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CONFIDENTIAL

September 11, 1989

To: Members of the Executive Board
From: The Secretary
Subject: Ethiopia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Ethiopian birr.

Mr. Leipold (ext. 8526) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

ETHIOPIA

Real Effective Exchange Rate - Information Notice

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department and
the Research Department)

Approved by Mamoudou Touré and Anupam Basu

September 8, 1989

The recent evolution of Ethiopia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of June 1989, the Ethiopian birr had appreciated in real effective terms by an estimated 10.6 percent since the last occasion on which developments in Ethiopia's exchange rate were brought to the attention of the Executive Board, in an information notice issued in November 1988 (EBS/88/166, 11/9/88).

Since February 1973, the birr has been pegged to the U.S. dollar at a fixed rate of Br 1 = US\$0.48309. Therefore, the nominal effective value of the birr has been importantly affected by fluctuations in the exchange value of the U.S. dollar relative to the currencies of Ethiopia's major trading partners. In parallel with the appreciation of the U.S. dollar, the real effective value of the birr peaked in early 1985, and largely followed the dollar as it depreciated through early 1988, and again during its more recent appreciation through June 1989. Ethiopia's price performance throughout this period has been favorable relative to its trading partners. The index of relative prices declined by 6.8 percent in favor of Ethiopia during the 7-month period to June 1989, which helped to moderate the real effective appreciation of the birr.

Exchange rate policy and developments in Ethiopia during the past few years are described in the staff report for the 1988 Article IV consultation (SM/88/223, 10/12/88) and the report on recent economic developments (SM/88/239, 10/28/88), which were discussed by the Executive Board on November 9, 1988. On that occasion, Executive Directors urged the authorities to implement timely and appropriate structural adjustment measures, including a substantial adjustment of the exchange rate. The next Article IV consultation mission is scheduled for October 1989. The staff continues to believe that the birr remains significantly overvalued and that economic performance in Ethiopia would benefit from a substantial exchange rate adjustment, followed by a more flexible management of the exchange rate.

Table 1. Ethiopia: Real Effective Exchange Rate and Related Series, 1984-89

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1984						
I	122.8	172.1	71.3	100.0	112.0	109.9
II	130.8	176.3	74.1	100.0	119.6	121.2
III	138.2	189.3	72.9	100.0	121.2	122.8
IV	152.9	199.7	76.5	100.0	131.2	130.1
1985						
I	167.8	214.1	78.3	100.0	138.7	136.3
II	167.7	212.3	79.0	100.0	144.3	146.2
III	167.5	207.1	80.8	100.0	151.6	153.6
IV	146.4	199.3	73.4	100.0	141.7	140.4
1986						
I	132.5	192.9	68.6	100.0	136.4	134.3
II	122.5	188.6	64.9	100.0	130.5	131.9
III	113.9	182.7	62.3	100.0	126.7	128.5
IV	111.6	182.2	61.2	100.0	126.5	125.2
1987						
I	107.5	176.7	60.8	100.0	128.8	127.2
II	101.3	178.7	56.7	100.0	125.0	126.2
III	101.5	186.3	54.5	100.0	124.7	126.3
IV	99.0	181.5	54.5	100.0	128.9	127.5
1988						
I	97.8	183.4	53.3	100.0	130.4	129.1
II	100.0	190.2	52.5	100.0	134.0	135.1
III	107.7	210.2	51.2	100.0	138.1	139.8
IV	104.6	212.1	49.3	100.0	140.7	139.1
1989						
I	107.6	226.3	47.5	100.0	143.1	141.8
II	112.5	240.7	46.7	100.0	147.0	148.0
Monthly						
1988						
November <u>3/</u>	103.7	210.2	49.3	100.0	140.7	138.6
December	103.9	213.4	48.6	100.0	141.5	137.9
1989						
January	105.9	222.8	47.5	100.0	141.0	138.7
February	106.9	226.3	47.2	100.0	142.3	141.5
March	110.0	229.6	47.9	100.0	146.0	145.3
April	109.2	231.7	47.1	100.0	145.7	148.0
May	113.7	241.1	47.1	100.0	147.9	150.5
June	114.6	249.2	46.0	100.0	147.3	145.5
Percentage change						
Nov. 1988 - June 1989	10.6	18.6	6.8	--	4.7	

Source: IMF, Information Notice System.

1/ Increase in the index means appreciation.

2/ Using seasonally adjusted price series.

