

EBS/85/131

CONFIDENTIAL

May 16, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Ethiopia - Real Effective Exchange Rate - Information Notice

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

Mr. G. G. Johnson (ext. 8671) 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 other departments)

Approved by G. E. Gondwe and W. A. Beveridge

May 16, 1985

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 March 1985 the Ethiopian birr has 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--the information notice issued in November 1984. 1/ The appreciation is estimated to have amounted to 11.2 percent.

The Ethiopian birr has been pegged to the U.S. dollar at an exchange rate of Br 1 = US\$0.48309 since February 1973. In nominal terms, the birr has appreciated by 95 percent since 1980, reflecting the strength of the U.S. dollar relative to the currencies of Ethiopia's major trading partners. Until 1984, the relatively moderate rate of inflation in Ethiopia had limited the impact of the nominal appreciation on the real effective rate. Since March 1984, however, consumer prices have risen by 21 percent, 2/ principally on account of food scarcity resulting from the very serious shortfall in agricultural production that occurred in 1984. By March 1985 the real appreciation since 1980 amounted to 65 percent.

These developments and their policy implications are reviewed in detail in the forthcoming staff report for the 1985 Article IV consultation. As noted there, underlying domestic and external imbalances have been accentuated by the impact of a massive drought. In the staff's opinion, corrective policy actions are required, particularly in those areas where past policies have contributed to the emergence of these imbalances, which were evident even before the onset of the drought. In the area of exchange rate policy, action by the authorities is required to reverse the appreciation of the birr that has occurred as a result of the peg to the U.S. dollar, and to reduce the degree of reliance on exchange restrictions.

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1/ EBS/84/248 (11/30/84).

2/ The increase for March 1985 is a staff estimate.

Table. Ethiopia: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies) <u>2/</u>	Exchange Rate in terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1979						
I	106.2	96.6	109.8	100.0	91.4	89.7
II	108.9	98.6	110.4	100.0	94.6	95.1
III	107.2	96.5	111.0	100.0	98.5	100.1
IV	105.0	97.6	107.5	100.0	98.5	97.9
1980						
I	104.1	98.5	105.7	100.0	100.8	99.1
II	102.4	99.8	102.6	100.0	101.2	102.1
III	97.2	99.1	98.0	100.0	99.6	101.0
IV	96.3	102.7	93.8	100.0	98.5	97.8
1981						
I	103.0	108.2	95.1	100.0	103.1	101.4
II	110.3	116.8	94.4	100.0	105.5	106.9
III	115.4	123.9	93.1	100.0	107.0	108.1
IV	111.4	120.6	92.3	100.0	109.0	108.2
1982						
I	116.9	125.7	93.0	100.0	112.3	110.3
II	115.4	129.9	88.8	100.0	109.8	111.4
III	120.5	136.1	88.5	100.0	112.5	113.4
IV	124.3	140.1	88.7	100.0	115.0	114.5
1983						
I	119.9	138.7	86.4	100.0	113.9	112.0
II	119.5	143.8	83.1	100.0	112.1	113.7
III	120.8	150.9	80.0	100.0	110.3	110.8
IV	120.8	154.8	78.0	100.0	110.4	110.0
1984						
I	121.5	157.5	77.1	100.0	111.8	109.9
II	128.8	159.9	80.5	100.0	119.4	121.2
III	138.1	171.0	80.7	100.0	122.3	122.8
IV	150.7	179.4	83.9	100.0	130.4	130.1
1985						
I	162.1	191.1	84.8	100.0	135.0	132.7
Monthly						
1984						
Nov. <u>3/</u>	148.6	177.1	83.9	100.0	130.3	130.3
Dec.	152.9	182.2	83.9	100.0	131.1	129.0
1985						
Jan.	157.5	186.4	84.5	100.0	133.2	131.7
Feb.	163.6	192.6	84.9	100.0	135.2	132.5
March	165.3	194.5	85.0	100.0	136.7	133.8 <u>4/</u>
Percentage change						
Nov. 1984- March 1985	11.2	9.8	1.3	0.0	4.9	

Source: Information Notice System.

