

Ethiopian Economics Association
(EEA)



***The Anatomy of Inflation in Ethiopia:
Structural Shocks, Policy Credibility, and the
Path to Price Stability***

Naser Yenus Nuru

Research Report 004/2026

**Addis Ababa, Ethiopia
August 2026**

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ACKNOWLEDGEMENTS

I am grateful to the following individuals for their contribution to this research report. I am deeply thankful to Professor Mengistu Ketema for initiating this work and providing the vision and encouragement that brought this study to fruition. I extend my profound appreciation to Dr. Jeleta Kebede and Dr. Mezid Nasir for their thorough reviews, constructive feedback, and invaluable contributions that significantly enhanced the quality and rigor of this report.

EXECUTIVE SUMMARY

Ethiopia has experienced persistently elevated inflation since 2018, with the annual headline inflation rate reaching a peak of 34.04% in 2022 before moderating to 13.21% in 2025. This inflationary episode has posed significant challenges to macroeconomic stability, eroding household purchasing power and complicating the conduct of monetary and fiscal policy. The period from 2018 to 2025 was marked by significant structural changes and external shocks, including the transition to a market-determined exchange rate regime in July 2024, global commodity price shocks, and domestic supply disruptions associated with conflict and climatic variability. The study aimed to identify the key drivers of inflation, assess the effectiveness of policy responses, and evaluate the credibility of the policy framework through a multi-method approach combining descriptive analysis, Structural Vector Autoregression (SVAR) estimation, and an expert elicitation survey of Ethiopian Economics Association members.

The descriptive analysis reveals substantial regional heterogeneity in inflation, with Benishangul-Gumuz recording the highest average rate (25.57%) and Somali the lowest (21.24%), while conflict-affected regions and import-dependent urban centers experienced greater price pressures. The composition of inflation also shifted between 2022 and 2025, with food inflation declining from 38.05% to 12.09%, while non-food inflation remained more persistent, falling from 28.35% to 14.99%. This pattern is consistent with lingering effects of exchange rate adjustments and fuel price reforms. The co-movement of global supply-chain pressures, world commodity prices, and domestic inflation further highlights Ethiopia's exposure to external shocks, with 82.3% of experts identifying oil price spikes as the most significant transmission channel for geopolitical disruptions. Internationally, Ethiopia continued to record higher inflation than regional peers, reaching 13.21% in 2025 compared with 12.48% for Sub-Saharan Africa, 4.07% for Kenya, 3.33% for Tanzania, and 3.58% for Uganda.

The SVAR estimation provides empirical evidence on the dynamic responses of inflation to structural shocks. Inflation is highly persistent in the short run, with own shocks explaining 98.33% of inflation variation at the 1-month horizon. Money supply shocks increase inflation with a lag, peaking at period 4 with a response of 0.512, and explain 18.19% of inflation variation at the 12-month horizon, suggesting that monetary conditions matter, although transmission operates with a lag of approximately 3–4 months. Exchange rate shocks have a positive effect during the first three months, but the response is not statistically significant, indicating weak or delayed pass-through. Energy price shocks have no significant direct effect and explain less than 1% of inflation variation at all horizons, suggesting that their effects may operate indirectly through exchange-rate and other channels. Historical decomposition shows that inflation's own shocks constitute the most important source of fluctuations, followed by money supply shocks, while exchange rate shocks became more prominent during 2024, coinciding with the transition to a market-determined exchange rate regime.

The expert elicitation survey indicates substantial concerns about the credibility of the policy framework. A significant perception gap exists regarding current inflation levels, with 25.6%

of respondents estimating inflation at 35% or above, while only 1.9% estimate it below 10%; this gap is also systematically related to professional affiliation. Experts rank exchange rate reform and Birr depreciation as the most important driver (mean 3.31; 83.5% Major/Dominant), followed by domestic supply shocks (mean 3.03; 73.1%) and global commodity prices (mean 2.91; 68.8%), while fiscal and monetary expansion rank lower. These responses indicate that experts predominantly perceive inflation as structural and supply-driven. Concerns about policy credibility are also substantial: 70.7% of respondents believe confidence in the Birr has worsened since the reforms, 52.3% perceive the NBE as lacking independence, and 57.2% consider official CPI figures unreliable, with 71.4% citing political or institutional pressure as a concern. Forward-looking expectations are similarly pessimistic, with 55.6% anticipating further increases in inflation and 72.1% reporting a more pessimistic outlook than six months earlier. Moreover, 60.9% of respondents rate the NBE's commitment to achieving single-digit inflation as having low or very low credibility.

Taken together, the findings suggest that Ethiopia's inflation dynamics are strongly influenced by structural and supply-side factors rather than solely by demand-side pressures. At the same time, weak monetary transmission and persistent concerns about policy credibility may limit the effectiveness of monetary policy in containing inflation. Although the current disinflationary trend is encouraging, it remains vulnerable to external shocks, domestic disruptions, and policy reversals. Addressing inflation therefore requires a comprehensive approach that combines effective monetary policy with structural reforms, supply-side interventions, institutional strengthening, and credible policy implementation.

Based on these findings, the report recommends strengthening statistical credibility through independent methodological reviews and transparent data policies; enhancing monetary policy effectiveness through interest rate-based frameworks and improved communication; addressing structural constraints through agricultural investment and logistical improvements; sustaining exchange rate reforms while narrowing the official-parallel market gap; pursuing credible fiscal consolidation; managing external vulnerabilities through strategic reserves and regional cooperation; improving monetary-fiscal coordination; addressing political economy constraints through sustained reform commitment; and strengthening inflation monitoring and future research. Effective implementation will require sustained policy commitment, stronger institutions, stakeholder engagement, and international cooperation to achieve lasting price stability and protect household purchasing power in Ethiopia.

1. INTRODUCTION

Ethiopia has experienced persistently elevated inflation since 2018, with the annual headline inflation rate reaching a peak of 34.04% in 2022 before moderating to 13.21% in 2025 (Ethiopian Statistical Service [ESS], 2025). This inflationary episode has posed significant challenges to macroeconomic stability, eroding household purchasing power, particularly among urban and low-income populations, and complicating the conduct of monetary and fiscal policy (IMF, 2024; World Bank, 2024). The recent moderation in inflation, while welcome, raises important questions about the drivers of price dynamics, the effectiveness of policy responses, and the sustainability of the disinflationary trend.

The period from 2018 to 2025 has been marked by significant structural changes and external shocks. The transition to a market-determined exchange rate regime in July 2024 represented a major policy shift, with significant implications for import prices and inflation expectations (IMF, 2024). Concurrently, Ethiopia faced global commodity price shocks, domestic supply disruptions arising from conflict and climatic variability, the lingering effects of the COVID-19 pandemic, and disruptions to global supply chains (World Bank, 2021; IMF, 2024). More recently, geopolitical tensions in the Middle East, particularly the conflict involving Iran, Israel, and the United States, together with risks of disruptions to shipping through the Strait of Hormuz, have increased external risks facing the Ethiopian economy. These developments have intensified policy debates over the relative importance of domestic and external drivers of inflation and the appropriate policy mix for achieving and maintaining price stability.

This policy debate highlights the need for a clearer understanding of the determinants of inflation in Ethiopia. The National Bank of Ethiopia (NBE) has implemented a series of policy measures, including monetary tightening, a temporary credit growth cap, and exchange rate reform, aimed at anchoring inflation expectations and restoring price stability. However, the effectiveness of these measures depends partly on a clear understanding of the transmission mechanisms through which economic shocks affect domestic prices. This study contributes to this understanding by combining an analysis of national and regional inflation trends, a Structural Vector Autoregression (SVAR) model, and an expert elicitation survey to identify key inflation drivers, examine the transmission of major shocks, and assess perceptions of the credibility of the policy framework.

The research is guided by the following questions:

1. What are the national and regional inflation trends in Ethiopia from 2018 to 2025, and how do inflation patterns differ across regions?
2. What patterns are observed between global supply-chain pressures, world commodity prices, and inflation dynamics in Ethiopia during 2018–2025?
3. What are the dynamic responses of inflation to structural shocks in the exchange rate, energy prices, and money supply?
4. What do economic experts perceive as the primary drivers of inflation in Ethiopia?

5. How effective are exchange rate reform, monetary tightening, and the credit growth cap perceived to be in addressing inflationary pressures?
6. How credible are official inflation statistics, and how might concerns about statistical credibility affect monetary policy communication?

Addressing these questions is essential for designing effective policy responses, strengthening the credibility of the policy framework, and supporting a sustained reduction in inflation in Ethiopia.

2. METHODOLOGY

2.1. Research Design

The study adopts a sequential explanatory research design, beginning with descriptive analysis of secondary data to establish the national, regional, and external dimensions of inflation, followed by estimation of a Structural Vector Autoregression (SVAR) model to provide quantitative evidence on the transmission of structural shocks. The analysis concludes with an expert elicitation survey to capture professional perceptions of inflation drivers, policy effectiveness, and policy credibility. This sequential approach allows the descriptive and econometric findings to inform the interpretation of expert perceptions, while the survey evidence provides additional context for understanding the empirical results and policy challenges.

2.2. Data Sources

2.2.1. Secondary Data

The secondary data used in this study are drawn from multiple sources to ensure comprehensive coverage of inflation dynamics in Ethiopia.

Data Type	Source	Frequency	Period
Consumer Price Index (CPI)	Ethiopian Statistical Service (ESS)	Monthly	2018-2025
Regional CPI by Region	Ethiopian Statistical Service (ESS)	Monthly	2018-2025
CPI Sub-Components	Ethiopian Statistical Service (ESS)	Monthly	2018-2025
Nominal Exchange Rate	National Bank of Ethiopia (NBE)	Monthly	2018-2025
Broad Money Supply (M2)	National Bank of Ethiopia (NBE)	Monthly	2018-2025
Global Supply Chain Pressure Index	Federal Reserve Bank of New York	Monthly	2018-2025
Energy and Food Price Indices	World Bank Commodity Price Data	Monthly	2018-2025
International Inflation Data	IMF World Economic Outlook	Annual	2018-2025

2.2.2. Primary Data

Expert elicitation survey was administered to members of the Ethiopian Economics Association (EEA) in June 2026. Expert elicitation is a well-established methodological approach for capturing informed judgment on complex policy issues where empirical data may be incomplete or contested. The method is particularly valuable for assessing causal relationships, evaluating policy effectiveness, and identifying sources of uncertainty in contexts where formal econometric analysis faces data limitations (Morgan, 2014).

The survey was structured into eight sections covering informed consent, respondent profile, perceived price dynamics, exchange rate reform, monetary policy framework, external shocks, credibility of official statistics, and forward-looking expectations. A total of 266 valid responses were received from the EEA membership. Although the response rate is modest, the sample provides a sufficient basis for the analysis given the expert composition of the panel and the high level of professional qualification among respondents.

2.3. Descriptive Analysis of Inflation Trends

National and regional inflation trends are analyzed using monthly CPI data, examining headline, food, and non-food inflation rates. Regional divergence is assessed by comparing average inflation rates, peak inflation periods, and the timing of inflation moderation across regions. The composition of inflation is examined by analyzing 11 CPI sub-components, with inflation rates calculated using December-to-December annual changes for 2022 and 2025 to compare the peak and moderation periods.

Turning to external factors, the Global Supply Chain Pressure Index (GSCPI) is presented alongside Ethiopia's inflation to illustrate the co-movement between global supply chain pressures and domestic price dynamics, with annual averages calculated to align with the frequency of inflation data. Energy and food price indices are used to show the evolution of global commodity prices in relation to Ethiopia's inflation. Finally, inflation rates for regional peers are obtained for international comparison of inflation trends.

2.4. SVAR Model Specification

2.4.1. Model Selection

The study employs a Structural Vector Autoregression (SVAR) model to estimate the dynamic responses of inflation to structural shocks over a 20-month horizon. The model is specified with four endogenous variables representing month-on-month percentage changes in consumer price index, the nominal exchange rate, energy prices, and broad money supply.

The variables included in the SVAR model were selected based on economic theory and the objectives of the study. The consumer price index captures overall inflation dynamics. The nominal exchange rate captures the transmission of external shocks to domestic prices through import costs. Energy prices capture the impact of global commodity price shocks. Broad money supply captures the role of monetary policy and liquidity conditions.

Prior to estimation, all variables are transformed by taking the natural logarithm and then the first difference to achieve stationarity. The Augmented Dickey-Fuller (ADF) unit root test is applied to the log-transformed levels of each variable, with the test equation including an intercept and, where appropriate, a linear trend. For variables found to be non-stationary in levels, the test is repeated on the first differences to confirm that stationarity is achieved. For the SVAR model, the optimal lag length is selected using the Akaike Information Criterion (AIC).

2.4.2. Identification Strategy

Structural shocks are identified using a recursive (Cholesky) ordering of the variables. The ordering is based on theoretical considerations regarding the transmission of shocks to the Ethiopian economy:

Order	Variable	Rationale
1	Energy Prices	Global energy prices are exogenous to Ethiopia
2	Nominal Exchange rate	Exchange rate responds to energy prices (import bill effect)
3	Broad Money Supply	Money supply responds to exchange rate and energy prices
4	Consumer Price Index	Inflation responds to all shocks

The recursive ordering implies that variables earlier in the order affect variables later in the order contemporaneously, but not vice versa (Kilian & Lütkepohl, 2017). This assumption is standard in SVAR analysis and allows for the identification of structural shocks. To account for the structural break associated with the transition to a market-determined exchange rate regime in July 2024, an exogenous dummy variable is included in the VAR. The dummy takes a value of 0 for the period before July 2024 and 1 from July 2024 onwards. This specification controls for the shift in the exchange rate regime and its potential impact on the dynamic relationships among the variables.

The estimated SVAR model generates impulse response functions (IRFs) tracing the dynamic response of inflation to a one-standard-deviation shock in each variable over a 20-month horizon, and forecast error variance decompositions (FEVD) quantifying the proportion of inflation variance explained by each shock. Confidence bands for the IRFs are obtained through Monte Carlo simulations with 1,000 replications.

2.4.3. Robustness Checks

To assess the sensitivity of the results to the ordering of variables, the SVAR model is also estimated using an alternative Cholesky ordering where the exchange rate (NER) is placed before energy prices. This alternative ordering assumes that exchange rate movements can contemporaneously affect domestic energy prices, for example through the local-currency cost of imported energy, while energy prices are allowed to affect the exchange rate only with a lag. This is consistent with a small open economy where the exchange rate acts as a fast-moving financial variable.

2.5. Expert Elicitation Survey Analysis

Survey responses are analyzed using descriptive statistics, including frequency distributions, percentages, and mean scores. Respondents rated the importance of ten potential drivers of inflation on a 0–4 scale, with mean scores calculated and factors ranked from highest to lowest importance. Cross-tabulations examine whether perceptions of inflation vary by professional affiliation, comparing responses across private sector, government, academic, and international organization groups.

2.6. Methodological Limitations

The expert elicitation survey has some limitations. While EEA members include individuals from various professional backgrounds, the survey captures only the views of actively participating members who chose to respond. The findings may not reflect the views of all economics professionals in Ethiopia. The analysis of data credibility is based on expert perceptions rather than objective evaluation. Despite these limitations, the survey provides valuable insights into the perceptions of a highly qualified group of economists.

3. INFLATION TRENDS IN ETHIOPIA: REGIONAL PATTERNS, GLOBAL PRESSURES, AND INTERNATIONAL COMPARISON

This section analyzes inflation trends in Ethiopia from 2018 to 2025. It examines national headline, food, and non-food inflation; regional patterns across Ethiopia's regions; and changes in the composition of inflation. It also describes the co-movement of global supply-chain pressures and world commodity prices with domestic inflation and compares Ethiopia's inflation experience with regional peers, including Kenya, Rwanda, Tanzania, Uganda, and Sub-Saharan Africa. The analysis provides the macroeconomic context for the SVAR findings and expert perceptions presented in the subsequent sections.

3.1. National Inflation Trends

Figure 1 illustrates national headline, food and non-food inflation trends from 2018 to 2025. Headline inflation rose steadily from 16.77% in 2018 to a peak of 34.04% in 2022, before moderating to 13.20% in 2025. Food inflation followed a similar trajectory, increasing from 14.13% in 2018 to a peak of 38.05% in 2022, then declining sharply to 12.09% in 2025. Non-food inflation started at 19.99% in 2018, experienced a dip in 2019 (10.03%), before rising to 31.39% in 2023 and moderating to 14.99% in 2025.

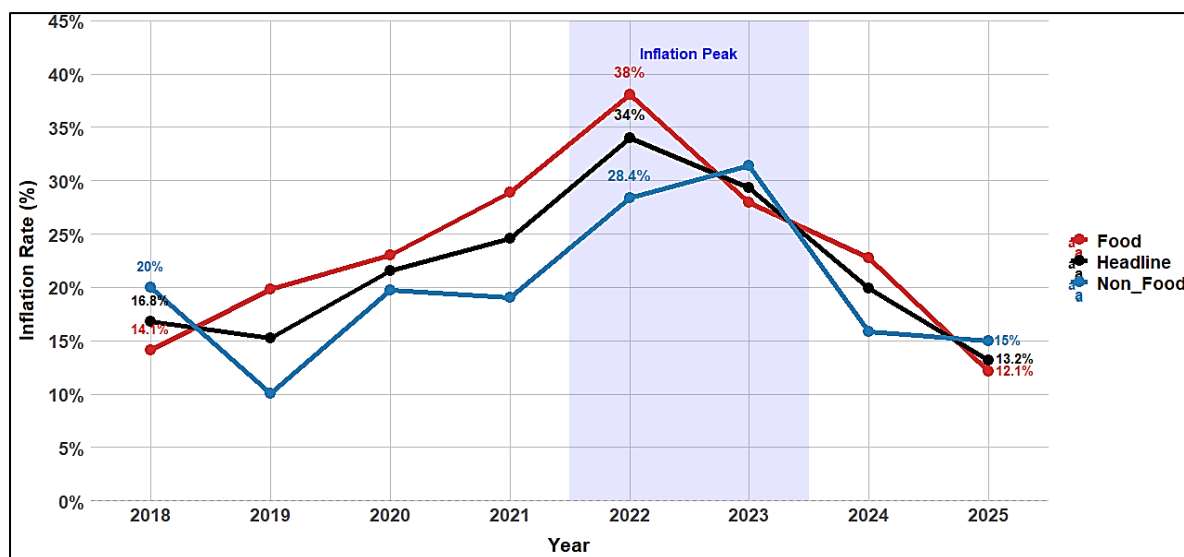


Figure 1: National Headline, Food and Non-Food Inflation Trends, 2018-2025

Source: Ethiopian Statistical Service

The figure reveals distinct patterns across the three components. Food inflation was the primary driver of headline inflation from 2020 to 2022, likely exhibiting the impact of supply-side disruptions and agricultural shocks. However, in 2023, non-food inflation exceeded food inflation (31.39% vs 27.95%), possibly indicating exchange rate pressures and fuel price adjustments. By 2025, inflation moderated significantly across all components, with headline (13.20%), food (12.09%) and non-food (14.99%) inflation all declining to the low-teens range. This broad-based moderation suggests that both supply-side pressures and demand-side factors have eased, though non-food inflation remained slightly elevated relative to food and headline

inflation. The moderation may also show the lagged effects of monetary tightening and the easing of global commodity prices during the period.

3.2. Regional Inflation Patterns

Table 1 summarizes regional inflation trends across Ethiopia from 2018 to 2025, showing substantial variation in price developments across the country. Benishangul-Gumuz recorded the highest average inflation (25.57%), followed by Addis Ababa (24.25%) and Dire Dawa (24.05%). At the lower end, Somali recorded the lowest average (21.24%), followed by Amhara (21.67%) and Gambela (22.51%). The range between the highest and lowest regional averages (4.33 percentage points) highlights the heterogeneity in inflationary experiences across Ethiopia's regions. The highest single-year inflation rates were recorded in 2022 or 2023 across most regions, with Harari peaking at 43.95% in 2022, followed by Dire Dawa (42.31%) and Benishangul-Gumuz (40.31%). By contrast, the lowest recorded rates were in Dire Dawa (9.43% in 2019), Somali (9.84% in 2020), and SNNP (10.09% in 2018). In 2025, inflation ranged from 10.73% in Amhara to 23.50% in Benishangul-Gumuz.

