QUARTERLY MACROECONOMIC UPDATES ON THE ETHIOPIAN ECONOMY

Foreign Exchange and Commodity Price Developments in Q1 FY2026/27: Slower Depreciation, Narrower Spreads and a Wider Parallel Premium

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Key Figures and Facts

- *The Birr depreciated by 1.2% against the US dollar in Q1 FY2026/27, from ETB 158.95 to ETB 160.90 per USD, marking one of the lowest quarterly depreciation rates since the July 2024 exchange-rate reform and substantially below the 8.1% recorded in the same quarter of FY2025/26.*
- *The exchange rate remained relatively stable during much of the quarter, particularly in the second half of September, closing at ETB 160.90/USD within a narrow trading range. However, the 1.72 Birr one-day adjustment on August 14 highlights the possibility of discrete adjustments despite extended periods of limited daily variation.*
- *The spread between the highest and lowest foreign exchange buying rates across commercial banks narrowed from 5.31 ETB on July 1 to 2.11 ETB on September 30, 2026. Excluding Global Bank Ethiopia, whose quotation remained unchanged throughout the quarter, the September spread was just 1.50 ETB, compared with more than 14 ETB in September 2025.*
- *By September 30, 20 of the 26 reporting commercial banks quoted buying rates within a narrow range of 160.83–161.73 ETB/USD, suggesting substantially greater price alignment across banks. However, this convergence does not necessarily establish stronger competition or improved market liquidity.*
- *Commercial bank selling rates became more closely aligned, with the cross-bank spread declining from ETB 5.41 in July to ETB 2.15 in September 2026. Excluding Global Bank Ethiopia, the spread narrowed further to ETB 1.52, compared with nearly ETB 15 a year earlier.*
- *All 26 reporting commercial banks applied an identical 2% margin between buying and selling rates on both July 1 and September 30, 2026. Consequently, the convergence in selling rates largely mirrored the buying-side convergence, indicating greater alignment in posted exchange-rate quotations, although not necessarily stronger competition or improved foreign exchange availability.*
- *The range of absolute bid-ask spreads across banks narrowed from ETB 0.11 on July 1 to approximately ETB 0.04 on September 30, 2026, reflecting greater alignment in buying rates rather than independent changes in banks' percentage margins.*
- *The Official–Parallel Exchange Rate premium widened from ETB 19.05 (12.0%) on July 1 to ETB 26.10 (16.2%) on September 30, 2026, representing an increase of ETB 7.05 during the quarter, following the narrowing of the premium observed in Q1 FY2025/26.*
- *The Real Effective Exchange Rate Index (REERI) declined by 0.66% in Q1 FY2026/27, from 154.70 to 153.68, bringing its year-on-year decline to 11.2%. The pace of real depreciation*

has moderated since Q2 FY2025/26, from 7.9% to 1.9% in Q3, 1.0% in Q4, and 0.66% in the current quarter.

- *The Nominal Effective Exchange Rate Index (NEERI) increased by 3.75%, from 16 to 16.6, in Q1 FY2026/27, marking the largest quarterly appreciation in the four quarterly changes examined. Nevertheless, it remained approximately 2.9% below its level a year earlier. The nominal appreciation alongside real depreciation suggests that domestic prices rose more slowly than prices among trading partners during the quarter.*
- *Gold averaged USD 4,268 per troy ounce, up 23.4% year-on-year, while Arabica coffee averaged USD 7.71/kg, down 3.9%. Higher gold prices could support export earnings, although weaker coffee prices may partly offset these gains.*
- *Crude oil and wheat prices increased by 40.5% and 41% year-on-year, respectively, potentially raising Ethiopia's import bill and domestic inflationary pressures. In contrast, urea prices declined by 18.3%, while DAP prices increased modestly by 2.8%, offering a mixed outlook for agricultural input costs.*

1. Introduction

The first quarter of FY2026/27 (July–September 2026) marks the beginning of the third year since Ethiopia introduced a market-based exchange rate regime on July 29, 2024. This period provides an opportunity to review foreign exchange market conditions and assess recent movements in the Birr's external value. As the reform continues to shape foreign exchange transactions, trade costs, and the domestic value of export earnings and import payments, monitoring exchange rates and international commodity prices remains important for understanding Ethiopia's external sector.

This update reviews the Birr's movement against the US dollar, commercial banks' buying and selling rates, variations in rates across banks, and the spread between buying and selling rates. It also considers the gap between official and parallel market exchange rates and movements in the nominal and real effective exchange rates. Together, these indicators provide an overview of exchange rate dynamics and differences in market pricing.

The analysis also covers international commodity prices relevant to Ethiopia's external trade, focusing on key exports, particularly coffee and gold, and major imports, including crude oil, fertilizers, and wheat. Changes in these prices have implications for export earnings, import expenditure, and foreign exchange requirements. The extent of these effects depends on the country's trade composition, actual transaction prices, and domestic market conditions.

By bringing together foreign exchange market indicators and global commodity price trends, this update provides an overview of Ethiopia's external sector conditions during the first quarter of FY2026/27. It highlights key developments and their potential implications for export competitiveness, import costs, and external sector stability as the country enters the third year of the exchange rate reform.

2. Exchange Rate Dynamics: Greater Alignment in the Official Market and a Widening Parallel-Market Premium

The first quarter of FY2026/27 (July–September 2026) spans the second anniversary of Ethiopia's move to a market-based exchange rate, which took effect on July 29, 2024, and falls in the quarter when the float entered its third year. This milestone offers a timely opportunity to ask whether the foreign exchange market has begun to settle at a more stable level or remains under persistent pressure. This section examines the main dimensions of exchange rate behavior during the quarter, including the Birr's path against the US Dollar, the rates at which commercial banks bought and sold dollars, the gap between buying and selling prices, the difference between the official and parallel rates, and the real and nominal effective exchange rates. Together, these analyses give a fuller picture of how the exchange rate market evolved during the quarter.

2.1. Moderating Depreciation and Short-Term Exchange-Rate Stability: The ETB/USD Trajectory in Q1 FY2026/27

The Ethiopian Birr depreciated by 1.2 percent against the US Dollar during the first quarter of FY2026/27, moving from 158.95 ETB/USD on July 1 to 160.90 ETB/USD on September 30, 2026. This matched the rate recorded in Q3 FY2025/26 and exceeded only the 0.8 percent depreciation recorded in Q4 FY2025/26, making it one of the lowest quarterly depreciation rates since the exchange-rate reform. It was substantially below the 8.1 percent recorded in the same quarter a year earlier. For comparison, the reform itself resulted in a one-day depreciation of 31.3 percent on July 29, 2024, when the exchange rate moved from 57.49 to 75.48 ETB/USD following the transition from the previous de facto peg of the Birr to the US dollar to a market-based exchange-rate arrangement. A further 58.0 percent depreciation followed over the remainder of that quarter. Measured over the twelve months to September 30, 2026, the currency weakened by 9.9 percent, from 146.42 ETB/USD a year earlier.

The quarterly trajectory of the exchange rate, presented in Figure 1, was not uniform and can be divided into three phases. During the first two weeks of July, the rate fluctuated between 157.98 and 159.00, averaging 158.80 ETB/USD. From mid-July to mid-August, the currency remained within a relatively narrow range, averaging 159.90 ETB/USD over twenty-two trading days, with very limited day-to-day variation. On August 14, however, the rate increased by 1.72 Birr in a single day, representing the largest one-day movement of the quarter. Following this adjustment, the exchange rate settled within a new range, averaging 160.79 ETB/USD for the remainder of the quarter. The final two weeks of September were particularly stable. Between September 18 and September 30, the rate remained within a range of approximately 0.14 Birr, closing the quarter at 160.90 ETB/USD.

One feature of the second phase warrants particular attention. Between July 15 and August 13, no observation reached 160 ETB/USD. Five daily quotations came within 0.01 Birr of this level, while fifteen came within 0.05 Birr. One possible interpretation of this clustering is that it reflected an informal ceiling or quotation convention during the period. Alternatively, it may have resulted

from a temporary balance between foreign-exchange demand and supply around that level. If an informal ceiling was in place, the movement above 160 on August 14 could indicate that it was relaxed or became difficult to maintain amid changing market conditions. However, the observed pattern alone does not establish the existence of an official or informal ceiling, nor does it identify the factors behind the subsequent adjustment.

