



## Market Watch

### Ethiopia | March 2023

#### HIGHLIGHTS

- **Inflation:** Headline inflation was 32.0 percent in February 2023, almost three times the Government of Ethiopia's (GoE) annual average inflation target of 11.9 percent. The persistent inflationary pressure is driven by a range of factors including the mismatch between aggregate supply and demand, the unrest in several parts of the country, the high commodity prices in the global market, and the loose monetary and fiscal policies. After remaining at more than 30 percent for 19 consecutive months, food inflation slightly dipped to 29.6 percent in February 2023.
- **Exchange rates:** The official exchange rate published by the National Bank of Ethiopia (NBE) indicates that the Ethiopian Birr exchanged at 53.62 Birr to the United States Dollar (USD) while the parallel rate offered around 95 Birr to the dollar in February 2023. Over the past 12 months, the official exchange rate of the Birr has lost its value by 6.5 percent against the USD while the parallel market jumped by 48.4 percent.
- **Fuel:** As part of the gradual process of lifting the subsidy on the fuel price, the GoE has made its third-round price revision that comes to effect as of January 2023. In Addis Ababa, the prices of diesel and benzene has been revised upwards to 67.3 Birr/Litre and 61.29 Birr/Litre, an increase by 12 percent and 7 percent, respectively. With fuel and electricity accounting for 10 percent of the national Consumer Price Index (CPI), an increase in the fuel price can easily translate to a direct rise in inflation.
- **The teff and wheat conundrum:** Although February and March are months in which the previous season's staple food harvest comes on to the market and dampen food prices, the price of Teff sharply rose to a record level in March 2023. It was selling at 67 percent higher than the prices one year ago and 123 percent above the five-year average for the month. Out of a total of 15.3 million MT of wheat predicted to be available from domestic production in the agricultural year 2022/23, the GoE planned to export 3.2 million MT. The price cap introduced by the government, which later is reported to have been lifted, caused disruption in the availability and price of wheat.
- **Prices in conflict affected areas in Tigray:** Since the signing of the peace agreement between the GoE and TPLF, prices of sorghum, maize, and teff decreased by 22 percent, 42 percent, and 12 percent, respectively. The wage to cereal terms of trade (ToT) exhibited improvement. However, the purchasing power of daily labourers in February 2023 remains far below where it was one year ago.
- **Terms of Trade (purchasing power) in Somali region:** The failed five consecutive rainy seasons in Somali region resulted in poor livestock body condition that led to a decrease in their demand and price. On the other hand, the prices of imported foods sustained an aggressive increase due to the continued persistent inflationary pressures in the economy and continued depreciation of Birr against US dollar.
- **Market and food security outlook:** There are no signs indicating that the underlying inflationary pressure on food prices will be abated soon.





# 1. Inflation

## 1.1 Headline inflation dips despite the rise of non-food items' index

**Figure 1 – The** Consumer price index rose by 32.0 percent in February 2023 from a year earlier according to data released by the Ethiopian Statistics Services. This is 0.1 percentage higher than the previous month. This means that the average household will spend 32 percent more money to purchase the same basket of goods in February 2023 than in the same month of the previous year. However, this aggregate measure can mask large differences in the actual cost of living faced by households with different spending patterns.

The year-on year headline inflation that hit record level in a decade at 37.2 percent in May 2022 tended downwards between June and September and resurged atypically in the ensuing food harvest months of October and November. The inflation rate recorded in the month is far above the annual average inflation planned by the GoE at 11.9 percent for the 2022/23 Fiscal year. With eight months of the fiscal year elapsed, the average inflation rate between July 2022 and February 2023 stubbornly stood at 32.9 percent. The world-economic-situation-and-prospects published by International Monetary Fund (IMF) forecasted that the inflation in Ethiopia could average 24.9 percent in 2023 and 16.2 percent in 2024.<sup>1</sup>

Despite the monetary and fiscal policies pursued by the Government of Ethiopia (GoE) to maintain price stability, the inflation rate remained in double digit over the past 51 months in a row. Over the past 19 consecutive months since August 2021, year on-year inflation stayed above 30 percent and averaged at 33.8 percent. The persistent inflationary pressure is driven by a range of factors including, but not limited to, mismatch in aggregate supply and demand, unrest in some parts of the country, high commodity prices in the global market, and loose monetary and fiscal policies<sup>2</sup>. Broad money supply (M2) continues to be a challenge to the effort to contain the galloping inflation as the Government has little alternative sources to finance an enlarged budget deficit. According to the report published by National Bank of Ethiopia (NBE), the government has taken nearly 100 billion birr from the National Bank as a direct loan (by printing money) during the first two quarters of the 2022/23 fiscal year<sup>3</sup>. In the previous fiscal year, 2021/22, the total amount of loan taken from the NBE was amounting to 76 billion Birr. Thus, the amount of direct loans given in the last half of the fiscal year (July to December) is 32 percent higher than the corresponding value taken in the entire fiscal year of the previous year. The government is printing more money than the country's annual economic growth would allow, which fuels inflation further.

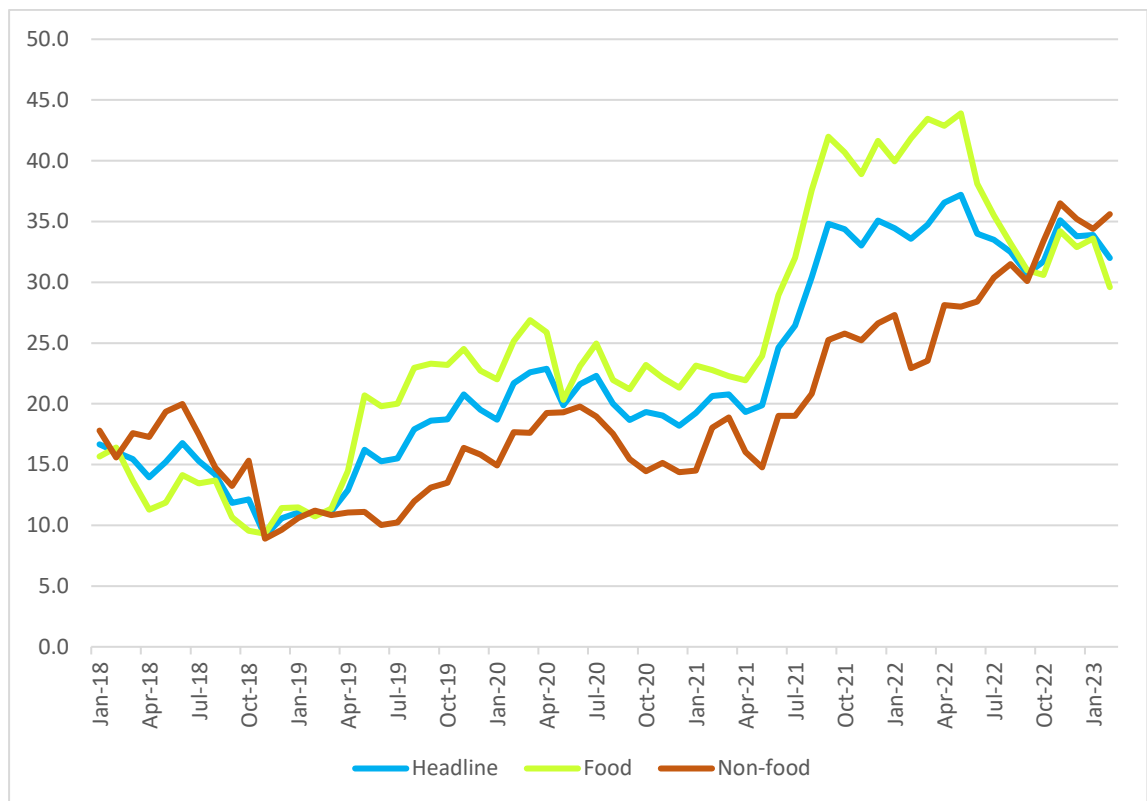
<sup>1</sup><https://desapublications.un.org/publications/world-economic-situation-and-prospects-2023#:~:text=The%20World%20Economic%20Situation%20and,headwinds%20will%20begin%20to%20subside.>

<sup>2</sup> <https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202020-2021/2021-22%20Annual%20report.pdf>

