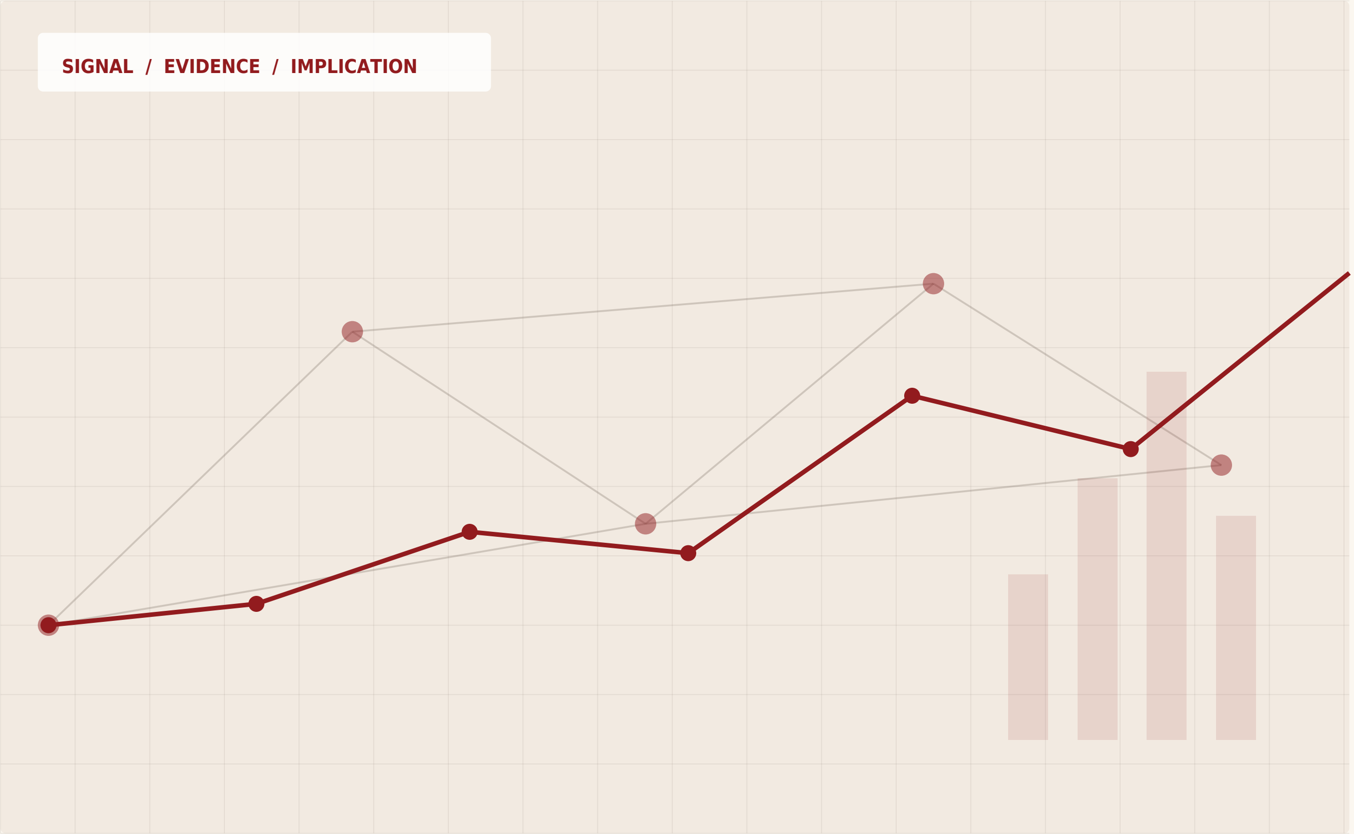
MACRO / FINANCE / FX

MACROECONOMIC BRIEF / JUNE 2026

From ETB 57 to ETB 160

The Devaluation That Unlocked External Financing and Reshaped Ethiopia's Investment Environment



