

Situation Report on Nepal's Agrifood Systems

March 2023 | Bulletin Number 4

Key messages

Overall assessment: As in the previous month, available data suggest Nepal's agrifood system remained economically stable during March of 2023. Prices largely followed anticipated trends. Despite minor challenges that are likely to have been caused by other factors such as poor access to credit for small businesses, in addition to prices, no major threats to food or economic security were observed during the last month.

- **Inflation in food and beverage prices is marginally higher than the previous year:** The cost of food and beverages increased by 6.2 percent in February 2023 compared to the same period in 2022. This was marginally higher than the 5.6 percent annual inflation in January 2023 and 5.9 percent in December 2022.
- **Cereal prices remain high even after a decent paddy harvest:** Annual inflation in the price of cereals and their products increased from 9.6 percent in January 2023 to 12.4 percent in February 2023 despite a 7 percent increase in the domestic production of paddy in Nepal compared to the last year. The continuing embargo on the export of broken rice and quotas on wheat exports by India may be reasons for the persistently high prices of cereals in Nepal. Rice growers, especially those with larger landholdings who are net sellers of the crop, would have gained from the high prices.
- **High cereal prices will affect poor households.** The average household in Nepal spends one-fourth of its food budget on cereal-based products. Poor households spend a larger share of their food budget on cereals. Persistently high prices of cereals will hurt them more.

Ongoing liquidity challenges and access to finance: A range of challenges related to lending, purchase of agricultural inputs, purchase of agricultural products, repayment of loans, and were reported during the last month. Although farmers appear to be on track for planting maize and vegetables in the spring season, these issues continue to loom and are likely to affect input loan repayment rates and farmers' ability to reliably profit from the upcoming wheat crop and potentially the spring maize and vegetable crops.

Macroeconomic trends and implications for household economic welfare

- **Key message:** Compared to the previous month, inflation rates have remained stable. As reported last month, the continued healthy 5 percent growth in the real gross domestic product (GDP) could have a mid-term positive effect on household well-being. The concern however remains that rural poor and urban households may not experience significant benefits from this trend.
- **General inflation:** Inflation in the Consumer Price Index (CPI) of Nepal inched up to 7.9 percent in February 2023 from 7.3 percent in the previous month. An increase in inflation can erode the

purchasing power of households and make it more expensive for farmers and agrovets to borrow money for their businesses.

- **Food inflation:** The rate of year-on-year inflation in food prices increased from 5.6 percent in January 2023 to 6.2 percent in February 2023. This appears to be driven primarily by persistently high cereals and cereal product prices. High prices of staples can compel poor households who are net buyers of food to economize on the quantity and the quality of their diets. Rural non-farm households and the urban poor are the most vulnerable to the negative effects of the high and rising price of staples.
- **Remittances:** Remittances from citizens working abroad accounts for more than 20 percent of Nepal's GDP. The total remittance flow from July 2022 to January 2023 was 24.3 percent more than the total inflow between July 2021 to January 2022 in Nepali Rupees and 13.9 percent higher in US Dollars. An increase in the remittance income will cushion the recipient families against inflation and raise their disposable income. It will also improve Nepal's foreign exchange reserves and the government's revenue collection.
- **Labor prices:** Nepal's 'salary & wage rate' index increased by 10.27 percent from February 2022 to February 2023 compared to the 7.3 percent increase in the consumer price index (CPI) over this period. Therefore, workers engaged in salaried or wage employment would have experienced an increase in their real incomes. More disposable incomes in the hands of workers can boost consumer spending and stimulate economic growth. However, persistent wage inflation can also lead to higher unemployment because of the increased costs of labor. Workers in labor-intensive industries are more vulnerable to rising wage rates.
- **Exchange rates:** Since October 2022, the US Dollar to Nepali Rupee exchange rate has remained stable. Observed changes are nearly the same as the last month, with changes between 128 NPR/USD to 133 NPR/USD only. These data are back from last month's Situation Report which suggested that large additional declines are not likely in the near future.

