

## Situation Report on Nepal's Agrifood Systems August 2023 | Bulletin Number 9

### Key messages

**Inflation continues to drive moderately high food costs:** In July of 2023, Nepal's GDP projections were adjusted downward for 2023/24 (i.e., Nepali year 2080/81)<sup>1</sup>. Growth moderation in GDP is attributed to tighter monetary policy, which has led to higher interest rates. In addition, import restrictions have been imposed to manage declining foreign exchange reserves<sup>2</sup>. The annual inflation rate for the 12 months ending in July stood at 7.7 percent compared to 6.3 percent a year ago. Similarly, the cost of food and beverages increased by 2.5 percent compared to the previous month, while inflation for non-food items declined marginally. The increment in food cost is mainly contributed by 13.0, 42.0 and 12.8 percent rises in costs of vegetables, spices, and cereals, respectively. At the regional level, the highest inflation level of 3.4 percent in food and beverages was observed in the Terai region compared to the previous month.

**Persistence of high prices for cereals:** The prices of cereals and their products increased by 12.8 percent in July 2023 compared to the previous year, mainly contributed by 37.8 and 18.5 percent rise in prices of wheat flour and coarse rice. Across provinces, the highest price rises in wheat flour were observed in Sudurpashchim province with 54.4 percent followed by Karnali Province with 24.7 percent. Such rise in cereal prices could limit consumers' access to basic food commodities, especially for the poor, resulting in food insecurity and malnutrition. The persistent high price for cereals calls for the development of more efficient marketing systems and effective social safety net programs. However, the monthly increase in cereal price was 1.0 percent when compared with the price of June 2023.

**Laborers continued to experience an increase in their real wage rate:** The overall year-on-year change in agricultural labor wage rate showed a growth of 6.0 percent in July 2023. The change was higher for females (6.3 percent) compared to males (5.6 percent). However, the change in wage rate in July 2023 remained constant in comparison to the rate of previous month. The higher growth in female wage rate, if sustained, can reduce the wage gap between male and female laborers.

### Macroeconomic trends and implications for household economic welfare

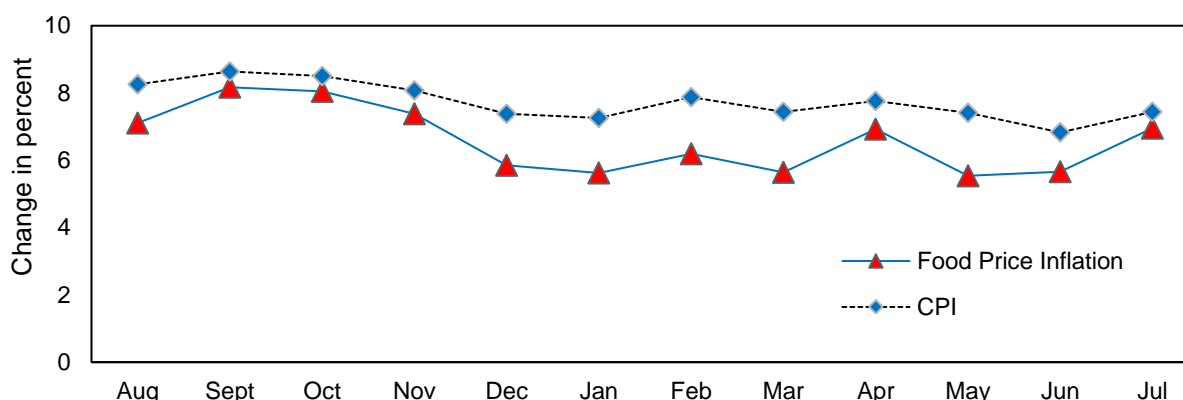
**Key messages** Between June and July, consumer and food prices increased by 7.0 percent and 7.4 percent, respectively, as shown in Figure 1. The monthly increase in consumer prices was the highest this year.

**Remittance inflows:** The remittance contribution to GDP reached 22.9 percent during fiscal year 2022/23 (i.e., 2080/81 Nepali year), which is the highest level of the past five years. The value of the remittance inflow was NPR 1.2 trillion (USD 9.3 billion). The number of Nepali workers obtaining approvals for foreign employment reached 774,976 in 2022/23 (i.e., 2080/81 Nepali

<sup>1</sup> Asian Development Bank. 2023. Asian Development Outlook (ADO) July 2023: Robust Growth with Moderating Inflation. July 2023. Online: <https://www.adb.org/publications/asian-development-outlook-july-2023>. Accessed Aug 23, 20223.

