

. PRICE DEVELOPMENTS

4.1 Developments in Consumer Prices at Country Level

Until recently, Ethiopia has been a low inflation country in Sub-Saharan Africa. This was due to a strong currency, prudent monetary and fiscal policies (1960's - 1973), general price control (1974-1992) and implementation of economic reform and stabilization programs (1992-2005). 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 the bumper agricultural production following the good weather condition of the period.

Table 4.1: Annual Average Inflation Rates (in %)

<i>National</i>	2003/04	2004/05	2005/06	<i>Change in Percentage point</i>	
Item	A	B	C	C-A	C-B
General	8.6	6.8	12.3	3.7	5.5
Food	11.8	7.7	14.0	2.2	6.3
Non-Food	2.8	5.2	8.0	5.2	2.8

Source: Central Statistical Agency 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 fiscal year. The increase further continued and reached a peak level of 18.6 percent in October 2003. Since November 2003, however, the national

annual average general inflation was on a continuous decline registering 8.6 percent annual average by the end of fiscal year 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 on wards, for 12 months, general inflation has been steadily on the

rise up to December 2005 remarked by fluctuation in the first six months of 2006. Such developments in 2004/05 and 2005/06 were quite unusual in that price increase has been observed despite good agricultural produce. Moreover, non-food inflation (which takes up 40 percent of the General CPI at country level) registered a significant increase, influencing the upward movement of the general price level. Accordingly, general inflation, at the end of fiscal year 2005/06 reached 12.3 percent, food inflation 14.0 percent and core inflation, as proxied by

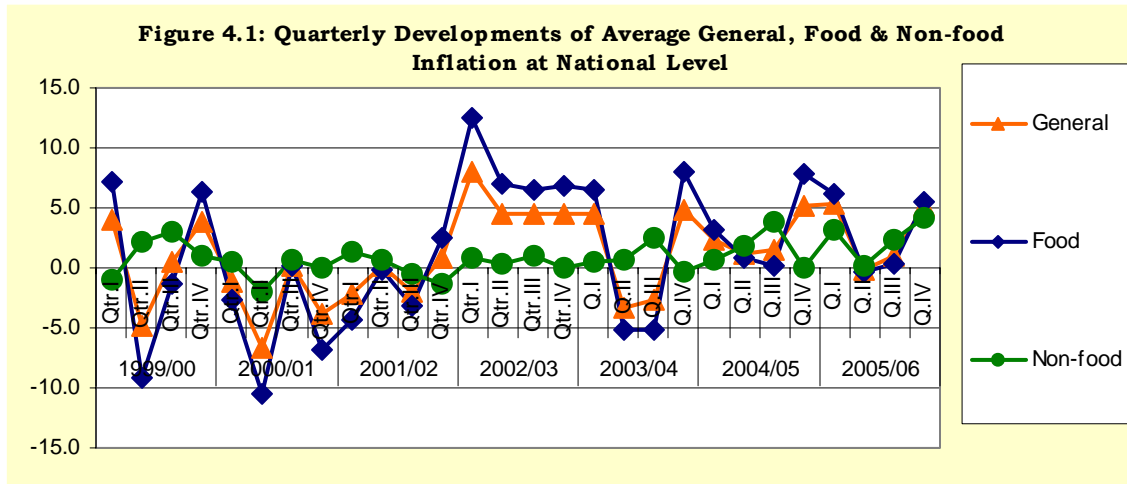
non-food prices, 8.0 percent from their respective levels of 6.8, 7.7 and 5.2 percent in 2004/05.

The increase in core inflation was basically due to the increase in the house rent, prices of construction materials, water, fuel and power subgroup 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 had also considerable impact on the inflation rate of the non-food items.

Table 4.2: National Level Average Commodity Price Indices

Item	Year				
	2003/04	2004/05	2005/06	Percentage Change	
	A	B	C	C/A	C/B
General	120.0	128.2	143.9	19.92	12.25
Food	129.4	139.3	158.8	22.72	14.00
<i>Cereals</i>	152.7	163.9	191.1	25.15	16.60
<i>Pulses</i>	117.4	119.6	124.9	6.39	4.43
<i>Oil & fats</i>	126.2	127.4	126.2	0.00	-0.94
<i>Vegetables & fruits</i>	117.2	118.3	132.4	12.97	11.92
Non-Food	104.6	110.1	118.9	13.67	7.99
<i>Beverages</i>	99.5	100.3	107.2	7.74	6.88
<i>House Rent & others</i>	112.7	123.2	139.1	23.43	12.91

Source: Central Statistical Agency and NBE Staff Computation



4.2 Consumer Price Development in Regional States

Headline inflation increased in all Regional States. The lowest regional headline inflation was registered in Afar (7.7 percent) and the highest in Gambella (17.6 percent).

It was only in Tigray, Amhara, SNNP, Gambella and Benishangul Gumuz regions that non-food inflation had moderate influence on headline inflation rate.

