

ANNUAL PRICE DEVELOPMENT

4.1 Developments in Consumer Prices at Country Level

For so long, Ethiopia has been a low inflation country in Sub-Saharan-Africa. In the past, this was owing to strong currency, prudent monetary and fiscal policies (1960's - 1973), general price control (1974-1992) and implementation of economic reform and stabilization programs (1992-2004). The historic peak level of inflation has been 21 percent, which was recorded in 1991/92, mainly due to the severe drought that hit agricultural production the most and absence of peace in the country. On the other hand, a significant deflation was observed during fiscal year 2001/02 (-7.2 percent) basically due to the decline in food prices associated with bumper agricultural production following the good weather condition of the period.

Table IV.1: Annual Average Inflation Rates (In %)

National	2002/03		2003/04		2004/05		Change in Percentage point	
Items	A		B		C		C-A	C-B
General	15.1		8.6		6.8		-8.3	-1.8
Food	24.8		11.8		7.7		-17.1	-4.1
Non-Food	0.5		2.8		5.2		4.7	2.4

Source: Central Statistical Authority and NBE Staff Computation

The deflationary situation observed during fiscal year 2001/02 continued until October 2002 after which prices continued to creep up at a significant pace reaching 15.1 percent by the end of 2002/03. The increase further continued and reached a peak level of 18.6 percent in October 2003. Since November 2003, however, the national level general inflation was on a continuous decline registering 8.6 percent by the end of 2003/04. Despite the relatively good weather conditions and better harvest in 2004/05, the price decline lasted until November 2004. Beginning from December 2004, however, prices have been on a continuous increase.

Such developments in 2004/05 were quite unusual in that prices continued to rise despite the good agricultural produce. Moreover, non-food inflation (which takes up 40 percent of the General CPI at the country level) has registered unexpectedly a significant increase influencing the movement of the general price level. Accordingly, general inflation, at the end of fiscal year 2004/05 reached 6.8

percent, food inflation 7.7 percent and core inflation (proxied by non-food prices) 5.2 percent from their respective levels of 8.6, 11.8 and 5.2 percent in 2003/04.

The increase in core inflation was basically due to the increase in house rent, prices of construction materials, water, fuel and power sub-group of the CPI in connection with the increase in import prices of fuel and construction materials. Moreover, increasing prices of locally produced construction materials such as cement have also exerted considerable pressure on for the inflation rates of non-food items.

Table IV.2: National Level Average Commodity Price Indices

Items	2002/03	2003/04	2004/05	Percentage Change	
	A	B	C	C/A	C/B
General	110.5	120.0	128.2	16.0	6.8
Food	115.7	129.4	139.3	20.4	7.7
<i>Cereals</i>	136.6	152.7	163.9	20.0	7.3
<i>Pulses</i>	115.0	117.4	119.6	4.0	1.9
<i>Oil & fats</i>	129.1	126.2	127.4	-1.3	1.0
<i>Vegetables & fruits</i>	117.9	117.2	118.3	0.3	0.9
Non-Food	101.8	104.6	110.0	8.1	5.2

Source: Central Statistical Authority and NBE Staff Computation

4 4.2 Consumer Price Development in Regional States

Headline inflation increased in all Regional States except in Afar, Amhara, Benishangul Gumz and Oromia. The lowest regional headline inflation was registered in Afar (2.9 percent) and the highest in Somali (10 percent).

The increase in the headline inflation in Dire Dawa, Gambela, Somali and Tigray regions was due to the combined increase in food and non-food prices. On the other hand, in Harari, SNNP and Addis Ababa the increase in headline inflation rate was solely caused by the surge in non-food inflation.

Regional comparison of food inflation revealed that in all regions, except Diredawa, Gambella, Somali and Tigray, food inflation declined in 2004/05 vis-à-vis 2003/04. The decline in food price in most of the regions was associated with the relatively better weather conditions and good harvest in 2004/05.

On the other hand, core inflation, except in Afar and Amhara, rose in all regional states and more than doubled in a number of them over the previous year mainly associated with the pick up in the inflation rate of 'house rent construction materials, water, fuel and power' subgroup of the non-food CPI.

Table IV.3: Regional Average Annual Inflation (2004/05 FY)

Items/Regions	General	Food	Non-Food
Addis Ababa	7.2	5.7	8.4
Amhara	6.2	7.8	2.3
B.Gumz	4.6	5.2	3.5
D.Dawa	6.2	5.1	7.9
Gambella	7.9	10.1	4.3
Harari	5.9	4.0	10.0
Oromia	6.8	7.5	5.0
SNNP	8.7	9.4	7.7
Somali	10.0	10.1	9.8
Tigray	8.9	9.0	8.1
Afar	2.9	0.2	5.9

Source: Central Statistical Authority and NBE Staff Computation

The smallest core inflation rate was registered in Amhara (2.3 percent) and the highest in Harari (10.0 percent). In six of the eleven Regional States, annualized core inflation rate ranged between 7.5 percent and 10.0 percent.