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KEY INDICATORS AT A GLANCE

ETB 160 **Official rate (May 2026)** *Private banks avg; Capital Market Ethiopia, May 2026*	**~180** **Parallel rate (May 2026)** *UNDP / Birr Metrics; 12-15% premium persists*	**57-160** **Rate trajectory (2yr)** *Pre-reform ETB 57 to ETB 160; NBE/IMF data*	**9.3%** **GDP growth (FY2025/26 proj.)** *IMF Fourth Review, January 16, 2026*
11.9% **Inflation (FY2025/26 proj.)** *IMF; down from 26.6% in FY2023/24*	**$5.5B** **FX reserves (Q1 2026)** *~3.5 months import cover; Birr Metrics, March 2026*	**$5B** **Export H1 FY2025/26** *20% above target; Finance in Africa, Jan 2026*	**$3.4B** **IMF ECF facility (total)** *Approved July 2024; $2.65B disbursed to Jan 2026*

DATA INTEGRITY NOTE *Exchange rate figures reflect weighted average auction rates and bank buying/selling averages from named sources at the dates cited; parallel market rates are sourced from UNDP Quarterly Economic Profile and Birr Metrics, which track informal market data. All IMF projections are from the Fourth Review (January 2026) and Fifth Review staff-level agreement (June 3, 2026). GDP growth and inflation figures are IMF projections, not actuals. Single-source claims are flagged inline.*

01 THE REFORM: WHAT HAPPENED ON JULY 29, 2024 AND WHY IT MATTERS

From ETB 57 to ETB 160 in Two Years. The Devaluation That Unlocked $10.7 Billion and Reshaped the Investment Environment.

On July 29, 2024, the National Bank of Ethiopia (NBE) abolished fixed exchange rate controls and moved to a managed float regime as a condition of its $3.4 billion Extended Credit Facility with the IMF and $7.3 billion in associated World Bank and bilateral financing. The birr moved from approximately ETB 57 per dollar to ETB 114 within days: a 30% devaluation by official announcement, a near-100% adjustment in practice relative to where the parallel market had been trading. By May 2026, the official rate at private banks stands at approximately ETB 160 per dollar, representing a cumulative depreciation of roughly 180% from the pre-reform peg.

- **WHY THE REFORM WAS UNAVOIDABLE:** The pre-2024 fixed rate regime had created a dual-market distortion that was becoming unmanageable. The official rate of ETB 57 had been held artificially low while the parallel market traded at ETB 130 or above, creating a 100%+ premium. Foreign exchange was rationed by the central bank, prioritising state-linked companies and leaving private importers dependent on informal channels. The forex backlog, the accumulated unmet demand from companies unable to repatriate earnings or pay foreign suppliers at the official rate, had become a structural barrier to FDI and operating confidence. The IMF, World Bank, and bilateral creditors made FX liberalisation a precondition for the financing package.
- **WHAT THE REFORM DELIVERED:** The initial devaluation largely closed the parallel market gap. Export competitiveness improved immediately: the local-currency value of coffee and gold export receipts increased sharply, and the 2024/25 fiscal year produced a historic $8 billion in export revenue, according to Africa Practice (July 2025). FX reserves, which had covered barely three weeks of imports in mid-2024, recovered to 1.9 months of cover by end of FY2024/25 (IMF Fourth Review, January 2026) and to an estimated 3.5 months by Q1 2026 (Birr Metrics, March 2026). Total IMF disbursements reached $2.65 billion by January 2026, and the fifth review staff-level agreement (June 3, 2026) is expected to unlock an additional $468 million.
- **WHAT THE REFORM HAS NOT RESOLVED:** The parallel market gap has re-emerged. By May 2026, private banks are averaging ETB 160 while the parallel market trades at approximately ETB 173-180, a premium of 12-15% (Capital Market Ethiopia; UNDP Quarterly Economic Profile). The IMF attributes this persistence to structural features:

remaining current-account restrictions, a tightly closed capital account, low returns on birr-denominated assets, underdeveloped interbank and hedging markets, and high bank concentration. The IMF (Country Report 25/189) states explicitly that a moderate parallel market spread is likely to persist in Ethiopia under current structural conditions.

02 THE MACRO PICTURE: GROWTH, INFLATION, RESERVES, AND EXPORTS

9.3% Projected Growth. Inflation Near Single Digits. Reserves at 3.5 Months. An Improving External Position With Named Risks.

