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EBS/88/229

CONFIDENTIAL

November 8, 1988

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. Enweze (ext. 8650) or Mr. Rajcoomar (ext. 8598) is available to answer technical or factual questions relating to this paper.

Att: (1)

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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 G.E. Gondwe and A. Basu

November 8, 1988

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 August 1988, the Ethiopian birr had appreciated in real effective terms by more than 10 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 December 1987 (EBS/87/270, 12/22/87). The appreciation is estimated to have amounted to 10.9 percent, underlying which is an 18.7 percent appreciation in the nominal effective value of the birr.

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 in the nominal effective value of the U.S. dollar, the real effective value of the birr peaked in mid-1985, and has largely followed the dollar as it depreciated through early 1988, and during its appreciation through August. Ethiopia's price performance, throughout this period, has been favorable relative to its trading partners. The price differential amounted to -6.6 percent in the 9-month period to August 1988, which moderated the real effective appreciation of the birr.

Exchange rate policy and developments in Ethiopia during the past few years are described in the recently issued 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 are scheduled for Board discussion on November 9, 1988. 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, together with flexibility in managing the rate so as to enhance external competitiveness.

Table 1. Ethiopia: Real Effective Exchange Rate and Related Series, 1983-88

(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						
1983						
I	120.6	146.7	82.2	100.0	114.2	112.0
II	120.7	153.8	78.4	100.0	112.1	113.7
III	120.5	162.6	74.1	100.0	109.5	110.8
IV	121.6	167.7	72.5	100.0	110.8	110.0
1984						
I	122.7	172.1	71.3	100.0	112.0	109.9
II	130.8	176.3	74.2	100.0	119.7	121.2
III	138.1	189.3	72.9	100.0	121.1	122.8
IV	153.0	199.7	76.6	100.0	131.3	130.1
1985						
I	167.8	214.2	78.3	100.0	138.7	136.3
II	167.3	212.4	79.0	100.0	144.5	146.2
III	167.8	207.2	80.7	100.0	151.3	153.6
IV	146.6	199.4	73.4	100.0	141.8	140.4
1986						
I	132.7	192.9	68.7	100.0	136.4	134.3
II	121.9	188.6	65.0	100.0	130.5	131.9
III	113.9	182.7	62.2	100.0	124.4	128.5
IV	112.0	182.2	61.3	100.0	126.9	125.2
1987						
I	107.9	176.7	60.8	100.0	128.9	127.2
II	100.7	178.7	56.7	100.0	125.0	126.2
III	97.7	186.3	54.3	100.0	127.2	126.3
IV	99.1	181.5	54.6	100.0	129.4	127.5
1988						
I	97.9	183.4	53.3	100.0	130.6	129.1
II	101.1	190.2	53.1	100.0	135.5	136.6
Monthly						
1987						
December <u>3/</u>	99.0	178.2	55.5	100.0	133.2	128.2
1988						
January	97.5	180.4	54.0	100.0	130.7	128.5
February	98.0	185.0	53.0	100.0	129.6	128.7
March	98.1	184.8	53.1	100.0	131.4	130.3
April	98.6	185.7	53.1	100.0	133.3	135.1
May	101.2	188.8	53.6	100.0	136.3	137.4
June	103.6	196.3	52.8	100.0	136.9	137.3
July	107.7	205.7	52.3	100.0	138.3	137.3
August	109.8	211.5	51.9	100.0	139.6	...
Percentage change						
Dec. 87-Aug. 88	10.9	18.7	-6.6	0	4.8	...

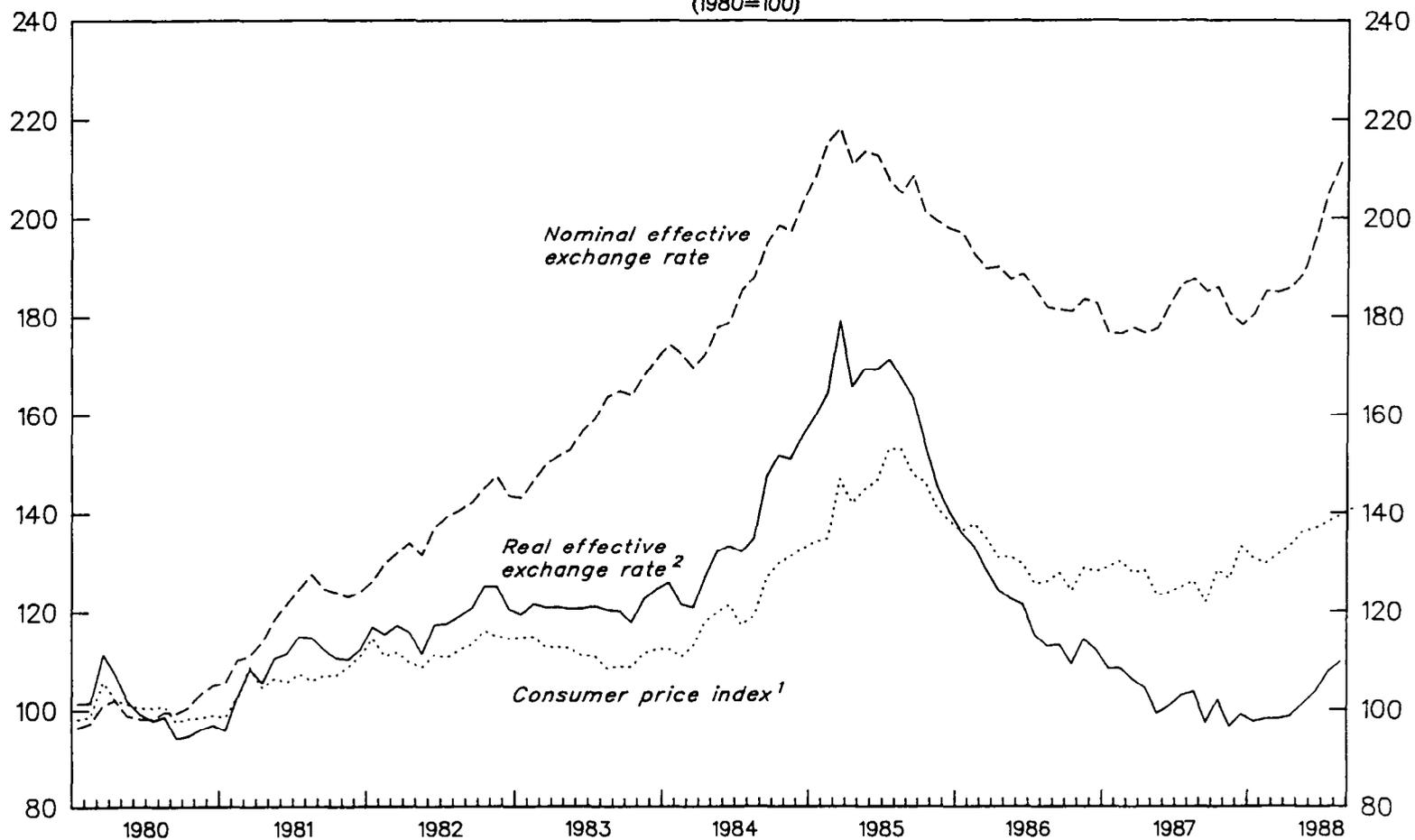
Source: IMF, Information Notice System.

1/ Increase in the index means appreciation.

2/ Using seasonally adjusted price series.

3/ Date of latest consideration by Executive Board.

CHART 1
 ETHIOPIA
 INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE,
 1980-88
 (1980=100)



Source: Information Notice System.

¹ Seasonally adjusted.

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

