Innovations

The Factors Affecting the Skyrocketing Cost of Living in Ethiopia and Policy Implications: The Case of Addis Ababa City Administration

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Abstract: *The cost of living in Addis Ababa, Ethiopia has been rising rapidly, causing significant hardship for residents. This study examined the impacts, driving factors, and policy responses to this crisis. The research used a mixed-methods approach, including cross-sectional surveys of a diverse sample of 365 Addis Ababa residents, public servants, and government employees. The data analysis found that rising living costs did not significantly impact lower and middle-income groups, likely due to their existing financial constraints and lower living standards. Furthermore, higher-income groups were not as affected, likely due to factors like financial stability and flexible spending. Notably, the study found that the younger age group and those with lower education levels experienced greater burdens from the rising cost of living. These disparate impacts across age and education groups highlight the need for policymakers to develop more equitable solutions. To address these challenges, the study recommends that the Addis Ababa city administration implement two key interventions: 1) a financial literacy and planning program to empower residents across income levels with budgeting and savings skills, and 2) specialized job creation initiatives to provide stable employment and financial independence amidst high living costs. These complementary efforts to build individual capabilities and expand economic opportunities have the potential to deliver more equitable and sustainable solutions for Addis Ababa residents facing the sckyrocketing cost of living crisis.*

Keywords: *Skyrocketing cost of living, Quantile regression, driving factors, policy response*

1. Introduction

1.1. Background

The cost of living and inflation are related but distinct measures. The cost of living examines the cost of a certain standard of living, which can vary by region, while inflation measures the average increase in prices of a basket of goods and services (Ullman, 2022). Increases in inflation do raise the overall cost of living, and if salaries do not rise in tandem, the purchasing power of consumers' dollars will decline (Ullman, 2022). Inflation is defined as a "persistent and appreciable rise in the general level or average of prices" (Ackley, as cited in Hajel, 2009), and it has become increasingly important for monetary policy to ensure low and stable inflation, as it is seen as costly when large and unexpected (Barro, 2013). The cost of living includes basic expenses like rent, food, clothing, education, healthcare, transportation, and taxes, and it can vary significantly based on location (Boyle, 2023). Global cost of living pressures have been exacerbated by the COVID-19 pandemic, rising oil and food prices, and the conflict in Ukraine, driving millions more people into poverty (UNDP, 2022; World Economic Forum, 2022).

The possible impacts of food and energy inflation on poverty and vulnerability around the world were shown by Molina et al. (2022), who also simulated the potential mitigation effects of two policy options: broad energy subsidies and targeted cash transfers. According to the findings, rising food and energy costs might force up to 71 million people into poverty, with evident hotspots in the Caspian Basin, the Balkans, and Sub-Saharan Africa (especially in the Sahel), and the most efficient form of policy to mitigate the effects is time-limited and targeted cash transfers (Molina et al., 2022). Reuters (2022) has been covering the effects of the global cost of living crisis in 18 different nations, with examples of how inflation is affecting people's daily lives, such as in Kenya, the UK, and Ethiopia, where high inflation rates are driven by factors like conflict, drought, and currency depreciation (Trading Economics, 2023). The purpose of this study is to assess the driving forces behind and future policy responses to Ethiopia's skyrocketing cost of living.

1.2. Statement of the Problem

The war in Ukraine has had alarming cascade effects on the already devastated global economy, which was previously impacted by COVID-19 and climate change (UNCTAD, 2022). The Russian Federation and Ukraine provide over 30% of the world's wheat and barley, a fifth of its maize, and more than half of its sunflower oil, as well as a significant portion of global energy and fertilizer exports (UN, 2023). Consequently, commodity prices have reached record highs, causing a cost-of-

living crisis that is disproportionately affecting developing nations (The Guardian, 2022; World Economic Forum, 2022).

The rising cost of living is having a particularly severe impact on Ethiopia, with individuals in the capital Addis Ababa struggling to afford basic necessities (Huaxia, 2022). Inflation in Ethiopia has reached record levels, with year-on-year general inflation reaching 31.7% in October 2022 (Borkena, 2019; Trading Economics, 2022). This sharp increase in the cost of living is attributable to factors such as macroeconomic imbalances, the COVID-19 pandemic, and regional conflicts (Feto, 2022), but there is a lack of research on the specific drivers of this phenomenon (Geda and Tefera, 2008; Durevall et al, 2010).

1.3. Research Question of the Study

The study aimed to answer the following research questions:
1. How does the skyrocketing cost of living affect different socio-economic groups in Addis Ababa?
2. What are the main driving factors that are contributing to the significant increase in the cost of living in Addis Ababa city administration?
3. How effective are the current policies and interventions implemented by the Addis Ababa city administration in addressing the cost of living challenges in the city?

