



# Market Watch

## Ethiopia | October 2022

### HIGHLIGHTS

- **Inflation:** Headline inflation dips for fifth consecutive months and hit its lowest level in a year in September 2022. Food inflation which stood at 43.9 percent in May 2022, the highest in ten years, reduced to 31 percent in September 2022. While the inflation rate had dropped, the purchasing power of households continues to grow weaker. Price indices of fats and oil, fruits and milk and dairy products registered substantial increase in September compared to the same time last year
- **Exchange rates:** According to the official exchange rate that is guided by the National Bank of Ethiopia (NBE), the Ethiopian Birr exchanged at 52.52 to the dollar while the parallel rate offers around 84 to 90 Birr to the dollar in September 2022. However, the rate fell to around 70 Birr after the Government unleashed crackdown on the black market.
- **Fuel:** As part of the process to lift subsidy to fuel price step by step, the Government of Ethiopia (GoE) has made its second-round price revision that came into effect on the mid-night of September 28. In Addis Ababa, the prices of diesel and benzene has been revised upward to 59.9 Birr/Lit and 57.05 Birr/Lit, which is up by 19 percent and 22 percent, respectively. Through targeted subsidy scheme, public transport vehicles will continue to buy benzene at 41.26 Birr per liter and diesel at 40.86 Birr per liter, 32 percent and 28 percent lower than the normal pumping prices, respectively.
- **Prices in conflict affected areas in Tigray:** Over the past eight months, steep and extraordinary high prices have been registered in the prices of teff (172 percent), maize (218 percent), sorghum (281 percent), and wheat grain (219 percent). The Terms of Trade (ToT) for wage to cereals is consistently deteriorating since November 2021 primarily due to the declining wage rate accompanied with the skyrocketing cereal price. For instance, a daily labourer could generate an income that was able to fetch 6.2 kg of sorghum in November 2021 could only buy 2 kg of sorghum in September 2022.
- **Prices in Addis Ababa market:** In September 2022, the price of maize stands at 37 percent above the year earlier values and 131 percent above the five-year average for the month. The price of all varieties of teff spiked in June 2019 and continued steadily over more than two years until it slowed down at the end of 2021 and the beginning of 2022.
- **Terms of Trade (purchasing power) in Somali region:** An average-sized male sheep/goat that could fetch 75 kg of maize in September 2021 in Chereti market now brings only 60 kg in September 2022, a decrease by 21 percent. An average-sized male sheep/goat that could fetch 72 kg of wheat flour in September 2021 in Kebridehar market now brings only 50 kg of wheat flour in September 2022, a decrease by 31 percent. These decreases are attributed to deterioration of livestock body condition due to drought accompanied with the substantial price hike of cereals.
- **Market and food security outlook:** Food prices may decline marginally with the next harvest – from November onwards. However, the underlying upward pressure will remain in place due to an array of factors.



# 1. Inflation

## 1.1 Headline inflation dips for fifth consecutive months and hit its lowest level in a year in September 2022

**Figure 1** - The year-on-year headline inflation, an indicator of the cost of living, has been exhibiting a downward trend since May 2022 and reached 30.7 percent in September 2022. According to the report released by Ethiopian Statistics Service (ESS), the headline inflation which recorded its highest in a decade hitting 37.2 percent in May 2022, declined to 33.5 and 32.5 percent in July and August 2022. The headline inflation registered in the month is the lowest level recorded in 12 months. The latest headline inflation level is now 158 percent higher than the target set by the GoE at 11.9 per cent<sup>1</sup> for the fiscal year that started in July 2022. On the other hand, the inflation registered in September is 9 percent lower than the projection made by International Monetary Fund (IMF) for 2022 and 7 percent higher than that of 2023<sup>2</sup>.

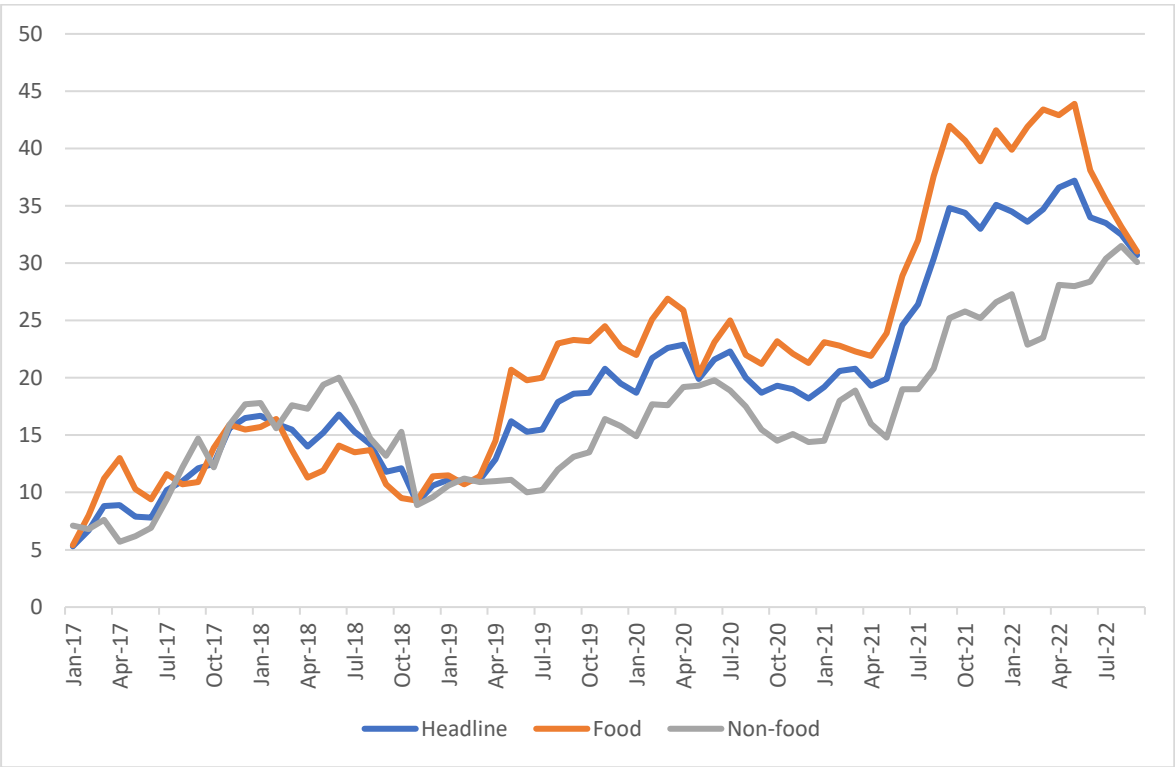
While it seems like the rate had dropped, it is the rate of increase that has dropped not the Consumer Price Index (CPI), which means that the purchasing power of households continues to grow weaker. The decline in the headline inflation is mainly driven by the food inflation that constituted around 54 percent of the CPI – the rates which stood at 43.9 percent in May 2022, the highest in ten years, reduced to 31 percent in September 2022. The non-food component of the CPI continued mounting and reaching 31.5 percent in August 2022, the highest point over the past two decades, and slightly dipped to 30.1 percent in September 2022. This means, that the three indicators of cost of living came closer to convergence at elevated level in August and September 2022, the first episode after May 2020.

The combined effect of the global COVID-19 pandemic, inflationary pressure across the world, the conflict in Northern Ethiopia, and the displacement of millions, the drought in Southern and Southeastern Ethiopia, and political instability have exacerbated the inflationary pressure that is threatening lives and livelihoods and driving a massive humanitarian crisis across the country.

