

Original Article

Economy-Wide Impact of Currency Devaluation in Ethiopia: A Recursive Dynamic Computable General Equilibrium Analysis

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Abstract - This study analyzes the economy-wide impact of currency devaluation on the Ethiopian economy using the Dynamic Computable General Equilibrium (DCGE) model. It utilized the updated 2009/10 Ethiopian Social Accounting Matrix (SAM) from 2005/06 developed by Ethiopian Development Research Institute (EDRI). In order to investigate the impact of currency devaluation on the Ethiopian economy, different simulations were made the turn by turn. First, an increase in the exchange rate by 15% was introduced to see the impacts of currency devaluation on the Ethiopian economy. Consequently, all macroeconomic variables show a reduction from the base case scenario except the consumer price index, which shows increment, explaining the inflationary pressure of currency devaluation. On the second simulation decrease in export price by 15% was introduced to see the impact of currency devaluation on the economy. As a result, the decrease in export price failed to recovery the export from low performance because the structural problem from the supply side is not sufficient to meet the increased demand for exports after devaluation. Similarly, an increase in import price by 15% under the third scenario also deteriorated the overall economic performance since Ethiopian imports are strategic imports which are not amenable to a reduction following the advised devaluation because most inputs purchased from foreigners at an expensive price which increases the cost of domestic production. Lastly, there is welfare reduction resulted from poor economic performance and increase in price, which result in deterioration of welfare of the society. Based on findings, the best way to improve export performance would be to replace currency devaluation with structural reform, which is still the bottleneck for export performance.

Keywords - Currency, Devaluation, Export, Import, Performance

I. INTRODUCTION

A. Back Ground of the Study

The exchange rate is one of the most important policy variables, which determines the trade flows, foreign direct investment, inflation, international reserve, and remittance of an economy. As well, the exchange rate is one of the major economic variables with important implications on international competitiveness since its change affects both export and import prices [3]. The exchange rate (E) is the rate at which one currency exchanges for another. From a macroeconomic point of view, exchange rate changes can have strong effects on the economy, as they may affect the structure of output and investment, allocation of domestic absorption and external trade, influence labor market and prices, and alter external accounts.

In Ethiopia, the exchange rate policy has passed different regimes. Before 1992 the country was exercised a fixed exchange rate regime when the rate is solely determined by the government. Since 1992 the country implemented an exchange rate policy that is more close to managed floating, where there is a government intervention whenever necessary to stabilize the foreign exchange market [1]. Maintaining exchange rate stability is considered as the principal policy objective of the National Bank of Ethiopia so as to be competitive in the international trade and to use exchange rate intervention as policy tools for monetary policy to affect both foreign reserve position and domestic money supply [9]. When the exchange rate changed, the currency may be devalued or revaluated. Devaluation is referred to as an expenditure switching policy because it switches expenditure from imported products to domestic goods and services. Devaluation means a reduction in the value of the domestic currency in terms of other currencies [14].

The devaluation of the Ethiopian Birr (ETB) per US dollar officially began during the EPRDF regime. Previously the country used to have a fixed exchange rate with a rate of 2.07 Birr per US dollar. After the devaluation in 1992, the exchange rate is changed from a fixed to flexible rate in order to control



overvaluation through a gradual depreciation of domestic currency every year. However, during the fiscal year 2007/08, the rate of depreciation against other foreign currencies increased compared to the previous years. In 2009/10, the Ethiopian Birr was evaluated by 23.7% against the US dollar. This huge devaluation was expected to "decrease overvaluation and increase competitiveness" [8]; [11], again in October 2017, Ethiopian Birr devaluated by 15% and exchange 1 birr with 27.59 US dollar.