Table 1: Regional Inflation Rates, 2018-2025

Region ²	Average Inflation (%)	Highest Year	Highest Rate (%)	Lowest Year	Lowest Rate (%)	2025 Rate (%)
National	21.93	2022	34.04	2025	13.20	13.20
Addis Ababa	24.25	2023	38.57	2019	12.55	20.67
Afar	23.35	2023	39.66	2019	11.05	21.26
Amhara	21.67	2022	38.12	2025	10.73	10.73
Benishangul-Gumuz	25.57	2022	40.31	2018	13.72	23.50
Dire Dawa	24.05	2022	42.31	2019	9.43	16.57
Gambela	22.51	2022	40.18	2019	10.65	18.95
Harari	22.60	2022	43.95	2018	10.46	22.32
Oromia	22.37	2022	37.91	2025	12.63	12.63
SNNP	23.32	2021	36.53	2018	10.09	20.43
Somali	21.24	2021	34.56	2020	9.84	12.09

Note: SNNP refers to the former Southern Nations, Nationalities, and Peoples' Region, which was restructured in 2023 into several regional states, including South Ethiopia Region

Source: Ethiopian Statistical Service

The data reveals important patterns that reflect Ethiopia's economic structure. Conflict-affected regions, particularly Amhara and Tigray, experienced severe inflation and data disruptions, with Tigray's data unavailable from 2022 onwards. Import-dependent regions, including Harari, Dire Dawa, and Addis Ababa, recorded persistently high inflation, which may exhibit exposure to global commodity price shocks, supply chain disruptions, and exchange rate dynamics. Agricultural regions such as Oromia and Amhara exhibited higher volatility,

² Tigray is excluded from the regional analysis due to the unavailability of inflation data from 2022 onwards, indicating the disruption of statistical collection during the conflict.

possibly linked to food supply shocks and seasonal patterns. The 2025 moderation observed in most regions suggests some easing of inflationary pressures, though several regions continue to record double-digit inflation. Tigray, for which data is unavailable from 2022 onwards, indicates the broader impact of conflict on economic data collection and price stability in the country.

3.3. Composition of Inflation: Food and Non-Food Components

Table 2 presents food and non-food inflation by region for 2022 and 2025, revealing important structural patterns in Ethiopia's inflation dynamics. In 2022, significant variation existed across regions. Harari recorded the highest headline inflation at 43.95%, followed by Dire Dawa (42.31%) and Benishangul-Gumuz (40.31%). Food inflation was particularly elevated in Benishangul-Gumuz (51.02%), Somali (45.75%) and Harari (41.01%). By contrast, non-food inflation was highest in Dire Dawa (49.05%), Harari (46.46%) and Afar (40.75%), possibly reflecting the vulnerability of import-dependent regions to exchange rate pass-through and global commodity price increases.

By 2025, inflation moderated significantly across all regions, though the pattern of regional divergence persisted. Amhara recorded the lowest headline inflation at 10.73%, followed by Oromia (12.63%) and Somali (12.09%). Harari (22.32%), Afar (21.26%) and Benishangul-Gumuz (23.50%) continued to record higher inflation. The food-non-food composition also shifted notably. In 2025, non-food inflation exceeded food inflation in most regions, including Addis Ababa (22.59% vs 18.67%), Afar (23.78% vs 19.47%), Amhara (14.44% vs 8.08%), Benishangul-Gumuz (28.05% vs 19.73%), Oromia (18.87% vs 9.20%), and Somali (16.35% vs 9.33%). This pattern suggests that while food inflation moderated considerably, non-food inflation remained more persistent, possibly indicating the lagged effects of exchange rate adjustments and fuel price reforms that were phased in from July 2024 onwards.

Table 2: Food and Non-Food Inflation by Region, 2022 and 2025

Region	Headline (%)	Food (%)	Non-Food (%)	Headline (%)	Food (%)	Non-Food (%)
	2022			2025		
Addis Ababa	31.76	32.59	30.99	20.67	18.67	22.59
Afar	39.07	37.87	40.75	21.26	19.47	23.78
Amhara	38.12	38.53	37.61	10.73	8.08	14.44
Benishangul-Gumuz	40.31	51.02	28.85	23.50	19.73	28.05
Dire Dawa	42.31	36.55	49.05	16.57	16.53	16.61
Gambela	40.18	40.66	39.43	18.95	19.08	18.75
Harari	43.95	41.01	46.46	22.32	13.52	31.97
Oromia	37.91	40.39	33.78	12.63	9.20	18.87
SNNP	27.99	34.87	17.48	20.43	22.21	17.57
Somali	33.85	45.75	19.80	12.09	9.33	16.35

Source: Ethiopian Statistical Service

Table 3 provides the December-to-December inflation rates for all CPI categories in 2022 and 2025, indicating a dramatic moderation in non-food inflation. In 2022, the Non-Food inflation stood at 35.22%, with Miscellaneous Goods & Services (67.69%), Furnishing, Household Equipment & Operation (59.91%), and Recreation & Culture (58.02%) recording the highest rates. This pattern could point to broad-based cost pressures during the period, possibly associated with supply chain disruptions and import cost dynamics. Communication recorded the lowest non-food inflation at 4.80%, followed by Education (17.53%) and Health (21.16%). By 2025, the Non-Food Index had declined substantially to 9.55%, with most categories experiencing double-digit declines. The sharpest moderation was observed in Furnishing (-47.36 percentage points), Miscellaneous Goods & Services (-46.19 pp), and Recreation & Culture (-45.04 pp), which may indicate a significant easing of the cost pressures that had characterized the 2022 peak.

The sub-component analysis offers insights into the evolution of non-food inflation. While headline inflation moderated from 33.81% in 2022 to 9.70% in 2025, Transport inflation remained relatively high at 17.59% in 2025, declining only modestly from 25.93% in 2022. This could be connected to persistent fuel price dynamics, potentially influenced by global energy markets and the phased fuel price reforms that began in July 2024, which led to successive increases in fuel prices throughout 2024 and 2025. Miscellaneous Goods & Services, though significantly lower, stayed elevated at 21.50%, hinting that certain structural cost pressures may have been more enduring. Communication was the sole category to record an increase, rising from 4.80% to 13.92% (+9.12 pp), which might be attributable to policy or regulatory adjustments in the telecommunications sector. The widespread moderation observed across most categories appears consistent with the broader easing of inflationary pressures.

Table 3: Inflation Rates by Category, 2022 and 2025 (December-to-December)

Category	2022 Inflation (%)	2025 Inflation (%)	Change (pp)
Headline	33.81	9.70	-24.11
Food	32.89	9.77	-23.12
Non-Food	35.22	9.55	-25.67
Miscellaneous Goods & Services	67.69	21.50	-46.19
Furnishing, Household Equipment & Operation	59.91	12.55	-47.36
Recreation & Culture	58.02	12.98	-45.04
Restaurants & Hotels	46.35	13.82	-32.53
Clothing & Footwear	38.38	14.67	-23.71
Alcoholic Beverages & Tobacco	37.90	10.41	-27.49
Transport	25.93	17.59	-8.34
Housing, Water, Electricity, Gas & Other Fuels	22.00	1.86	-20.14
Health	21.16	4.76	-16.40
Education	17.53	7.08	-10.45
Communication	4.80	13.92	+9.12

Note: Calculations are based on December-to-December annual changes using CPI indices

Source: Ethiopian Statistical Service

3.4. Global Supply Chain Pressures and Commodity Prices

Figure 2 demonstrates the Global Supply Chain Pressure Index (GSCPI) alongside Ethiopia's headline inflation from 2018 to 2025. The GSCPI, which measures global supply chain disruptions, surged from near-zero levels in 2019 to a peak of 3.04 in 2021 which could be driven by COVID-19-related port congestion, shipping cost increases, and delivery delays. Ethiopia's headline inflation followed a similar trajectory but with a lag, rising from 15.28% in 2019 to a peak of 34.04% in 2022. This pattern suggests that global supply chain pressures have a delayed transmission to domestic prices, likely through higher import costs, fuel prices, and transportation expenses (Attinasi *et al.*, 2022). As the GSCPI normalized in 2023 (-0.61) and remained near zero in 2024-2025, Ethiopia's inflation also moderated to 19.91% and 13.90%, respectively, indicating that easing external pressures contributed to the domestic disinflation process.

A closer examination exhibits a notable correlation between global supply chain conditions and Ethiopia's inflation dynamics. The two series have moved in tandem, suggesting that external factors play a substantial role in shaping domestic price developments. This alignment points to the importance of global shocks for a country heavily reliant on imports for fuel, food, and manufactured goods. The lagged relationship also carries implications for policy: domestic measures may need to account for external conditions and the timing of their transmission to the local economy. The moderation observed in 2024-2025, coinciding with the normalization of global supply chains, appears consistent with the easing of external pressures. However, sustaining low inflation will likely require addressing domestic structural factors, including food supply constraints, exchange rate stability, and fiscal discipline.

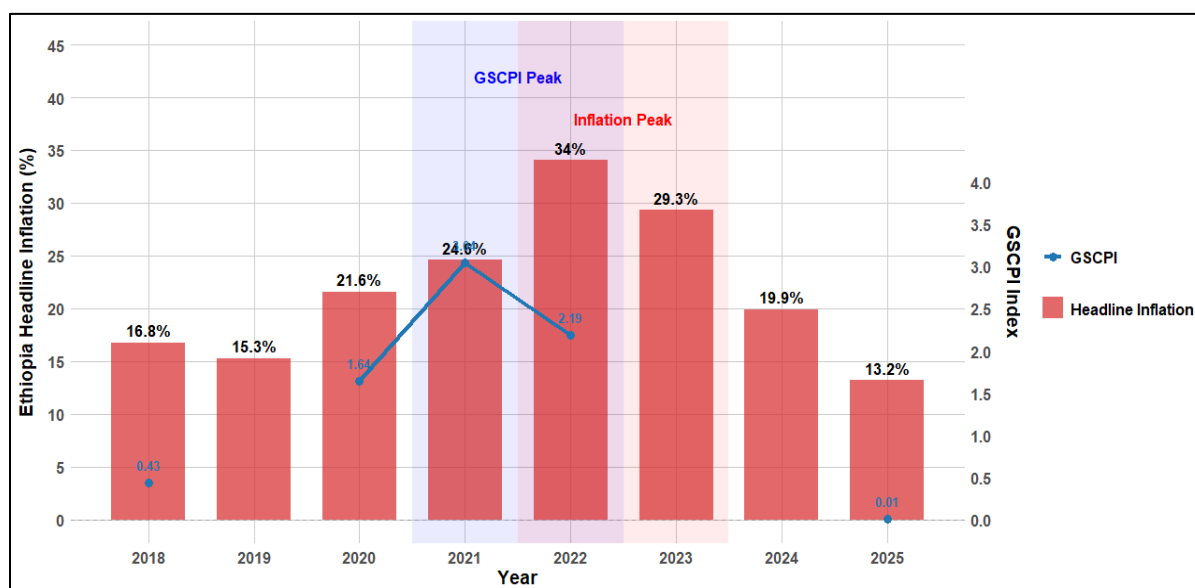


Figure 2: Global Supply Chain Pressure Index and Ethiopia's Headline Inflation

Source: Ethiopian Statistical Service and Federal Reserve Bank of New York

Figure 3 portrays the World Bank Energy and Food Price Indices alongside Ethiopia's headline inflation from 2018 to 2025. Energy prices declined from 88.0 in 2018 to a low of 63.1 in 2020,

before surging to a peak of 142.5 in 2022. Food prices followed a similar trajectory, rising from 90.4 in 2018 to a peak of 138.1 in 2022. Ethiopia's headline inflation tracked these movements closely, rising from 16.77% in 2018 to a peak of 34.04% in 2022, before moderating to 13.20% in 2025. The strong alignment between commodity prices and inflation suggests that external price shocks transmit to domestic prices through higher import costs, which directly affects the cost of fuel, food, and production inputs, and indirectly through transportation and distribution costs.

A notable contrast emerges between energy and food price behavior. Energy prices proved far more volatile, swinging between 63.1 and 142.5, whereas food prices remained within a narrower band of 87.0 to 138.1. This disparity points to fuel price shocks as having a potentially stronger and more immediate influence on Ethiopia's inflation compared to food price movements. The decline in both commodity indices from their 2022 peaks coincided with a moderation in Ethiopia's inflation to 13.20% by 2025. The observed co-movement between global supply-chain pressures, world commodity prices, and domestic inflation highlights Ethiopia's exposure to external price pressures, reinforcing the importance of policy measures that cushion the economy against global price volatility.

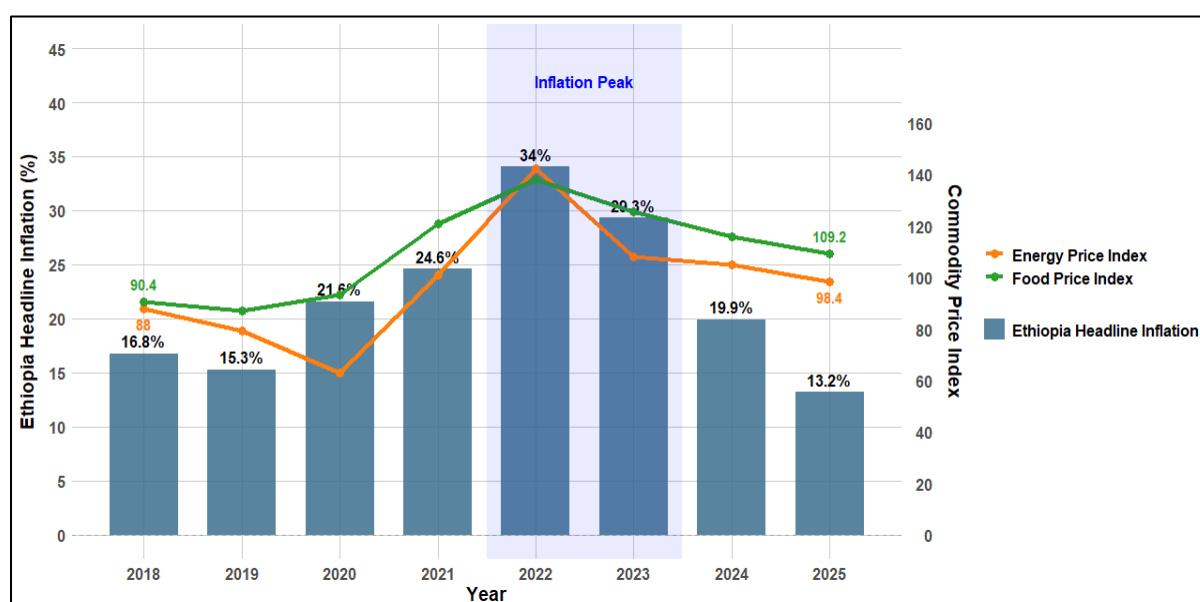


Figure 3: World Energy and Food Price Indices and Ethiopia's Headline Inflation

Source: World Bank Commodity Price Data (Pink Sheet) and Ethiopian Statistical Service

3.5. International Comparison: Ethiopia and Regional Peers

Figure 4 depicts a comparison of average consumer price inflation between Ethiopia, Kenya, Rwanda, Tanzania, Uganda and the Sub-Saharan African average from 2018 to 2025. Ethiopia consistently recorded the highest inflation among the comparator countries throughout the period. Inflation rose steadily from 13.83% in 2018 to a peak of 33.94% in 2022, before moderating to 13.21% in 2025. Kenya maintained relatively stable inflation, ranging between 4.69% and 7.68%, while Rwanda experienced significant volatility, swinging from a low of 0.83% in 2021 to a peak of 14.03% in 2023. Tanzania and Uganda recorded moderate inflation

levels, with Tanzania ranging between 3.06% and 4.35% and Uganda fluctuating from 2.14% to 7.19%. The Sub-Saharan African average rose from 8.71% in 2018 to a peak of 20.72% in 2024, before declining to 12.48% in 2025.

The figure shows that Ethiopia's inflation trajectory has been substantially higher than its regional peers. While most countries experienced some moderation in 2023-2025, Ethiopia's inflation remained elevated throughout the period, peaking at nearly 34% in 2022. The sharp decline in Ethiopia's inflation from 30.22% in 2023 to 13.21% in 2025 suggests some easing of price pressures which could be linked to the impact of monetary tightening and exchange rate adjustments. However, Ethiopia's 2025 inflation rate (13.21%) remains above the Sub-Saharan African average (12.48%) and significantly higher than Kenya (4.07%), Tanzania (3.33%) and Uganda (3.58%), indicating that inflation remains a more persistent challenge for Ethiopia compared to its regional neighbors.

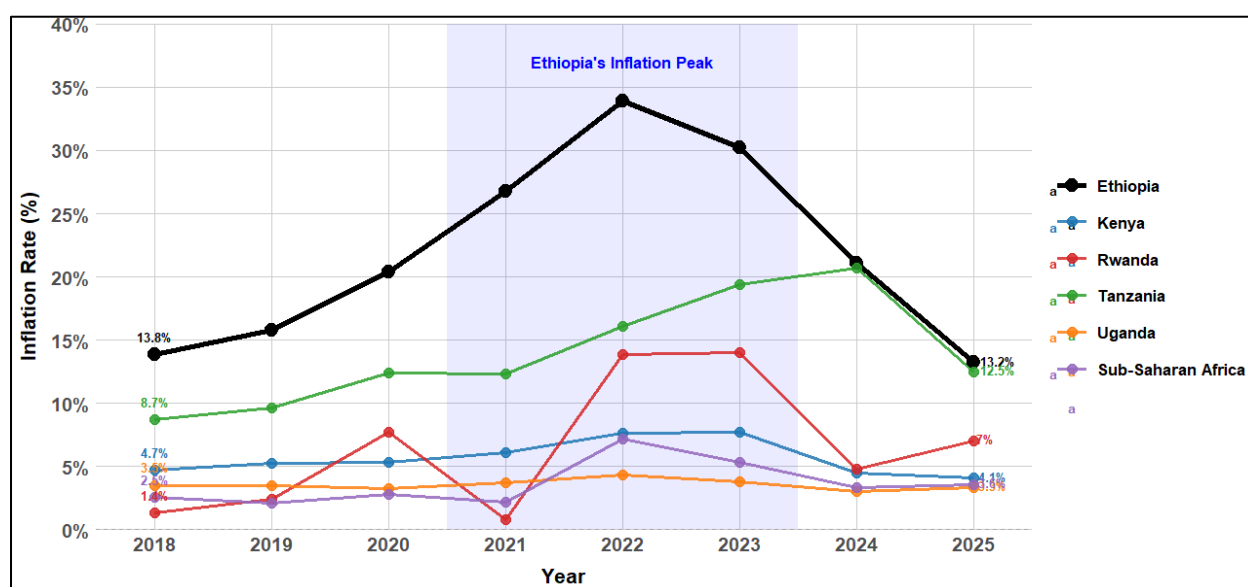


Figure 4: Comparative Inflation Trends: Ethiopia vs. Regional Peers and Sub-Saharan Africa

Source: IMF, World Economic Outlook, April 2026

4. INFLATION DYNAMICS IN ETHIOPIA: EVIDENCE FROM A STRUCTURAL VAR MODEL

This section presents the empirical findings from the Structural Vector Autoregression (SVAR) model. It reports the stationarity test results, followed by the impulse response functions, variance decomposition, historical decomposition, and robustness checks using an alternative Cholesky ordering. The findings, based on monthly data from 2018 to 2025, provide empirical evidence on the transmission of shocks to inflation in Ethiopia.

4.1. Stationarity Test Results

Table 4 offers the Augmented Dickey-Fuller (ADF) unit root test results for the four variables employed in the SVAR model. The null hypothesis of a unit root could not be rejected for any of the variables, with test statistics ranging from -1.211 (CPI) to -2.177 (Energy Price Index) and p-values exceeding 0.10 in all cases. These results confirm that all variables are non-stationary in levels and integrated of order one, I(1).

Following the first difference transformation, all series became stationary at the 1% or 5% significance level. The test statistics for the differenced series are -6.934 (CPI), -7.761 (NER), -6.996 (Energy Price Index), and -3.351 (M2), all of which are statistically significant. These results confirm that the first differences of the variables are stationary. Accordingly, the first difference of the variables, representing the month-on-month percentage changes in CPI, the nominal exchange rate, energy prices, and broad money supply, are used in the SVAR estimation.

Table 4: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	Specification	Level		First Difference		Order of Integration
		Test Statistic	P-Value	Test Statistic	P-Value	
CPI	Intercept & Trend	-1.211	0.902	-6.934***	0.000	I(1)
NER	Intercept & Trend	-1.371	0.863	-7.761***	0.000	I(1)
Energy Price Index	Intercept	-2.177	0.216	-6.996***	0.000	I(1)
Broad Money Supply (M2)	Intercept & Trend	-1.593	0.788	-3.351**	0.015	I(1)

Notes: The null hypothesis is that the series has a unit root. *** and ** denote statistical significance at the 1% and 5% levels, respectively.