1.4. Objective of the study

1.4.1. General objective

The general objective of this study is to undertake a comprehensive investigation into the skyrocketing cost of living within the Addis Ababa city administration.

1.4.2. Specific objectives

1. To assess the effect of the skyrocketing cost of living on different socio-economic groups in Addis Ababa.
2. To identify the main driving factors contributing to the skyrocketing cost of living in Addis Ababa city administration.
3. To evaluate the effectiveness of current policies and interventions in place to address the cost of living in Addis Ababa city administration.

2. Methods and Methodologies

2.1. Research design and approach

The study utilized a cross-sectional survey research design, which enabled the smooth execution of research operations, the attainment of maximum information, and the logical connection between the data collected and the conclusions drawn. The survey design involved administering questionnaires to a sample of individuals to identify trends in determinants, attitudes, opinions, behaviors, or characteristics within the larger population, emphasizing a deductive approach. The researchers

also employed a mixed methods approach, combining qualitative in-depth interviews and open-ended questions with quantitative large-scale surveys, to generate reliable knowledge and theories regarding the factors driving the high cost of living in Ethiopia and the appropriate policy response, mitigating the biases inherent in relying solely on either method.

2.2. Data Type and Source

This study employed a mixed methods approach, utilizing both qualitative and quantitative research techniques, as well as primary and secondary data sources, to comprehensively examine the determinants of the high cost of living in the Addis Ababa city administration and the corresponding policy responses. The integration of primary data, obtained through surveys, interviews, focus group discussions, and field observations, and secondary data, gathered from policy documents, reports, academic literature, and online resources, was crucial for triangulating and complementing the diverse information acquired, thereby enhancing the reliability and validity of the research findings.

2.6. Target population and sampling Techniques

The study population consisted of the residents of the Addis Ababa city administration, public servants in the Addis Ababa city administration, and employees in the Federal Ministry Offices, identified as key stakeholders relevant to the research questions concerning the determinants of the high cost of living and appropriate policy responses. The research site was purposefully selected, with Addis Ababa chosen due to its proximity and the high cost of living relative to other cities. For the quantitative data collection, a simple random sampling approach was utilized, with households in the Addis Ababa city administration comprising the sample, the size of which was determined based on the estimated population size of the city administration.

2.6.1. Sample size determination

The sample size ought to fall somewhere in the middle. It ought to be ideal (Kothari, 2004). Kothari also adds that the type of research design, characteristics of the population of interest, parameters of interest, accuracy of the measurement tools, budget, and resource availability affect the size of the sample.

There are numerous sample size calculation formulas that are used in the literature. But the proposed study would make use of Yamane's (1967) sample size calculation procedure (n $=\frac{N}{1+N(e)^2}$) to calculate the total sample size. Sample size will be determined at $\pm$ 5 precision level and 95 percent level of confidence for the total population.

$$n = \frac{N}{1+N\,(e)^2}\text{Where:}\qquad N = \text{Total Population}$$

$$n = \frac{3,859,999}{1+3,859,999(0.05)^2}\quad e = \text{Sampling Error/precision level/}$$

$$n = \frac{3,859,999}{9,650.99}\quad n = \text{Sample size}$$

n = 400

2.6.2. Sampling for Qualitative Data

For the qualitative component, key informants were purposefully selected based on their assumed knowledge and ability to provide adequate data on the investigated topic. This non-probability sampling technique was employed to conduct detailed interviews with Addis Ababa residents and public servants at both the federal and city levels. Specifically, 8 key informants (4 residents and 4 public servants) were selected at the city level, and 5 key informants were chosen at the federal level, totaling 13 interviewees. Additionally, the researchers conducted three focus group discussions, each comprising 8-12 participants from various public sectors, who were purposefully selected based on their relevant knowledge and experience.

2.7. Method of Data Analysis

The collected data was analyzed in a way that linked back to the objective that initiated the study, employing both qualitative and quantitative research methods (Creswell, 2014). Qualitative data, obtained through key informant interviews, focus group discussions, and field observation, was categorized, organized, and analyzed concurrently and thematically with the quantitative data analysis (Creswell, 2014). Qualitative data results were triangulated with survey results to address the general objective in detail (Creswell, 2014). Quantitative data analysis was conducted using the Statistical Package for Social Science (SPSS) version 25, where measurable data was coded, entered, cleaned, organized, and presented in a meaningful format (Kothari, 2004). Both descriptive and inferential statistics were employed, analyzing socio-demographic variables using frequency distribution and percentage, and applying correlation and multiple linear regressions to determine the causal relationship between dependent and independent variables (Kothari, 2004).