<sup>3</sup> <https://nbe.gov.et/quarterly-bulletin/>



**Figure 1:** Trends of Year-on-year Inflation (Jan 2018 -Feb 2023)



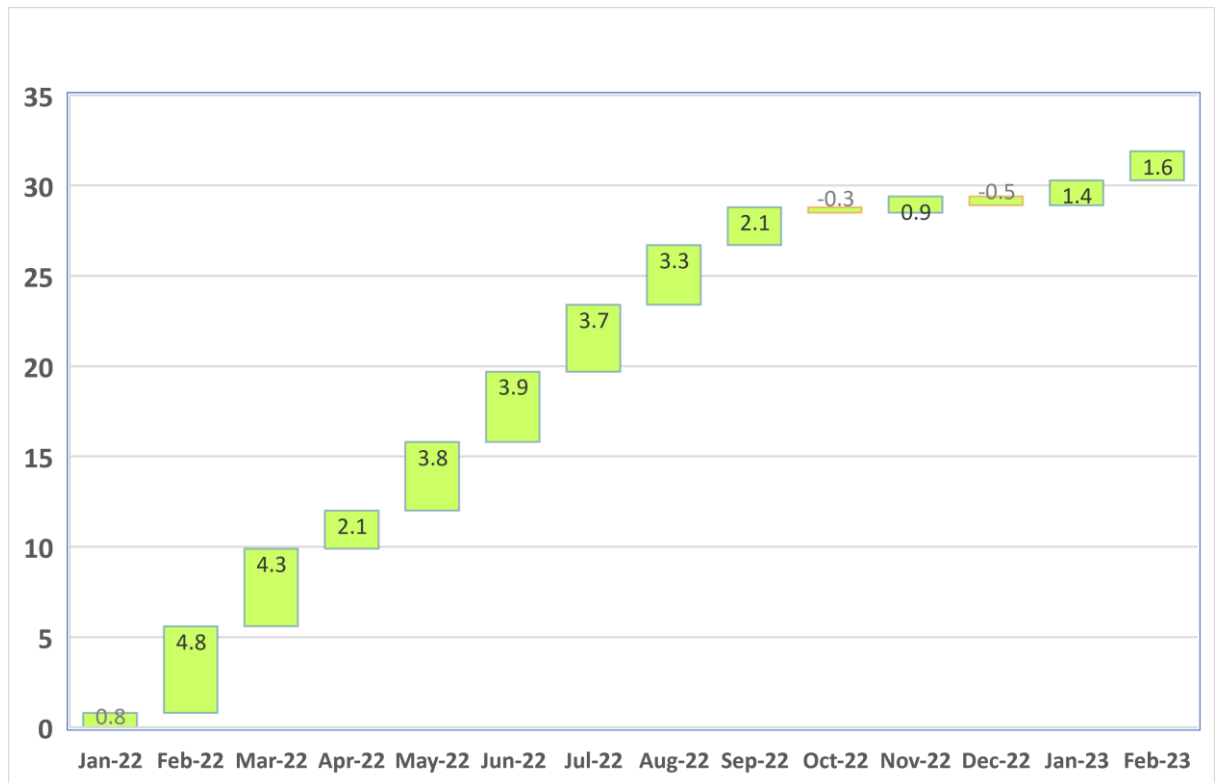
Source: Ethiopian Statistics Service Consumer Price Index (CPI) –February 2023

**1.2 Food inflation is moderating in February while non-food inflation continued expanding**

The food CPI, which constitutes around 54 percent of the overall CPI basket, has been moving far above the non-food CPI for the past 43 months between March 2019 to September 2022 until it was overtaken by the non-food index in October 2023. The food inflation, after remaining at more than 30 percent for 19 months in a row, slightly dipped to 29.6 percent in February 2023. On the other hand, the upward pressure on the index for non-food continued since May 2021. Non-food inflation was 35.6 percent in February 2023. The contribution of non-food items to the overall inflation is bulging, with large price jumps seen for fuel, transport, alcoholic beverages, furnishings, and housing.

**Figure 2** - Despite a decline in year-on-year food inflation, month-on-month inflation increased by 1.6 percent in February, meaning that prices for baskets of food items commonly consumed in Ethiopia were higher than they were in January. After aggressive increase between February 2022 and September 2022, the month on-month increase in the food index slowed down until December 2022 and once more accelerated, suggesting that the price of food picked earlier than the season.

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



Source: Ethiopian Statistics Services Consumer Price Index (CPI)

### 1.3 Price indices of fruits, meat, and milk showed the highest year on year increase in February 2023

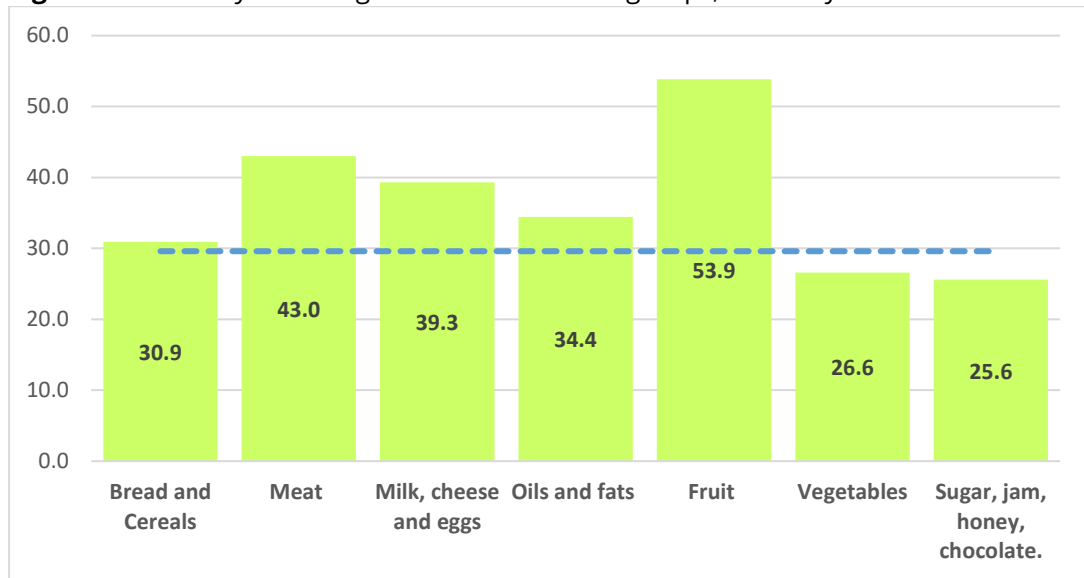
**Figure 3 -** price indices of fruits, meat, milk, and oils and fats registered substantial increase in February as compared to the same time last year.

Within the CPI, the index for **fruits** saw the largest price jump in February, rising 54 percent year on year. For example, in the Addis Ababa market, the prices of banana, orange, and avocado increased by 69 percent, 79 percent, and 49 percent. **Meat and milk and dairy products** were the divisions with the next-largest price increase at 43.1 percent and 39.3 percent, respectively. The fact that the price indices of these nutritious food items are increasing at faster rate makes them inaccessible to the poor households.

The price of **cereals and bread**, that represent about 17.4 percent of the overall CPI weight, rose 30.9 percent in the year to February. This implies that the consistent price increase in cereals have heavy weight on the exacerbation of inflation in the country.

**Oils and fats** - The index for oils and fats, that represent about 4.3 percent of the overall CPI, rose by 34.4 percent between February 2022 and February 2023, about 5 percentage points above the food inflation rate for the month. Despite the price of vegetable oil in the global market continued to drop, the prices in the local market have not been declining correspondingly. This may be because of the foreign currency crunch that coerces traders to import by sourcing foreign currency from the parallel market.

**Figure 3:** Year-on-year changes in the CPI of food groups, February 2023

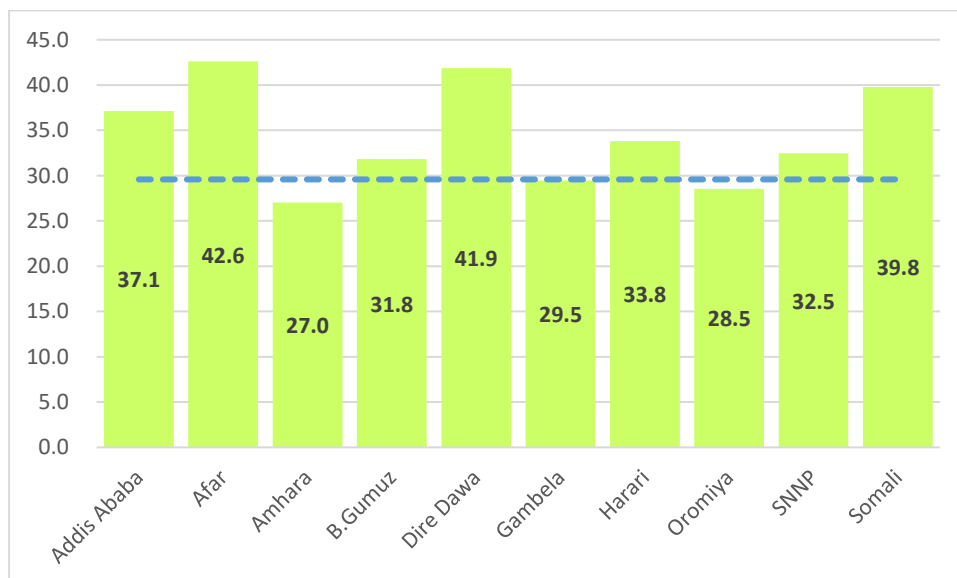


Source: Ethiopian Statistics Services Consumer Price Index (CPI) - February 2023

#### 1.4 Inflation reported highest in Afar, Diredawa, and Somali regions

**Figure 4** - Food inflation hit the highest year-on-year increase in Afar (42.6 percent), followed by Diredawa (41.9 percent) and Somali (39.8 percent). The frequent disruption of the supply chain may be the main driver of the inflation in these three regions.