Source: Author's calculations based on NBE and World Bank data

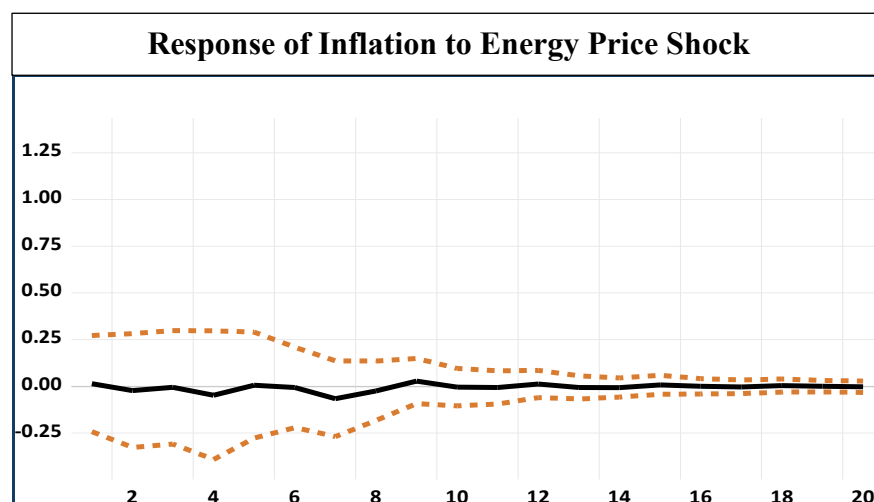
4.2. Impulse Response Functions

Figure 5 illustrates the impulse response functions of inflation to a one-standard-deviation shock in each of the four variables included in the SVAR model. A shock to inflation itself has a large, positive, and statistically significant effect on inflation for the first two periods, with responses of 1.249 and 0.334 respectively. This confirms substantial short-run inflation persistence, consistent with the possibility that inflation inertia and expectations contribute to the persistence of price dynamics (Fuhrer, 2010).

A shock to money supply increases inflation, peaking at period 4 with a response of 0.512. This positive effect suggests that monetary policy does matter for inflation, consistent with Feyisa (2024), who identifies money supply as a significant inflation-augmenting variable in Ethiopia. The transmission appears to operate with a lag of approximately 3 to 4 months, reflecting structural constraints that, as Daly and Gurhy (2025) note, require further strengthening of the monetary transmission mechanism. The confidence bands, however, are wide, exhibiting the limited sample size and the structural breaks in the period under review, including the July 2024 exchange rate reform.

The exchange rate shock has a positive effect on inflation during the first three months, peaking at 0.348 in period 3. However, the response is not statistically significant and becomes negative thereafter, indicating weak or delayed pass-through. This relatively limited and gradual pass-through may reflect the structure of Ethiopia's monetary and foreign-exchange transmission mechanisms, including the presence of administered prices and other structural features that can delay the transmission of exchange-rate movements to domestic prices (IMF, 2024; Daly & Gurhy, 2025).

Energy price shocks have no significant direct effect on inflation, with responses close to zero throughout the 20-month horizon. The largest response is only 0.028 at period 9, but the confidence bands are wide and cross zero, indicating that the effect is not statistically significant. The limited direct impact of energy prices could suggest that their transmission to domestic prices occurs primarily through the exchange rate channel rather than directly feeding into consumer prices.



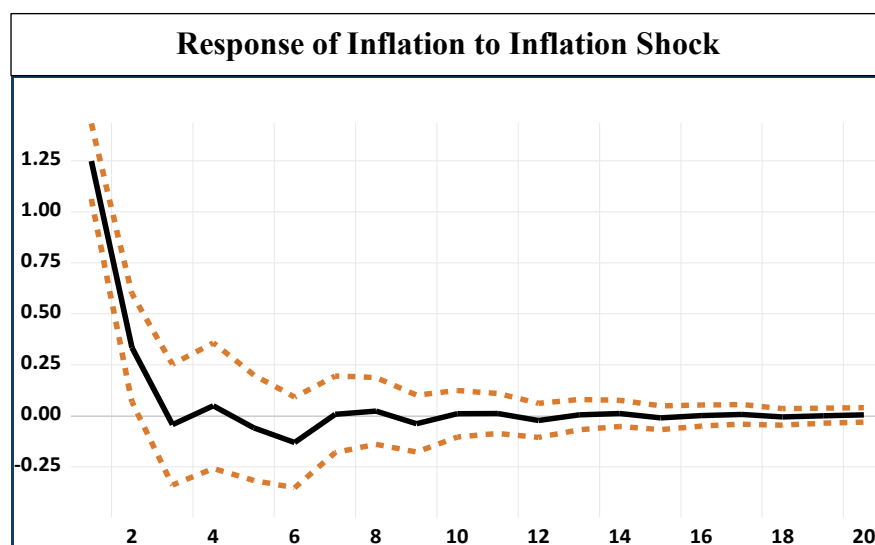
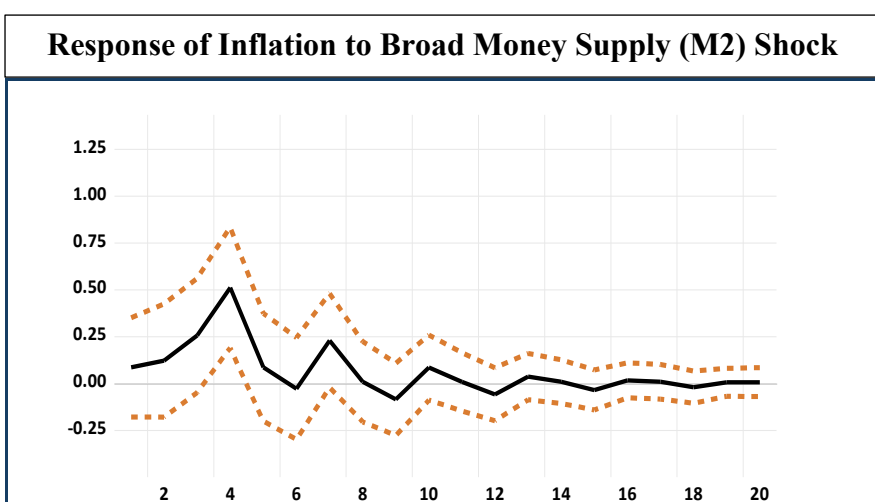
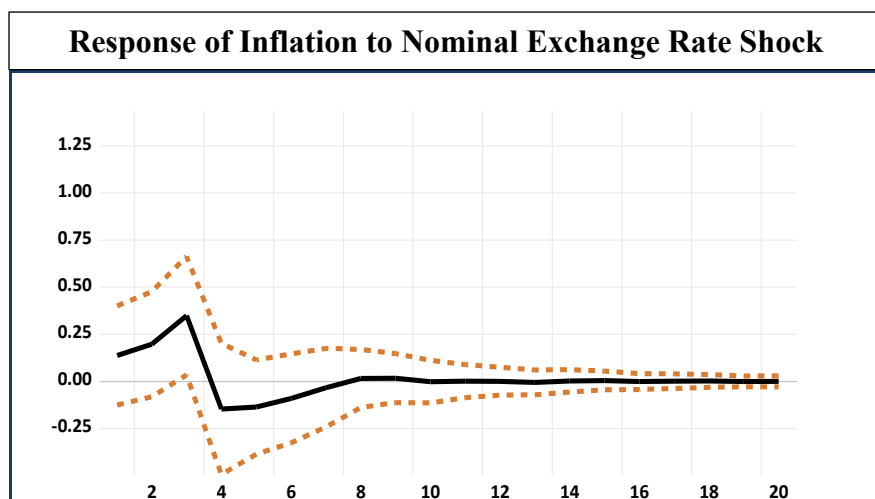


Figure 5: Impulse Response Functions of Inflation to Structural Shocks

Note: Solid lines represent the point estimates, while dashed lines represent the 95% confidence bands obtained through Monte Carlo simulations with 1,000 replications.

Source: Author's calculations based on NBE and World Bank data

4.3. Variance Decomposition

Table 5 shows the forecast error variance decomposition of inflation, showing the proportion of inflation variation explained by each shock at different forecast horizons. At the 1-month horizon, the CPI own-shock dominates, explaining 98.33% of inflation variation, while energy prices (0.01%), the exchange rate (1.18%), and money supply (0.48%) contribute negligibly. This suggests that in the very short run, inflation is largely determined by its own persistence and inertia. As the horizon extends, the contributions of the other shocks increase meaningfully. By the 3-month horizon, the exchange rate explains 9.20% of inflation variation, while money supply explains 4.59%. At the 12-month horizon, the CPI own-shock declines to 71.75%, while money supply (18.19%) and the exchange rate (9.68%) account for a substantial share of inflation variation. Energy prices consistently explain less than 1% at all horizons, suggesting their impact may be transmitted through the exchange rate channel rather than directly.

The variance decomposition results reveal important patterns in Ethiopia's inflation dynamics. The declining contribution of the CPI own-shock over time suggests that while inflation is highly persistent in the short run, other factors become progressively more important over longer horizons. The money supply contributes approximately 18% of inflation variation at 12 months, indicating that monetary policy plays a meaningful role in shaping price dynamics. The exchange rate contributes nearly 10%, pointing to a gradual but meaningful pass-through from exchange rate movements to domestic prices. The limited direct contribution of energy prices (0.39%) is consistent with Ethiopia's fuel subsidy regime and suggests that the impact of global energy price shocks is largely channeled through the exchange rate rather than directly feeding into consumer prices.

Table 5: Forecast Error Variance Decomposition of Inflation, Selected Horizons

Horizon (Months)	S.E.	Energy Prices (%)	Exchange Rate (NER) (%)	Money Supply (M2) (%)	CPI Own- Shock (%)
1	1.259	0.01	1.18	0.48	98.33
3	1.393	0.04	9.20	4.59	86.17
6	1.512	0.14	9.95	15.74	74.17
12	1.539	0.39	9.68	18.19	71.75
20	1.540	0.39	9.66	18.31	71.64

Note: Values are percentages of the forecast error variance of inflation explained by each shock at different forecast horizons.

Source: Author's calculations based on NBE and World Bank data

4.4. Historical Decomposition

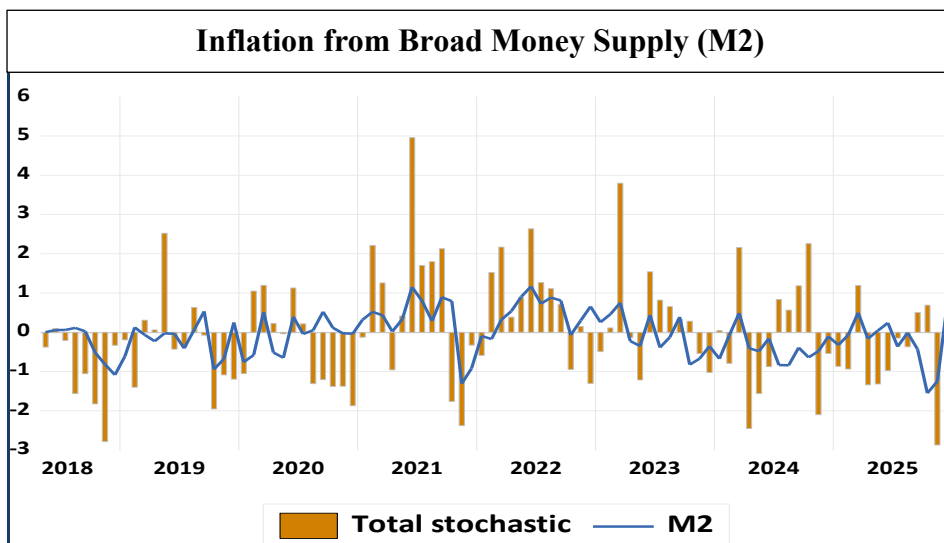
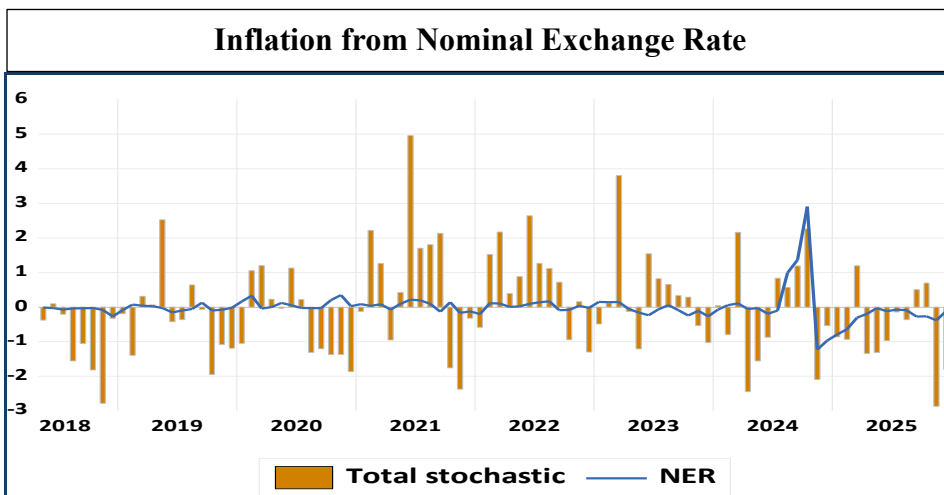
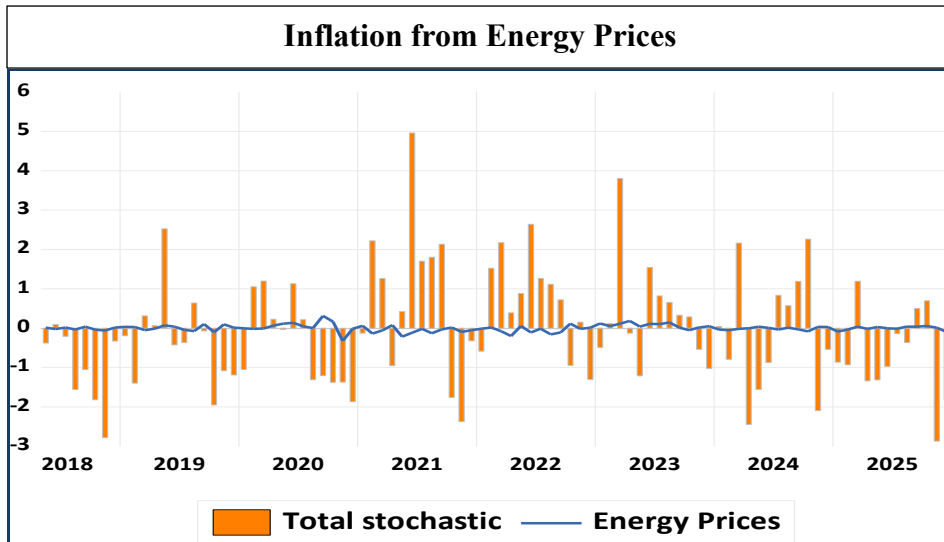
Figure 6 portrays the historical decomposition of inflation in Ethiopia, illustrating the contribution of structural shocks from inflation itself, broad money (M2), nominal exchange rate, and energy prices to fluctuations in inflation over the sample period. Historical decomposition provides a time-specific breakdown of observed inflation, enabling the identification of the relative importance of each structural shock in explaining inflation

dynamics. Overall, the results indicate that the contribution of these shocks varied considerably over time, indicating changes in the macroeconomic environment and policy conditions.

The historical decomposition shows that inflation's own shocks constitute one of the most important sources of inflation fluctuations throughout the sample period. The contribution of these shocks shows substantial positive and negative movements, particularly during the high-inflation episodes between 2020 and 2024, suggesting that inflation in Ethiopia displays a considerable degree of persistence. This finding implies that a significant portion of inflationary pressure originates from factors internal to the inflation process, such as inflation expectations, price inertia, or other structural influences not fully captured by the remaining variables in the model.

The contribution of broad money (M2) shocks is most pronounced during the period from 2020 to 2022, when expansionary monetary conditions exerted noticeable upward pressure on inflation. After 2023, however, the contribution of money supply shocks weakened and became negative in several periods, indicating a reduced role of monetary expansion in explaining inflation dynamics. In contrast, nominal exchange rate shocks contributed relatively little to inflation over most of the sample period but became a significant source of inflationary pressure during 2024, coinciding with major exchange rate adjustments and the depreciation of the Ethiopian birr. This result suggests that exchange rate pass-through to domestic prices is particularly important during episodes of substantial currency depreciation rather than under normal exchange rate conditions.

By comparison, energy price shocks make only a limited contribution to inflation throughout the sample period, with their estimated effects remaining close to zero in most periods. Although they exhibit occasional positive and negative fluctuations, these shocks explain only a small proportion of the unexpected movements in inflation relative to the contributions of inflation's own shocks, money supply shocks, and exchange rate shocks. In general, the historical decomposition suggests that Ethiopia's inflation dynamics are driven primarily by domestic factors, especially inflation persistence and monetary conditions, while exchange rate shocks become important during periods of significant currency adjustment. Energy price shocks, by contrast, play a relatively minor role in explaining inflation fluctuations over the study period.