<sup>2</sup> Asian Development Bank. 2023. Asian Development Outlook (ADO) July 2023: Robust Growth with Moderating Inflation. July 2023. Online: <https://www.adb.org/publications/asian-development-outlook-july-2023>. Accessed Aug 23, 20223.

year) including 277,272 renewals.



**Figure 1:** Percentage change in food price inflation and national consumer price index (CPI) from August 2022 to July 2023.

## Recent price fluctuation in food commodities and agricultural inputs

### Rice and wheat

**Key messages:** The prices of rice grain and wheat flour in Nepal increased by 12.7 percent in June 2023 compared to the previous year.

**Rice:** The year-on-year prices of coarse and medium grain rice at the national level increased by 12.7 percent and 13.4 percent, respectively, in June 2023 compared to the previous year. However, the prices of both coarse and medium grain rice in Nepal were relatively stable in June 2023 compared to month before. Similarly, year-on-year rising trends can be observed in western provinces of Nepal with a growth of 18.5 percent and 12.7 percent for coarse and medium grain rice, respectively (Annex 1). At the provincial level, the highest rise was 27.7 percent in Lumbini Province for coarse followed by 26.9 percent in Sudurpashchim Province (Annex 2). The increase in price of both coarse and medium grain rice could be attributed to the instability in global supply and an increase in exchange rate of NPR against USD by 6.3 percent during the same period, despite a notable decline (19.3 percent) in diesel price. The rice prices could further increase in the following months given the restrictions imposed by the Government of India (GoI) on non-basmati rice exports. In contrast, the monthly price of coarse rice was relatively stable with declining trends in provinces in June 2023 compared to the previous months, and they can be attributed to the stability of supply across the nation. However, the monthly price of medium grain rice rose steeply by 25.0 percent in Gandaki Province.

**Wheat:** The year-on-year increase in national retail wheat flour price was 29.7 percent with upward trends across provinces, especially in western provinces. The highest spikes were observed in Lumbini (56.9 percent) followed in Sudurpashchim Province (54.4 percent) in June 2023 compared to the previous year. This increase in price can be attributed to continuous disruption in the global supply chain due to Ukraine-Russia war, which was further fueled by the periodic export restrictions of wheat and rice by the GoI, as suggested in international popular media.<sup>3</sup> This situation could be further exacerbated by the recent destruction of 60,000 MT of

<sup>3</sup> BBC. (2023). Why India's rice ban could trigger a global food crisis. Online: <https://www.bbc.com/news/world-asia-india-66360064>. Accessed August 23, 2023.

grains at Odesa port, and the incidence could result in additional surge in the cost of grains in South Asian countries. Given this situation, the GoN may need to increase the food stocks primarily from the Indian markets as the contingency measures to avoid the consequences.

The month-to-month comparison of wheat flour price indicated a decline in Nepal's western provinces as well as at the national level. At provincial level, the price of wheat flour increased by 6.6 percent and 1.9 percent in Bagmati and Koshi provinces, respectively compared to the previous month. Trade restrictions driven by international conflict reduced wheat supply in global market which was further escalated by export restriction of wheat by India could have caused a domino effect in wheat prices.

**Policy, trade, and climate risks:** India imposed a ban on the export of non-basmati white rice in July 2023. Since India is one of the major suppliers of rice to Nepal with year-on-year export of 217,792 MT, the recent ban resulted in increased prices for various types of rice by more than 16.0 percent in the domestic market during the first week of August.<sup>4</sup> In addition, an initially weak monsoon in Nepal and delayed rice transplanting, which could potentially affect rice supply and cause price increases. As a short-term contingency plan to fulfil national market demand, the GoN has requested Gol for 1,00,000 MT of rice supply.

