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Table of Contents

Figures	ii
Tables.....	iii
Acknowledgment	1
Key Figures and Facts.....	2
1. Introduction	3
2. Exchange Rate Dynamics and Market Responses.....	4
2.1. Exchange Rate Trends and Fluctuations	4
2.2. Variations in Buying and Selling Exchange Rates.....	6
2.2.1. Variation in Buying Rates	7
2.2.2. Variation in Selling Rates	8
2.3. Dynamics of the Floating Exchange Rate (FX) Bid–Ask Spread.....	10
2.4. Evolution of Official and Parallel Exchange Rates	11
2.5. Exchange Rate Movements and Trade Competitiveness	12
3. International Trade Developments	14
3.1. Export Sector Performance.....	14
3.1.1. Main Export Items	14
3.1.2. Export Markets and Destinations	15
3.1.3. Commodity Breakdown by Destination Country.....	16
3.1.4. Export Performance Drivers: Price and Volume Effects	18
3.2. Import Sector Performance.....	19
3.2.1. Key Import Categories	19
3.2.2. Primary Origins of Imported Goods.....	20
3.2.3. Import Performance Breakdown: Price and Volume Effects	21
3.3. Trade Balance	22
3.4. Trade Growth Trends Before and After the Exchange Rate Reform	23
3.5. Real Effective Exchange Rate Pass-Through: Estimating Trade Elasticities.....	24
4. Concluding Remarks	26
References	28

Figures

Figure 1: Trends in the Average Daily ETB/USD Exchange Rate from January 1 to March 31, 2025.....	4
Figure 2: Differenced Log Volatility of Exchange Rates over Time (3-Day Rolling Standard Deviation, January 1 – March 31, 2025)	6
Figure 3: Comparison of Banks’ ETB/USD Buying Rates on March 31, 2025.....	8
Figure 4: Comparison of Banks’ ETB/USD Selling Rates on March 31, 2025	9
Figure 5: Short-Term Trends in the Average Daily ETB/USD Exchange Rate Spread across Banks (January 1 – March 31, 2025)	10
Figure 6: Comparison of Official and Parallel ETB/USD Exchange Rates on Key Dates from January to March 2025 with Fitted Trend Line on Difference	12
Figure 7: Trends in Real and Nominal Effective Exchange Rate Indices (Q1 FY2023/24 – Q3 FY2024/25).....	13
Figure 8: Quarterly Export and Import Volume Growth Before and After Exchange Rate Reform (2023/24–2024/25).....	24

Tables

Table 1: Ethiopia’s Leading Exports, January–March 2025	15
Table 2: Leading Export Destinations for Ethiopia, January–March 2025	16
Table 3: Leading Export Destinations for Coffee (January–March 2025).....	17
Table 4: Leading Export Destinations for Oilseeds (January–March 2025).....	17
Table 5: Leading Export Destinations for Pulse (January–March 2025)	17
Table 6: Leading Export Destinations for Flowers (January–March 2025).....	18
Table 7: Year-on-Year Comparison of Prices and Volumes of Major Export Commodities (January–March 2025 vs. January–March 2024)	19
Table 8: Leading Imported Products (January–March 2025)	20
Table 9: Major Import Origins – Top Ten Countries (January–March 2025).....	21
Table 10: Year-on-Year Comparison of Prices and Volumes for Major Imported Goods (January– March 2025 vs. January–March 2024)	22
Table 11: Roughly Estimated Quantity Elasticities of Major Ethiopian Trade Commodities in Response to Real Effective Exchange Rate Index Fluctuations Between January–March 2025 and the Same Period in 2024	25

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Key Figures and Facts

- *The Ethiopian Birr (ETB) depreciated by 2.72% against the USD between January and March 2025, down from an 11.5% drop in the previous quarter, indicating partial stabilization in the transition to a market-driven exchange rate system.*
- *By March 31, 2025, the spread in USD buying rates across commercial banks widened to over 7 ETB (from 124.01 at CBE to 131.11 at LIB), compared to just 2.37 ETB at the end of December 2024.*
- *As of March 31, 2025, the USD selling rate ranged from 126.49 ETB at CBE to 133.73 ETB at LIB, a spread of over 7.2 ETB, up from just 2.41 ETB at the end of December 2024, exhibiting increased price differentiation among banks following exchange rate liberalization.*
- *After narrowing to around ETB 2.50 by December 2024, the average bid–ask spread in the formal foreign exchange market remained steady in January and February 2025, before rising modestly to ETB 2.55 in March.*
- *Between January and March 2025, the official–parallel exchange rate gap widened to around ETB 25 (19%), partially reversing the narrowing from ETB 65 (112.5%) in July 2024 to ETB 14.08 (11%) in December, though the gap remains well below mid-2024 levels.*
- *The move to a floating exchange rate regime led to a sharp nominal (52%) and slightly lower real (51%) depreciation, with domestic inflation only slightly offsetting nominal changes.*
- *Exports between January to March 2025 were heavily concentrated in gold and coffee, which together accounted for over 73% of total export revenues, with major markets including the United States, Saudi Arabia, and the UAE.*
- *From January to March 2025, export growth was largely fueled by substantial volume gains in gold and coffee. While gold exports expanded significantly despite falling prices, coffee benefited from increases in both volume and price.*
- *Between January and March 2025 import performance reflects strong demand for capital and essential goods, especially machinery, fuels, fertilizers, and electronics, sourced mainly from China and other key partners.*
- *From January to March 2025, exports, driven by gold and coffee, more than doubled, but the trade deficit remained broadly stable with a slight increase due to a parallel rise in imports.*
- *Post-reform trade trends followed a classic J-curve pattern: an initial surge in imports (62%) and drop in exports (–17%) after the July 2024 depreciation, followed by a rebound in exports and declining imports in subsequent quarters as the economy adjusted to the weaker birr and improved trade competitiveness.*
- *Rough elasticity estimates show that gold exports are highly responsive to depreciation, while coffee and most other exports—as well as key imports—remain inelastic, indicating limited pass-through and structural import dependencies despite a weaker birr.*

1. Introduction

This quarterly macroeconomic update presents a detailed analysis of developments in Ethiopia's external sector, with a particular focus on exchange rate dynamics and international trade performance. The reporting period, January to March 2025, corresponds to the third quarter of the Ethiopian Fiscal Year (EFY), and amid the country's transition to a floating exchange rate regime in July 2024, a landmark policy shift with far-reaching economic implications.

The report examines the evolution of the nominal exchange rate since the reform, analyzing official and parallel market trends, bid–ask spreads, and movements in buying and selling rates. It also provides an initial assessment of real exchange rate developments to gauge emerging changes in Ethiopia's external competitiveness.

On the trade front, the update evaluates the composition and direction of exports and imports, highlighting key products and trading partners. Special attention is given to decomposing changes in trade values into price and volume components for major export and import items. The report also analyzes quarter-to-quarter growth rates in the physical volumes of exports and imports from Quarter 3 (Q3) 2023/24 to Quarter 3 (Q3) 2024/25, covering the periods before and after the exchange rate liberalization in Quarter 1 (Q1) 2024/25, to better capture shifts in trade dynamics around the reform. In addition, it includes a preliminary, back-of-the-envelope estimation of trade elasticities with respect to exchange rate fluctuations for selected goods.

Together, these analyses provide preliminary insights into how exchange rate liberalization may be influencing Ethiopia's trade performance, particularly in relation to import compression and export responsiveness. They contribute to ongoing policy discussions on external sector stability and competitiveness within the broader framework of macroeconomic reform.

2. Exchange Rate Dynamics and Market Responses

This section explores the developments in Ethiopia's exchange rate from January 1 to March 31, 2025, within the context of the country's floating exchange rate system. The analysis highlights key trends in currency fluctuations, the responsiveness of commercial banks to exchange rate changes, and the persistent disparity between official and parallel market rates. It also examines the implications of these developments for trade competitiveness, particularly in light of recent movements in the real and nominal exchange rates. The findings provide valuable insights into the challenges faced by policymakers and the evolving dynamics of Ethiopia's exchange rate regime as the country works towards greater currency stability and alignment with global market forces.

