

## Situation Report on Nepal's Agrifood Systems

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### Key messages

- **Overall assessment:** Our assessment of the status of the agrifood system in Nepal during February of 2023 is 'green', with data suggesting that prices have remained relatively stable or have followed expected seasonal trends that are unlikely to have caused unusual challenges for smallholder farmers and poor consumers.
- **Rice and wheat prices show opposite trends:** In December and January of 2022, food prices were generally stable (rice, pulses, and edible oils) or declining (potatoes and tomatoes). The exception was wheat flour, whose price continued its upward trend since mid-2022. This will adversely affect consumers of wheat products, but the availability and stable price of rice as a cereal substitute could to some extent reduce the negative economic impact consumers.
- **Pulses, horticulture, and edible oil prices are variable:** The price of lentils and black gram have remained stable, while the prices of potatoes and tomatoes have declined, following an expected seasonal pattern. Edible oil prices have also been stable.
- **Remote areas experience more acute challenges.** As a result of high transport costs, prices for foods generally remain higher in remote areas of the mid-hills, negatively affecting poor consumers that lack significant opportunity for production and marketing.

### Macroeconomic trends and implications for household economic welfare

- **Key message:** Declining inflation rates and healthy 5 percent growth in real gross domestic product (GDP) could have a positive effect on household well-being over the mid-term, although urban and rural poor households are expected to benefit the least.
- **Inflation:** The Consumer Price Index (CPI) of Nepal declined 1 percent from 156.9 in December to 155.4 in January (2010 = 100). The year-on-year inflation rate was 7.3 percent in January, declining marginally from 7.4 percent in December.
- **Food inflation:** The rate of year-on-year inflation in food prices declined slightly from 5.4 percent in December to 5.2 percent in January.
- **GDP:** Nepal's 2022 gross domestic product (GDP) has not yet been released, but the IMF forecasts that real GDP will increase by 5.0 percent in 2023.
- **Financial interest rates:** Interest rates offered to farmers and small entrepreneurs in Western Nepal have remained the same since January, at roughly 10.5 percent. In many cases, loan applicants continue to wait for unexpectedly long periods before banks approve and disperse funds. Data from USAID implementing partners suggest that some banks may be raising inflation rates to even higher levels to account for the current risk of lending to customers without robust capital. Data also suggest that district level governments are observing this situation and have requested reports from banks on how to improve financial liquidity and loan repayment rates.

- **Labor prices:** Observed prices for daily farm labor in the Terai of Western Nepal are 500 and 600 NPR/day for women, and men, respectively. This compares to the price for skilled trade labor of 100-1200 NPR/day.
- **Exchange rates:** Since October 2022, the US Dollar to Nepali Rupee exchange rate has remained stable, fluctuating only in the range of 128 NPR/USD to 131 NPR/USD. Large additional declines in the exchange rate are not at this time anticipated for the future.

## Recent price fluctuation in food commodities and agricultural inputs

### Rice

- **Key message:** Exempting Karnali, rice consumers in Western Nepal remain relatively unaffected by price changes between November and December 2022.
- **National prices:** Based on an analysis of rice price seasonality over the last 10 years, a slight decline from November to December not uncommon. Rice prices have however remained largely stable with essentially no change from November forward. Compared to December 2021 (the last period in which national rice price data are fully available at an annual interval), rice prices are up 2.5 percent nationally.
- **Price information for Western Nepal:** In the Terai, data suggest that fine and coarse grain rice prices have both increased from 27 to 20.7 and 35 to 40 NPR/kg compared to mid-December. Average rice prices are higher in Karnali (69 NPR/kg) than nationally (55 NPR/kg) due to the high cost of transport. The highest prices are in Simikot, Karnali, where the average was 95 NPR/kg. Simikot has no road connection with the rest of Nepal.

### Wheat

- **Key message:** Exempting remote parts of the mid-hills, higher wheat flour prices in Nepal hurt consumers (including rural households who purchase most of the wheat they consume), but benefit wheat producers, assuming that they are connected to markets and that they receive higher farm-gate prices.
- **National prices:** Wheat flour prices jumped significantly between November and December 2022, the national average rising four percent. This is part of a trend in which the average wheat flour price has increased 14 percent since August and 26 percent since December of 2022. Wheat flour prices generally do not show any seasonality in Nepal, so this is not part of a normal pattern.
- **Price information for Western Nepal:** In Karnali, wheat price has been more stable, with no increase from November-December and just a 4 percent increase since December 2021. Current available data suggest that wheat grain prices may be decreasing, though very slightly (from 54 to 47 NPR/kg in the Terai, although this information should be interpreted cautiously due to limited data).

### Pulses

- **Key messages:** Pulse price trends are generally favorable for consumers, particularly given the importance of pulses as a source of protein in the Nepalese diet. However, the falling prices of

black gram prices means reduced incentives for farmers and may affect cultivation choices in the following year.

### Lentil

- **National prices for lentil:** Nationally, lentil prices showed virtually no change (less than one percent) in the last three months. Over the last year, national lentil prices increased about 8 percent, roughly in line with inflation.
- **Prices of lentils in Western Nepal:** National patterns were also repeated in the Terai at around 5%.