Ethiopia's macroeconomic performance under the IMF programme has consistently exceeded projections. Real GDP growth reached 9.2% in FY2024/25, above the initial programme forecast, and is projected at 9.3% for FY2025/26 (IMF Fourth Review, January 2026). Inflation, which averaged 26.6% in FY2023/24 and 16.0% in FY2024/25, fell to 9.7% in December 2025, the first single-digit reading in several years (Finance in Africa, January 2026), before the IMF revised its end-FY2025/26 projection to approximately 12% due to fuel price adjustments as subsidies were phased out.

- **THE EXPORT SURGE AND ITS COMPOSITION RISK:** Ethiopia's merchandise exports reached $5.0 billion in the first half of FY2025/26, up from $3.3 billion in the same period a year earlier, exceeding the government target by 20% (Finance in Africa, January 2026). Gold and coffee together accounted for 77.5% of total export revenues in FY2024/25 (Addis Standard, July 2025). Gold exports rose from 4 metric tons in FY2023/24 to approximately 39 metric tons in FY2024/25 (IMF Fourth Review). Coffee generated $762.75 million in Q1 FY2025/26 alone, a 47% increase, largely price-driven as global Arabica prices were elevated by supply disruptions in Brazil and Vietnam. The World Bank forecasts Arabica prices could fall 15% or more in 2026 as those supply issues normalise. The export performance is structurally positive but partially driven by commodity price cycles and a one-time FX adjustment effect, not yet by diversification.
- **REMITTANCES AS A STABILISING INFLOW:** Remittance inflows rose approximately 35% to $3.8 billion in the first half of FY2025/26 (UNDP Quarterly Economic Profile, March 2026). This represents the "mattress money" effect: the NBE's 2026 directive removing minimum deposit requirements for foreign currency accounts and expanding the use of the unite.et diaspora platform has encouraged formalisation of previously informal remittance channels. The current account deficit narrowed to $991 million in H1 FY2025/26 from $1.8 billion in the same period a year earlier.
- **FX RESERVES: IMPROVING BUT NOT YET ADEQUATE:** Gross international reserves reached approximately $5.5 billion by Q1 2026, equivalent to roughly 3.5 months of import cover (Birr Metrics, March 2026). The IMF's programme target for the end of the four-year ECF period is 3.5 months of import cover, meaning Ethiopia is reaching end-programme reserve levels ahead of schedule. The IMF has nonetheless flagged that below-target social safety net spending and fiscal deviations in FY2025/26 require correction, and that declining Official Development Assistance (from 12% of GDP in 2011 to under 4% in 2023) remains a medium-term external financing headwind.

> **BENCHMARK ANCHORING**
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> Ethiopia's 9.3% GDP growth projection for FY2025/26 compares to Kenya's projected 5.4% and Rwanda's 7.2% (IMF April 2026 Regional Economic Outlook). On inflation, Ethiopia at a projected 11.9% remains above Kenya (approximately 4-5%) and Rwanda (approximately 5-6%). On FX reserves, 3.5 months of import cover is below the East African peer median of approximately 4-5 months. Ethiopia is growing fastest in the peer group, with the most ground still to cover on monetary stability and reserves adequacy.