**Figure 4:** Year-on-Year food inflation by region, February 2023



Source: Ethiopian Statistics Services Consumer Price Index (CPI) - February 2023

#### 1.4 Government measures to address inflation

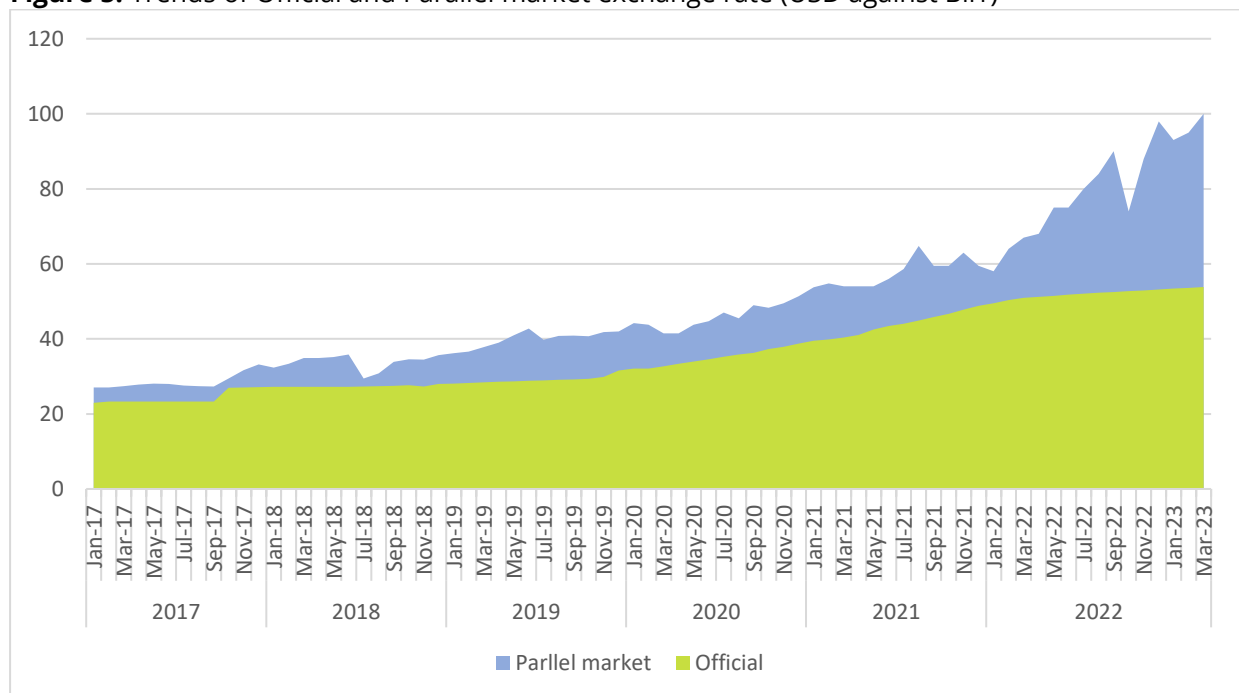
- Addis Ababa city administration has announced that extension of the measure banning landlords to increase house rent price for additional three months (until June 2023). The resolution was introduced in August 2021 and renewed every three months bans landlords in the capital from increasing house rents. As house rents are very high and have been increasing steadily in Addis Ababa, 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 but is in the process of phasing out the subsidies on fuel and electricity.

## 2. Currency Exchange Rates

### 2.1 The gap between the official and parallel exchange rates of Birr to the USD remained at elevated level in February

The NBE has been implementing creeping devaluation of Birr against a basket of major currencies in 2020 and 2021. It slowed down the devaluation rate as of April 2022. The gap between the parallel exchange rate and the official rate continued to diverge thereafter. The past one year saw unprecedented devaluation of Birr in the parallel market. In March 2023, the official exchange rate was at 53.83 Birr to the USD while the parallel rate offers around 100 Birr for the dollar. **Figure 5** - Over the past 12 months, the official exchange rate of the Birr lost 5.7 percent of its value against the USD. The depreciation on the parallel market was 49.3 percent over the same period.

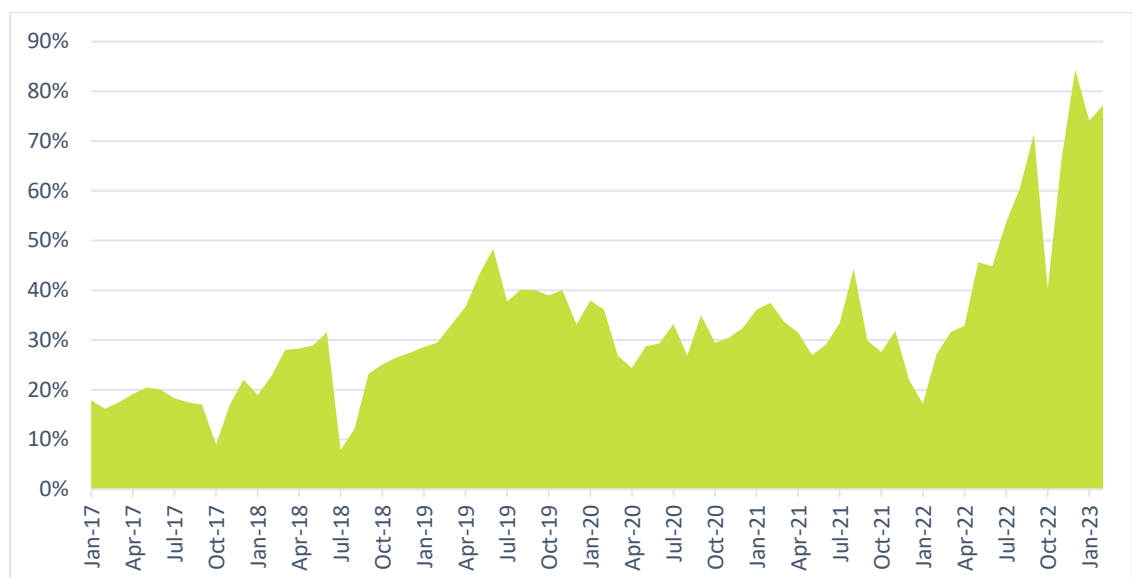
**Figure 5:** Trends of Official and Parallel market exchange rate (USD against Birr)



Source: NBE (Official) and WFP (Parallel)

The difference between the official exchange rate and the parallel markets, that had been remained relatively at lower level (between 17 percent to 37 percent) in 2021, spiked in April 2022 and continued to diverge in 2022. The gap between the official exchange rate and the parallel market stood at 86 percent in March 2023. To narrow this gap, the government had planned to implement a market-driven foreign exchange system by the end of the last fiscal year, but the government's foreign exchange reserves did not grow as expected, so it was delayed. The recently drafted second home grown economic reform (HGER 2.0) elucidate that gradual unification of the two exchange rates is part of the planned activities for the coming three years.

**Figure 6: Trends of percentage difference between Parallel market and official exchange rates (Birr against USD)**



Source: NBE and WFP

The depreciation of the Birr against major currencies is pushing up prices of imported food, fuel, medicine and other goods and services in the local market. Plummeting foreign currency reserves has dampened the import capacity of key commodities. To make things worse, most of the importers rely on the parallel market to acquire foreign exchange which dictates the actual selling prices of commodities in the market. This is particularly true in Somali region where the population is dependent on import of food items via Somalia/Somaliland.

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

- GoE is engaged in discussion with the Bretton wood institutions of World Bank and International Monetary Fund about the possibility of funding the second home-grown economic reform drafted by the GoE.
- 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>4</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, imports of petroleum products, pharmaceuticals.

- The GoE appointed a new governor to the NBE. The new governor revealed that the NBE will focus on stabilization of prices and foreign currency, as well as a healthy financial system as the basis of macroeconomic growth.
- In a bid to improve the forex revenue and access to finance, the GoE has announced that it is planning to open-up the banking sector 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>5</sup>.
- In a bid to channel available foreign currency to the priority goods and services, and discourage the parallel market, the Ministry of Finance has notified the 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.
- NBE issued a directive<sup>6</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>7</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 relaxed the Franco Valuta privilege to importers for 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

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<sup>4</sup> <https://nbebank.com/wp-content/uploads/pdf/directives/forex/fxd-79-2022.pdf>

<sup>5</sup> <https://www.ethiopianreporter.com/111462/>

<sup>6</sup> <https://nbebank.com/wp-content/uploads/pdf/directives/forex/fxd-81-22.pdf>

<sup>7</sup> However, a person travelling to Djibouti may hold up to a maximum amount of Birr 10,000 (Birr Ten Thousand) per travel.





of tax. National Bank of Ethiopia recently pointed out that the opening up of the franco valuta privilege 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.

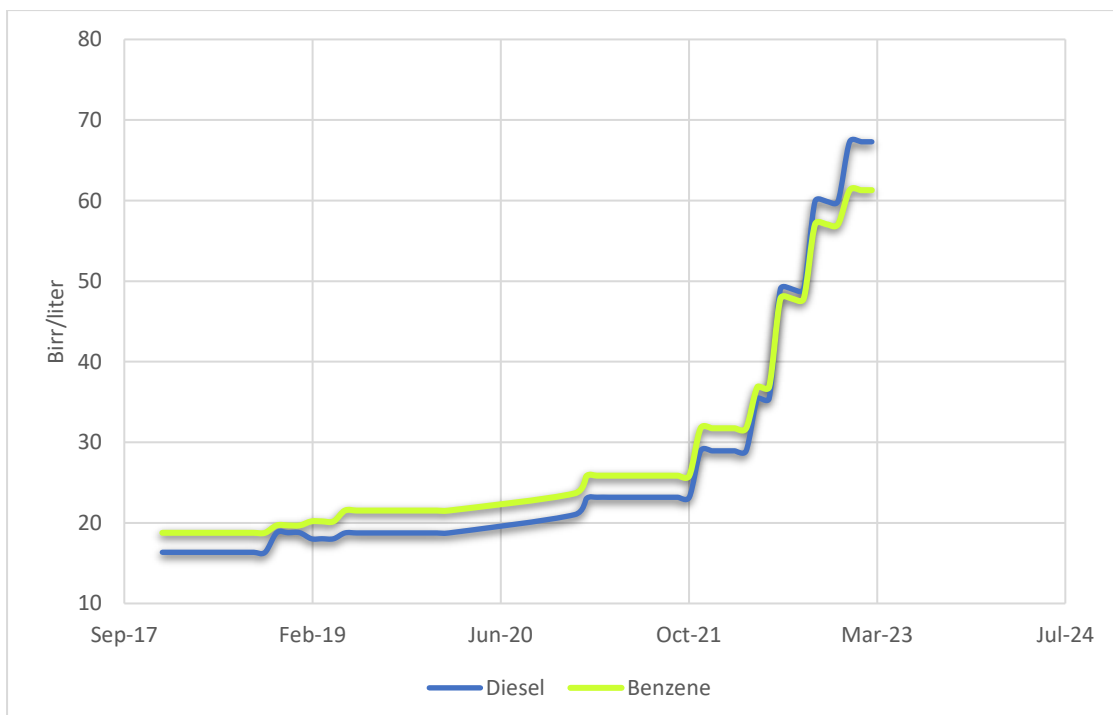


### 3. Fuel

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

**Figure 7** - As part of the process of gradually lifting the subsidy on the fuel price, the GoE has made its third-round price revision that comes into effect as of January 2023. In Addis Ababa, the prices of diesel and benzene has been revised upwards to 67.3 Birr/Litre and 61.29 Birr/Litre, an increase by 12 percent and 7 percent, respectively. Over the past one year between April 2022 and April 2023, the prices of diesel and benzene rose by a staggering 133 percent and 93 percent, respectively.