2.1. Exchange Rate Trends and Fluctuations

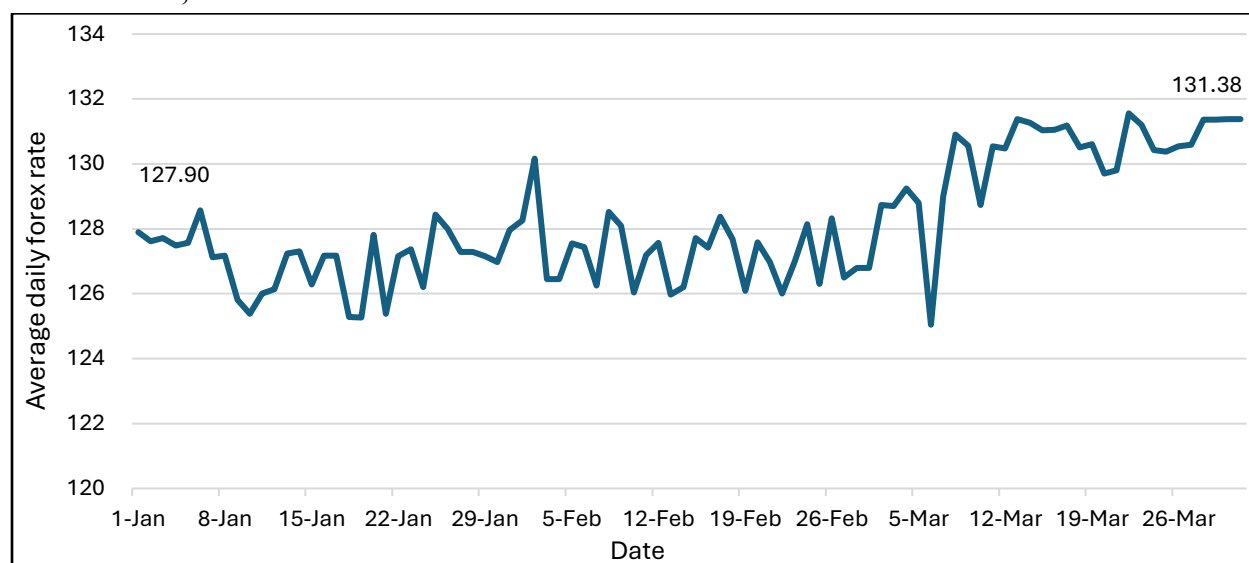
Between January and March 2025, the Ethiopian Birr (ETB) depreciated by 2.72% against the US Dollar (USD), marking a notable slowdown compared to the sharp 11.5% decline observed in the previous quarter (mid-September to December 31, 2024). This came after a steep depreciation of 102.8% between July 30 and September 15, 2024, when the exchange rate jumped from ETB 57.8 to 117.3 per USD, reflecting intense adjustment pressures during the initial phase of the transition to a market-driven exchange rate regime. The recent deceleration suggests partial stabilization, though short-term fluctuations remain a challenge, as illustrated in Figure 1.

The ETB exhibited relative stability against the USD in January, despite notable intra-month volatility. The exchange rate opened the month at ETB 127.90 per USD and closed at ETB 127.96, indicating a marginal net depreciation. During the month, the Birr temporarily weakened to ETB 128.57 on January 6, before appreciating to ETB 125.27 on January 19.

In February, the Ethiopian foreign exchange market experienced heightened fluctuations, indicative of continued adjustment pressures under the recently adopted market-based exchange rate regime. The Birr weakened to ETB 130.16 per USD on February 2, the highest level recorded during the month, before strengthening significantly to ETB 126.00 by February 22. This pronounced intra-month swing signals lingering uncertainty and sensitivity to short-term developments. The National Bank of Ethiopia (NBE)'s special foreign exchange auction on February 25, with a total allotment of USD 60 million, may have contributed to stabilizing the exchange rate, which closed the month at ETB 126.80. A counterfactual analysis of this intervention is provided at the end of this sub-section.

March saw continued pressure on the Ethiopian Birr, which gradually depreciated throughout the month. After starting at ETB 126.80 per USD, the currency crossed the 130 mark by March 8 and reached a high of ETB 131.56 on March 22. Speculative activity and evolving market expectations may have further intensified downward pressure on the Birr. The exchange rate remained above 130 during the latter part of the month, closing the quarter at ETB 131.38.

Figure 1: Trends in the Average Daily ETB/USD Exchange Rate from January 1 to March 31, 2025



Source: Compiled from Exchange Rates UK data¹ (2025). For details, visit <https://www.exchangerates.org.uk/USD-ETB-spot-exchange-rates-history-2025.html>

Counterfactual Analysis

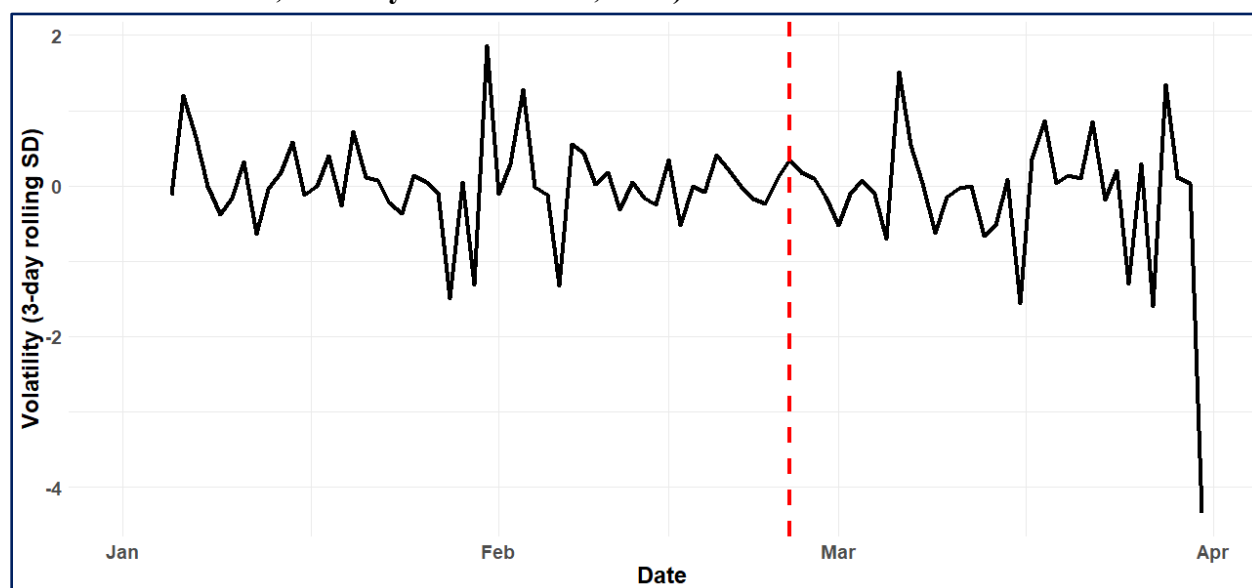
To perform a counterfactual analysis, an Interrupted Time Series (ITS) model has been employed to assess the effect of the special foreign exchange auction by comparing exchange rate volatility prior to and following the auction. Exchange rate volatility (Y_t) is measured as the 3-day rolling standard deviation of the log-differenced nominal exchange rate at time t , capturing short-term fluctuations and market uncertainty. The model can be formulated as follows:

$$Y_t = \alpha + \beta_1 \cdot Time_t + \beta_2 \cdot Intervention_t + \beta_3 \cdot (Time_t \cdot Intervention_t) + \varepsilon_t$$

Where, Y_t represents the outcome variable at time t (e.g., exchange rate volatility); $Time_t$ is the time variable that increases over time; $Intervention_t$ is a binary variable, which takes the value of 1 after the intervention and 0 before it; $Time_t \cdot Intervention_t$ is the interaction term, capturing the change in the slope of the trend after the intervention; α is the intercept; and ε_t is the error term. The coefficient β_1 (coefficient of the time trend) represents the pre-intervention trend of the outcome variable. β_2 (coefficient of the intervention dummy) indicates the immediate level change in the outcome variable after the intervention. Finally, β_3 (coefficient of the interaction term) reveals whether the trend changes post-intervention. A significant positive or negative value of β_3 suggests that the intervention caused a change in the rate of change (the slope) of the outcome variable.

¹ The average daily exchange rate in this report is based on mid-market rates obtained from the Exchange Rates UK website. These rates are determined by averaging multiple exchange rate quotes from various banks and financial institutions. They serve as a general indicator of exchange rate trends and help smooth out daily fluctuations across different sources.

Figure 2: Differenced Log Volatility of Exchange Rates over Time (3-Day Rolling Standard Deviation, January 1 – March 31, 2025)



Note: The black line represents the trend in the differenced log volatility of exchange rates over time, while the red dashed vertical line marks the intervention date of the auction on February 25, 2025.

The regression analysis² reveals that the overall model does not show statistical significance ($p = 0.217$), suggesting that the factors included explain only a limited portion of the variation in exchange rate volatility. While the time variable indicates a slight negative trend in volatility over time, this effect is not statistically significant ($p = 0.635$). Similarly, the auction intervention variable exhibits a positive coefficient (1.317), but it is also not statistically significant ($p = 0.171$), indicating that the auction did not have a discernible impact on volatility. The interaction term between time and intervention is negative, yet similarly insignificant ($p = 0.202$), implying that any potential downward shift in volatility post-auction is not statistically meaningful. The results provide insufficient evidence to conclude that the auction led to significant changes in exchange rate volatility.

2.2. Variations in Buying and Selling Exchange Rates

Ethiopia's shift toward a more flexible exchange rate regime continues to shape foreign currency markets and influence bank-level pricing dynamics. As the country moves further away from a previously managed exchange rate system, early signs of increased heterogeneity in exchange rate practices among commercial banks have begun to emerge. This trend provides insights into how different institutions are navigating the evolving macro-financial environment.

² The interpretation of the results should be approached with caution, as the analysis does not incorporate control variables due to the unavailability of high-frequency data.

