

Situation Report on Nepal's Agrifood Systems

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Key messages

Overall assessment: Data from May indicates a persistent trend of modest price increases in Nepal. Year-on-year inflation for food and beverage prices was recorded at 5.5 percent, which, though lower compared to 6.9 percent in the previous month and significantly less than in April and May 2022, still denotes an escalation in food prices from an already elevated base. While the high inflation rate impacts all consumers, it is likely to disproportionately strain the finances of the poor, potentially jeopardizing food security. Moreover, the inflation rates for non-food items and services surged to 8.9 percent. The Consumer Price Index (CPI) experienced a somewhat milder increase compared to the Wage Rate Index, registering a 7.4 percent growth as opposed to 7.6 percent.

Persistence of high prices for cereals: In April and May of 2023, Nepal did not experience a decrease in staple food prices; instead, there was a slight uptick of 0.5 percent in cereal prices, which were already elevated. In contrast, prices for other food commodities, with the exception of spices, fruits, and milk and eggs, decreased in May 2023. The sustained high prices of staple foods are concerning for the economic well-being of Nepal's poorer households.

Agricultural and industrial laborers continued to experience a decline in their real wages: Between April and May, the average wage rates for agricultural and industrial laborers increased marginally by 0.15 percent, whereas the Consumer Price Index (CPI) rose by 1.1 percent during the same period. This indicates a slight decline in real wages. However, wage indices for industrial laborers, such as construction workers, fared better, with increases of 1.0 percent in April and 0.6 percent in May.

Consumer price indices depicted spatial variability: In May of 2023, the CPI in the Kathmandu Valley, Terai, Hill, and Mountain rose to 7.7 percent, 7.2 percent, 7.6 percent, and 7.1 percent, respectively. Inflation in these regions was 7.4 percent, 8.2 percent, 7.9 percent, and 8.2 percent during the same period of last year.

Spotlight: Nepal's new fiscal budget and agricultural subsidies

The Government of Nepal announced a budget of NPR 58.98 billion (USD 0.45 billion) for agricultural and livestock development in the fiscal year 2080/81 BS (2023-24 AD), up from NPR 55.89 billion (USD 0.42 billion) and 5.5 percent higher compared with the previous year. Of the total, NPR 30 billion (USD 0.23 billion) and NPR 0.95 billion (USD 0.01 billion) are planned to be used for subsidy support for chemical fertilizers and insurance premiums (of up to 80 percent) for crops and livestock, respectively.

These measures are intended to bring relief for smallholder rice farmers in particular and have been allocated in part in response to input supply challenges and uncertainty poised by seasonal weather forecasts indicating potentially dryer late monsoon season conditions in Nepal.

Macroeconomic trends and implications for household economic welfare

Key messages: Year-on-year inflation in Nepal remained high, though it saw a slight dip from 7.8 percent in March and April 2023 to 7.4 percent in May 2023. This inflation impacted a broad spectrum of commodities, with food prices climbing by 5.5 percent and non-food prices by 8.9 percent. The elevated prices of cereals, cereal products, milk, milk products, eggs, and spices persistently contributed to and were affected by the inflation. Notably, the price hikes roughly paralleled changes in wage rates (Figure 1). However, as highlighted in prior reports, the growth in wage indices was not evenly distributed across various economic sectors and worker categories.