2.7.1. Econometric Model
Quantile Regression

Quantile regression is a statistical method that allows for the estimation of the relationship between variables at different quantiles of the conditional distribution. Unlike ordinary least squares (OLS) regression that estimates the conditional mean, quantile regression provides insights into how the relationship may vary across

different points of the distribution. The econometric formula for quantile regression can be expressed as follows:

$$Q_\gamma(\tau) = \beta_0(\tau) + \beta_1(\tau)X_1 + \beta_2(\tau)X_2 + \cdots + \beta_k(\tau)X_k + u \ldots\ldots\ldots\ldots\ldots\ldots\ldots. (1)$$

where:

- $Q_\gamma(\tau)$ represents the τ-thquantile of the dependent variable Y.
- $\beta_0(\tau)$ $\beta_1(\tau)$, $\beta_2(\tau)$, ..., $\beta_k(\tau)$ are the coefficients to be estimated at the τ-thquantile.
- X_1, X_2, ..., X_k represent the different explanatory variables and u is the error term.

The quantile regression model estimates the conditional quantiles of the dependent variable Y given the values of the explanatory variables X. It allows for understanding how the relationship between the variables differs across different quantiles of the distribution. Estimating the coefficients in the quantile regression model involves minimizing the sum of the weighted absolute deviations between the observed quantiles and the predicted quantiles. The weights depend on the chosen quantile and aim to give more emphasis to the data points around that specific quantile.

2.8. Data validity, reliability and ethical concern

The researcher validated the data collection instruments through a pilot study on Addis Ababa residents similar to the sample (Kothari, 2004). Expert review confirmed content validity, and the researcher used SPSS and the CVI to ensure data quality prior to analysis (Kothari, 2004). The researcher also documented procedures, used standardized instruments, and applied Cronbach's alpha and test-retest to establish reliability (Kothari, 2004). Ethical protocols, including informed consent and data confidentiality, were followed (Creswell, 2007; Halai, 2006).

3. Results and Discussion

3.1. Response rate

The study distributed 365 questionnaires to a diverse sample of participants, including public servants, private sector workers, community members, and business owners. Of these, 295 valid responses were collected, resulting in a response rate of 81%.

3.2. Demographic characteristics of respondents

The following table provided a comprehensive summary of the demographic characteristics of the survey respondents. It included important information such as gender, marital status, religious affiliation, educational attainment, and employment status. For categorical variables, the author calculated the frequency and percentage, as further computations were not applicable to this type of data.

Table 1: **Demographics characteristics of respondents**

Variables	Categories	Frequencies	Percent
Gender of respondents	Male	135	45.8
	Female	160	54.2
Marriage status of respondents	Married	167	56.6
	Single	117	39.7
	Divorced	7	2.4
	Widowed	4	1.4
Religion of respondents	Orthodox	162	54.9
	Protestant	63	21.4
	Catholic	23	7.8
	Other	47	15.9
Education level of respondents	Primary Education	3	1
	Secondary Education	8	2.7
	Technical and vocational training	94	31.9
	Bachelor degree	135	45.8
	Master's degree and above	53	18
Employment status of respondents	Students	1	0.3
	Public servants	102	34.6
	Private company worker	180	61
	Business owner/ Entrepreneurs	12	4.1
Source: Survey result			

The sample comprises 160 female (54.2%) and 135 male (45.8%) respondents. Most are married (56.6%), followed by single (39.7%), divorced (2.4%), and widowed (1.4%). Regarding religious affiliation, 162 follow Orthodox Christianity, 63 are Protestant, 23 are Catholic, and 47 are affiliated with other religions. The majority hold a bachelor's degree (45.8%), with 31.9% having technical/vocational training, 18% a master's or higher, and 2.7% secondary education. In employment, 180 works in private companies, 102 are public servants, 12 are business owners, and one is a student. Descriptive statistics provide insights into the data's distribution.

Table 2: Summary statistics for continuous varaibles

Variables	Total	Minimum	Maximum	Mean	Std. Deviation
Age of respondents	295	18	56	30.04	7.50
Number of children of respondents	295	0	6	1.21	1.25

Education of respondents in years	295	9	24	15.89	2.20
Income of respondents	295	500	30,000	8826.86	3828.02
Proposed gross income of respondents	295	7000	350,000	45177.42	37846.81
Source: Survey result 2024					

The table provides a concise overview of key statistics regarding the respondents' age, number of children, education, income, and proposed gross income. The average age is 30.4 years, with a range of 18 to 56 years. Most respondents have one child, with a maximum of six. The average education level is 18.89 years, ranging from 9 to 24 years. Income varies from 500 to 30,000 birr, with a mean of 8,826.86 birr. Proposed gross income spans 7,000 to 350,000 birr, with a mean of 45,177.42 birr. These statistics summarize the respondents' demographic and financial characteristics.