Recent price fluctuation in food commodities and agricultural inputs

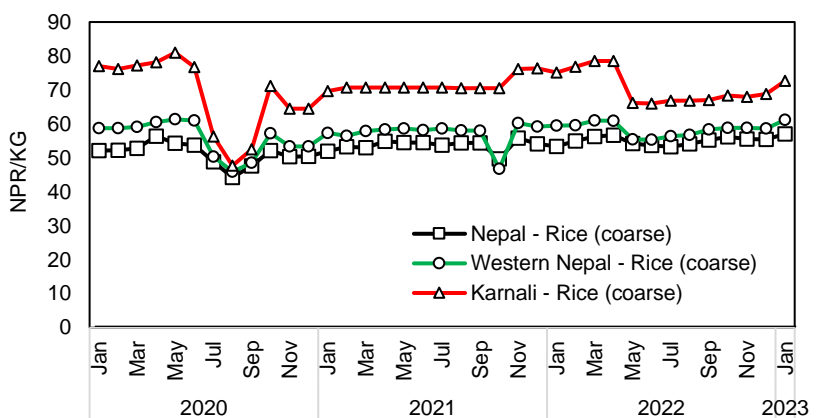


Figure 1. Recent market prices for rice in Nepal.

Rice and wheat

- Key message:** Rice prices during February were higher than in January, and also compared to January of the previous year. The estimated rice production was marginally (7%) higher this year compared to 2021, but it was still lower than the average production over the past 5 years and

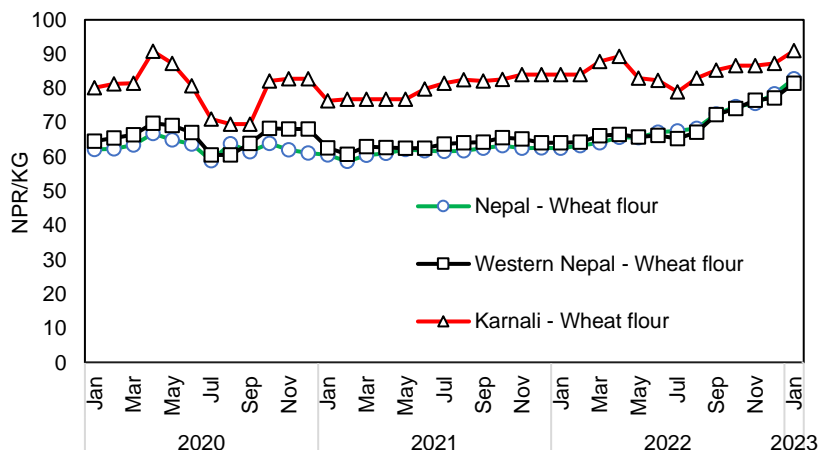


Figure 2. Recent market prices for wheat flour in Nepal.

- country's domestic needs. The embargo on the export of broken rice and the imposition of 20% duty on the export of non-boiled and half-steamed rice by India may also have led to higher prices of rice in Nepal even in the months immediately after the harvest.
- Much higher wheat flour prices observed this month in Nepal are negatively affecting consumers in Nepal, but could benefit farmers when the harvest season commences. Record high prices have incentivized increase in wheat area in India and Nepal and a bumper crop is expected in 2023. India is considering easing or removing both rice and wheat export restrictions. Field observations suggest also that poor urban households are responding by looking for ways to increase and/or diversify their income.

National prices for rice: Normally, the consumer price of rice falls after harvests. Prices are generally lower in January when compared to November and to December. However, this year, the rice price is marginally (2.7%) more expensive in January (2023) compared to November (2022). Compared to January 2022, (the last period in which an annual interval of national data are available), rice prices are up 6.9 percent (Figure 1). Globally, prices for food commodities remain high by historical standards and the markets for staple foods like rice remain tight and their prices remain vulnerable to supply shocks.