<sup>1</sup> <https://qz.com/africa/2185006/inflation-in-ethiopia-has-remained-above-25-percent-for-a-year/#:~:text=Ethiopia's%20inflation%202021%20to%202022&text=In%20a%20speech%20last%20month,37.2%25%20inflation%20registered%20in%20May.>

<sup>2</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

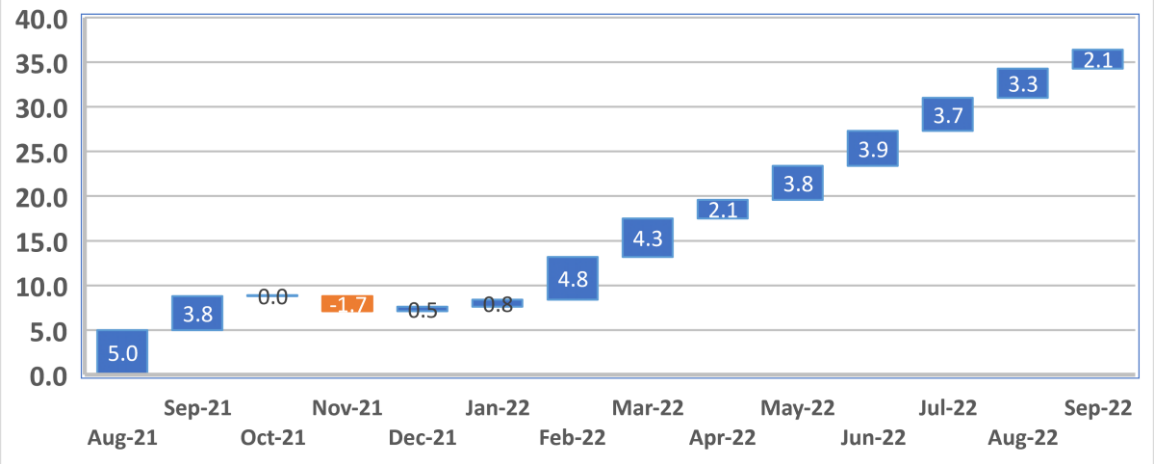
**Figure 1:** Trends of Year-on-year Inflation (Jan 2017 -September 2022)



Source: Ethiopian Statistics Services Consumer Price Index (CPI) – September 2022

**Figure 2** - Despite a decline in headline inflation, month-on-month inflation increased by 2.1 percent in September, meaning that prices for baskets of food items commonly consumed in Ethiopia were higher than they were in August. The highest month-on-month CPI for food in the year was recorded in February (4.8 percent) followed by March (4.3 percent). The month-on-month food inflation has been decreasing for the third month in row in September.

**Figure 2:** Trends of Month-on-Month change on CPI Change



Source: Ethiopian Statistics Services Consumer Price Index (CPI) – September 2022

## 1.2 Price indices of oils and fats showed the highest year on year increase in September 2022

**Figure 3** - price indices of fats and oil, fruits and milk and dairy products registered substantial increase in September compared to the same time last year.

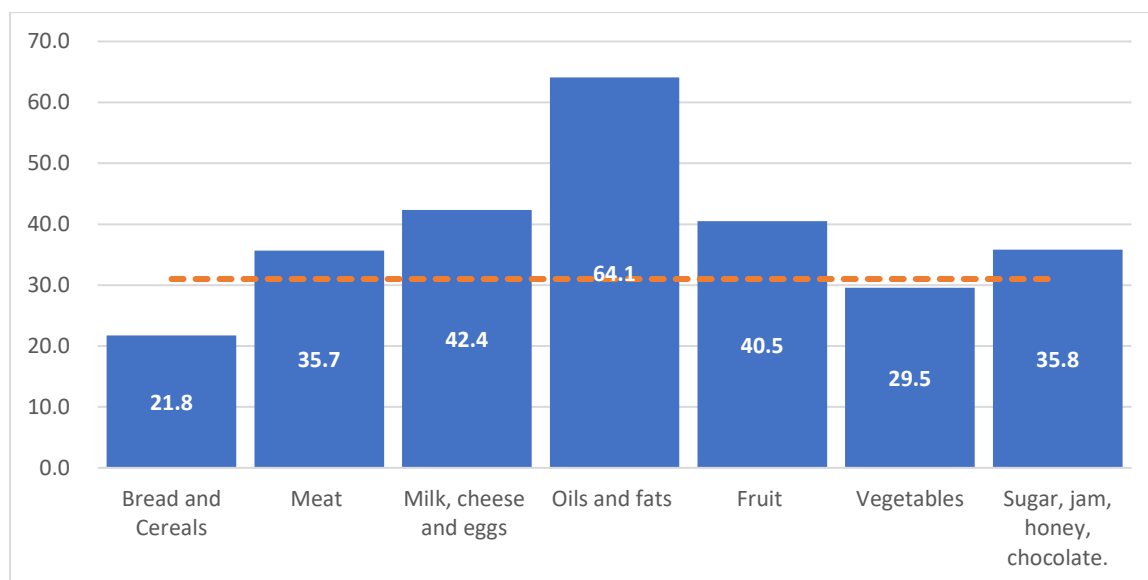
**Oils and fats** - The index for oils and fats rose by 64.1 percent between September 2021 and September 2022, far above the food inflation rate for the month. Despite the price of vegetable oil in the global market continued to drop for fifth consecutive months in August, the prices in the local market have not been declining correspondingly. The local industries established to promote import substitution are performing far below their capacity because of scarcity of inputs from local production<sup>3</sup> and the forex crunch for importing crude palm oil.

**Fruits:** the index for fruits exhibited a year on year rise of 40.5 percent in September 2022.

**Milk, cheese, and egg and meat:** also showed significant increase which may be attributable to the increased price of feed and the massive loss of chicken due to the mortality of chicken from fowl cholera, a contagious, bacterial bird disease. It is responsible for the deaths of one million chickens in Ethiopia every year<sup>4</sup>.

**Vegetables:** due to the outbreak of a fungal disease in the vegetable producing corridors of Meki and Zeway, the supply of tomato in the market had been dwindled that led to the skyrocketing of price of a kilo of tomatoes to 80 birr early in September.

**Figure 3:** Year-on-year changes in the CPI of food groups, September 2022



Source: Ethiopian Statistics Services Consumer Price Index (CPI) – September 2022

<sup>3</sup> Sesame made up over 95pc of the 2.43 million quintals of oilseeds harvested by commercial farmers in Ethiopia. However, nearly all of the cash crop was exported to obtain the badly needed foreign currency.

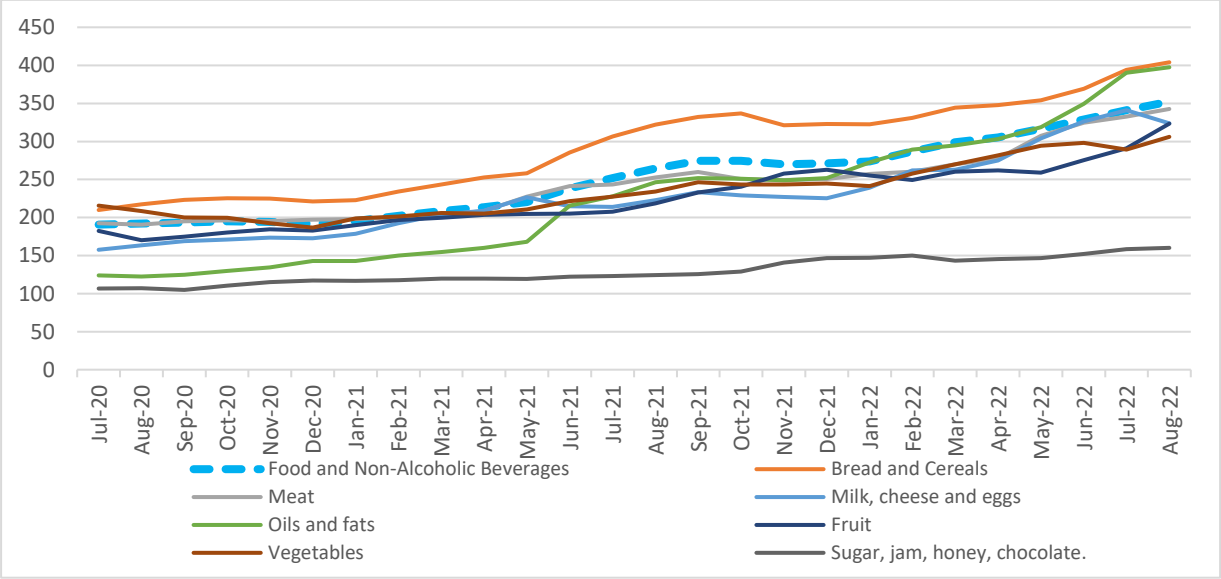
(<https://addisfortune.news/cooking-oil-buy-sluggish-as-supply-issues-glare/>)

<sup>4</sup> (<https://addisfortune.news/walking-on-eggshells-poultry-farms-grapple-for-survival/>)



**Figure 4** - The index for cereals, that constitutes around 32 percent of the food CPI and 17 percent of the overall CPI, has been running far above the overall food index and other indices. This implies that the consistent price increase in cereals have heavy weight on the exacerbation of inflation in the country. The price index of fats and oil that had been lower than the overall food index until last April prices started to ramp up in May, that coincided with the intensification of the Ukraine conflict. The indices for nutritious items such as dairy, meat, fruit, vegetables, and pulses remained below the overall food index. Despite the fact that the price indices of these nutritious food items are increasing at relatively slower pace, their prices are relatively high that makes them inaccessible to the poor.