3.3. The Impact of the Skyrocketing Cost of Living on Different Socio-Economic Groups

3.3.1. Diverging Impacts: Surging Costs and Income Group Disparities

The study utilized quantile regression to assess the impact of cost of living on different income groups. The table presents three models: the first quantile model examining the lowest income group, the second quantile model for the median income group, and the third quantile model for the higher-income group.

Table 3: Cost of Living and its impact different income group

Ln of net monthly income of our respondents	Model 1 (the first quantile)	Model two (Median)	Model three (Third quantile)
ln of cost of living	-0.004 (0.078)	-0.109 (0.134)	-0.208 (0.191)
Gender of respondents	0.136** (0.061)	-0.032 (0.066)	0.017 (0.556)
Married couple with children	-0.019 (0.017)	-0.014 (0.012)	-0.063* (0.039)
Age of respondents	0.006 (0.004)	0.001 (0.004)	0.012 (0.009)
Constant	9.256	10.585	11.330

	(0.738)***	(1.179)***	(1.654)***
Source: Survey result 2024 *** significant at 1 percent, ** significant at five percent and * significant at ten percent			

The quantile regression analyses presented in the table provide nuanced insights into the differentiated impact of the cost of living across income groups. In the first model examining the lower-income group, the results indicate that while gender and the constant term exhibit statistical significance, the natural logarithm of the cost of living, though negative, does not have a substantial effect. This suggests that for those already facing financial constraints and living at lower standards, fluctuations in the cost of living may be less impactful. The second model focused on the median-income group similarly reveals a negative, yet statistically insignificant, relationship between the natural logarithm of the cost of living and income, potentially due to this group's relatively lower baseline standard of living. Conversely, the third model analyzing the higher-income cohort shows that marital status and the constant term significantly influence income, but the natural logarithm of the cost of living does not have a statistically significant effect. This resilience of the higher-income group may be attributable to their financial stability, investment flexibility, and ability to adapt their spending patterns. Collectively, these findings underscore the heterogeneous ways in which the cost of living impacts diverse socioeconomic segments of the population.

The qualitative data shows that the high cost of living affects income groups differently. Lower-income people, especially those with fixed monthly incomes, are suffering more than those with more flexible earnings. As one respondent explained:

The cost of living has become very difficult for many of us. Those who get a fixed income each month are really struggling. But people running businesses, no matter the size, aren't suffering as much as government workers, retirees, or others who depend on a fixed monthly income. Prices of all basic necessities have gone up sharply across the country. The best solution is not to wait for the government to step in, but to come together as a community and work on this problem ourselves.

3.3.2. Generational Divides in the Face of the Escalating Cost of Living

The following table presents the results of an analysis that examines the influence of the natural logarithm of the cost of living on different age groups within the

community. The analysis employs quartile regression estimation techniques. To assess the impact of the natural logarithm of the cost of living, the researcher conducts three separate models: the first quartile model, the second quartile model, and the third quartile model. The models control for variables including natural logarithm of the cost of living, respondents' net income, marital status, number of children, and gender of our respondents.

Table 4: Cost of living and its effect on different age groups

Age of respondents	Model 1 (the first quantile)	Model two (Median)	Model three (Third quantile)
Ln of cost of living	-2.332 (0.383)**	-2.866 (1.474)**	.1692 (1.944)
Net income of respondents	-0.00003 (0.00004)	.00007 (.00006)	.0002 (.00004)***
Marital status of respondents	-0.281 (0.1.620)	1.148 (1.204)	.947 (1.047)
Number of children of respondents	1.537 (0.475)***	2.939 (.582)***	2.737 (.555)***
Gender of respondents	-5.010 (0.725)***	-6.692 (1.009)***	-7.562 (1.385)***
Constant	44.88 (3.262)***	51.883 (11.562)***	29.267 (15.845)*
Source: Survey result 2024 *** significant at one percent, ** significant at five percent and * significant at ten percent			

The findings from the quantile regression analysis presented in the table provide valuable insights into the multifaceted impact of the cost of living on different age groups within the surveyed population. The first quartile regression model reveals that the natural logarithm of the cost of living has a negative and statistically significant effect on the younger age group, indicating that a one-birr increase in the cost of living puts an additional 2.33 percentage point pressure on this demographic, all else being equal. The median quantile regression further substantiates this trend, demonstrating that a one percentage point rise in the cost of living corresponds to a 2.866 percentage point increase in pressure on the median age group, when controlling for other variables. Conversely, the third quartile regression model suggests that while the net income, number of children, and gender of respondents significantly influence the higher age category, the natural logarithm of the cost of living, though positive, does not exhibit a statistically significant effect. Collectively, these results underscore the complex and heterogeneous ways in which the cost of

living affects diverse segments of the population, offering critical information to policymakers for developing targeted interventions.

