

Situation Report on Nepal's Agrifood Systems

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Key take-home messages

- **Overall assessment:** The macroeconomic situation of Nepal remains largely stable. In the absence of new shocks, price fluctuations are likely to remain relatively small.
- **Moderate increases in rice prices have a slight negative effect on consumer welfare but may benefit farmers:** Although rice farmers who produce a surplus for sale gain from higher prices, urban households and net buyers in rural areas are more numerous and lose from higher prices.
- **Wheat prices are increasing:** In November 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 into January. This will adversely affect consumers of wheat products, but the availability and stable price of rice will mute the impact on consumers.
- **The urban poor feel the consequences of price changes most acutely:** The most adverse effect of higher rice prices is on the urban poor, who spend a relatively large share of their budget on rice and other staples.

Macroeconomic trends and implications for household economic welfare

- **Key message:** Nepal's macro-economic indicators remained relatively stable in January of 2023 despite volatility in grain and edible oil markets that may be attributed in part to the war in Ukraine.
- **Inflation:** Year-on-year inflation was 7.4 percent in December, somewhat higher than in India, China, and Bhutan, but lower than in Bangladesh, Pakistan, and Myanmar.
- **Exchange rates:** The exchange rate, which is pegged to the India rupee, depreciated slightly against the US dollar in mid-2022 but has remained in the range of 128-131 NPR/USD since October.
- **Foreign exchange:** Nepal's foreign exchange reserves can be described as moderately healthy with 9.82 billion US dollars in December, which is sufficient to cover 8.7 months of merchandise and services imports.

Recent price fluctuation in food commodities

Rice

- **Key messages:** Rice represents 30 percent of caloric intake Nepali diets, 27% of the value of food consumption, and 7 percent of gross rural income. The effect of observed higher rice prices on household well-being mixed: rice farmers who produce a surplus benefit while net buyers of rice lose. Higher rice prices reduce income and increase poverty because net

buyers are more widespread and tend to be poorer than surplus rice farmers. The urban poor are the most adversely affected, but a surprising number of the rural poor are net buyers of rice as well.

- **National prices:** The national average price of coarse rice declined by 1 percent between October and November. This is expected given that October-December is the harvest season. More surprisingly, the national average price in November was virtually the same as in November 2021, probably because the 2022 harvest was higher than the year before.
- **Prices in Karnali:** The average price in Karnali was essentially stable over the last few months, while in Karnali the average rice price was 11 percent below the level a year before. This is probably because the 2022 harvest was 7 percent higher than the previous year.

Wheat

- **Key message:** Wheat products are the second-most-important source of calories in the Nepalese diet, accounting for 14 percent of the total. Higher prices of wheat and wheat products have a similar but smaller effect compared to higher observed rice prices: surplus wheat farmers gain, but net buyers lose.
- **National prices:** At the national level, wheat flour prices increased 2 percent from October to November and 21 percent since November 2021.
- **Prices in Karnali:** In Karnali, wheat flour prices were more stable, with no change between October and November and a mere 3 percent increase since November 2021.

Pulses

- **Key messages:** Lentils, black beans, chickpeas, and other pulses are an important source of protein in the Nepali diet. Prices for pulses are relatively stable, benefiting consumers, but potentially compromising farmers' interest in future cultivation.
- **Lentil prices:** Nationally and in Karnali, lentil prices showed almost no change (less than 1 percent) between October and November 2022. Lentil prices did however very slightly 4-5 percent over the previous year, less than the rate of inflation.
- **Black gram prices:** The average price of black beans did not change much between October and November, either nationally or in Karnali. Compared to 12 months before, black bean prices are about 2 percent lower.

Horticultural products

- **Key messages:** Horticultural products include a range of vegetables and fruit. In general, horticultural prices show greater seasonality and more spatial variation than the prices of grains and pulses. This is likely due to their perishability and the difficulty of long-distance transport.
- **Potato prices:** Potatoes are the ranked fourth in terms of their contribution to caloric intake in Nepal, although other horticultural products tend to be important suppliers of nutrients in diets. Potato prices dropped sharply between October and November, 14 percent nationally and 19% in Karnali. This is the beginning of the monsoon harvest season when potato prices

begin to fall, but this is an unusually large drop for November. The price reductions bring benefits to consumers but may discourage horticultural producers.

- **Tomato prices:** Similarly, tomato prices fell 12 percent nationally and 3 percent in Karnali. Seasonal patterns show that prices tend to fall 5 percent in November, but the drop in the national average is more than usual.
- **Banana prices:** And November banana prices fell 11% nationally and 15% in Karnali compared to the previous month. The normal seasonal pattern is for banana prices to fall 2-3 percent in November, so this is larger than usual.

Edible oils

- **Key messages:** Edible oil prices are relatively stable.
- **Soybean oil prices:** Soybean oil is both imported and exported in significant quantities, supplementing domestic production. The price of soybean oil is generally almost 20 percent lower than the price of mustard oil, so soybean oil is more widely used among low-income households. Yet compared to one year before, the national average price of soybean oil and mustard oil rose by 4-5 percent (somewhat less than the rate of inflation), while these prices rose 12 percent in Karnali over the year.
- **Mustard oil prices:** Mustard oil is produced in Nepal for domestic consumption with little international trade. Both nationally and in Karnali, soybean oil and mustard oil prices changed by less than 1 percent between October and November 2022.

Fuel prices

- **Key messages:** Diesel and petrol prices were stable in October-November 2022.
- **Diesel prices:** The price of diesel fuel remained at 178 NPR/litre in October and November. This is low compared to the international average price, which is the equivalent of 243 NPR/litre.
- **Petrol prices:** The price of petrol was stable at 181 NPR/litre over these months. In contrast, the international average price is the equivalent of 245 NPR/litre.

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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.

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