The quarterly sequence since the introduction of the floating exchange-rate regime provides a broader perspective on these developments. Following the initial adjustment of 108 percent in Q1 FY2024/25, quarterly depreciation slowed to 5.4 percent in Q2, 3.3 percent in Q3 and 4.1 percent in Q4. In FY2025/26, the corresponding rates were 8.1 percent in Q1, 7.2 percent in Q2, 1.2 percent in Q3 and 0.8 percent in Q4. The relatively high depreciation of 7.2 percent in Q2 FY2025/26 was largely concentrated in October 2025, when the exchange rate increased from 144.54 to 152.14 ETB/USD within a single month. No comparable one-month adjustment has occurred since then. The 1.2 percent depreciation in Q1 FY2026/27 therefore extends the relatively slower pace observed over the preceding two quarters.

This moderation may indicate that the substantial initial adjustment following the exchange-rate reform has gradually subsided. The theoretical literature on exchange-rate dynamics provides a useful perspective for interpreting such adjustments. Dornbusch (1976), for instance, demonstrates how exchange rates can initially respond more sharply than goods prices to monetary disturbances under conditions of price stickiness, potentially resulting in overshooting before subsequent adjustment. Although this framework does not directly explain the dynamics of Ethiopia's exchange-rate reform, it highlights the possibility that substantial initial exchange-rate movements may be followed by a different adjustment path as market conditions evolve. Ethiopia's post-reform trajectory is broadly characterized by a substantial initial adjustment followed by a slower pace of depreciation, although the October 2025 increase illustrates that the process has not been entirely smooth. Nevertheless, the observed moderation should not necessarily be interpreted as evidence that the exchange rate has reached an equilibrium level.

The August 14 movement also illustrates that relatively extended periods of limited daily variation can be followed by discrete exchange-rate adjustments. Such movements may show changes in foreign-exchange demand and supply, the timing of transactions and the capacity of the market to absorb emerging imbalances. Research on foreign-exchange market microstructure highlights the importance of order flow and the information conveyed through foreign-exchange transactions in explaining exchange-rate movements (Evans & Lyons, 2002). Similarly, Canales-Kriljenko (2004) emphasises the importance of market depth, liquidity and order-flow conditions in shaping exchange-rate behaviour, particularly in developing-country foreign-exchange markets. These considerations offer possible explanations for the observed pattern, although the available daily exchange-rate data do not allow the specific drivers of the August adjustment to be identified.

These market dynamics should also be considered alongside the institutional characteristics of Ethiopia's foreign-exchange regime. Although Ethiopia formally adopted a floating exchange-rate arrangement in July 2024, the IMF (2025) classified the country's de jure arrangement as floating and its de facto arrangement as other managed. This distinction is important because the formal

exchange-rate regime does not necessarily capture the full range of institutional and operational practices influencing exchange-rate formation. Consequently, the slower depreciation observed in recent quarters may reveal an evolving balance between market conditions and exchange-rate management rather than necessarily indicating the emergence of a fully market-determined equilibrium. Further evidence on foreign-exchange transactions, market liquidity, intervention and price formation would be required to distinguish between these possibilities.

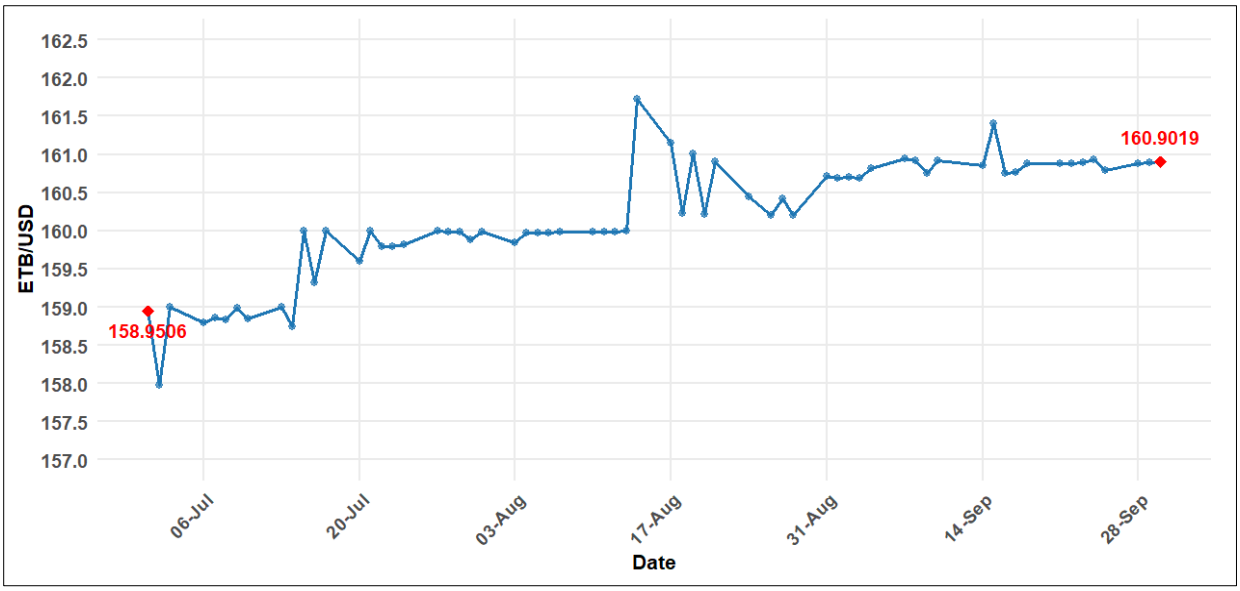


Figure 1: Trend of the Ethiopian Birr (ETB) to US Dollar (USD) Exchange Rate, 1 July – 30 September 2026

Source: Author's compilation based on data from the National Bank of Ethiopia[1]

2.2. Commercial Bank Buying Rates: Declining Cross-Bank Dispersion

The dispersion of commercial bank foreign exchange buying rates narrowed substantially during the first quarter of FY2026/27, indicating greater alignment in the rates quoted by banks. As Figure 2 shows, on September 30, 2026, the spread between the highest and lowest buying rates among the 26 commercial banks reporting rates was 2.11 ETB, ranging from 159.62 ETB at Global Bank Ethiopia (GBE) to 161.73 ETB at Wegagen Bank (WEG). Excluding GBE, whose reported rate remained unchanged from July 1, the spread among the remaining 25 banks was only 1.50 ETB. This represents a considerable reduction compared with September 2025, when the spread exceeded 14 ETB, with Nib International Bank (NIB) quoting the lowest rate at 129.04 ETB and ZamZam Bank the highest at 143.51 ETB.

The narrowing of the spread is also evident within the quarter. On July 1, 2026, the spread across the 28 commercial banks reporting rates was 5.31 ETB, ranging from 154.50 ETB at Tsehay Bank (TES) to 159.81 ETB at Wegagen Bank. However, excluding the two lowest quotations, those of Tsehay Bank (154.50 ETB) and Hijra Bank (155.50 ETB), the remaining 26 banks were already

[1] The exchange rate data shown in Figure 1 are the indicative rates of the Ethiopian Birr (ETB) against the US Dollar (USD) as published by the National Bank of Ethiopia.

clustered within a relatively narrow range of 2.39 ETB. By September 30, the dispersion had narrowed further, with Tsehay Bank moving from the lowest position in July to 161.60 ETB, placing it close to the middle of the September distribution.