2.2.1. Variation in Buying Rates

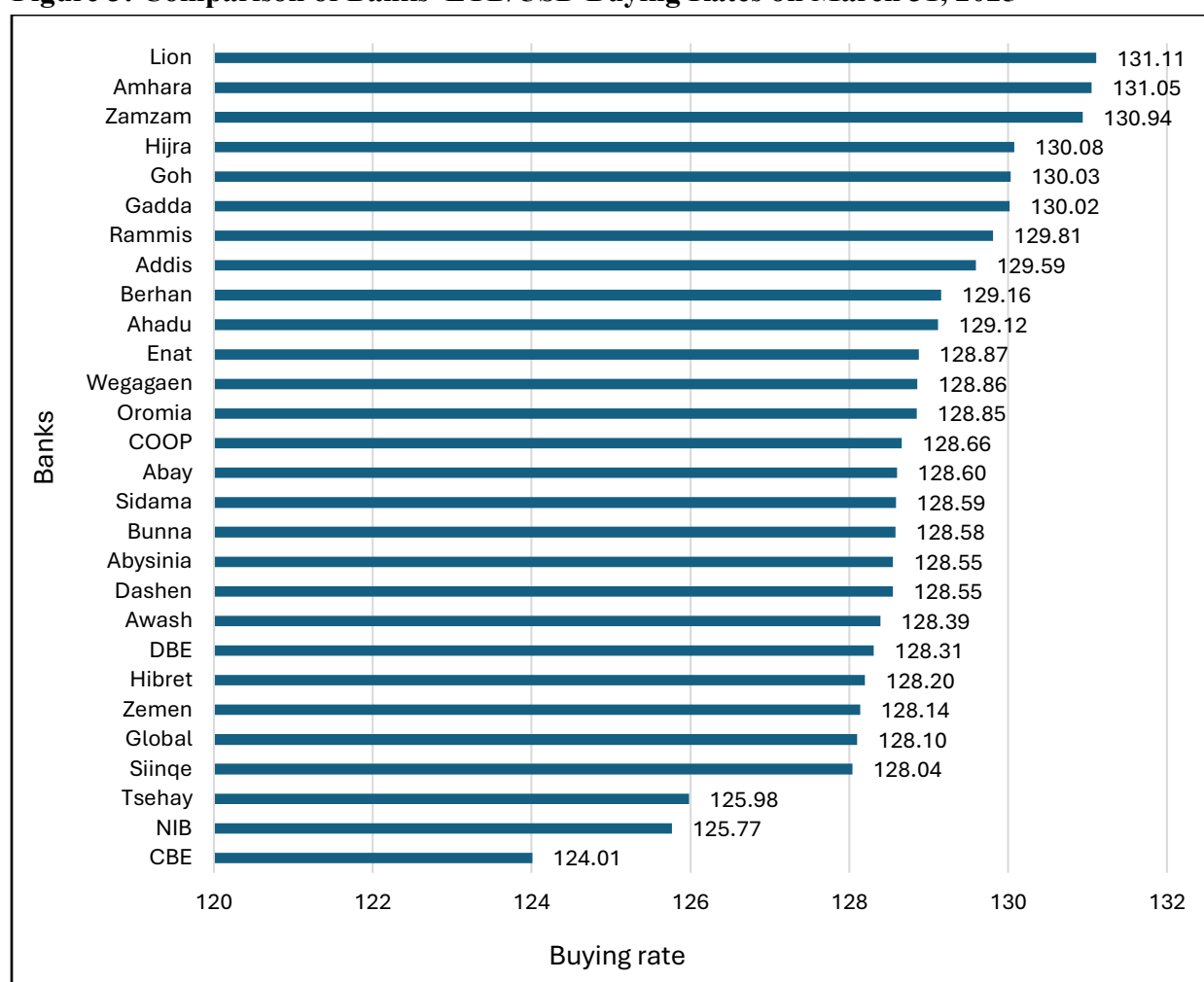
During the second quarter of the Ethiopian Fiscal Year (EFY), covering mid-September to December 31, 2024, USD buying rates across commercial banks showed relatively modest variation, as illustrated by rates on December 31 ranging from 123.60 ETB/USD at the Commercial Bank of Ethiopia (CBE) to 125.97 ETB/USD at Tsehay Bank, a spread of 2.37 birr. By contrast, on March 31, 2025, near the end of the third quarter, the dispersion widened significantly, with rates ranging from 124.01 ETB/USD at CBE to 131.11 ETB/USD at Lion International Bank (LIB), exhibiting a spread of over 7 birr, or nearly 5.7% (Figure 3). This increasing variation between banks on these key dates suggests that the ongoing transition toward a floating exchange rate regime is contributing to greater market segmentation and more differentiated pricing strategies.

This variation could suggest that market-based pricing is taking deeper root, although some degree of segmentation may still persist. Lower rates observed at institutions like CBE, and at private banks such as NIB, may exhibit either government-linked practices (in the case of CBE) or conservative forex sourcing policies (in the case of NIB). In contrast, higher rates at banks such as LIB, Amhara, and Zamzam might indicate greater sensitivity to customer demand or tighter access to foreign currency.

The upward drift in buying rates particularly among newer or smaller private banks, might also point to ongoing foreign currency shortages, growing import demands, or the influence of parallel market dynamics. At the same time, these patterns could be shaped by banks' differing exposure to remittance flows, trade financing needs, or interbank liquidity constraints.

To sum up, while the data does not allow for firm conclusions, it may exhibit early signs of adjustment under the floating regime. The divergence in rates shown in Figure 3 stresses the potential importance of strengthening interbank foreign exchange mechanisms and improving transparency to reduce volatility and minimize arbitrage risks.

Figure 3: Comparison of Banks' ETB/USD Buying Rates on March 31, 2025



Source: Computed using data from Ethioexchange (2025), retrieved from: <http://www.ethioexchange.com/daily-exchange#>

2.2.2. Variation in Selling Rates

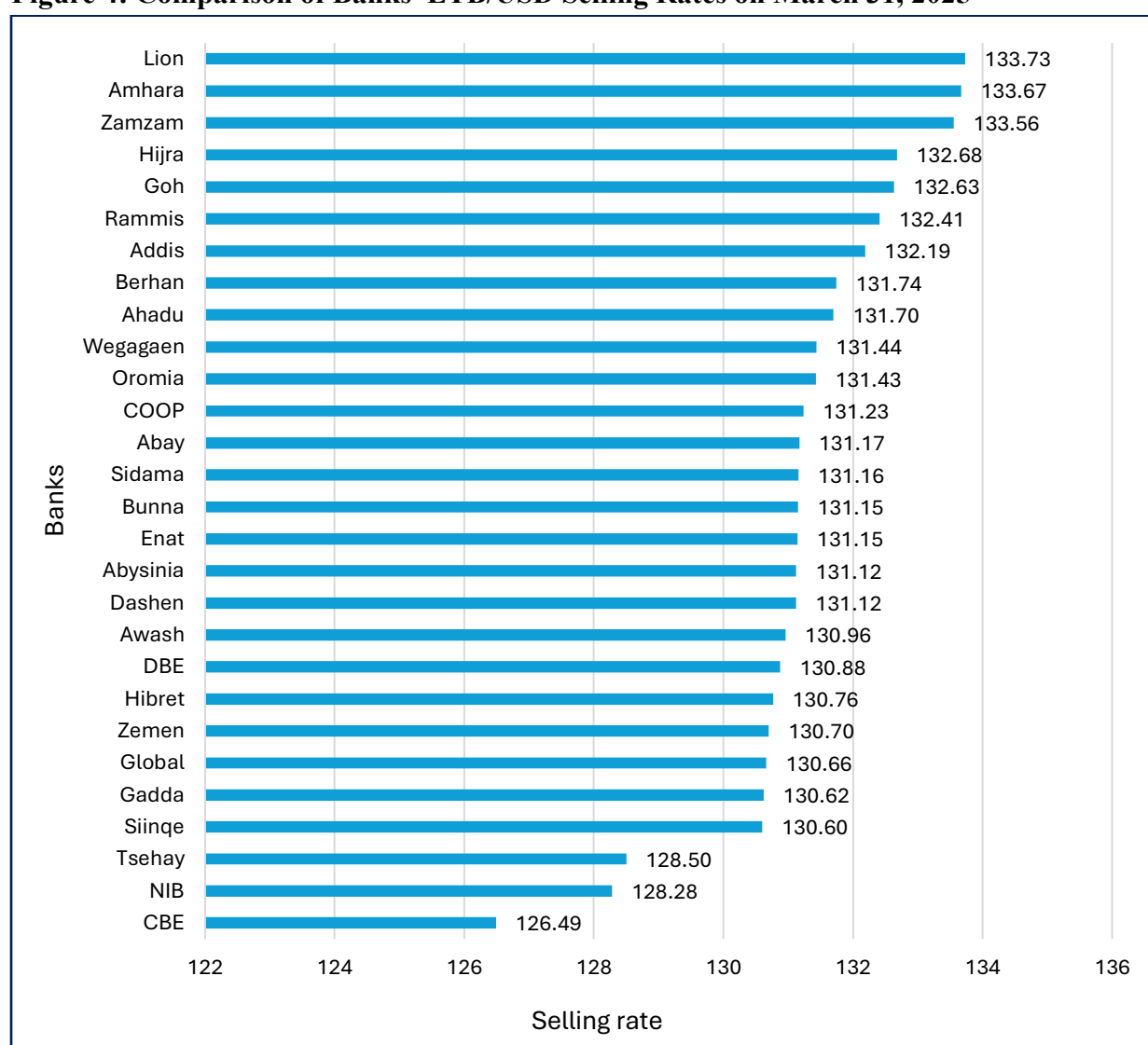
The dispersion observed in selling rates on March 31, 2025 further reinforces the signs of increased exchange rate flexibility among Ethiopian banks. As shown in Figure 4, selling rates span from 126.49 ETB/USD at CBE to 133.73 ETB/USD at LIB Bank, a bit wider spread than the buying rates. This divergence, amounting to over 7.2 birr, or nearly 5.7%, suggests that banks are pricing foreign exchange sales more dynamically, possibly indicating individual liquidity positions, foreign currency sourcing strategies, and client demands.