**Figure 4:** CPI Trends of Major Food Categories, July 2020 to August 2022 (Dec 2016=100)

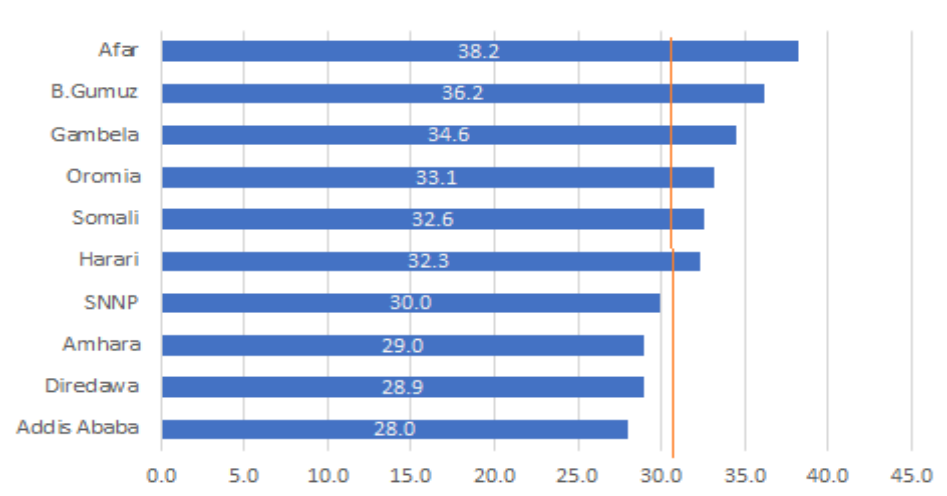


Source: Ethiopian Statistics Services Consumer Price Index (CPI) - September 2022

### 1.3 Inflation reported highest in Afar, Beneshangul Gumuz, and Gambella regions

**Figure 5** - Food inflation hit the highest year-on-year increase in Afar (38.2 percent), followed by Beneshangul Gumuz (36.2 percent) and Gambella (34.6 percent). The frequent disruption of the supply chain to and from the three regions due to security incidents may be the driver of the inflation in these three regions.

**Figure 5:** Year-on-Year food inflation by region, September 2022



Source: Ethiopian Statistics Services Consumer Price Index (CPI) - September 2022

#### 1.4 Who are the most vulnerable to the galloping inflation?

The continued rise in food prices places its own impacts on different segments of the population in Ethiopia disproportionately. The following categories are more likely to be affected significantly by the galloping inflation the country is experiencing.

**Urban Poor:** inflation usually weighs more on low-income people living in urban setting. These are usually net buyers of food which increases their vulnerability for price hikes. Lower-income consumers in the urban Ethiopia setting tend to spend more than 60 percent of their income on food and have less of a cushion against the loss of purchasing power inherent in inflation. The plunge in the labour market of the construction sector in urban Ethiopia in connection with the ever-increasing prices of construction materials (particularly, cement and steel bar) render lower bargaining power of low-income/low-skilled workers engaged in the sector. This can also lead to lower real wages if inflation outpaces pay rises. This will further depress the businesses of petty traders that rely on their clients in the construction sector. The most immediate reaction to an increase in the price of food is a decrease in dietary quality, followed by a decrease in quantity. This may mean that the absolute number and prevalence of malnourished people will increase substantially in connection to the inflation.

**Salaried employees in the formal sector:** The sharp rise in food prices places an enormous pressure on workers in the formal sector whose salaries are generally fixed in nominal terms. The inflation of such a magnitude reduces the purchasing power of the population in this segment, since a fixed amount of money will afford progressively less consumption.

**Net food buyer rural poor:** rural households that are landless and engaged in wage labour facing severe income constraints are also more likely to be affected by inflation. These households are typically net food buyers. The degree to which these population groups are susceptible to food price spikes varies. In this and similar situations, poor rural families will employ coping mechanisms that usually have detrimental effect on the nutritional status of household members.

**Children:** the prevailing galloping food inflation erodes the purchasing power of poor households, and the cost of a nutritious diet will be beyond the reach of many households. This will undermine the dietary diversity and overall dietary quality and total energy intake, with short term implications of acute malnutrition (wasting) and long-term implications of chronic undernutrition (stunting). Food access constraint due to inflation has far-reaching consequences on children's health, potentially lifelong that determine their future health, educational achievement, job market, family formation, social behavior, and many other life-course outcomes.

### 1.5 Government measures to address inflation

- 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. The GoE has also hinted that the country may start wheat exports by next year.
- Addis Ababa city administration has announced that extension of the measure banning landlords to increase house rent price for additional six months (until February, 2023). 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 tenants<sup>5</sup>. 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.
- The GoE has maintained targeted fuel subsidies for public transport despite it is in the process of phasing out subsidies particularly to fuel and electricity.

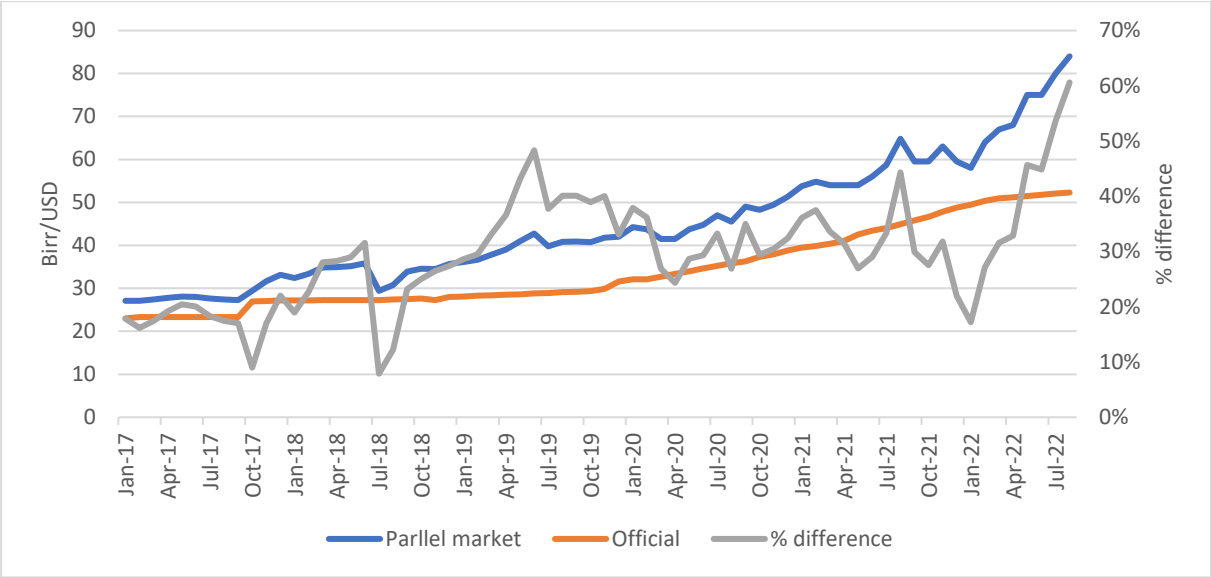
## 2. Currency Exchange Rates

### 2.1 The gap between the official and parallel exchange rates of Birr Vs. USD reached record level in September 2022

According to the official exchange rate that is guided by NBE, the Ethiopian Birr exchanged at 52.52 to the dollar while the parallel rate offers around 84 to 90 Birr to the dollar in September 2022. **Figure 5** - Over the past 12 months, the official exchange rate of the Birr has lost its value by 15 percent against United States Dollar (USD). The NBE has slowed down the rate of devaluation after implementing creeping devaluation between November 2019 until April 2022.

The difference between the official exchange rate and the parallel markets, that had been going down between August 2021 and January 2022, exhibited steep divergence since then and hit record 61 percent in August 2022. The exchange rate of Birr slid to 90 to a dollar in mid-September at the parallel markets in Addis Ababa and Togo Wuchalle<sup>6</sup>, thus widening the gap between the official and parallel market exchange rates to a record 37 Birr or 71 percent. After the crackdown unleashed by the Government on the parallel market, the gap between the two rates narrowed down to around 33 percent towards the end of September and October.