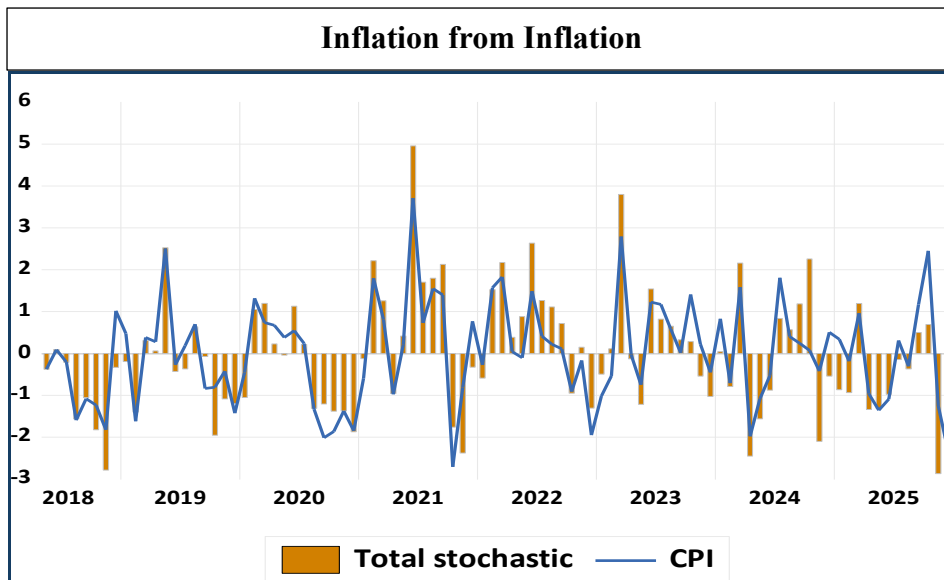


Figure 6: Historical Decomposition of Inflation

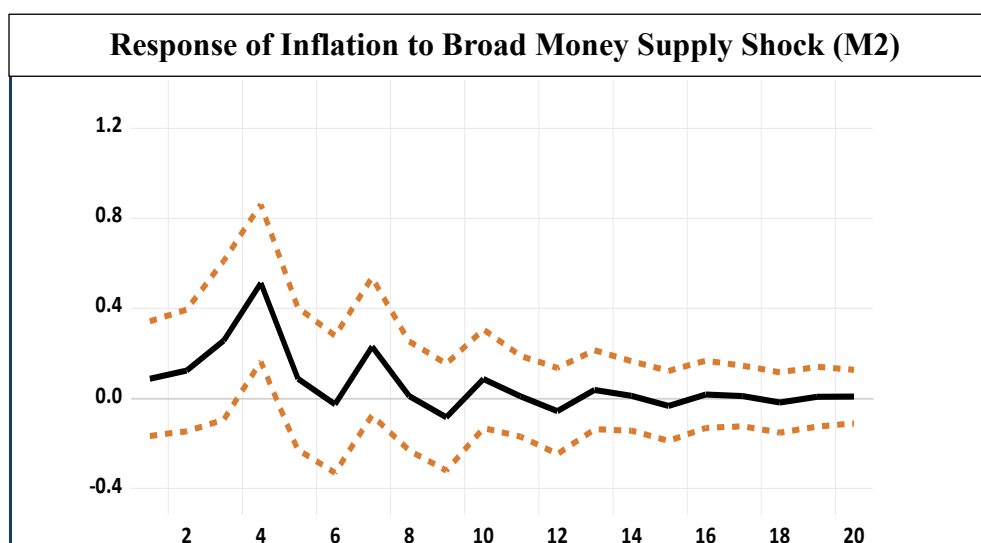
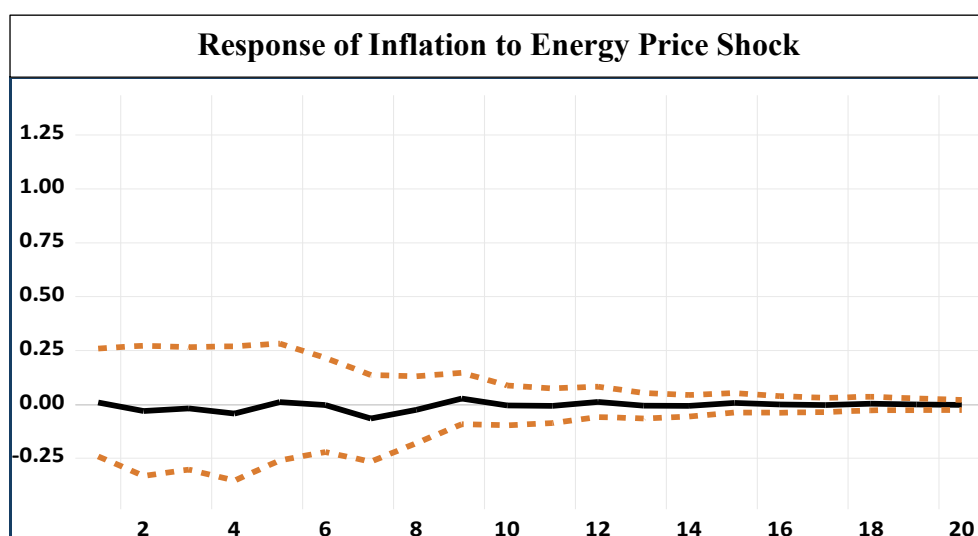
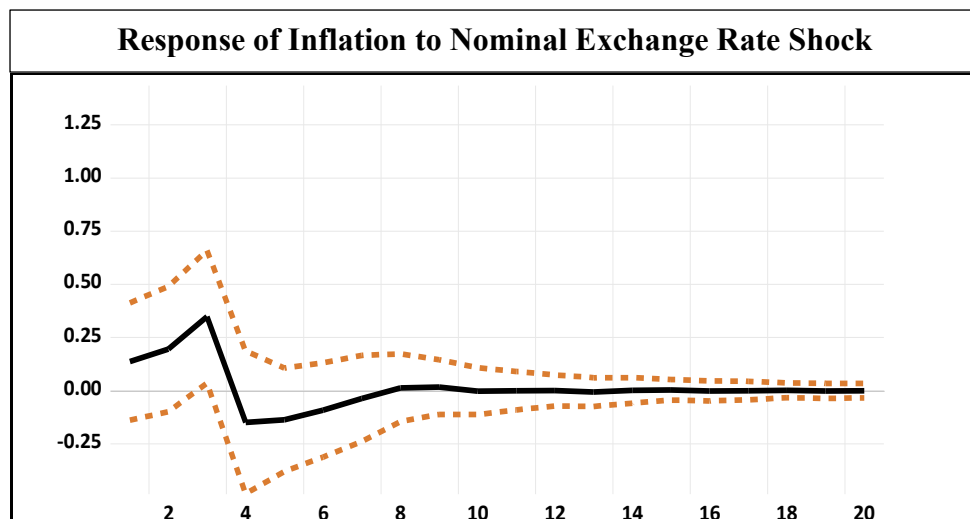
Note: The figure shows the contribution of each structural shock to the historical path of inflation. Positive values indicate that a shock pushed inflation above its trend, while negative values indicate that a shock pushed inflation below its trend.

Source: Author's calculations based on NBE and World Bank data

4.5. Robustness Checks

Figure 7 depicts the impulse response functions from the robustness check using an alternative Cholesky ordering where the exchange rate (NER) is placed before energy prices. The results are qualitatively similar to the main model presented in Figure 5. A shock to inflation itself continues to have a large, positive, and statistically significant effect on inflation for the first two periods (1.249 and 0.334, respectively), confirming the persistence of inflation in the short run. A shock to money supply increases inflation, peaking at period 4 (0.512), suggesting that monetary policy transmission operates with a lag of approximately 3 to 4 months. The exchange rate shock shows a positive effect in the first three months under the alternative ordering, but the response is not statistically significant and becomes negative thereafter, consistent with the main model. Energy price shocks continue to have no significant direct effect on inflation, with responses close to zero throughout the 20-month horizon.

The similarity of the results across both orderings confirms that the main findings are robust to the choice of variable ordering. The CPI own-shock remains the dominant driver of inflation dynamics, while money supply exerts a delayed but meaningful effect on prices. The weak and insignificant response to exchange rate and energy price shocks is consistent across specifications, reinforcing the conclusion that exchange rate pass-through is limited and energy price shocks transmit primarily through the exchange rate channel rather than directly. The wide confidence bands across all responses persist, reflecting the limited sample size and the presence of disruptions during the period. Overall, the robustness check strengthens the credibility of the empirical findings presented in this study.



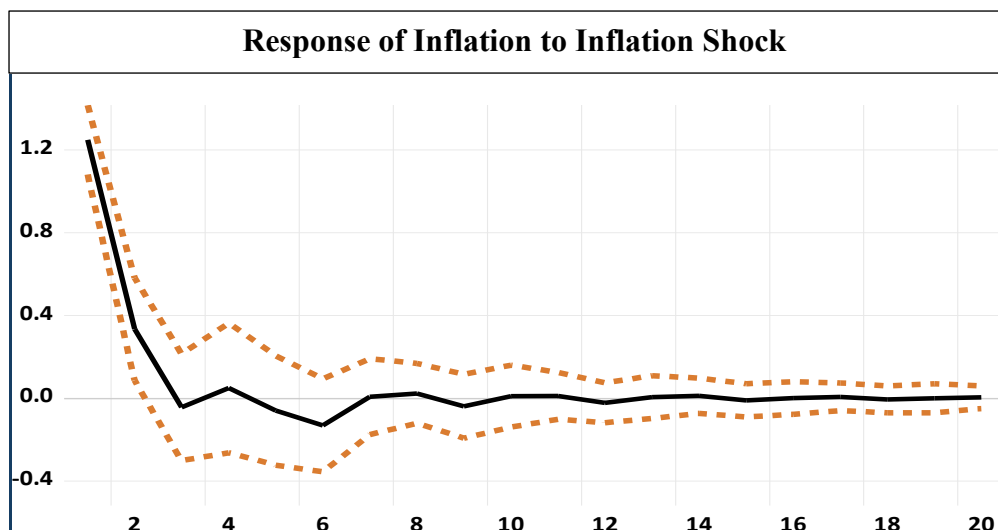


Figure 7: Impulse Response Functions of Inflation to Structural Shocks (Alternative Ordering)

Note: Solid lines represent the point estimates, while dashed lines represent the 95% confidence bands obtained through Monte Carlo simulations with 1,000 replications

Source: Author's calculations based on NBE and World Bank data

Table 6 presents the variance decomposition results using an alternative Cholesky ordering where the exchange rate (NER) is placed before energy prices. This robustness check is conducted to assess whether the main findings are sensitive to the ordering of variables. The results are qualitatively similar to the main model. At the 12-month horizon, the CPI own-shock explains 71.75% of inflation variation, money supply explains 18.19%, the exchange rate explains 9.68%, and energy prices explain 0.39%.

The consistency of the results across both orderings confirms that the main findings are robust to the choice of variable ordering. The exchange rate contributes approximately 10% of inflation variation in both specifications, while energy prices consistently explain less than 1%. This robustness check reinforces the conclusion that inflation persistence and money supply are the primary drivers of inflation in Ethiopia, while exchange rate pass-through is moderate and energy price shocks transmit primarily through the exchange rate channel rather than directly.

Table 6: Forecast Error Variance Decomposition of Inflation (Alternative Ordering), Selected Horizons

Horizon (Months)	S.E.	Exchange Rate (NER) (%)	Energy Prices (%)	Money Supply (M2) (%)	CPI Own-Shock (%)
1	1.259	1.18	0.01	0.48	98.33
3	1.393	9.17	0.07	4.59	86.17
6	1.512	9.94	0.14	15.74	74.17
12	1.539	9.68	0.39	18.19	71.75
20	1.540	9.66	0.39	18.31	71.64

Note: Values are percentages of the forecast error variance of inflation explained by each shock at different forecast horizons

Source: Author's calculations based on NBE and World Bank data

5. EXPERT PERCEPTIONS ON INFLATION DRIVERS, POLICY RESPONSES, AND DATA CREDIBILITY IN ETHIOPIA

This section presents the findings from an expert elicitation survey of Ethiopian Economics Association members. The analysis is structured around six thematic areas: the profile of the respondent panel; expert perceptions of inflation dynamics and their key drivers; the perceived effectiveness of recent policy measures, including exchange rate reform, monetary tightening, and the credit growth cap; the role of external shocks, particularly the Iran-US-Israel conflict, Strait of Hormuz risks, and Red Sea disruptions; the credibility of official inflation statistics; and expert views on fiscal policy, political economy, and forward-looking inflation expectations. Together, these findings provide a comprehensive assessment of expert opinion on the forces shaping Ethiopia's inflation trajectory.

5.1. Respondent Demographic Profile

Before examining expert perceptions of inflation dynamics and policy effectiveness, it is essential to characterize the composition of the respondent panel. The demographic profile, encompassing professional affiliation, educational attainment, geographic locus, and years of experience, provides the analytical lens through which the subsequent subjective assessments must be interpreted. A well-balanced panel enhances the external validity of the findings, while specific concentrations or gaps inform the appropriate caveats for generalization. The survey yielded 266 valid responses after excluding non-consenting participants. The following subsections present the distribution of respondents across these four key dimensions.

5.1.1. Professional Affiliation

Table 7 reports the distribution of respondents by primary professional affiliation. The panel is characterized by a dominant academic presence, with University/Academic Research Institution accounting for 36.5% of the sample. This is followed by Commercial Bank/Financial Institution (12.8%) and Consulting/Advisory Firm (10.9%). Other Government Ministry or Agency contributes 8.3% of respondents, while International Organization/Multilateral accounts for 6.8%. Graduate students constitute 3.8% of the panel, while retired or independent economists account for 4.9%. Government-affiliated respondents, including Other Government Ministry or Agency (8.3%), Ministry of Planning and Development (1.5%), and Ministry of Finance (0.8%), together constitute 10.6% of the sample.

The dominance of the academic cohort lends significant methodological weight to the expert assessments, as this group typically engages in rigorous empirical analysis and maintains intellectual independence from policy orthodoxy. The substantial presence of consulting and advisory firms (10.9%) and retired or independent economists (4.9%) further enriches the panel with applied and practitioner perspectives. The inclusion of private sector entities (3.8%), think tanks (2.6%), and international organizations (6.8%) ensures that the panel incorporates diverse institutional and global perspectives. The "Other" category, accounting for 6.0% of respondents, includes professionals from NGOs, state-owned enterprises, public enterprises,

and other unclassified institutions, further broadening the representativeness of the expert panel.

Table 7: Professional Affiliation of Respondents

Professional Affiliation	Frequency (N)	Percentage (%)
University / Academic Research Institution	97	36.5
Commercial Bank / Financial Institution	34	12.8
Consulting / Advisory Firm	29	10.9
Other Government Ministry or Agency	22	8.3
International Organization / Multilateral (IMF, World Bank, UNDP, etc.)	18	6.8
Retired / Independent Economist	13	4.9
Private Sector (Non-Financial) / Import-Export / Manufacturing	10	3.8
Graduate Student (MA/MSc or PhD)	10	3.8
Independent Research Institute / Think Tank (e.g., PSI)	7	2.6
Ministry of Planning & Development (MoPD)	4	1.5
Media / Economic Journalism	2	0.8
Ministry of Finance (MoF)	2	0.8
Ethiopian Statistical Service (ESS)	1	0.4
Embassy / Bilateral Development Agency	1	0.4
Other	16	6.0
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.1.2. Educational Attainment

Table 8 provides the educational profile of the expert panel. The educational profile of the panel is exceptionally strong, with over 91% of respondents holding a postgraduate degree. Specifically, 71.1% hold a Master's degree (MA/MSc), while 20.3% possess a Doctorate (PhD). A small proportion of respondents hold a Bachelor's degree (7.5%) as their highest qualification, while only 1.1% hold professional qualifications or possess significant experience without a formal economics degree.

The high concentration of advanced degrees is characteristic of an expert elicitation methodology and reinforces the credibility of the subjective assessments provided throughout this report. The respondents are drawing on specialized training in macroeconomics, monetary theory, econometrics, and development economics. This educational profile significantly reduces the risk of uninformed or speculative responses and elevates the survey findings to the level of informed professional judgment. The dominance of Master's degree holders (71.1%) suggests a panel with strong applied and policy-oriented training, while the substantial proportion of PhD holders (20.3%) ensures that the panel also incorporates deep theoretical and research expertise. The presence of respondents with professional qualifications and significant experience, though small in number, adds practical, real-world perspectives that complement the theoretical rigour of the academically trained economists.

Table 8: Educational Profile of the Expert Panel

Highest Level of Training	Frequency (N)	Percentage (%)
MA / MSc	189	71.1
PhD	54	20.3
BA / BSc	20	7.5
Professional Qualification / Significant Experience	1	0.4
Other	2	0.8
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.1.3. Geographic Location

Table 9 shows the geographic distribution of respondents across Ethiopian regions and beyond. Addis Ababa accounts for 61.3% of all responses, reflecting the centralization of Ethiopia's economic policy ecosystem. Beyond the capital, Oromia Region contributes 11.7% of respondents, followed by Amhara Region (9.8%), Sidama Region (4.5%), Tigray Region (2.6%), and South Ethiopia Region (2.6%). A small proportion of respondents (2.3%) are based outside Ethiopia.

Table 9: Geographic Distribution of Respondents

Geographic Location	Frequency (N)	Percentage (%)
Addis Ababa	163	61.3
Oromia Region	31	11.7
Amhara Region	26	9.8
Sidama Region	12	4.5
Tigray Region	7	2.6
South Ethiopia Region	7	2.6
Outside Ethiopia	6	2.3
Dire Dawa City Administration	4	1.5
Central Ethiopia Region	3	1.1
South West Ethiopia Peoples' Region	3	1.1
Somali Region	2	0.8
Afar Region	1	0.4
Gambela Region	1	0.4
Harari Region	0	0.0
Benishangul-Gumuz Region	0	0.0
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The concentration in Addis Ababa is expected, given that most key institutions (NBE, MoF, ESS, commercial bank headquarters, and major universities) are located in the capital. However, this introduces a potential urban-centric bias in the assessment of price dynamics.

Experts based in Addis Ababa may have differential exposure to rural agricultural price shocks, regional supply-chain disruptions, and conflict-related market fragmentation. Nevertheless, the inclusion of respondents from Oromia, Amhara, Sidama, Tigray, and South Ethiopia, regions that have experienced significant agricultural, security, and logistical challenges, ensures that the survey captures at least some regional diversity in perspective. This geographic spread is particularly valuable for interpreting responses related to regional price divergence and supply-side shocks in subsequent sections.

5.1.4. Professional Experience

Table 10 offers an overview of respondents' professional experience in economics, policy, and related fields. The panel displays a broad spectrum of experience, with a notable concentration in mid-to-senior career categories. Specifically, 26.3% of respondents have between 11 and 15 years of experience, 21.8% have 6 to 10 years, 22.6% have more than 20 years, and 13.5% have 16 to 20 years. Junior professionals with less than 5 years of experience constitute 15.8% of the sample.

The substantial proportion of respondents with over 11 years of experience, comprising 62.4% of the sample, is particularly valuable for this study. Senior economists bring historical context to the analysis, enabling them to differentiate between transient cyclical shocks and persistent structural inflationary regimes. This depth of experience is indispensable when evaluating the trajectory of the current disinflationary stance, the credibility of recent policy reforms, and the sustainability of fiscal consolidation efforts over the medium term. The presence of younger economists (15.8% with less than 5 years of experience) also ensures that the panel incorporates fresh analytical perspectives and familiarity with contemporary empirical methods, providing a balanced mix of institutional memory and modern analytical approaches.

Table 10: Professional Experience of the Expert Panel

Years of Experience	Frequency (N)	Percentage (%)
11 – 15 years	70	26.3
More than 20 years	60	22.6
6 – 10 years	58	21.8
16 – 20 years	36	13.5
2 – 5 years	26	9.8
Less than 2 years	16	6.0
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.2. Perceived Inflation Dynamics and Drivers

This sub-section examines expert perceptions of Ethiopia's current inflation trajectory, the relative importance of competing explanatory factors, and the structural composition of price pressures. The analysis proceeds in five parts. First, it presents expert assessments of current inflation levels and the trajectory of the general price level. Second, it ranks ten potential drivers of inflation according to their perceived importance. Third, it examines expert

assessments related to regional heterogeneity in price developments. Fourth, it analyses the contributions of food and non-food inflation to headline inflation. Fifth, it reports expert views on the appropriate inflation target for the National Bank of Ethiopia and the alignment of the current monetary tightening stance with the composition of inflation.

5.2.1. *Perceived Inflation Levels and Trajectory*

Table 11 shows a wide divergence in experts' assessments of the current inflation rate, with estimates ranging from below 10% to above 35%. The largest proportion of respondents (25.6%) estimate inflation at 35% or above, indicating that a significant segment of the expert community views price pressures as severely elevated. A further 15.8% of respondents perceive inflation in the 10%–14.9% range, 13.5% in the 15%–19.9% range, and 12.8% in the 20%–24.9% range. Notably, only 1.9% of respondents believe inflation is below 10%, and 9.0% indicate that they do not have a sufficiently informed estimate.

The concentration of responses in the higher inflation ranges is a striking finding. More than one-quarter of respondents (25.6%) estimate inflation at 35% or above, while a combined 47.1% estimate inflation at 25% or higher. This suggests that a substantial proportion of the expert community perceives inflation to be significantly more severe than official statistics may indicate. The wide dispersion of estimates, ranging from below 10% to above 35%, reflects considerable uncertainty about the true inflation trajectory. This uncertainty may stem from differential access to price information, reliance on varied data sources, or divergent interpretations of official statistics. The fact that only 1.9% of respondents perceive inflation below 10% is particularly noteworthy, as it suggests near-universal agreement that inflation remains elevated.

Table 11: Perceived Current Annual Headline Inflation Rate

Inflation Rate Range	Frequency (N)	Percentage (%)
35% and above	68	25.6
10% – 14.9%	42	15.8
15% – 19.9%	36	13.5
20% – 24.9%	34	12.8
30% – 34.9%	31	11.7
25% – 29.9%	26	9.8
I do not have a sufficiently informed estimate	24	9.0
Below 10%	5	1.9
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

Table 12 illustrates a perception gap across professional affiliations. Private Sector respondents are by far the most likely to perceive severe inflation, with 60.0% estimating inflation at 35% or above, compared to University/Academic respondents (35.1%), International Organization respondents (22.2%), and Consulting/Advisory Firm respondents (20.7%). In contrast, government-affiliated institutions, including the Ministry of Planning and Development, the

Ministry of Finance, and the Ethiopian Statistical Service, uniformly estimate inflation below 35%, with none of their respondents placing it at or above that threshold. Media/Economic Journalism respondents (100.0%, based on only 2 respondents) and Graduate Students (20.0%) also show elevated perceptions, though sample sizes in these categories are small.

The divergence extends further when examining estimates below 20%. Government officials are substantially more inclined to perceive inflation in this lower range. For instance, 75.0% of Ministry of Planning and Development respondents and 100.0% of Embassy/Bilateral Development Agency respondents estimate inflation below 20%, compared to only 10.0% of Private Sector respondents and 20.0% of Graduate Students. This systematic pattern suggests that those closest to market transactions perceive significantly more severe inflation than those in policy institutions. The gap between market realities as experienced by private sector actors and the perceptions of policy institutions raises critical questions about the credibility of official statistics and the effectiveness of policy communication, with important implications for the anchoring of inflation expectations and the overall credibility of the disinflationary policy stance.