**Figure 7:** Pumping prices of benzene and diesel in Addis Ababa (Birr/liter)



Source:

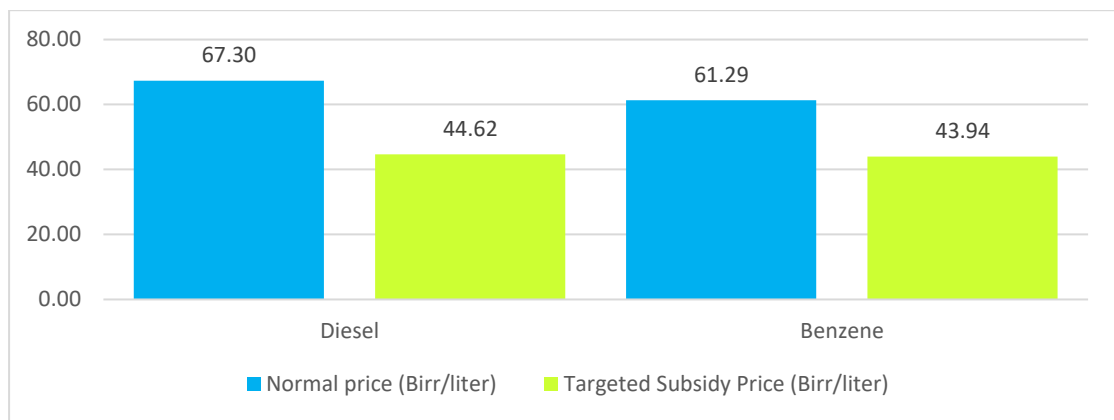
WFP Market Database, October 2022



### 3.2 Targeted Subsidy to public transport

**Figure 8** - On the third round of fuel price revision that came to effect as of January 8, 2023, slight increase 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. Accordingly, public transport vehicles will buy benzene and diesel at prices 28 percent and 34 percent lower than the normal pumping prices, respectively. 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 8:** Pumping prices of benzene and diesel (Normal vs. Targeted Subsidy) in Addis Ababa (Birr/liter)

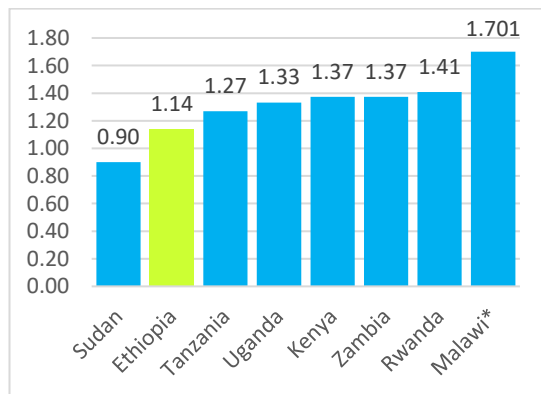


Source: WFP Market Database, March 2023

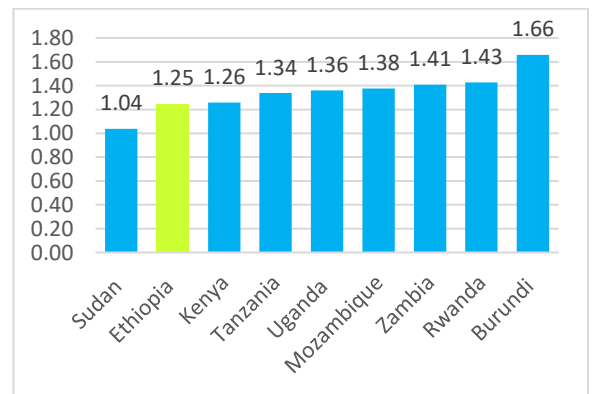
### 3.2 Fuel price in Ethiopia as compared to East African countries

**Figure 9 and 10**- In March 2023, the pump price of fuel in Ethiopia is still relatively cheaper as compared to the corresponding prices in most of the East African countries. However, the gap is getting narrowed from time to time as the domestic fuel subsidy on the Ethiopian fuel is progressively removed. This is likely to lessen the illegal cross-border smuggling out of fuel to neighbouring countries.

**Figure 9:** Diesel Prices (USD/Liter) in Some East African Countries



**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 in 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.

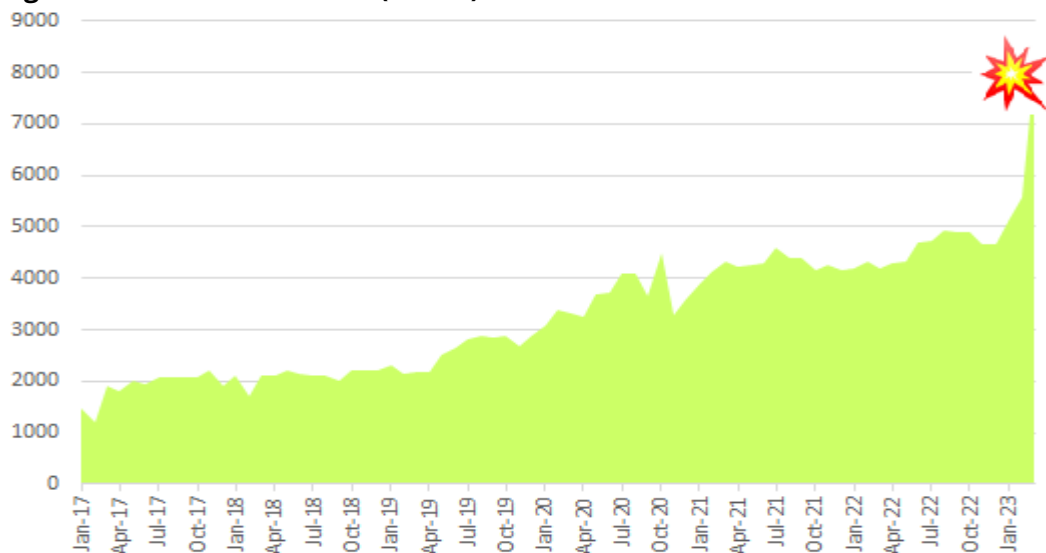
## 4. The teff and wheat conundrum

### 4.1 The price of Teff gone through the roof and hit a record high level in March 2023

Teff is the second most important cereal in Ethiopia after maize. The average annual consumption of *teff* at national level is 39.6 kg per adult equivalent, which constitutes some 12 percent of the total calorie intake<sup>8</sup>. It is the most preferred grain to other grains but is, in general, more widely consumed by the urban residents than by rural households. Constituting around 28 percent of the dietary calorie intake, teff is the most important calorie sources in urban Ethiopia. Accordingly, changes in the prices of teff have significant impact on household food expenditure share, budget allocation, food security of households in Urban Ethiopia.

**Figure 11** – although it is the time when the last season’s harvest comes on to the market, the price of all varieties of teff spiked and hit a record level in March 2023. Traders are already reporting that teff is already in short supply in Addis Ababa markets as they are not receiving from the surplus producing areas<sup>9</sup>.

