



HOUSEHOLD WELFARE · CUMULATIVE CPI · MACRO-MICRO LINK

543
CPI | Dec 2025
Base: Dec 2016 = 100

5.4x
Price Level Multiple
vs 2016 household basket

43%
Poverty Rate 2025
Up from 33% in 2016

~20% GDP
Gross Savings Rate 2025
Down from ~30% in 2018

THE PRICE FLOOR PROBLEM

Why 9.7% Inflation Is Not Relief: Cumulative CPI, Savings Compression, and the Mechanism Behind Ethiopia's Macro-Micro Disconnect

<p>2.5x Wage purchasing power <i>ETB 10k in 2019 needs 25k+ today</i></p>	<p>24% to 10% Domestic savings / GDP <i>2018 to 2021 (NBE 2022 report)</i></p>	<p>-41.8% Capital expenditure <i>Q1 FY2024/25 QoQ (EEA Sep 2025)</i></p>	<p>Insufficient IMF on safety nets <i>IMF Country Report No. 26/20</i></p>
--	---	---	---



KEY DATA POINTS

<p>543 Cumulative CPI (Dec 2016=100) <i>Dec 2025. Prices 5.4x higher than 2016.</i></p>	<p>43% Poverty Rate (World Bank) <i>Projected 2025. Up from 33% in 2016.</i></p>	<p>~20% Gross National Savings <i>Of GDP, 2025. Down from ~30% in 2018.</i></p>	<p>>120% Birr Depreciation since 2024 <i>From <60 birr/\$ to ~157 birr/\$ officially.</i></p>
<p>None Private Sector Minimum Wage <i>No national minimum wage in private sector.</i></p>	<p>+122% Electricity tariff increase <i>September 2024. On top of general inflation.</i></p>	<p>72% Multidimensional Poverty <i>Of population (UNDP). Additional 18% at cusp.</i></p>	<p>87% Cash income deprivation <i>Afrobarometer: went without cash income at least once in 2023.</i></p>

01 THE RATE IS NOT THE LEVEL

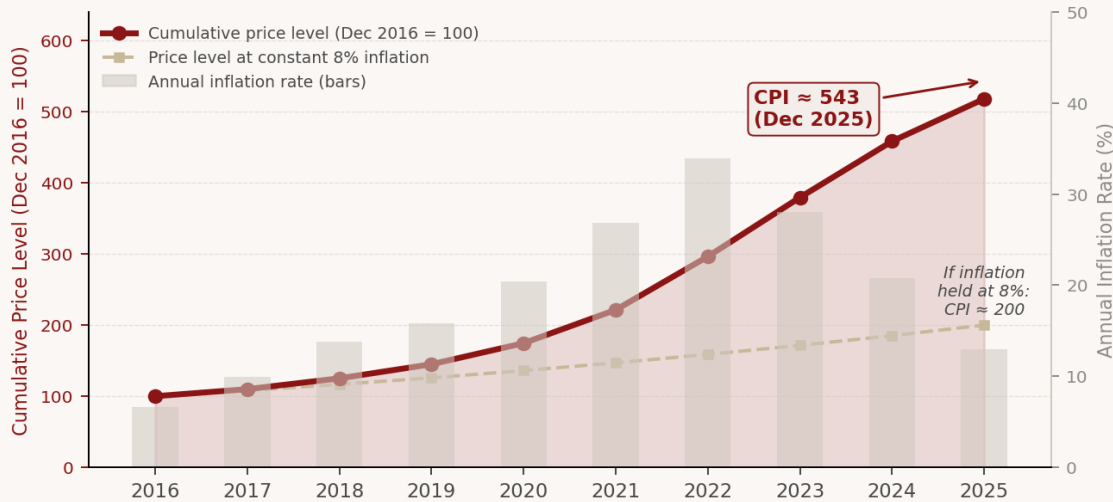
The Most Important Distinction in Ethiopian Economic Reporting

When a central bank announces that inflation has fallen to 9.7%, it is making a statement about the speed of price increase, not about prices themselves. Prices are not falling. They are rising more slowly. This distinction is the foundation of the reader's observation, and it is the most consistently misrepresented data point in Ethiopian economic commentary.