Countries devalue their domestic currency to achieve different objectives such as decreasing trade deficits through increasing export revenue and decreasing import expenditure, attract foreign direct investment and tourists, increase domestic product demand in the foreign market through make export cheaper, and shift the domestic consumer from consumption of foreign products to domestic products; this encourages import substitution strategies to minimize expenditure for import [12]; [16]. However, the exchange rate plays a prominent role in a given economy's stabilization. A little beat adjustment in exchange rate results in an overall impact on microeconomic and macroeconomic variables.

B. Statement of the Problem

The relative merits of currency devaluation in developing countries have been the subject of considerable debate in recent years. Analysts at international institutions, and particularly at the International Monetary Fund (IMF), have generally maintained that devaluation plays a positive and important role in balance-of-payments stabilization. However, many empirical findings give different conclusions about the effect of currency devaluation on the economy of countries. In some countries, devaluation is contractionary, while it is expansionary in some other countries. In some cases, devaluation has mixed results (that is, both contractionary and expansionary) in the short and long run. In some other countries, the effect is neutral [16]. [1] has found different results on the effect of devaluation in less developed countries. Accordingly, devaluation is expansionary in the short run and neutral in the long run. Researchers like [3] found that devaluation has a neutral (zero) effect in the long run. A study by [7] on the effect of devaluation shows that the currency devaluation contractionary effect in the long run while it is expansionary in the short run in the trade balance of the country.

In Ethiopia, [9] empirically shown that devaluation of the domestic currency will increase the nation's trade deficit in the long run due to the price inelastic nature of imports and agricultural-based production, which is highly-priced inelastic demand. [18] assesses the short and long-run effects of currency devaluation on output growth in Ethiopia. The result revealed that currency devaluations are contractionary in the long run and neutral in the short

run. Even though there are studies on the impact of currency devaluation, there is no common consensus, and they come up with different results, which are a source of controversies on the impact of currency devaluation on the economy. In addition, most of them adopted partial equilibrium approaches that have failed to estimate the full impacts of currency devaluation on the Ethiopian economy. Hence, there is the need for a more comprehensive approach that takes into consideration the various interrelationships between all actors in the economy in order to more realistically estimate the economic effects of currency devaluation.

Thus, the aim of this study is to look at the macroeconomic impact of currency devaluation on the Ethiopian economy by using the general equilibrium model particularly, the dynamic CGE model, to fill the gap identified in the previous literature and to capture the economy wide impact of currency devaluation.

C. Objectives of the Study

The general objective of the study is to examine the economy-wide impact of currency devaluation. Specifically, the study attempt:

- To examine the impact of currency devaluation on macroeconomic performance.
- To examine the impact of currency devaluation on factor utilization.
- To analyze the impact of currency devaluation on the welfare of society.

II. REVIEW OF EMPIRICAL STUDIES

[4] employed a small open economy general equilibrium model to analyze the effects of devaluation on GDP. The model has been calibrated for the Spanish economy, which is a good example to show the impact of devaluation. The results show the significant positive effects of a fiscal devaluation on GDP and employment. However, although the effects in terms of GDP and employment are similar, the composition effects of fiscal and nominal devaluations are not alike. In both cases, there is an improvement in net exports, but the effects on domestic and external demand are quite different.

[15] examined exchange rate devaluation in Sudan using computable general equilibrium. The paper reports the impact of devaluation on several economic indicators considering domestic commodity markets, the factors market, and institutions. Responses of specific economic variables such as prices, household demand, welfare, and the balance of payment are used to describe the resulting equilibriums of the economy as a result of devaluations in the three scenarios. The results reveal that devaluation of the Sudanese pound will considerably increase most domestic commodity

prices. This is desirable for producers who target the world market because their returns in the local devalued currency will tend to be higher. Accordingly, export-oriented sectors, which have a larger share of exports in their total output, show the greatest increases in output and exports compared to other sectors. He concludes that the devaluation of Sudan's currency would increase domestic prices of tradable goods and encourage producers to export. However, domestic consumers are negatively affected because the increase in prices is unaccompanied by similar increases in household income.

