

IV. PRICE DEVELOPMENTS

4.1 Developments in Consumer Price at National Level

Year-on-year basis, annualized¹ headline inflation at the end of 2007/08 fiscal year continued to surge following the trend that has set in since the second quarter of 2005/06 and reached 25.3 percent from 15.8 percent in 2006/07. Annualized food inflation grew to 34.9 percent from 17.5 percent, and core inflation, proxied by non-food inflation, dropped to 12.5 percent from 13.5 percent last year (Table IV.1 and Fig. 4.1).

The 9.5 percentage point rise in the annualized year-on-year headline inflation rate was wholly attributed to the increase in the prices of food items which made a combined contribution of 10.5 percentage points² compared to a 1.0 percentage point negative contribution of non-food items (Table IV.1).

On the other hand, the 17.4 percentage points surge in annualized year-on-year food inflation rate over that of last year was mainly due to a significant rise in the prices of cereals; spices; and potatoes, other tubers and stems, which together accounted for 15.4 percentage points of the upsurge. However, the slow rise in the prices of meat and food taken away from home has slightly checked the upward movement in the overall food inflation as compared to last year (Table IV.2).

As compared to the preceding year, the decline in the year-on-year annualized non-food inflation was mainly due to the drop in the rate of inflation of house rent, construction materials, potable water, fuel and electric power; transport and communication; and personal care and effects, which jointly constituted up 55.6 percent of the non-food consumption expenditure.

¹ 'Annualized' means 12 month average of CPI

² Contribution of a given consumption item (j) in a basket containing n different consumption items is computed as:

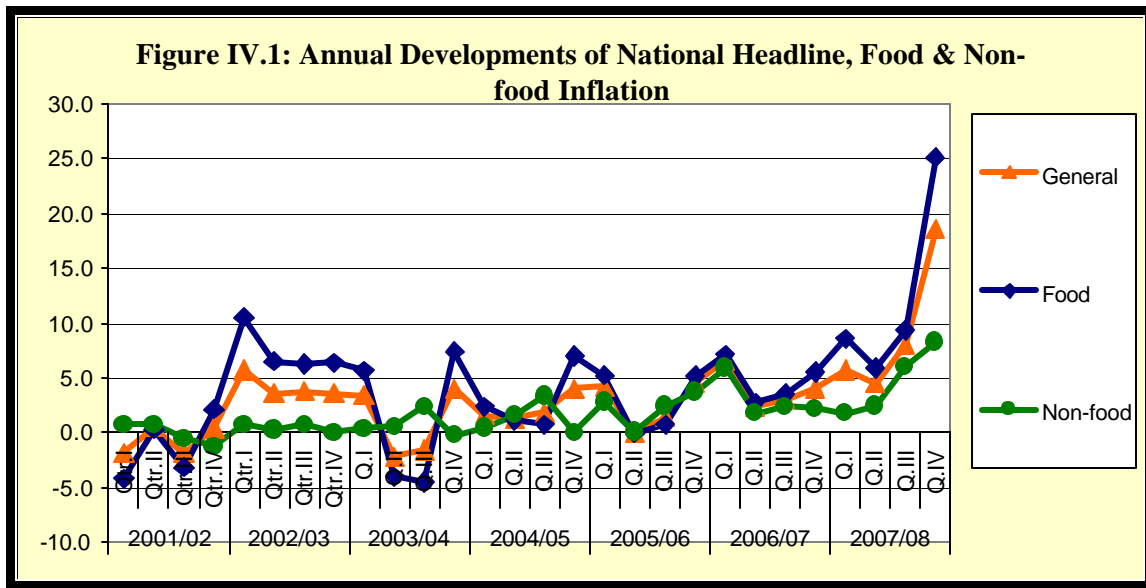
$$\frac{\sum_{i=0}^{11} a_j CPI_{j,t-i}}{\sum_{i=0}^{11} a_j CPI_{j,t-i}} - \frac{\sum_{i=0}^{11} a_j CPI_{j,t-1-2i}}{\sum_{i=0}^{11} a_j CPI_{j,t-1-2i}} \quad \text{where } CPI, a, t$$

and *i* each stands for price index, weight attached to the index, the month for which contribution is being computed, and the number of lags of the current and the last eleven months from *t*

Table 4.1: Annual Average Inflation Rates (In %)

Consumption Items	2006/07	2007/08	Change (in Percentage Points)	Contribution to Change in Headline Inflation (in Percentage Points)
A	B	C	C-B	D
General	15.8	25.3	9.5	9.5
Food	17.5	34.9	17.4	10.5
Non-Food	13.5	12.5	-1.0	-1.0