Table 12: Perceived Inflation Rate by Professional Affiliation

Professional Affiliation	N	% Estimating 35% and Above	% Estimating Below 20%
University / Academic Research Institution	97	35.1	28.9
Commercial Bank / Financial Institution	34	11.8	32.4
Consulting / Advisory Firm	29	20.7	34.5
Other Government Ministry or Agency	22	18.2	27.3
International Organization / Multilateral	18	22.2	27.8
Retired / Independent Economist	13	7.7	23.1
Private Sector (Non-Financial) / Import-Export / Manufacturing	10	60.0	10.0
Graduate Student (MA/MSc or PhD)	10	20.0	20.0
Independent Research Institute / Think Tank	7	14.3	28.6
Ministry of Planning & Development (MoPD)	4	0.0	75.0
Ministry of Finance (MoF)	2	0.0	0.0
Media / Economic Journalism	2	100.0	0.0
Ethiopian Statistical Service (ESS)	1	0.0	0.0
Embassy / Bilateral Development Agency	1	0.0	100.0
Other	16	0.0	50.0
Total	266	24.1	30.1

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

Figure 8 portrays that the prevailing expert sentiment is overwhelmingly one of continued acceleration. More than three-quarters of respondents (77.8%) perceive inflation as accelerating, with 58.6% characterizing it as accelerating significantly and 19.2% as

accelerating moderately. Only 6.4% perceive deceleration (6.0% moderately, 0.4% significantly), while 3.8% view prices as broadly stable at an elevated level and 12.0% consider the trajectory too volatile to characterize.

The dominance of acceleration perceptions (77.8%) is a critical finding for policymakers. Despite the NBE's monetary tightening stance and the ongoing macroeconomic reform programme, the expert community does not yet perceive a sustained disinflationary trend. The substantial proportion of respondents perceiving significant acceleration suggests that the policy measures implemented to date have not yet shifted expert sentiment in a meaningful way. This perception gap between policy intentions and expert assessments, viewed alongside the systematic variation in inflation perceptions by professional affiliation observed in Table 12, has important implications for the credibility of the disinflationary policy stance.

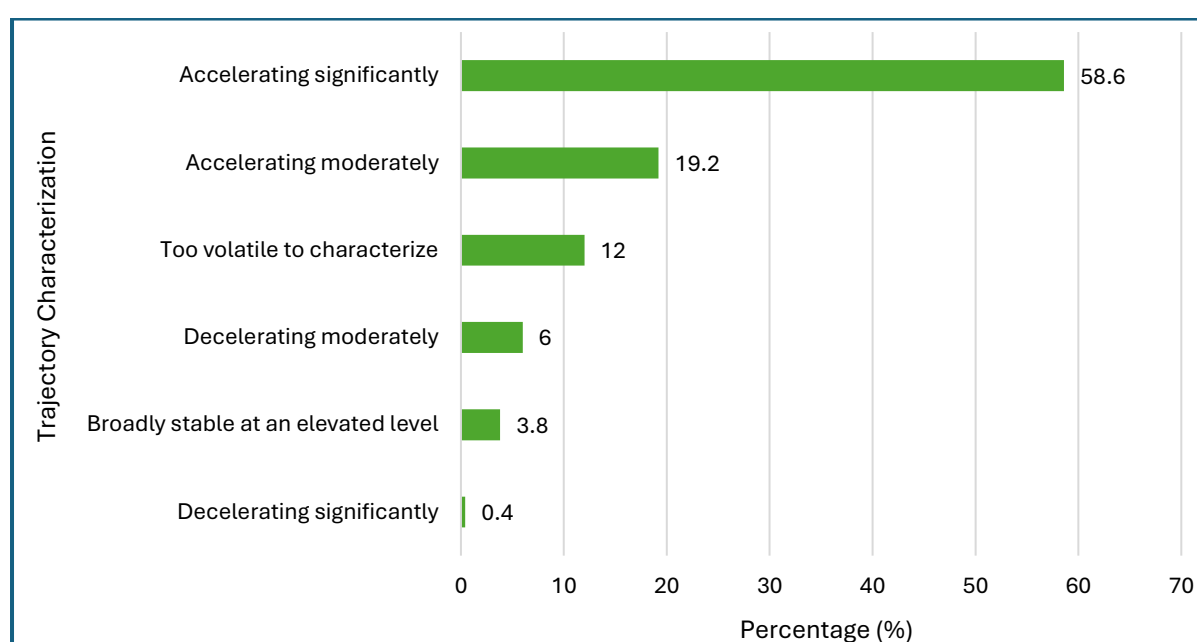


Figure 8: Trajectory of the General Price Level Compared to One Year Ago

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.2.2. Relative Importance of Inflation Drivers

Table 13 presents a ranking of eight potential inflation drivers based on mean importance scores. Exchange rate reform and Birr depreciation ranks as the most important driver (mean 3.31, 83.5% Major/Dominant), exhibiting the profound impact of the transition to a market-determined exchange rate regime on domestic prices. Domestic supply shocks rank second (mean 3.03, 73.1%), demonstrating the critical importance of agricultural seasons, conflict-related disruptions, and trade route vulnerabilities. Global commodity prices and geopolitical supply shocks rank third (mean 2.91, 68.8%), while weak policy credibility and unanchored inflation expectations rank fourth (mean 2.73, 58.8%). At the lower end, monetary expansion (mean 2.31, 45.3%) and fiscal expansion (mean 2.48, 47.7%) are perceived as relatively less important.

The ranking shows a clear hierarchy with important policy implications. The top-ranked positions of exchange rate reform and domestic supply shocks underscore the structural nature of Ethiopia's inflation, highlighting the limitations of demand-side monetary tools in addressing supply-side constraints. The presence of policy credibility and speculation among the middle ranks points to the role of expectations and institutional trust in shaping inflation dynamics. The relatively lower ranking of monetary and fiscal expansion factors, combined with the moderate ranking of external shocks, reinforces the case for comprehensive policy responses that address structural bottlenecks and strengthen policy credibility alongside conventional demand-management measures. This suggests that monetary tightening alone, while necessary, is unlikely to be sufficient to durably reduce inflation in Ethiopia.

Table 13: Expert Ranking of Inflation Drivers

Rank	Factor	Mean Score (0–4)	% Major / Dominant
1	Exchange rate reform and Birr depreciation (transition to a market-determined exchange rate)	3.31	83.5
2	Domestic supply shocks (poor agricultural seasons, conflict-related disruptions to production and trade routes)	3.03	73.1
3	Global commodity prices and geopolitical supply shocks (Iran-US-Israel conflict, Strait of Hormuz, Red Sea disruptions)	2.91	68.8
4	Weak policy credibility and unanchored inflation expectations (lack of confidence in announced targets)	2.73	58.8
5	Removal of subsidies and administered price adjustments (fuel price liberalization, utility tariffs)	2.72	60.2
6	Speculation, hoarding and inertial expectations (traders pricing in expectation of further increases)	2.54	53.5
7	Fiscal expansion and government borrowing (elevated expenditure, central bank financing of deficits)	2.48	47.7
8	Monetary expansion and excess liquidity (rapid money supply and credit growth prior to recent tightening)	2.31	45.3

Note: Mean scores are calculated on a 0–4 scale where 0 = Irrelevant / No Impact, 1 = Minor Factor, 2 = Moderate Factor, 3 = Major Factor, and 4 = Dominant Factor. "Don't Know" responses are excluded from calculations.

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.2.3. Regional Heterogeneity

Figure 9 demonstrates expert assessments of the uniformity of price developments across Ethiopian regions and urban/rural areas over the past 12 months. The majority of respondents (48.9%) perceive sharply diverging price developments, with conflict-affected and remote areas experiencing significantly more severe inflation than the national average. A further 28.2% view price developments as moderately diverging, with some regions significantly higher than others. Only 15.8% of respondents characterize price developments as broadly uniform and national in character, while 7.1% say that they do not know.

The perception of sharply diverging price developments (48.9%) is a critical finding with profound policy implications. It suggests that national average inflation figures mask substantial regional heterogeneity, with conflict-affected areas such as parts of Amhara, Oromia, and Tigray experiencing significantly higher price increases than the national average. This divergence likely shows the disruption of agricultural production, trade routes, and market functioning in conflict-affected regions, as well as differential exposure to supply shocks and logistical constraints. The finding stresses the importance of regional disaggregation in inflation analysis and the need for targeted policy responses that address the specific drivers of price increases in different parts of the country. A national monetary policy stance, while necessary, cannot address the regional disparities that experts perceive as a defining feature of Ethiopia's current inflation dynamics.

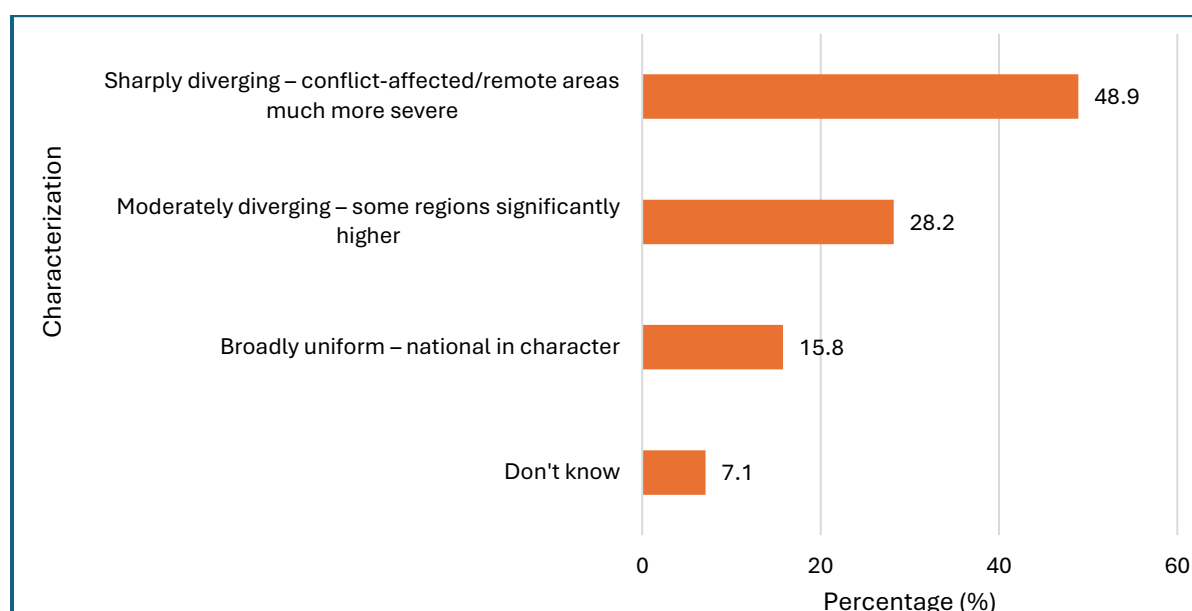


Figure 9: Uniformity of Price Developments Across Regions and Urban/Rural Areas, Past 12 Months

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.2.4. Food versus Non-Food Inflation

Table 14 reports respondents' assessments of the primary driver of headline inflation over the past 12 months, distinguishing between food and non-food components. The largest proportion of respondents (39.1%) perceive both food and non-food inflation as contributing roughly equally to headline inflation. Non-food inflation, driven largely by imports, exchange rate, and fuel, is identified as the primary driver by 31.2% of respondents, while food inflation, driven largely by domestic agriculture and logistics, is identified by 21.4%. A small proportion of respondents (6.4%) find it difficult to disentangle the contributions, while 1.9% state that they do not know.

The near parity between food and non-food drivers, with 39.1% of respondents viewing both as equally important, suggests that Ethiopia's inflation is characterized by broad-based price increases rather than concentration in a single component. Notably, non-food inflation (31.2%)

is now identified as the primary driver by a larger proportion than food inflation (21.4%), indicating the growing importance of exchange rate pass-through, imported inflation, and fuel price dynamics. This finding has important implications for the NBE's monetary policy stance. To the extent that non-food inflation is driven by exchange rate and import factors, monetary tightening and exchange rate management may be more effective policy tools. However, the substantial proportion of respondents (21.4%) identifying food inflation as primary highlights that agricultural supply shocks, logistical constraints, and conflict-related disruptions to food production and distribution remain critical drivers that require complementary supply-side interventions.

Table 14: Primary Driver of Headline Inflation Over the Past 12 Months

Component	Frequency (N)	Percentage (%)
Both contributed roughly equally	104	39.1
Non-food inflation – driven largely by imports, exchange rate, fuel	83	31.2
Food inflation – driven largely by domestic agriculture and logistics	57	21.4
Difficult to disentangle	17	6.4
Don't know	5	1.9
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.2.5. Policy Target Preferences and Monetary Policy Alignment

Table 15 exhibits expert preferences regarding the NBE's inflation targeting framework and the alignment of the current monetary tightening stance with the composition of inflation. On the preferred target, the majority of respondents (75.9%) prefer headline inflation as either the sole primary target (34.2%) or the primary target while monitoring core (41.7%). Another 20.3% advocate for core inflation as either the sole primary target (9.0%) or the primary target while monitoring headline (11.3%), and only 3.8% indicate uncertainty.

On the appropriateness of the current monetary tightening stance, the largest proportion of respondents (39.1%) view it as only partially appropriate, helping to address non-food inflation but unable to address food supply shocks. Similarly, 28.2% consider the stance as largely ineffective, arguing that inflation is primarily food-driven. Only 21.4% regard the stance as fully appropriate, addressing both food and non-food drivers, and 11.3% note that they do not know.

The strong preference for headline inflation as the primary target (75.9%) reflects a concern with the full cost of living and the visibility of food and fuel prices to the general public. However, the perception that monetary tightening is only partially effective or largely ineffective, combined accounting for 67.3% of respondents (39.1% partially and 28.2% largely ineffective), underscores the structural reality of Ethiopia's inflation, where supply-side factors limit the transmission of demand-side monetary tools. While monetary tightening is necessary to anchor expectations and address demand pressures, it cannot substitute for supply-side

interventions, including investments in agricultural productivity, improvements in logistics and market integration, and conflict resolution. The NBE must supplement monetary tightening with credible communication strategies that explain the limits of monetary policy and the complementary role of fiscal and structural measures.

Table 15: Preferred Inflation Target and Assessment of Monetary Tightening

A. Preferred Inflation Target	Frequency (N)	Percentage (%)
Monitor both, but headline primary	111	41.7
Headline inflation (including food and fuel) – captures full cost of living	91	34.2
Monitor both, but core primary	30	11.3
Core inflation (excluding volatile food and energy) – reflects underlying demand pressures	24	9.0
Don't know	10	3.8
Subtotal	266	100.0
B. Appropriateness of Current Monetary Tightening Stance	Frequency (N)	Percentage (%)
Partially – helps non-food but cannot address food supply shocks	104	39.1
No – primarily food-driven, making monetary policy largely ineffective	75	28.2
Yes – addresses both food and non-food drivers	57	21.4
Don't know	30	11.3
Subtotal	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.3. Exchange Rate Reform and Price Transmission

This sub-section examines expert assessments of the exchange rate reform and its transmission to domestic prices. The analysis proceeds in four parts. First, it identifies the most significant channel through which the exchange rate reform has affected domestic prices. Second, it evaluates the official-parallel exchange rate gap since the reform. Third, it reports expert views on confidence in the Birr as a store of value. Fourth, it presents expert expectations on the sustainability of the market-based exchange rate regime over the next 2-3 years.

5.3.1. Transmission Channels of Exchange Rate Reform

Table 16 provides expert assessments of the most significant channel through which the exchange rate reform has affected domestic prices. The largest proportion of respondents (57.5%) identify higher prices for imported finished goods as the most significant channel. A further 16.9% point to higher transport and logistics costs linked to fuel and exchange rate movements, while 15.4% cite the increased cost of imported inputs and raw materials. Expectations-driven pre-emptive pricing by traders accounts for 8.3% of responses, while only 1.1% of respondents view the exchange rate reform as not a primary channel.

The dominance of imported finished goods (57.5%) as the primary transmission channel reveals the direct and immediate impact of exchange rate depreciation on consumer prices.

Ethiopia's heavy reliance on imports for food, fuel, and consumer goods means that the transition to a market-determined exchange rate has translated rapidly into higher retail prices. The relatively modest share of respondents citing expectations-driven pre-emptive pricing (8.3%) suggests that traders are responding more to actual cost increases than to anticipatory behavior, though this channel remains relevant. The combined share of transport/logistics costs (16.9%) and imported inputs (15.4%) indicates that production costs are also significantly affected, with implications for broader inflationary pressures across the supply chain. The very low proportion of respondents viewing the reform as not a primary channel (1.1%) emphasizes the widespread perception that the exchange rate reform has been a critical driver of price developments.

Table 16: Transmission Channels of Exchange Rate Reform

Transmission Channel	Frequency (N)	Percentage (%)
Higher prices for imported finished goods (food, fuel, consumer goods)	153	57.5
Higher transport/logistics costs linked to fuel/exchange rate	45	16.9
Increased cost of imported inputs/raw materials	41	15.4
Expectations-driven pre-emptive pricing by traders	22	8.3
Exchange rate reform not a primary channel	3	1.1
Don't know	2	0.8
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.3.2. Official-Parallel Exchange Rate Gap

Figure 10 depicts expert assessments of the official-parallel exchange rate gap since the reform. The largest proportion of respondents (44.0%) characterize the gap as narrowed significantly but still existing. A further 18.4% consider it broadly unchanged, while 13.5% regard it as narrowed marginally. Meanwhile, 11.7% perceive the gap as widened, and 9.4% view it as largely disappeared with rates converged. Only 3.0% indicate that they do not know.

The assessment that the gap has narrowed significantly but still exists (44.0%) suggests that the exchange rate reform has had a substantial impact on reducing the parallel market premium, but has not fully eliminated it. However, the combined proportion of respondents viewing the gap as unchanged or widened (30.1%) is notably high and suggests significant skepticism about the durability of the convergence. This finding has important implications for policy credibility, as a sustained narrowing of the gap is essential for anchoring inflation expectations and restoring confidence in the Birr. The relatively small proportion of respondents viewing the gap as largely disappeared (9.4%) indicates that full convergence remains an aspiration rather than a reality, and sustained policy commitment will be required to achieve and maintain exchange rate stability.

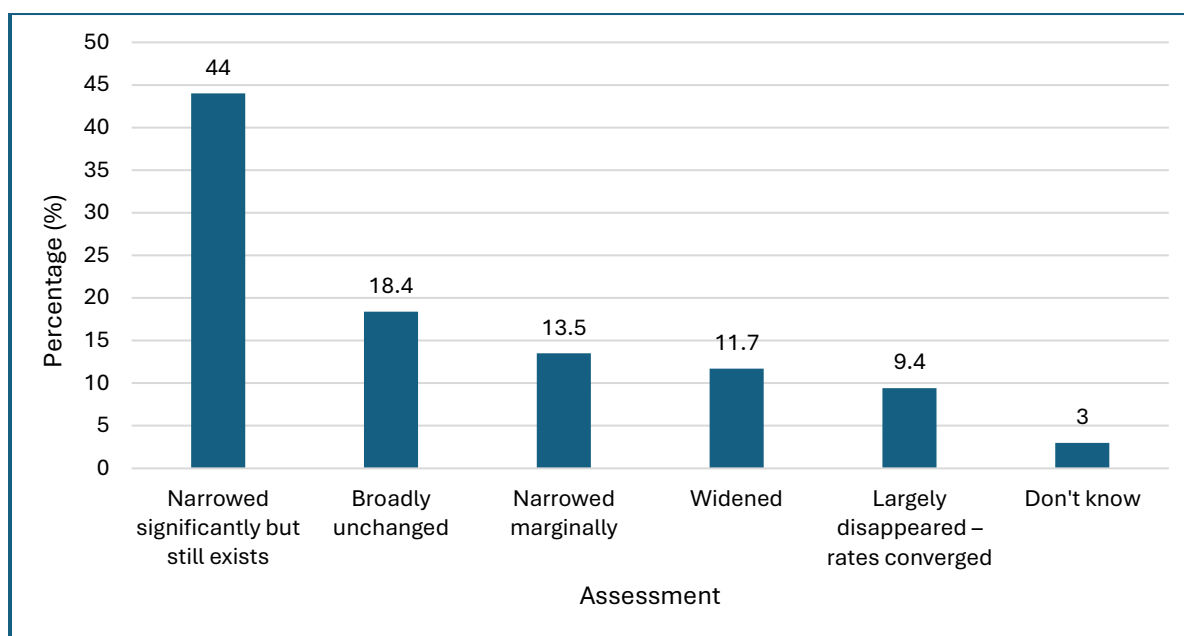


Figure 10: Official-Parallel Exchange Rate Gap Since the Reform

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.3.3. Confidence in the Birr as a Store of Value

Table 17 offers expert assessments of whether confidence in the Birr as a store of value has improved since the reforms. The largest proportion of respondents (70.7%) assess that confidence has worsened. A further 13.9% view confidence as unchanged, with distrust entrenched, while 10.2% assess that confidence has moderately improved with some dollarization persisting. Only 3.0% of respondents consider confidence as significantly improved, while 2.3% indicate that they do not know.