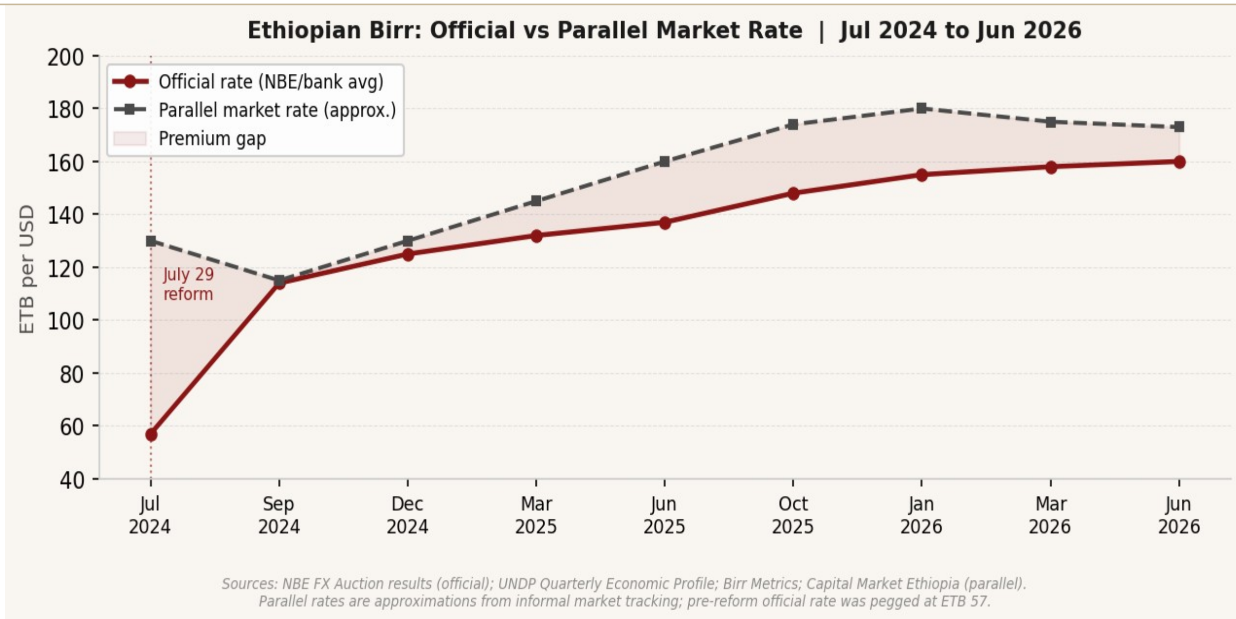

Figure 1: Ethiopian Birr Official vs Parallel Market Rate | Jul 2024 to Jun 2026 | Sources: NBE FX Auction results; UNDP Quarterly Economic Profile; Birr Metrics; Capital Market Ethiopia

03 THE PARALLEL MARKET PROBLEM: WHY THE GAP PERSISTS AND WHAT IT COSTS

Official Rate ETB 160. Parallel Rate ETB 173-180. The 12-15% Gap Is Not Random Noise. It Is a Structural Signal.

The persistence of the parallel market premium after the July 2024 liberalisation is the most analytically important feature of Ethiopia's FX situation for investors to understand. The gap is not evidence that the reform failed. It is evidence that the reform was necessary but not sufficient to unify the market. The IMF is explicit on this: structural features of Ethiopia's financial system mean a moderate parallel premium is likely to persist through the current reform programme period, and probably beyond.

- **THE THREE STRUCTURAL DRIVERS OF THE GAP:** First, remaining current-account restrictions. Despite liberalisation, Ethiopia retains surrender requirements (exporters must convert a proportion of foreign earnings to birr at the official rate) and other controls that increase the cost of using the formal market relative to informal channels. Second, low returns on birr-denominated assets. With inflation still elevated, real interest rates on birr savings remain negative or near-zero, creating incentives to hold wealth in foreign currency, which drives informal FX demand. Third, an underdeveloped interbank market. The Commercial Bank of Ethiopia (CBE) dominates the banking sector, and the absence of hedging instruments and an active interbank FX market means price discovery is thin and liquidity is concentrated.
- **WHAT THE GAP COSTS THE PRIVATE SECTOR:** For import-dependent businesses, the effective exchange rate for sourcing dollars outside formal channels is ETB 173-180, not ETB 160. This inflates input costs and squeezes margins on products priced in birr. For companies receiving foreign currency revenues, the surrender requirement creates a forced conversion at below-market rates. For inbound investors seeking to understand their effective repatriation rate, the spread between official and parallel rates is the relevant risk variable, not the headline official rate. The IMF (Country Report 25/189) documented that banks continue to ration dollars, prioritising state-linked enterprises, while private sector applications face delays.

- **THE CONVERGENCE PATH:** The NBE's strategy involves multiple channels. Increasing FX auction frequency and volume: the NBE sold $640 million in January 2026 alone, including a record $500 million special operation, compared to $780 million across all of 2025 (Finance in Africa, January 2026). Publishing daily FX transaction rates from all banks from November 2025, improving price transparency. The "Debo" initiative encouraging diaspora use of formal remittance channels. The IMF's recommended additional steps include phasing out remaining current-account restrictions, offering positive real interest rates, and introducing hedging instruments. Analysts projected the official rate to stabilise at ETB 160-165 by end of FY2025/26, with the parallel premium narrowing to 5-8% by mid-2026 (The Reporter Ethiopia, February 2026).