Source: Central Statistical Authority (CSA) and NBE Staff Computation



Source: CSA and NBE Staff Computation

Table 4.2: Selected Food Items and Their Contribution to Food Inflation
(In Percentage Points)

Food Items	Contribution to Change in	Weight
Cereals	8.5	39.5
Spices	5.4	3.5
Potatoes, other tubers and stems	1.5	7.3
Meat	-0.3	5.0
Food taken away from home	-1.0	10.1

Source: CSA and NBE Staff Computation

The joint contribution of the aforementioned items to the 1.0 percentage point annual decline in core inflation was 5.1 percentage points (over 500 percent). On the other hand, clothing and footwear; furniture, furnishing, household equipment and operation; and miscellaneous goods categories exerted upward pressure on the year-on-year annualized non-food inflation. Collectively, these categories made a contribution of 3.5 percentage points³.

4.2 Regional Consumer Price Developments

Regional simple average headline inflation stood at 24.0 percent (Table IV.3) in 2007/08. Five regions; namely, Benishangul Gumz, Oromia, Tigray, Amhara, and SNNP registered a rate above the regional simple average. However, compared to that of 2006/07, headline inflation increased in all regional states due to the mounting food inflation.

The highest increment in headline inflation was registered in Benishangul Gumz (21.7

percentage points) and the lowest in Addis Ababa (1.6 percent).

Between 2006/07 and 2007/08, Benishangul Gumz, Tigray and Somali experienced high price instability. However, Addis Ababa, Harari, and Gambella relatively witnessed more stable prices, as measured by the extent of change in the rate of inflation of a given regional state relative to standard deviation of the change across regions (Table IV.3).

Regarding convergence as measured by the change in coefficient of variation⁴ in regional rates of inflation between 2006/07 and 2007/08, one can see that regional inflation rates in 2007/08 showed a tendency to converge to their common mean more than the preceding year. This was presumably due to the growing interconnection among regional markets as transportation and communication facilities improved.

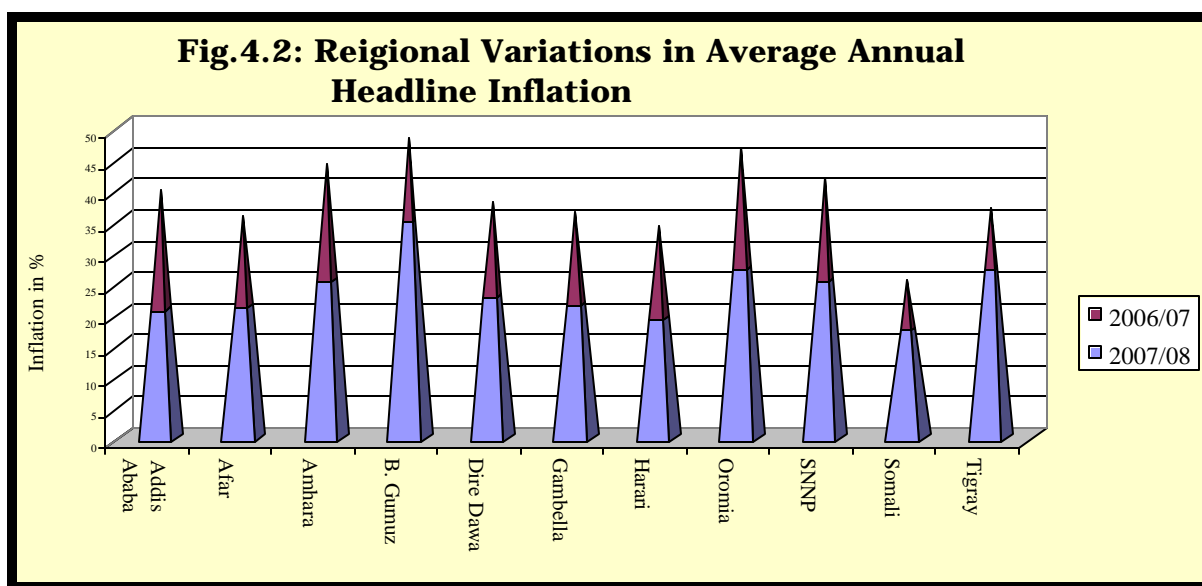
³ The contribution of these items tended to raise non-food inflation, but overwhelmed by the contribution of the items that made non-food price index decline by 1.0 percentage point

⁴ Coefficient of variation is the ratio of standard deviation to mean

Table 4.3: Regional Average Annual Inflation (2006/07 FY)