In contrast, on December 31, 2024 (the end of the previous quarter), selling rates revealed a relatively narrow range, fluctuating between 126.07 ETB (CBE) and 128.48 ETB (Tsehay), a difference of 2.41 ETB, or approximately 1.9%. This narrower spread reveals the relatively smaller variation in rates observed earlier. However, the current data points to a broader divergence, particularly in the wake of the ongoing exchange rate liberalization process.

Banks such as LIB, Amhara, and Zamzam continue to top the list with the highest selling rates, a pattern consistent with their elevated buying rates, implying an active attempt to manage foreign exchange margins. Conversely, banks like CBE and NIB maintain relatively low selling rates, suggesting more stable or government-aligned pricing policies, potentially to support trade or ease pressure on importers.

The selling rate data in Figure 4, when considered alongside the buying rate trends in Figure 3, point to a broader transformation underway in the forex market landscape. While the full effects of Ethiopia’s exchange rate liberalization are still unfolding, the current patterns indicate the start of price discovery and more bank-level autonomy in forex management.

Figure 4: Comparison of Banks’ ETB/USD Selling Rates on March 31, 2025



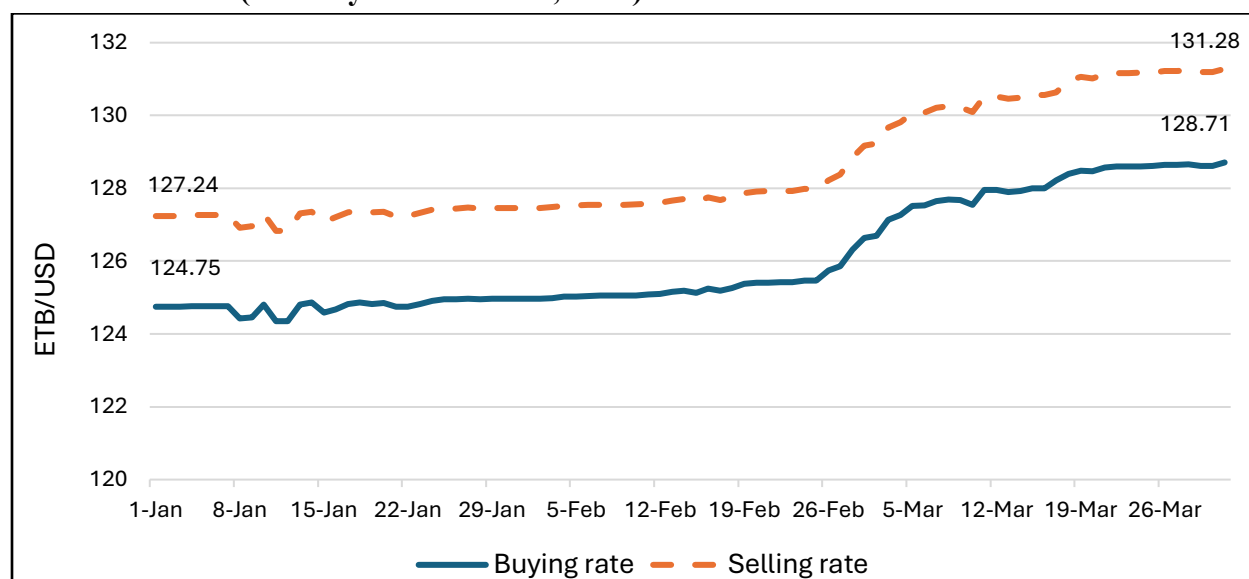
Source: Based on exchange rate data from Ethioexchange (2025), retrieved from <http://www.ethioexchange.com/daily-exchange#>

2.3. Dynamics of the Floating Exchange Rate (FX) Bid–Ask Spread

In the wake of Ethiopia’s shift to a floating exchange rate in July 2024, commercial bank bid–ask spreads narrowed to about ETB 2.50–3.20 by December. This tightening coincided with dealers adjusting their pricing models and requiring smaller cushions against rate swings. Additionally, the NBE’s new regulation—introduced in the second quarter—mandating separate disclosure of trading spreads capped at 2 percent of posted rates, likely contributed to more disciplined quoting behavior and helped reduce information asymmetries under the floating framework.

As shown in Figure 5, spreads began to edge up again in the third quarter of EFY, though from a relatively low base. In January, banks quoted buying rates near ETB 124.75 and selling rates around ETB 127.24, yielding a spread of about ETB 2.49, essentially in line with December’s lower bound. Throughout January, the margin held at approximately ETB 2.50, underscoring that market participants were still operating within familiar parameters established in the previous quarter.

Figure 5: Short-Term Trends in the Average Daily ETB/USD Exchange Rate Spread across Banks (January 1 – March 31, 2025)



Source: Author’s calculations based on data from Ethioexchange (2025), available at <http://www.ethioexchange.com/daily-exchange#>.

By February, the average bid–ask spread in the formal foreign exchange market held steady at ETB 2.50, signaling a period of relative calm. In March, the spread edged up modestly, averaging around ETB 2.55 and peaking slightly above ETB 2.58 toward the end of the month. This mild uptick probably owed to emerging pressures from exchange rate volatility and shifting market sentiment. Dealers adjusted their margins accordingly to hedge against potential swings, though quoted spreads remained comfortably below the highs observed in December.

Taken together, the progression from a narrow, stable spread in late 2024 to a gradual widening through the third quarter of EFY underscores the dynamic adjustment process of Ethiopia's FX market under a floating regime. For importers and exporters, each additional hundredth of a birr in the spread translates into higher transaction costs; for policymakers, the evolving margin offers a real-time gauge of liquidity conditions, dealer risk appetites, and the broader health of the foreign-exchange framework. Continued efforts to deepen interbank trading, broaden market participation, and enhance transparency around reserves and policy intentions will be essential to containing spreads and reinforcing confidence in the birr.

2.4. Evolution of Official and Parallel Exchange Rates

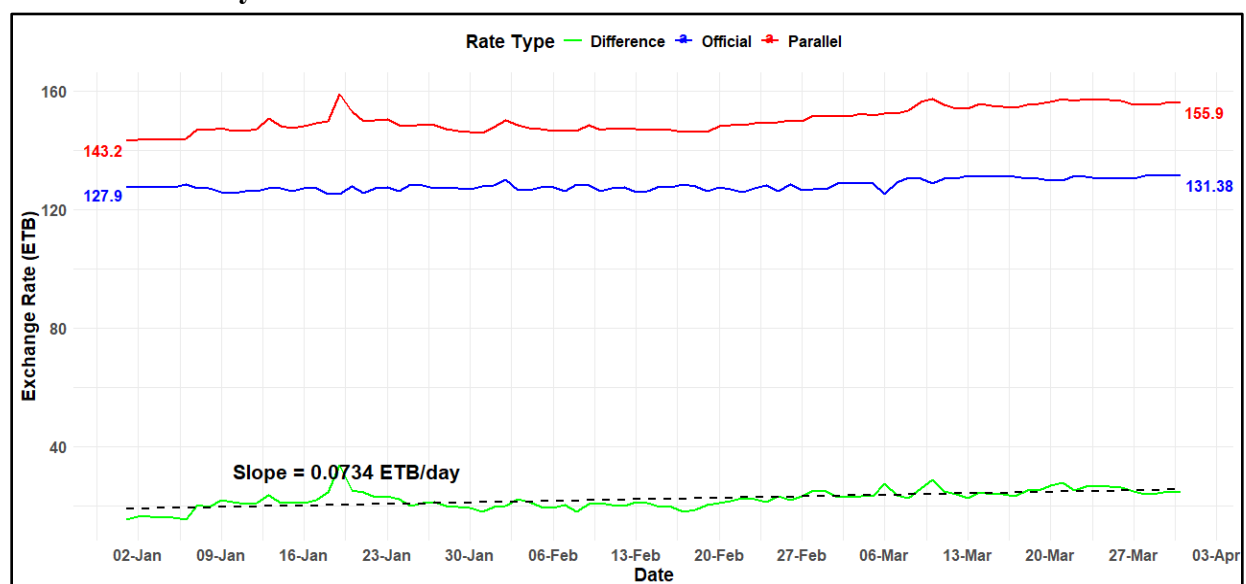
In the third quarter of the EFY, Ethiopia's newly floated birr continued to exhibit pronounced volatility in both the official and parallel FX markets. The official exchange rate began January at 127.90 ETB/USD, depreciated to 128.57 on January 6 (a 0.67 birr depreciation), appreciated to 125.27 on January 19 (a 2.63 birr appreciation), before settling at 127.96 by month's end. This asymmetric fluctuation, spanning a depreciation of 0.67 birr and an appreciation of 2.63 birr from the opening level, emphasizes persistent market uncertainty as economic agents recalibrate expectations around monetary policy, external balances, and capital flows under the liberalized regime, as illustrated in Figure 6 below.