04 THE INVESTOR IMPLICATIONS: WHAT THE BIRR SITUATION MEANS FOR CAPITAL ALLOCATION

The Devaluation Is In the Past. The Question for 2027 Is Whether the FX Environment Has Stabilised Enough to Price Investment Risk With Confidence.

The July 2024 devaluation was a one-time repricing event that is now in the base. Investors evaluating Ethiopia in 2026 and planning for 2027 are not being asked to absorb the risk of an imminent 100% devaluation: that has already happened. The relevant questions are the ongoing rate trajectory, the repatriation environment, and the operating cost implications of the parallel market gap.

- **SECTORS WITH NATURAL FX HEDGES:** Export-oriented sectors (coffee, gold, horticulture, leather) generate foreign currency revenues and are structurally advantaged in a depreciated-birr environment. Their costs are predominantly in birr, their revenues in dollars or euros, and the devaluation has improved their margin economics. Ethiopian Airlines, which earns the majority of its revenue in USD and holds international routes and cargo contracts, is largely insulated from domestic FX conditions and benefits from export-competitive Addis as a hub. Manufacturing for export in Kilinto and other industrial parks faces the same logic.
- **SECTORS WITH FX EXPOSURE:** Import-dependent businesses face a structurally higher cost base than pre-2024 in USD terms. Any business that sources inputs internationally and sells domestically in birr is operating at a permanently higher import cost. This includes pharmaceutical manufacturers sourcing APIs and packaging, food processors, and retailers of imported goods. The fuel subsidy phaseout has added a further cost layer: retail petrol prices rose approximately 43% in birr terms since early 2025 as subsidies were removed (IMF Fourth Review), directly affecting logistics and distribution costs.
- **THE PROFIT REPATRIATION QUESTION:** The IMF's new zero-limit QPC on FX intervention except through auctions (introduced in the Fourth Review) creates a structured mechanism for dollar access. In practice, companies report that accessing dollars through the formal auction system requires advance planning, involves queue dynamics, and is not guaranteed at the stated timeline. The parallel market premium of 12-15% represents the implicit cost of bypassing the queue. For investors modelling returns, the conservative assumption is that repatriation occurs at the official auction rate with a 3-6 month lag, not at spot.

> **THE HONEST ASSESSMENT**
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> The birr situation in mid-2026 is better than it was in mid-2025 on almost every measurable indicator: reserves are higher, inflation is lower, the parallel market premium has narrowed from 40% to 12-15%, and export performance has exceeded targets. The IMF Fifth Review staff-level agreement (June 3, 2026) signals continued programme compliance and unlocks $468 million in additional financing. The risks that remain are real. The parallel market

premium persists because structural issues in the financial system have not yet been resolved. The commodity price dependence of export revenues creates FX inflow vulnerability. The fiscal budget deviated from programme parameters in FY2025/26, which the IMF flagged and the government committed to correct. The Middle East conflict disruption cited in the Fifth Review has introduced new external uncertainty. For investors: the FX environment has structurally improved. It has not yet stabilised to the point where repatriation timing and rate can be planned with the confidence available in peer markets.