The qualitative and quantitative data both show the skyrocketing cost of living is hitting the younger, lower-income respondents especially hard. This group, which is dependent on family or already living in poverty, is struggling immensely to keep up. As one respondent explained:

> *"Poverty is already bad, and these rising costs are taking away our chances for a better future. We're doing all we can, but it's beyond our control. We need the government to step in and stabilize the market, as well as create more job opportunities for lower-income people."*

The comprehensive findings make clear that addressing this issue for the financially vulnerable members of the community will require government intervention to stabilize the economy.

3.3.3. Educational Divides in the Face of Soaring Costs: Tracing the Disparate Impacts

The following table presents the estimated impact of the natural logarithms of the cost of living on various respondent groups categorized by their maximum years of completed education. Specifically, the table reports regression results for three models: Model 1 examines the effect of the cost of living on respondents with lower levels of completed education; Model 2 focuses on respondents with median levels of completed education; and Model 3 analyzes respondents with higher levels of completed education.

Table 5: Effect of cost of living on different educational group of respondents

Education attainment of respondents in years	Model 1 (the first quantile)	Model two (Median)	Model three (Third quantile)
Ln of cost of living	1.802463***	-1.641257*	-1.155488***
	(.5738554)	(.9064268)	(.4246771)
Age of respondents	.2412006	-.0622753	-.1253863
	(.1757368)	(.2722315)	(.1918202)
Age square of respondents	-.0030291	.0017235	.0026495
	(.0028363)	(.0042292)	(.0031242)
Employment status of respondents	-.8405471***	-.8963684*	-.2137722
	(.2752919)	(.4756284)	(.3107537)
Gross income of respondents	.0000876*	.0001374	.0002037***
	(.0000514)	(.0001104)	(.0000738)
Family expense of	-.6311446**	-.4380007	.1238582

respondents	(.2747684)	(.5298821)	(.4460104)
Sole provider of family	-.5113778 (.4347761)	-.673735 (.5291674)	-1.158891 (.8492247)
Constant	-2.923273 (6.798484)	31.33935*** (8.508778)	26.75368*** (4.446649)
Source: Survey result 2024 *** significant at 1 percent, ** significant at five percent and * significant at ten percent			

The quantile regression analysis presented in the table offers nuanced insights into the differential impact of the cost of living on respondents with varying levels of educational attainment. The first quantile regression model examining the lower-education group reveals that the natural logarithm of the cost of living, employment status, gross income, and family expenses all exert significant influences, with the cost of living exhibiting a positive and statistically significant effect. This suggests that as the cost of living increases, this group experiences a corresponding rise in economic burden, potentially mitigated by the presence of targeted social welfare programs. In contrast, the median quartile regression model shows that the natural logarithm of the cost of living has a negative and statistically significant impact on the group that achieved the median years of education, with a one percent increase in the cost of living leading to a 0.016 percent increase in pressure. Similarly, the third quartile regression model finds that the natural logarithm of the cost of living has a negative and statistically significant effect on the highest-education group, with a one percent increase in the cost of living corresponding to a 0.0156 percent rise in burden. These divergent trends underscore the heterogeneous ways in which changes in the cost of living differentially impact population segments based on their educational profiles.

The qualitative data (from interviews and discussions) was generally consistent with the quantitative analysis. Respondents said that education alone does not determine whether someone has a better life. Even educated people, like government workers, can struggle with the high cost of living. One of our respondents said that *"Business people, who may have less education than government workers, are often living better lives. This suggests that education is not the most important factor for a good life. Having money is more important."*

3.4. Factors Driving the Skyrocketing Cost of Living in Addis Ababa city administration

The table presents the results of a regression analysis examining the key drivers of the significant increase in the cost of living within Addis Ababa's administrative

jurisdiction. Three models were utilized to determine the major contributors to the skyrocketing costs at the city administration level. Model 1 considered anticipated factors alone, without controlling for demographic and socioeconomic variables. Model 2 incorporated demographic factors as controls, while Model 3 adopted a more comprehensive approach by including both demographic and socioeconomic factors as control variables.