National prices for wheat: Normally, the price of wheat flour is somewhat higher in November and in December. Prices then tend to decline 6-7 percent in the first quarter of the next year as the harvest comes closer. Nonetheless, there was an increase of 6 percent between December 2022 and January 2023 (Figure 2) possibly because of restrictions on the export of wheat from India and tight staple markets globally. Wheat flour was 32 percent more expensive in January 2023 compared to the previous year. National price data for February 2023 are not yet available, but wheat prices have gone down by 3.4 percent from January to February 2023 in India — Nepal's main source of wheat imports. International export prices for wheat also registered a modest decline in January. Further, early estimates suggest that the area under wheat has gone up in both Nepal and India. If the weather remains conducive, a good wheat harvest is expected

in the region. The FAO has also predicted global wheat production to be the highest in the past 6 years. Higher domestic and global production of wheat may help lower its prices in Nepal

Horticultural and select fruit products

- **Key messages:** The price of vegetables is lower in March 2023 compared to a year ago. Field reports suggest that the surplus production of winter vegetables is responsible for the decline in their prices. The price trend benefits consumers but not vegetable growers. An average Nepali household spends 12.6% of its food budget on vegetables. Falling vegetable prices help mitigate the impact of the high and rising prices of cereals and cereal products on the food budget. It also leads to an increase in the consumption of vegetables. Price changes have bigger impacts on the consumption of vegetables than staple grains like rice, wheat, or corn.
- Conversely, the average price of fruits has not changed more than 1 percent since December 2022. Only a marginal decline of 1.8% was observed compared to the same period a year ago.

, Potato

- **National prices:** Following the normal seasonal patterns following harvests and increased supply, the price of red potato declined 17 percent between November and December 2022. After dropping sharply in December, the national average price of red potato rebounded and registered an increase of 8 percent in January 2023. The rebound in the price may be a part of the usual volatility seen in the markets for perishable foods in Nepal. The area and production of potato is going up in Nepal (and the dependence on imports is going down), but the lack of cold storage capacity makes prices more volatile.
- **Prices in Western Nepal:** Unlike the rest of Nepal, there was no noticeable increase in the price of potatoes Nepal's three westernmost provinces between December 2022 and January 2023. Potatoes in this region were, however, 5 percent more expensive in January 2023 compared to 2022.

Tomato

- **National prices:** Nationally, tomato prices fell 3 percent between December 2022 and January 2023 following a normal seasonal decline. Because tomatoes are perishable, their prices vary widely by season. Tomato prices in January 2023 were 11 percent below the level in January 2022.
- **Price information for Western Nepal:** Tomato prices remained unchanged in Western Nepal between December 2022 and January 2023, but they were down 7 percent compared to January 2022. Tomato prices in Western Nepal (98-106 NPR/kg) are significantly higher than the national average (70-80 NPR/kg). The decline in tomato prices is mirrored by a reported 54 and 20% decline in cauliflower and fresh onion prices in the Terai.
- Sharp decline in prices of vegetables would have hurt poor farmers who grow them on small farms, but it would have also led to an increase in vegetable consumption in this season. Normally, potato is the most consumed "vegetable" in Nepal. An increase in its price at a time

when other vegetables were becoming cheaper would have led to the substitution from potatoes to other vegetables.

Banana

- **National prices:** National average banana prices remained unchanged between December 2022 and January 2023. They were however 6 percent higher in January of 2023 than 2022. This increase is in line with the overall food price inflation in Nepal.
- **Price information for Western Nepal:** In Western Nepal, banana prices rose 7 percent compared to December 2022 when prices were unusually low probably because of a small increase in local production. Over the previous 12 months, banana prices rose by 15 percent in Western Nepal. This is much higher than the food price inflation (6.2 %) or the inflation in the price of fruits (1.8 %). Due to poor transport and market infrastructure, prices of perishable foods is even more volatile in the westernmost provinces of Nepal and can rise or drop sharply with just a small change in production.