Meanwhile, the parallel market exhibited even more pronounced volatility. It opened at 143.2 ETB/USD and surged to 159 by January 19, marking an 11 percent depreciation of the birr in that market. This widening divergence from the official exchange rate may show acute short-term pressures in the foreign exchange system. Possible drivers include unmet demand for hard currency from importers and households, lingering administrative bottlenecks in accessing official FX windows, episodes of capital flight, inflationary pressures, and speculative trading activity.

In February, the parallel market showed signs of modest retracement, with rates easing from the January peak of 159 to a range of 146–152 ETB/USD. The official exchange rate, meanwhile, fluctuated between 125.97 and 130.16, averaging around 127.3. While the parallel market experienced a more contained and stable trend compared to January's sharp spike, the official market maintained a relatively wide trading band, showing continued uncertainty.

However, March witnessed renewed depreciation pressures. The official rate climbed steadily from 126.80 on March 1 to 131.38 by month-end, marking a 3.6 percent loss in value over the month. Concurrently, the parallel rate rose from 151.5 to 155.9, widening the official–parallel gap back to around ETB 25 (roughly 19%). This shift partially reversed the convergence observed at the end of 2024, when the spread had narrowed from over ETB 65 (112.5%) on July 29 to just ETB 14.08 (11%) by December 31.

Figure 6: Comparison of Official and Parallel ETB/USD Exchange Rates on Key Dates from January to March 2025 with Fitted Trend Line on Difference



Source: Author's calculations based on data from Exchange Rates UK (2025), available at <https://www.exchangerates.org.uk/USD-ETB-spot-exchange-rates-history-2025.html>, and Ethio Black Market at <https://ethioblackmarket.com>⁵.

The recurring divergence between official and parallel exchange rates in the third quarter highlights ongoing challenges in the foreign exchange market. This persistent gap emphasizes the importance of monitoring market developments closely as Ethiopia continues its transition to a floating exchange rate regime. Continued efforts to enhance the depth and functioning of official FX market operations, including auction frequency and volume, may help narrow this divergence over time. Additionally, structural reforms aimed at boosting export competitiveness and diversifying foreign currency earnings will be important for supporting medium-term exchange rate stability. As Ethiopia navigates its floating regime, the interplay between official policy actions and market sentiment will continue to shape the birr's path in both official and parallel spheres.

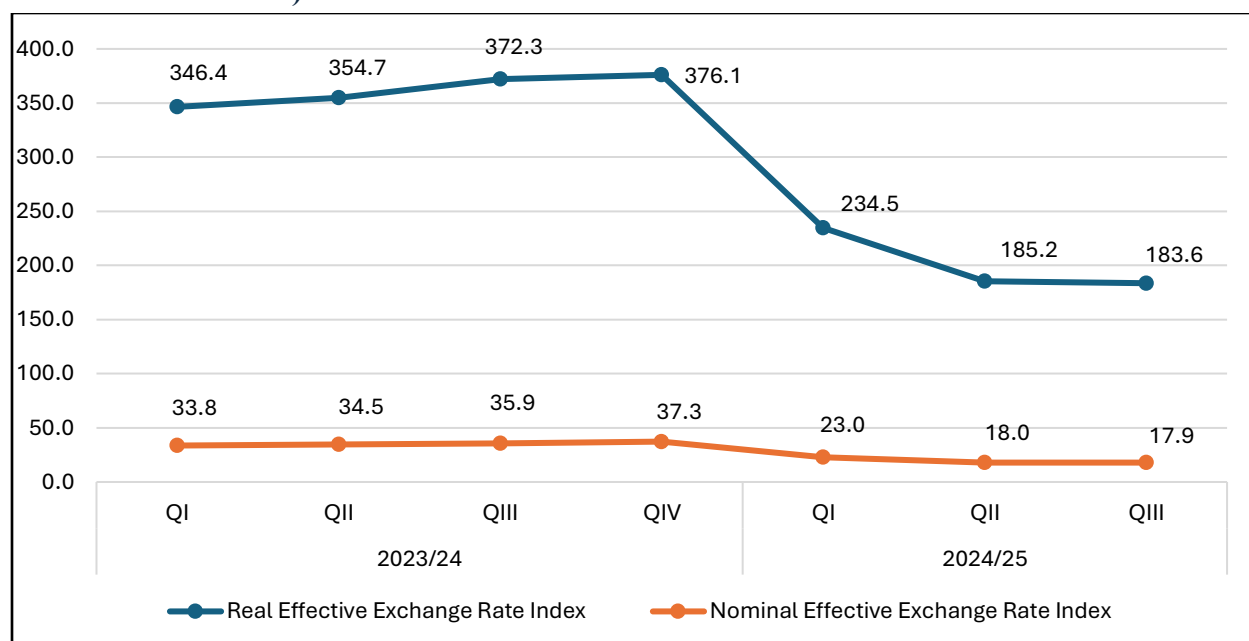
2.5. Exchange Rate Movements and Trade Competitiveness

During the period from Q1 2023/24 to Q3 2024/25, Ethiopia experienced a marked depreciation in both the Nominal Effective Exchange Rate Index (NEERI) and the Real Effective Exchange Rate Index (REERI), reflecting significant exchange rate adjustments. The NEERI declined from 37.3 in Q4 2023/24 to 17.9 in Q3 2024/25, a depreciation of approximately 52.0%. Similarly, the

³ Because 'Ethio Black Market' is not an official source, its exchange rate data may not always be reliable. Differences across sources and the lack of regulation could lead to inconsistencies. Since few other online sources report parallel rates, this data should be interpreted carefully.

REERI dropped from 376.1 to 183.6 over the same period, indicating a real depreciation of about 51.2%. Thus, the nominal depreciation (NEERI) was slightly faster than the real depreciation (REERI), suggesting that domestic inflation may have partially offset nominal exchange rate movements. These movements show significant real and nominal depreciation, particularly after the country adopted a floating exchange rate regime in July 2024 (Q1 2024/25). This policy shift allowed market forces to determine the exchange rate, contributing to the accelerated decline observed in both indices in recent quarters.

Figure 7: Trends in Real and Nominal Effective Exchange Rate Indices (Q1 FY2023/24 – Q3 FY2024/25)



Source: Author's calculations based on data from the National Bank of Ethiopia

The transition to a floating regime, coupled with the real depreciation, has the potential to improve Ethiopia's trade competitiveness by making its exports more affordable in global markets. The steep drop in the REERI indicates a gain in price competitiveness, which could narrow the trade deficit if supported by a responsive and diversified export sector. However, the extent of this benefit will depend on how quickly the supply side of the economy can adjust. Thus, while the floating regime enhances flexibility and aligns the exchange rate with market fundamentals, it must be accompanied by sound macroeconomic management and export development strategies to ensure positive outcomes for trade and growth. These dynamics provide important context for assessing Ethiopia's recent trade performance, which is examined in the next section.

3. International Trade Developments

This section provides a detailed assessment of Ethiopia's international trade performance during the third quarter of the Ethiopian Fiscal Year (EFY), covering the period from January to March 2025. It examines the composition and direction of major export items, particularly agricultural and manufactured goods, and outlines the primary destinations for these exports. On the import side, the analysis explores the key product categories and their sources. In addition to evaluating trade flows, the section presents a decomposition of export and import value changes into price and volume effects for major goods. It also includes a rough back-of-the-envelope estimation of trade elasticities with respect to exchange rate movements for selected export and import items. The section concludes with a brief discussion of the trade balance, offering a snapshot of Ethiopia's external sector dynamics during the review period.

3.1. Export Sector Performance

3.1.1. Main Export Items

Table 1 presents Ethiopia's leading export commodities for the January–March 2025 period. Gold dominated export earnings at USD 823.8 million, representing 45.2% of total exports. Coffee followed with USD 508.3 million, amounting to 27.9%. Together, these two commodities comprised nearly three-quarters of Ethiopia's export revenues, showcasing their critical role in foreign exchange generation.

Other significant agricultural exports during this quarter included oilseeds valued at USD 120.3 million (6.6%), pulses at USD 83.1 million (4.5%), and flowers at USD 75.3 million (4.1%). Value-added sectors such as meat and meat products (USD 34.1 million) and textiles and garments (USD 31.4 million) continued to contribute modestly, revealing ongoing challenges in industrial diversification and value chain development.

The export data exhibit a concentrated and vulnerable structure, with heavy reliance on gold and coffee, exposing the economy to external risks, including price fluctuations and climatic shocks. The limited scale of diversified and value-added exports demonstrates the urgent need for targeted structural reforms aimed at enhancing agro-processing, manufacturing, and industrial capacities. Such measures are essential to building a more resilient and sustainable export sector capable of supporting Ethiopia's broader economic growth objectives. As Collier (2002) and Badiane *et al.* (2018) noted, Africa's dependence on primary commodities stems less from intrinsic endowments than from a poor investment climate that deters higher-value activities. Improving the investment climate to enhance competitiveness in sectors like agro-processing and manufacturing is, therefore, critical to addressing these structural weaknesses and advancing export diversification.

Table 1: Ethiopia’s Leading Exports, January–March 2025

Rank	Export item	Value (Million USD) ⁴	Share (%)
1	Gold	823.8	45.2
2	Coffee	508.3	27.9
3	Oilseeds	120.3	6.6
4	Pulses	83.1	4.5
5	Flower	75.3	4.1
6	Vegetables	44.0	2.4
7	Meat and Meat Products	34.1	1.8
8	Textile and garment	31.4	1.7
9	Live animals and feed	26.1	1.4
10	Chat	25.6	1.4

Source: Author's calculations based on data from the Ethiopian Customs Commission (ECC) and the National Bank of Ethiopia (NBE), 2025.

