

## Situation Report on Nepal's Agrifood Systems July 2023 | Bulletin Number 8

### Key messages

**Overall assessment:** In June 2023, Nepal witnessed a slight increase in the prices of food and beverages by 1.3 percent as compared to the previous month. The inflation rate of non-food items and services conversely decreased marginally. This can be partially attributed to a decline in transportation costs. There was a deceleration in the year-on-year Consumer Price Index (CPI), reaching 6.8 percent this month compared to a 10.1 percent increase in the Wage Rate Index.

**Persistence of high prices for cereals:** In June 2023, the price of cereals and their products increased by 0.3 percent compared to the previous month. Additionally, the prices of other food commodities generally increased during the same time. However, there was a marginal decrease in the price of ghee/oil and fruit by 1.6 and 0.8 percent, respectively,. The continued high prices of staples may have adverse implications for the poor and marginalized households' access to key food products that provide the bulk of calories in the Nepali diet.

**Laborers continued to experience an increase in their real wage rate:** The average wage rate for agricultural labor increased by about 5.0 percent from May to June, whereas there was no change in the average wage rate for industrial labor. The wage rate for construction laborers, however, increased marginally by 0.9 percent during the same period. With increasing prices for agricultural labor, the cost of hired labor to complete manual rice transplanting is expected to increase. This could contribute to higher overall costs of production for rice farmers, potentially contributing to lower profits later in the year.

### Spotlight: Nepal's new fiscal budget and agricultural subsidies

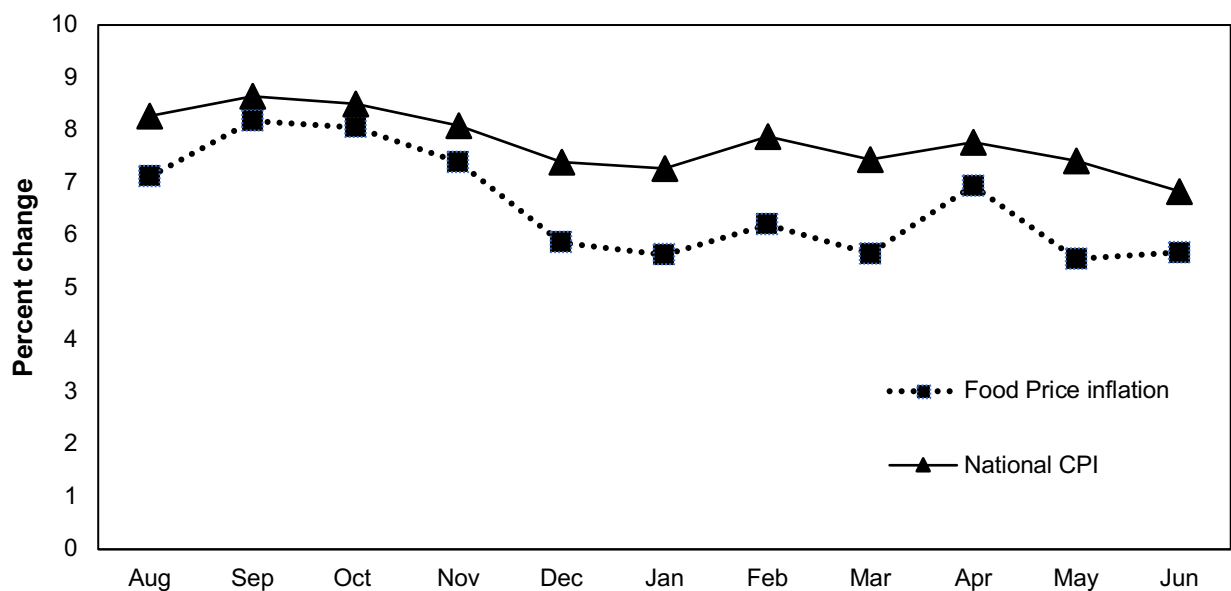
An increment of 5.5 percent in the budget for the Ministry of Agriculture and Livestock Development announced by the Government of Nepal was approved by the parliament in the last month. In partial response to higher global costs for fertilizers, the budget allocation for the procurement of chemical fertilizers has doubled and now stands at NPR 30 billion (USD 0.23 billion) for the current fiscal year.