- ▶ **THE PRICE LEVEL DATA** Ethiopia's consumer price index stood at 100 in December 2016, the base year used by TheGlobalEconomy.com and Trading Economics for the IMF series. By December 2025, the CPI had reached approximately 543 — a figure confirmed across multiple sources. The maximum recorded in the series was 555.3 in October 2025. This means the basket of goods and services that cost a household 1,000 birr in December 2016 costs approximately 5,430 birr in December 2025. Inflation at 9.7% means this basket will cost approximately 5,958 birr by December 2026 if the rate holds. The basket does not get cheaper when inflation falls. It gets more expensive more slowly.
- ▶ **THE COUNTERFACTUAL** If Ethiopia had sustained an 8% annual inflation rate — elevated by any international standard, but consistent with the pre-reform era average — the cumulative CPI by December 2025 would be approximately 200. The actual CPI of 543 represents a price level 2.7 times higher than the counterfactual. That excess — approximately 340 index points — is the accumulated cost of a decade of above-norm inflation compounding on a household budget that had no corresponding wage indexation mechanism.
- ▶ **WHY STABILISATION AT 9.7% IS NOT RELIEF** Stabilisation at 9.7% means the rate of deterioration has slowed. It does not mean the price floor has reset. A household that adjusted its spending to survive at a CPI of 300 in 2023 has not recovered; it is now managing at a CPI of 543 with the same structural income constraints. The Reporter Ethiopia framed this precisely in January 2026: single-digit inflation 'will not be found in spreadsheets but in the price of bread, the cost of rent, and the dignity of daily survival.' For households on fixed nominal incomes or in the informal sector, single-digit inflation on a 543-point price base is still deeply contractionary in real terms.



Ethiopia: Cumulative Price Level vs Annual Inflation Rate | 2016-2025
9.7% inflation is the rate of deterioration slowing — not reversal of the price level.



Sources: TheGlobalEconomy.com (CPI Dec 2025 = 543.45), Trading Economics, Macrotrends, NBE, World Bank (annual rates)

Figure 1: Ethiopia Cumulative Price Level vs Annual Inflation Rate | Sources: TheGlobalEconomy.com (CPI Dec 2025 = 543.45), Trading Economics, Macrotrends, NBE, World Bank

02 THE TRANSMISSION MECHANISM: HOW THE PRICE FLOOR COMPRESSES HOUSEHOLD FINANCE

From Price Level to Poverty Rate: A Five-Step Mechanism

The cumulative CPI alone does not explain the macro-micro disconnect. It operates through a specific transmission mechanism that connects the elevated price floor to savings compression, investment decline, and ultimately to the stagnant Human Development Index. Each step is documented by independent data.