Table 6: Factors that affect the skyrocketing cost of living in Addis Ababa city administration

Ln of the cost of living	Model 1	Model 2	Model 3
	Coeff. (SD)	Coeff. (SD)	Coeff. (SD)
Infrastructure and Policy Factors in Cost of Living	.1915373*** (.0552811)	.1912209*** .0554096)	.1963455*** (.0430237)
Economic drivers of the cost of living in Addis Ababa	.0942261* (.0551389)	.0991528* (.0573896)	.1393866*** (.0532593)
Housing-driven cost of living in Addis Ababa	-.0372612 (.0462564)	.0041627 (.0475225)	-.0537199 (.046605)
Labor market and limited opportunities affect Addis Ababa's cost of living.	.0737548* (.0430282)	.0641164 (.0426037)	.0634005* (.037249)
Government's influence on the cost of living in Addis Ababa.	-.0065201 (.0349351)	-.0265058 (.0333403)	-.0107932 (.0325427)
Tax policy's impact on the cost of living in Addis Ababa.	.0285451 (.03966)	.00686 (.039146)	.0178924 (.0368689)
Housing cost cause high cost of living	.1194654** (.055458)	.1098065** (.0510875)	.0805957** (.040567)
Imported goods and services becoming more expensive.	.0040152 (.0712854)	.0343315 (.0658263)	-.0137009 (.0620172)
Trade policies, tariffs, and exchange rates impact imported goods and services.	.1250816 (.0894339)	.1290638 (.0848496)	.1064012 (.0791922)
Covid-19 raised Addis Ababa's cost of living through economic consequences and supply chain disruptions.	.053454 (.0555245)	.0574455 (.0561276)	.0690858 (.0496423)
Covid-19's lasting impact strains and	.1080217**	.0765526	.0898022*

costs the healthcare system.	(.0457466)	(.0511625)	(.0498701)
Constant	8.534551***	8.601675***	8.70125***
	(.3981639)	(.3839975)	(.3886344)
Demographic factors	No	Yes	Yes
Socio Economic factors	No	No	Yes
Source: Survey result 2024			
*** significant at 1 percent, ** significant at 5 percent and * significant at 10 percent			

The table above shows the results of a regression analysis that identifies the main factors contributing to the high cost of living in Addis Ababa city administration. The last column in the table represents the results of the regression analysis that takes into account both demographic and socioeconomic factors. According to the regression analysis, inadequate infrastructure and public services, as well as ineffective implementation of government policies, are major factors that contribute to the high cost of living in Addis Ababa city administration. The results suggest that when these infrastructure and policy factors increase, the pressure caused by the cost of living also increases by 19.6 percentage points, assuming all other factors remain the same. The second row of the table focuses on the impact of price increases in goods and services, as well as the effects of population growth on the high cost of living in Addis Ababa city administration. These variables have a significant and positive influence on the cost of living. According to the results, when these variables increase by one level, the pressure from the cost of living is expected to rise by 13.9 percentage points, assuming all other variables remain constant.

Another factor that has a positive and statistically significant impact is how competitive the job market is and the limited number of job opportunities available. When the job market becomes more competitive and there are fewer job options, it puts more pressure on the cost of living. Specifically, for every increase in the level of competitiveness and limited employment opportunities, the cost of living is expected to increase by 6.34 percentage points, assuming that all other factors in the model remain the same. Expensive rental housing and a limited supply have also had a significant impact on the cost of living in Addis Ababa city administration. Based on the findings in Model 3, as housing costs increase, the pressure on the cost of living also rises. Specifically, for every one-level increase in housing costs, the cost of living goes up by 8.06 percentage points, assuming that all other variables in the model stay constant. The lasting impact of COVID-19 is a major cause of the rising cost of living in Addis Ababa city administration. The healthcare system has been strained and has incurred long-term costs due to the pandemic. According to

Model 3, as the lasting impact of COVID-19 increases, the pressure of the skyrocketing cost of living also increases. Specifically, for every increase of one level in the lasting impact of COVID-19, the cost of living goes up by 9.0 percentage points, assuming that all other factors controlled in the model stay constant.

The interviews and focus groups in this study give a comprehensive understanding of the main reasons behind the huge increase in the cost of living in Addis Ababa. The participants identified both local and international factors that are driving this economic problem. On the local side, the respondents emphasized how the ongoing civil war, rapid population growth and migration to the city, a lack of compassion and humanity among people, ineffective government policies, and widespread corruption are all contributing to the high costs. As one person said:

> *Life in Addis Ababa has become extremely expensive. There are many reasons for this, like a lack of compassion from people, individuals trying to profit unfairly, poor enforcement of government rules, people cooperating with corrupt officials, a lack of forward-thinking citizens, and the civil war along with people not working as much. All of these different problems together are causing the costs in Addis Ababa to skyrocket.*

3.5. Analyzing the Effectiveness of Addis Ababa City Administration's Measures in Tackling the Cost of Living Challenges

3.5.1. Housing rent

The table below provides a summary of the responses from our participants, which helps assess the progress of the affordable housing rent control program in Ethiopia. The program was initiated to address the rapidly increasing cost of living. In order to gauge the implementation status of this policy, the researcher identified five key variables and presented their findings in terms of frequency, percentage, mean, standard deviation, and mean rank.