Overall, the distribution shifted from a relatively differentiated pattern towards a much denser cluster. On September 30, twenty of the twenty-six banks quoted buying rates between 160.83 and 161.73 ETB, a range of just 0.90 ETB. The highest-quoting banks, including Wegagen Bank, ZamZam Bank, Gadaa Bank, Berhan Bank, Goh Betoch Bank and Hibret Bank, were separated by very small margins, with differences of less than 0.03 ETB among the reported quotations at the upper end of the distribution. Six banks quoted below 160.83 ETB. Three of them, SIN, DAS and ZEM, were within 0.07 ETB of the lower boundary of the main cluster. The remaining three, Global Bank Ethiopia, the Commercial Bank of Ethiopia and Ahadu Bank, quoted rates between 0.24 and 1.21 ETB below that boundary. Figure 2 illustrates this compression, with the blue markers representing July 1 covering a visibly wider range than the red markers for September 30. Excluding GBE, the overall spread of 1.50 ETB among the remaining banks represented less than 1 percent of their average buying rate, indicating that differences in quoted prices had become relatively small.

The movements of individual banks further illustrate this convergence. Nib International Bank, which recorded the lowest buying rate in September 2025 at 129.04 ETB, quoted 160.85 ETB on September 30, 2026, placing it in the lower half of the distribution. Tsehay Bank also moved from the lowest quotation in July to a position close to the middle of the distribution by September. Global Bank Ethiopia, by contrast, remained a distinct low quotation. Its reported buying rate was unchanged at 159.62 ETB between July 1 and September 30, despite an increase of nearly 2 ETB in the reference rate over the same period. This unusual lack of adjustment warrants caution when interpreting the overall September dispersion, as the unchanged quotation may not fully exhibit prevailing market conditions.

The narrowing of buying-rate dispersion is a potentially positive development for foreign exchange market functioning. Smaller differences in quoted prices can reduce the information and search costs faced by foreign currency sellers, make price comparisons easier and contribute to a more predictable pricing environment. They may also indicate greater alignment in banks' assessments of prevailing foreign exchange market conditions. However, the observed convergence should not automatically be interpreted as evidence of stronger price competition or improved market liquidity. It could also reveal similar assessments of prevailing market conditions, greater consistency in banks' pricing practices, or comparable foreign exchange supply and liquidity conditions across institutions.

An important qualification is therefore necessary. Convergence in quoted buying rates does not necessarily imply convergence towards a market-clearing price or demonstrate effective competition among banks. If banks increasingly base their quotations on a common market signal, the resulting narrow dispersion may exhibit greater price alignment without necessarily indicating deeper market integration. Establishing whether this convergence shows more effective price discovery would require additional evidence on actual transaction rates, trading volumes, foreign

exchange availability and differences in customer access across banks. Thus, while the substantial narrowing of buying-rate dispersion is consistent with improved price alignment, its implications for competition and the overall efficiency of the foreign exchange market should be interpreted cautiously.

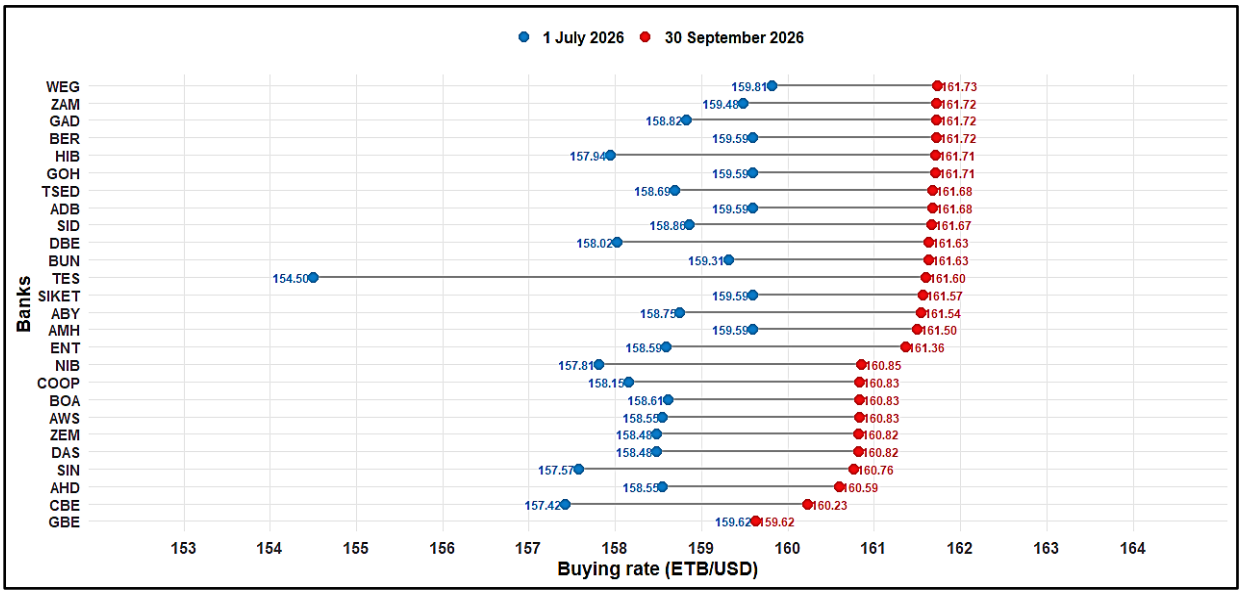


Figure 2: Comparison of Banks' ETB/USD Buying Rates on July 1 and September 30, 2026

Source: Author's compilation based on data from Addis Fortune live exchange rates, available at https://exchange.addisfortune.news/currencies

2.3. Commercial Bank Selling Rates: Emerging Price Convergence

The convergence observed in commercial bank buying rates is also evident on the selling side of the foreign exchange market. As Figure 3 depicts, on September 30, 2026, the spread between the highest and lowest selling rates among the 26 commercial banks reporting rates was 2.15 ETB, ranging from 162.81 ETB at Global Bank Ethiopia (GBE) to 164.96 ETB at Wegagen Bank (WEG). Excluding GBE, whose quotation remained unchanged from July 1, the spread among the remaining 25 banks was only 1.52 ETB, ranging from 163.44 ETB at the Commercial Bank of Ethiopia (CBE) to 164.96 ETB at Wegagen Bank. A year earlier, the selling-rate spread across commercial banks was nearly 15 ETB, indicating a substantial compression over the twelve-month period, broadly comparable to that observed on the buying side.

The narrowing of dispersion is also evident within the quarter. On July 1, 2026, the spread across the 28 commercial banks publishing rates was 5.41 ETB, ranging from 157.59 ETB at Tsehay Bank (TES) to 163.00 ETB at Wegagen Bank. Excluding the two lowest quotations, those of Tsehay Bank (157.59 ETB) and Hijra Bank (158.61 ETB), the remaining 26 banks were clustered within a relatively narrow range of 2.43 ETB. By September 30, Tsehay Bank had moved to 164.83 ETB, placing it close to the middle of the distribution. Excluding GBE, the Commercial Bank of Ethiopia recorded the lowest selling rate at 163.44 ETB, just 1.52 ETB below the highest quotation.

The September distribution further illustrates the extent of convergence. Twenty-three of the twenty-six banks quoted selling rates between 163.97 and 164.96 ETB, a range of just 0.99 ETB. Within this cluster, three banks shared the highest quotation of 164.96 ETB, while the next three were within 0.05 ETB of that level. The remaining three banks, Global Bank Ethiopia, the Commercial Bank of Ethiopia and Ahadu Bank, quoted below the main cluster, with differences ranging from 0.16 to 1.16 ETB relative to its lower boundary. Thus, as on the buying side, the selling-rate distribution has shifted towards a much denser cluster, replacing the more differentiated pattern observed a year earlier.

An important feature of the selling-side data is the uniformity of the buying-selling spread across banks. All 26 commercial banks applied an identical 2 percent spread on both July 1 and September 30, 2026, with each selling rate calculated as 1.02 times its corresponding buying rate. This indicates that the convergence in selling rates is not an independent development but largely exhibits the convergence already observed on the buying side. The selling-rate spread of 2.15 ETB was also marginally wider than the buying-rate spread of 2.11 ETB, consistent with the application of the same percentage margin to a higher exchange-rate base. Consequently, the two distributions exhibit virtually identical patterns of dispersion.

