

Situation Report on Nepal's Agrifood Systems September 2023 | Bulletin Number 10

Key messages

Overall assessment: Nepal's agrifood systems remained largely stable with moderately higher year-on-year inflation of 7.5 percent in August 2023 against the target of 6.5 percent. Year-on-year inflation in food prices (8.9 percent) and the depreciation of the Nepali currency against the USD have generally put pressure on consumers.

Cereal prices continue to remain high: Annual inflation in cereal grains and their products' prices increased by 13.2 percent – a large jump – in August 2023. Such rises in prices may be partially attributed to speculation resulting from global paddy supply challenges followed by India's restrictions on rice exports, worsening the issue of already declining domestic supply in 2022 compared to the previous year. The rising price of cereals will affect poor households who spend a relatively greater share of their budget on cereals.

Laborers experienced marginal decline in their real wage rate: Year-on-year growth in wages was 6.7 percent in August 2023, somewhat less than the inflation rate of 7.5 percent. A similar trend was noticed for agricultural laborers for the same period. The lower wage rate compared to inflation can directly hit the daily paid laborers to afford sufficient food.

Macroeconomic trends and implications for household economic welfare

Key messages: Year-on-year inflation remained relatively stable in August 2023, with only a slight increase (0.7 percentage points) from July. An increase in vegetable prices by 11.1 percent was a significant contributor to food price inflation in the country. However, vegetable farmers are expected to benefit from this monthly inflation trend.

Inflation: The Consumer Price Index (CPI) of Nepal was projected to be 7.5 percent for August 2023. The increase in year-on-year inflation was the highest in mountain districts with 11.5 percent, whereas the Kathmandu Valley recorded an 8.5 percent increase. In contrast, The CPIs in the mid-hills and terai districts were less than the national average. The inflation of food and beverages at the national level is higher than non-food items resulting in an increase in food basket cost for poor people.

Exchange rate: The exchange rate, which is pegged to the Indian currency, reached an all-time low of NPR 133 against one USD during mid of September 2023 and remained in the range of 131 to 133 NPR/USD during September 2023.

Remittance inflows: Nepal received a one-month record high remittance of NPR116 billion (US dollar 879.8 million) from mid-July to mid-August 2023. The remittance inflow in NPR from mid-July to mid-August 2023 soared by 25.8 percent compared a year before. In terms of US dollars, the remittance amount increased by 21.5 percent from mid-July to mid-August 2023 compared a year before. With the growth in remittances, Nepal maintained a surplus in current account for the first

time after 3 years. As a result of this surplus, foreign currency reserve is now enough to cover 12.5 months of imports.¹

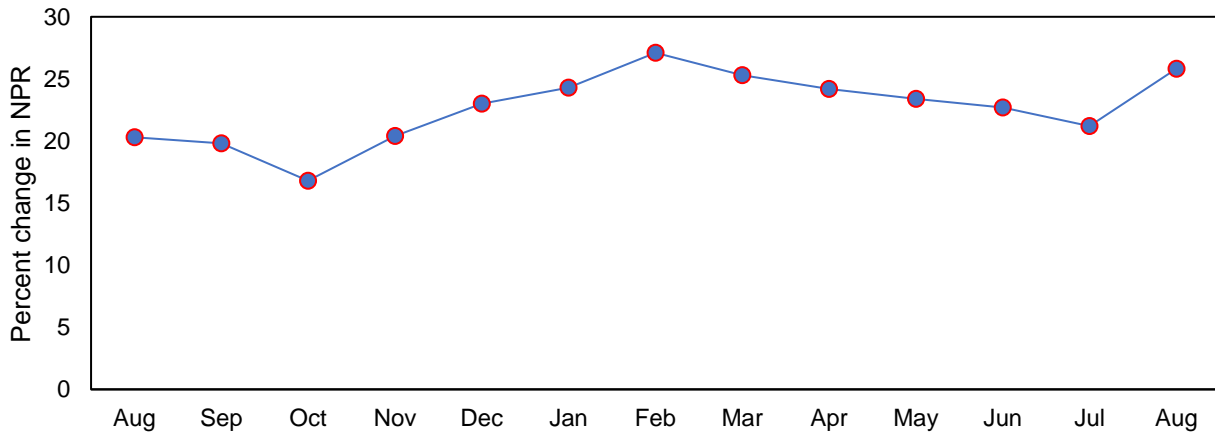


Figure 1: Year-on-year percent change in monthly remittance inflow in NPR from August 2022-to August of 2023.