**Figure 11: Price trend of teff (mixed) in Addis Ababa market**



<sup>8</sup> <https://reliefweb.int/report/ethiopia/ethiopia-comprehensive-food-security-and-vulnerability-analysis-cfsva-2019>

<sup>9</sup> <https://www.thereporterethiopia.com/31981/#:~:text=Addis%20Ababa%20is%20facing%20a,increase%20from%20the%20previous%20month.>

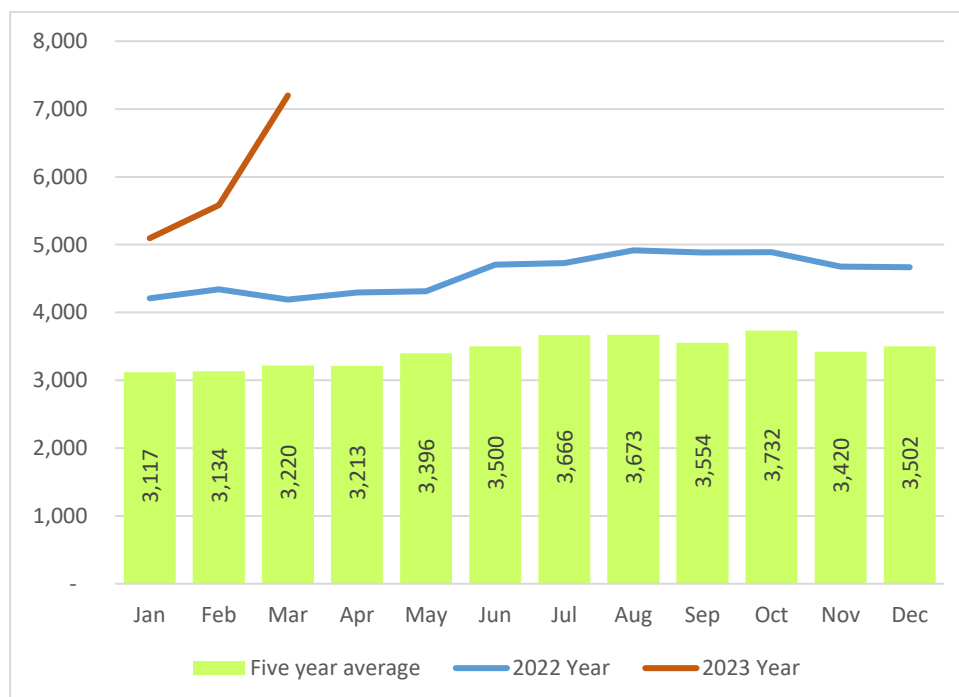


Source: WFP Market Price Monitoring Surveys

**Figure 11**-Prices of *teff* upsurged abruptly in late February and March and conspicuous scarcity of the product due to unexplained reasons. For example, *Sergegna teff*, the variant consumed dominantly by the middle-income households, is reported to be selling at 67 percent higher than the prices one year ago and 123 percent above the five-year average for the month. Apart from Addis Ababa, modest price increase has been observed in the other parts of the country as well. Over the past decade, the price of teff has been increasing due to array of factors including but not limited to the production failing to keep pace with the fast-growing demand, the cost push (due to very high fertilizer and seed prices and labour costs) and the levels of inflation prevailing in the country. The immediate reasons cited by politicians and the media as drivers of the observed price hike of the product are:

- the supply chain disruption by “illegal entities” that set-up checkpoints on the way to Addis Ababa.
- Farmers are not willing to sell their products at prices set by the Government.
- Some traders are manipulating the price by hoarding a large stock of teff in their store instead of selling in the market.
- Politically motivated entities are trying to gain political profit by preventing the entry of Teff in the city.

**Figure 12: Trends of teff price in Addis Ababa market**



Source: WFP Market Price Monitoring Surveys

#### Implication for food security

Analysis using data from two waves of the Ethiopia Socioeconomic Survey suggest that an increase of 10 percent in teff prices reduces the consumer welfare by 2.46 percent of their weekly food budgets<sup>10</sup>. From a food security perspective, the spike in the price of teff will have detrimental effect on the wellbeing of urban population who rely on teff for their

<sup>10</sup> <https://onlinelibrary.wiley.com/doi/abs/10.1111/agec.12614>

consumption. The observed price hike will push the price of injera upwards and jeopardizes the welfare poor women engaged in the sales of *injera*. On the other hand, the price hike may present an opportunity for poor rural households producing teff as it helps them to earn more income from the sale of the grain, which is often considered as a cash crop.

#### 4.2 Despite the bumper wheat harvest reported by the Government serious wheat shortage hits the market

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 the country had not been self-sufficient. Compounded with urbanization, lifestyle change, and population growth, the demand for wheat showed substantial increase in the past decade. To meet the gap, the government must allocate between 600 million to 1 billion USD to import wheat for distribution at urban centres at subsidized prices. Since 2019, the GoE has embarked on an effort to fully substitute wheat imports through the expansion of summer (irrigated) wheat and rain-fed wheat production throughout the country. The Programme intends to enhance the production of wheat through the provision of irrigation schemes, better inputs supply, and mechanized farming in the lowland and central parts of the country.

##### Production and Import

**Table 1** shows the quantities of wheat and wheat products produced and imported between 2010 and 2023. For the years until 2020, the data published by FAOSTAT is presented while the three-year data are based on USDA estimation and the estimation made by Ministry of Agriculture. The data from these different sources may not be comparable due to the different methods they followed. Over the period between 2010 and 2020, the quantity of wheat produced increased by 92 percent while the quantity of import declined by 33 percent. The proportion of wheat needs met by import decreased from 38 percent in 2010 to 17 percent in 2020. According to the report by African Development Bank, wheat production from irrigated and rain-fed systems is reported to have reached 7 million metric tons in 2021/22, which buffered the country from importing wheat in 2022<sup>11</sup>.

The GoE estimates the 2022 *Meher* season rain-fed wheat harvest was at around 10.1 million MT. During the same Ethiopian Agricultural Calendar year (October 2022 to September 2023), the government expects 1.3 million hectares of irrigated wheat to produce an additional 5.2 million MT for the year. This brings the total estimated quantities of wheat produced within 2022/23 agricultural calendar year to 15.3 million MT against a domestic demand of 9.7 million MT as put by MoA. The estimates also put that 3.2 million MT of wheat could be available for export. The GoE wheat production estimate is nearly threefold of the estimate by the United States Department of Agriculture (USDA) of 5.7 million MT for the 2022/23 agriculture year. Estimating annual wheat consumption at 7.38 million MT, the USDA projects that 1.4 million MT of wheat imports would be needed to close the harvest deficit for 2022/23. The official 2022/23 crop production estimate from

<sup>11</sup> <https://www.afdb.org/en/dakar-2-summit-feed-africa-food-sovereignty-and-resilience/about-dakar-2-summit/scaling-heat-tolerant-wheat-ethiopia#:~:text=ln%20total%2C%20the%202021%2F22,net%20exporter%20by%202025%2F26>.

Ethiopian Statistics Service (ESS) is not yet out, and it is difficult to reconcile the divergent wheat production estimates by GoE and USDA.

**Table 1: Quantities of wheat production and import ('000 MT)-Ethiopia**

Year	Production ('000 MT)	Import ('000 MT)	Percentage through import	met	Data Source
2010	2,856	1,715	38%		FAOSTAT
2011	2,916	1,734	37%		FAOSTAT
2012	3,435	1,018	22%		FAOSTAT
2013	3,925	867	18%		FAOSTAT
2014	4,232	1,122	21%		FAOSTAT
2015	4,651	1,373	23%		FAOSTAT
2016	4,538	2,576	36%		FAOSTAT
2017	4,643	1,178	20%		FAOSTAT
2018	4,838	1,316	21%		FAOSTAT
2019	5,315	1,472	22%		FAOSTAT
2020	5,479	1,141	17%		FAOSTAT
2020/21	5,200	1,503	22%		USDA
2021/22	5,520	1,550	22%		USDA
2022/23	5,700	1,400	20%		USDA estimation
2022/23	15,300	NA	Surplus for export?		MoA estimation

### **Interference of the Government in the wheat market**

According to report published local media sources<sup>12</sup>, the Oromia region distributed quotas to wheat-growing zones, while the zones distributed to districts to help the region collect the quota allocated by the Federal Government. The agricultural leaders of each district and the representatives of farmers consulted with the farmers in each *kebele*. The farmers are not complaining about providing the wheat to the government, but they are repeatedly complaining about the price set for each MT of wheat. Each farmer has been ordered to sell one MT of wheat to traders for 32,000 birr. The government has set a price for traders to supply the same MT of wheat to the unions for 33,300 birr. The process of offering it to the foreign market and setting the price comes after this process.

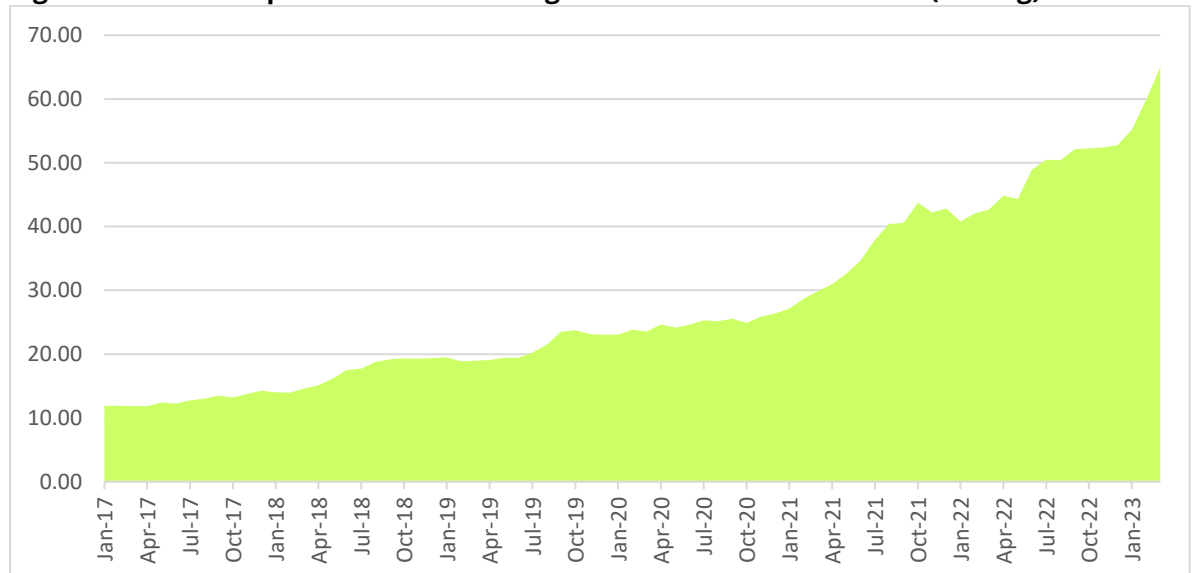
Farmers who said that it is not profitable to sell the produce at the price set by the government, chose to hide the produce. According to the procedure set by the government, wheat will be confiscated if a vehicle is found driving it on the road. This has led to the spread of illegal wheat smuggling. Traders are not selling the wheat according to the guidelines set by the government and they pay illegal fees to pass the check points. Therefore, the traders who paid extra price for the farmers and checkpoint sell the grains at higher price. There are complaints reported by flour factories that wheat coming from Oromiya seems blocked and they are not able to get the grain in Addis Ababa market for the last two months. This may imply the GoE is intervening to control the market which creates inefficiency in the market. In response, bakeries have to transfer the price to the final consumers.