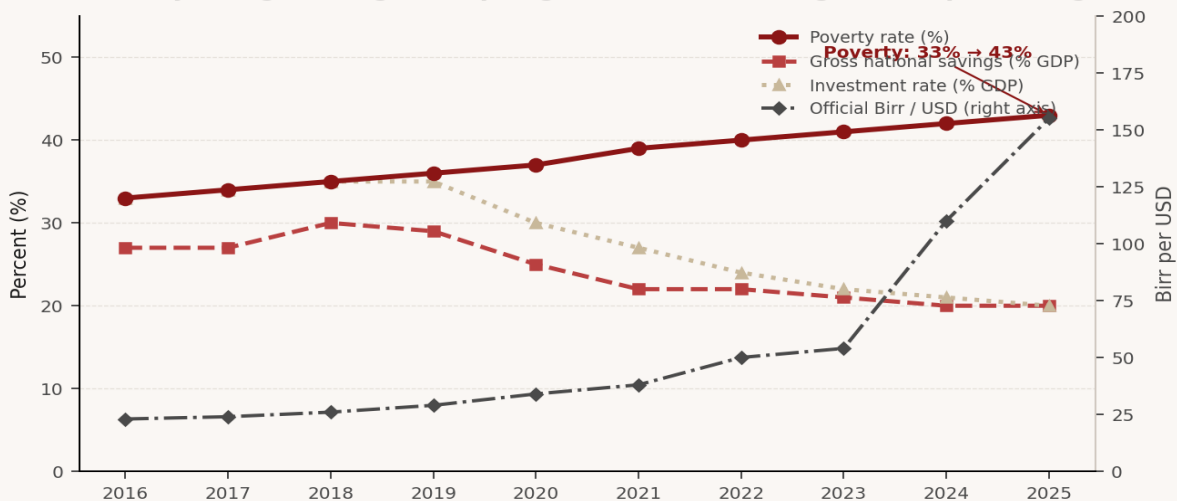
- ▶ **STEP 1: WAGES DID NOT KEEP PACE** Ethiopia has no national minimum wage in the private sector. The public sector minimum stands at 420 birr per month, a figure unchanged since at least 2012. Industrial park workers receive a minimum of 750 birr per month. The Global Living Wage Coalition estimated the living wage for Ethiopia's Ziway region at approximately 14,611 birr per month in 2023 — before the July 2024 birr depreciation. StockMarket.et's October 2025 analysis estimated that an employee earning 10,000 birr in 2019 would need more than 25,000 birr today to maintain equivalent purchasing power. Most Ethiopian workers earn well below either figure. The result: real wages fell as the price level rose, compressing discretionary income toward zero for large segments of the formal and informal labour force.
- ▶ **STEP 2: REFORM COSTS COMPOUNDED THE PRICE LEVEL** The July 2024 birr float depreciated the currency from under 60 birr per dollar to approximately 157 birr per dollar officially, a depreciation exceeding 120% at the official rate and significantly more against pre-reform parallel rates. This immediately raised the birr cost of all imported goods, including fuel, medicine, and industrial inputs. The government simultaneously: removed fuel subsidies; increased electricity tariffs by 122% in September 2024; introduced quarterly electricity tariff adjustments; raised passport fees from below 2,000 birr to 5,000 birr (25,000 for expedited); and revised VAT and excise duties. Each of these is fiscally defensible in isolation. In sequence and simultaneity during a period of already-elevated prices, they compounded the household cost shock rather than distributing it over time.
- ▶ **STEP 3: SAVINGS COLLAPSED** The NBE's own 2022 report documented that Ethiopia's domestic savings rate fell from 24.1% of GDP in 2018 to 9.8% of GDP in 2021. The average Ethiopian household saves approximately 875 birr per year in financial institutions — a figure the same study describes as insufficient to sustain economic growth. UNDP's 2026 quarterly profile, using gross national savings including remittances, estimates the savings rate at approximately 20% of GDP in 2025. Whichever series is used, the direction is consistent: as the price level rose and real wages stagnated, households



spent a higher share of income on basic necessities, leaving nothing to save. This is not a behavioural problem. It is a budget arithmetic problem: when the cost of necessities rises 5.4-fold and income does not, savings capacity goes to zero.

- ▶ **STEP 4: INVESTMENT DECLINED AS SAVINGS DECLINED** Investment as a share of GDP fell from 35.3% in 2018/19 to 20.1% in 2024/25 per UNDP data. The savings-investment link is direct: domestic savings are the primary source of investable capital in an economy with limited capital market depth. As household savings contracted, the pool available for investment — through commercial banks, microfinance institutions, and corporate retained earnings — contracted with it. The transition from state-led to private-sector-led investment was the reform's explicit goal. But private investment requires private saving. The cumulative CPI undermined the savings base that private investment depends on.
- ▶ **STEP 5: THE HDI CONSEQUENCE** With household budgets compressed toward basic food and shelter, expenditure on education, healthcare, and long-term investments in human capital declined. The World Bank's October 2025 Poverty and Equity Brief documents the result: 86% of rural adults had not completed primary education as of 2021; nearly half of rural households had at least one stunted child; and the poverty rate rose from 33% in 2016 to a projected 43% in 2025. Multidimensional poverty — which captures deprivation in health, education, and living standards simultaneously — affects 72% of the population, with an additional 18% on the cusp. The HDI stagnation is not mysterious. It is the cumulative price level operating through the household budget over a decade.