In all the regions, the rising food inflation contributed significantly to higher headline

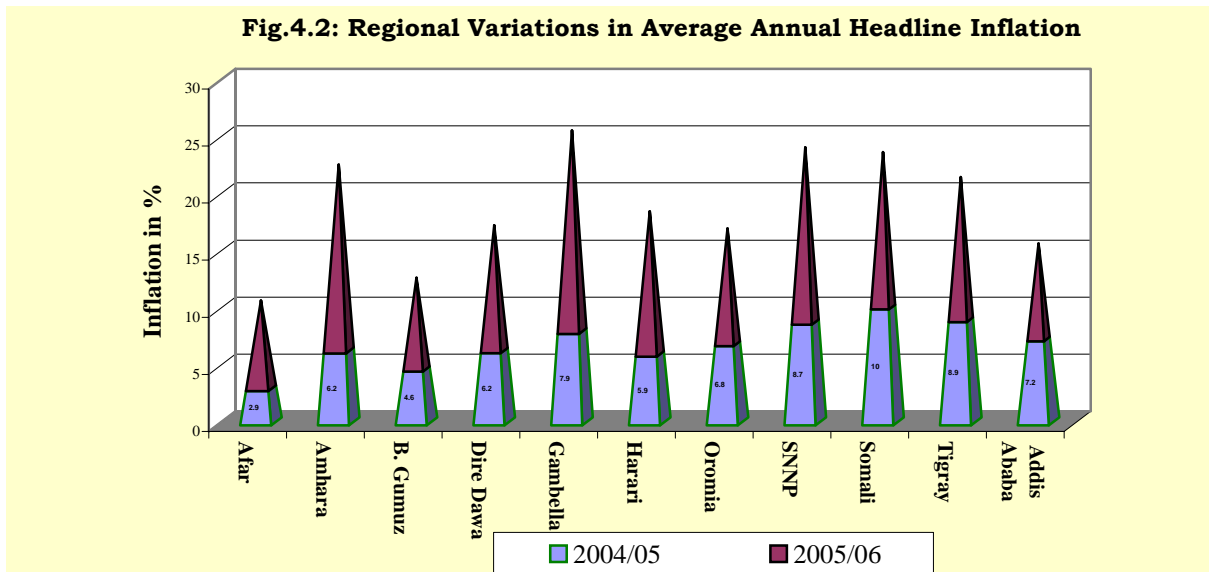
Table 4.3: Regional Average Annual Inflation (2005/06 FY)

Region	General	Food	Non-Food
Afar	7.7	12.0	5.4
Amhara	13.3	14.6	9.9
Benishangul Gumz	8.0	8.6	6.7
Dire Dawa	11.0	13.6	7.1
Gambella	17.6	16.2	20.1
Harari	12.5	15.9	6.7
Oromia	10.1	12.6	4.2
SNNP	15.3	15.6	15.0
Somali	13.6	20.2	3.4
Tigray	12.5	12.4	12.2
Addis Ababa	8.4	13.0	4.8

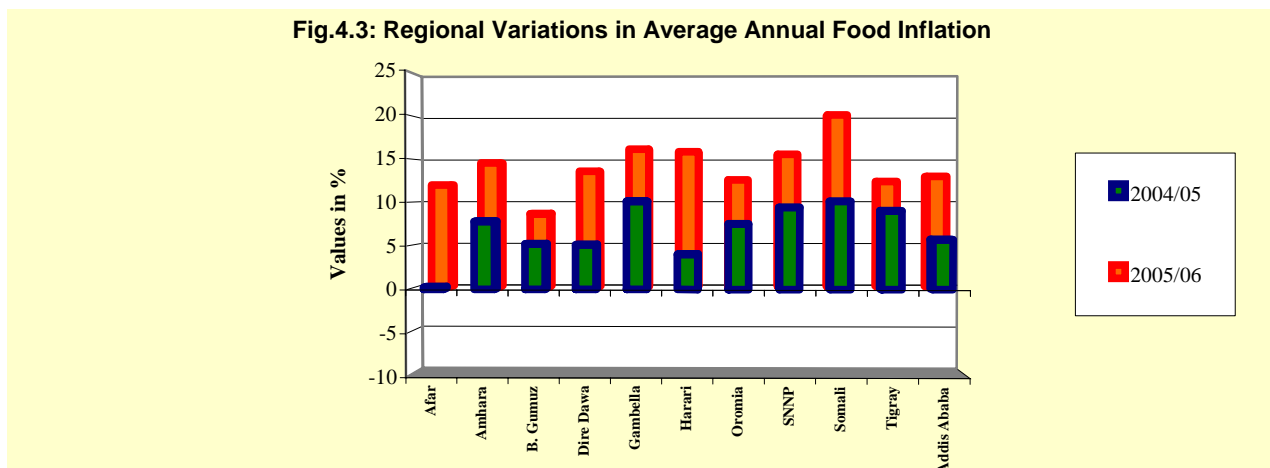
Source: Central Statistical Agency and NBE Staff Computation

Regional comparison of food inflation revealed that in all regions, food inflation increased in 2005/06 vis-à-vis 2004/05. Food inflation rate in most of the regions

in 2005/06 more than doubled compared to the rate recorded in 2004/05 due to relatively higher cereal prices in 2005/06.



The lowest food inflation rate was registered in Benishangul Gumuz (8.6 percent) and the highest was registered in Somali (20.2 percent).



On the other hand, regional comparisons in core inflation indicated that Tigray, Amhara, SNNP, Gambella and Benishangul Gumuz regions showed a significant increase while the rest of the regions exhibited a decline.

In eight of the eleven Regional States, annualized core inflation rate ranged between 3.2 percent and 10.0 percent.

The lowest core inflation rate was registered in Afar (3.2 percent) and the highest registered in Gambella (20.1