<sup>12</sup> <https://wazemaradio.com/%e1%8b%a8%e1%8a%a6%e1%88%ae%e1%88%9d%e1%8b%ab-%e1%8a%ad%e1%88%8d%e1%88%8d-%e1%88%88%e1%8b%8d%e1%8c%aa-%e1%8c%88%e1%89%a0%e1%8b%ab-%e1%8b%a8%e1%88%9a%e1%8b%ab%e1%89%80%e1%88%ad%e1%89%a0%e1%8b%8d/>

<https://wazemaradio.com/%e1%8b%a8%e1%8a%a6%e1%88%ae%e1%88%9d%e1%8b%ab-%e1%8a%ad%e1%88%8d%e1%88%8d-%e1%88%88%e1%8b%8d%e1%8c%aa-%e1%8c%88%e1%89%a0%e1%8b%ab-%e1%8b%a8%e1%88%9a%e1%8b%ab%e1%89%80%e1%88%ad%e1%89%a0%e1%8b%8d/>

*Price trends*

**Figure 13: Nominal price trend of wheat grain in Addis Ababa market (Birr/kg)**



Source: ESS

*Wheat export*

Against the backdrop that imposed an export ban on cereals since 2008, the GoE announced that it will export surplus wheat in 2022/23 agriculture calendar year. Out of the total of 15.3 million MT of wheat predicted to be available from domestic production in the agricultural year, the GoE planned to export 3.2 million MT to the foreign market. The government is now expected to step up its export bid and has already secured contracts with some countries that showed interest to buy Ethiopian wheat. In preparation to this, the Ethiopian Commodity Exchange (ECX) has announced that it has started the trading of wheat on its floor.

**4.3 Government measures to address the shortage of teff and wheat**

- The city government has allocated 1 billion Birr as revolving fund for Unions supplying grains to the city market. The Consumers' Cooperatives are intended to provide the commodities at lower prices to the community. The city administration announced that it will set up a task force in charge of coordinating, bringing and distribution of consumers' goods in the city.
- Oromiya Regional state has announced that it has lifted the price cap imposed on wheat at 3200 Birr per quintal.<sup>13</sup> Hence, farmers are allowed to sell to anyone at the market price and no longer restricted to sell only to Unions.
- Addis Ababa city council has approved additional 54 million Birr for the government school feeding programme that is providing fresh meal to 300,000 elementary and junior secondary school students in the city. The budget increase was made in response to the frustration of mothers providing the meal over the raising prices of basic commodities used for food preparations. The additional

<sup>13</sup> <https://www.capitalethiopia.com/2023/03/20/oromia-region-lifts-wheat-price-cap/>

budget approval will increase the per student daily spending from 20 Birr to 23 Birr<sup>14</sup>.

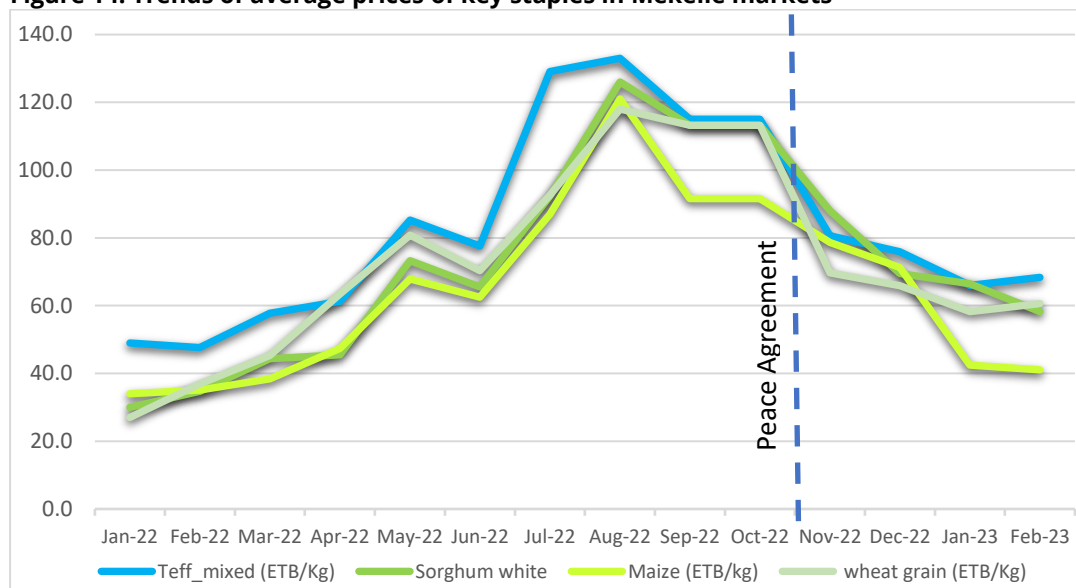
## 5. Market dynamics in Conflict-affected areas of Tigray

### 5.1 Staple cereals

**Figure 14** –with the conflict underway, the first eight months of 2022 saw steep and extraordinary staple cereals price increases in Mekelle market. Particularly, the prices of staple foods like teff (172 percent), maize (218 percent), sorghum (281 percent), and wheat grain (219 percent) registered magnificent year on year increases. The price increases were well above the increases experienced elsewhere in the country during the same period. Despite inflation being a phenomenon all over Ethiopia, the price increase in Tigray were relatively higher compared to those in the other parts of the country.

The upward pressure in the prices of staple cereals started to seasonally decline in September 2022. Between August and November, the prices of maize, teff, and barley dropped by 31 percent, 39 percent, and 25 percent, respectively (**Figure 14**). A large portion of the price decreases occurred in November, most likely responding to the signing of the peace agreement and the concomitant opening of the supply routes from Central Ethiopia.

**Figure 14: Trends of average prices of key staples in Mekelle markets**



Source: WFP market survey

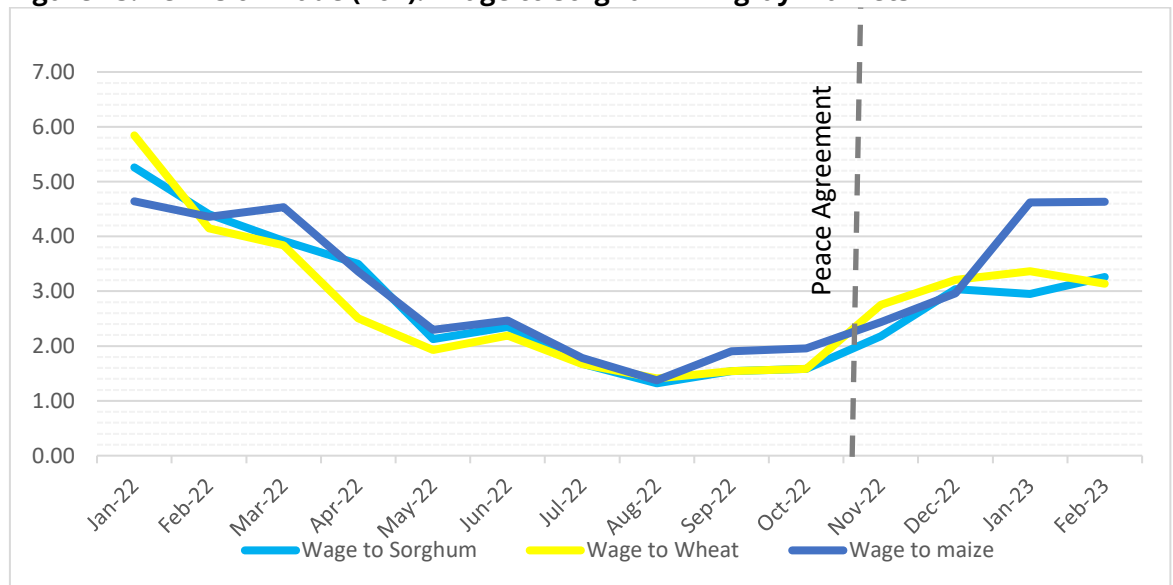
<sup>14</sup> <https://ethiopianmonitor.com/2023/03/09/city-renews-ban-on-housing-rent-hike-evictions/>



### 5.2 Wage to cereals terms of trade (ToT):

The war in Tigray induced economic slump for households engaged in the wage labour as wage labour opportunities plummeted in the region. **Figure 15** - the ToT for wage to cereals deteriorated and hit rock-bottom in August 2022 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 5.8 kg of wheat in January 2022 could only buy 1.4 kg of wheat in August 2022. The ToT exhibited upward tendency in the ensuing months and a daily labourers could buy 4.6 kg of maize or 3.1 kg wheat grain or 3.3 kg of sorghum using one day wage in February 2023. However, the purchasing power of daily labourers in February 2023 is standing far below the situation at the beginning of 2022, suggesting that the welfare of daily wage labourers has deteriorated over the past one year.

