



GIEWS Update

The Lao People's Democratic Republic

Soaring prices and reduced availability of agricultural inputs curb 2022 agricultural production prospects, increasing risks for acute food insecurity

Highlights

- Reduced supplies and soaring prices of most agricultural inputs raise concerns about production of the 2022 main “wet” season crops, including paddy, the country’s main food staple.
- Prices of livestock inputs surged since April 2022, resulting in distress sales of animals by farmers.
- Prices of most food items increased since the beginning of 2022 and reached record or near-record highs in July 2022.
- Acute food insecurity deteriorated since early 2022, with most households gradually adopting food-related coping strategies, including reducing meal sizes and limiting diversification.

Reduced supplies and soaring prices of agricultural inputs raise concerns for agricultural production in 2022

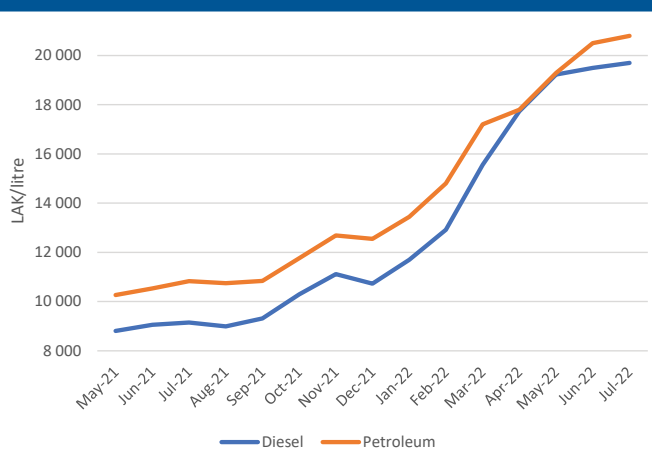
Soaring prices and reduced availability of agricultural inputs, including fertilizers, pesticides and fuel, constrained farmers’ ability to access them, raising concerns about the 2022 cereal production. In order to gauge the availability and access constraints that farmers have faced in procuring agricultural inputs for the 2022 main “wet” season, FAO, jointly with the Ministry of Agriculture and Forestry, conducted an assessment¹ in July in five of the country’s 17 provinces. For the purpose of the assessment, structured interviews were carried out with farmers and agricultural input traders.

The main “wet” cereal crops, which accounts for about 90 percent of the annual output, is normally planted in May and June and harvested between October and

November. Since the start of the 2022 “wet season” in May 2022, supplies of most agricultural inputs have not been adequate and are considerably lower than the previous year, resulting in high prices and access constraints. Fuel supply deficits grew sharply since April and May 2022, caused by the strong depreciation of the kip (LAK) and the dwindling foreign currency reserves that limited the country’s import capacity. In July 2022, prices of different types of fuel were more than double their year-earlier levels (Figure 1), with the highest price spikes registered in the remote areas. As land preparation and planting activities are mostly mechanized throughout the country, the high prices and shortage of fuel caused delays in planting in some areas and may hamper future harvesting operations, resulting in increased post-harvest losses. According to a recent assessment, some farmers reported to not be able to plant at all or only for their subsistence needs.

¹ The results of the assessment discussed below should not be interpreted in terms of statistical significance nor should they be generalized for the entire country.

Figure 1: Lao People's Democratic Republic – Price trends of diesel and petroleum (May 2021-July 2022)



Source: Market Analysis Division, Domestic Trade Department, Ministry of Industry and Commerce, 2022.

The average prices of the most common fertilizers, including nitrogen, phosphorus, potassium (NPK), urea and Diammonium Phosphate (DAP) were more than double their levels a year ago. For instance, in July 2022 prices of NPK were between 100 to 170 percent higher compared with last year (Table 1), while those of urea increased between 100 and 150 percent year on year. The spikes in the prices of fertilizers were associated with the high prices on the international markets, which came against the backdrop of the strong depreciation of the national currency and the country's limited capacity to import. A decline by half compared to the general recommendations for urea and NPK use in the country has been reported by

several interviewed farmers during the field evaluation carried out by the assessment team. Similarly, prices of pesticides and herbicides increased significantly and, in July 2022, they were well above their levels in 2021, severely constraining their access and use. The high prices of agrochemicals resulted in their low application, particularly for the most vulnerable smallholder farmers, which is likely to have a negative impact on yields of the 2022 main "wet" season crops.