**Figure 6:** Trends of Official and Parallel market exchange rate (USD against Birr)



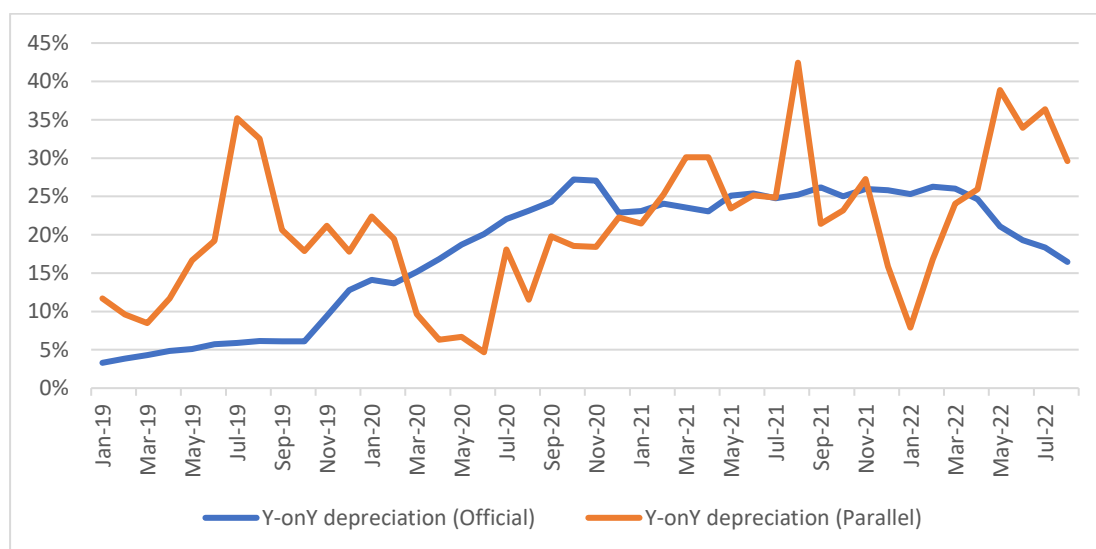
Source: NBE and WFP

The strengthening of US dollar against currencies including Euro, UK Pound, etc. is pushing up the price of imported food, fuel and medicine. The loss in the value of the Birr against baskets of foreign currencies makes it more expensive to acquire imported goods and materials, consequently dictating the amount final consumers have to spend. Ethiopia depends on domestic production for a large share of its food needs. Nonetheless, some food and most non-food items are still imported through franco valuta scheme.

<sup>6</sup> Togo Wuchalle town, located in Somali region 80 km away from the capital of Somaliland (Hargeissa), is hotspot for the parallel currency exchange.



**Figure 7:** Trends of year-on-year Official and Parallel market exchange rates (USD against Birr)



Source: NBE and WFP (own calculation)

## 2.2 Forex earning

According to the World Bank, Ethiopia received USD5.3 billion in foreign aid in 2020, making the market the world's third largest recipient of foreign aid.<sup>7</sup> However, the flow of assistances (grants, loans) fell by one-third in 2020-21 since the outbreak of the war in Northern Ethiopia, although the shortfall has been compensated by the increased forex inflow from the private sector (exports, remittances, Foreign Direct Investment (FDI)).<sup>8</sup> In the 2021/22 Ethiopian fiscal year, Ethiopia generated a record 4.12 billion US dollars from export trade (13.8 percent increase from the previous year's 3.62 billion USD) and earned a total of more than 22.7 billion US dollars from all sources of the last fiscal year<sup>9</sup>. The other main sources of Ethiopia's forex inflows in 2021-22 were service receipts (6.2 billion USD), remittances (5.3 billion USD), Foreign Direct Investment (3.2 billion USD), loans (1.1 billion USD, counting both Government plus state owned enterprises borrowing) and grants (1 billion USD). However, due the elevated need for foreign exchange for debt service and elevated global prices of fuel, fertilizer, shipping cost, etc. particularly after the Ukraine war further ballooned the import bill to 18 billion USD (or an extra 4 billion USD) in the fiscal year<sup>10</sup>.

## 2.3 Franco Valuta

The Ministry of Finance relaxed the Franco Valuta privilege to importers of basic food items including edible oil, wheat, sugar, baby milk and rice. The privilege allowed importers that have their own foreign currency to import these items free of tax. National Bank of Ethiopia recently pointed out that the opening up of the franco valuta privilege

<sup>7</sup> <https://data.worldbank.org/indicator/DY.ODA.ALLD.CD?locations=ET>

<sup>8</sup> <https://cepheuscapital.com/wp-content/uploads/2019/01/Ethiopia-Macroeconomic-Handbook-2022.pdf>

<sup>9</sup> <https://cepheuscapital.com/wp-content/uploads/2019/01/Ethiopia-Macroeconomic-Handbook-2022.pdf>

<sup>10</sup> <https://newbusinessethiopia.com/trade/ethiopia-eyes-export-income-surpassing-5-billion-as-coffee-gold-prices-increase/#:~:text=Ethiopia's%20total%20hard%20currency%20earnings,Ethiopia's%20gross%20foreign%20currency%20earnings.>

has already posed another unintended repercussion on the foreign 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. 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. While the parallel market provides an avenue for businesses to access foreign currency, the price of imported goods escalates exponentially as the importers pass on the higher rate of exchange in the parallel market to the consumers. The NBE announced that it will reinstate the scrutiny on the source of the foreign currency on those who are engaged in import business using franco valuta. Traders who import foreign goods via Franco-Valuta are required to submit a bank statement to NBE that confirms the amount of dollars they have abroad.

#### 2.4 Monetary policy measures to ameliorate the challenges related to Foreign Currency exchange and financial sector

- NBE announced that banks should remit 70 percent of their foreign currency earnings from different sources (export of goods and services, remittance, NGO transfer, etc) to NBE<sup>11</sup>. The remaining 30 percent of the forex will be shared between the banks (10 percent) and the investors who brought the foreign currency (20 percent). In the previous revision of August 2021, the share that should be surrendered to NBE had been raised from 30 percent to 50 percent. The progressive increase in the share of NBE is to meet the increased need for foreign currency for strategic purposes including debt service, import petroleum products, pharmaceuticals, etc.
- In a bid to improve the forex revenue and access to finance, the GoE has announced that it is planning to open-up the bank business to foreigners as well. The major drivers for the adoption of this measure are to improve efficiency in the banking service, the transfer of technology and knowledge in the sector, enhancing global competitiveness, and integrating Ethiopia's economy into the global financial system. According to the revised policy, foreign banks can open subsidiary arms in Ethiopia, open branches in Ethiopia, and will also be allowed to acquire shares in existing local banks<sup>12</sup>.
- In a bid to channel available foreign currency to the priority items and discourage the parallel market, the Ministry of Finance has notified NBE to freeze the issuance of Letters of Credit (LC) for the import of 38 items identified as non-priorities indefinitely. Among others, the items prohibited include drinks (whiskey or beer and other alcoholic beverages), chewing gum, chocolate, water, cigarettes, human and artificial hair, perfumes, sea foods, automobiles and motorcycles, (except electric vehicles), and three-wheelers, etc.
- The Ethiopian Finance Intelligence Service (FIS) warned agencies and local actors accused of involving in illegal money transfer activities under the cover of legal hawala to refrain from their activities.<sup>13</sup>
- NBE announced that administrative action is being taken against entities that operate illegal foreign currency transfer services. It was also announced that 391

<sup>11</sup> <https://nbebank.com/wp-content/uploads/pdf/directives/forex/fxd-79-2022.pdf>

<sup>12</sup> <https://www.ethiopianreporter.com/111462/>

<sup>13</sup> <https://www.fanabc.com/archives/157700>

people who were providing illegal hawala money transfer services of foreign countries in the black market had their bank accounts frozen and their name referred to Ministry of Justice for further investigation. The NBE also introduced rewarding system for those who unmask illegal activities.

- Those who unmask those involved in illegal hawala foreign currency transfer will be rewarded with up to 25,000 Birr.
  - It is forbidden to keep more than 100 thousand birr for individuals and 200 thousand birr for companies. A person who provides an information about the hoarding of more than the amount of money allowed by the guideline will receive 15 percent of the money.
  - It is not possible to store gold illegally at home and the people tipping about illegal storage will receive 15 percent of the transaction.
- NBE issued a directive<sup>14</sup> on the limits of Birr and foreign currency holding in the territory of Ethiopia. According to the directive, a person entering and departing from Ethiopia may hold up to maximum of Birr 3,000.00 (Birr Three Thousand) per travel to and from Ethiopia<sup>15</sup>. A person residing in Ethiopia entering Ethiopia shall convert all foreign currency he/she is carrying at an authorized forex bureau for the equivalent sum in Birr, or deposit to his/her foreign currency account within 30 days of entry to the territory. However, he/she has to present custom declaration if the foreign currency amount exceeds USD 4,000 (USD Four Thousand) or equivalent in any other convertible foreign currency while depositing into foreign currency account. Foreign nationals of Ethiopian Origin or Ethiopian National not residing in Ethiopia who enter the territory carrying foreign currency and intended to stay more than ninety days shall deposit the money into his/her Non-resident (NR) foreign currency account. However, if the amount of the foreign currency exceeds USD 10,000 (USD Ten Thousand) or equivalent in any other convertible foreign currency, he/she has to present custom declaration to deposit or convert it to Birr at an authorized forex bureau.
  - The Ministry of Finance opened bank accounts that will accept donations from the diaspora community in Euro, USD, or Pound.