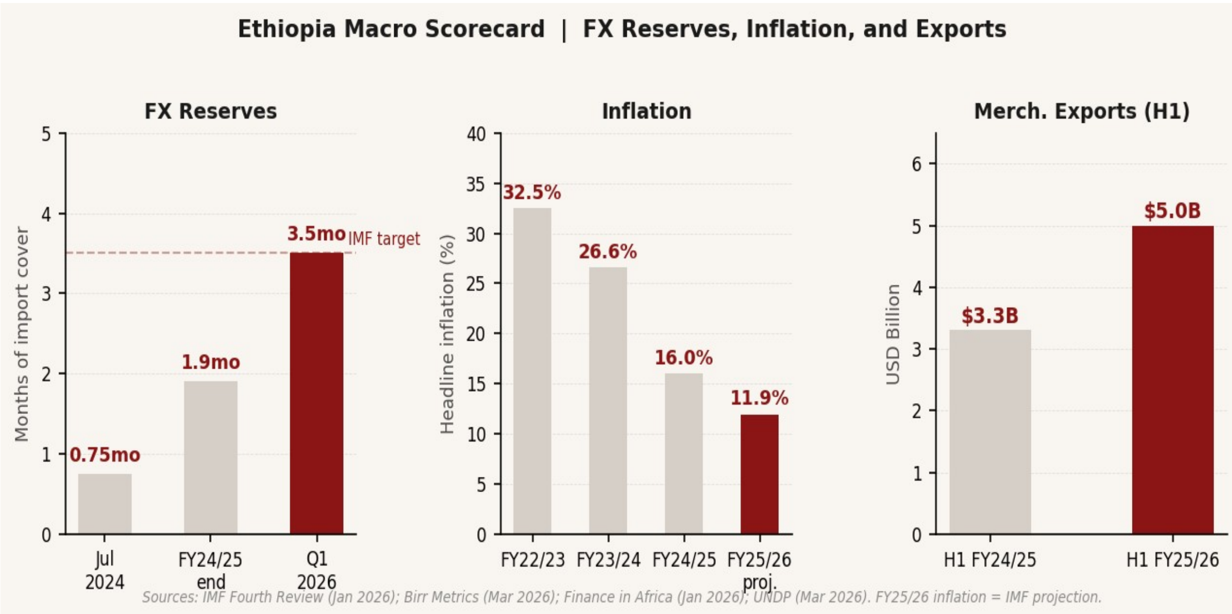

Figure 2: Ethiopia Macro Scorecard | FX Reserves, Inflation, and Exports | Sources: IMF Fourth Review (Jan 2026); Birr Metrics; Finance in Africa; UNDP (Mar 2026)

05 EDITOR'S OUTLOOK

The Birr in 2027: Three Scenarios and What Each Means for Investment Timing.

THE BOTTOM LINE

Ethiopia's birr has depreciated from ETB 57 to approximately ETB 160 in two years. That adjustment unlocked $10.7 billion in IMF and World Bank financing, restored FX reserves to 3.5 months of import cover, and improved export competitiveness in a way that produced a historic export year in FY2024/25. The reform was necessary and it is working on the macro indicators that matter. The incomplete element is market unification. The parallel premium of 12-15% persists because three structural conditions have not yet been resolved: remaining current-account restrictions, low returns on birr assets, and an underdeveloped interbank market. The IMF's own analysis says a moderate premium is likely to persist under current structural conditions. For the 2027 investment horizon, three scenarios are plausible. In the favourable scenario, continued IMF programme compliance, commodity prices holding, and the NBE's structural reforms narrow the parallel premium to below 5% and stabilise the official rate in the ETB 160-175 range: a functional FX environment for investor planning. In the base scenario, the premium persists at 8-12% and the rate continues its managed crawl toward ETB 180-190 by end-2027, manageable for export-oriented and long-horizon investors but a friction cost for import-dependent and shorter-cycle businesses. In the adverse scenario, a commodity price reversal on coffee and gold, combined with continued fiscal deviations and Middle East supply disruption effects, pressures reserves and widens the parallel premium above 20%, resurfacing repatriation uncertainty as an active investor risk. The base scenario is the most analytically supportable

> given current programme trajectory. The adverse scenario is non-trivial given the commodity price concentration risk. The favourable scenario requires structural financial sector reforms that are planned but not yet delivered.

Sources: IMF Executive Board Completion of Fourth ECF Review (Press Release 26/009, January 16, 2026); IMF Staff-Level Agreement Fifth Review (Press Release 26/183, June 3, 2026); IMF Country Report 26/20 (Fourth Review, January 2026); IMF Country Report 25/189 (Third Review and Article IV, July 2025); IMF Country Report 25/188 (Third Review); NBE FX Auction announcements (Auction No. 7-10, June-October 2025; January 2026 special auctions); Finance in Africa (Ethiopia FX interventions, January 28, 2026); Birr Metrics (Net foreign asset gap, March 22, 2026; Currency Trap, August 30, 2025); UNDP Ethiopia Quarterly Economic Profile (March 2026); The Reporter Ethiopia (NBE directive and FX implications, February 21, 2026); Africa Practice (Birr reform one-year assessment, July 30, 2025); Addis Standard (Export analysis, July 23, 2025); Capital Market Ethiopia (Ethiopia Forex Rate 2026, June 2026); TechCabal (Birr black market analysis, August 6, 2025); Kenyan Wallstreet (Ethiopia FX reform and export surge, March 18, 2026).