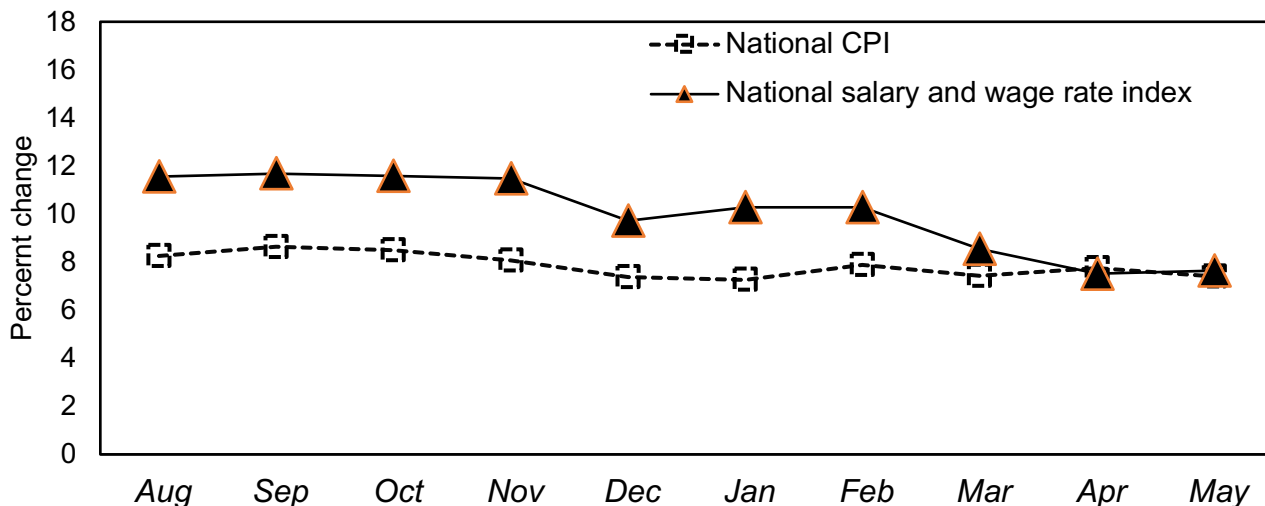


Figure 1. Percentage change in national consumer price index (CPI) and national salary and wage rate index.

Remittance inflows: Between mid-July 2022 and mid-May 2023, Nepal saw a remarkable 23.4 percent increase in remittance inflow, totaling NPR 1005.18 billion, compared to a mere 0.5 percent rise during the same period the previous year. In US dollars, the remittance inflow grew by 13.4 percent, reaching USD7.70 billion. This surge coincided with a significant increase in Nepali workers seeking foreign employment or renewing work permits as COVID-19 migration restrictions eased. During the first ten months of 2022-23, this number doubled from the previous year, reaching 0.66 million. The substantial growth in remittance inflows positively impacts Nepal's balance of payments, alleviating deficits and serving as an economic lifeline for households, cushioning them against the slowing economy.

Recent price fluctuation in food commodities and agricultural inputs

Rice and wheat

Rice: In April 2023, the national average price of coarse rice increased by 3.5 percent compared to the previous month and was 3.1 percent higher than the same month in the previous year. The price hike was even higher for the medium quality of rice (Table 1). Rice price trends showed regional variability in Nepal as the extent and direction of price movement were not uniform across provinces (Table 2).

Wheat: In March 2023, the price of wheat flour experienced a significant increase, which continued into April 2023. By April, the national average price of wheat flour was 6.5 percent higher compared to the previous month and exhibited a substantial 37.0 percent increase relative to April 2022. Concurrently, Western Nepal observed a comparable surge in wheat flour prices.

Selected horticultural products

Key messages: After a slight increase in March/April of 2023, vegetable prices remained stable in April/May. On a year-to-year basis, there was about 1.9 percent decline. However, price trends exhibited a significant variation across different types of vegetables (Annex 1). Vegetables constitute a crucial component of the food basket in Nepal, representing around 5.5 percent of the average household's expenditure and 12.6 percent of the expenditure on food. Consequently, fluctuations in the prices of vegetables are poised to substantially affect the dietary quality of poor households in the country.

Fruits: Compared to the previous month, the average price of fruits witnessed a 1.1 percent uptick. Additionally, there was a 1.5 percent increase relative to the same period in 2022. Among fruits, the price of apples surged notably by 5.5 percent from the previous month, while bananas also experienced a significant price increase of 3.1 percent. Nonetheless, since fruits account for a smaller portion of the average household's food expenditure, the impact of these price increases on the family budget is expected to be less pronounced compared to that of vegetables.

Banana

Price changes nationally and regionally: In April 2023, the national average price of bananas continued its upward trajectory. Prices were 3.0 percent higher than in the previous month and 13.5 percent higher compared to the same month in the previous year. Among the provinces, five of them, namely Koshi, Bagmati, Gandaki, Lumbini, and Sudurpaschim, experienced an increase in banana prices, while a decline was observed in the remaining two provinces, Madhesh and Karnali. Bananas are a vital source of micronutrients. The escalation in banana prices may curtail their consumption, particularly among households that do not produce bananas. This could potentially lead to micronutrient deficiencies, especially within economically disadvantaged households.

Potato

National prices: In Nepal, potatoes are a vital staple for poor households, as they are an affordable and nutritious source of energy, contributing to food security. Between March and April 2023, the national average price of potatoes remained relatively stable, with a marginal decrease of 0.4 percent in April 2023 compared to the same period in the previous year. Nonetheless, there were pronounced variations in price movements across the different provinces of Nepal (Table 2).

Tomato

National prices: Tomatoes bolster Nepal's agricultural economy by diversifying farmers' income sources and generating employment through cultivation and value-added processing. Additionally, they have the potential for export and stimulate related industries, while also contributing nutritionally.

