲
Gode	Oxen : Local (Slaughter)	10000	11% ▲	11% ▲	11% ►
Gode	Rice: w/sale (50 kg)	2500	0% ►	14% ▲	52% ▲
Gode	Shoat : Export	3900	50% ▲	77% ▲	37% ▲
Gode	Shoat : Local (Breeding)	1500	25% ▲	67% ▲	36% ▲
Gode	Shoat : Local (Slaughter)	2800	40% ▲	56% ▲	17% ►
Gode	Sorghum: w/sale (50 kg)	3800	100% ▲	100% ▲	171% ▲
Gode	Sugar: w/sale (50 kg)	2960	16% ▲	23% ▲	72% ▲
Gode	Unskilled labour rates (per day)	450	13% ▲	13% ▲	29% ▲
Gode	Water prices per 20 lit Jerrycan	5	-50% ▼	-29% ▼	25% ▲
Gode	Wheat flour (50 kg)	2600	2% ►	24% ▲	58% ▲
Gode	Wheat relief w/sale (50 kg)	2300	28% ▲	24% ▲	156% ▲
Jijiga	Maize: w/sale (50 kg)	2000	11% ▲	-5% ►	67% ▲
Jijiga	Milk Camel (1 Liter)	100	11% ▲	43% ▲	67% ▲
Jijiga	Milk Cattle (1 Liter)	90	13% ▲	29% ▲	80% ▲
Jijiga	Oxen : Export Grade 1	28000	4% ►	33% ▲	70% ▲
Jijiga	Oxen : Export Grade 2	25500	6% ▲	28% ▲	69% ▲
Jijiga	Oxen : Export Grade 3	22500	7% ▲	32% ▲	61% ▲
Jijiga	Oxen : Local (Slaughter)	20000	-5% ►	11% ▲	29% ▲
Jijiga	Rice: w/sale (50 kg)	2800	8% ▲	27% ▲	67% ▲
Jijiga	Shoat : Export	4200	5.0% ▲	27% ▲	35% ▲
Jijiga	Shoat : Local (Breeding)	1800	6% ▲	29% ▲	20% ▲
Jijiga	Shoat : Local (Slaughter)	3800	9% ▲	27% ▲	41% ▲
Jijiga	Sorghum: w/sale (50 kg)	2800	27% ▲	33% ▲	133% ▲
Jijiga	Sugar: w/sale (50 kg)	2800	17% ▲	22% ▲	65% ▲
Jijiga	Unskilled labour rates (per day)	350	0% ►	17% ▲	17% ▲
Jijiga	Water prices per 20 lit Jerrycan	12	-20% ▼	-20% ▼	20% ▲
Jijiga	Wheat flour (50 kg)	2800	0% ►	17% ▲	75% ▲
Jijiga	Wheat relief w/sale (50 kg)	2400	0% ►	14% ▲	71% ▲
Kebridehar	Maize: w/sale (50 kg)	1700	0% ►	0% ►	79% ▲
Kebridehar	Milk Camel (1 Liter)	85	6% ▲	21% ▲	113% ▲
Kebridehar	Milk Cattle (1 Liter)	80	0% ►	14% ▲	100% ▲
Kebridehar	Oxen : Local (Slaughter)	12000	14% ▲	20% ▲	33% ▲
Kebridehar	Rice: w/sale (50 kg)	2500	9% ▲	14% ▲	56% ▲
Kebridehar	Shoat : Export	3100	7% ▲	24% ▲	13% ►
Kebridehar	Shoat : Local (Breeding)	1600	23% ▲	60% ▲	33% ▲
Kebridehar	Shoat : Local (Slaughter)	2700	13% ▲	29% ▲	17% ►
Kebridehar	Sorghum: w/sale (50 kg)	2700	42% ▲	42% ▲	93% ▲
Kebridehar	Sugar: w/sale (50 kg)	2900	18% ▲	23% ▲	71% ▲
Kebridehar	Unskilled labour rates (per day)	450	13% ▲	13% ▲	29% ▲
Kebridehar	Water prices per 20 lit Jerrycan	13	-13% ▼	86% ▲	225% ▲