3.1.2. Export Markets and Destinations

Table 2 shows that Ethiopia’s top ten export destinations during January–March 2025 were led by the United States, followed by Saudi Arabia, and the United Arab Emirates, collectively comprising nearly 29% of total exports. The United States alone absorbed 10.7% of exports, indicating continued strong demand for Ethiopian coffee, textiles, and agricultural products. Similarly, Saudi Arabia and the UAE, with shares of 10.5% and 7.5%, respectively, highlight the importance of the Gulf market, particularly for livestock and food products. The concentration of trade in a few countries, however, indicates a potential vulnerability to external demand shocks and geopolitical shifts in these regions.

China, the Netherlands, Belgium, and Germany also feature prominently, indicating Ethiopia’s growing integration into both Asian and European markets. China (7.4%) remains a key partner, possibly driven by mineral and agricultural exports, while European countries like the Netherlands (6.6%), Belgium (5.1%), and Germany (4.5%) signal the sustained strength of horticultural and processed agricultural exports to the EU. This geographical diversification is encouraging, yet the EU’s sizable combined share suggests the need for exporters to maintain compliance with European standards and seize opportunities from preferential trade arrangements.

⁴ Note: Export values reported by the Ethiopian Customs Commission are originally denominated in Ethiopian Birr (ETB). These figures were converted to U.S. dollars (USD) using the quarterly average exchange rate of 1 USD = 128.6 ETB for the relevant period, based on data from Exchange Rates UK (2025). For reference, see: [Exchange Rates UK – USD to ETB Spot Exchange Rates History 2025](#). However, gold export data is sourced directly in million USD from the National Bank of Ethiopia.

Despite Ethiopia's proximity to African markets, regional trade remains underutilized, as seen in Djibouti's modest 3.2% share. This reinforces the need to strengthen intra-African trade through improved logistics, regional trade agreements like the African Continental Free Trade Area (AfCFTA), and harmonized customs procedures. A more balanced export structure, with greater emphasis on neighboring countries and emerging markets, could reduce over-reliance on a few distant partners and build resilience in the face of global economic fluctuations. The overall export performance is promising, yet it calls for deliberate policy efforts to widen access to international markets and foster deeper regional trade cooperation.

Table 2: Leading Export Destinations for Ethiopia, January–March 2025⁵

Rank	Country	Value (Million USD)	Share (%)
1	United States	106.6	10.7
2	Saudi Arabia	104.6	10.5
3	United Arab Emirates	74.9	7.5
4	China	73.5	7.4
5	Netherlands	65.5	6.6
6	Belgium	51.3	5.1
7	Germany	44.8	4.5
8	South Korea	31.89	3.2
9	Djibouti	31.81	3.2
10	Israel	27.5	2.7

Source: Calculated using data from the Ethiopian Customs Commission (ECC), 2025.

3.1.3. Commodity Breakdown by Destination Country

Table 3 reveals that from January till March 2025, Ethiopia exported coffee to 52 destination countries, with the top five markets, Saudi Arabia, the United States, Germany, Belgium, and South Korea, collectively contributing over half of total export earnings. Saudi Arabia led with \$79.8 million (15.7%), followed by the United States at \$72.2 million (14.2%), Germany at \$47.9 million (9.4%), Belgium at \$38.3 million (7.5%), and the Republic of Korea at \$31.3 million (6.1%). The continued strength of Ethiopia's top five coffee export markets, especially Germany and Belgium, marks the resilience of its coffee sector, despite tightening EU regulations on traceability and environmental standards under the new Deforestation Regulation (EUDR). Nonetheless, Ethiopia's long-term export strategy will benefit from deeper market diversification and investment in quality assurance systems to mitigate risks from regulatory shifts or demand concentration in a few key markets.

⁵ The leading export destinations are calculated excluding gold exports, as the National Bank of Ethiopia (NBE) does not provide detailed data on the destination countries for gold exports.

Table 3: Leading Export Destinations for Coffee (January-March 2025)

Rank	Destinations	Value (Million USD)	Share (%)
1	Saudi Arabia	79.8	15.7
2	United States	72.2	14.2
3	Germany	47.9	9.4
4	Belgium	38.3	7.5
5	Korea, Republic of	31.3	6.1

Source: Calculated using data from the Ethiopian Customs Commission (ECC), 2025.

Similarly, Table 4 exhibits that oilseeds exports during the same period were concentrated in a few key markets, with the top five destinations, Turkey, United Arab Emirates, Israel, Jordan, and Singapore, accounting for significant shares. Turkey was the largest importer at \$21.2 million (17.3%), followed by the UAE (\$18.4 million, 15.0%), Israel (\$16.8 million, 13.7%), Jordan (\$6.2 million, 2.3%), and Singapore (\$6.1 million, 4.9%). This concentration suggests a strong regional demand, especially from Middle Eastern and Asian markets. However, like coffee, the oilseeds sector could benefit from enhanced diversification and targeted market development to reduce vulnerability to geopolitical or trade policy changes in a few dominant destinations.

Table 4: Leading Export Destinations for Oilseeds (January-March 2025)

Rank	Destinations	Value (Million USD)	Share (%)
1	Turkey	21.2	17.3
2	United Arab Emirates	18.4	15.0
3	Israel	16.8	13.7
4	Jordan	6.2	2.3
5	Singapore	6.1	4.9

Source: Calculated using data from the Ethiopian Customs Commission (ECC), 2025.

Table 5 also portrays a comparable concentration in the pulse market, where Kenya, Turkey, and India together absorbed over half of the exports. Kenya led with \$15.5 million (18.4%), followed by Turkey (\$15.2 million, 18.1%) and India (\$13.5 million, 16.0%), while Egypt and Pakistan made up smaller shares.

Table 5: Leading Export Destinations for Pulse (January-March 2025)

Rank	Destinations	Value (Million USD)	Share (%)
1	Kenya	15.5	18.4
2	Turkey	15.2	18.1
3	India	13.5	16.0
4	Egypt	3.8	4.5
5	Pakistan	3.7	4.4

Source: Calculated using data from the Ethiopian Customs Commission (ECC), 2025.

Finally, Table 6 depicts Ethiopia's flower export performance, revealing both strengths and vulnerabilities in this critical agricultural export sector. The data shows overwhelming dependence on the Netherlands (66.6%, \$50.2 million), with four other markets - Saudi Arabia (6.1%, \$4.6 million), UK (3.8%, \$2.9 million), Japan (1.4%, \$1.08 million) and Norway (1.3%, \$1.01 million) - collectively constituting just 12.6% of exports. This extreme concentration (79.2% to top five markets) creates significant exposure to demand shocks, particularly as the Dutch market primarily serves as a distribution hub rather than final destination, leaving Ethiopian exporters vulnerable to secondary market fluctuations.

The quarterly figures underline the urgent need for strategic market diversification and value chain upgrading. While the current export pattern demonstrates Ethiopia's successful integration into global floral trade networks, the minimal presence in high-growth Asian markets and limited penetration in neighboring Middle Eastern and African markets represents a missed opportunity. To mitigate risks, Ethiopia should prioritize developing direct trade relationships with final consumer markets, improving cold chain logistics for longer-haul exports to Asia, and pursuing product differentiation through premium certification programs that could command higher margins in markets beyond the Dutch auction system.

Table 6: Leading Export Destinations for Flowers (January-March 2025)

Rank	Destinations	Value (Million USD)	Share (%)
1	Netherlands	50.2	66.6
2	Saudi Arabia	4.6	6.1
3	United Kingdom	2.9	3.8
4	Japan	1.08	1.4
5	Norway	1.01	1.3

Source: Calculated from data provided by the Ethiopian Customs Commission (ECC), 2025.

3.1.4. Export Performance Drivers: Price and Volume Effects

Table 7 exhibits that Ethiopia's export growth between January and March 2025 was largely driven by strong volume increases in key commodities, especially gold and coffee. Gold exports rose sharply from 1,147.8 kg to 9,092.6 kg despite a 6.18% drop in unit price, boosting earnings from USD 110.8 million to USD 823.8 million, though a significant negative interaction effect (-42.78%) suggests the combined price-volume impact somewhat limited value gains. Coffee exports also performed strongly with volumes up 57.95% and prices rising 35.56%, supported by a positive interaction effect (20.61%), leading to earnings more than doubling to USD 508.3 million.

In contrast, other major commodities showed mixed outcomes. Oilseeds declined in both volume (-25.59%) and price (-6.67%), with a minor positive interaction effect insufficient to prevent earnings losses. Pulses increased in volume by nearly 34%, but an 11.11% price decline and negative interaction effect restrained value growth. Flower exports contracted slightly in volume

(–2.01%) but benefited from a 17.02% price rise, producing modest revenue gains despite a small negative interaction effect. These patterns reveal the country’s growing dependence on a narrow range of export goods and signal the need to strengthen other sectors to support a more diversified and stable export base going forward.