## 3. Fuel

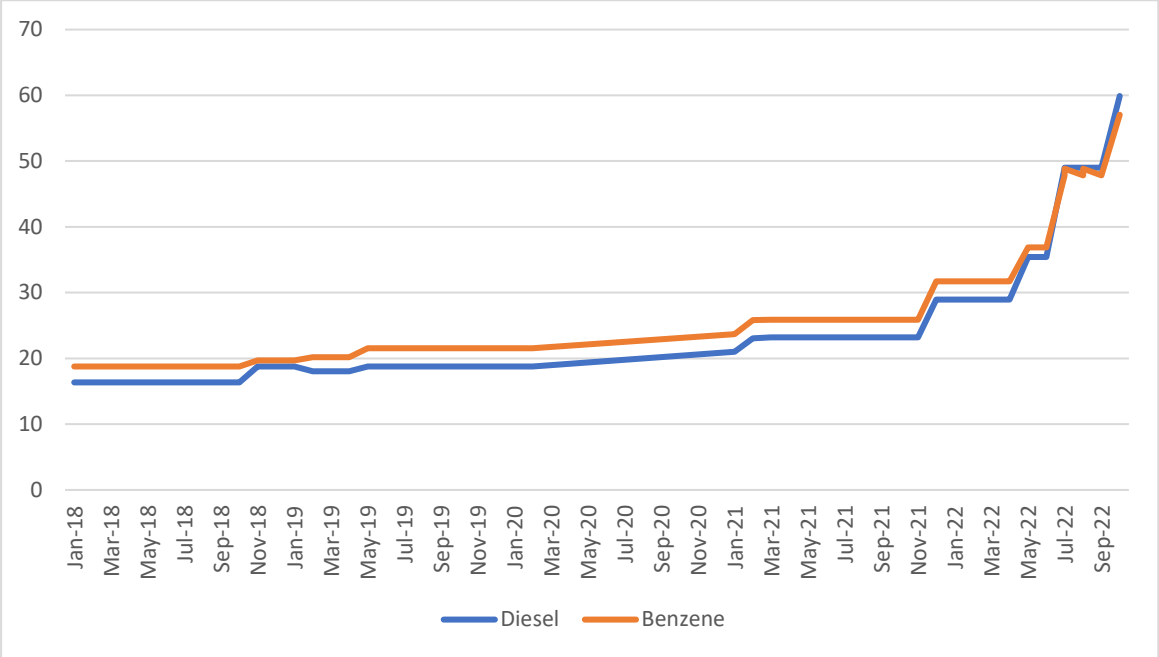
### 3.1 the Government introduced second round fuel price revision

**Figure 9** - As part of the process to lift subsidy to fuel price step by step, the GoE has made its second-round price revision that comes to effect as of September 28 mid-night. In Addis Ababa, the prices of diesel and benzene has been revised upward to 59.9 Birr/Lit and 57.05 Birr/Lit, an upward increase by 19 percent and 22 percent, respectively.

<sup>14</sup> <https://nbebank.com/wp-content/uploads/pdf/directives/forex/fxd-81-22.pdf>

<sup>15</sup> However, a person travelling to Djibouti may hold up to a maximum amount of Birr 10,000 (Birr Ten Thousand) per travel.

**Figure 8:** Pumping prices of benzene and diesel in Addis Ababa (Birr/liter)

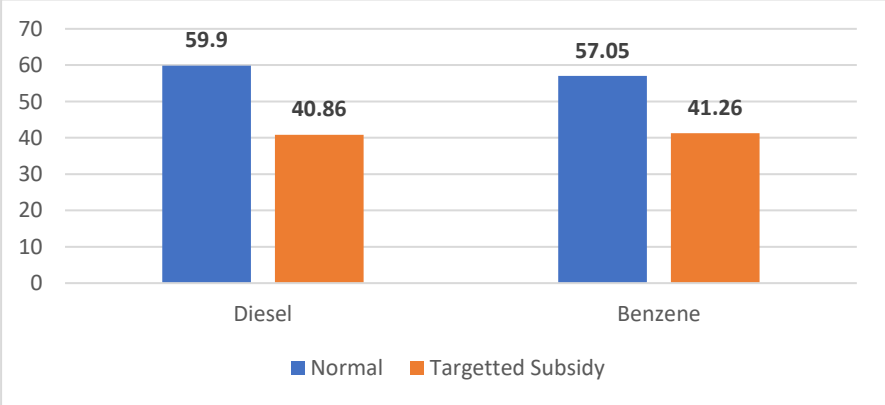


Source: WFP Market Database, October 2022

**3.2 Targeted Subsidy to public transport**

**Figure 9** - On the second round of fuel price revision, no price change has been made on the fuel price for public transport vehicles, which were chosen to serve the public under the targeted subsidy scheme meant to benefit low-income citizens. These vehicles will continue to buy benzene at 41.26 Birr per liter and diesel at 40.86 Birr per liter. This means, public transport vehicles will buy benzene and diesel at prices 32 percent and 28 percent lower than the normal pumping prices, respectively. Accordingly, the public transport fares will remain unchanged until the next price revision. Fuel subsidies are primarily for public transport vehicles. 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. Subsidies for public transport vehicles is set to decline progressively every year, and it will be completely lifted after the fifth year from now.

**Figure 9:** Pumping prices of benzene and diesel (Normal vs. Targeted Subsidy) in Addis Ababa (Birr/liter)

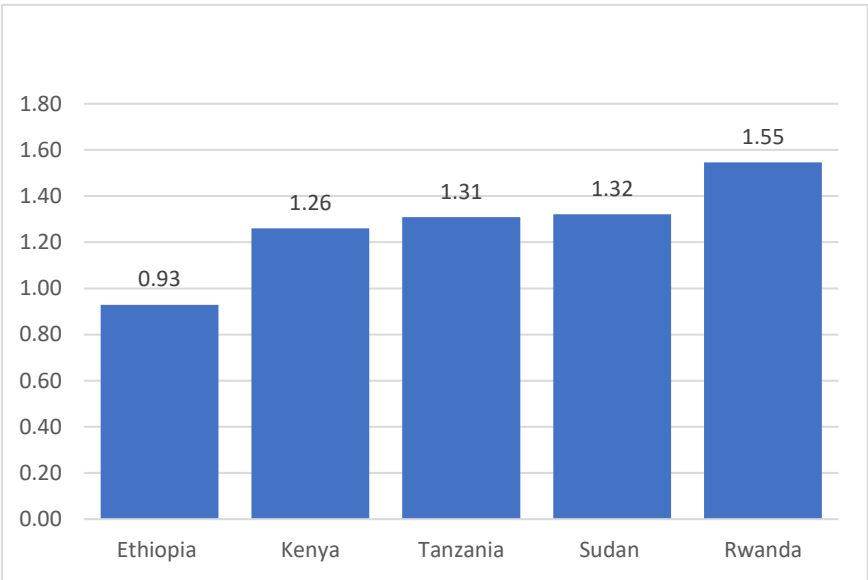


Source: WFP Market Database, October 2022

3.2 Pumping price in Ethiopia as compared to East African countries

**Figure 10** - In September 2022, the pumping price of fuel in Ethiopia is still relatively cheaper compared to the corresponding prices in other East African countries. For example, the prices of gasoline in Kenya and Rwanda stand at 35 percent and 67 percent above the price level in Ethiopia, respectively.

**Figure 10:** Gasoline Prices (USD/Liter) in Some East African Countries



Source: Global Petrol Prices: [https://www.globalpetrolprices.com/diesel\\_prices/](https://www.globalpetrolprices.com/diesel_prices/)

3.3 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.

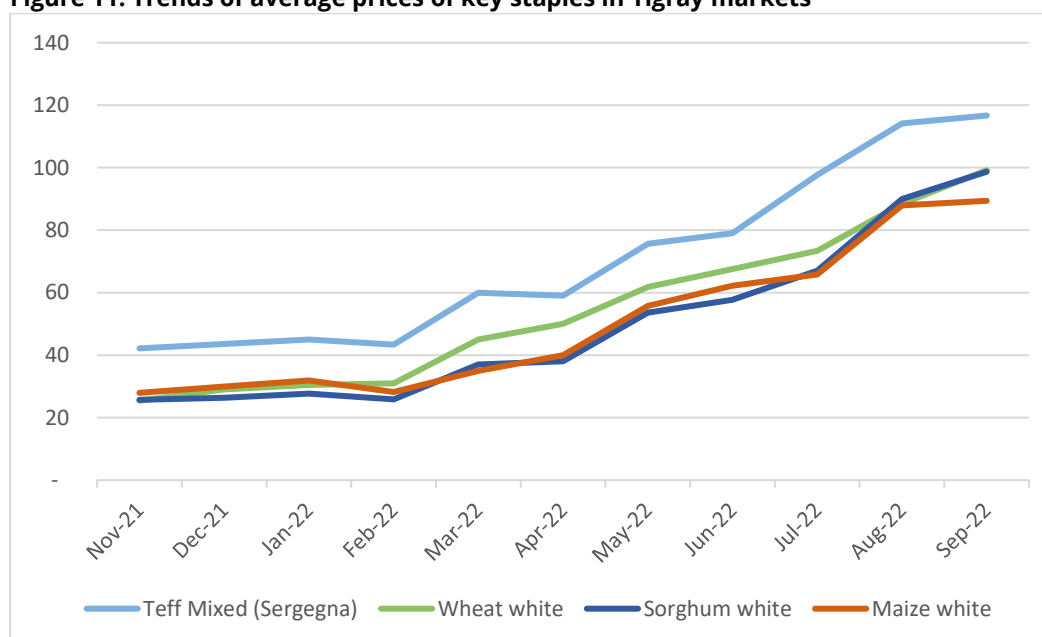
# 4. Market dynamics in Conflict-affected areas of Tigray

**Figure 11** - Retail prices of cereals surged in March 2022 and the strong upward pressure continued through September in Tigray. Over the past eight months, steep and extraordinary price has been registered in the prices of teff (172 percent), maize (218 percent), sorghum (281 percent), and wheat grain (219 percent). Despite inflation being a



phenomenon all over Ethiopia, the price increase in Tigray is relatively higher compared to those in the other parts of the country.