Market	Commodity	Price (ETB/Kg)	Price Change (%)		
			1 month	3 Months	1 Year
Kebridehar	Wheat flour (50 kg)	2800	14% ▲	27% ▲	87% ▲
Kebridehar	Wheat relief w/sale (50 kg)	1600	0% ►	-11% ▼	78% ▲
Filtu	Maize: w/sale (50 kg)	1600	0% ►	0% ►	68% ▲
Filtu	Milk Camel (1 Liter)	60	-8% ▼	20% ▲	140% ▲
Filtu	Milk Cattle (1 Liter)	60	-14% ▼	20% ▲	100% ▲
Filtu	Oxen : Export Grade 1	12000	20% ▲	33% ▲	41% ▲
Filtu	Oxen : Export Grade 2	10000	25% ▲	43% ▲	25% ▲
Filtu	Oxen : Export Grade 3	8000	14% ▲	33% ▲	14% ►
Filtu	Oxen : Local (Slaughter)	9000	29% ▲	50% ▲	13% ►
Filtu	Rice: w/sale (50 kg)	2600	0% ►	4% ►	41% ▲
Filtu	Shoat : Export	3000	43% ▲	58% ▲	36% ▲
Filtu	Shoat : Local (Breeding)	1500	67% ▲	88% ▲	50% ▲
Filtu	Shoat : Local (Slaughter)	2200	38% ▲	69% ▲	10% ►
Filtu	Sorghum: w/sale (50 kg)	2500	39% ▲	47% ▲	108% ▲
Filtu	Sugar: w/sale (50 kg)	3000	15% ▲	20% ▲	67% ▲
Filtu	Unskilled labour rates (per day)	350	-5% ▼	-13% ▼	17% ►
Filtu	Water prices per 20 lit Jerrycan	5	-67% ▲	-67% ▼	-38% ▼
Filtu	Wheat flour (50 kg)	2800	8% ▲	17% ▲	65% ▲
Filtu	Wheat relief w/sale (50 kg)	1800	13% ▲	6% ►	64% ▲
Siti	Maize: w/sale (50 kg)	2000	14% ▲	18% ▲	122% ▲
Siti	Milk Camel (1 Liter)	70	0% ►	8% ►	17% ►
Siti	Milk Cattle (1 Liter)	70	8% ▲	27% ▲	56% ▲
Siti	Oxen : Export Grade 1	21000	11% ▲	31% ▲	35% ▲
Siti	Oxen : Export Grade 2	19000	9% ▲	27% ▲	31% ▲
Siti	Oxen : Export Grade 3	16000	3% ►	14% ▲	19% ►
Siti	Oxen : Local (Slaughter)	18500	3% ►	16% ▲	16% ►
Siti	Rice: w/sale (50 kg)	2600	8% ▲	24% ▲	58% ▲
Siti	Shoat : Export	3400	6% ▲	26% ▲	36% ▲
Siti	Shoat : Local (Breeding)	1600	0% ►	23% ▲	60% ▲
Siti	Shoat : Local (Slaughter)	3100	-3% ►	24% ▲	41% ▲
Siti	Sorghum: w/sale (50 kg)	2100	11% ▲	11% ▲	91% ▲
Siti	Sugar: w/sale (50 kg)	2700	13% ▲	23% ▲	50% ▲
Siti	Unskilled labour rates (per day)	350	17% ▲	17% ▲	17% ►
Siti	Water prices per 20 lit Jerrycan	10	0% ►	43% ▲	67% ▲
Siti	Wheat flour (50 kg)	2800	12% ▲	22% ▲	65% ▲
Siti	Wheat relief w/sale (50 kg)	2100	5% ▲	2% ►	75% ▲
Warder	Maize: w/sale (50 kg)	2100	5% ▲	11% ▲	91% ▲
Warder	Milk Camel (1 Liter)	70	0% ►	8% ►	133% ▲
Warder	Milk Cattle (1 Liter)	75	0% ►	7% ►	114% ▲
Warder	Rice: w/sale (50 kg)	2700	10% ▲	17% ▲	59% ▲
Warder	Shoat : Export	3100	15% ▲	24% ▲	19% ►
Warder	Shoat : Local (Breeding)	1700	13% ▲	42% ▲	42% ▲
Warder	Shoat : Local (Slaughter)	2800	17% ▲	40% ▲	27% ▲
Warder	Sorghum: w/sale (50 kg)	3100	48% ▲	48% ▲	107% ▲
Warder	Sugar: w/sale (50 kg)	2750	15% ▲	25% ▲	67% ▲
Warder	Unskilled labour rates (per day)	350	-13% ▼	-13% ▼	0% ►
Warder	Water prices per 20 lit Jerrycan	10	-33% ▼	25% ▲	150% ▲



Market	Commodity	Price (ETB/Kg)	Price Change (%)		
			1 month	3 Months	1 Year
Warder	Wheat flour (50 kg)	2800	14% ▲	33% ▲	77% ▲
Warder	Wheat relief w/sale (50 kg)	2000	11% ▲	11% ▲	82% ▲

▲	Price increase above normal (above 5% within one month, above 10% within three months, and above 20% within one year)
▶	Normal Price change (±5% within one month, ±10% within three months, and ±20% within one year)
▼	Price decrease below normal (Below -5% within one month, below -10% within three months, and below -20% within one year)

For more information about this bulletin, contact VAM Unit:

Tsegazeab.bezabih@wfp.org, Alemtsehai.alemu@wfp.org or [Esther Kabaire@wfp.org](mailto:Esther.Kabaire@wfp.org)

DIVISION NAME: VAM Food Security Analysis

World Food Programme, Ethiopia

Address- Bole Ring Road, Sub-city – Bole, Wereda-02, House No. 2753

P.O.Box 25584 code 1000,

Addis Ababa, Ethiopia