Edible oils

- **Key messages:** The price of edible oils rose substantially in the first half of 2022 and then fell almost as much in the second half, ending up 6.6 percent above the price in December 2021/January 2022. The decline in the price of edible oil from the first half of 2022 has helped moderate food price inflation.

Nepal is a big importer of edible oils. The big price changes over past one year were caused partly by changes in Indonesia's export policies for palm oil. Indonesia is the source of nearly half of the world's supply of palm oil and more than 80% of Nepal's imports. The sharp decline in the world price of palm oil has helped improve Nepal's trade balance. **Soybean oil**

- **National prices:** Soybean oil prices in Nepal rose substantially in the first half of 2022 and declined in the second half. From December 2022 to January 2023, this trend continued with a 3 percent decline. Compared to January 2023, the national average price was 3 percent higher, roughly in line with inflation.
- **Sub-national prices:** Soybean prices in Western Nepal followed a similar pattern, falling 5 percent from December 2022 to January 2023 but rising 4 percent over the year. Observed prices in the mid-hills of western Nepal are conversely 5 percent higher than the national average.

Mustard oil

- **National prices:** Mustard oil prices are higher than soybean, though the price patterns for both commodities in 2022 were similar. Prices rose significantly in the first half of the year and declined thereafter.
- **Price information for Western Nepal:** Nationally, the price rose by 5 percent from 2022 to 2023, but it increased by 10 percent in Western Nepal.
- Rapeseed is the most commonly grown oilseed in Nepal. Reportedly, the area sown under rapeseed increased in response to the sharp rise in the price of edible oils in 2021-22. The area under rapeseed (and other oilseeds) is likely to go down in 2023-24 from its current level.

Agricultural inputs and access to finance.

- **Key messages:**
- **Agrovets:** Field observations suggest that the business of Agrovets' has been slow in March. This could be partly due to slightly reduced purchasing capacity among farmers, and/or due to March being a month of low input requirements.
- **Cooperatives:** Qualitative data from farmer cooperatives suggests that loan repayments for input purchase remain low and irregular, due in part to challenges loan recipients have in saving funds to repay loans given the higher costs of some food products.
- **Formal banking institutions:** Observations from Western Nepal suggest that lending remains low as a result of ongoing liquidity challenges.
- **Informal lending:** Some farmers have had to resort to informal lending to access finance, although recent national protests against loan sharks highlight the precarious nature of this strategy.
- **Farmers' plans for the next season:** Observations of farmers' purchasing behavior suggest that despite the slight increase in prices of seeds, there has been little change in farmers' decisions to plant particular varieties of maize and vegetables for the spring season. Some farmers have commented that the slightly increased prices of rice and wheat have actually helped them to cope with the inflation, and have encouraged them to pursue the cultivation of maize and vegetables to fetch higher prices.

Energy

Key messages: The price of diesel and petrol remained unchanged between February and March 2023. Diesel can be bought at NPR 175/liter and petrol at NPR 178/liter. Both diesel and petrol were cheaper by NPR 3 in January 2023. This modest (1.7%) increase in the price of diesel may have led to a small increase in the rental rates of mechanized farm equipment like tractors, threshers, irrigation pumps, etc., and the cost of taking the produce to the market. Rising costs of fuel may also lead to an increase in efficiency.

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Data sources

The source for this brief includes the World Food Program WFP for food prices, [globalpetrolprice.com](#) for fuel prices, the Nepal Rastra Bank for the CPI, budget shares, remittance flows, and other macroeconomic data, and the International Monetary Fund (IMF) for projected GDP

growth, in addition to price information and field reports provided by USAID/Nepal's Implementing partners, notably the Nepal Seed and Fertilizer (NSAF) Project and KISAN II.

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