The movements of individual banks are broadly consistent with the buying-side developments. Nib International Bank, which recorded the lowest selling rate in September 2025 at 131.63 ETB, quoted 164.07 ETB on September 30, 2026, placing it in the lower half of the distribution. Tsehay Bank also moved from the lowest quotation in July to a position close to the middle of the September distribution. Global Bank Ethiopia remained the most distinct low quotation, with its selling rate unchanged between July 1 and September 30. As discussed in the preceding section, this unusual lack of adjustment warrants caution when interpreting the overall distribution.

The narrowing of selling-rate dispersion can make foreign exchange prices more predictable for customers purchasing foreign currency and reduce the effort required to compare quotations across banks. However, the implications for market competition and efficiency should be interpreted cautiously. In particular, the uniform 2 percent quoted spread suggests that differences in banks' selling rates are largely inherited from differences in their buying rates rather than indicating independent pricing decisions on the selling side. Moreover, a uniform quoted spread does not necessarily imply identical effective transaction margins or similar access to foreign exchange across banks. Therefore, the observed convergence provides evidence of greater alignment in posted selling rates, but does not, on its own, establish stronger competition, improved foreign exchange availability or more effective price discovery.

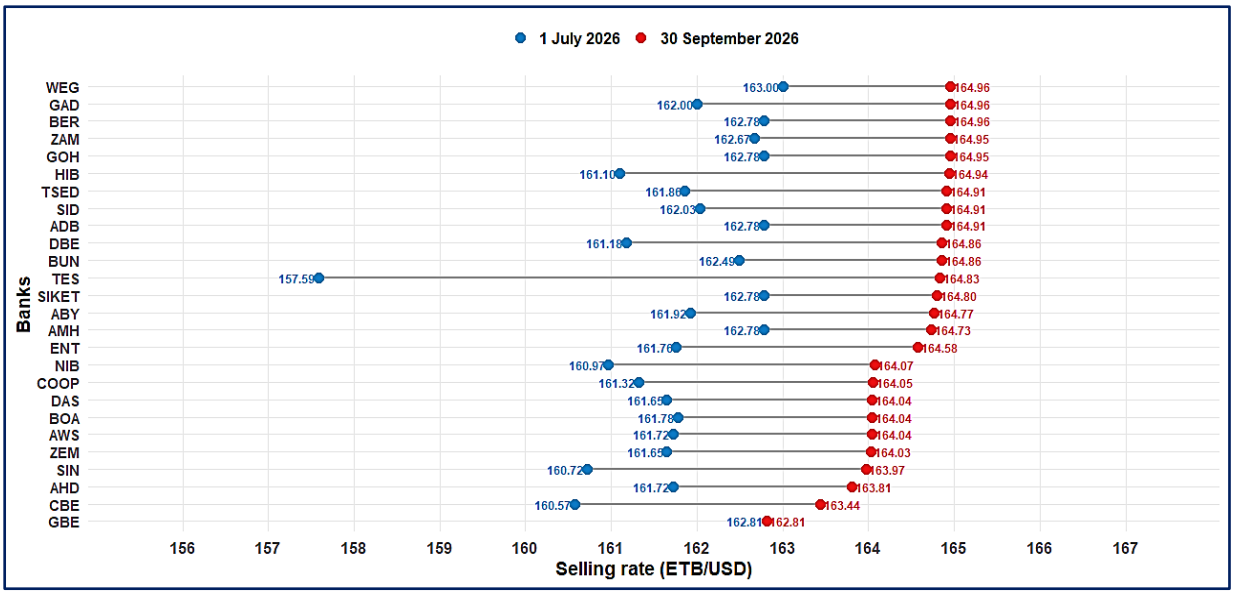


Figure 3: Comparison of Banks' ETB/USD Selling Rates on July 1 and September 30, 2026

Source: Author's compilation based on data from Addis Fortune live exchange rates, available at https://exchange.addisfortune.news/currencies

2.4. The Foreign Exchange Bid-Ask Spread: Uniform Pricing Consistent with the NBE's 2 Percent Guideline

The quoted bid-ask spread in the Ethiopian foreign exchange market remained remarkably uniform at 2 percent throughout the first quarter of FY2026/27. Across the seven observation dates, all 26 to 29 commercial banks reporting exchange rates applied exactly the same percentage margin between their buying and selling quotations. This uniformity is particularly noteworthy in the context of the National Bank of Ethiopia's (NBE) foreign exchange policy, which, in its October 2024 announcement, indicated that the spread between banks' buying and selling rates should generally not exceed 2 percent for posted rates. Although this is an indicative upper threshold rather than a mandatory fixed margin, the observed pattern suggests that commercial banks have consistently adopted the 2 percent guideline as their standard posted margin.

As Figure 4 shows, the average buying rate increased from 158.54 ETB/USD on July 1 to 161.24 ETB/USD on September 30, while the average selling rate rose from 161.71 to 164.47 ETB/USD over the same period. The two series moved closely together across all seven observation dates, with the absolute difference increasing from 3.17 to 3.23 ETB. This modest widening exhibits the mechanical effect of applying a constant percentage margin to a rising exchange-rate base. Thus, although the absolute spread in ETB increased slightly, the percentage spread remained unchanged at 2 percent.

The uniformity of the quoted spread has important implications for interpreting pricing behavior in the foreign exchange market. Since the NBE expects posted spreads generally not to exceed 2 percent, the fact that all reporting banks consistently applied exactly this margin suggests limited differentiation in their posted buying-selling margins. In effect, differences in banks' selling quotations largely show differences in their respective buying rates rather than variations in the

percentage margins they apply. Nevertheless, the observed uniformity should not be interpreted as evidence that the NBE legally fixes the spread at exactly 2 percent or that banks do not have flexibility to negotiate rates in individual transactions. The regulatory framework allows banks to adjust their buying and selling rates in response to market conditions and customer negotiations, provided they operate within the applicable policy framework.

Differences in the absolute bid-ask spread across banks also narrowed during the quarter, indicating the convergence in buying rates discussed in Section 2.2. On July 1, the absolute spread ranged from 3.09 ETB at Tsehay Bank, which quoted the lowest buying rate, to approximately 3.20 ETB at Wegagen Bank, which quoted the highest, representing a range of 0.11 ETB. By September 30, the spread ranged from approximately 3.19 ETB at Global Bank Ethiopia to 3.23 ETB at Wegagen Bank, reducing the range to about 0.04 ETB. This narrowing was not the result of independent adjustments in banks' percentage margins, which remained identical, but followed directly from the reduced dispersion in buying rates. Consequently, the convergence of absolute bid-ask spreads reinforces the broader pattern of price alignment observed across commercial banks.

Taken together, the evidence points to a highly uniform structure of posted foreign exchange margins, with all reporting banks applying the NBE's 2 percent guideline throughout the quarter. While this uniformity is consistent with adherence to the central bank's policy expectations, it does not necessarily indicate identical transaction conditions or effective trading margins across banks. Assessing the extent of competition and efficiency in foreign exchange pricing would also require information on actual transaction rates, negotiated customer margins, transaction volumes and foreign exchange availability. Accordingly, the observed pattern is best interpreted as evidence of uniformity in posted pricing margins rather than conclusive evidence of competitive price discovery or identical market conditions across commercial banks.