Table 7: Housing rent stabilization program

Observed Factors	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean (SD)	Mean rank
The implementation of rent control policies has prevented unreasonable increases in rents.	33 (11.2)	80 (27.1)	66 (22.4)	66 (22.4)	50 (16.9)	3.07 (61.4%)	5th

The control was able to stabilize the rental costs for tenants living in Addis Ababa.	33 (11.2)	4 (1.4)	24 (8.1)	169 (57.3)	65 (22.0)	3.78 (75.6%)	3rd
The regulation strikes a fair balance between protecting tenants from high rental prices and ensuring that landlords get a reasonable return on investment.	33 (11.2)	6 (2.0)	25 (8.5)	142 (48.1)	89 (30.2)	3.84 (76.8%)	1st
The regulation facilitates a transparent and accessible process for tenants to report and resolve rental-related issues or violations.	33 (11.2)	6 (2.0)	55 (18.6)	89 (30.2)	112 (38.0)	3.82 (76.4%)	2nd
The regulation has benefited various sections of society, including low-income individuals and the weak, in terms of rental affordability.	33 (11.2)	6 (2.0)	160 (54.2)	49 (16.6)	47 (15.9)	3.24 (64.8%)	4th
Overall mean rank						**3.55 (71 %)**	
Source: Survey result 2024							

The table above presents the variables observed to assess the implementation status of the housing rent control program. Out of five observed factors to evaluate the implementation status of the rent control program, the factor that evaluates whether the program strikes a fair balance between protecting tenants from high rental prices and ensuring that landlords get a reasonable return on investment scored the highest mean score. This implies that a high proportion of my respondents agree that the program implementation achieves this goal. On the other hand, the factors that evaluate whether the program facilitates a transparent and accessible process for tenants to report and resolve rental-related issues or violations achieve the second rank in the mean score. Thus, a high proportion of our respondents agree that the program achieves this goal. But a low proportion of our respondents believe that the implementation of rent control policies has prevented unreasonable increases in rents. The overall weighted mean score for this program is 3.55 points. According to the mean score interpretation by Pihie and Akmaliah (2009), a

moderate proportion of respondents agree that the program is implemented in line with its intended goal.

3.5.2. Price stabilization policy

The table below provides a summary of the responses from our participants, which helps evaluate the implementation of the price stabilization interventions that are designed to stabilize the skyrocketing cost of living in the Addis Ababa city administration. In order to gauge the implementation status of this policy, the researcher identified five key factors and presented their findings in terms of frequency, percentage, mean, standard deviation, and mean rank.

Table 8: Price stabilization policy

Observed variables	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean (%)	Mean rank
Price stabilization measures have prevented excessive price increases in essential goods and services in Addis Ababa.		27 (9.2)	150 (50.8)	65 (22.0)	53 (18.0)	3.49 (69.8%)	4th
Price stabilization measures ensured access to basic needs for residents in Addis Ababa.		43 (14.6)	71 (24.1)	144 (48.8)	37 (12.5)	3.59 (71.8%)	2nd
Price stabilization measures have eliminated price gouging in Addis Ababa by encouraging fair competition in the trading process.	22 (7.5)	10 (3.4)	120 (40.7)	90 (30.5)	53 (18.0)	3.48 (69.6%)	5th
Price stabilization measures have implemented mechanisms to address price differences between different communities in Addis Ababa.	14 (4.7)	43 (14.6)	47 (15.9)	111 (37.6)	80 (27.1)	3.68 (73.6%)	1st
Price stabilization measures have received sufficient support and cooperation from relevant stakeholders,		57 (19.3)	95 (32.2)	54 (18.3)	89 (30.2)	3.59 (71.8%)	2nd

trade associations, consumers and regulatory bodies.							
Overall weighted mean score						**3.57 (71.4%)**	
Source: Survey result 2024							

The table provided above presents the observed variables used to evaluate the implementation of a price stabilization policy designed to tackle the increasing cost of living in the Addis Ababa city administration. Among the five observed factors, the variable assessing whether the price stabilization measures have incorporated mechanisms to address price disparities among different communities in Addis Ababa achieved the highest weighted mean score of 3.68 points. This implies that a moderate proportion of our respondents believe that the price stabilization measures have indeed incorporated mechanisms to address such disparities. The overall weighted mean score for all the observed factors is 3.57 points. According to the weighted mean score interpretation by Pihie and Akmaliah (2009), a moderate proportion of our respondents agree that the program is being implemented in alignment with its intended goal.

