

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 credit access problems for small businesses, 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. This is despite a 7 percent increase domestic paddy production compared to the last year. The continuing embargo on the export of broken rice and quotas on wheat exports by India may contribute to high prices for cereals in Nepal. Rice growers, especially those with larger landholdings who are net sellers of the crop, are likely to gain from 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 they do not appear to be usually intense compared to previous months. Although farmers seem to be on track for maize and vegetable planting in the spring, these issues loom and are could affect farmers' ability to reliably profit from the upcoming wheat crop and potentially the spring maize and vegetable crops. This could in turn negatively affect loan repayment rates.

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. 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 reached 7.9 percent in February 2023 (up 0.6 percent from the previous month). Increased inflation can erode households purchasing power make it more expensive for farmers and agrovets to borrow money for their businesses.

- **Food inflation:** The rate of year-on-year food price inflation 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 remittance income is likely to cushion recipient families against inflation and raise their disposable income. It could also help 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 between 128 NPR/USD to 133 NPR/USD only, nearly the same as reported last month. These data 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

Rice and wheat

- **Key messages:** Rice prices during February were higher than in January, and also compared to January of the previous year. 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 Nepal'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.¹ Much higher wheat flour prices observed this month in Nepal negatively affect consumers but could benefit farmers harvesting commences. Record high prices have incentivized increased wheat area in India and Nepal, and a bumper crop is expected in 2023. India is therefore considering easing or removing both rice and wheat export restrictions. Anecdotal field observations suggest also that poor urban households are responding by looking for ways to increase and/or diversify their income to account for higher food prices.

¹ Sub-national rice and wheat price data were not yet available at the time of writing this month's report. They will be addressed in future Situation Reports.

National prices for rice: Normally, the consumer price of rice falls after harvest. Prices are generally lower in January when compared to November and 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 market for staple foods like rice remain tight (in which storage to demand ratios are low) with prices remaining vulnerable to supply shocks.

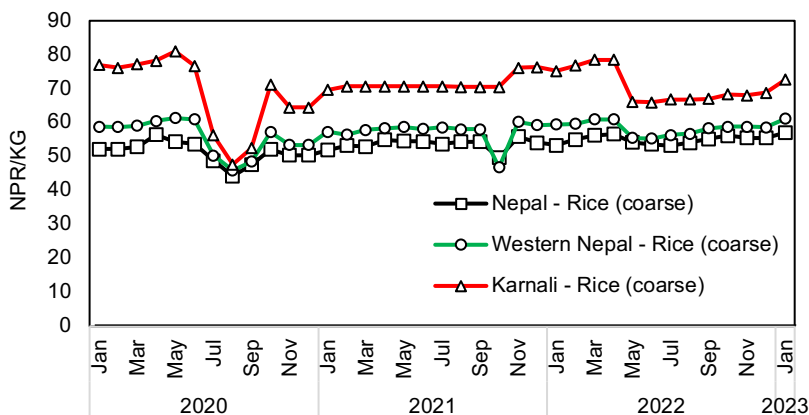


Figure 1. Recent market prices for rice in Nepal.

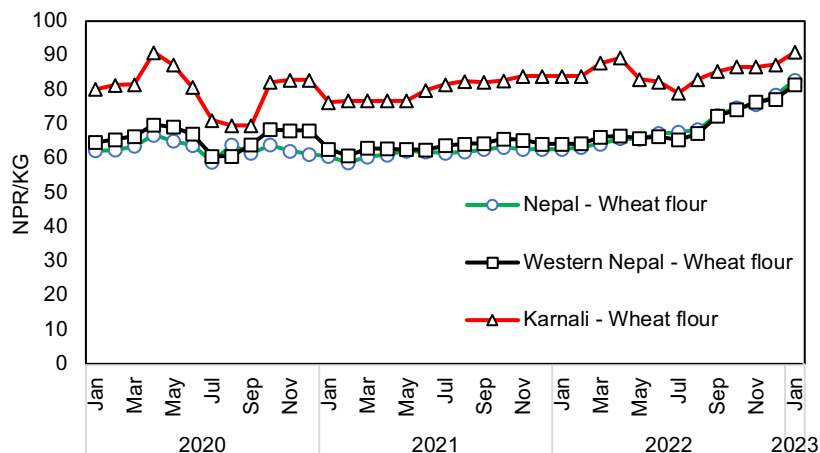


Figure 2. Recent market prices for wheat flour in Nepal.

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 harvests are anticipated. 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 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. 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. The FAO has also predicted global wheat production to be the highest in 2023 compared to the past 6 years. Higher domestic and global production of wheat may help lower prices in Nepal, but could also reduce profits for smallholder wheat farmers.

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. This benefits consumers but not vegetable growers.
- **Vegetables:** 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 food budgets. It could also increase consumption of vegetables. Price changes have bigger impacts on the consumption of vegetables than staple grains like rice, wheat, or corn.
- **Fruit:** 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.
- **Household consumption:** Normally, potato is considered the most consumed "vegetable" in Nepal. An increase in its price at a time when other vegetables were becoming cheaper could lead to substitution from potatoes to other vegetables.

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 those observed in January 2022.
- **Price information for Western Nepal:** Tomato prices remained unchanged in Western Nepal between December 2022 and January 2023, but 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 percent decline, respectively, in cauliflower and fresh onion prices in the Terai.

- **Consequences for farmers:** The sharp decline in prices of vegetables is likely to hurt poor farmers who grow tomatoes on small farms, but it could also lead to an increase in household vegetable consumption in this season.

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. This could be 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:** Nepal is a big importer of edible oils. 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.
- **National markets are affected by international price trends:** The large 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.

Recent price fluctuation agricultural inputs, access to finance, and logistical challenges

- **Key messages:** Field observations during the last month highlight a range of credit and logistical problems encountered by farmers and agricultural businesses, although these do not appear to be more severe than the previous month or general conditions in Nepal.
- **Agrovets:** Some Agrovets reported a slowing of business 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 purchase requirements.
- **Cooperatives:** Qualitative data from farmer cooperatives suggests that loan repayments for input purchase remains 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, particularly those well linked to markets and who are able to negotiate for good prices at the farm gate, have commented that the slightly increased prices of rice and wheat have actually helped them to cope with the inflation. Anecdotal evidence suggests that these farmers feel encouraged to pursue the cultivation of maize and vegetables to fetch higher prices in the upcoming spring season.

Energy costs and their implications

- **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, and is generally available on the market. Both diesel and petrol were cheaper by NPR 3 in January 2023.
- **Implications:** This modest (1.7%) increase in the price of diesel may have led to a small increase in rental rates of mechanized farm equipment like tractors, threshers, irrigation pumps, as well as the cost of taking the produce to the market. Rising costs of fuel may also lead to an increase in efficiency of farm and marketing operations, but further data are required to confirm these hypotheses.

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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 and remittance information, budget shares, remittance flows, and other macroeconomic data, and the International Monetary Fund (IMF) for projected GDP growth. These are 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, and FAO global agricultural production data.

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