Nationally, tomato prices experienced a slight increase of 0.1 percent between March and April 2023, while witnessing a decline of 10.2 percent in April 2023 compared to the same period in 2022. Similar to potatoes, tomato prices exhibited stark variations across different provinces in Nepal. For instance, in April 2023, tomato prices soared in Bagmati Province by 38.0 percent, followed by increases of 28.0 percent in Koshi, 19.0 percent in Sudur Paschim, and 7.0 percent in Gandaki. Conversely, other provinces registered a decline in tomato prices, with reductions of 26.0 percent, 12.0 percent, and 10.0 percent in Madhesh, Karnali, and Lumbini provinces, respectively. Consequently, some producers, frustrated by the low prices their produce fetched, were seen discarding tomatoes onto public roads in front of the Kalimati Vegetable and Fruit Market. These substantial disparities in price trends across different provinces suggest a lack of market integration in Nepal. This underscores the need for increased investment in market infrastructure, cold storage facilities, transportation, and post-harvest technologies, such as the use of plastic crates, to enhance efficiency within the tomato value chains in Nepal.

Edible oils

Key messages: Animal fats and edible oils, including mustard and soybean oil, are vital to human diet and well-being as they supply essential fatty acids and fat-soluble vitamins. In Nepal, April 2023 saw a continuation of the declining trend in edible oil prices, with the national average price of mustard and soybean oil dropping by 2.0 percent between March and April 2023, and 18.0 percent lower compared to April 2022. Furthermore, public data reveals that the price index for animal fats and edible oils fell by 14.4 percent from April/May 2022 to April/May 2023, indicating a consistent downward trend. This decrease in prices is likely to enhance the affordability of these essential food products for impoverished households, supporting a diets when oils are consumed at recommended dietary intake levels.

Agricultural inputs and access to finance

Key messages: The availability and prices of fertilizers remain a pressing issue for farmers and input dealers in Nepal. Measures to control inflation, such as the implementation of rising interest rates, have resulted in higher borrowing costs and a subsequent decline in credit flow to farmers and small businesses. As of mid-May 2023, the overall credit availability slightly dipped from NPR 4,889 billion (USD 37.16 billion) in mid-April 2023 to NPR 4,879 billion (USD 27.08 billion). However, credit allocated to agriculture and its allied sectors saw a slight uptick during the same period, rising from NPR 368 billion (USD 2.80 billion) to NPR 370 billion (USD 2.81 billion).

Fertilizers: Paddy sowing has commenced in various regions of Nepal. Through interactions with stakeholders in Western Nepal, particularly in the Banke district, it has been observed that Urea, DAP, and MoP fertilizers are either scarcely or only partially available, signaling a deficiency in fertilizer supplies in the area. Additionally, Urea, which is regulated to be sold at NPR 14 (USD 0.11) per kg, is currently being traded at elevated prices ranging from NPR 23-34 (USD 0.17-0.25) per kg. Although the Government of Nepal resolved to import additional fertilizer stocks, there is an apparent discrepancy between the proposed importation measures and the actual availability of fertilizers, as farmers and cooperatives in regions like the Banke district continue to grapple with a shortage.

Policy changes: The Government of Nepal recently rescinded its decision to cut subsidies on Urea,

DAP, and Potash fertilizers, resulting in the official retail prices of these fertilizers remaining unchanged. While this reversal is expected to alleviate the hardships faced by impoverished farmers, it is also predicted to escalate government expenditure on fertilizer subsidies and put pressure on foreign currency reserves, in contrast to the initial plan. In the new budget presented to the parliament in June 2023, the Government of Nepal unveiled measures to curb the misuse of subsidies allocated for agricultural inputs. The impact of these measures however remains to be seen, as the action plan is still in the development phase.

Energy

Key messages: The price of diesel in Nepal saw a substantial decrease, from NPR 175 (USD 1.31) per liter in February 2023 to NPR 165 (USD 1.25) per liter in March and April. In May and June, diesel prices dropped even further to NPR 155 (USD 1.17) per liter. Additionally, the price of crude oil in the international market declined by 33.5 percent to USD 74.5 per barrel in mid-May, compared to USD 112.12 per barrel a year earlier. This steep decline in diesel prices, especially during the paddy season, is likely to provide respite to farmers. The lower diesel prices could potentially result in decreased rental rates for machinery used in land preparation and irrigation, easing financial pressures on farmers and making these services more affordable for the upcoming summer rice season.

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Data sources

Data sources 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, USDA reports for India's export outlook, and the World Bank Household Risk and Vulnerability Survey (HRVS) for household occupations and reliance on remittance income in addition to price information and field reports provided by USAID/Nepal's Implementing partners: CSISA, Nepal Seed and Fertilizer (NSAF) Project, IDE and KISAN II.