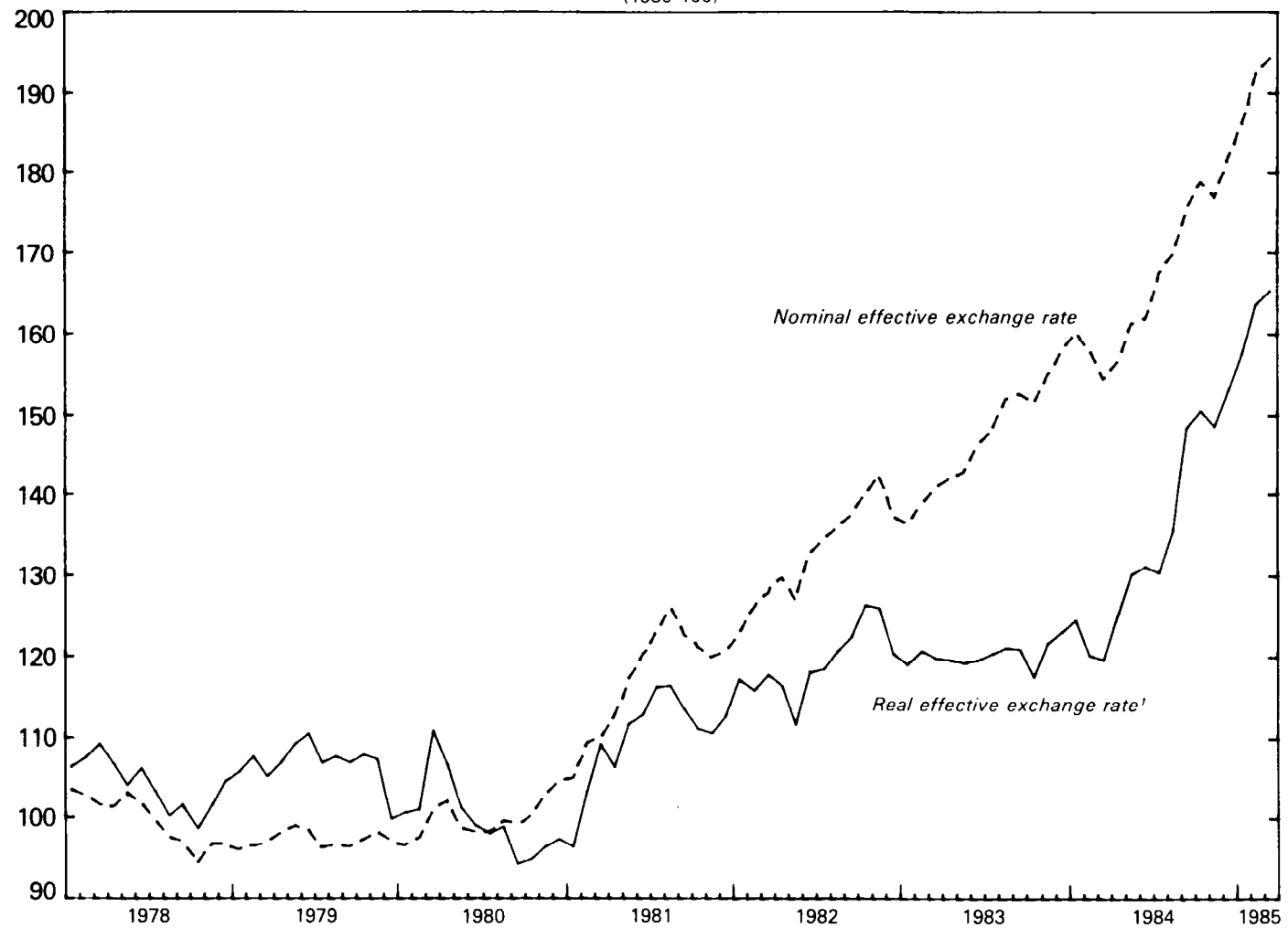
1/ Increase means appreciation.

2/ Using seasonally adjusted consumer price indexes.

3/ Date of latest consideration by the Executive Board.

4/ Staff estimate.

CHART  
ETHIOPIA  
INFORMATION NOTICE SYSTEM INDEX OF  
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES  
(1980=100)



<sup>1</sup>Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.