Table 7: Year-on-Year Comparison of Prices and Volumes of Major Export Commodities (January–March 2025 vs. January–March 2024)⁶

Item	January–March 2024			January–March 2025			Percentage Change		
	Volume (Kg)	Value (Million USD)	Unit Price (USD/Kg)	Volume (Kg)	Value (Million USD)	Unit Price (USD/Kg)	Price Change (%)	Volume Change (%)	Interaction Effect (%)
Gold	1147.8	110.8	96573.8	9092.6	823.8	90609.4	-6.18	692.18	-42.78
Coffee	52679611.9	242.2	4.5	83206471.9	508.3	6.1	35.56	57.95	20.61
Oilseeds	116352212.3	179.2	1.5	86577227.4	120.3	1.4	-6.67	-25.59	1.71
Pulse	75462225	70.5	0.9	101080396.2	83.09	0.8	-11.11	33.95	-3.77
Flower	14017668.05	65.3	4.7	13736862.6	75.3	5.5	17.02	-2.01	-0.34

Source: Author’s calculations based on data from the Ethiopian Customs Commission (ECC) and the National Bank of Ethiopia (NBE), 2024 and 2025

3.2. Import Sector Performance

3.2.1. Key Import Categories

Table 8 provides a breakdown of Ethiopia’s top import categories for January to March 2025. The largest share is held by machinery and mechanical appliances, making up USD 918.5 million or 18.5% of total imports. This conveys ongoing infrastructure projects, industrialization efforts, and import dependence for capital goods. Mineral fuels and oils (11.2%) and fertilizers (11.1%) follow, emphasizing Ethiopia's energy needs and agricultural priorities. The substantial import of electrical machinery (10.2%) indicates increasing demand for technology and power-related infrastructure. The composition of imports illuminates Ethiopia’s structural economic challenges and investment priorities. Heavy reliance on imports of vehicles (7.2%), iron and steel (5.8%), and plastics (3.5%) suggests significant construction and transport sector activity, while pharmaceuticals (2.5%) and

⁶ Price change (%) is calculated as: $((2025 \text{ unit price} - 2024 \text{ unit price}) \div 2024 \text{ unit price}) \times 100$. Volume change (%) is calculated as: $((2025 \text{ volume} - 2024 \text{ volume}) \div 2024 \text{ volume}) \times 100$. Unit prices are computed by dividing export value (USD) by volume (kg). The reported change in export value shows the combined effects of price and volume changes, with the interaction effect separately calculated and reported to provide a clearer understanding of how simultaneous changes in price and volume influence export earnings.

cereals (2.7%) reflect gaps in domestic production capacity for essential goods. Generally, Ethiopia’s import structure remains tilted toward capital and intermediate goods, supporting long-term growth goals but also exposing the economy to foreign exchange pressures and global commodity price volatility.

Table 8: Leading Imported Products (January–March 2025)

Rank	Product	Value (Million USD)	Share (%)
1	Machinery and Mechanical Equipment	918.5	18.5
2	Mineral Fuels and Oils	559.6	11.2
3	Fertilizers	554.5	11.1
4	Electrical and Electronic Equipment	508.7	10.2
5	Motor Vehicles and Parts	357.1	7.2
6	Iron and Steel	290.1	5.8
7	Edible Fats and Oils	205.7	4.1
8	Plastics and Articles Thereof	177.2	3.5
9	Cereals	134.2	2.7
10	Pharmaceutical Products	127.4	2.5

Source: Calculated from data provided by the Ethiopian Customs Commission (ECC), 2025.

3.2.2. Primary Origins of Imported Goods

Table 9 outlines the top ten origins of Ethiopia’s imports for the period January to March 2025. China remains Ethiopia’s dominant trading partner, accounting for 37.3% of total imports, with a substantial import value of USD 1.8 billion. This sustained reliance signifies Ethiopia’s continued demand for Chinese machinery, electronics, and industrial goods. Other significant partners include Saudi Arabia (7.4%), likely driven by petroleum imports, and India (7.1%), which supplies pharmaceuticals, machinery, and cereals. The presence of the United States (4.9%) and UAE (4.8%) accentuates Ethiopia’s diversified sourcing of high-value goods, possibly including aircraft parts, food products, and refined petroleum.

The data also points out the strategic importance of regional and geopolitical alliances in Ethiopia’s trade landscape. Countries like Turkey and Russia, contributing 4.5% and 3.8% respectively, showcase Ethiopia’s growing engagement with non-Western partners. Meanwhile, Djibouti’s share (2.0%) primarily reveals port-related services and re-exported goods, underlining its role as Ethiopia’s maritime gateway. In general, the composition of import sources suggests Ethiopia’s trade continues to be shaped by a mix of infrastructure development needs, energy dependence, and strategic partnerships across both traditional and emerging markets.

Table 9: Major Import Origins – Top Ten Countries (January–March 2025)

Rank	Country	Value (Million USD)	Share (%)
1	China	1800	37.3
2	Saudi Arabia	367.2	7.4
3	India	350.5	7.1
4	United States	246.2	4.9
5	United Arab Emirates	242.1	4.8
6	Turkey	224.06	4.5
7	Kuwait	202.8	4.1
8	Russian Federation	190.5	3.8
9	Djibouti	99.3	2.0
10	Indonesia	97.2	1.9

Source: Calculated using data from the Ethiopian Customs Commission (ECC), 2025

3.2.3. Import Performance Breakdown: Price and Volume Effects

Table 10 illustrates a detailed year-on-year comparison of prices and volumes for Ethiopia’s major imported goods from January to March 2025 versus the same period in 2024. The data show notable shifts in both quantity and value across key categories. Machinery and mechanical equipment imports increased significantly by 38.4% in volume, accompanied by a slight 2.32% decrease in unit price, resulting in a higher import value of USD 918.5 million. Mineral fuels and oils saw an extraordinary volume surge of over 600%, despite a modest 6% price decline, driving import value sharply up to USD 559.6 million. Fertilizers also experienced substantial growth, with volume rising 36.4% and prices increasing 28%, boosting total import value to USD 554.5 million. Motor vehicles and parts followed a similar pattern, showing nearly 30% volume growth alongside a small price decline.

Electrical and electronic equipment imports displayed the most dramatic change, with volumes skyrocketing by over 2,190% while unit prices plunged by 94%. This combination led to a moderate overall increase in import value to USD 508.7 million; however, the significant negative interaction effect of –20.6% indicates that the combined impact of falling prices and rising volumes reduced the value gain substantially. These patterns highlight dynamic shifts in Ethiopia’s import structure, manifesting expanding demand for capital goods alongside considerable market price fluctuations. The robust volume increases in essential categories such as machinery, fertilizers, and vehicles stress ongoing investments in infrastructure and production capacity, while the surge in fuel imports points to growing energy needs. In total, the data suggest a diversified and rapidly evolving import landscape that is key to supporting Ethiopia’s economic growth.

Table 10: Year-on-Year Comparison of Prices and Volumes for Major Imported Goods (January–March 2025 vs. January–March 2024)⁷

Item	January–March 2024			January–March 2025			Percentage Change		
	Volume (Kg)	Value (Million USD)	Unit Price (USD/Kg)	Volume (Kg)	Value (Million USD)	Unit Price (USD/Kg)	Price Change (%)	Volume Change (%)	Interaction Effect (%)
Machinery and Mechanical Equipment	49242851.8	684.2	13.8	68149798.05	918.5	13.48	-2.32	38.4	-0.01
Mineral Fuels and Oils	168782305.3	92.1	0.5	1198057321	559.6	0.47	-6	609.82	-0.36
Fertilizers	636047490.1	341.2	0.5	867685033.9	554.5	0.64	28	36.42	0.1
Electrical and Electronic Equipment	30419467.3	371.8	12.2	697046455	508.7	0.73	-94.02	2191.45	-20.6
Motor Vehicles and Parts	44430172.5	300.9	6.7	57538530.91	357.1	6.21	-7.31	29.5	-0.02

Source: Calculated from data provided by the Ethiopian Customs Commission (ECC), 2025

3.3. Trade Balance

From January to March 2025, Ethiopia’s export earnings rose markedly to USD 1.82 billion, reflecting a 116% increase compared to the USD 843.7 million recorded during the same period in 2024. This strong growth was mainly driven by improved export performance in gold and coffee, two of the country’s most valuable commodities. While this surge provided a temporary boost to foreign exchange inflows, it also revealed the ongoing dependence on a narrow export base, indicating the importance of export diversification and domestic value addition for longer-term economic resilience.

Imports during the same period reached USD 4.96 billion, up by roughly 24.6% from USD 3.98 billion in the corresponding months of 2024. This rise possibly signifies a rebound in demand for capital and essential goods, supported by improved foreign currency availability. It may also be an early outcome of the exchange rate reform introduced in mid-2024, which, by making imports

⁷ Import changes are calculated using the same method as exports, with price, volume, and interaction effects separated to clarify their combined impact on import values.

relatively more expensive, appears to have shifted the composition of imports toward priority goods without significantly reducing the overall import bill.

Despite the sharp increase in exports, the trade deficit from January to March 2025 remained broadly stable, increasing only marginally from USD 3.139 billion during the same period in 2024 to USD 3.140 billion in 2025, a difference of just USD 1.3 million. This indicates that while export performance improved substantially, it was nearly matched by the rise in imports. The persistence of this wide trade gap emphasizes Ethiopia's ongoing structural external sector challenges. For example, the deficit stood at USD 1.35 billion in 2001 and reached an all-time high of USD 14.6 billion in 2022, before a modest decline to USD 14.2 billion in 2023 (EEAb, 2024). These trends reinforce the urgency of policies aimed at strengthening domestic production, enhancing export competitiveness, and reducing reliance on imported goods.