The Nepal Rastra Bank (NRB) also published its monetary policy for this fiscal year based on the current macroeconomic scenario of the country on 23<sup>rd</sup> July 2023. Implementation of the policy is aimed at reducing the interest rate. Provisions have also been made for banks to supply credit at a minimum of 15.0 percent.. These policies are intended to increase credit flow to the agriculture sector and support producers in the face of higher farm production costs.

## Macroeconomic trends and implications for household economic welfare

**Key messages:** The averages of national CPI and food price inflation stood at 7.8 and 6.6 percent, respectively in June of 2023, though with declining trends over the period of August 2022 through June 2023 (see Figure 1). As shown, the highest CPI (8.6 percent) was recorded in September 2023, whereas the lowest 6.8 percent was observed in June 2023. The highest inflation rate of 8.2 percent was also recorded in September 2022, while the lowest rate was observed at 5.5 percent in May 2023. The year-on-year food price inflation that contributed to increases in the prices of cereals, especially wheat and rice, are shown in the table in Annex 1.

**Remittance inflows:** Many households in Nepal rely heavily on remittances from abroad. Between mid-July 2022 and mid-June 2023, Nepal received remittances worth NPR 1112.6 billion (USD 8.49 billion).. This growth in remittance inflows was associated with an increase of 46.6 percent in migrant workers going for foreign countries last first eleven months. Relaxation of COVID-19 protocols for international migration is the primary contributor to the skyrocketing of migrant workers. The sharp rise in remittance inflows has been beneficial for the Nepal's economy. Particularly, it has eased Nepal's deficit on the balance of payments and serves as a kind of safety net for households' finances. Studies have also shown that remittances are instrumental in reducing poverty in the country.<sup>1</sup>



**Figure 1:** Percentage change in food price inflation and national consumer price index (CPI) from August to June 2023

<sup>1</sup> Yoshino, N., F. Taghizadeh-Hesary, and M. Otsuka. 2017. International Remittances and Poverty Reduction: Evidence from Asian Developing Countries. ADBI Working Paper 759. Tokyo: Asian Development Bank Institute.

August 22 to June 2023.

## Recent price fluctuation in food commodities and agricultural inputs

### Rice and wheat

**Key messages:** Year-on-year prices of rice and wheat rose by 19.8 percent for each in May 2023 as compared with their prices on the previous year. However, compared to April 2023, the price increase in May 2023 was modest. The surges in the respective prices of wheat flour and medium grain by 34.8 percent and 13.3 have contributed to overall food price inflation as these cereals are a major part of Nepali diets. International conflict, steep topography in the Mid-Hills and mountainous districts, crop damage, and recent restrictions on exports of wheat and rice from India may have contributed to the increase in Nepal's cereals' prices.

**Rice:** The national prices of medium grain and coarse rice has showed increasing trends during the year. In addition, the year-on-year prices of medium grain rice and coarse rice in May 2023 were higher by 13.3 percent and 10.9 percent, respectively, as compared to May 2022 (Annex1). Consumers are experiencing increasing price trends for coarse rice and medium grain rice prices as well, with a rise of 2.9 percent and 2.7 percent, respectively, in May 2023 compared with the price of previous month. However, prices varied across provinces. For instance, the prices for both medium and coarse rice decreased in Karnali province by 35.7 percent and 13.3 percent, respectively. Negative growth in rice prices in Karnali are the results of subsidized rice supplies from the government in Mugu and Humla districts. By province, the highest increase in price of medium grain rice was observed in Lumbini (34.0 percent) followed by Sudurpashchim (21.0 percent) for May 2023 as compared to the previous year (Annex 2).