Recent price fluctuation in food commodities and agricultural inputs

Rice and wheat

Key messages: Rice and wheat are the staple food of the Nepalese people, and annual increase in rice (17.7 percent) and wheat flour (29.0 percent) heightened the already above-normal national inflation rate with implications for costs and the food security, particularly of the poor. A decline in rice production and stagnant wheat production in 2021-22 in the country aided by global conflict and climate adverse effects such as El Niño has had negative implications on the ability of poor households in Nepal to purchase cereals if they are not producers of these goods at sufficient levels for household food needs.

Rice: The increase in price of coarse rice in western provinces (19.4 percent) during July 2023 was higher compared to the national price increase (17.7 percent). In contrast, during the same period, the national price of medium grain rice increased marginally compared to Nepal’s western provinces. The price per kilogram of medium grain rice in the western provinces (NPR 96 or USD 0.73 per kg) during July 2023 was 10.0 percent higher than the national average price (NPR 87 or USD 0.66 per kg) (see Annex 1). A global rice shortage triggered by extreme weather patterns, speculation on trade and newly enacted restrictions from India has a trickle-down effect on increasing rice prices in Nepal.

Wheat flour: The price of wheat flour continues to remain high in Nepal. At the national level, the price of wheat flour increased by 29.0 percent between July 2022 and July 2023, while the western provinces showed a higher increase of 38.1 percent during the same period (see Annex 1). Russia’s withdrawal from the Black Sea Grain Initiative on 17th July, as well as subsequent targeting of trade

¹ Nepal Rastra Bank. Current Macroeconomic and Financial Situation of Nepal. Baluwatar, Kathmandu: Nepal Rastra Bank, Economic Research Department; 2023.

vessels and routes by the military, put upward pressure on the wheat price globally as well as in Nepal.² However, in the monthly comparison, a marginal decline in the price of wheat flour can be observed in both national as well as in the western provinces in July 2023.

Selected horticultural and fruit products

Key messages: Because storage of horticultural products is costly or impossible in much of Nepal, their prices tend to be volatile and varied across provinces. After the bumper production and price collapse of tomatoes in June 2023, the farmers that could access markets and/or store tomato for later sale benefitted from the price surge in July 2023. Further removal of tomato import restrictions by India has benefitted Nepali farmers. As expected, the price of bananas decreased in the Nepali market because of the bulk seasonal production, their perishability, and the difficulty in long-distance transport.

Fruits: Year-on-year average prices of apples and oranges increased significantly at the national level and western provinces during July 2023. The highest increases in the prices of apples and oranges by 13.8 and 19.4 percent were observed at national level during July 2023 compared to one year before. However, banana prices declined at both western province and national level during the same period.

Tomato: The price of tomato in Nepal and the western provinces increased by 17.0 percent during July 2023 compared to a year before. Tomato prices surged by 69.8 percent at national level during the month of July 2023 compared to previous month. The sharp increase in the monthly tomato price was result of the price rebound which plummeted by 41.2 percent in June 2023 at national level. In June, media reported that some farmers had allegedly destroyed over tomatoes in the Kalimati Fruits

Spotlight: Informal trade of tomato

In the past, Nepali vegetables did not find easy entry into Indian markets on the pretext of various sanitary and phytosanitary barriers. Nepal's lab tests were not recognized by their Indian counterparts and difficulty in accessing the lab facilities close to Indian customs points were identified as main issues in preventing formal export from Nepal. Informal flows of tomatoes from Nepal to India have been noticed amid the shortage on the Indian side⁴. Based on interaction with local traders, about 10-20 tomato trucks were directly exported to India at NPR 250 per kg from Rolpa, Salyan and Rukum districts (i.e., Western region) in the last month when local price was reported to be NPR 180.

and Vegetables Market in Kathmandu as a sign of protest over not receiving fair prices³. Between mid-July and mid-August, Nepal exported 670.5 MT of tomatoes to India worth NPR 14 million (USD 1.1 million) resulting in a shortage in domestic supply, thus pushing the price up. The average price of tomato at national level was NPR 121 (USD 0.9) per kg in July 2023 against the average price of

² BBC. (2023, July 21). News. Retrieved from Ukraine war: Wheat prices soar after Russia threatens ships: (3)

³ The Kathmandu Post. (2023, August). Why Tomatoes Have Become So Expensive in Nepal. Retrieved from <https://kathmandupost.com/money/2023/08/07/why-tomatoes-have-become-so-expensive-in-nepa>.

NPR 103 (USD 0.7) per kg a year prior.