Table 17: Confidence in the Birr as a Store of Value Since the Reforms

Assessment	Frequency (N)	Percentage (%)
Worsened	188	70.7
No change – distrust entrenched	37	13.9
Moderately improved – some dollarization persists	27	10.2
Significantly improved	8	3.0
Don't know	6	2.3
Total	266	100

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The finding that more than two-thirds of respondents (70.7%) perceive confidence in the Birr as having worsened is a critical signal of the challenges facing the exchange rate reform. This perception may reveal the continued pass-through of depreciation to prices, persistent inflation, and the lingering presence of the parallel market premium. The combined proportion of respondents viewing confidence as worsened or unchanged (84.6%) indicates that the reform has not yet restored trust in the Birr as a reliable store of value. The relatively small proportion of respondents (10.2%) viewing confidence as moderately improved suggests that while some

progress has been made, significant challenges remain in anchoring expectations and reducing dollarization. Only 3.0% of respondents perceive confidence as significantly improved, emphasizing the limited impact of the reform on restoring public trust in the currency. This result has important implications for the credibility of the reform programme and the effectiveness of monetary policy transmission.

5.3.4. Sustainability of the Market-Based Exchange Rate Regime

Table 18 displays expert expectations on the sustainability of the market-based exchange rate regime over the next 2-3 years. The largest proportion of respondents (38.7%) assess the outlook as uncertain, with a meaningful risk of partial reversal. Another 26.3% view the regime as likely to be sustained, with occasional administrative interventions at the margin, while 17.7% consider it unlikely, expecting significant controls to return. An additional 15.0% regard the regime as highly likely to be sustained without significant reversal, while 2.3% indicate that they do not know.

The finding that the largest proportion of respondents (38.7%) view the outlook as uncertain, with a meaningful risk of partial reversal, points to significant doubt about the government's commitment to the reform. This uncertainty has important implications for inflation expectations and price stability, as businesses and traders may price in the risk of future depreciation or policy reversal, perpetuating inflation. When taken together, the 56.4% of respondents viewing the regime as uncertain or unlikely suggests that a majority of experts harbour significant doubts about the durability of the reform. By contrast, only 41.3% view the regime as highly likely or likely, indicating that while some experts expect the reform to be sustained, they anticipate occasional administrative interventions. This pattern suggests that the credibility of the reform remains fragile and requires sustained policy commitment and communication to anchor expectations and build confidence in the new exchange rate regime.

Table 18: Sustainability of the Market-Based Exchange Rate Regime Over the Next 2-3 Years

Assessment	Frequency (N)	Percentage (%)
Uncertain – meaningful risk of partial reversal	103	38.7
Likely – occasional administrative interventions at the margin	70	26.3
Unlikely – expect significant controls to return	47	17.7
Highly likely – credible and will be sustained	40	15.0
Don't know	6	2.3
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.4. Monetary Policy Framework, Credit Cap and Central Bank Independence

This sub-section evaluates expert assessments of Ethiopia's monetary policy framework and the effectiveness of recent policy tools, covering the effectiveness of the interest rate channel, the impact of the temporary credit growth cap, the appropriateness of the credit cap as a bridging instrument, the future of the credit growth ceiling, the NBE's operational independence, and the overall credibility of the monetary tightening stance.

5.4.1. Effectiveness of the Interest Rate Channel

Table 19 provides expert assessments of the likely effectiveness of the interest rate channel for controlling inflation in Ethiopia's current structure. The largest proportion of respondents (36.5%) regard the interest rate channel as largely ineffective, citing predominantly cost-push and structural inflation. A further 29.3% consider it moderately effective, with long and variable lags, while 24.8% describe it as weakly effective, with a narrow credit channel. Only 7.9% of respondents perceive the interest rate channel as highly effective, and 1.5% indicate that they do not know.

That more than one-third of respondents (36.5%) regard the interest rate channel as largely ineffective reflects the structural constraints facing monetary policy transmission in Ethiopia. This perception aligns with the earlier ranking of inflation drivers (Table 13), where domestic supply shocks and expectations ranked higher than monetary factors. Together, the 61.3% of respondents viewing the channel as largely ineffective or weakly effective points to significant doubt about the ability of interest rate adjustments to control inflation in the current context. Only 7.9% of respondents consider the channel highly effective, underscoring the limited confidence in the transmission mechanism of monetary policy. This observation has important implications for the design of the policy response, suggesting that monetary tightening alone may be insufficient to durably reduce inflation without complementary supply-side and fiscal measures.

Table 19: Effectiveness of the Interest Rate Channel

Assessment	Frequency (N)	Percentage (%)
Largely ineffective – predominantly cost-push/structural inflation	97	36.5
Moderately effective – long and variable lags	78	29.3
Weakly effective – narrow credit channel	66	24.8
Highly effective	21	7.9
Don't know	4	1.5
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.4.2. Impact of the Temporary Credit Growth Cap

Figure 11 portrays expert assessments of the most likely impact of the NBE's temporary credit growth cap on inflation. The largest proportion of respondents (39.5%) characterize the impact as mixed, helping to address demand pressures but potentially constraining supply. Another 20.3% describe it as moderately disinflationary, while 19.5% regard it as largely ineffective. Together, 13.5% see it as potentially counterproductive, shifting borrowing to informal channels (9.0%), or strongly disinflationary (4.5%), and 7.1% report that they do not know.

The mixed assessment of the credit cap (39.5%) captures a nuanced view. While credit restraint can help reduce demand pressures, it may also constrain productive investment and supply capacity. This result aligns with concerns about supply-side constraints identified in earlier sections. A quarter of respondents (24.8%) describe the cap as moderately or strongly

disinflationary, indicating that a significant minority expect it to have a positive impact on inflation. However, the substantial proportion viewing it as largely ineffective (19.5%) or potentially counterproductive (9.0%) raises doubts about the effectiveness of administrative credit controls in Ethiopia's context. That nearly one in ten respondents (9.0%) view the cap as potentially counterproductive, shifting borrowing to informal channels, highlights the risk that credit controls may simply drive financial activity outside the formal banking system, undermining the policy's effectiveness.

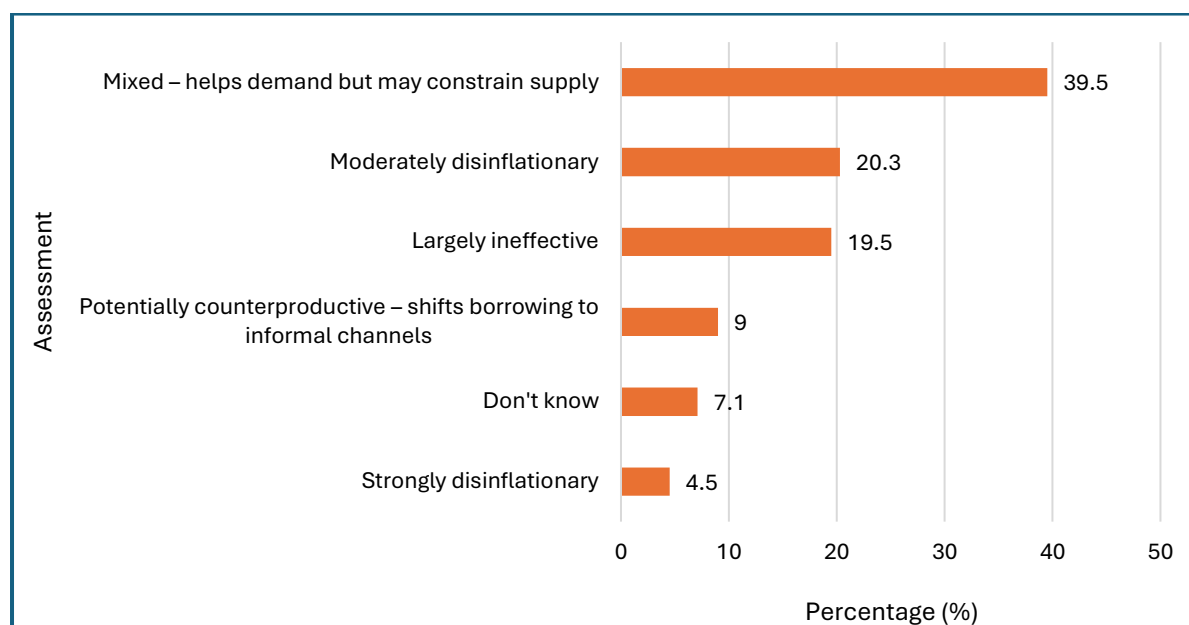


Figure 11: Perceived Impact of the Temporary Credit Growth Cap on Inflation

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.4.3. Appropriateness of the Credit Cap

Table 20 reports expert assessments of whether the temporary credit cap is an appropriate bridging instrument or risks undermining the transition's credibility. The largest proportion of respondents (35.0%) view the credit cap as acceptable in the short term but argue it should be lifted soon. A further 27.4% perceive it as problematic, sending mixed signals and potentially delaying interest rate transmission, while 18.0% view it as counterproductive and undermining market-based credibility. Only 10.5% of respondents consider the cap as appropriate and necessary, and 9.0% say that they do not know.

The perception that the credit cap is acceptable in the short term but should be lifted soon (35.0%) suggests that experts regard it as a temporary measure rather than a long-term policy tool. This is consistent with the NBE's stated intention that the cap is transitional. However, the combined proportion of respondents viewing the cap as problematic or counterproductive (45.4%) points to significant concerns about the potential negative effects of administrative credit controls. These concerns include mixed signals to markets, the potential for delaying the development of interest rate transmission, and the risk of undermining market-based credibility. The finding that only 10.5% of respondents perceive the cap as appropriate and necessary suggests limited enthusiasm for the policy, with most experts viewing it as a necessary but

temporary measure with potential drawbacks. The relatively high proportion of respondents indicating uncertainty (9.0%) suggests that the effectiveness of the credit cap remains an open question for some experts.

Table 20: Appropriateness of the Credit Cap as a Bridging Instrument

Assessment	Frequency (N)	Percentage (%)
Acceptable short-term, should be lifted soon	93	35.0
Problematic – mixed signals, may delay interest-rate transmission	73	27.4
Counterproductive – undermines market-based credibility	48	18.0
Appropriate and necessary	28	10.5
Don't know	24	9.0
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.4.4. Future of the Credit Growth Ceiling

Table 21 summarizes expert views on what should happen to the NBE's current credit growth ceiling of 24% in the near term. The largest proportion of respondents (43.6%) prefer replacing it with a flexible, sectorally differentiated framework. Another 19.9% recommend tightening to a lower percentage, while 14.7% support lifting it entirely. Together, 21.8% indicate that they do not know (11.3%) or would maintain it at 24% (10.5%).

Table 21: Preferred Future Direction of the Credit Growth Ceiling

Assessment	Frequency (N)	Percentage (%)
Replace with a flexible, sectorally differentiated framework	116	43.6
Tighten to a lower percentage	53	19.9
Lift it entirely	39	14.7
Don't know	30	11.3
Maintain at 24%	28	10.5
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The preference for a flexible, sectorally differentiated framework (43.6%) suggests a desire for a more nuanced approach to credit regulation that distinguishes between productive and unproductive credit. This indicates that experts view the current uniform ceiling as too blunt a tool and that sector-specific targeting could improve policy effectiveness. The substantial proportion of respondents advocating for tightening to a lower percentage (19.9%) implies that some experts view the current ceiling as insufficiently restrictive. Overall, 30.4% of respondents support either maintaining or tightening the ceiling, indicating that a significant minority favour continued use of credit ceilings. That 14.7% endorse lifting it entirely suggests that some experts view the cap as unnecessary or counterproductive. The relatively high

proportion of respondents indicating uncertainty (11.3%) suggests that the future direction of credit regulation remains unresolved for some experts.

5.4.5. *NBE's Operational Independence*

Table 22 provides expert assessments of whether the NBE currently has sufficient operational independence to pursue price stability regardless of fiscal pressures. The largest proportion of respondents (35.7%) regard the NBE as partially independent, with some independence but fiscal constraints remaining. Another 33.1% consider it largely not independent, with fiscal dominance as the overriding reality, and 19.2% perceive it as effectively subordinate to fiscal objectives. Only 5.6% of respondents view the NBE as having meaningful independence exercised, while 6.4% note that they do not know.

Overall, 52.3% of respondents regard the NBE as largely not independent or effectively subordinate to fiscal objectives, representing a strong consensus that fiscal dominance remains a significant constraint on monetary policy. This aligns with the earlier observation that fiscal expansion and government borrowing ranked sixth among inflation drivers (Table 13). That only 5.6% of respondents view the NBE as having meaningful independence suggests that the central bank's operational independence is perceived as limited. This carries important implications for policy credibility, as a central bank that is not perceived as independent is less able to anchor inflation expectations and maintain policy credibility. The 35.7% of respondents who regard the NBE as partially independent indicates that while some progress has been made, significant challenges remain in achieving full operational independence.

Table 22: NBE's Operational Independence

Assessment	Frequency (N)	Percentage (%)
Partially – some independence, but fiscal constraints remain	95	35.7
Largely not – fiscal dominance is the overriding reality	88	33.1
No – effectively subordinate to fiscal objectives	51	19.2
Don't know	17	6.4
Yes – meaningful independence exercised	15	5.6
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.4.6. *Credibility of the Monetary Tightening Stance*

Figure 12 illustrates expert assessments of the overall credibility of the NBE's current monetary tightening stance, considering both the interest-rate framework and the credit cap. The largest proportion of respondents (39.8%) regard the stance as moderately credible, in the right direction but with weak transmission. Another 34.6% consider it to have low credibility, unlikely to significantly influence expectations, and 13.9% view it as not credible, with tightening seen as symbolic. Only 8.3% of respondents perceive the stance as highly credible, while 3.4% state that they do not know.

The combined proportion of respondents viewing the stance as having low credibility or not credible (48.5%) indicates that a substantial minority of experts harbor significant doubts about the policy's effectiveness. This is consistent with earlier findings on the perceived limitations of the interest rate channel (Table 19) and the mixed assessment of the credit cap (Table 20). The perception that the stance is moderately credible but with weak transmission (39.8%) suggests that while experts acknowledge the policy direction is appropriate, they have concerns about the transmission mechanism and the ability of the policy to achieve its objectives. The finding that only 8.3% of respondents view the stance as highly credible emphasizes the limited confidence in the current policy framework. This perception gap has important implications for the anchoring of inflation expectations, as a policy stance that is not perceived as credible is less likely to influence expectations and behavior.

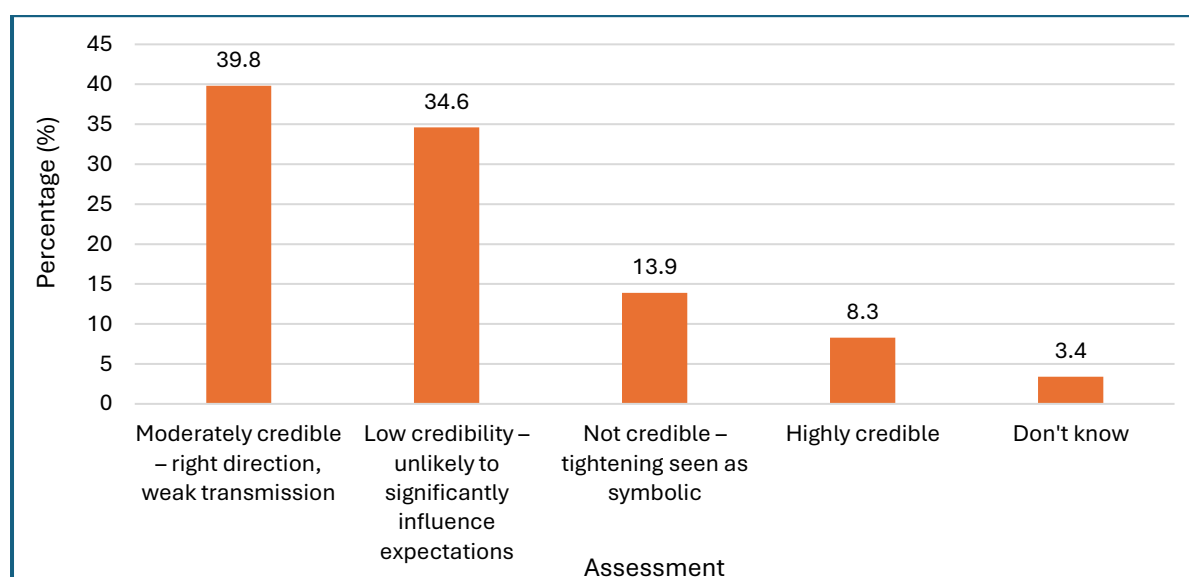


Figure 12: Credibility of the NBE's Monetary Tightening Stance

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.5. External Shocks

This sub-section analyses expert assessments of external shocks affecting Ethiopia's price dynamics, focusing on the Iran-US-Israel conflict, Strait of Hormuz disruption risks, and Red Sea shipping disruptions. It covers five key areas: the most significant transmission channel of geopolitical shocks, the significance of the risk of a prolonged Strait of Hormuz disruption, the absorption of the Red Sea disruption shock, the relative importance of external shocks compared to domestic factors, and the expected timing of a calming effect on prices following de-escalation.

5.5.1. Transmission Channels of Geopolitical Shocks

Table 23 provides expert assessments of the most significant channel through which the Iran-US-Israel conflict and potential Hormuz disruption are expected to affect Ethiopian prices. A substantial majority of respondents (82.3%) identify an oil price spike as the most significant channel. A further 5.6% identify broader commodity market disruption, while 5.3% point to fertilizer price increases. Together, 4.5% identify global risk aversion (3.0%) or renewed Red

Sea shipping disruptions (1.5%) as the most significant channel. Only 1.1% of respondents do not expect a significant impact, while 0.8% identify the financial channel and 0.4% indicate that they do not know.

The dominance of oil price spikes (82.3%) as the key transmission channel highlights Ethiopia's acute vulnerability to global energy price shocks. As a net importer of petroleum products, the country faces direct and immediate price transmission through fuel costs, which cascade into transport, production, and consumer prices. This finding emphasizes the critical importance of global oil markets for Ethiopia's inflation dynamics, even though external shocks rank lower than domestic factors in the overall hierarchy of inflation drivers (Table 13). The minimal shares attributed to other channels, including Red Sea shipping disruptions (1.5%) and the financial channel (0.8%), suggest that experts view the direct energy price channel as far more consequential than other transmission mechanisms. The very low proportion of respondents who do not expect a meaningful impact (1.1%) points to near-universal consensus that geopolitical shocks in the Middle East pose a threat to Ethiopia's price stability, primarily through the oil price channel.

Table 23: Transmission Channels of Geopolitical Shocks

Transmission Channel	Frequency (N)	Percentage (%)
Oil price spike – higher fuel/transport/production costs	219	82.3
Broader commodity market disruption	15	5.6
Fertilizer price increases – raising food production costs	14	5.3
Global risk aversion – trade finance, insurance, shipping	8	3.0
Renewed/intensified Red Sea shipping disruptions	4	1.5
I do not expect a significant impact	3	1.1
Financial channel – exchange rate pressure from higher import bill	2	0.8
Don't know	1	0.4
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.5.2. Risk of Prolonged Strait of Hormuz Disruption

Table 24 presents expert assessments of the significance of the risk of a prolonged Strait of Hormuz disruption for Ethiopia's inflation trajectory over the next 12 months. The largest proportion of respondents (48.1%) view the risk as very significant, with substantial additional pressure expected. A further 36.5% regard it as extremely significant, fundamentally altering the outlook, while 10.9% consider it moderately significant. Only 3.4% of respondents view the risk as minor, while 1.1% indicate that they do not know.

The 84.6% of respondents who view the risk as very or extremely significant underscores the widespread perception that a prolonged Strait of Hormuz disruption would have a substantial impact on Ethiopia's inflation trajectory. This strong consensus reflects the country's heavy dependence on imported fuel and commodities, as well as the direct transmission of oil prices to domestic markets. That more than one-third of respondents (36.5%) view the risk as

extremely significant suggests that a substantial segment of the expert community perceives the potential disruption as a game-changing event for Ethiopia's price stability. The very small proportion of respondents viewing the risk as minor (3.4%) or indicating uncertainty (1.1%) points to near-unanimous agreement on the seriousness of this external threat.