#### Spotlight: Slow monsoon season rice crop establishment

Information from USAID Implementing Partner Activities suggest that mid-July 2023, farmers have transplanted only approximately half of the total suitable land for *Kharif* rice cultivation, which is 12.0 percent lower than for the same period of previous year. Lumpy Skin Disease of livestock (LSD-L) has been widely reporting, with data suggesting infection of about 634,800 livestock, mainly cattle, killing a total of 48,133 as of 24<sup>th</sup> July 2023.<sup>1</sup> In Sudurpashchim Province alone, LDS-L is reported to have infected and killed a total of 298,000 and 26,000 cattle, respectively. As many farmers in the Mid-hills still rely on drought animals, for land preparation, media have suggested that LSD-L may be one of the factors delaying transplanting. LSD-L has also been reported in Karnali province, though additional research is needed to confirm that LSD-L is indeed a major limitation to transplanting this as opposed to other years.

**Wheat:** The price of wheat in Nepal continues to remain high in Nepal. At national level, the price of wheat flour increased by 34.8 percent between May 2022 and May 2023. Across provinces, the

highest spike of 67.1 percent was observed in Lumbini province followed by 58.9 percent in Sudurpashchim province during the same period. However, wheat prices were slightly lower in May 2023 as compared with the previous month. The inflated wheat flour price is likely linked to speculation and shortages of wheat in the international market because of the international conflict and trade restrictions imposed in key wheat producing and trading countries. Reports of crop damage due to untimely rains in wheat growing areas of India and subsequent restrictions on wheat exports may have also contributed to increasing wheat flour prices compared to their already elevated levels. This situation may become worse given the recent jump in global wheat prices following Russia's withdrawal from the Black Sea Grain Initiative on 17 July, as well as by subsequent targeting of trade vessels and routes by the military<sup>2</sup> However, on the ways in which national and sub-national markets in Nepal will respond to these changes remain to be seen as the situation matures.

**Policy, trade, and climate risks:** The Government of Nepal has raised the minimum support price for short grain and medium grain rice to NPR 3,198 (USD 24.41) and NPR 3,362 (USD 25.66) per quintal, respectively, in Nepali year 2080/81 (i.e., 2023/24) to encourage domestic production. These prices are 7.8 percent and 7.6 percent higher for short grain and medium grain, respectively, than the prices in the previous year. More importantly, this is the first time that the prices had been announced in advance of the summer monsoon the planting period; this advanced price declaration may act as an instrument of price risk mitigation for rice production.

## Selected horticultural and fruit products

**Key messages:** The average price of fruit remained almost stable with a slight increment of 0.8 percent from May 2022 to May 2023. However, it saw a marginal decrease of 0.7 percent in May 2023 when compared with the price of the previous month. Prices of cabbage, pumpkin, potato, and tomato declined slightly from May 2022 through May 2023. Particularly, the respective prices of cabbage, pumpkin and tomatoes decreased 8.2, 23.4 and 8.2 percent from April to May 2023 (see in Annex 2). Such declines in vegetable prices are expected to benefit poor consumers could experience improved purchasing power, enabling them to afford, buy, and consume more vegetable products than they previously could.

## Fruits

The declining trends of the national prices generally persisted in some fruits, such as apples and bananas, during May 2022 through May 2023. This decline was observed across provinces. For instance, Bagmati and Karnali provinces saw a decline of 11.2 percent and 22.0 percent, respectively in year-on-year apple prices, in comparison to the previous year (May 2022). Despite a declining trend, some provinces experienced contrast price orientations. For example, Banana prices in Karnali province experienced a sharp decline of 44.8 percent from May 2022 to May 2023, in contrast to

<sup>2</sup> BBC. (2023, July 21). News. Retrieved from Ukraine war: Wheat prices soar after Russia threatens ships: <https://www.bbc.com/news/world-europe-66253143>.

skyrocketing prices that resulted in a 39.7 percent increase in Lumbini Province during the same period.

## Potato

Year-on-year comparison of prices showed a decline of 13.2 percent from May 2022 to May 2023, while the national average price for potatoes increased by 4.6 percent between April and May 2023. The fall in national prices was further aided by the sharp drop in prices recorded in the Karnali, Koshi, Gandaki, Sudurpashchim, and Bagmati provinces when compared with the prices of the previous year.