Ethiopia: Household Squeeze Indicators | 2016-2025
Poverty rising. Savings collapsing. Investment falling. Birr depreciating.



Sources: World Bank Poverty & Equity Brief Oct 2025, UNDP Quarterly Profile Mar 2026, NBE, IMF (poverty interpolated from 2016/2021/2025 anchor points)

Figure 2: Ethiopia Household Squeeze Indicators | Sources: World Bank Poverty & Equity Brief Oct 2025, UNDP Quarterly Profile Mar 2026, NBE, IMF, Macrotrends

03 THE INVESTMENT LINK: HOW SAVINGS COMPRESSION CONSTRAINS THE SUPPLY RESPONSE

Why Lower Inflation Alone Cannot Close the Gap

The reader's comment identifies the investment-to-GDP decline as compounding the savings compression, constraining the supply-side response needed to bring prices down durably. This is precisely correct, and it is the mechanism that makes the price floor problem self-reinforcing rather than self-correcting.

- ▶ **THE SUPPLY SIDE IS PART OF THE PRICE EQUATION** Inflation in Ethiopia has a demand component (money supply growth, which the NBE is managing through tight monetary policy) and a supply component (domestic production capacity and import costs, which are harder to address directly). When investment falls from 35.3% to 20.1% of GDP, domestic productive capacity grows more



slowly. Fewer factories, farms, and service facilities means less supply competing to meet demand. Less supply competition means prices remain structurally elevated even as monetary policy tightens. The NBE can slow the rate of price increase. It cannot substitute for the productive investment that would increase supply and organically reduce price pressure.

- ▶ **THE FISCAL SQUEEZE ON SOCIAL CAPITAL** The Ethiopian Economic Association's quarterly update published September 2025 found that capital expenditure — which funds schools, clinics, roads, and rural infrastructure — fell 41.8% quarter on quarter in Q1 FY2024/25. The IMF programme's fiscal consolidation target requires expenditure restraint. The collateral damage of restraint applied to capital budgets is a slower accumulation of the human and physical capital that delivers long-run productivity growth and HDI improvement. The IMF's own 4th Review noted that 'support provided to vulnerable segments of society is insufficient' and called for expansion of the Productive Safety Net Programme.
- ▶ **THE WAGE-PRODUCTIVITY-PRICE CYCLE** Without a minimum wage floor or wage indexation mechanism, nominal wages in Ethiopia adjust slowly and insufficiently to price level changes. This means labour remains cheap in nominal terms, which is an input cost advantage for manufacturers, but it also means consumer purchasing power remains constrained, which limits domestic demand growth. Ethiopia's consumer market is large by population but small by effective purchasing power — a distinction investors targeting the domestic market must price into their market sizing.

THE SELF-REINFORCING STRUCTURE

High cumulative price level compresses household savings. Compressed savings reduce the capital available for private investment. Reduced investment slows supply-side capacity growth. Slower supply growth keeps prices structurally elevated even as monetary tightening slows the rate of increase. Lower real wages reduce domestic demand, limiting the market signal for new productive investment. The mechanism is circular. Breaking it requires: sustained low inflation long enough for real wages to catch up, which takes years at current rates; wage floor legislation that anchors purchasing power rather than leaving it to informal adjustment; and a supply-side investment push that increases productive capacity faster than demand. All three are medium-term conditions, not 12-month fixes.