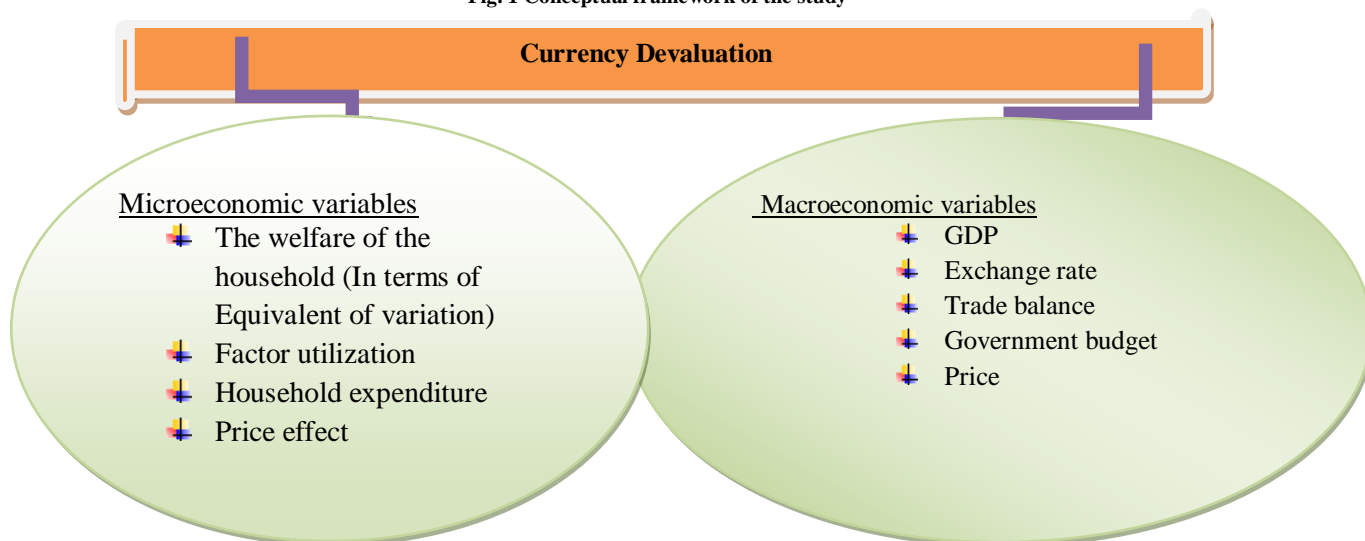
A study done by [17] analyses the effects of devaluation on GDP per capita growth in Ethiopia using time series data from 1980 to 2010. The study showed that devaluation has a negative effect on GDP per capita the same year, whereas the coefficient for the one-year lagged exchange rate was significantly positive; thus, devaluation has a time-varying effect. Similarly, [2] shown that devaluation doesn't have the capacity to improve the nation's trade balance. The researcher used the import and export demand models and empirically tested the significance of devaluation in changing the import and export trends of Ethiopia.

The result shows that even if devaluation enables the Ethiopian export to get improvement to some extent since Ethiopia is importing very crucial commodities like manufacturing machinery, vehicles, petroleum, and so on and exports agricultural outputs where both the import demand of Ethiopia and that of other countries for Ethiopian commodities are inelastic, the nation's trade balance doesn't change following the implementation of devaluation.

A. Conceptual Framework

To achieve the objectives of this study, the relationship between currency devaluation and major microeconomic and macroeconomic variables was considered. Thus, the relationship between currency devaluation and its impact on the microeconomic and macroeconomic variables is as follows:

Fig. 1 Conceptual framework of the study



Source: Self extracted

III. RESEARCH METHODOLOGY

A. Sources and Methods of Data Collection

For the completion of the study, data were collected from Ethiopian Research Development Institute (EDRI), Central Statistical Authority (CSA), Ministry of Finance and Economic Cooperation (MOFEC), National Bank of Ethiopia (NBE), International Food Policy Research Institute (IFPRI), Ministry of trade