## Tomato

Year-on-year tomato prices rose by 48.0 percent up to May 2023, while a decline of 7.0 percent was observed in May when it was compared with the price of April for the year 2023. Tomato price declines stood uniform across the provinces with the highest rate of 81.6 percent in Karnali and the lowest in of 39.3 percent in Koshi province during May 2022 through May 2023.

A bumper tomato production supplemented by import from India is likely to have influenced these changes. There was however a significant increase in tomato prices in Madhesh province, between April and May 2023 at 71.4 percent. This was the only province in Nepal that had higher tomato costs during this period. India, also experienced declining tomato prices up to May 2023. After May, however, there has been a massive surge in tomato prices in India with prices rising by a staggering 700 percent after the commencement of monsoon. This sharp increase in prices in India could present an opportunity for farmers in Nepal, especially those in bordering districts, such as Banke, Kailali and Kanchanpur, to capitalize on the price differences by exporting across the border.

## Edible oils

**Key messages:** Mustard oil and soybean oil also saw decreasing price trends in Nepal. The national mustard oil price declined from NPR 366 (USD 2.79) to NPR 286 (USD 2.18) per liter in May 2023 than that of the price in May 2022, a reduction of 21.8 percent. In the same period, soybean oil price has declined 25.8 percent. The prices of mustard oil and soybean oil dropped by 4.1 percent and 0.08 percent, respectively, in May 2023 when compared with their prices in previous month.

**Price variation:** At the province level, the highest decline in mustard oil prices was of 38.0 percent and soyabean oil by 31.9 percent, observed in the Bagmati province for a one-year period measured up to May 2023. However, monthly comparison of mustard oil prices from April to May 2023 showed an increasing trend of 8.2 percent and 9.5 percent in Koshi and Madhesh provinces, respectively. However, the prices stood constant in Lumbini and Karnali provinces for the same period. Unlike mustard oil prices, Lumbini and Karnali provinces witnessed the highest growth of 13.5 percent in soybean price from April to May 2023. The overall reduction in the price of both edible oils at national level can likely be partially attributed India's policy of levying a 5.0 percent Krishi Kalyan Tax in import

of oils from Nepal that may have increased domestic competition and lowered prices.

## Agricultural inputs

**Key messages:** The government has doubled the budget for the procurement of fertilizers in Nepal as compared to the previous year. Because of the cessation of the Black Sea Grain Initiative (BSGI) on 17 July, which will continue to affect fertilizer supply and distribution of out of Russia and the Ukraine, with likely international consequences, this policy move is timely and important. If Nepal is able to assure adequate distribution of fertilizers, it could alleviate high production costs and aid in increasing production of transplanted rice.

**Fertilizers:** The Government of Nepal has maintained a stock of 41533 MT of urea, 21238 MT of DAP and 1642 MT of MoP as of 16<sup>th</sup> July 2023. In addition,, 21,857 MT of DAP and 1582 MT of MoP has been recently imported which is expected to be distributed coinciding with the rice cultivation in Nepal.<sup>3</sup> Furthermore the Government of Nepal has allocated record high budget of NPR 30 billion (USD 0.23 billion) for chemical fertilizer subsidy supply programs. Reports from USAID Implementing Partners however suggests that there remains a risk of tedious procurement processes that could impede the efficient distribution of fertilizers during the early monsoon when basal doses can be most beneficial for transplanted rice.

## Energy

**Key messages:** Retail petrol prices in Nepal showed a very slight decrease from NPR 175 (USD 1.34) per liter in January 2023 to NPR 170 (USD 1.30) per liter in June which further declined to NPR 164 (USD 1.25) in July. The price of petrol is even lower in the border districts such as Nepalgunj and Surkhet of Lumbini and Karnali provinces respectively, with the current prevailing prices standing at NPR 161.5 (USD 1.23) per liter and NPR 163 (USD 1.24) per liter, respectively. During the same period, diesel prices decreased from NPR 172 (USD 1.31) per liter in January 2023 to NPR 155 (USD 1.18) per liter in June to NPR 146 (USD 1.11) per liter in July. Diesel prices as of July 2023 in Nepalgunj and Surkhet districts are NPR 143.5 (USD 1.10) and NPR 145 (USD 1.11) per liter, respectively.