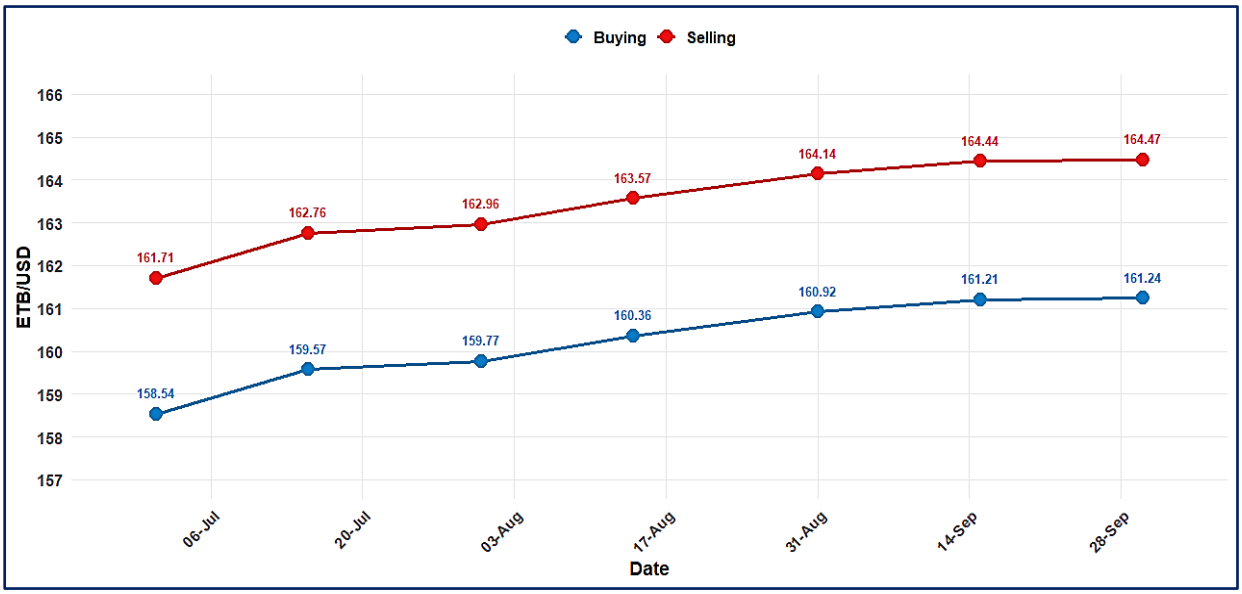


Figure 4: Trend in Average ETB/USD Buying and Selling Rates across Banks, July 1 to September 30, 2026

Source: Author's compilation based on data from Addis Fortune live exchange rates, available at https://exchange.addisfortune.news/currencies.

2.5. Official-Parallel Exchange Rate Premium: A Widening Gap

The gap between Ethiopia's official and parallel exchange rates widened during the first quarter of FY2026/27, reversing the convergence observed over the corresponding quarter of the previous fiscal year. On July 1, 2026, the parallel-market rate stood at ETB 178.00 per US dollar, compared with an official rate of ETB 158.95, representing a premium of ETB 19.05, equivalent to 12 percent of the official rate.[2] By September 30, the parallel rate had increased to ETB 187, while the official rate reached ETB 160.90. Consequently, the premium widened to ETB 26.10, or 16.2 percent of the official rate. This represents an increase of ETB 7.05 in the premium over the quarter. The ordinary least squares (OLS) trend in the daily premium indicates an average increase of approximately ETB 0.076 per trading day. However, this average masks considerable variation over the period, as the gap remained relatively stable during July before widening more noticeably from mid-August onward.

As portrayed in Figure 5, the widening occurred in distinct phases rather than through a continuous adjustment. During July, the premium remained relatively stable, averaging approximately ETB 19.4 and staying below ETB 20.3. The official exchange rate remained below ETB 159 per US dollar through July 14, while the parallel-market rate fluctuated mainly between ETB 178 and ETB 179.0. Toward the end of July, a modest widening became apparent as the parallel rate increased to ETB 180, while the official rate remained close to ETB 160.

A temporary narrowing occurred on August 14, when the official exchange rate increased by ETB 1.72 in a single day, from ETB 160 to ETB 161.72, while the parallel-market rate remained unchanged at ETB 180. As a result, the premium declined to ETB 18.28, its lowest level during the quarter. This represented the largest single-day contraction in the premium, from ETB 20 on August 13 to ETB 18.28 on August 14. The movement coincided with the discrete adjustment in the official exchange rate discussed in Section 2.1.

From mid-August onward, however, the parallel-market rate began rising more rapidly than the official rate. It increased from ETB 180 on August 13 to ETB 183 by August 21 and ETB 185 by August 31. In contrast, following the August 14 adjustment, the official rate exhibited relatively limited subsequent movements. By the end of August, the premium had increased to ETB 24.30. This upward movement continued throughout September, with the parallel rate reaching ETB 186 on September 22 and ETB 187 on September 30, while the official rate remained close to ETB 160.90. The premium consequently reached ETB 26.10 at the end of the quarter, marginally below its quarterly peak of ETB 26.21 recorded on September 25.

The comparison with the first quarter of FY2025/26 highlights a notable reversal in the relative movements of the two exchange rates. During July–September 2025, the premium declined from

[2] The premium reported in this section is calculated using the observed parallel-market rate relative to the official exchange rate. However, alternative foreign exchange channels, including private forex bureaus and commercial banks offering remittance incentives, may provide rates that differ from both benchmarks, potentially reducing the effective premium faced by users of these channels. For illustration, on September 30, 2026, the Commercial Bank of Ethiopia (CBE) reportedly offered a 7.875 percent incentive on its selling rate for remittances received through its digital applications, while Rooha Forex Bureau quoted a cash buying rate of ETB 183.03 and a selling rate of ETB 186.69 per US dollar.

ETB 20.52 (15.1 percent of the official rate) on July 1 to ETB 13.08 (8.9 percent) on September 30, representing a contraction of ETB 7.44. This convergence was largely associated with the faster adjustment of the official exchange rate, which depreciated by ETB 10.94 during the quarter, compared with an increase of only ETB 3.50 in the parallel-market rate. In other words, the official rate moved closer to the parallel-market rate. The pattern was different in the first quarter of FY2026/27: the parallel-market rate increased by ETB 9, whereas the official rate depreciated by only ETB 1.95. Thus, the widening premium reflected the faster depreciation of the parallel-market rate relative to the official rate, rather than a comparable adjustment in the official market.

This reversal raises questions about the factors influencing foreign exchange market conditions. Although the exchange-rate series cannot independently establish the causes of the widening premium, developments may be considered in light of the structural constraints previously identified in Ethiopia's foreign exchange market. Gurhy et al. (2025) identify remaining foreign exchange restrictions, limited financial market depth, insufficient competition among financial institutions, and constraints on capital and financial account transactions as factors that may sustain a parallel-market premium even after the introduction of a more flexible exchange-rate regime. Such structural constraints may limit the extent to which exchange-rate flexibility translates into effective market integration and convergence between formal and informal exchange rates.

One possible manifestation of these constraints is the limited responsiveness of foreign exchange supply through formal channels. The supply of foreign exchange available through formal channels may not be fully accommodating market demand at prevailing exchange rates. Where demand for foreign currency exceeds the amount readily accessible through banks and other authorized channels, some transactions may shift towards the parallel market, placing additional upward pressure on its exchange rate. In this regard, the IMF (2026) reports that, despite improvements in foreign exchange liquidity following increased inflows and National Bank of Ethiopia (NBE) auctions, limited competition among commercial banks continues to constrain efficient market clearing and price discovery. The report also notes that the interbank foreign exchange market remains relatively illiquid, with limited transactions, while foreign exchange backlogs at banks were estimated at approximately US$1.4 billion at the end of April 2026. These developments suggest that improvements in aggregate foreign exchange availability do not necessarily translate into effective access to foreign currency across the banking system. Consequently, constraints in the distribution and allocation of foreign exchange may continue to contribute to differences between formal and informal market rates.

The widening premium also has implications for the functioning and effectiveness of the foreign exchange market. A larger difference between official and parallel-market rates may weaken incentives to channel foreign exchange transactions through formal institutions, particularly where users perceive alternative channels as offering more accessible or favorable rates. This could complicate efforts to improve foreign exchange mobilization through the banking system, strengthen market transparency, and consolidate the gains from the July 2024 exchange-rate reform. However, the extent of these effects would depend on actual transaction volumes, foreign exchange availability, regulatory arrangements, and the relative costs of accessing different market

channels. As Gurhy et al. (2025) emphasize, exchange-rate flexibility and unification alone may not eliminate parallel-market premiums where underlying structural constraints persist.

In sum, developments during the first quarter of FY2026/27 indicate a renewed widening of the official–parallel exchange-rate differential following the convergence observed during the corresponding quarter of the previous fiscal year. While the official exchange rate continued to depreciate, its adjustment was considerably slower than the movement in the parallel market. Whether this divergence represents a temporary development or a more persistent feature of the foreign exchange market will depend, among other factors, on the responsiveness of formal foreign exchange supply, the effectiveness of price discovery, improvements in the allocation of foreign exchange across banks, the removal of remaining market distortions, and the continued development of foreign exchange market institutions. Monitoring the premium alongside foreign exchange auction outcomes, unmet demand, interbank market activity, and actual transaction rates will therefore be important in assessing the progress of exchange-rate reform.