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Annexes

Annex 1: Percentage change in commodity prices in Nepal

Commodity Name	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)
Rice (coarse)	3.13	3.46
Rice (medium grain)	9.66	5.84
Wheat flour	36.75	6.29
Lentils (broken)	-3.61	3.18
Chickpeas	-22.95	-1.30
Beans (black)	-1.31	8.47
Oil (mustard)	-17.49	-1.75
Oil (soybean)	-17.80	-2.19
Peanut	-10.19	-9.68
Apples	9.82	5.51
Bananas	13.45	3.09
Cabbage	0.48	-12.13
Carrots	1.35	11.77
Oranges	-5.35	-10.24
Potatoes (red)	-0.40	-0.04
Pumpkin	8.03	11.68
Tomatoes	-10.18	0.12
Eggs	-10.47	-1.11
Fish	13.56	0.56
Meat (chicken)	-2.46	1.07
Milk	31.61	2.81
All	-1.12	0.45

Annex 2: Percentage change in commodity prices across provinces in Nepal.

Commodity Name	Koshi		Madhesh		Bagmati		Gandaki		Lumbini		Karnali		Sudur Paschim	
	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)	% change (Apr 22-Apr 23)	% change (Mar 23-Apr 23)
Rice (coarse)	2.84	-0.68	0.00	1.97	10.74	16.67	-5.74	-2.54	22.46	5.62	-3.61	2.71	10.38	1.00
Rice (medium grain)	7.30	-2.55	23.53	1.45	23.89	18.21	12.00	3.07	32.89	1.51	-5.86	5.80	15.28	7.44
Wheat flour	32.50	-3.64	20.00	7.62	41.67	25.00	36.72	-2.78	80.15	-3.92	21.46	15.84	69.95	1.23
Lentils (broken)	-1.66	-4.04	8.33	1.11	12.50	25.98	-10.53	-0.87	6.45	3.99	-16.61	1.58	2.26	-0.44
Chickpeas	9.59	0.00	0.00	0.00	-19.17	20.22	-38.96	-23.20	15.63	-4.64	-40.22	4.48	-14.05	-11.11
Beans (black)	4.37	5.00	12.77	1.92	17.39	26.25	-22.58	7.46	14.77	8.37	-13.50	10.05	2.26	1.04
Oil (mustard)	-17.12	-11.54	-25.25	-1.33	-34.11	13.02	-26.32	-13.85	15.49	1.11	-13.24	4.08	-15.07	-6.98
Oil (soybean)	-19.13	-8.07	-25.84	-4.35	-23.37	15.36	-14.16	-3.00	4.44	-9.15	-23.36	-3.53	-9.58	0.18
Peanut	14.81	1.97	6.45	-2.94	106.49	33.03	5.21	36.49	21.05	-1.71	-29.85	-23.18	-	-
Apples	8.89	0.00	5.88	24.14	-12.50	10.43	-1.64	17.65	27.85	5.21	68.49	0.46	-3.33	0.87
Bananas	9.68	6.25	-18.75	-27.78	50.00	37.64	12.07	6.56	25.00	14.29	10.74	-2.40	18.48	4.81
Cabbage	-4.55	-36.36	13.04	-7.14	12.09	16.57	-50.00	-12.50	-46.15	-15.66	19.77	-9.45	13.89	-14.23
Carrots	88.00	27.03	115.38	133.33	60.71	73.75	-70.41	13.68	-18.75	-13.33	17.50	-9.80	-100.00	-100.00
Oranges	-	-	-	-	2.50	58.39	43.38	18.18	24.44	17.15	97.44	-7.73	-100.00	-100.00
Potatoes (red)	0.00	23.81	5.56	26.67	34.21	51.79	-37.50	-6.25	16.50	-2.44	5.39	-26.66	-27.27	5.96
Pumpkin	0.00	0.00	-11.76	-6.25	-28.89	-31.43	-28.57	-31.03	-7.69	-22.58	46.12	68.86	-34.90	-30.56
Tomatoes	54.17	27.59	-17.65	-26.32	40.00	38.42	3.57	7.41	-45.24	-10.16	-23.37	-12.64	3.23	19.40
Eggs	0.00	0.00	-19.64	0.00	1.67	13.56	-3.13	0.00	3.92	1.92	-22.88	-8.53	-3.85	0.00
Fish	3.45	-4.00	-9.09	-9.09	-1.59	17.26	-3.85	-6.25	0.00	2.04	5.24	-6.67	90.48	17.65
Meat (chicken)	-6.98	-4.00	-1.72	0.00	-2.27	25.42	-2.27	3.61	-4.00	1.87	-9.35	-7.74	17.79	4.92
Milk	11.36	-2.00	11.54	-3.33	44.38	38.92	4.00	0.00	33.33	0.63	60.16	-2.60	8.11	2.56