3/ Date of latest consideration by Executive Board.

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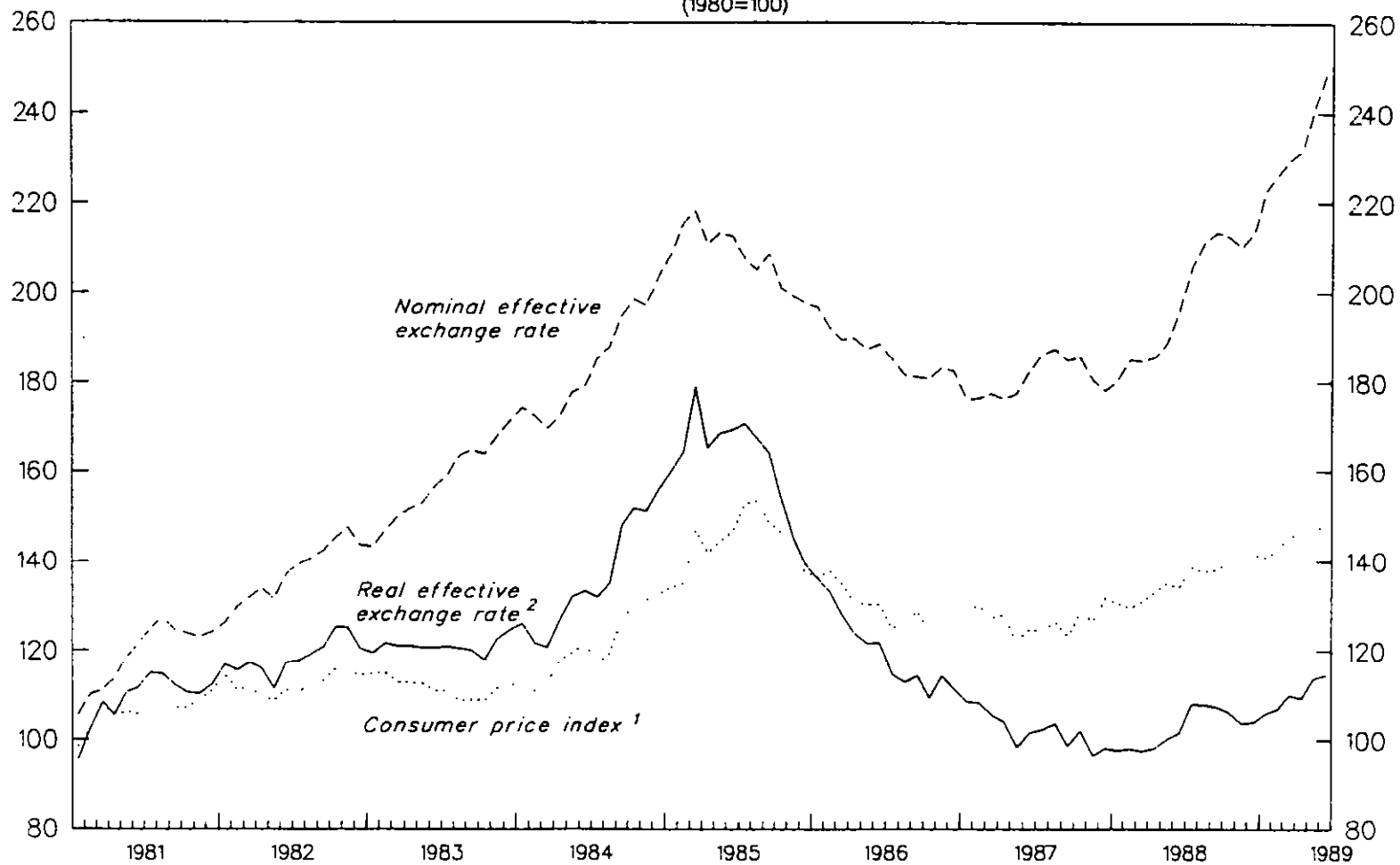
Source: IMF, Information Notice System.

1/ Increase in the index means appreciation.

2/ Using seasonally adjusted price series.

3/ Date of latest consideration by Executive Board.

CHART 1
ETHIOPIA
CONSUMER PRICE AND EFFECTIVE EXCHANGE RATE INDICES,
JANUARY 1981-JUNE 1989
(1980=100)



Source: Information Notice System.

¹Seasonally adjusted.

²Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