Overall, there are concerns that the main "wet" paddy production could be below average in 2022. The output of other crops such as maize, cassava as well as vegetables, may also decrease compared with average levels.

The financial strain on farmers is not sustainable in the long term and the high production costs are expected to reduce profits, particularly for farmers with holding size smaller than 1.5 hectares. If the elevated costs of agricultural inputs prevail or increase further in the months to come, many small-scale farmers may limit their production to cover only their household consumption needs. This will likely to lead to a decline in paddy plantings for the 2022 "dry" season, to be planted from end-November.

The livestock sector has been severely affected in 2022, particularly the production of poultry and pigs, an important source of protein in the local diet, due to shortages and high prices of animal feed, electricity and fuel. For example, prices of livestock feed at LAK 200 000/30-kg increased by 65 percent year on year. Prices of veterinary vaccines and drugs soared

Table 1: Lao People's Democratic Republic - Comparison of NPK prices

Type of NPK fertilizer	2022 price (LAK/bag)	2021 price (LAK/bag)	Change 2022 over 2021
16:20:00	720 000	370 000	+ 94%
46:00:00	750 000–800 000	300 000–400 000	Approx. + 100–150%
15:15:15	720 000	375 000	+ 92%
16:08:08	585 000	270 000	+ 117%
18:08:08	600 000	300 000	+ 100%

Source: Lao PDR Ministry of Agriculture and Forestry, 2022.

Table 2: Lao People’s Democratic Republic – Comparison of prices of vaccines/medicines

Livestock	Type of vaccine	2022 prices (LAK/unit)	2021 prices (LAK/unit)	Change 2022 over 2021
Buffalo	Foot-and-Mouth disease	20 000–25 000	10 000–15 000	+ 67-100%
Cow	Haemorrhagic septicaemia	10 000-15 000	5 000–8 000	+ 88-100%
Chicken	Newcastle disease/Fowl cholera	25 000 (50 doses/vial)	8 000 (50 doses/vial)	+ 310%

Source: Lao PDR Ministry of Agriculture and Forestry, 2022.

on average by 130 percent, limiting vaccinations, and treatments, with consequent deterioration of animal health conditions (Table 2). Overall, prices of livestock inputs have risen by 65 to 300 percent, whereas the sale price of livestock meat and poultry increased by 25 to 75 percent. As a result, production costs have increased significantly, leading to distress selling by farmers. Difficulties in animal transportation are resulting in increased losses of perishable food items and decline of income for farmers.

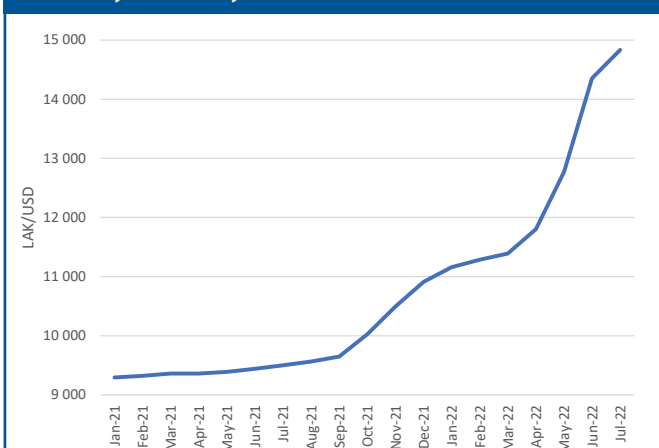
High inflation rates and prices of most basic food products at high levels in July

Since early 2022, the country has been facing growing macroeconomic difficulties, caused by dwindling foreign currency reserves, significant external debt and high and increasing inflation rates. The kip depreciated steadily since September 2021, largely due to concerns about the government’s ability to meet its debt

repayment obligations and sizeable current account deficits, amid the high global commodity prices. In July 2022, the value of the kip reached a record low level at LAK 14 883 against USD 1, depreciating by almost 60 percent year on year (Figure 2).