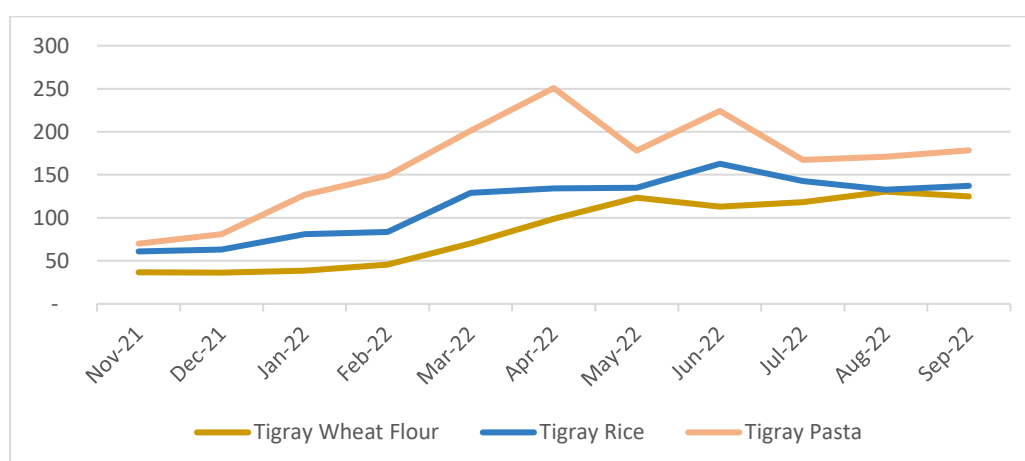
**Figure 11: Trends of average prices of key staples in Tigray markets**



Source: WFP market survey

Prices for factory processed and imported items such as wheat flour, pasta, and rice have been rising between November 2021 and April 2022. The trend since then is mixed, probably suggesting the easing of availability after humanitarian assistance.

**Figure 12: Average prices of key staples in Tigray markets, September 2022**

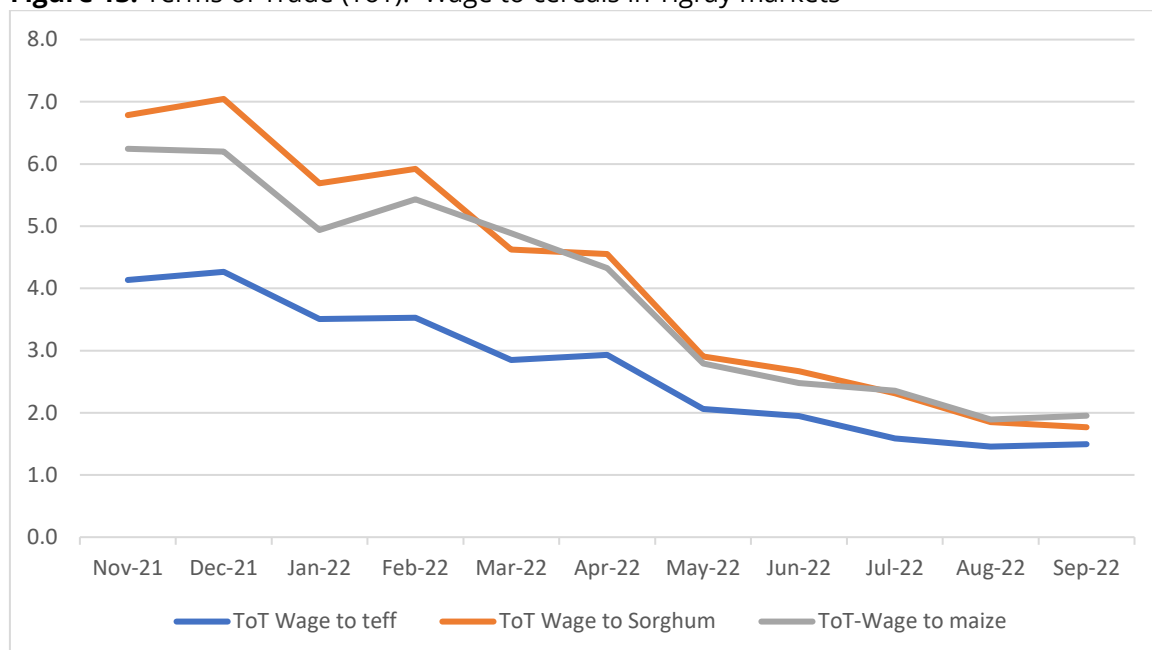


Source: WFP market survey

**Wage to cereals terms of trade (ToT):** The economic opportunities for households engaged in the wage labour in Tigray have been severely disrupted because of the on-going conflict. **Figure 13** - the ToT for wage to cereals is consistently deteriorating since November 2021 primarily due to the declining wage rate accompanied with the skyrocketing cereal prices. For instance, a daily labourer could generate an income that is able to fetch 6.2 kg of sorghum in November 2021 could only buy 2 kg of sorghum in September 2022. To make things worse, the opportunities to get the chance of

employment is very scarce due to the economic downturn. Daily labourers are one of the most adversely affected segments of population affected by the ongoing conflict.

**Figure 13:** Terms of Trade (ToT): Wage to cereals in Tigray markets



Source: WFP market survey

## 5. Food price trends in Addis Ababa market

The Addis Ababa grain market is considered as a price setter for food prices nationally. Traders transport a large number of foods from different parts of the country for consumption within the city and for transshipment to other markets. Because most markets in the country are integrated to the Addis Ababa market, it signals the overall market situation of the food market in the country. Underpinned by the macro-economic challenges the country is facing and the ongoing conflict that impede agricultural and trading activities, prices are still far above the previous year and five-year average for the month. The characteristics of the patterns of change in the prices and supply of key staples are discussed below.