Table 24: Risk of Prolonged Strait of Hormuz Disruption

Assessment	Frequency (N)	Percentage (%)
Very significant – substantial additional pressure	128	48.1
Extremely significant – fundamentally alters outlook	97	36.5
Moderately significant – meaningful but manageable	29	10.9
Minor – marginal relative to domestic drivers	9	3.4
Don't know	3	1.1
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.5.3. Absorption of Red Sea Disruption Shock

Table 25 conveys expert assessments of whether the economy has absorbed the earlier Red Sea disruption or whether it continues to exert significant upward pressure on prices. The largest proportion of respondents (52.3%) assess that the shock continues to exert significant pressure and has not yet been absorbed. A further 31.6% view the economy as partially adjusted, with some pressure remaining, while 9.0% perceive the shock as largely absorbed and no longer a significant marginal driver. Only 3.4% of respondents consider the shock as never a significant driver of Ethiopian prices, while 3.8% indicate that they do not know.

Table 25: Absorption of Red Sea Disruption Shock

Assessment	Frequency (N)	Percentage (%)
Continues to exert significant pressure – not yet absorbed	139	52.3
Partially adjusted – some pressure remains	84	31.6
Largely absorbed – no longer a significant marginal driver	24	9.0
Don't know	10	3.8
Never a significant driver of Ethiopian prices	9	3.4
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The combined proportion of respondents viewing the shock as continuing to exert significant pressure or partially adjusted (83.9%) indicates that the Red Sea disruption has had a lasting and meaningful impact on Ethiopian prices. This overwhelming consensus shows the extended duration of the disruption and the country's heavy reliance on maritime imports. The finding that only 9.0% of respondents perceive the shock as largely absorbed suggests that the adjustment process remains incomplete and that continued upward pressure on prices from shipping disruptions is widely expected. The perception that the shock has never been a significant driver (3.4%) is a minority view, confirming broad expert agreement that the Red

Sea disruption has been a meaningful factor in Ethiopia's inflation dynamics. The low level of uncertainty (3.8%) indicates that experts have formed relatively clear views on this issue.

5.5.4. *Relative Importance of External Shocks*

Figure 13 illustrates expert assessments of the relative importance of external conflict-related shocks (Hormuz and Red Sea) compared to domestic policy and structural factors. The largest proportion of respondents (42.9%) view these external shocks as a major driver, broadly equal to key domestic factors. A further 36.5% regard them as significant but secondary, with domestic factors dominating, while 15.0% see them as the primary driver. Only 4.5% of respondents consider them a minor contributory factor, while 0.4% view them as negligible and 0.8% indicate that they do not know.

The 57.9% of respondents who view external shocks as a major or primary driver suggests that a majority of experts consider external shocks to be as important as or more important than domestic factors. This result is notable, given the earlier ranking of external shocks at the lower end of Table 13. That 36.5% of respondents view external shocks as significant but secondary reinforces the view that domestic policy and structural factors remain important drivers of inflation. The very small proportion of respondents viewing external shocks as minor or negligible (4.9%) points to near-universal recognition of their relevance. This pattern suggests that while external shocks are acknowledged as meaningful contributors, a substantial majority of experts view them as being at least as important as domestic factors, reflecting the growing significance of global supply chain disruptions and energy price volatility for Ethiopia's inflation dynamics.

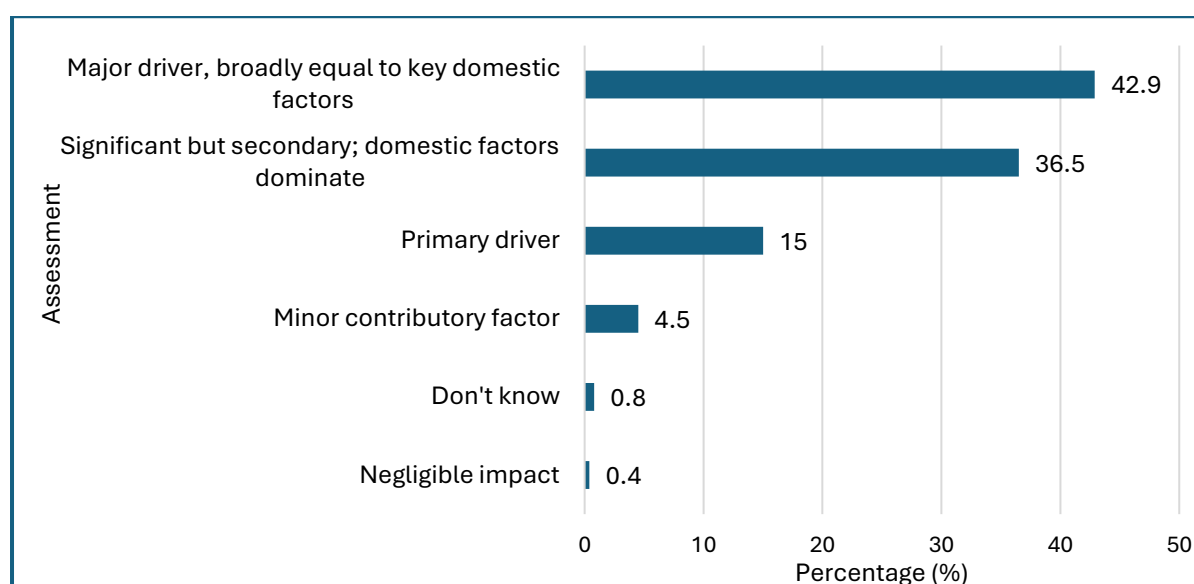


Figure 13: Relative Importance of External Conflict-Related Shocks

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.5.5. *Timing of Calming Effect*

Table 26 offers expert expectations on the timing of a discernible calming effect on Ethiopian prices if the Iran-US-Israel conflict de-escalates and Hormuz shipping normalizes. The largest

proportion of respondents (27.4%) expect a calming effect within 6-12 months, while a similar share (26.7%) anticipate it within 3-6 months. A further 18.8% expect it to take more than 12 months, while 12.4% believe it would not materially affect Ethiopian prices. Only 12.0% expect a calming effect within 1-2 months, while 2.6% indicate that they do not know.

Overall, 66.1% of respondents expect a calming effect within 1-12 months, suggesting that a majority of experts believe a de-escalation would have a meaningful impact on domestic prices within a year. This aligns with the direct transmission of oil and commodity prices to domestic markets. Yet, a substantial share of respondents (31.2%) expect the effect to take more than 12 months or not to materially affect Ethiopian prices, implying that some experts view the transmission of external shocks to domestic prices as slow or muted. This may reflect the structure of Ethiopia's import markets, where fixed contracts, inventory adjustments, and domestic logistics can delay the pass-through of global price changes. That 12.0% of respondents expect a calming effect within 1-2 months suggests that a smaller group believes the impact would be relatively swift. The low level of uncertainty (2.6%) indicates that experts have formed clear views on this issue.

Table 26: Timing of Calming Effect on Ethiopian Prices After De-Escalation

Assessment	Frequency (N)	Percentage (%)
Within 6 - 12 months	73	27.4
Within 3 - 6 months	71	26.7
More than 12 months	50	18.8
Would not materially affect Ethiopian prices	33	12.4
Within 1 - 2 months	32	12.0
Don't know	7	2.6
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.6. Credibility of Official Inflation Statistics

This sub-section assesses expert views on the credibility and reliability of official inflation statistics published by the Ethiopian Statistical Service (ESS). It covers four key areas: the primary sources experts use for forming their own inflation assessments, the reliability of official year-on-year headline inflation figures, the nature of concerns about official CPI data, and whether a credibility gap in official statistics undermines the effectiveness of the NBE's monetary policy communication and the anchoring of inflation expectations.

5.6.1. Primary Sources for Inflation Assessment

Table 27 summarizes experts' primary sources for forming their own assessments of inflation trends in Ethiopia. The largest proportion of respondents (37.2%) depend on personal market observations. A further 24.4% draw on international financial institution reports (IMF, World Bank, AfDB), while 14.3% use official ESS CPI reports. A combined 13.9% consult NBE reports and monetary policy statements (9.4%) or academic and independent research (4.9%). Smaller

shares turn to media and economic commentary (4.5%) or professional networks and business contacts (3.8%), while only 1.5% indicate that they do not actively monitor inflation data.

The finding that the largest share of respondents (37.2%) depend on personal market observations rather than official statistics is a notable indicator of the credibility gap facing official inflation data. This suggests that many experts do not consider ESS data as their primary or most trusted source of information. The substantial reliance on international financial institution reports (24.4%) is noteworthy, as it indicates that experts place considerable trust in externally produced assessments over domestic official statistics. That only 14.3% of respondents primarily use official ESS CPI reports is a striking finding that raises important questions about the perceived reliability and utility of official statistics. The combined share of respondents drawing on personal observations, professional networks, and media (45.5%) points to a significant dependence on informal and market-based sources. This pattern aligns with the broader concerns about official data credibility explored in subsequent sub-sections.

Table 27: Primary Sources for Forming Inflation Assessments

Primary Source	Frequency (N)	Percentage (%)
Personal market observations	99	37.2
International financial institution reports (IMF, World Bank, AfDB)	65	24.4
Official ESS CPI reports	38	14.3
NBE reports / monetary policy statements	25	9.4
Academic / independent research	13	4.9
Media / economic commentary	12	4.5
Professional networks, business contacts	10	3.8
I do not actively monitor inflation data	4	1.5
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.6.2. Reliability of Official CPI Figures

Table 28 provides expert views on the reliability of official year-on-year headline inflation figures published by the ESS. The largest proportion of respondents (35.0%) consider the figures somewhat unreliable, suspecting a systematic downward bias. A further 27.1% regard them as reasonably reliable, capturing broad trends with minor limitations, while 22.2% view them as highly unreliable and not reflective of observed price dynamics. Together, 15.8% view the figures as highly reliable (9.0%) or indicate that they do not use or assess ESS data (6.8%).

Overall, 57.2% of respondents regard official CPI figures as somewhat or highly unreliable, representing a significant credibility challenge for official inflation statistics. This result is consistent with the earlier observation that only 14.3% of respondents rely primarily on ESS reports for their inflation assessments (Table 27). The perception of a systematic downward bias (35.0%) is particularly concerning, suggesting that experts believe official figures understate actual price increases. More than one in five respondents (22.2%) view official

figures as highly unreliable indicates a deep-seated distrust that may have significant implications for policy credibility and the anchoring of inflation expectations. Notably, 27.1% of respondents view the figures as reasonably reliable, suggesting that a substantial minority still consider ESS data useful for capturing broad trends. However, the share of respondents viewing the figures as reliable (36.1%) is outweighed by those expressing skepticism, reinforcing the conclusion that official statistics have lost credibility among a substantial segment of the expert community.

Table 28: Perceived Reliability of Official CPI Figures

Assessment	Frequency (N)	Percentage (%)
Somewhat unreliable – I suspect systematic downward bias	93	35.0
Reasonably reliable – capture broad trends, minor limitations	72	27.1
Highly unreliable – do not reflect price dynamics I observe	59	22.2
Highly reliable – accurately reflect price changes	24	9.0
I do not use or assess ESS data	18	6.8
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.6.3. Nature of Concerns about CPI Data

Table 29 summarizes the nature of concerns about official CPI data among respondents. The most frequently mentioned concern is political or institutional pressure that may influence figures, selected by 71.4% of respondents. This is followed by inadequate capture of parallel and informal market prices (42.9%) and price collection outlets not being representative (35.0%). Methodological issues including aggregation, missing data, and seasonal adjustment are reported by 28.6% of respondents, while outdated CPI basket weights are noted by 25.6%. Figures not aligning with other credible sources is identified by 21.8%, and timeliness lag reducing utility for real-time analysis is raised by 19.5%. Only 6.4% of respondents indicate no specific concerns.

The fact that more than seven in ten respondents (71.4%) identify political or institutional pressure as a concern signals a fundamental erosion of trust in the statistical agency's independence. This perception may stem from concerns about the politicization of data in a context where inflation figures carry significant policy and political weight. The high proportion of respondents pointing to inadequate capture of informal market prices (42.9%) suggests that experts believe official statistics fail to capture the reality of price setting in Ethiopia's large informal economy. Concerns about methodological issues (28.6%) and outdated CPI baskets (25.6%) indicate technical shortcomings that could be addressed through statistical improvements. That only 6.4% of respondents have no specific concerns highlights the widespread nature of data credibility challenges and points to the urgent need for reforms to restore trust in official statistics.

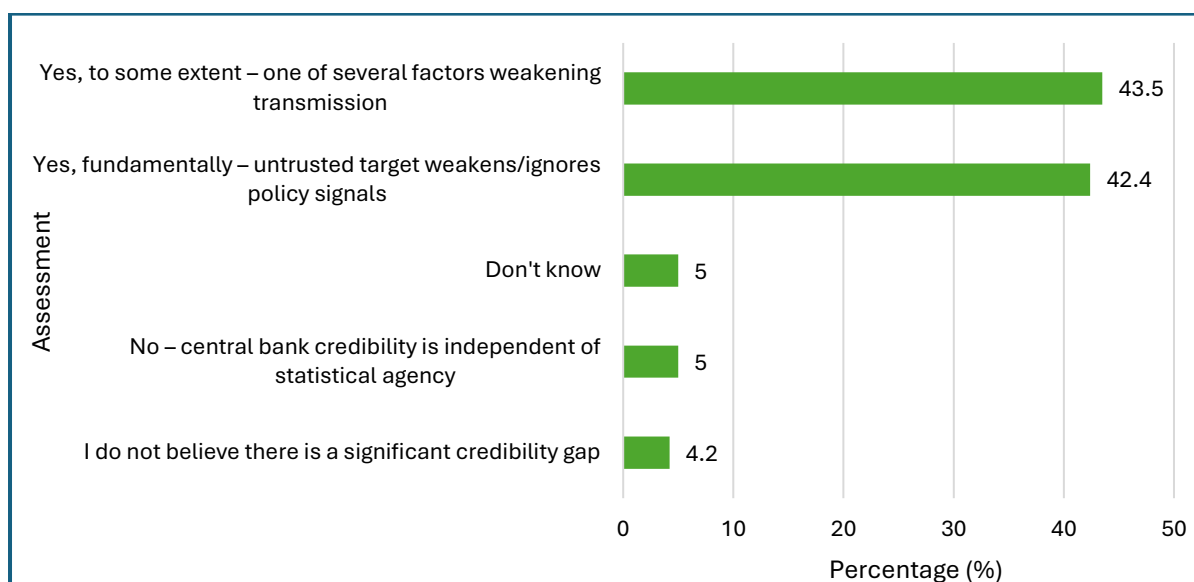
Table 29: Key Concerns about Official CPI Data

Nature of Concern	Frequency (N)	Percentage (%)
Political/institutional pressure may influence figures	190	71.4
Inadequate capture of parallel/informal market prices	114	42.9
Price collection outlets not representative	93	35.0
Methodological issues (aggregation, missing data, seasonal adjustment)	76	28.6
CPI basket weights outdated	68	25.6
Figures do not align with other credible sources	58	21.8
Timeliness – lag reduces utility for real-time analysis	52	19.5
I have no specific concerns / consider data broadly reliable	17	6.4

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.6.4. Perceived Impact of Credibility Gap on Monetary Policy Communication

Figure 14 depicts expert assessments of whether a credibility gap in official inflation statistics undermines the effectiveness of the NBE's monetary policy communication and the anchoring of inflation expectations. The largest proportion of respondents (43.5%) consider the credibility gap as undermining to some extent, as one of several factors weakening transmission. A similar share (42.4%) view the gap as fundamentally undermining policy signals, with untrusted targets weakening policy effectiveness. Together, 9.2% see the gap as not undermining (5.0%) or do not believe there is a significant credibility gap (4.2%), while 5.0% indicate that they do not know.

**Figure 14: Perceived Impact of Credibility Gap on Monetary Policy**

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

When taken together, the 85.9% of respondents who view the credibility gap as fundamentally or somewhat undermining represents a strong consensus that the lack of trust in official statistics carries significant consequences for monetary policy effectiveness. This observation aligns with earlier evidence: only 14.3% of respondents rely primarily on ESS reports (Table

27), and 57.2% regard official CPI figures as unreliable (Table 28). When the public and market participants do not trust official inflation data, the NBE's policy signals are likely to be discounted or ignored, weakening the anchoring effect of monetary policy on expectations. The fact that only 4.2% of respondents do not believe there is a significant credibility gap reinforces the widespread nature of this concern. The policy implication is clear. Addressing data credibility is not merely a technical statistical issue but, as Blinder *et al.* (2008) argue, a fundamental prerequisite for effective monetary policy.

5.7. Fiscal Policy, Political Economy and Forward-Looking Expectations

This sub-section examines expert assessments of fiscal policy credibility, political economy pressures, and forward-looking inflation expectations. It covers six key areas: the credibility of the government's commitment to fiscal discipline, the inflationary impact of tax and revenue measures under the IMF-backed reform programme, the risk posed by political economy pressures to the sustainability of the current disinflationary stance, experts' central expectations for the annual headline inflation rate over the next 12 months, the credibility of the NBE's commitment to maintaining price stability at single-digit levels, and the factors that would give experts the most confidence that inflation is being brought under sustainable control.

5.7.1. Credibility of Fiscal Discipline Commitment

Table 30 presents expert assessments of the credibility of the government's commitment to fiscal discipline, specifically limiting central bank financing, over the next 2-3 years. The largest proportion of respondents (39.8%) regard the commitment as moderately credible. A further 32.3% consider it as having low credibility, while 15.0% perceive it as not credible. Only 7.9% of respondents view the commitment as highly credible, and 4.9% state that they do not know.

Table 30: Expert Assessments of Fiscal Discipline Credibility

Assessment	Frequency (N)	Percentage (%)
Moderately credible	106	39.8
Low credibility	86	32.3
Not credible	40	15.0
Highly credible	21	7.9
Don't know	13	4.9
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The combined proportion of respondents considering the commitment to fiscal discipline as having low credibility or not credible (47.3%) represents a significant credibility challenge for the government's fiscal policy framework. This result aligns with the earlier assessment that fiscal dominance is perceived as a significant constraint on monetary policy (Table 22). The perception that fiscal discipline is only moderately credible (39.8%) suggests that while some progress has been made, significant concerns remain about the government's ability to sustain fiscal restraint. Only 7.9% of respondents view the commitment as highly credible, indicating

limited confidence in the government's fiscal policy trajectory. This perception gap has important implications for inflation expectations, as credible fiscal consolidation is essential for anchoring expectations and reducing inflationary pressures.

5.7.2. *Inflationary Impact of Tax and Revenue Measures*

Table 31 reports expert views on whether tax and revenue measures introduced under the IMF-supported reform programme are contributing to short-term inflationary pressures. Most respondents (65.8%) believe these measures have a significant cost-push effect and are adding noticeably to current inflation. A further 16.9% acknowledge some upward pressure but consider it temporary and manageable. In contrast, 8.6% believe any inflationary effects are limited and offset by the credibility gains from the reforms, while 3.8% do not consider the measures materially inflationary. Another 3.4% argue that the short-term costs are excessive and that the pace or sequencing of the reforms should be revisited. Only 1.5% of respondents are uncertain.

The results indicate broad agreement that the fiscal measures are exerting upward pressure on prices in the short run. More than four-fifths of respondents (82.7%) expect the reforms to have either a significant or a manageable inflationary effect, reinforcing the view that fiscal policy has become an important source of current inflationary pressures. This finding is consistent with the evidence presented in Table 13, where fiscal factors were identified as key drivers of inflation. At the same time, the small share of respondents who consider the measures non-inflationary (3.8%) or express uncertainty (1.5%) suggests a strong consensus that the reforms entail short-term inflationary costs. Nevertheless, the limited proportion advocating a reconsideration of the reform pace (3.4%) implies that most experts accept these costs as part of the broader fiscal adjustment process needed to strengthen macroeconomic stability.

Table 31: Inflationary Impact of Tax and Revenue Measures

Assessment	Frequency (N)	Percentage (%)
Yes – cost-push impact significant, contributing noticeably to current price increases	175	65.8
Yes – some upward pressure, but manageable and temporary	45	16.9
The inflationary effect is minor and outweighed by credibility gains from reduced deficit financing	23	8.6
No – not materially inflationary; essential for long-term stability	10	3.8
The short-term costs are too high; pace/sequencing should be reconsidered	9	3.4
Don't know	4	1.5
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.7.3. *Political Economy Pressures*

Table 32 examines experts' views on the extent to which political economy factors, including electoral cycles, regional fiscal pressures, and political transitions, could undermine the

sustainability of the current disinflation strategy. Responses are concentrated in the higher risk categories. Equal proportions of respondents (36.8% each) identify these factors as either a significant but not dominant risk or the greatest threat to macroeconomic discipline. A further 18.0% consider the risks to be moderate and manageable if institutional safeguards remain effective. In contrast, only 2.6% regard political economy pressures as a minor risk, 4.1% believe they pose no significant threat, and 1.5% are uncertain.