Regions	2006/07			2007/08			Change		
	General	Food	Non Food	General	Food	Non Food	General	Food	Non Food
A	B	C	D	E	F	H	I=E-B	J=F-C	K=H-D
Addis Ababa	19.2	25.4	14.0	20.8	32.1	12.7	1.6	6.7	-1.3
Afar	14.4	19.8	7.3	21.3	31.8	8.6	6.9	12.0	1.3
Amhara	18.7	17.1	20.1	25.5	35.8	8.0	6.8	18.7	-12.1
B.Gumz	13.4	13.9	10.0	35.1	46.7	19.8	21.7	32.8	9.8
D.Dawa	15.4	14.9	14.3	22.8	31.1	14.1	7.4	16.2	-0.2
Gambella	14.8	16.0	12.1	21.5	30.6	10.1	6.7	14.6	-2.0
Harari	14.6	16.4	10.8	19.5	29.2	10.2	4.9	12.8	-0.6
Oromia	19.2	20.8	13.7	27.5	36.7	13.9	8.3	15.9	0.2
SNNP	16.4	19.2	11.4	25.4	31.3	17.2	9.0	12.1	5.8
Somali	7.8	9.6	4.9	17.5	23.0	8.4	9.7	13.4	3.5
Tigray	9.7	10.0	9.3	27.4	39.5	10.3	17.7	29.5	1.0
<i>Mean</i>	<i>14.9</i>	<i>16.6</i>	<i>11.6</i>	<i>24.0</i>	<i>33.4</i>	<i>12.1</i>	<i>9.2</i>	<i>16.8</i>	<i>0.5</i>
Standard dev.	3.7	4.6	4.0	4.9	6.2	3.8	5.7	7.8	5.4
Coeff. of Var.	0.25	0.28	0.35	0.20	0.18	0.32	0.62	0.46	11.05

Source: CSA and NBE Staff Computation



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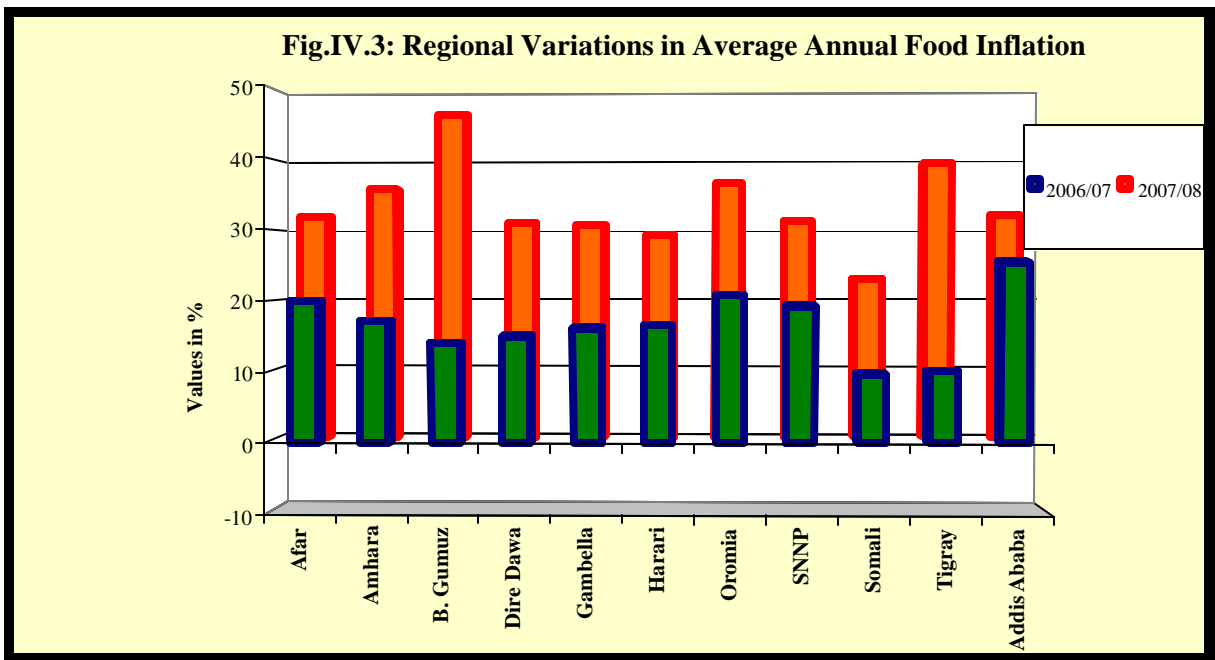
As for food inflation, the regional simple average stood at 33.4 percent (Table

IV.3). Four regions; namely, Benishangul Gumz, Oromia, Tigray and Amhara

registered inflation rate higher than the regional simple average. Nonetheless, in comparison with that of 2006/07, food inflation increased in all regional states due to the rising cereal inflation.