3.5.3. Food Security Strategy

The table below provides a summary of the responses from our participants, which helps evaluate the implementation of the food security strategy programs that are designed to stabilize the skyrocketing cost of living in the Addis Ababa city administration. In order to gauge the implementation status of this policy, the researcher identified five key factors and presented their findings in terms of frequency, percentage, mean, standard deviation, and mean rank.

Table 9: Food security program

Observed variables	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean (%)	Mean rank
Food security initiatives have significantly increased access to nutritious food in the target population.	36 (12.2)	23 (7.8)	125 (42.4)	47 (15.9)	64 (21.7)	3.27 (65.4%)	5th
Food security initiatives by the city administration have improved agricultural		2 (0.7)	57 (19.3)	104 (35.3)	132 (44.7)	4.24 (84.8%)	1st

production and productivity.						
The food security initiatives have effectively benefited women, children and vulnerable groups through food aid and nutrition programmes.	19 (6.4)	2 (0.7)	176 (59.7)	46 (15.6)	52 (17.6)	3.37 (67.4%)	3rd
The Food Security Initiative has created collaborations and partnerships with various stakeholders including government agencies, non-governmental organizations and local communities to effectively address food security issues.		80 (27.1)	98 (33.2)	68 (23.1)	49 (16.6)	3.29 (65.8%)	4th
The food security initiatives have implemented robust monitoring and evaluation systems to measure the impact and effectiveness of the programs in ensuring food security.	3 (1.0)	72 (24.4)	54 (18.3)	117 (39.7)	49 (16.6)	3.46 (69.2%)	2nd
Overall mean score						3.53 (70.6%)
Source: Survey result 2024						

The table above presents the observed factors used to assess the progress of the food security strategy implemented by the Addis Ababa city administration in addressing the rising cost of living. Out of the five factors observed, the factor evaluating the impact of the city administration's food security initiatives on agricultural production and productivity received the highest average score of 4.24. According to the interpretation guidelines provided by Pihie and Akmaliah (2009) regarding average scores, a high proportion of respondents agree that the food security strategy implemented by the Addis Ababa city administration has indeed improved agricultural production and productivity. The overall average score is 3.53, indicating that a moderate proportion of respondents agree that the

implementation of the food security strategy aligns reasonably well with its initial plan.

4. Conclusion and Policy Recommendation

5.1. Conclusion

This study investigates the key drivers behind the substantial rise in Ethiopia's cost of living, reflected in an annual inflation rate exceeding 30%. Utilizing regression analysis and stakeholder interviews, the research provides a comprehensive examination of the factors contributing to the escalating cost of living, particularly in Addis Ababa. The analysis reveals that inadequate infrastructure, ineffective policies, price increases, population growth, labor market challenges, rising rents, and the COVID-19 impact are major contributors, each increasing costs by 6–20 percentage points. The study also evaluates relevant programs, identifying both successful and unsuccessful initiatives. The findings offer valuable insights to policymakers for addressing the complex, multifaceted challenge of high living costs in Addis Ababa.

5.2. Policy implication

The analysis reveals that the rising cost of living is negatively impacting individuals across different age groups in the city. To address this pressing issue, I propose a two-part strategy for the Addis Ababa administration.

First, the city should implement a financial literacy program to equip residents from diverse age backgrounds with essential skills in personal financial management, budgeting, saving, and investment. By providing this education, individuals will be better equipped to navigate the challenges posed by the escalating cost of living, regardless of their stage of life.

Concurrently, the administration should collaborate with the job creation office to establish targeted employment opportunities tailored for people of different ages. These specialized job placements would give residents from diverse age groups a means to cope with the pressures of the cost of living crisis, fostering greater financial independence and stability within the Addis Ababa community.

The study reveals that individuals with lower levels of education experience a significant increase in economic burden as the cost of living rises, while those with median and higher education levels face increased financial pressure. To address these findings, policymakers should prioritize targeted scholarship and financial aid programs for individuals with lower education levels, along with cost of living adjustment measures such as affordable housing initiatives and tax incentives for

those with median and higher education levels. These measures can help alleviate economic challenges and promote a more equitable society.

Based on the study's findings, it is clear that when policies are poorly implemented, it adds to the burden of the rising cost of living in Addis Ababa. Therefore, the author suggests that the city administration takes steps to ensure that all policies are implemented effectively. This can be achieved by conducting regular follow-up and monitoring to identify any obstacles in advance. It is also important to promote coordination among public institutions and maintain continuous monitoring and evaluation processes. By doing so, the city administration can increase the chances of successfully implementing effective policies.

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