04 WHAT WOULD ACTUALLY CHANGE THE TRAJECTORY

From Price Stabilisation to Genuine Relief: The Conditions

The answer to the reader's question — whether the cumulative CPI is the main reason the macro-micro link is weak — is yes, operating through the mechanism described above. The follow-on question is what changes it. Based on the data, four conditions are necessary, none individually sufficient.

- ▶ **1. SUSTAINED DISINFLATION, NOT JUST SINGLE-DIGIT ENTRY** Ethiopia entered single-digit inflation in December 2025. Maintaining it at or below 8% for three to five years would allow nominal wages to close a portion of the gap against the price level. At 9.7% annual inflation, a household income that grows at 12% nominal would see real purchasing power rise by approximately 2.3% per year. Closing the 5.4x price level gap in any meaningful sense requires sustained nominal income growth above the inflation rate for an extended period. The NBE's tight monetary stance must be maintained through the June election cycle without political loosening — the single biggest near-term risk to the disinflation trajectory.
- ▶ **2. A NATIONAL MINIMUM WAGE** The absence of a private-sector minimum wage in Ethiopia is an outlier among major African economies. A statutory minimum, set at a level anchored to subsistence costs and indexed to inflation, would provide the wage floor that currently does not exist. Without it, nominal wages in the informal and low-skill formal sectors adjust downward in real terms whenever the price level rises faster than employer cost pressures force upward revision. The IMF programme does not require minimum wage legislation, but the World Bank's poverty assessment implicitly points to it as a structural gap.
- ▶ **3. SOCIAL PROTECTION AT SCALE** The Productive Safety Net Programme covers a fraction of those affected by the price level shock. The IMF's explicit criticism that 'support provided to vulnerable



segments of society is insufficient' is a direct acknowledgment that the macro reform programme has not been accompanied by adequate social protection. Expanding PSNP coverage, linking transfer amounts to the CPI level rather than fixed nominal amounts, and extending coverage to urban areas — where the Afrobarometer data shows economic sentiment is worst — would partially offset the household budget compression for the most vulnerable.

- ▶ **4. INVESTMENT RECOVERY TOWARD 25-30% OF GDP** The supply-side response to elevated prices requires productive investment to accelerate. This means: the Eurobond restructuring completing to restore international capital market access; the FX auction market developing sufficient depth to reduce the parallel premium to near-zero; and FDI converting from forum commitments to operational factories. Each of these has a timeline of 12-24 months under optimistic assumptions. The investment-to-GDP rate will not recover in one fiscal year. But the direction needs to reverse from its current plateau at 20% before the supply-side price dampening effect can materialise.

EDITORIAL NOTE

THE POINT

The cumulative CPI is not one data point among many. It is the transmission medium through which eight years of above-norm inflation converted into compressed household savings, falling investment, rising poverty, and stagnant human development. The inflation rate falling to 9.7% is a genuine macroeconomic achievement. It is not yet a household welfare achievement. The difference between those two statements is the policy work that remains. Stabilisation is the precondition for recovery. It is not recovery itself. The basket of goods that cost 1,000 birr in 2016 still costs 5,430 birr today. That number will not improve until either the price level reverses — which requires sustained deflation and is unlikely — or nominal incomes rise faster than prices for a sustained period. That is a multi-year project, not a quarterly milestone.

For informational purposes only. Not investment advice.

Sources: TheGlobalEconomy.com (CPI data, Dec 2025 = 543.45), Trading Economics, Macrotrends (annual inflation rates), NBE 2022 Savings Report, UNDP Ethiopia Quarterly Economic Profile (Mar 2026), World Bank Poverty & Equity Brief (Oct 2025), IMF Country Report No. 26/20 (4th Review), Ethiopian Economic Association Quarterly Update (Sep 2025), Afrobarometer Dispatch No. 882 (Oct 2024), Addis Standard (Dec 2024), StockMarket.et (Oct 2025), The Reporter Ethiopia (Jan 2026), Anker Research Institute / Global Living Wage Coalition (2023-2025), FocusEconomics, World Bank MPO Ethiopia (2025) | Published April 24, 2026