B. Social Accounting Matrix

A social accounting matrix (SAM) is a comprehensive, economy-wide data frame, typically representing the economy of a nation. More

and human resources office. The study used secondary data collected from the national social accounting matrix developed for the Ethiopian economy in 2005/6 and updated for 2009/2010 Ethiopian economy EDRI, GDP, and other macroeconomic data from MOFEC. Also, production and productivity data from CSA, export and import data from the ministry of trade, a behavioral parameter from IFRI, and employment data from the human resource department.

technically, a SAM is a square matrix in which each account is represented by a row and a column. Each cell shows the payment from the account of its column to the account of its row. Thus, the incomes of an account appear along its row, and its expenditures along its column and the underlying principle of

double-entry accounting requires that, for each account in the SAM, total revenue (row total) equals total expenditure (column total) [10].

Mostly the standard SAM has four key accounts. Firstly, activities account reviews production in the domestic economy. Secondly, commodities account, in its row, it represents demand for commodities, and in the column side, it denotes supply of the commodities. Thirdly, factor account, the row side signifies the payment to factors from different sources (it could be from production sectors of the domestic economy and the rest of the world), whereas the column side signifies the distribution of factor incomes to various institutions. Fourthly, institutional accounts, all incomes, and expenditures of institutions are shown in the institution's account. As a sub-account to this account, the government, enterprises, household, and the ROW account. When it comes to the ROW sub-account, the source of income could be the sale of imports and factors (this represents the outflow of foreign exchange). The inflow of foreign exchange could be expressed by the payment made for exports, factors, transfers (to households and government), and foreign savings.

The saving-investment (S-I) account, which summarizes the savings of different institutions (it could be from the government, households, and foreign) in the row section, and expenditure for investment on capital goods in the column section. This study uses the 2009/10 Ethiopia SAM, which is produced by the Ethiopian Development Research Institute in 2005/6 and updated for the Ethiopian economy of 2009/10 [6]. The updated SAM is produced in different levels of aggregations. It is disaggregated into 113 activities (with 77 agricultural activities by agro-ecological zones, AEZs), 64 commodities, 16 factors (by AEZs except for capital), and 13 institutions, including 12 households. The SAM also has 17 different taxes, saving-investment, and the rest of the world account show the interaction of different economic agents. It integrates regionally disaggregated agricultural production and income generation for the four main agro-ecological zones of Ethiopia (Humid, high land cereals, drought-prone, and pastoralist zones).

Furthermore, for the completion of this study, further aggregation of SAM has been done. Totally seventeenth aggregated activities (cereal, non-cereal, livestock, mining, agricultural processing, chemical and pharmacy, machine and vehicle, manufacturing electric and water (utility), construction, trade, hotels, administration. Education, health and other service activity, and seventeenth commodities (cereal, non-cereal, livestock, mining, agricultural processing, chemical and pharmacy, machine and vehicle, manufacturing electric and water (utility), construction, trade, hotels, administration. Education, healthy and

another service commodity, four factors of production (labor, capital, livestock, and land), four types of household (rural poor, rural nonpoor, urban poor, and urban nonpoor), enterprise, government, three tax categories (direct tax, import tax, and sales tax), saving-investment balance and rest of the world.

C. Method of Data Analysis

To analyze the impact of currency devaluation on the microeconomic and macroeconomic variables for this study used a dynamic computable general equilibrium model (DCGE). Mostly dynamic CGE models are grouped into two categories: inter-temporal and sequential (recursive). The dynamic intertemporal model is based on optimal growth theory, where the behavior of economic agents is characterized by perfect foresight. In [10] words, "everybody knows," in inter-temporal models, "everything about the future", and they use that information in making decisions. On the other hand, in the recursive models, agents make their decisions on the basis of past and current information with no role for forward-looking expectations that means the agents have myopic behavior. In this study, by taking the Ethiopian economy into consideration, a recursive dynamic CGE model is used.