### Selected horticultural and fruit products

**Key messages:** The prices of apple and banana in Nepal and the western provinces were relatively stable in June 2023 compared to the year before, while the price of orange showed high instability. Off-season supplies oranges and apples have increased the price at national level compared to a month before. The prices of these fruits are conversely expected to decline with the seasonal increase in production with the onset of winter season. In July 2023, the year-on-year price of red potato increased in eastern provinces with the highest of 47.8 percent in Madhesh Province whereas the price declined in Sudurpashchim Province. Similarly, the price of tomatoes with a sharp decline at the national level by 41.2 percent compared to the previous month, with a high variation across provinces. Adequate cold storage facilities and value-addition process are necessary for mitigating price collapse events during bumper harvests to avoid the potential price declines that arise from their perishability.

### Fruits

The prices of apple and banana in Nepal and western provinces were relatively stable in June 2023 compared to the previous year, while the price of orange increased by 17.4 percent at national level and 50.3 percent in western provinces. The year-on-year price of banana declined by about 2.0 percent in both national and western provinces in July 2023 compared to the previous year. At provincial level, the highest increase in apple prices of 31.1 percent was observed in Madhesh Pradesh while the price of apple declined slightly in Sudurpashchim Province during June 2023 compared to a year before.

### Potato

The national average price of red potato was 15.2 percent higher than a year ago, though it

<sup>4</sup> The Himalayan. (2023). Why is rice price skyrocketing in local market? Online: <https://thehimalayantimes.com/business/why-is-rice-price-skyrocketing-in-local-market>. Accessed August 23, 2023.

declined 7.2 percent in the Western Provinces. The year-on-year increase in price of potato at national level can be attributed to the highest increase of 47.8 percent in Madhesh Province and 25.0 percent in Koshi Province. A similar trend was observed at provincial level with the increase in price of red potato in Koshi and Madhesh provinces in contrast to the declines in prices in western provinces compared to the previous month.

## Tomato

**Bumper crop, followed by price crash:** A bumper crop of tomatoes accompanied by import from India caused the price to drop sharply (41.2 percent) at national level, with similar price falls in the western provinces. The highest decline of 58.3 percent was recorded in Bagmati Province followed by 54.0 percent in Gandaki Province in June 2023 than a year before. During the month of June 2023, the price of tomatoes demonstrated high instability compared to the previous month.

### Spotlight: Tomato prices plunge to an average of USD 1.003 per kilogram

A bumper production of tomato in Nepal has led a sharp decline in its price in early June of 2023. Reports indicated that farmers in some locations choose to dump their harvested tomatoes when they were unable to sell produces even at a price of NPR 4.0 (USD 0.03) per kilogram. Meanwhile, the price of tomato saw a sharp increase of INR 100 (USD 1.21) per kilogram in many parts of India. Realizing the potential for tomatoes export to India, the Government of Nepal facilitated some export of tomato to India later in the month. The Governments of Nepal and India have initiated discussions for the medium and long-term strategies for tomato trade between these two countries.

## Edible oils

**Price variation:** Year-on-year and monthly price declines of mustard and soybean oils were recorded in Nepal in the last month. The highest decline in year-on-year national price of soybean oil was observed in June 2023 with 26.9 percent, whereas it was 24.5 percent for western provinces. Across provinces, the highest decline (39.2 percent) was reported in Gandaki Province followed by Bagmati Province (37.3 percent) in the month June 2023 in comparison to the prices a year before. Similarly, the monthly mustard and soybean oil prices also declined in general when compared with their prices in the previous month, and such declines were consistent across provinces, ranging from 1.5 percent up to 12.7 percent.

## Agricultural inputs

**Key messages:** Along with access and availability, effective and efficient distribution of agricultural inputs, particularly inorganic fertilizers, remained to be the persistent problem in Nepal. In this regard, the Finance Committee of the House of Representatives convened a meeting on 3<sup>rd</sup> August 2023, to address the issues. The Ministry of Agriculture and Livestock Development of Nepal in collaboration with Ministry of Finance is planning to implement a comprehensive program with the goal of ensuring an adequate, reliable, and transparent distribution system of fertilizers. Furthermore, to promote investment in the fertilizer sector, the finance committee is expected to provide necessary guidance and support to domestic and international parties to set up fertilizer industries.

**Fertilizers:** The Government of Nepal has distributed 33.7 thousand MT of subsidized inorganic fertilizers (Urea, DAP and Potash) through Agriculture Inputs Company Limited and 32.8 thousand MT of subsidized chemical fertilizers through Salt Trading Company Limited during July 2023<sup>5</sup>. A total of 53 thousand MT (84.0 percent) Urea was subsidized for Nepali farmers. At the provincial level, Madhesh Province had the highest share (i.e., 288 thousand MT) and the lowest (523 MT) in Karnali Province on the subsidized fertilizers. Since Karnali Province has been recognized as champion for organic productions, the lowest fertilizers were offered to the region.