Pumpkin: Between June to July 2023, the average price of pumpkin increased significantly (32.3 percent). However, the price was still 5.1 percent below its level in July 2022. A similar pattern of high price increase was observed in western provinces (an increase of 59.5 percent) during July 2023 compared to the previous month.

Edible oils

Key messages: The price of mustard and soybean oil at the national level dropped by 21.8 percent and 25.2 percent respectively in July 2023 compared to the same period of previous year. A similar price trend was observed in western province of Nepal during the same period. At provincial level, the highest decrease in price of mustard and soybean oil was observed in Bagmati province in July 2023 with 41.0 percent and 37.5 percent respectively. Nepal is one of the exporters of edible oils to India largely due to tariff exemption under the Singapore-Australia Free Trade Agreement (SAFTA). However, the export of edible oil dropped after India lowered its customs tariffs in response to increased international prices of edible oil in India's market. The loss of the duty differential advantage of Nepali exporters in the Indian market resulted in surplus domestic supplies of edible oil, thus causing a reduction in prices in Nepal.

Agricultural inputs

Key messages: Field data from the USAID Feed the Future implementing partners indicate that chemical fertilizers are fully or partially available from cooperatives. Since cooperatives are major points of distribution of fertilizers at the local level, many cooperatives reported that there is a certain amount of chemical fertilizer allocated for their own and neighboring cooperatives. However, the allocated chemical fertilizers are not enough to meet farmers' demand.

Energy

Key messages: Nepal Oil Corporation has increased the price of petrol to NPR 183 (USD 1.4) per liter, and diesel and kerosene to NPR 173 (USD 1.3) per liter in Kathmandu (Bagmati Province), Pokhara (Gandaki Province) and Dipayal (Sudurpashchim Province) effective from mid-September 2023. Similarly, the cost of petrol and diesel in Surkhet (Karnali Province) and Dang (Lumbini Province) was just NPR 1 cheaper than in Kathmandu. The Nepal Oil Corporation determines the fuel rate under the automatic fuel price mechanism based on the tariff sent by the Indian Oil Corporation. After adoption of the automatic pricing mechanism in July 2023, the per liter price of petrol and diesel has increased from NPR 164 (USD 1.2) to NPR 182 and from NPR 146 to NPR 173, respectively. Instability in fuel price could be one of the reasons for food price inflation in the country.

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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 I: Percentage change in commodity price (NPR/Kg) in Nepal.

Commodity	Western Provinces					Nepal				
	Prices (NPR)			Percent change		Prices (NPR)			Percent change	
	July 2023	July 2022	June 2023	July 2023 – June 2023	July 2023 – July 2022	July 2023	July 2022	June 2023	July 2023 – June 2023	July 2023 – July 2022
Coarse rice	67.3	56.4	65.5	2.7	19.4	62.7	53.3	60.5	3.7	17.7
Medium grain rice	97.8	87.5	96.3	1.5	11.7	88.6	78.6	87.4	1.4	12.8
Wheat flour	90.3	65.4	91.4	-1.2	38.1	87.2	67.6	87.9	-0.8	29.0
Apple	360.2	315.6	330.8	8.9	14.1	352.6	309.8	332.1	6.2	13.8
Banana per dozen	169.5	181.8	173.6	-2.4	-6.8	148.5	153.5	150.1	-1.0	-3.3
Orange	238.3	167.8	225.0	5.9	42.1	229.1	191.9	218.0	5.1	19.4
Tomato	131.4	113.4	82.9	58.4	15.9	120.5	103.0	71.0	69.8	17.1
Cabbage	55.8	61.7	54.8	1.7	-9.6	47.1	62.4	49.9	-5.6	-24.5
Carrot	134.1	112.9	133.0	0.8	18.8	127.6	107.6	120.1	6.2	18.6
Pumpkin	67.2	74.2	42.1	59.5	-9.4	63.6	67.0	48.1	32.3	-5.1
Potato (red)	51.7	47.2	49.6	4.2	9.5	52.9	49.6	51.3	3.2	6.7
Chicken meat	554.1	528.8	531.5	4.2	4.8	486.7	464.1	486.5	0.1	4.9
Egg per unit	20.8	21.7	18.5	12.9	-3.9	19.8	19.6	18.6	6.1	1.0
Fish	598.9	563.3	585.0	2.4	6.3	517.0	481.9	481.0	7.5	7.3
Milk per liter	130.4	100.9	131.8	-1.1	29.2	116.4	94.8	119.3	-2.4	22.8
Soybean oil per liter	258.5	329.2	261.2	-1.0	-21.5	238.0	318.3	246.3	-3.4	-25.2
Mustard oil per liter	303.7	353.1	292.9	3.7	-14.0	277.9	355.4	281.0	-1.1	-21.8
Beans (black)	192.8	183.8	186.5	3.4	4.9	191.1	179.8	184.4	3.6	6.3
Chickpeas	157.3	155.2	153.8	2.3	1.4	137.4	141.0	139.4	-1.4	-2.6
Broken lentils	188.2	180.2	182.5	3.2	4.5	170.6	173.2	171.0	-0.2	-1.5
Peanut	584.1	570.2	552.9	5.6	2.4	397.7	365.5	361.5	10.0	8.8