The response pattern indicates a strong consensus that political economy factors represent a major challenge to sustaining the current disinflation programme. Nearly three-quarters of respondents (73.6%) classify these pressures as either a significant risk or the greatest threat to macroeconomic discipline. This assessment is consistent with the concerns over fiscal discipline reported in Table 30 and the evidence of fiscal dominance presented in Table 22. The identical proportions recorded for the two highest response categories suggest that experts differ mainly in the degree of emphasis they place on these risks rather than on their importance. While one group considers political economy pressures an important constraint alongside other factors, the other views them as the primary obstacle to maintaining macroeconomic discipline. The very small share of respondents who regard these pressures as minor or insignificant underscores the widespread recognition that political economy conditions will be critical to the success of the disinflation strategy.

Table 32: Political Economy Pressures

Assessment	Frequency (N)	Percentage (%)
Yes – a significant risk, but not dominant	98	36.8
Yes – the single greatest threat to macroeconomic discipline	98	36.8
A moderate risk – manageable if institutional safeguards hold	48	18.0
No significant risk	11	4.1
A minor risk – policy framework is sufficiently insulated	7	2.6
Don't know	4	1.5
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.7.4. Forward-Looking Inflation Expectations

Table 33 summarizes experts' projections regarding the trajectory of annual headline inflation over the next 12 months. The results reveal a predominantly adverse outlook, with 36.1% of respondents expecting inflation to rise significantly by more than 10 percentage points, and an additional 19.5% anticipating a moderate increase. Only 9.4% expect inflation to remain broadly stable. On the other hand, 15.4% of respondents foresee a decline in inflation, comprising 8.3% who expect a moderate reduction of 5 to 10 percentage points and 7.1% who anticipate a smaller decline of less than 5 percentage points. A substantial reduction of more than 10 percentage points is expected by only 3.4% of respondents, while 7.9% indicate that the current environment is too uncertain to establish a central expectation.

Table 33: Forward-Looking Inflation Expectations

Assessment	Frequency (N)	Percentage (%)
Increase significantly (>10 pp)	96	36.1
Increase moderately (5-10 pp)	52	19.5
Remain broadly at current level	25	9.4
Increase slightly (>5 pp)	22	8.3
Decline moderately (5-10 pp)	22	8.3
Too uncertain to form a central expectation	21	7.9
Decline slightly (<5 pp)	19	7.1
Decline significantly (by >10 percentage points)	9	3.4
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The overall distribution of responses points to limited optimism regarding the near-term inflation outlook. More than half of respondents (55.6%) anticipate a further increase in inflation, reinforcing the perception of continued price pressures over the coming year. This view is consistent with the earlier assessment that 58.6% of experts perceived inflation as accelerating (Figure 8). Moreover, nearly two-thirds of respondents (63.9%) expect inflation either to increase or remain at its current level, suggesting weak expectations of a sustained disinflation process in the short term. The relatively small share of respondents forecasting a decline in inflation (18.8%) indicates limited confidence in the effectiveness of existing policy measures. Overall, the findings suggest that inflation expectations remain weakly anchored, which may complicate efforts to restore price stability and strengthen the credibility of the disinflation framework.

5.7.5. Credibility of NBE's Commitment to Price Stability

Table 34 conveys experts' evaluations of the credibility of the NBE's commitment to achieving and sustaining single-digit inflation over the medium term. The responses indicate limited confidence in the effectiveness of the central bank's disinflation efforts. A plurality of respondents (38.7%) assign a very low credibility rating to the NBE's commitment, while 22.2% rate it as low. Meanwhile, 25.9% consider the commitment moderately credible. Only a small minority express strong confidence, with 6.4% rating the NBE's commitment as highly credible and 6.8% as very highly credible.

The results highlight a considerable credibility gap surrounding the NBE's ability to deliver sustained price stability. A combined 60.9% of respondents express low or very low confidence in the central bank's capacity to achieve single-digit inflation, compared with only 13.2% who assign high or very high credibility ratings. This perception is in line with the earlier evidence presented in Figure 12, where confidence in the monetary tightening stance was also found to be limited. Although a quarter of experts view the NBE's commitment as moderately credible, this suggests cautious recognition of policy efforts rather than strong confidence in their effectiveness. The findings imply that strengthening institutional credibility and reinforcing

confidence in the policy framework will be essential for anchoring inflation expectations and improving the transmission of monetary policy.

Table 34: Expert Assessments of NBE's Commitment to Price Stability

Assessment	Frequency (N)	Percentage (%)
Very low credibility	103	38.7
Moderately credible	69	25.9
Low credibility	59	22.2
Very high credibility	18	6.8
High credibility	17	6.4
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.7.6. Factors for Confidence in Sustainable Inflation Control

Table 35 reports on the conditions that experts consider most important for gaining confidence that inflation is moving toward sustainable control. Improvements in agricultural production and the easing of supply constraints rank highest, cited by 54.9% of respondents, followed by sustained exchange rate stability and elimination of the parallel market premium at 44.7%. Fiscal consolidation, particularly reduced domestic borrowing, is identified by 22.2%, while 21.8% point to improved foreign exchange availability and rebuilding import cover. External developments, including de-escalation of the Iran-US-Israel conflict and disruptions around the Strait of Hormuz, are cited by 18.4%. Relatively fewer respondents emphasize clear and data-based NBE communication (12.0%), improved transparency and accuracy of ESS data (11.3%), and moderation of inflation expectations (9.0%). Other factors account for 1.9% of responses.

The findings indicate that experts place greater weight on tangible improvements in economic conditions than on communication, data quality, or sentiment-related indicators. The prominence of agricultural output and supply conditions is consistent with Table 13, where domestic supply shocks were identified as an important source of inflationary pressure, while the strong emphasis on exchange rate stability underscores the perceived role of exchange rate developments in shaping domestic prices. The relatively lower ranking of fiscal consolidation, despite concerns about fiscal discipline in Table 30, may reflect expectations that supply and exchange rate measures would generate more immediate effects on inflation. Similarly, the limited emphasis on geopolitical developments is consistent with the relatively lower importance assigned to external shocks in Table 13. Overall, the responses suggest that durable confidence in disinflation will depend primarily on visible improvements in supply conditions, exchange rate stability, foreign exchange availability, and macroeconomic policy credibility.

Table 35: Factors for Confidence in Sustainable Inflation Control

Factor	Frequency (N)	Percentage (%)
Significant improvement in agricultural output / easing of supply constraints	146	54.9
Sustained exchange rate stability / parallel market premium elimination	119	44.7
Credible fiscal consolidation – reduced domestic borrowing	59	22.2
Sustained foreign exchange availability / import cover rebuilding	58	21.8
De-escalation of Iran-US-Israel conflict and Hormuz disruptions	49	18.4
Clear, consistent, data-backed NBE communication	32	12.0
Improved transparency and perceived accuracy of ESS data	30	11.3
Visible moderation of inflation expectations	24	9.0
Other	5	1.9

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.7.7. *Institutional Responsibility for Persistent Inflation*

Table 36 sheds light on experts' views on which institution or factor should bear the greatest responsibility if inflation remains persistently elevated over the next 12 months. The National Bank of Ethiopia (NBE) receives the largest share of responses (33.1%), with respondents attributing persistent inflation to insufficient or poorly designed monetary policy. The Ministry of Finance and the government follow at 27.4%, mainly reflecting concerns over fiscal discipline. Structural constraints are identified by 12.4% of respondents, while 11.7% attribute persistent inflation to external factors beyond domestic policy control. A further 10.5% consider responsibility to be shared across institutions. Only 3.0% identify deficiencies in Ethiopian Statistical Service data as the main factor, while 1.9% are uncertain.

Table 36: Institutional Responsibility for Persistent Inflation

Assessment	Frequency (N)	Percentage (%)
National Bank of Ethiopia – insufficient/poorly designed monetary policy	88	33.1
Ministry of Finance / Government – lack of fiscal discipline	73	27.4
Structural constraints – tools inadequate for Ethiopia's inflation	33	12.4
External factors beyond institutional control – global shocks, conflict	31	11.7
Responsibility shared equally	28	10.5
Ethiopian Statistical Service – data deficiencies undermining policy	8	3.0
Don't know	5	1.9
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The results place monetary and fiscal authorities at the center of expert assessments of accountability for persistent inflation. Together, 60.5% of respondents identify either the NBE or the Ministry of Finance and government as primarily responsible, showcasing concerns about the effectiveness and coordination of macroeconomic policy. The slightly higher

attribution to the NBE than to fiscal authorities suggests that experts place somewhat greater emphasis on monetary policy shortcomings, although this finding should be interpreted alongside the earlier evidence of fiscal dominance in Table 22. The relatively limited attribution to structural constraints, despite their importance as underlying inflation drivers, may indicate a distinction between the sources of inflation and the institutions responsible for addressing it. Similarly, the small share assigning responsibility to data deficiencies suggests that statistical weaknesses are viewed more as a constraint on policymaking than as a direct source of inflation.

5.7.8. *Changes in Outlook*

Table 37 captures changes in experts' perceptions of Ethiopia's inflation outlook relative to six months earlier. The responses indicate a clear deterioration in sentiment, with 36.8% of respondents reporting that their outlook has become slightly more pessimistic and 35.3% indicating a significant increase in pessimism. Only 12.4% report no change in their assessment, while a small minority express a more favorable view, with 8.3% becoming slightly more optimistic and 2.6% becoming significantly more optimistic. A further 4.5% state that they did not have a clear outlook six months earlier.

The overall pattern reveals a marked shift toward greater concern among experts regarding the future inflation trajectory. Nearly three-quarters of respondents (72.1%) have become more pessimistic, suggesting that recent developments and policy measures have not substantially improved confidence in the inflation outlook. This is consistent with the expectations reported in Table 33, where a majority of respondents anticipated continued inflationary pressures over the following 12 months. The limited share of respondents reporting improved expectations indicates that recent policy actions have yet to generate a broad reassessment of inflation risks. While uncertainty appears relatively contained, the persistence of negative sentiment may pose additional challenges for policy effectiveness, as prolonged pessimistic expectations can influence price-setting behavior and weaken the anchoring of inflation expectations.

Table 37: Changes in Inflation Outlook Compared to Six Months Ago

Assessment	Frequency (N)	Percentage (%)
Slightly more pessimistic	98	36.8
Significantly more pessimistic	94	35.3
Unchanged	33	12.4
Slightly more optimistic	22	8.3
I did not hold a clear view six months ago	12	4.5
Significantly more optimistic	7	2.6
Total	266	100.0

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

5.7.9. *Reasons for Change in Outlook*

Figure 15 illustrates the main factors underlying changes in respondents' inflation outlook compared with six months earlier. Changes in the external environment emerge as the most

frequently cited reason, with 43.4% of respondents attributing their revised expectations to developments such as geopolitical conflicts and commodity price movements. Changes in perceptions of domestic policy effectiveness account for 30.5% of responses, while 21.7% point to a reassessment of political commitment to reform as the main driver of their updated outlook. Only 4.4% identify the availability of new data or information as the primary reason for changing their assessment.

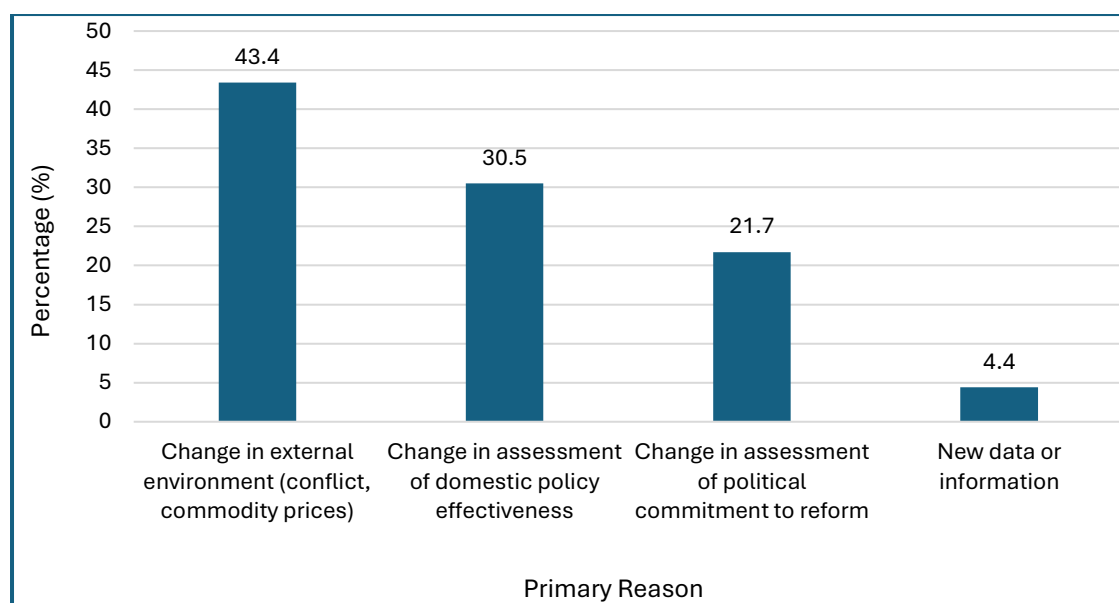


Figure 15: Reasons for Change in Inflation Outlook

Source: EEA Expert Elicitation Survey on Price Developments in Ethiopia (June 2026)

The results suggest that shifts in inflation expectations have been shaped largely by broader economic and policy-related developments rather than by new statistical evidence. Although external shocks were previously ranked as less important inflation drivers compared with domestic factors (Table 13), their prominent role in changing expert perceptions indicates that global developments have significantly influenced expectations about future price dynamics. The importance assigned to domestic policy effectiveness and political commitment further highlights the role of credibility and implementation capacity in shaping confidence in the reform process. The limited influence attributed to new information suggests that changes in sentiment are driven primarily by evolving perceptions of the external environment, policy performance, and reform commitment rather than by revisions based on newly released data.

6. CONCLUSION AND RECOMMENDATIONS

This study examined inflation dynamics in Ethiopia from 2018 to 2025 using a multi-method approach combining descriptive analysis, Structural Vector Autoregression (SVAR) estimation, and an expert elicitation survey. The descriptive analysis highlights substantial regional heterogeneity, with conflict-affected areas and import-dependent urban centers experiencing more severe price pressures, alongside a shift from food-driven to relatively more persistent non-food inflation between 2022 and 2025. The observed co-movement between global supply-chain pressures, world commodity prices, and domestic inflation further shows Ethiopia's exposure to external price pressures, particularly oil price shocks, which 82.3% of experts identified as the most significant transmission channel for geopolitical disruptions.

The SVAR results demonstrate that inflation is highly persistent, with own shocks dominating short-run variation (98.33% at the 1-month horizon). Money supply shocks contribute more meaningfully after a lag of approximately 3–4 months, explaining 18.19% of inflation variation at the 12-month horizon, while exchange rate shocks have positive but statistically insignificant effects in the short run, indicating weak or delayed exchange rate pass-through. Energy price shocks have no significant direct effect on inflation, suggesting that their effects may operate indirectly through exchange-rate and other transmission channels.

The expert survey reveals substantial concerns about the credibility of the policy framework. A majority of respondents (57.2%) regard official CPI figures as unreliable, while 85.9% believe that the perceived credibility gap undermines monetary policy signals. Moreover, 70.7% report that confidence in the Birr as a store of value has worsened since the exchange rate reforms. Forward-looking expectations remain pessimistic, with 55.6% anticipating further increases in inflation and 72.1% reporting a more pessimistic outlook than six months earlier. The NBE's commitment to achieving single-digit inflation is viewed with low or very low credibility by 60.9% of experts, while 47.3% regard the government's commitment to fiscal discipline as having low or no credibility.

Taken together, the evidence indicates that Ethiopia's recent inflation dynamics have been predominantly shaped by structural and supply-side factors, while monetary and demand-side pressures also contribute to inflation. Weak monetary transmission and credibility challenges may further constrain the effectiveness of monetary policy in stabilizing prices. Although the current disinflationary trend is welcome, it remains vulnerable to external shocks, domestic disruptions, and policy reversals. Without addressing the underlying structural constraints, credibility deficits, and institutional weaknesses identified in the analysis, the sustainability of the disinflationary trend cannot be assured. A durable reduction in inflation therefore requires coordinated monetary, fiscal, exchange rate, structural, and institutional reforms.

Based on these findings, the report recommends a prioritized set of measures aimed at restoring macroeconomic stability, strengthening policy credibility, addressing structural sources of inflation, and improving resilience to external shocks.

1. Improving Monetary-Fiscal Coordination

- Establish a formal policy coordination mechanism between the government and NBE to align monetary and fiscal policy objectives.
- Ensure that fiscal policy supports the disinflationary stance by limiting domestic borrowing, avoiding monetary financing, and carefully timing major tax and expenditure measures.
- Communicate a coherent macroeconomic policy framework that clearly explains the respective roles of monetary, fiscal, exchange rate, and structural policies in addressing inflation.

2. Enhancing Monetary Policy Effectiveness

- Accelerate the transition toward a fully interest rate-based monetary policy framework, phasing out administrative credit controls as macroeconomic conditions permit.
- Strengthen monetary policy transmission through deeper financial markets, improved liquidity management, and clearer communication of the policy-rate path.
- Strengthen NBE operational independence through institutional reforms and consistent policy practices that demonstrate commitment to price stability.
- Improve NBE communication by providing clear and consistent explanations of policy objectives, decisions, and the expected inflation trajectory.

3. Strengthening Exchange Rate Policy Credibility

- Sustain the market-determined exchange rate regime while avoiding abrupt policy reversals or unnecessary administrative intervention.
- Continue efforts to narrow the official-parallel exchange rate gap through improved foreign exchange allocation and transparent intervention policies.
- Strengthen foreign exchange reserve management to improve import-cover capacity and confidence in the exchange rate.

4. Strengthening Fiscal Policy Credibility

- Implement a credible fiscal consolidation strategy that limits excessive domestic borrowing and avoids reliance on central bank financing.
- Improve public expenditure efficiency by reallocating resources toward productive investment while reducing non-essential current expenditure.
- Strengthen fiscal institutions and transparency through timely publication of fiscal reports and consideration of an independent fiscal council.

5. Addressing Structural Drivers of Inflation

- Prioritize investment in agricultural productivity, including access to inputs, extension services, irrigation, and post-harvest infrastructure.
- Address logistical constraints and improve market integration through transport infrastructure, market information systems, and reduced internal trade barriers.
- Reduce vulnerability to global commodity price shocks through strategic reserves, diversification of import sources, and investment in domestic energy production.
- Continue phased fuel-price reforms alongside targeted measures to protect vulnerable households from short-term adjustment costs.

6. Strengthening Statistical and Institutional Credibility

- Conduct an independent methodological review of CPI compilation procedures, including basket updates, price-collection representativeness, and coverage of informal markets, with public disclosure of findings and action plans.
- Establish a transparent data-revision policy documenting methodological changes, data adjustments, and estimation procedures.
- Strengthen engagement between ESS and the expert community through regular technical briefings, data dissemination workshops, and open-data initiatives that facilitate independent analysis.
- Reinforce the operational independence of ESS through an appropriate legal framework and adequate institutional resources.

7. Managing External Vulnerabilities

- Develop comprehensive contingency plans for external shocks, including oil import disruptions and sharp global commodity price increases.
- Strengthen strategic reserves for essential commodities and enhance regional cooperation in energy security, trade facilitation, and infrastructure development.
- Strengthen early-warning and contingency-planning systems for geopolitical disruptions, commodity-price volatility, and climate-related risks.

8. Addressing Political Economy Constraints

- Demonstrate sustained commitment to reforms through consistent policy actions that strengthen credibility and reduce uncertainty about policy direction.
- Build broad-based support through inclusive stakeholder engagement, transparent communication, and equitable management of the costs and benefits of reforms.
- Strengthen institutional safeguards to protect reform programs from political pressures and policy reversals.

9. Strengthening Inflation Monitoring and Future Research

- Develop a real-time inflation monitoring system capturing price developments across regions and product categories, including informal and parallel markets where feasible.
- Investigate micro-level transmission of inflation to inform targeted policy responses and social protection measures.
- Examine the relationship between inflation expectations and price-setting behavior to strengthen communication strategies and expectation management.

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