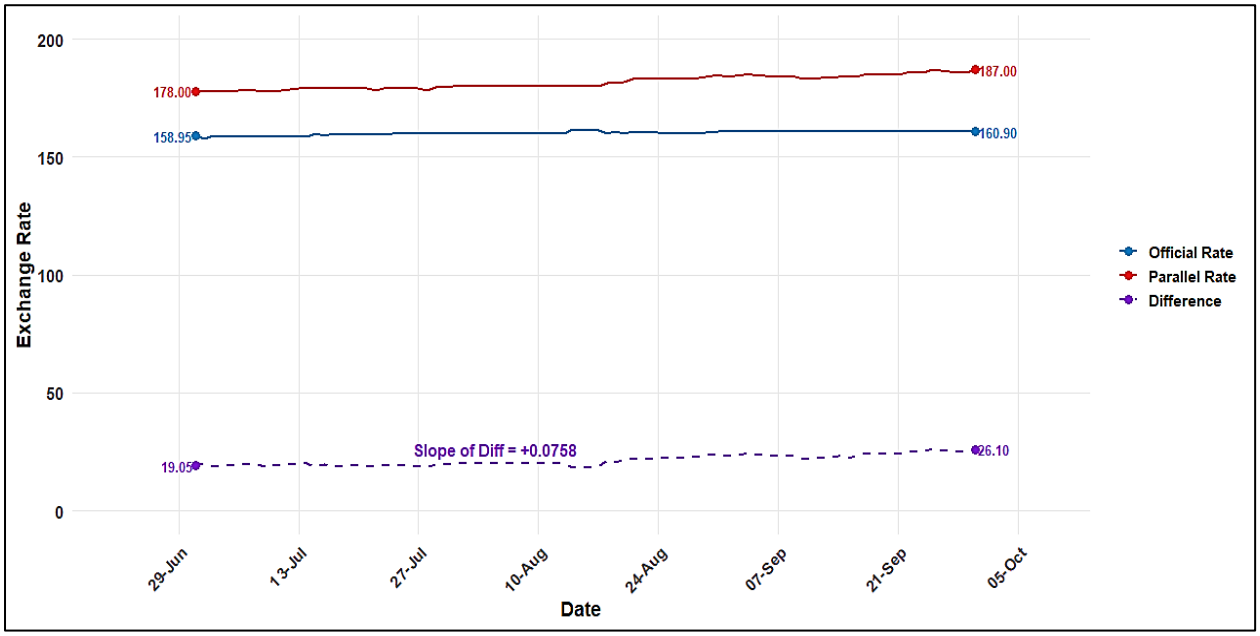


Figure 5: Comparison of Official and Parallel ETB/USD Exchange Rates, July 1 to September 30, 2026

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

2.6. Real and Nominal Effective Exchange Rates: Slowing Real Depreciation and Nominal Appreciation

The real effective exchange rate index (REERI) continued to decline in the first quarter of FY2026/27, although the pace of depreciation slowed further. The index fell to 153.68 from 154.70 in the preceding quarter, representing a quarterly depreciation of 0.66 percent. In contrast, the nominal effective exchange rate index (NEERI) increased from 16.0 to 16.6, indicating a nominal appreciation of 3.75 percent against the weighted basket of trading-partner currencies. This was the largest quarterly appreciation recorded in the four quarterly changes examined and marked a notable divergence between nominal and real exchange rate movements.

As illustrated in Figure 6, the REERI declined consistently over the four quarterly changes examined, from 173.0 in Q1 FY2025/26 to 153.68 in Q1 FY2026/27, representing a cumulative depreciation of approximately 11.2 percent. However, the pace of adjustment moderated progressively. The index declined by 7.9 percent in Q2 FY2025/26, followed by smaller declines of 1.9 percent in Q3, 1.0 percent in Q4, and 0.66 percent in Q1 FY2026/27. This pattern indicates that the substantial real exchange rate adjustment observed earlier in the post-reform period has gradually given way to a slower pace of depreciation.

The NEERI followed a different trajectory. It declined from 17.1 in Q1 FY2025/26 to 16.0 in Q4 FY2025/26, although a marginal appreciation of 0.62 percent in Q3 temporarily interrupted the downward movement. In Q1 FY2026/27, the index rebounded to 16.6, registering a quarterly appreciation of 3.75 percent. Despite this recovery, the NEERI remained approximately 2.9 percent below its level in Q1 FY2025/26. Thus, the nominal effective exchange rate recorded a considerably smaller cumulative depreciation than the REERI over the same period.

The divergence between the two indices in the latest quarter warrants particular attention. The NEERI measures the Birr's value against a trade-weighted basket of partner currencies, while the REERI additionally incorporates differences in domestic and foreign price movements. Consequently, nominal appreciation can coexist with real depreciation when relative price developments move sufficiently in the opposite direction. In the Ethiopian case, the increase in the NEERI alongside the decline in the REERI suggests that relative price developments more than offset the nominal appreciation during the quarter. This is consistent with the standard interpretation of effective exchange rate indices, which combine nominal exchange rate movements with relative price developments (Bank for International Settlements [BIS], 2015; International Monetary Fund [IMF], n.d.). The nominal appreciation against the currency basket also does not necessarily imply appreciation against every individual currency. In particular, it should not be interpreted as contradicting the Birr's depreciation against the US dollar discussed in Section 2.1, since bilateral exchange rate movements and trade-weighted exchange rate movements can differ.

On a year-on-year basis, both indices remained below their corresponding levels in Q1 FY2025/26, although the pace of depreciation had moderated. The REERI was approximately 11.2 percent lower, while the NEERI was 2.9 percent lower than their respective levels a year earlier. These figures indicate that both indices continued to reflect the cumulative adjustment following the foreign exchange reform, although the cumulative decline remained substantial. The moderation is consistent with the broader pattern of exchange rate adjustment observed in Sections 2.1–2.5. It also broadly accords with the IMF's assessment of the substantial real effective exchange rate adjustment following Ethiopia's July 2024 foreign exchange reform (IMF, 2025).

From an external competitiveness perspective, the decline in the REERI suggests that Ethiopian goods and services have become relatively less expensive compared with those of trading partners, potentially supporting the price competitiveness of exports and import-competing domestic production. Nevertheless, the extent to which this translates into stronger export performance or import substitution depends on factors beyond the exchange rate, including domestic productive

capacity, access to imported intermediate inputs, infrastructure, trade logistics and the responsiveness of producers to changing relative prices. The IMF (2025) similarly emphasizes that sustaining competitiveness gains requires improvements in trade logistics, access to credit and imported inputs, and the productive capacity of export-oriented industries. Therefore, although the cumulative real depreciation may have strengthened Ethiopia's relative price position, its translation into sustained improvements in external competitiveness will depend on complementary structural and supply-side developments.

The exchange rate developments also have implications for the domestic inflation outlook. Nominal exchange rate depreciation can increase the domestic-currency cost of imported consumer goods, intermediate inputs and capital goods, thereby contributing to domestic price pressures. However, the magnitude and timing of this transmission depend on import dependence, the availability of foreign exchange, pricing behavior and the extent to which higher costs are passed on to consumers. In this regard, the substantial nominal exchange rate adjustment following the July 2024 reform may have contributed to imported inflationary pressures, although its actual contribution needs to be distinguished from other domestic and external price drivers.

The relatively small decline in the REERI during Q1 FY2026/27 suggests that the pace of real exchange rate adjustment has moderated considerably. This may indicate that the substantial relative price adjustment observed in the earlier post-reform period is gradually giving way to a more stable pattern. Nevertheless, one quarter's movement is insufficient to establish a durable stabilization of the real exchange rate. Future developments will depend on the interaction between nominal exchange rate movements, domestic inflation, inflation among trading partners and the effectiveness of monetary and supply-side policies in sustaining price stability.