The decline in diesel price is important as diesel is needed for land preparation and shallow tube well irrigation during the early monsoon rice transplanting season.. As per the decision made by the Government of Nepal on 17<sup>th</sup> July 2023, the Nepal Oil Corporation will adopt an automated pricing mechanism which will adjust the fuel prices as per the price set by the Indian Oil Corporation, relaxing the governmental influence in price determination.

<sup>3</sup> Ministry of Agriculture and Livestock Development. (2023, July). Current Status of Chemical Fertilizer Import . *Notice*. Nepal: Government of Nepal.



## Informal trade in agriculture

From April 2022 to March 2023, India's shares in Nepal's total formal imports and exports were 63.0 percent and 69.0 percent, respectively. Informal trade in agricultural and food commodities between the two countries has also been a prominent feature of the economy. The import duties charged on agricultural products by Nepal, commodity restrictions and bans, and prohibitions and quotas are eased by the porous border between the two countries. In the case of fertilizers, farmers on the Nepal side have been driven to purchase informally from India because of reported unavailability of state-supplied fertilizers in the required quantities at the right time.

Furthermore, price differences as well as variation in production costs due to uneven and untimely provision of subsidies have driven small traders as well as consumers to procure food items from across the border. Major agricultural commodities traded informally include rice (long and fine grain), wheat, vegetables, pulses, sugar, salt, fertilizers (urea in particular), pesticides, seeds including hybrid (vegetable and grain), spices (clove), ginger, , as well as agricultural machinery spare parts.

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## Data sources

Data sources for this brief includes the World Food Program for food prices, [Nepal Oil Corporation \(noc.org.np\)](http://noc.org.np) for fuel prices, the Nepal Rastra Bank for the CPI, budget shares from Ministry of Finance, remittance flows, and other macroeconomic data. The field reports provided by USAID/Nepal's Nepal Seed and Fertilizer (NSAF) and KISAN II Activities.

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## Annexes

### Annex 1: Percentage change in commodities' prices (NPR/kg) of Nepal.

Commodity	Price			% Change	
	May 2022	April 2023	May 2023	May 2022- May 2023	April 2023 – May 2023
Rice (coarse)	54.21	58.40	60.12	10.91	2.95
Rice (medium grain)	76.46	84.36	86.64	13.32	2.70
Wheat flour	65.61	89.56	88.42	34.76	-1.28
Apples	295.90	290.12	294.28	-0.55	1.43
Bananas (per dozen)	152.21	150.80	148.48	-2.45	-1.54
Orange	199.36	216.33	210.00	5.34	-2.93
Potatoes (red)	51.25	42.52	44.48	-13.21	4.61
Tomatoes	136.96	75.60	70.32	-48.66	-6.98
Oil (mustard) (per liter)	366.13	298.40	286.28	-21.81	-4.06
Oil (soybean) (per liter)	336.79	250.20	250.00	-25.77	-0.08
Cabbage	59.30	51.08	46.92	-20.89	-8.15
Carrots	95.87	92.67	103.33	7.79	11.51
Pumpkin	65.65	79.32	60.72	-7.51	-23.44
Lentils (broken)	172.50	169.80	170.28	-1.29	0.28
Beans (black)	172.63	182.28	182.52	5.73	0.13
Chickpeas	144.71	136.12	134.80	-6.85	-0.97
Chickpeas	144.71	136.12	134.80	-6.85	-0.97
Eggs (per unit)	20.58	17.72	18.48	-10.22	4.29
Fish	443.43	444.28	474.43	6.99	6.79
Meat (chicken)	492.13	450.32	462.32	-6.06	2.66
Milk (per liter)	94.50	119.60	120.00	26.98	0.33
Peanut	355.67	347.10	335.00	-5.81	-3.49