The highest surge in food inflation was registered in Benishangul Gumz (32.8

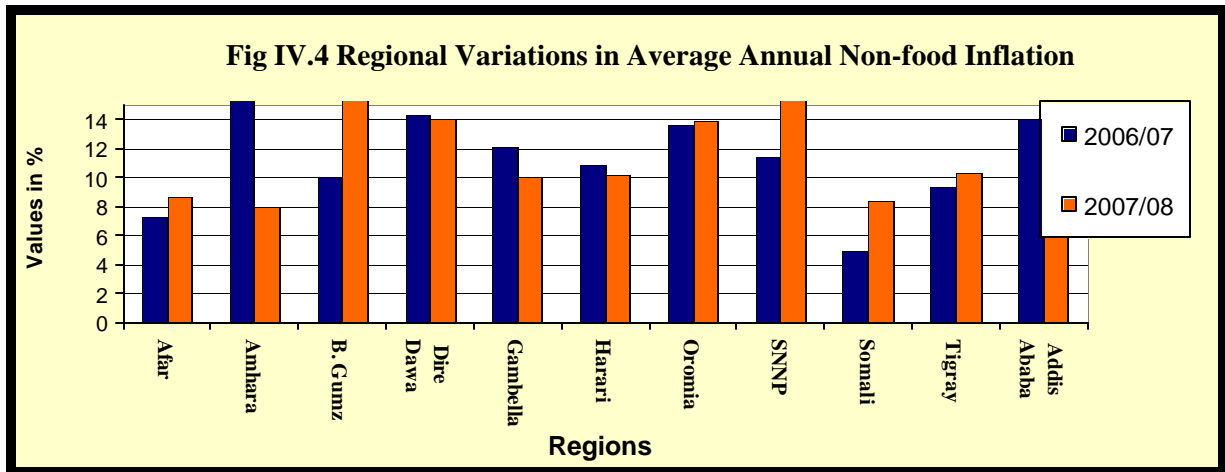
percentage points); while the lowest in Addis Ababa (6.7 percentage points). Over the two-year period (2006/07 to 2007/08), food price instability was high in Benishangul Gumz, Tigray, and Amhara states but low in Addis Ababa, Afar, and SNNP.



Source: CSA and NBE Staff Computation

During 2007/08, simple average regional non-food inflation stood at 19.8 percent (Table IV.3). Benishangul Gumz, SNNP, Dire Dawa, Oromia, and Addis Ababa witnessed a rate higher than the regional

simple average. Compared to the rate in 2006/07, Amhara, Gambella, Addis Ababa, Harari, and Dire Dawa exhibited a decline in non-food inflation.



Source: CSA and NBE Staff Computation

The highest rise in non-food inflation was recorded in Benishangul Gumz (9.8 percentage points), and the lowest in Oromia (0.2 percentage points). Regional variation in non-food inflation as measured by coefficient of variation was higher than that of 2006/07 due to the disproportionate boom in the construction sector in some regions that led to high demand for construction materials and thus to relatively faster rise in non-food inflation rate.

4.3 Measures Taken to Mitigate Inflationary Pressure

The government took various measures to mitigate the impact of inflation on the low-income groups of the society. Some of the measures were:-

- a) A ban on the export of wheat, pepper, barley, teff and corn;
- b) Facilitating the importation of sugar from abroad and reduction of the floor bid price of a quintal of sugar produced locally;
- c) Subsidizing domestic fuel retail prices despite persistent rise in international market;
- d) Supplying wheat and edible oil at lower prices to low-income households in Addis Ababa and other towns in the regions;
- e) Raising the minimum saving deposit rate from 3 to 4 percent;
- f) Adjusting the reserve requirement from 5 to 10 and from 10 to 15 percent twice;
- g) Raising liquidity requirement from 15 to 25 percent as of April 7, 2008;
- h) Lifting of VAT and turnover tax on food grains effective from mid March, 2008.

- i) Administrative measures to restrain unfair oligopolistic pricing and hoarding behaviors such as requiring traders to use price tags;
- j) Introduced Ethiopian Commodity Exchange (ECX).

The above measures played a role in checking the pace of inflation and its negative impact on low-income groups of the society. The government will continue taking additional fiscal and monetary policy measures in the future.