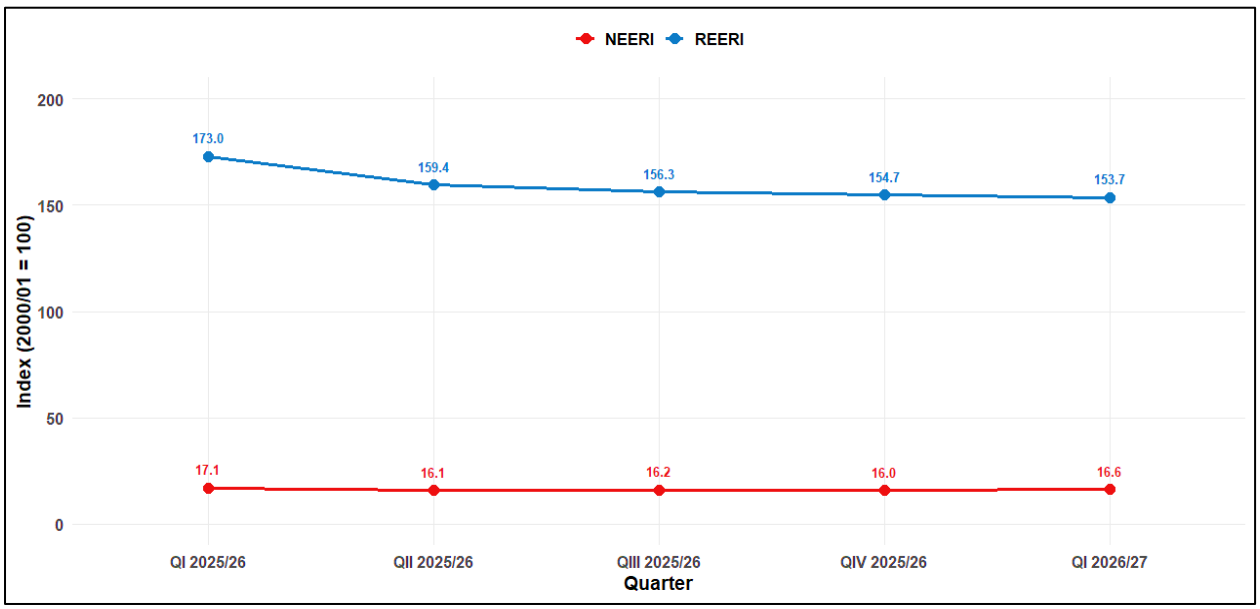


Figure 6: Evolution of the Real and Nominal Effective Exchange Rate Indices, Q1 FY2025/26 to Q1 FY2026/27

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

3. International Commodity Price Developments and External Sector Implications

Global commodity prices can influence Ethiopia's external position through export earnings, import costs, and the supply of foreign exchange. During the first quarter of FY2026/27, movements in the prices of coffee and gold, two of Ethiopia's major exports, and of fuel, fertilizer, and wheat, its main imports, may have shaped its trading conditions, potentially easing or intensifying pressure on the trade balance depending on the size and direction of each price change. These external developments complement the domestic exchange rate dynamics discussed in Section 2, since both are relevant to the Birr value of export receipts and the domestic cost of imports. This section examines international commodity price developments during the quarter and considers their potential implications for Ethiopia's trade balance and external stability.

3.1. Global Commodity Prices: Diverging Trends Across Ethiopia's Export and Import Baskets

Global commodity prices moved in divergent directions during the first quarter of FY2026/27, creating both opportunities and risks for Ethiopia's external sector. Gold prices remained substantially higher than a year earlier, while coffee prices declined modestly. Among imports, crude oil and wheat became considerably more expensive, urea prices fell sharply, and diammonium phosphate (DAP) prices remained relatively stable. These developments have mixed implications for export earnings, import costs, and domestic inflation, reflecting the vulnerability of commodity-dependent economies to uneven international price shocks (Deaton, 1999; Collier & Goderis, 2012).

As shown in Table 1, gold averaged USD 4,268 per troy ounce in Q1 FY2026/27, an increase of 23.4% from USD 3,459 in the corresponding quarter of FY2025/26. However, the quarterly average fell by 5.4% from USD 4,512 in Q4 FY2025/26, suggesting some moderation after the preceding price increases. The World Bank's precious metals index nevertheless rose by 28.5% year-on-year, reflecting the strength of precious metals prices over the past twelve months (World Bank, 2026).

Coffee prices followed a different pattern. Arabica averaged USD 7.71 per kilogram, down 3.9% year-on-year from USD 8.03, but up 10% from USD 7.01 in the preceding quarter. This partial recovery followed the sharp increases recorded in the previous year, while the World Bank's beverages index, which includes coffee, cocoa, and tea, declined by 11.6% year-on-year. For Ethiopia, higher gold prices could support export earnings and foreign exchange receipts, while lower coffee prices could partly offset these gains. The overall effect depends on export volumes, realized prices, and the relative contribution of each commodity to total export earnings.

On the import side, crude oil prices increased substantially compared with the previous year, despite declining relative to the preceding quarter. Oil averaged USD 97.03 per barrel in Q1 FY2026/27, up 40.5% from USD 69.07 a year earlier but down 7.1% from USD 104.43 in Q4 FY2025/26. Within the quarter, Brent crude rose from USD 83.4 per barrel in July to USD 116.8

in September, an increase of approximately 40%. The World Bank's energy index also increased by 40.7% year-on-year (World Bank, 2026). If sustained, these increases could raise Ethiopia's petroleum import bill and put upward pressure on transport, production, and distribution costs. The eventual effect on domestic inflation would depend on exchange-rate movements, fuel-pricing arrangements, and the extent of cost pass-through. Research on oil-price shocks similarly emphasizes that their macroeconomic effects depend on the source of the shock and its transmission through the economy (Kilian, 2008, 2009).

Fertilizer prices, meanwhile, moved in opposite directions. Urea averaged USD 399.2 per metric ton, down 18.3% year-on-year and 42.4% from the previous quarter's USD 693.5. This decline followed the price spike in early 2026, when urea reached USD 856.9 per metric ton in April. DAP averaged USD 791.8 per metric ton, increasing by 2.8% year-on-year and 4.2% quarter-on-quarter. Consequently, the World Bank's fertilizers index declined by 3.8% year-on-year, concealing the substantial fall in urea prices and the relative stability of DAP prices (World Bank, 2026). Lower urea prices could ease agricultural input costs in Ethiopia, but the benefits for farmers would depend on procurement costs, foreign exchange availability, distribution arrangements, and domestic pricing. The continued firmness of DAP prices also limits the scope for a uniform reduction in fertilizer costs. These developments matter for agricultural productivity and food security because input affordability can influence fertilizer application and production decisions (World Bank, 2023).

Wheat prices also rose sharply. The US hard red winter (HRW) benchmark averaged USD 329.0 per metric ton in Q1 FY2026/27, up 41.0% from USD 233.3 a year earlier and 13.3% from the preceding quarter. Monthly prices increased steadily from USD 310 in July to USD 347 in September. The World Bank's grains index rose by 24.9% year-on-year (World Bank, 2026). For Ethiopia, higher international wheat prices could increase the foreign exchange required for imports and add to domestic food-price pressures. However, the US HRW benchmark does not necessarily represent the prices paid for Ethiopian imports, which may differ according to origin, quality, freight, insurance, and procurement arrangements.

Taken together, these developments indicate a mixed external price environment for Ethiopia. Higher gold prices could strengthen export earnings, while lower coffee prices may partially offset the gain. At the same time, rising oil and wheat prices could increase import expenditure, while falling urea prices offer some relief to agricultural input costs. Whether these movements improve or worsen Ethiopia's terms of trade cannot be established from the selected commodity prices alone. A reliable assessment requires appropriately weighted export- and import-price indices. Evaluating the implications for the trade balance and foreign exchange availability also requires information on trade volumes and the actual prices paid and received. As the commodity-price literature highlights, the effects of external price movements depend on the structure of trade and the relative importance of individual commodities (Deaton, 1999; Collier & Goderis, 2012).