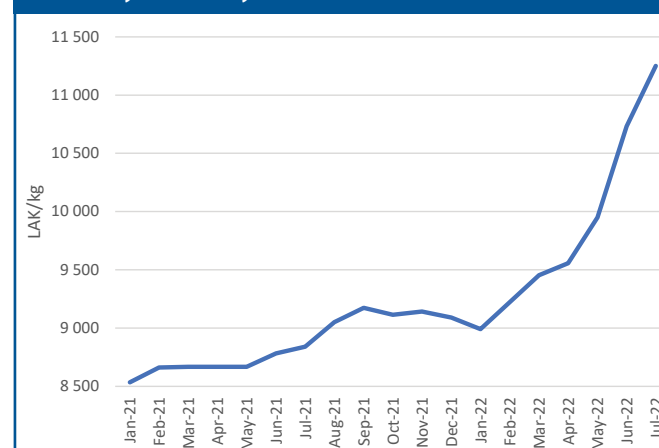
Prices of rice, the country’s main staple food, increased in most markets since the beginning of 2022 and reached record highs in July, about 30 percent above their year-earlier levels (Figure 3). Price increases were driven by the depreciation of the national currency and a sharp rise in production costs. More recent price increases were associated with concerns over the output of the 2022 main “wet” season paddy crop, to be harvested from the end of September. Prices of a wide range of imported and locally produced basic food items, including wheat flour, meat and oil have risen throughout 2022 and reached, in many cases, record or near-record levels in July 2022.

Figure 2: Lao People’s Democratic Republic – Exchange rate (January 2021-July 2022)



Source: International Monetary Fund (IMF), 2022.

Figure 3: Lao People’s Democratic Republic – Retail prices of ordinary rice (January 2021-July 2022)



Source: Market Analysis Division, Domestic Trade Department, Ministry of Industry and Commerce, 2022.

Table 3: Lao People's Democratic Republic - Comparison of prices of livestock and chicken meat

Type of livestock meat	2022 prices (LAK/kg)	2021 prices (LAK/kg)	Change 2022 over 2021
Buffalo meat	90 000	70 000	+ 29%
Beef	90 000	70 000	+ 29%
Pork	70 000	40 000	+ 75%
Duck	55 000	45 000	+ 22%
Chicken	45 000	30 000	+ 50%

Source: Lao PDR Ministry of Agriculture and Forestry, 2022.

The prices of wheat flour were in July 2022 about 80 percent higher compared to their year-earlier levels, while the prices of chicken and pork meat increased by 50 and 75 percent, respectively, year on year (Table 3). The prices of important vegetables, such as long beans, cucumbers, chilies, eggplants and shallots were in July 2022 considerably above their year-earlier levels. Overall, the year-on-year inflation rate increased to 25.6 percent in July, compared with 4.7 percent in July last year.

Acute food insecurity deteriorated since early 2022

The assessment indicates a deterioration in the acute food insecurity, with most vulnerable households gradually adopting food-related coping strategies, including reducing meal sizes and/or switching to less nutritious foods without any meat and fruits. The high prices of most food items have severely affected access to food, amid widespread income losses and reduced purchasing power related to the COVID-19 pandemic. Concerns exist that the food insecurity of farmers' households will deteriorate in the months to come, as their livelihoods have been already under stress due to the high prices of agricultural inputs and the expected decrease in their agricultural output.

Recommendations

The following immediate actions are recommended to mitigate the impact of the elevated prices of agricultural inputs on farmers and their livelihoods:

- Protect productive capacity for the upcoming 2022/23 "dry" season through the provision of critical agricultural inputs and target the most vulnerable smallholder farmers.
- Continue to monitor pest outbreaks and support control measures at the farm level.
- Apply rainwater harvesting techniques and introduce cash crops at the end of the rainy season. Improve the existing water harvesting facilities.
- Protect productive livestock assets from distress sales for the most vulnerable farming households through the provision of vaccination and animal feed.
- Support financial stability and income for the most vulnerable farming households, to prevent the depletion of productive assets through targeted cash assistance.
- Strengthen the national social protection system focusing on vulnerable smallholder farming households through cash transfer programmes.

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