**Figure 15: Terms of Trade (ToT): Wage to sorghum in Tigray markets**

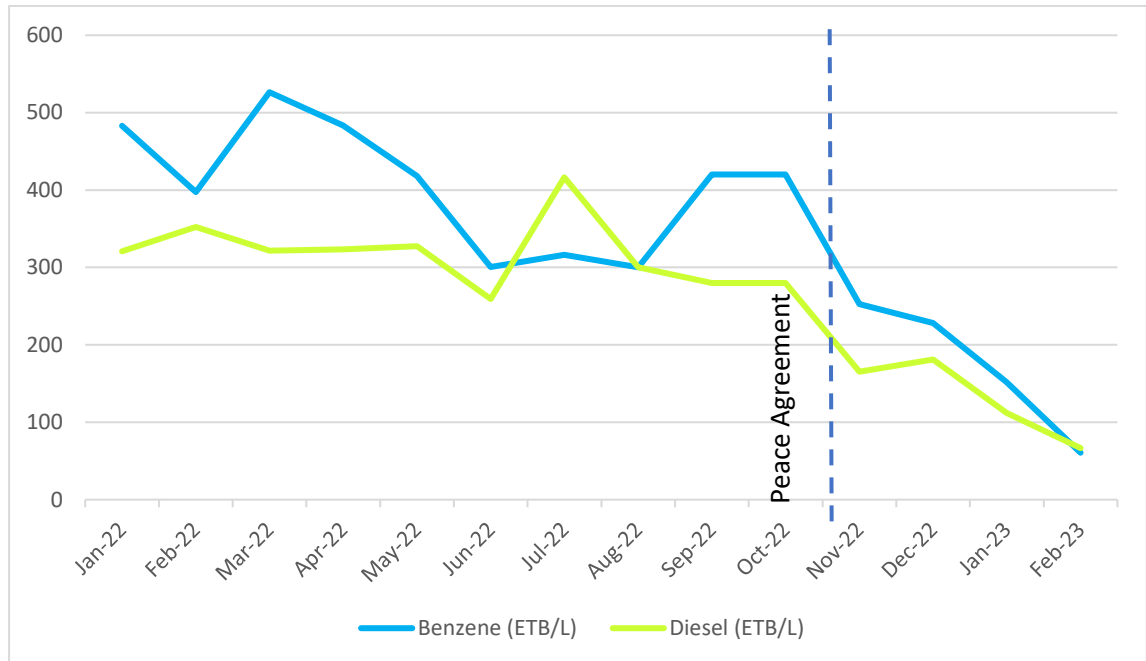


Source: WFP market survey

### 5.3 Fuel

After the war erupted in Tigray in November 2020, most of the fuel stations stopped operating as they could not access supplies from the Ethiopian Petroleum Supply Enterprise, the sole importer and distributor of refined petroleum products in Ethiopia. Informal fuel traders, whose source of fuel remain elusive, proliferated throughout the region but supplies remained tight. They sold benzene and diesel at elevated and highly volatile prices. As shown in **Figure 16**, in Mekelle, the price of benzene peaked at 559 Birr/litre in March 2022, around 18-times the pump prices in Addis Ababa at the same time. The peak price for diesel was in April 2022, when informal traders were selling a litre of diesel at 474 Birr. After the signing of the peace deal, the availability and price of fuel showed massive improvement. The price of benzene and diesel nosedived and hit its lowest point in two years in February 2023 at 67 Birr/litre.

**Figure 16: Fuel Price trend in Mekelle market**



Source: WFP market survey

### 5.5 Comparison of prices in Conflict affected areas

**Table 2** compares prices of key food commodities in conflict-affected areas of Amhara (Debark and Sekota woredas) and Tigray (Adigrat, Mekelle and Shire) to that of Dessie market, a source market for eastern Amhara, Afar and for Tigray as well before the conflict. Prices in conflict-affected areas that are 20 percent higher than Dessie market prices are marked by red icons, those between -20 to 20 percent relative to Dessie prices are marked by yellow in, and those below -20 percent of Dessie prices are marked by green icons. The prices of most commodities in Debark market are comparable to that of Dessie market. Sekota market has significantly higher price of sorghum and rice as compared to that of the reference market. Adigrat and Mekelle have relatively higher prices of wheat, sorghum, and rice than the Dessie market.

**Table 2: Comparison of prices in Conflict affected areas**

Commodity	Unit	Amhara						Tigray					
		Dessie		Debark		Sekota		Adigrat		Shire		Mekelle	
		Birr	Birr/ Unit	% of Dessie	Birr/ Unit	% of Dessie	Birr/ Unit	% of Dessie	Birr/ Unit	% of Dessie	Birr/ Unit	% of Dessie	
Maize white	kg	34	33	-2%	33	-4%	35	4%	42	25%	41.0	21%	
Wheat white	kg	47	51	9%	43	-8%	56	21%	37	-20%	60.6	30%	
Sorghum white	kg	38	40	5%	60	58%	71	86%	43	14%	58.3	53%	
Teff Mixed	kg	63	63	0%	60	-5%	69	9%	81	28%	68.3	8%	
Wheat Flour	kg	72	70	-3%	50	-30%	68	-6%	64	-11%	71	-1%	
Rice	kg	60	65	9%	77	29%	78	30%	102	71%	76	27%	
Edible Oil	Liter	195	150	-23%	190	-3%	217	11%	202	4%	205	5%	
Goat (Local)	head	9,580	4,060	-58%	5,120	-47%	5,380	-44%	2,893	-70%	5481	-43%	
Sheep (Local)	Head	5,750	4,300	-25%	4,460	-22%	4,005	-30%	3,198	-44%	6544	14%	

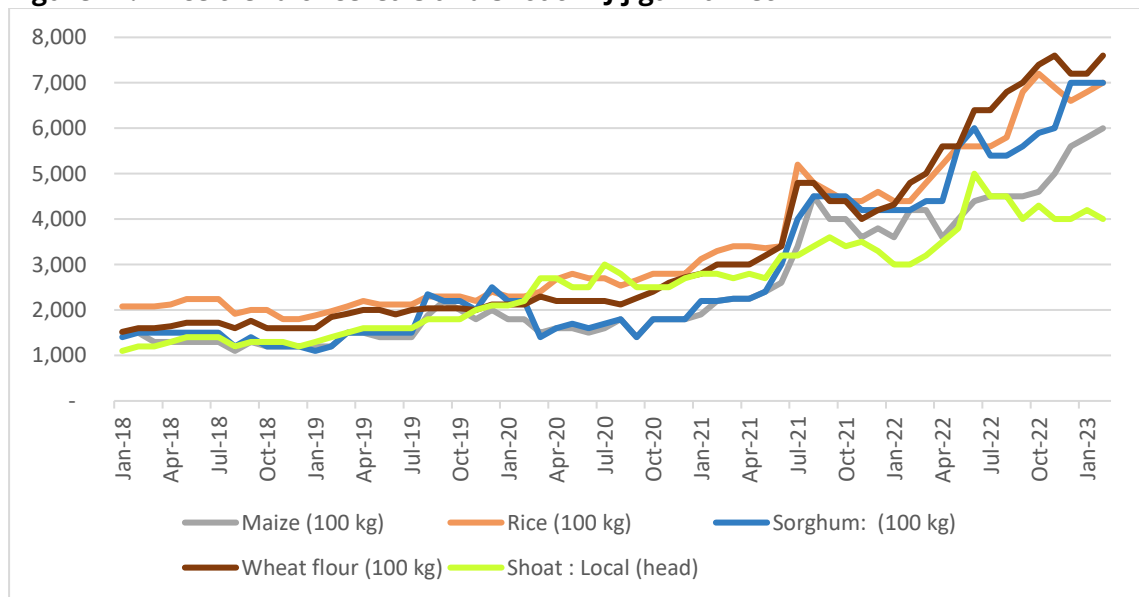


## 6. Terms of Trade (ToT): Shoat to Coarse cereals and Shoat to Refined cereals

Most of the Somali population pursue pastoralism as their main source of livelihood. Mobile livestock rearing makes efficient use of the region’s abundant land and volatile climate by using predominantly seasonal migration to move herds to where water and feed resources are more abundant<sup>15</sup>. In exchange for exporting livestock, pastoralists bring cereals, such as maize and sorghum from Central highlands and wheat flour, rice, pasta, and other cereals through Somaliland/ Somalia. For these reasons, the terms of trade between livestock and coarse cereals and livestock to refined cereals are often taken as an indicator of pastoralist welfare. Although this terms-of-trade indicator is not comprehensive enough from a welfare standpoint, it is nevertheless indicative of how livestock’s comparative advantage can vary over time based on national and international price movements.

**Figure 17** illustrates the nominal price trends of important cereals and average sized shoat in Jijiga market between 2018 and February 2023. Almost all cereals exhibited steep price increase in May 2021 and the steady and strong upward movement continued unabated, echoing the rise in the parallel market exchange rate of Birr against US dollar. Over the past one year, the prices of maize and sorghum rose by 43 and 67 percent, respectively. Rice and wheat flour increased by 59 percent and 58 percent increase during the same period. On the other hand, average sized shoat is being sold at 33 percent higher price, which is far below the price increase of cereals.