1) Overview of the Model

The computable general equilibrium (CGE) model has played an important role in policy impact analysis. CGE model is a widely used model for policy analysis both in developing and developed countries, specifically on the impact of tax reform. The advantage of using the DCGE model is that it models the whole economy explicitly, captures the market mechanism, interlinking between sectors, and transactions between economic agents despite being under restrictive assumptions [5].

A clear microeconomic structure with links between micro and macro aspects of the economy works on the basis of a circular flow diagram in the economy, which makes it the soundest tool for quantitative policy analysis. Figure 2 shows how CGE links all macro and microeconomic variables. According to the circular flow diagram, each sector in the economy is linked to each other as they interact with each other. For instance, government, firms, households, and foreigners interact together at factor, product, and financial market. Government get tax and borrowing from all household, firm and foreigners. On the other hand, the government has expenditure to each of the institutions in terms of subsidy and infrastructure development.

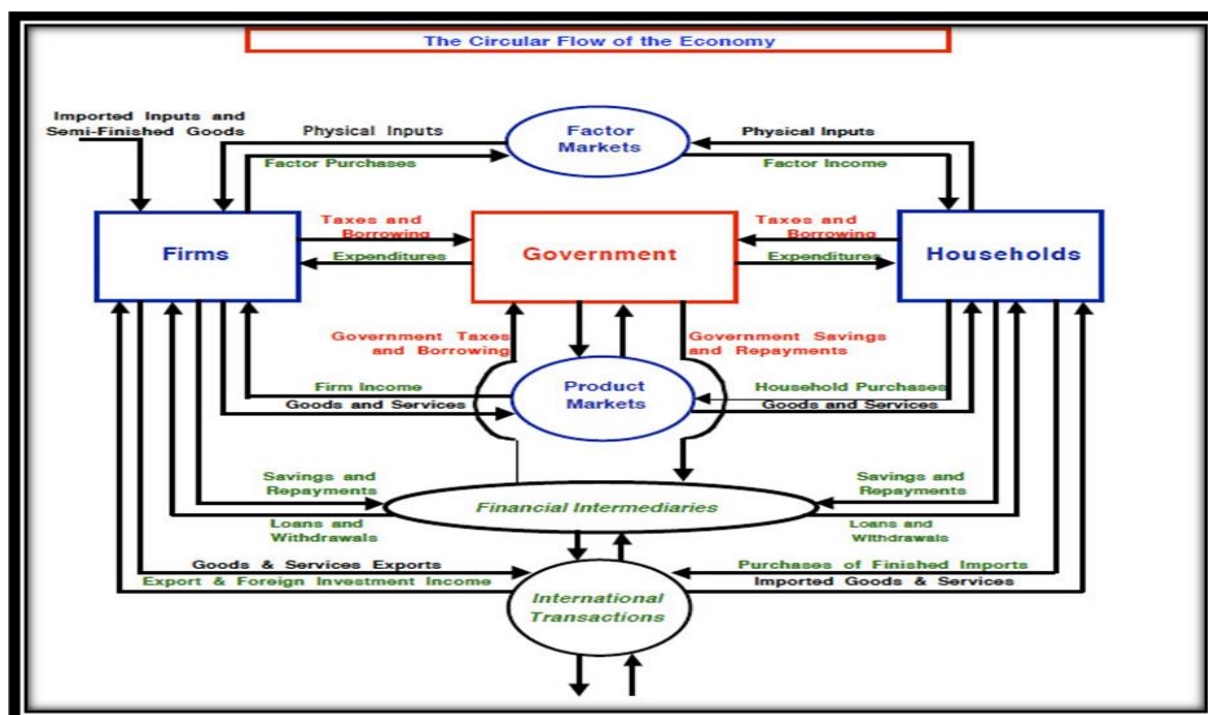
Firms and households can export and import from the rest of the world. Additionally, firms and households trade together at product and factor

markets since firms are owners of finished goods and households are owners of factors of production. At the financial market, the four institutions also come together to withdraw or to save at the institution or to borrow or to repay. Generally, all actors in the economy are interdependent none the institution can perform better independently. So CGE uses this ideology and interconnection between the institutions for modeling the institutional behavior to represent the real economic activity. Additionally, CGE models allow simulating behavior responses and adjustments on several markets while enabling some flexibility in setting macroeconomic rules to assess the impact of

different government revenue allocation policies. The model explains the flows of payment recorded in the SAM.