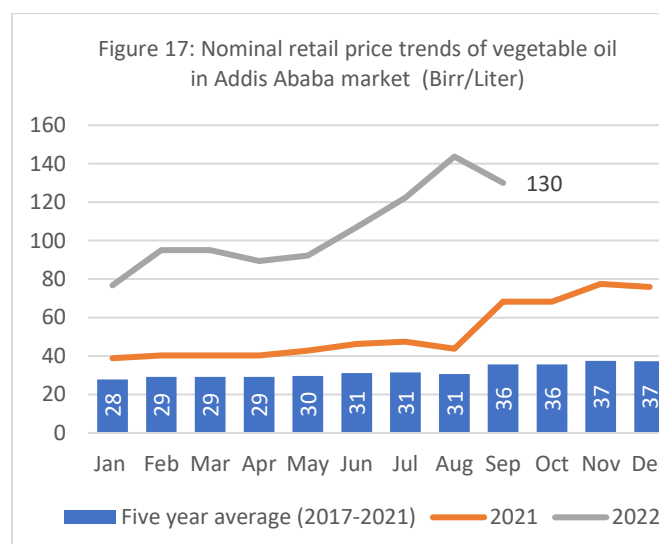
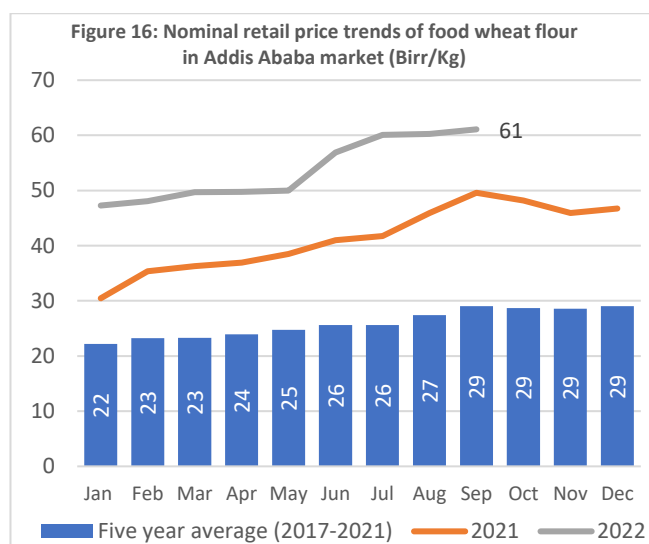
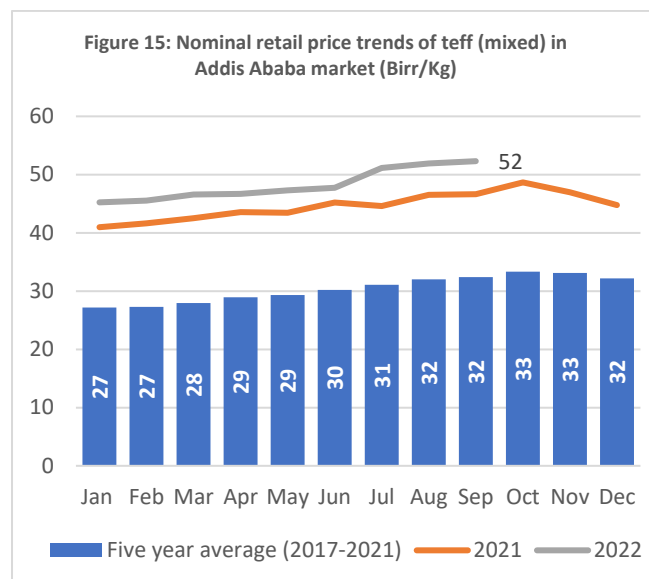
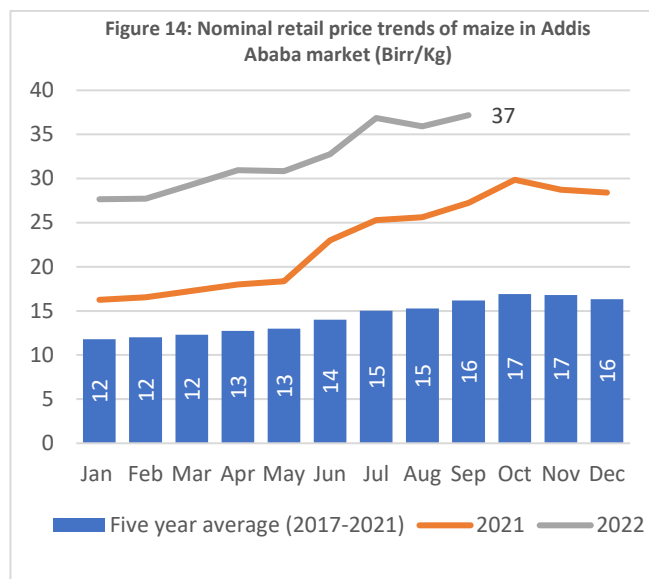
**Maize** is considered as the most affordable cereal in Ethiopia as compared to other major cereals such as teff, wheat, and sorghum. Despite maize not being an important source of dietary energy in Addis Ababa, it is widely traded as it is transported and consumed in other destinations where it is widely consumed, constituting around 20 percent of the dietary calory consumption. **Figure 14** - The prices of maize has been steadily increasing over the past several months with extraordinary spike registered in June and July 2021. Between July and September 2022, prices remained relatively flat owing to the arrival of production in most *Belg*-producing areas. In September 2022, the

price of maize stood at 37 percent above the year earlier values and 131 percent above the five-year average for the month. Since maize is one of the most consumed staple foods particularly for the poor households, the recent price increase has far-reaching impact on access to food and subsequent food consumption behaviors of poor households.

**Teff** is relatively expensive and the most consumed cereal in Addis Ababa. The average annual consumption of teff stood at 115 kg per adult equivalent, which constitutes some 38 percent of the total calorie intake in the city. Accordingly, changes in the prices of teff in Addis Ababa market have significant impact on household food expenditure share and budget allocation. **Figure 15** - The price of all varieties of teff spiked in June 2019 and continued steadily over more than two years until it slowed down at the end of 2021 and the beginning of 2022. Prices of *sergegnä* teff, the variant consumed dominantly by the middle-income households, are reported to be 11 percent higher than the prices one year ago and 63 percent above the five-year average for the month. The steady increase stems from an upsurge in consumer demand, mainly because the production could not keep pace with the fast-growing demand which is further underpinned by the galloping inflation prevailing in the country and seasonality.

Approximately 10 percent of the dietary energy consumed by Ethiopians is derived from wheat. Ethiopia is the largest **wheat** producer in sub-Saharan Africa, but demand is far above the supply from the local produce. In line with the recent price trends of other cereals, the price of wheat flour exhibited sudden increase between May and July and remained plateaued then after. In September, the retail price of wheat flour in Addis Ababa stands at 60 Birr/kg, around 22 percent above the price level one year ago and 110 percent above the five-year average for the month.

Households in Ethiopia spend around 4 percent of their food budget on fats and oil and derive about 7 percent of the total calorie. The prices of vegetable oil had been relatively stable over the past several years until August 2021. The price showed sudden upsurge in September 2021 and the strong upward pressure continued over the past one year, echoing the trend in the international market. **Figure 17** - The price level in September 2022 is 92 percent above the corresponding value in September 2021 and 261 percent above the five-year average for the month.



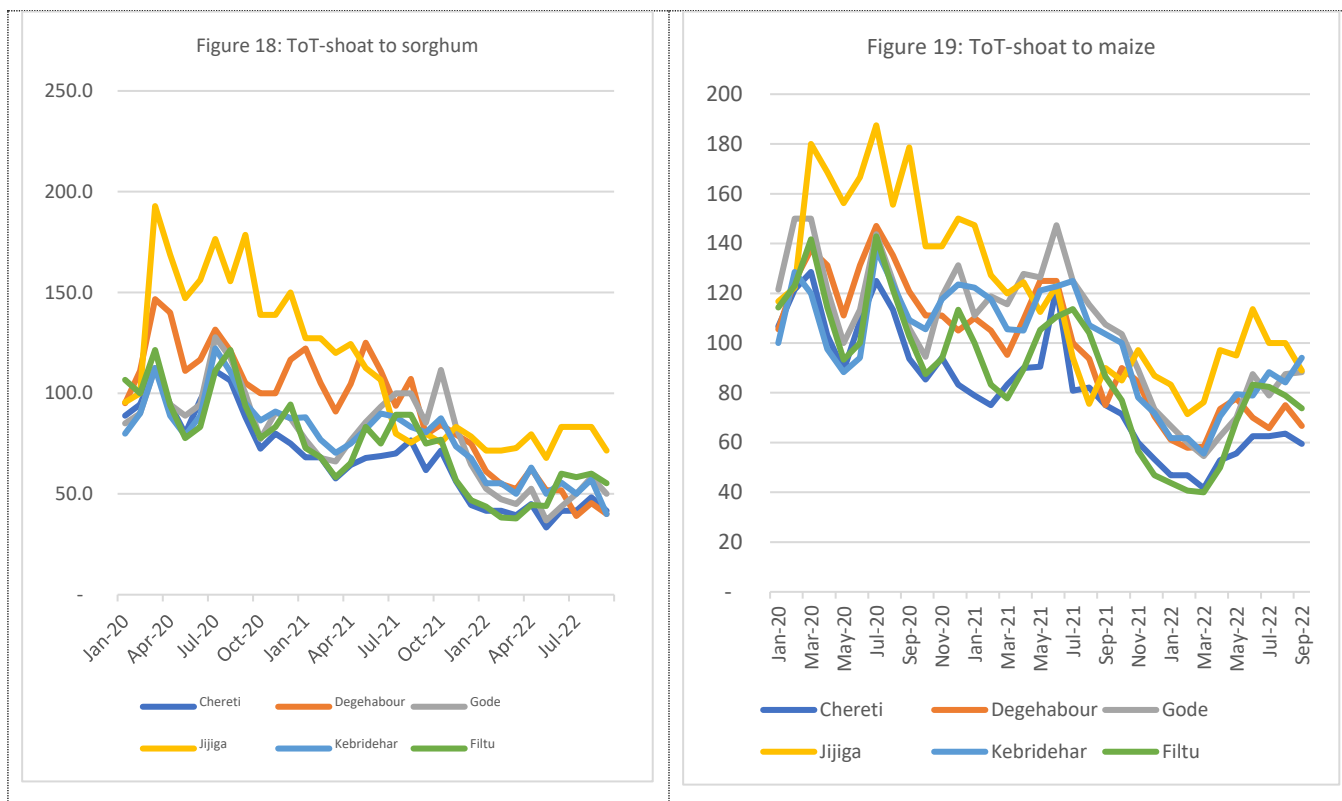
Source: Ethiopian Statistics Service

## 6. Terms of Trade (ToT): Shoat to Coarse cereals and Shoat to Refined cereals in Somali region

Pastoralist households in Somali region rely on markets for a significant portion of their food needs. The exchange value of livestock to grains is of critical importance to measure the purchasing power of pastoralist households. ToTs are computed for Shoat (sheep and goat) and commonly consumed cereals below.