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**Annex 2. Percentage change in commodity prices across provinces of Nepal.**

Commodity	Koshi		Madhesh		Bagmati		Gandaki		Lumbini		Karnali		Sudurpashchim	
	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)	% Change (May 2022- May 2023)	% Change (April 2023 - May 2023)
Rice (coarse)	10.07	5.52	0.00	5.16	13.00	2.73	-10.16	0.00	22.86	1.78	-13.35	1.78	22.83	11.88
Rice (medium grain)	14.94	4.71	20.51	11.90	7.75	-0.60	14.86	1.19	33.99	1.49	-35.74	1.49	21.14	8.73
Wheat flour	29.19	1.89	25.27	-5.00	36.07	-0.90	21.43	-2.86	67.11	1.63	0.00	1.63	58.85	1.22
Apples	-5.13	-5.61	2.35	2.78	-11.18	7.14	-2.05	3.33	18.62	-0.99	21.95	-0.99	-3.15	6.03
Bananas	-2.86	0.00	-8.79	7.69	11.49	-1.79	-7.82	1.54	39.66	1.25	-44.82	1.25	11.76	4.59
Orange	NA	NA	NA	NA	-4.55	2.44	13.50	13.85	NA	7.14	37.93	7.14	NA	NA
Potatoes (red)	-23.78	-3.85	7.48	21.05	-3.89	1.76	-9.09	6.67	1.82	-6.67	-44.83	-6.67	-9.09	25.00
Tomatoes	-39.29	-8.11	-39.55	71.43	-59.62	-25.00	-54.70	-10.34	-66.13	-8.70	-81.63	-8.70	-43.75	-15.63
Oil (mustard)	-9.87	8.15	-18.18	9.46	-37.97	-16.75	-29.21	-1.79	-11.54	0.00	-31.81	0.00	-32.63	-17.74
Oil (soybean)	-18.15	5.41	-30.61	3.03	-31.89	-5.32	-29.10	-1.03	-16.05	13.48	-26.37	13.48	-24.65	-5.07
Cabbage	-23.66	-4.76	-19.79	15.38	-27.92	1.76	-59.46	-14.29	-34.43	14.29	-67.16	14.29	-28.95	-34.15
Carrots	-1.32	-4.26	-4.00	-14.29	69.74	43.33	-21.81	75.93	-48.67	3.85	-66.08	3.85	NA	NA
Pumpkin	11.89	0.00	-11.56	-13.33	NA	NA	NA	NA	-16.67	-8.33	-65.62	-8.33	0.00	-28.00
Lentils (broken)	-2.61	2.11	-4.76	-3.30	-9.86	-3.10	-2.86	0.00	5.93	1.01	-13.04	1.01	1.02	2.21
Beans (black)	4.13	0.95	19.91	5.66	20.18	-7.64	-0.80	2.78	12.09	0.99	-16.94	0.99	-1.58	0.74
Chickpeas	8.45	-3.75	0.63	0.00	-21.76	-10.31	-37.66	2.13	13.50	0.00	-30.19	0.00	-7.68	8.65
Eggs	-6.25	0.00	-20.75	-6.67	1.79	24.59	0.00	29.03	-3.64	0.00	-29.80	0.00	0.00	0.00
Fish	6.11	4.17	-5.74	10.00	-15.28	-1.61	-17.90	-4.00	48.81	0.00	-32.80	0.00	0.00	-20.00
Meat (chicken)	-1.78	5.83	-7.32	0.00	-8.00	-0.87	-11.38	2.33	-11.54	-4.17	-37.41	-4.17	-4.15	-3.65
Milk	9.65	2.04	11.11	3.45	41.39	-0.43	14.54	0.00	23.08	0.00	-9.22	0.00	5.26	0.00
Peanut	5.15	-7.74	14.18	-6.06	68.75	-15.09	NA	-4.95	1.66	-4.35	-74.04	-4.35	NA	NA

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