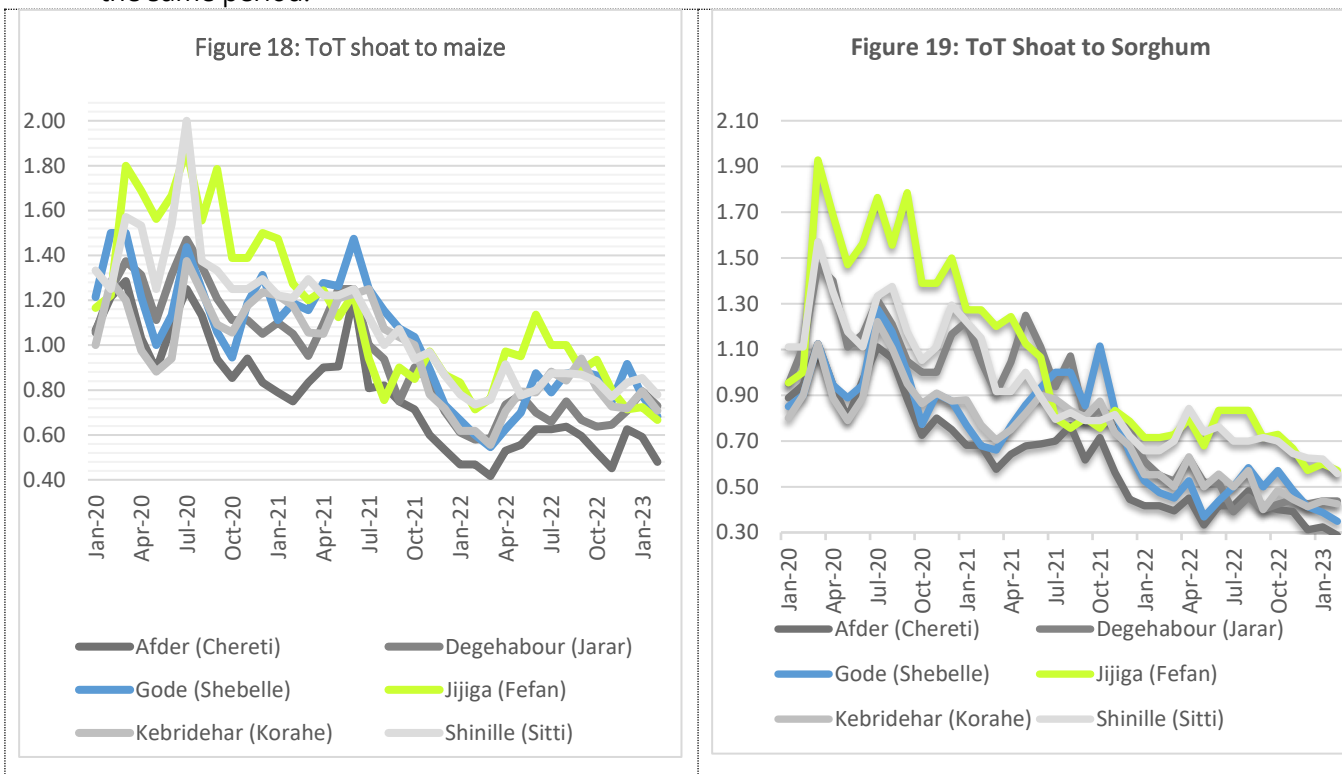
**Figure 17: Price trend of cereals and shoat in Jijiga market**



Source: WFP Market Price Monitoring Surveys

<sup>15</sup>[https://www.researchgate.net/publication/254416846\\_Enhancing\\_resilience\\_in\\_the\\_Horn\\_of\\_Africa\\_An\\_exploration\\_into\\_alternative\\_investment\\_options/figures?lo=1](https://www.researchgate.net/publication/254416846_Enhancing_resilience_in_the_Horn_of_Africa_An_exploration_into_alternative_investment_options/figures?lo=1)

**Shoat to coarse cereals: Figures 18 and 19** depict the trends of shoat to maize and shoat to sorghum ToT in six Somali region markets over the three-year period between January 2020 and February 2023. Despite episodic improvements during the *Gu* rainy seasons (April to June), the overall situation of ToT has been unfavourable for pastoralists over the past three years. The failed five successive rainy seasons in Somali region resulted in livestock poor body conditions that led to a decrease in their demand and price. This compromised most pastoralists' abilities to raise incomes to provide for their families. An average-sized male sheep/goat that could fetch 150 kg of maize in February 2021 in Gode market now brings only 68 kg in February 2023, a decrease of 55 percent over two years period. In Gode market the ToT has deteriorated from 122 Kg to 67 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 rice and wheat flour 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 55 kg of wheat flour in February 2022 in Fik (Ngob) market now brings only 45 kg of wheat flour in February 2023, a decrease by 18 percent. In Jijiga market, the ToT has deteriorated from 68 Kg to 57 Kg 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.

Figure 20: ToT - Shoat to rice

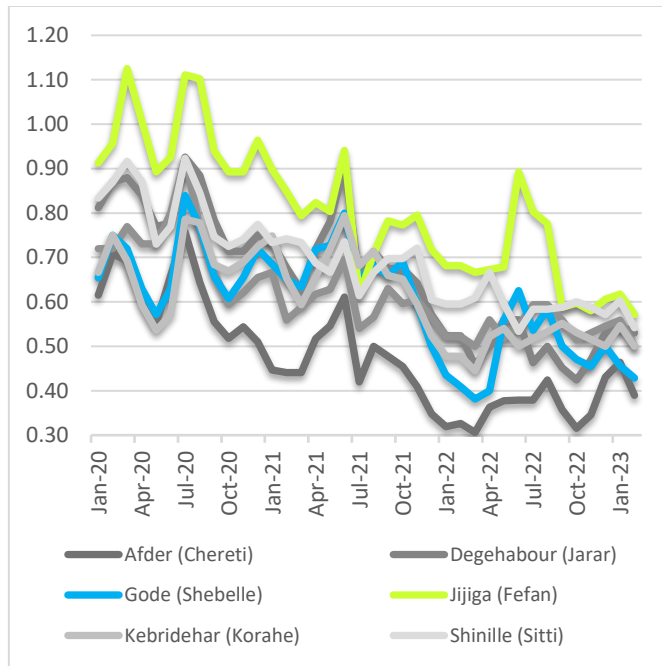
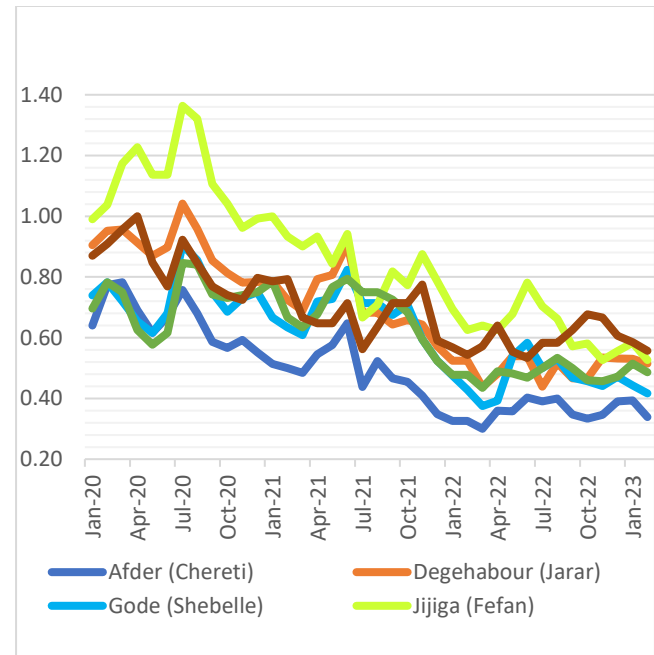


Figure 21: ToT - Shoat to wheat flour



Source: WFP Market Price Monitoring Surveys



## 7. Markets & Food Security Outlook

- There are no signs indicating that the underlying inflationary pressure on food prices will be abated soon. Prices of locally produced grains are expected to rise further in the coming months due to the lean season. This is expected to continue to jeopardize the food security status of poor households that rely on markets to access food. 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.
- With the lifting of the price cap and removal of checkpoints in Oromiya and other regions where there were restrictions on supplies of wheat and teff on the market, the prices of these commodities could decrease in the coming months. However, the aversive experience of wheat growing farmers due to price cap imposed by the GoE may create a disincentive for wheat production in the coming harvest seasons.
- A significant proportion of urban residents and pastoralists in Somali region rely on imported items like pasta, rice, wheat flour as their staple cereals which are imported mainly through informal routes. The depreciation of the currency against

US Dollar in the parallel market means importing these items is becoming more expensive. When importers procure foreign exchange at the unofficial instead of the official rates, domestic food price inflation reflects changes in the cost of food imports according to the parallel-market rates.

- The Council of Ministers has approved to enforce mandatory fortification of wheat flour and edible oil. The Food, Beverage, and Pharmaceutical Industry Development Institute announced that wheat flour fortification with selected vitamins and minerals should be made mandatory as of June 2023. 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. Producers and importers have been warned to make the necessary infrastructure as unfortified wheat flour cannot be produced or marketed<sup>16</sup>. 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 transferred onto consumers.<sup>17</sup>
- The downward trend of food prices in the Tigray market along with slowly improving livelihood opportunities are contributing to improving households' access to food. However, the levels of food insecurity in the region is likely to remain high in the short to medium term.

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<sup>16</sup><https://www.ethiopianreporter.com/116007/>

<sup>17</sup> <https://www.thereporterethiopia.com/25738/>