Annex II: Percentage change in commodity prices across provinces of Nepal.

Commodity	Percent change													
	Koshi Province		Madesh Province		Bagmati Province		Gandaki Province		Lumbini Province		Karnali Province		Sudurpashchim Province	
	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022	July - June 2023	July 2023 - July 2022
Coarse rice	6.4	14.5	4.6	2.6	8.8	31.9	0.0	8.1	-1.1	25.4	0.0	10.0	10.8	34.7
Medium grain rice	7.7	13.5	0.0	7.7	-0.8	13.2	-1.1	23.6	1.0	5.1	0.9	5.9	3.0	28.8
Wheat flour	1.8	27.3	2.3	14.0	-2.1	21.0	-2.9	10.0	-5.0	51.0	1.1	31.4	-2.7	43.6
Apple	10.0	16.4	-5.2	25.2	1.9	3.8	5.4	7.0	0.0	18.0	1.1	12.1	29.5	17.0
Banana	-5.6	-8.1	12.9	29.6	3.6	10.5	0.0	-18.1	-2.6	5.7	-4.0	-10.9	1.9	-3.6
Oranges	NA	NA	NA	NA	3.2	-3.0	7.3	10.0	8.3	12.1	1.9	71.0	8.7	61.3
Tomato	38.5	0.0	113.6	67.9	188.2	1.4	73.9	5.3	0.0	2.5	55.5	9.0	111.5	37.5
Cabbage	-32.1	-24.0	-18.8	-35.0	5.7	-38.3	0.0	-57.9	20.0	-11.8	-7.7	-4.1	12.5	-18.2
Carrot	-4.2	-9.8	-9.3	9.9	34.8	78.0	36.6	7.7	4.8	-42.9	0.0	33.4	NA	NA
Pumpkin	0.0	-5.9	0.0	-2.9	NA	27.3	NA	-3.4	0.0	-16.7	NA	-32.2	105.9	45.8
Potato (red)	11.4	0.0	-14.7	7.4	4.4	6.8	16.2	10.9	-9.1	-9.1	12.9	22.3	-2.4	-4.7
Egg	0.0	7.1	-4.3	-13.5	-2.5	9.9	0.0	42.9	6.1	-5.5	6.9	-17.3	26.7	23.4
Fish	0.0	4.2	14.3	20.0	19.6	7.8	10.0	-5.4	0.0	0.0	0.9	-0.3	57.1	37.5
Chicken meat	0.0	3.2	-7.5	18.1	-9.6	5.4	1.1	1.7	-2.3	4.1	1.1	4.4	15.1	6.0
Milk	0.0	4.2	0.0	15.4	-5.1	30.3	-9.6	-2.1	-6.3	15.4	0.2	42.6	0.0	2.6
Soybean oil	-6.3	-24.5	-8.7	-27.2	0.0	-37.5	-6.3	-22.4	-7.7	-15.9	0.0	-21.3	2.5	-25.2
Mustard oil	-16.1	-18.9	-2.7	-27.3	-2.2	-41.0	8.3	-27.8	-4.1	-16.3	4.0	-7.8	8.3	-22.0
Broken lentil	-4.2	-6.9	1.1	-10.9	-6.6	-7.4	-4.5	-9.9	-2.0	3.2	3.0	4.3	7.2	5.7
Black beans	8.4	11.5	0.0	1.8	5.7	13.0	2.6	2.6	1.0	9.9	1.4	1.4	8.7	7.9
Chickpea	-6.3	-3.9	-1.5	-2.9	-7.5	-7.8	-4.0	-18.6	0.0	14.9	1.4	2.2	5.4	-7.1
Peanut	-4.1	3.0	0.0	34.6	52.7	61.7	21.7	27.3	0.0	-0.9	1.2	-5.0	NA	NA