The below figure shows the diagrammatical representation of the circular flow of economic activity, which is the basis for the foundation of the computable general equilibrium model. Production and consumption behaviors are captured by first-order optimality conditions; the system includes producers' profit and consumers' utility maximization subject to technology and income constraints, respectively.

Fig. 2 Circular Flow of the Economy



Source: Montclair State University: Online available https://msuweb.montclair.edu/~lebel/CircularFlow_Diagram.jpg

IV. RESULTS AND DISCUSSIONS

This part presents the impact of currency on the economy of Ethiopia. To look at the impact state, different scenarios are used to assess the impacts of policy shocks on macroeconomic performance in Ethiopia and the experiment results. In the CGE modeling framework, it is essential to establish a baseline scenario that is counterfactual for comparing against the outcome of a policy shock. Hence, begin with the baseline simulation, the impact of each simulation on major macroeconomic variables, factors utilization, production level, and the welfare of the consumer is assessed. Therefore, to obtain this objective following simulations are considered. 1stThe base case scenario is established to serve as a reference in the absence of any policy shock and

services as a benchmark for policy evaluation. Thus, in this scenario, all macroeconomic variables show their value without any policy shock to the economy. Therefore, the baseline simulation is used as the benchmark value so as to compare the values of different variables after the policy shocks. 2nd exchange rate shock by 15% is introduced to look at the impact on overall economic performance, including the export sector. 3rdreduction in world export price by 15% was introduced following currency devaluation to look whether the designed policy really represents the intended objective. 4th increase in world import price by 15% following the introduction of currency devaluation is introduced to look at their impact. Therefore, the last three simulations had been introduced to capture the impact of the policy shocks at the national level, and different

stages of economic sector impact had revealed by using the SAM calibration and simulation. The result from all scenarios is presented below.

A. Macroeconomic impact of currency devaluation on major macroeconomic variables

This part look at the impact of currency devaluation on all macroeconomic variables as a whole for each simulation in turn. Accordingly, Table 1 below shows the summary of the results of the three simulations focusing on absorption, private consumption, fixed investment, government consumption, export, and import, gross domestic product at market price, net indirect tax, and real GDP at factor cost (GDPFC). According to the table below, all macroeconomic variables show a reduction from the base case scenario, which shows an increase in the exchange rate (currency devaluation) had no positive contribution. From the table, one can observe that absorption reduced by 0.12 percent compared to the base case scenario when currency devalued by 15%. Following currency devaluation, import prices increase by 15%, the amount of absorption reduced by 1.19%. When looking the private consumption, it is decreased by 0.13% on the 1st and second scenarios and further deteriorated on the 3rd scenarios when import price increase by 15%. This shows that currency devaluation initiates inflation directly and affects the purchasing capacity of the citizen. The third scenario increases import price makes the price of import expensive, which affects the purchasing power parity of money than private consumptions. When devaluation had been introduced, it is expected that domestic output would increase by further investment. But apart from predetermined expectations, investment was reduced by 0.11% from the base case

scenario, which is because of since most of our investment depends on imported intermediate input increase import price reduce the capacity of investment by 1.3% due to increase the cost of production. Government consumption also showed 0.04 on the 1st and 2nd scenarios and 0.26 on the 3rd scenario.