## Energy

**Key messages:** As of 16<sup>th</sup> August 2023, the retail price of petrol and diesel per liter were NPR 178 (USD 1.34) and NPR 167 (USD 1.25), respectively. Compared to the previous month, the price of petrol and diesel increased by 2.9 percent and 9.2 percent respectively. The recent surge in the price of petroleum products in August 2023 is mainly attributed to the fluctuation in the Global Crude Oil price and increase in exchange rate of NPR against the USD. The increase in the fuel price will have consequent implications on costs associated with transportation, production and eventually commodities' prices, resulting negative impacts on consumers' economic conditions.

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## Data sources

Data sources for this brief includes the World Food Program for food prices, [Nepal Oil Corporation \(noc.org.np\)](https://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.

## Suggested citation

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<sup>5</sup> Ministry of Agriculture and Department. (2023, July). Retrieved from अनुदानित रासायनिक मलको मौज्जात अवस्था (२०८०/३/२० सामको): extension://oemndcbldboiebfnladdacbfmadadm/https://moald.gov.np/wp-content/uploads/2023/06/combinepdf-1.pdf



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## Annex

### Annex 1: Percentage change in commodity price (NPR/Kg) in Nepal.

Commodity	Nepal					Western provinces <sup>6</sup>				
	Price (NPR)			% Change		Price (NPR)			% Change	
	May 2023	June 2022	June 2023	May 2023 to June 2023	June 2022 to June 2023	May 2023	June 2022	June 2023	May 2023 to June 2023	June 2022 to June 2023
Coarse Rice	60.1	53.6	60.5	0.6	12.7	65.1	55.3	65.5	0.7	18.5
Medium grain rice	86.6	77.0	87.4	0.8	13.4	94.8	85.5	96.3	1.6	12.7
Wheat flour	88.1	67.8	88.0	-0.1	29.7	92.7	66.3	91.4	-1.4	37.8
Apple	294.3	312.2	332.1	12.8	6.4	303.6	296.7	330.8	8.9	11.5
Banana per dozen	148.5	154.1	150.1	1.1	-2.6	170.2	177.9	173.6	2.0	-2.4
Orange	210	185.7	218.0	3.8	17.4	220.0	149.7	225.0	2.3	50.3
Red Potato	44.5	49.6	51.3	15.2	3.3	47.6	53.5	49.6	4.2	-7.2
Tomato	70.3	120.6	71.0	0.9	-41.2	77.5	144.4	82.9	6.9	-42.6
Cabbage	46.9	69.0	49.9	6.4	-27.7	53.3	64.8	54.8	2.9	-15.3
Carrot	103.3	108.9	120.1	16.2	10.3	120.6	130.7	133.0	10.3	1.8
Pumpkin	60.7	70.9	48.1	-20.8	-32.2	66.9	82.2	42.1	-37.0	-48.7
Fish	474.4	478.4	481.0	1.4	0.5	574.3	551.7	585.0	1.9	6.0
Egg per unit	18.5	20.0	18.6	0.8	-6.7	18.8	21.2	18.5	-1.6	-13.0
Chicken meat	462.3	470.0	486.5	5.2	3.5	504.8	527.7	531.5	5.3	0.7
Milk per liter	120.0	95.8	119.3	-0.6	24.5	133.1	101.8	131.8	-1.0	29.4
Mustard oil per liter	286.3	369.4	281.0	-1.9	-23.9	301.3	373.6	292.9	-2.8	-21.6
Soybean oil per liter	250.0	336.8	246.3	-1.5	-26.9	263.1	345.8	261.2	-0.7	-24.5
Black beans	182.5	179.5	184.4	1.0	2.7	187.5	182.1	186.5	-0.5	2.5
Chickpea	134.8	147.8	139.4	3.4	-5.7	153.1	152.2	153.8	0.5	1.1
Broken lentil	170.3	176.2	171.0	0.4	-2.9	182.1	180.2	182.5	0.2	1.2
Peanut	335.0	338.1	361.5	7.9	6.9	521.4	491.8	552.9	6.0	12.4

Source: Author's calculation with data retrieved from World Food Program<sup>7</sup>.