3.4. Trade Growth Trends Before and After the Exchange Rate Reform

Figure 8 plots quarter-to-quarter growth rates in the physical volumes of Ethiopia's exports and imports from Q3 2023/24 through Q3 2024/25, straddling the exchange-rate reform of 29 July 2024. In the two quarters preceding the reform, trade expanded modestly: export volumes grew by 7.3 percent in Q4, while import volumes edged up by 3.4 percent, signifying the still-tight foreign-exchange environment. Immediately after the reform, however, the pattern flipped. In Q1 2024/25, covering the first two months under the new, sharply weaker birr, export volumes retreated by 17 percent, suggesting a temporary supply-side lag as exporters adjusted to new price signals and logistical bottlenecks. Imports, by contrast, surged by nearly 62 percent, a spike that likely combines pent-up demand released once foreign-currency access improved and inventory front-loading ahead of further depreciation. This pattern aligns with the J-curve hypothesis, which suggests that currency depreciation initially worsens the trade balance due to quicker import surges and delayed export responses as documented by Anning *et al.* (2015), Bahmani-Oskooee and Arize (2022), Mwito *et al.* (2021), and Trofimov (2024), among others.

Growth dynamics normalized in the subsequent quarters. Export volumes rebounded 19.5 percent in Q2 2024/25 and rose a further 6.4 percent in Q3 2024/25 as producers capitalized on the more competitive exchange rate and seasonal harvests came to market. Import volumes, meanwhile, fell 6.8 percent in Q2 2024/25 and another 10.2 percent in Q3 2024/25, indicating that the initial post-reform surge was transitory; higher local-currency prices and tighter monetary conditions began to curb discretionary and capital-goods purchases. Taken together, the figure illustrates a classic J-curve-like adjustment: an early import swell and export dip immediately after depreciation, followed by a gradual export recovery and import restraint as the economy and traders adapt to the new exchange-rate regime.

Figure 8: Quarterly Export and Import Volume Growth Before and After Exchange Rate Reform (2023/24–2024/25)



Source: Author’s computations using data from the Ethiopian Customs Commission (ECC) and the National Bank of Ethiopia, 2024-2025.

3.5. Real Effective Exchange Rate Pass-Through: Estimating Trade Elasticities

Table 11 presents the roughly estimated quantity elasticities⁸ of major trade goods in response to Real Effective Exchange Rate Index (REERI) movements between January – March 2025 and the same period in 2024. These elasticities were calculated using logarithmic changes to better manage the large variations in both trade volumes and real effective exchange rate indexes, providing a more reliable measure of trade responsiveness. However, this is a rough, indicative back-of-the-envelope estimation that does not control other factors influencing trade flows, so the results should be interpreted with caution.

The findings reveal significant variation in how Ethiopian trade commodities respond to fluctuations in the exchange rate. Among exports, gold stands out with a highly elastic response (–2.93), exhibiting its strong sensitivity to REERI depreciation and its integration into global commodity markets. This suggests that a weaker Ethiopian birr made gold exports substantially more competitive, driving a large increase in export volumes. In contrast, staple agricultural exports such as coffee (–0.64), pulses (–0.41), and oilseeds (0.42) show inelastic demand, indicating that these commodities’ export quantities are relatively unresponsive to exchange rate

⁸ Quantity elasticity is calculated as the percentage change in the quantity traded divided by the percentage change in the real effective exchange rate index, using the natural logarithm of both variables to capture proportional changes. This measures how much the quantity traded responds to a one percent change in the real effective exchange rate index. However, this is a rough, indicative back-of-the-envelope estimation that does not control other factors influencing trade flows, so the results should be interpreted with caution.

changes. The positive elasticity for oilseeds, along with the near-zero elasticity for flowers (0.03), suggests that factors other than exchange rate, like production constraints or market dynamics, may be influencing trade volumes for these products, demonstrating the complexity of Ethiopia's export sector.

On the import side, all elasticities are negative, revealing an increase in import volumes despite a significant REERI depreciation of 50.7%. This pattern implies that price signals associated with exchange rate movements had limited impact on import behavior during the period. The inelastic responses for machinery (−0.46), fertilizers (−0.44), and motor vehicles (−0.36) illustrate steady demand for necessities and strategic goods regardless of cost changes. Meanwhile, highly elastic responses for mineral fuels and oils (−2.77) and electrical and electronic equipment (−4.43) could also indicate easing of trade restrictions or pent-up demand following recent policy reforms and investment cycles. Overall, these results point out the dominant role of structural dependencies, procurement policies, and broader economic factors in shaping Ethiopia's import patterns, reflecting a nuanced interplay between exchange rate dynamics and trade flows.

Table 11: Roughly Estimated Quantity Elasticities of Major Ethiopian Trade Commodities in Response to Real Effective Exchange Rate Index Fluctuations Between January–March 2025 and the Same Period in 2024

Item	% Change in Quantity	% Change in Real Effective Exchange Rate Index	Roughly Estimated Elasticity	Interpretation
Exports				
Gold	+692.18	− 50.7%	− 2.93	Highly elastic
Coffee	+57.95	− 50.7%	− 0.64	Inelastic
Oilseeds	−25.59	− 50.7%	0.42	Inelastic
Pulses	+33.95	− 50.7%	−0.41	Inelastic
Flower	−2.01	− 50.7%	0.03	Very inelastic
Imports				
Machinery and Mechanical Equipment	+38.40	− 50.7%	−0.46	Inelastic
Mineral Fuels and Oils	+609.82	− 50.7%	−2.77	Highly elastic
Fertilizers	+36.42	− 50.7%	−0.44	Inelastic
Electrical and Electronic Equipment	+2191.45	− 50.7%	−4.43	Extremely elastic
Motor Vehicles and Parts	+29.50	− 50.7%	−0.36	Inelastic

Source: Author's computations based on data from the Ethiopian Customs Commission (ECC) and the National Bank of Ethiopia (NBE).

4. Concluding Remarks

The Ethiopian economy exhibited mixed signals between January to March 2025 amid ongoing structural challenges and adjustment to the floating exchange rate regime. The birr's depreciation slowed notably, indicating partial stabilization, though marked volatility and widening interbank spreads indicate uneven adaptation within the financial sector. The resurgence of the official-parallel market spread further bolsters persistent confidence issues and the structural complexity of Ethiopia's foreign exchange market.

Trade performance showed a significant surge in export earnings, driven largely by gold and coffee, yet this growth has not translated into a narrower trade deficit due to a substantial rise in imports, particularly of capital goods and strategic inputs. The trade sector remains highly concentrated in a narrow set of commodities and export destinations, exposing the economy to external shocks and underscoring the urgent need for diversification.

Following Ethiopia's transition to a floating exchange rate regime in July 2024, the economy exhibited a classic J-curve effect: imports surged immediately, while exports initially contracted before gradual recovery. Between Q4 2023/24 and Q3 2024/25, the NEERI and REERI depreciated sharply by 52.0% and 51.2%, respectively, indicating profound nominal and real currency weakening, with only a 0.8-percentage-point gap between the two. This narrow divergence suggests domestic inflation barely offset nominal depreciation, preserving most competitiveness gains; however, the muted inflation impact also reveals that real depreciation alone cannot sustain export growth without complementary reforms like inflation control, export sector investment, and diversification to reduce reliance on volatile commodities.

Rough elasticity estimates further reveal heterogeneous trade responses: while gold exports are highly sensitive to exchange rate movements, major exports like coffee and strategic capital goods such as machinery and fertilizers exhibit inelastic demand. This complex dynamic situation illustrates Ethiopia's unique trade environment characterized by regulatory constraints, infrastructure bottlenecks, and external market pressures, reinforcing the critical need for structural reforms aimed at enhancing export diversification, value addition, and overall economic resilience.

Drawing on the findings, the following targeted and prioritized policy recommendations are proposed:

- 1. Strengthening inflation control mechanisms:** It is necessary to prioritize better coordination of fiscal and monetary policies to curb inflation. Though tightening may have short-term costs, price stability is vital to ensure nominal depreciation leading to real trade competitiveness gains and restored macroeconomic credibility.
- 2. Improving foreign exchange market functionality:** This includes reforming and enhancing FX auction systems, increasing foreign reserve buffers, and improving transparency to reduce

exchange rate volatility, and narrowing the official-parallel market spread, building market confidence.

3. **Addressing financial sector fragmentation:** This requires to encourage harmonization of pricing strategies among banks and promote transparency to reduce interbank rate dispersion, supporting healthier price discovery and market efficiency.
4. **Enhancing export diversification and value addition:** It is necessary to develop targeted strategies to diversify export commodities and markets beyond gold and coffee, focusing on agro-processing, manufacturing, and regional integration under AfCFTA to reduce vulnerability to external shocks.
5. **Supporting domestic production of capital and intermediate goods:** Investing in local industrial capacity and infrastructure is necessary to reduce dependence on imported capital goods and inputs, thereby improving trade balance sustainability.
6. **Promoting strategic trade partnerships and regional integration:** It is important to expand trade linkages with emerging markets and strengthen intra-African trade to build a more resilient export base and harness logistics hubs such as Djibouti.

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