The main objectives of currency devaluation were to enhance the export sector of Ethiopia through boosting domestic production and making cheap the product of Ethiopia over the rest of the world that makes competitive, but the intended objectives were not achieved since export after devaluation again revealed reduction by 0.16% on first and second scenarios, and 1.35% on third scenarios. This is because the natures of products which export are price inelastic, and the country has no capacity to supply the increased demand due to supply-side rigidity even though Ethiopian products became cheap to the international market. When compare import with an export, reduction in import is less than in export which implies even though import price is expensive, the country is obliged to import at a high price since not enough to substitute for foreign products. The positive impact of devaluation had been expected in improving the domestic economy. But contrary to this, output decreased in the three scenarios where the third scenario was highly affecting one. This is because of increase in the exchange rate affects the domestic economy through inflation and Purchasing Power Parity (PPP) of intermediate input from the rest of the world, which results in domestic economic contraction.

Table 1. Macroeconomic impact of currency devaluation in Ethiopia

Variables	Initial	Base	Exchange rate increase	Decrease in World Export Price	Increase World Import Price
Absorption	0.586624	7.229281	-0.1292	-0.1292	-1.19222
Private Consumption	0.402038	7.610983	-0.13868	-0.13868	-1.22012
Fixed Investment	0.140904	7.447072	-0.1141	-0.1141	-1.3403
Government Consumption	0.043682	1.082806	-0.04463	-0.04463	0.264068
Exports	0.085955	11.83134	-0.16997	-0.16997	-1.35781
Imports	-0.16249	8.302048	-0.1071	-0.1071	-1.04081
Consumer Price Index	0.612596	6.266473	1.342347	1.342347	1.27449
Output	0.66000	6.9700	-0.08000	-0.0800	-1.4700
GDP at market price	0.510089	7.872476	-0.14731	-0.14731	-1.28576

Source: Own computation from the simulation result

The other important variable that is sensitive to policy change is the consumer price index. As a result, the policy shock consumer price index shows an

increment in the three scenarios, which confirm that currency devaluation press inflation which can be revealed by an increase in price. Related to this price of export show reduction on average by 2% but world

import price show an increment by 3% or the net effect from the change in price due to change policy is +1. Generally, overall GDP at market price from expenditure and income side as well as GDP at factor cost showed a reduction in three scenarios; the third one highly deteriorated the overall economic performance of the economy (Table 1).

B. Impact of currency devaluation on major sectors

When observing the sectoral impact of currency devaluation, all sectors show decreasing in simulations 1 and 2 but show a huge reduction in simulation 3.

GDP decreased by 0.14%, in simulations 1 and 2 show 1.17 reductions in simulation 3. The agricultural sector decreased by 0.04% in simulations 1 and 2 and 2.01% in simulation 3. The industrial sector is highly affected sector by this policy shock since it reduced by 0.28% in simulations 1 and 2 and 0.65% in simulation 3. Similarly, the service sector shows some reduction in simulations 1 and 2 and is highly affected in simulation 3. When compared, the three-sector industrial sector is highly affected by the policy followed by the service and agricultural sectors (Table 2).

Table 2. Sectoral Impact of currency devaluation Percentage change from baseline

Sectors	Base	Exchange rate increase	Decrease in World Export Price	Increase World Import Price
The growth rate of Agriculture	5.32349	-0.04961	-0.04961	-2.01406
The growth rate of Industry	12.36839	-0.28048	-0.28048	-0.65738
The growth rate of Service	5.475476	-0.07983	-0.07983	-1.31417

Source: Own computation from the simulation result

C. Impact of currency devaluation on factor supply

The factor supply result from the simulation shows that no any improvement in factor supply due to the impact of currency devaluation in three simulations compared to base case scenarios. This is because of devaluation results in inflation and the inability to

import more; the domestic output is reduced since most intermediate input comes from the rest of the world. When the domestic output is reduced, demand for labor decreases the supplied labor also decreased, revealing that lower demand, lower labor supply, and then lower factor utilization (Table 3).