### Black gram

- **National prices:** Black gram prices were either stable or falling in February of 2022. At the national level, they fell two percent since December and three percent compared to the previous year.
- **Price information for Western Nepal:** Similarly, black gram prices fell in in Karnali (1 percent and 7 percent, respectively).

### Horticultural and select fruit products

- **Key messages:** Horticultural product prices are, as expected, more volatile over time and more varied across Nepal than cereals and pulses. National average prices of potatoes and tomatoes fell over the course of 2022, which is good for consumers but adversely affects farmers. Evidence suggests that in the remote mid-hills, potato prices increased over 2022, with the opposite effect. Banana prices have slightly increased compared to the past months, and compared to last year, though this is unlikely to benefit farmers significantly as banana is not a primary commercial crop.

### Potato

- **National prices:** Following normal seasonal patterns, national potato and tomato prices dropped sharply since December. The national average price of red potatoes fell 17 percent between November and December. Although this seems dramatic, the drop is only slightly greater the seasonal normal decline of 14 percent. Since December 2021, potato prices fell 7 percent.
- **Price information for Western Nepal:** In Karnali, potato prices showed a surprising increase. In December potato prices were 14 percent above those observed in November and 16 percent higher than in the previous December. In general, potato prices in Karnali (50-75 NPR/kg) are higher than the national average (45-65 NPR/kg).

### Tomato

- **National prices:** Nationally, tomato prices fell 20 percent between November and December 2022, but this is a normal seasonal decline. Because tomatoes are perishable, their prices vary widely by season. Tomato prices in December were 20 percent below the level the previous December.

- **Price information for Western Nepal:** In the Terai, tomato prices declined from 65 to 30 NPR/kg since mid December. Conversely in Karnali, tomato prices only fell 2 percent compared to November, but they were down 16 percent compared to the previous December. Tomato prices in Karnali (130-200 NPR/kg) are significantly higher than the national average (75-120 NPR/kg). It is interesting to note that the decline in tomato prices is mirrored by a reported 54 and 20% decline in cauliflower and fresh onion prices in the Terai.

## Banana

- **National prices:** National average banana price increased only 3 percent between November and December and 8 percent over the 12 months ending in December. Banana price changes are in-line with inflation.
- **Sub-national prices:** In Karnali, banana prices rose 11 percent from November, but November prices were unusually low. Over the previous 12 months, banana prices rose 6 percent, in line with general inflation. Banana prices in Karnali (200-250 NPR/kg) are considerably higher than the national average (130-150 NPR/kg).

## Edible oils

- **Key messages:** Edible oil prices rose substantially in the first half of 2022 and then fell almost as much in the second half, ending up 3-10 percent above the price in December 2021.
- Although the edible oil prices cut into consumer purchasing power in mid-2022, with a particularly negative effect on rural and urban consumers, they have since returned to the level of December 2021 and have remained relatively stable, after adjusting for inflation.

## Soybean oil

- **National prices:** Soybean oil prices in Nepal rose substantially in the first half of 2022 and have declined in the second half. From November to December, this trend continued with a 1 percent decline. Compared to December 2021, the national average price was 8 percent higher, roughly in line with inflation.
- **Sub-national prices:** Soybean prices in Karnali followed a similar pattern, falling 1 percent from November to December but rising 10 percent over the course of the year. Prices in remote parts of the mid-hills of western Nepal are about 20 percent higher than the national average.

## Mustard oil

- **National prices:** The price of mustard oil is higher than that of soybean, but the patterns over 2022 were similar. Prices rose significantly in the first half of the year, then declined in the second half.
- **Price information for Western Nepal:** Over the year, price rose 3 percent nationally but 11 percent in Karnali.

## Agricultural inputs

- **Key messages:** Slight increases in fertilizer prices have been observed since December, with urea being available but market scarcity of diammonium phosphate (DAP) and Muriate of Potash (MoP) reported. Exempting hybrid rice, only small changes in seed prices were observed. Slight

increases and scarcity may compromise farmers' productivity in the winter season, although this determination can only be made towards the end of the season and by accounting for prevailing weather conditions.

- **Fertilizer prices:** Compared to mid-December, urea, DAP and MoP in western Nepal have increased 3 percent, one percent, and three percent respectively.
- **Seed prices:** Compared to December 2022, seed prices have generally increased or stayed the same in Western Nepal. Rice hybrid seed costs have increased 5 percent, while open pollinated (OP) and hybrid maize prices have increased four and three percent. Wheat and lentil seeds are not generally found in the market due to the seasonality of their trade. OP cauliflower seed price increased one percent while hybrid remained stable. Conversely, tomato OP remained stable while a one percent decrease in hybrid seed was observed. Onion seed prices were unchanged.

## Energy

- **Key messages:** Fuel prices have declined slightly over the last three months, benefiting agricultural goods transporters and households purchasing energy, although overall prices remain high and cost reductions may not be transmitted to farmers purchasing inputs or to food consumers.
- **Diesel prices:** Diesel fuel prices eased slightly in December, falling from 178 NPR/liter to 175 NPR/liter or about 2 percent.
- **Gasoline prices:** Gasoline prices also fell around 2 percent in December, dropping from 181 NPR/liter to 178 NPR/liter.

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## Data sources

The source for this brief include the World Food Program WFP for the food prices, globalpetrolprice.com for the fuel prices, the Nepal Rastra Bank (reported by tradingeconomics.com) for the CPI, 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.

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