The policy implications are therefore differentiated. Higher international oil and wheat prices could intensify imported inflationary pressures, particularly if accompanied by depreciation of the birr and substantial pass-through to domestic prices. Conversely, lower urea prices could support

agricultural production if the reductions are sustained and transmitted to farmers. However, changes in international wheat and fertilizer prices alone are insufficient to establish their effects on domestic production costs or farmers' profit margins. Monitoring commodity prices, import costs, domestic price transmission, and fertilizer distribution would help policymakers identify emerging risks. Strengthening export competitiveness and ensuring the timely availability of agricultural inputs would also help mitigate external shocks and support macroeconomic stability.

Table 1: Global Commodity Price Trends (Q1 FY2025/26 to Q1 FY2026/27)

Commodity	Unit	Trade role	Q1 FY2025/26	Q4 FY2025/26	Q1 FY2026/27	QoQ growth	YoY growth
Coffee (Arabica)	$/kg	Major export	8.03	7.01	7.71	+10.0%	−3.9%
Gold	$/troy oz	Major export	3,458.7	4,512.0	4,267.7	−5.4%	+23.4%
Oil (Crude Brent)	$/bbl	Import	69.07	104.43	97.03	−7.1%	+40.5%
Urea (Europe)	$/mt	Import	488.3	693.5	399.2	−42.4%	−18.3%
DAP	$/mt	Import	770.6	759.5	791.8	+4.2%	+2.8%
Wheat (US HRW)	$/mt	Net import	233.3	290.3	329.0	+13.3%	+41.0%

Source: Author's compilation based on World Bank Pink Sheet, October 2026

4. Conclusion and Recommendations

The first quarter of FY2026/27, covering July to September 2026, marked the beginning of the third year since Ethiopia adopted a market-based exchange-rate regime in July 2024. During the quarter, the Birr depreciated by 1.2 percent against the US dollar, from ETB 158.95 to ETB 160.90 per USD. This was considerably slower than the 8.1 percent depreciation recorded in the same quarter of the preceding year and among the lowest quarterly depreciations since the reform. Although the exchange rate remained relatively stable for much of the quarter, the adjustment of ETB 1.72 on August 14 demonstrated that periods of limited daily movement can still be followed by discrete adjustments. The slower depreciation represents an important change in the pace of exchange-rate adjustment, although it does not necessarily indicate that the market has reached a stable equilibrium.

Developments in commercial bank quotations revealed greater alignment in the official market. The dispersion between the highest and lowest buying rates among reporting banks narrowed from ETB 5.31 on July 1 to ETB 2.11 on September 30, declining to ETB 1.50 when Global Bank Ethiopia, whose rate remained unchanged, was excluded. Selling-rate dispersion also narrowed substantially. By September 30, all 26 reporting banks applied the same 2 percent margin between buying and selling rates. These developments indicate greater consistency in quoted exchange rates across banks. However, narrower quotation spreads alone do not establish stronger competition, improved liquidity or more equitable access to foreign exchange.

In contrast, the official–parallel market premium widened during the quarter, increasing from ETB 19.05, equivalent to 12 percent of the official rate, on July 1 to ETB 26.10, or 16.2 percent, on September 30. The increase of ETB 7.05 reflects the faster adjustment of the parallel-market rate relative to the official rate, particularly from mid-August onward. Unlike the corresponding quarter of FY2025/26, when the premium narrowed as the official rate adjusted more rapidly, the premium widened during the current quarter. This divergence suggests that greater alignment in commercial bank quotations did not translate into comparable convergence between official and parallel-market rates. Remaining foreign exchange restrictions, limited financial market depth, constraints on capital and financial account transactions, an illiquid interbank market and accumulated foreign exchange backlogs, estimated at approximately US$1.4 billion at the end of April 2026, may contribute to continued market segmentation and constrained access through formal channels.

Effective exchange-rate developments provided a complementary perspective on external competitiveness. The real effective exchange rate index declined by 0.66 percent during the quarter, extending its year-on-year depreciation to 11.2 percent. The pace of quarterly real depreciation has progressively moderated, from 7.9 percent in Q2 FY2025/26 to 1.9 percent in Q3, 1 percent in Q4 and 0.66 percent in Q1 FY2026/27. Meanwhile, the nominal effective exchange rate index appreciated by 3.75 percent, from 16 to 16.6, although it remained approximately 2.9 percent below its level a year earlier. The combination of nominal effective appreciation and real effective depreciation is consistent with domestic prices increasing more slowly than those of trading partners. This relative-price adjustment may support external

competitiveness, but its translation into stronger export performance depends on productive capacity, access to imported inputs, infrastructure, trade logistics and firms' ability to respond to relative-price changes.

International commodity-price developments introduced additional opportunities and risks. Gold prices remained elevated, potentially supporting export earnings, although lower coffee prices could partly offset this benefit. Meanwhile, higher oil and wheat prices may increase import costs and contribute to domestic inflationary pressures. The decline in urea prices could ease agricultural input costs if the reduction is transmitted through procurement and distribution channels to farmers. These developments underscore the importance of monitoring external price movements alongside exchange-rate adjustment, while recognizing that their overall implications for the trade balance and domestic prices depend on import and export volumes, domestic transmission mechanisms and other market conditions.

Overall, the first quarter of FY2026/27 was characterized by slower nominal depreciation, greater alignment in commercial bank exchange-rate quotations and continued real effective depreciation. However, the widening parallel-market premium and persistent formal-market access constraints indicate that important challenges remain in the functioning and integration of the foreign exchange market. The combination of slower depreciation and narrower bank quotation spreads should therefore not be interpreted, in isolation, as evidence of exchange-rate equilibrium, effective market clearing or a fully functioning foreign exchange market. Sustaining the benefits of the transition will require improvements in foreign exchange availability, market liquidity, transparency and structural competitiveness.

Taken together, these developments suggest seven prioritized policy actions.

1. Reduce foreign exchange backlogs and improve access through formal channels
    - Work with commercial banks to progressively clear outstanding foreign exchange backlogs and improve the predictability and transparency of allocation across customers.
    - Publish regular information on foreign exchange demand, allocations, unmet demand and outstanding bank queues to make access constraints more visible and measurable.
2. Deepen the interbank market and improve price discovery
    - Encourage more active foreign exchange trading among commercial banks to facilitate market clearing, improve liquidity distribution and reduce reliance on parallel-market transactions.
    - Monitor interbank trading volumes, transaction prices and participation alongside official and parallel-market rates to assess improvements in market liquidity and price discovery.
3. Address remaining structural and regulatory constraints in the foreign exchange market
    - Review remaining foreign exchange restrictions and constraints on capital and financial account transactions, with consideration of macroeconomic stability and the sequencing of further liberalization.

- Develop financial market depth and strengthen transparency and consistency in foreign exchange allocation to support a more integrated and efficient market.

4. Strengthen monitoring of official and parallel market exchange rates
    - Monitor the official–parallel market premium regularly and assess its movements alongside commercial bank transaction rates, foreign exchange volumes and interbank activity.
    - Incorporate the premium consistently into quarterly exchange-rate assessments to distinguish temporary fluctuations from persistent market segmentation and access constraints.
5. Monitor inflation risks from higher oil and wheat prices
    - Track the transmission of international oil and wheat prices into domestic transport, production and food prices to identify emerging inflationary pressures.
    - Strengthen coordination between fuel-price monitoring, food-security assessments and macroeconomic surveillance to identify imported price pressures early and inform appropriate policy responses.
6. Ensure lower urea prices reach farmers
    - Monitor fertilizer procurement, distribution and retail pricing to assess whether lower international urea prices are transmitted to farmers and translate into reduced agricultural input costs.
    - Track DAP prices separately, given their continued firmness relative to the decline in urea prices, and assess their implications for fertilizer affordability and agricultural production costs.
7. Enhance export competitiveness beyond exchange rate adjustment
    - Complement exchange-rate adjustment with improvements in trade logistics, infrastructure, access to credit and availability of imported intermediate and capital goods.
    - Strengthen productive capacity, export diversification and productivity-enhancing investments so that real effective depreciation can translate into sustained export growth, improved foreign exchange earnings and stronger external-sector resilience.

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