Table 3: Summary of Factor Supply (percentage change from baseline simulation)

Factor	Initial	Base case	Exchange rate increase	Decrease in World Export Price	Increase World Import Price
Labor	0.18	2.4	0	0	-2.4
Land	0.06	3.1	0	0	-3.1
Livestock	0.06	18.11	0.29	0.32	-0.14
Capital	0.86	15.66	0.31	0.27	-0.28

Source: Own computation from the simulation result

D. Impact of currency devaluation on the welfare of households

The welfare of society can be indicated by using an equivalent variation, which is the most important indicator of the welfare effects of policy reform. Since policy shocks are usually followed by major price adjustments, the Equivalent of variation (EV) measures the level of income (in money terms) that the consumer needs to pay before the shock to leave him as well off at the equivalent level of utility changes after the price changes. The main objective of the government is to increase the welfare of the society, but contrary to this currency devaluation made in Ethiopia since 2017 negatively affected the welfare of the society.

The table below summarizes the impact of currency devaluation in three scenarios. The result in the table revealed that an increase in the exchange rate (currency devaluation) affect the welfare of the society negatively was. The third scenario highly affected the welfare of the households. Among household categories affect by the policy shock, urban poor households are highly affected in the first and second scenarios followed by rural poor and rural nonpoor households, and urban nonpoor is less affected by the policy shock compared to another household. In the third scenario, rural nonpoor and rural poor are affected by the currency devaluation, followed by the urban poor and urban nonpoor household (Table 4).

Table 4. Impact of currency devaluation on the welfare of households

Household	Initial	Base case	Increase in the Exchange rate	Decrease in World Export Price	Increase World Import Price
Household rural poor	0.099839	8.814527	-0.28546	-0.28546	-3.6622
Household rural non-poor	0.180033	8.405226	-0.27036	-0.27036	-3.69169
Household urban poor	0.007679	9.163416	-0.30888	-0.30888	-3.5472
Household urban non-poor	0.114487	7.845777	-0.24277	-0.24277	-2.59727

Source: Own computation from the simulation result

V. CONCLUSION AND RECOMMENDATIONS

A. Conclusion

The purpose of this paper is to examine the economy-wide impact of currency devaluation on major microeconomic and macroeconomic variables using a recursive dynamic CGE model. The study used an updated version of the 2009/10 EDRI data. This study used different scenarios to evaluate the economy-wide impact, such as the devaluation of currency by 15%, decrease in world export price by 15%, and increase in import price by 15%. The analysis reveals that in simulation, all macroeconomic variables have shown negative changes except CPI, which show increment from base case scenario. Similarly, factor supply and factor income also show negative change as a result of overall contraction economic performance, which is witnessed by a reduction in GDP at factor cost. In addition, the impact of devaluation on household welfare is considered. The results show, there is welfare reduction resulted from poor economic performance and an increase in price. Urban poor household is highly affected from the welfare loss because of currency devaluation result short term increase in the price of products which decreases consumption urban poor and then deteriorates welfare of the society.

Generally, Ethiopia is not successful in currency devaluation since it results in the worst economic performance, and it calls for additional, comprehensive macroeconomic policies to bring desired objectives.

B. Recommendations

Based on the finding, the researcher forwarded the following policy implications. Since currency is the key element that can link microeconomic and macroeconomic aspects of the economy, a little bit modification on currency results in an overall disturbance of the economy. So, the deep and careful investigation should intensively and extensively conduct on short-run and long-run effects before conducting macroeconomic policy reform. In this analysis, currency devaluation highly deteriorated overall economic performance, and a decrease in export price failed to improve economic performance compared to an increase in the exchange rate and import price. Since the currency devaluation negatively affected real GDP and other

macroeconomic variables, appropriate measures should be taken by the government of Ethiopia to improve export performance. Therefore, the best way to improve export performance would be to replace currency devaluation with structural reform and solving supply-side constraints. Furthermore, when a country decided to devalue its currency to benefit from the reform, it should be considered the necessary condition full filled to benefit from the devaluation.

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