**Shoat to coarse cereals:** Figures 18 and 19 illustrate the trends of shoat to maize and shoat to sorghum ToT in six Somali region markets over the past 33 months. The trends

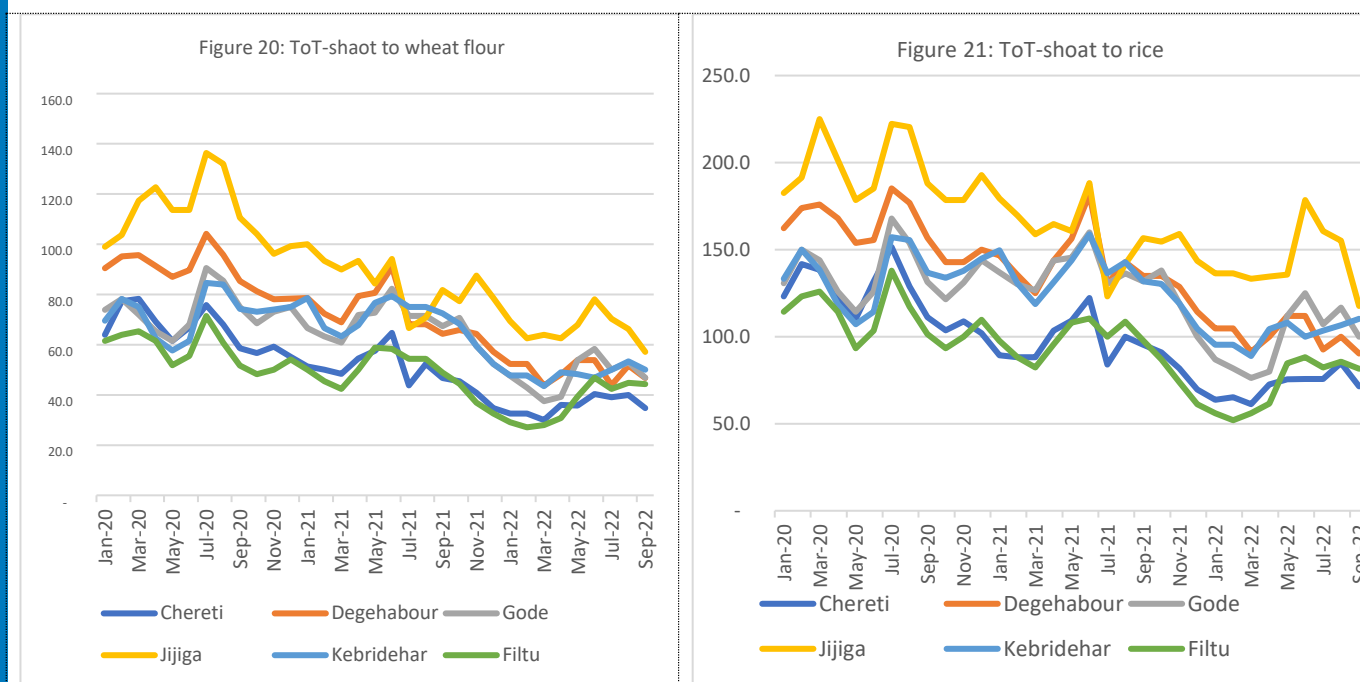
of the ToT, which has been in a general downward trend over the past two years showed a slight recovery during the *Gu* rainy season (April to June) but continued to plunge seasonally in the ensuing *Hagaya* (July to September) months. The below average *Gu rain* succeeded with the *Hagaya* dry season impacted on livestock body condition and milk production negatively. An average-sized male sheep/goat that could fetch 75 kg of maize in September 2021 in Chereti market now brings only 60 kg in September 2022, a decrease of 21 percent. In Degehabour market the ToT has deteriorated from 79 Kg to 40 Kg of sorghum during the same period.



Source: WFP Market Price Monitoring Surveys

**Shoat to refined cereals:** refined cereals such as pasta, wheat flour, rice, etc. constitute around 31 percent of the dietary energy consumption in Somali region. Refined cereals are imported to Somali region mostly through informal routes. **Figure 20 and 21** depict the ToT of shoat to rice and shoat to wheat flour, which indicates how much wheat flour and rice a pastoralist can buy after selling an average sized goat/sheep. The overall trend show that the ToT has been deteriorating over the past two years, due to the combined effect of the devaluation of Birr particularly in the parallel market and the drought that has hit the region. An average-sized male sheep/goat that could fetch 72 kg of wheat flour in September 2021 in Kebridehar market now brings only 50 kg of wheat flour in September 2022, a decrease by 31 percent. In Chereti market the ToT has deteriorated from 52 Kg to 45Kg of rice 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.





Source: WFP Market Price Monitoring Surveys



## 7. Markets & Food Security Outlook

- Food prices may decline marginally with the next harvest – from November onwards. However, the underlying upward trends will remain for all crops due to array of factors.
- The reinstatement of vetting on the sources of forex for the franco valuta-based importing may depress the availability and consequently the prices of imported essential food items such as edible oil in the market.
- The Council of Ministers has approved to enforce mandatory fortification of wheat flour and edible oil. Accordingly, wheat flour is required to contain vitamins B1, 2, 3, 6, 9, folic acid, and zinc while edible oil will have to be fortified with Vitamin A and D. As a result, the prices of wheat flour and edible oil may show slight increase in the coming months as the additional cost related to fortification is expected to be transferred onto consumers.<sup>16</sup>
- 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) increased the production cost of crops. In connection with higher production cost and lower production, food prices may rise further at a time when food insecurity is affecting a large segment of urban and rural population due to the combined effects of the conflict, inflation, and drought.
- The severe drought condition in the south and southeast, in Somali, parts of Oromia, SNNPR and southwest regions, will continue to distress food security and

<sup>16</sup> <https://www.thereporterethiopia.com/25738/>

livelihood of pastoralist and agro-pastoralists. Unfortunately, Greater Horn of Africa Seasonal Climate Outlook Forum forecasted that the *Dyer* 2022 rains (October-December 2022 rains) could also fail leading to an unprecedented five dry seasons in a row.<sup>17</sup> In addition, food import, a crucial source of rice and processed staples such as wheat flour and pasta, is 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 Somali 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 is worrisome to say the least.
- The Ukraine war will continue to pose challenge to the Ethiopian economy through increased bill of fuel, fertilizer, vegetable oil, steel and iron. Given that these are strategic commodities in the economy, the demand for these commodities is inelastic and, as a result, shed further the scarce foreign currency reserves of 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.

<sup>17</sup> <https://reliefweb.int/report/ethiopia/greater-horn-africa-faces-5th-failed-rainy-season>

○ Annex: Annex I: Price movement of commodities in Tigray markets (regional average), September 2022

Market	Commodity	Price (ETB/Kg)	Price Change (%)			
			1 month	3 Months	6 months	
Tigray	Mixed teff (kg)	117	2%	48%	95%	
Tigray	Wheat grain (kg)	99	12%	47%	120%	
Tigray	White sorghum (kg)	99	10%	71%	167%	
Tigray	Maize (kg)	89	2%	44%	155%	
Tigray	Barley (kg)	101	4%	25%	160%	
Tigray	Wheat flour (kg)	125	-4%	11%	79%	
Tigray	Rice (kg)	137	4%	-16%	6%	
Tigray	Fava bean (kg)	139	-16%	17%	25%	
Tigray	Palm oil (L)	328	-1%	-15%	-26%	
Tigray	Pasta (kg)	179	4%	-20%	-11%	
Tigray	Onion (kg)	66	96%	199%	20%	
Tigray	Tomato (kg)	58	-2%	52%	152%	
Tigray	Banana (kg)	166	42%	108%	151%	
Tigray	Goat (head)	3503	10%	42%	63%	
Tigray	Sheep (head)	3094	17%	35%	40%	
Tigray	Eggs (piece)	14	23%	48%	140%	
Tigray	Charcoal (50 kg sack)	523	7%	35%	35%	
Tigray	Benzene (L)	438	37%	32%	-13%	
Tigray	Diesel (L)	311	-7%	3%	-19%	
Tigray	Grinding/milling services (kg)	2	-36%	-22%	-40%	
Tigray	Unskilled casual labor price per day	174	5%	13%	2%	

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

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