<sup>6</sup> Western provinces include Karnali, Sudurpashchim and Lumbini.

<sup>7</sup> World Food Programme. (2023). Nepal - Food Prices. Online: <https://data.humdata.org/dataset/wfp-food-prices-for-nepal>. Accessed August 23, 2023.

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

Commodity	Percent Change													
	Koshi		Madhesh		Bagmati		Gandaki		Lumbini		Karnali		Sudurpashchim	
	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023	June 2022 - June 2023	May 2023 - June 2023
Coarse rice	4.0	2.0	8.6	-6.7	15.5	0.9	-7.7	4.3	27.7	4.7	11.4	-1.6	26.9	2.2
Medium grain rice	8.3	-2.5	19.7	-4.3	8.7	1.3	25.0	2.9	19.4	-1.0	6.8	2.1	21.4	2.2
Wheat flour	25.0	1.9	13.2	-5.7	13.4	6.6	38.2	0.0	56.9	-3.6	24.7	-1.3	54.4	0.0
Apple	1.0	8.1	10.2	31.1	-4.5	24.4	4.8	4.8	20.0	5.0	24.2	18.2	-4.3	-0.8
Banana *	0.0	5.9	10.7	10.7	-1.3	-7.9	-18.1	-10.6	18.8	-6.2	-8.5	9.7	2.0	-8.8
Orange	NA	NA	NA	NA	-3.1	0.0	2.5	10.8	NA	0.0	77.5	4.0	52.1	NA
Red potato	25.0	40.0	47.8	47.8	-2.2	4.0	1.9	31.3	-6.0	-1.8	-14.0	5.9	5.0	5.0
Tomato	-30.4	14.7	-15.4	-8.3	-58.3	-39.7	-54.0	-11.5	-29.3	95.2	-49.2	-3.2	-31.6	-3.7
Cabbage	-15.2	40.0	-36.0	6.7	-52.3	-19.1	-54.3	33.3	-10.7	56.2	-12.1	-10.5	-20.0	18.5
Pumpkin	-5.9	0.0	6.2	30.8	NA	NA	NA	NA	-13.8	13.6	NA	NA	-19.3	-5.6
Carrot	-9.4	6.7	79.2	79.2	29.4	2.3	-6.8	7.9	-40.0	55.6	17.9	3.9	NA	NA
Egg (per unit)	15.4	0.0	-14.5	11.9	7.1	5.3	0.0	0.0	-9.3	-7.5	-21.1	0.0	0.0	0.0
Fish	4.2	0.0	-4.5	-4.5	-11.5	0.5	-14.0	11.1	0.0	0.0	2.2	-0.4	-12.5	-12.5
Chicken meat	1.6	1.6	21.2	5.3	13.8	6.7	-5.2	3.4	4.0	13.9	2.2	5.2	-4.1	0.0
Milk**	8.7	0.0	15.4	0.0	31.8	-1.4	8.3	0.0	18.5	0.0	42.3	-0.7	2.6	-2.5
Mustard oil**	-6.6	3.0	-27.5	-8.6	-37.3	4.0	-39.2	-12.7	-22.0	-11.6	-17.8	-3.6	-27.5	5.9
Soybean oil**	-27.7	-8.3	-27.4	1.5	-34.4	-5.6	-30.4	0.0	-19.7	-3.1	-26.7	0.9	-24.3	-1.5
Beans black	-4.5	0.9	7.7	0.0	14.1	5.3	-5.0	2.7	10.0	-2.9	-0.2	-0.2	2.2	0.7
Chickpea	5.3	2.6	-9.5	4.7	-17.6	11.9	-34.2	4.2	16.7	4.1	-2.6	0.0	-0.9	-0.9
Broken lentil	-7.7	-1.0	-11.0	1.1	-8.3	0.7	-4.3	-1.5	6.4	0.0	0.3	0.9	-0.7	-0.7
Peanut	7.4	1.4	29.6	12.9	44.0	-17.0	-4.2	-4.2	-0.9	-1.8	11.4	0.2	NA	NA

Notes: \* denotes percentage change in average price (NPR per dozen), \*\* denotes percentage change in average price (NPR per liter). NA denotes Not Available.