



Government Expenditure in Agriculture Sectors and its Impact on Economic Growth

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Abstract

This paper aims to access the level of government expenditure in agriculture sectors and its impact on economic growth in Nepal. This research follows the quantitative methods based on secondary data specifying on economic survey report, eighteen fiscal years 2005/06 to 2023/24. The data reflects significant trends in the contributions of agriculture and non-agriculture sectors to the Gross Domestic Product (GDP). This paper mainly emphasizes on the Nepalese agriculture sector which traditionally shows a crucial role in the economic growth however, it is found not to be steady growth but it is reflecting the gradual decline in the economic activity and development. In 2005/06, share of agriculture in GDP was 32.37 percent, the ratio of economic growth is found to be decreased by 21.18 percent in 2023/24. As economies growth level shows the contribution of agriculture to GDP typically reduces due to factors of mechanization, rural-urban migration, and the growth of other sectors by manufacturing, services, and technology. Thus, the agriculture sector's GDP contribution is clearly trending downward, while the non-agriculture sector's importance is continuously rising. Therefore, this paper could be significant on reflecting the recent economic trends to evaluate government expenditure ratio in the sector for transformation of agricultural development in Nepal, and it would be also helpful to address the challenges for policymakers in the path of sustainable growth along with spirit of inclusive development.

Keywords: agriculture, expenditure, investment, GDP

Introduction

Government expenditure is the main tool of fiscal policy. It is crucial to achieving greater employment, growth, and per capita income rates as well as a fair distribution of wealth and income throughout society. The primary goal of government in the modern era is to maximize social welfare in society via promoting economic development.



To meet this objective government conducts different plan and policies in different area like education, health, transportation, communication and other productive sector. For this, public expenditure is an important tool of the economy (Ghani, & Din, 2006). Similarly, public expenditure refers to all the expenditures made by government i.e. public authority like central government and other local bodies to meet the demand of the people. It is for protecting the citizens and promoting the socio-economic welfare (Akanbi, 2014) but that would not be supplied by private enterprises because doing so would not be profitable (Goode, 1984).

In modern time, government expenditure is increasing, every country implements such economic policies which can promote maximum social welfare, a dilemma particularly in democratic countries. In the words of widen sky "people are happy to consume government services but increasingly restive about paying for them." (Musgrave, & Musgrave, 1979). Government expenditure is categorized mainly in two types which are current expenditure and capital expenditure. Both direct and indirect effects of public spending on the economy are possible. Direct effects include those on industry, production, trade, and overall economic development. through the provision of health, education, transportation, communication, and other social welfare programs in the economy, as well as through the implementation of suitable laws and the cooperation of private actors (Adhikari, 2017). Similarly, equity, growth, and stabilization are the main goals of any economy, according to Liu et al. (2008). In both affluent and emerging nations, public spending is crucial to sustaining this. According to Iheanacho (2016), a classical economist, the government shouldn't become involved in the economy. They argued for a laissez-faire economy. They supported full employment. The government does not need to step in when the economy is fully employed.

The connection between government spending and economic growth is still unclear, both theoretically and empirically. Although there are many different theoretical viewpoints on the subject, it is widely acknowledged that excessive government expenditure fuels economic instability. However, there is insufficient empirical evidence to support the widely accepted principle. Some research contends that there is either no association at all or a large negative correlation between increasing government spending and actual output growth, but other studies demonstrate a strong and positive correlation between government spending and economic growth.

Review of Literature

The key objective of the state is to ensure maximum social welfare within society. To achieve this goal, the government promotes economic development and manages its costs to maintain stability and accelerate economic growth. Therefore, Public expenditure serves as a crucial economic instrument (Khadka, 2002).

Pham (2009) noted that numerous theories exist regarding public expenditure. Classical economists, however, placed limited emphasis on the role of public expenditure in the economy. They held a narrow perspective, arguing that government should avoid interfering in general economic activities and instead support a laissez-faire approach. According to them, government spending should be minimized, as they believed in the natural occurrence of full



employment without the need for state intervention. However, following the Great Depression of the 1930s, many economists began to argue that government involvement in the economy was essential. A modest level of government intervention is necessary to run the economy smoothly. Hence, the analysis of government expenditure in different time period and theories are examined below.

United Nation (1979) considered the patterns of government expenditure on social services in developing countries, developed market and centrally planned economies in the 1970s. The available data on public expenditure in areas such as education, health, social security and welfare, and housing is examined, along with the underlying, often undeclared factors and policies influencing these expenditure trends. In developing countries, investment in social services when aligned with appropriate policies underscores the importance of integrating social service delivery into broader strategies aimed at improving overall well-being. Efforts by various governments to ensure universal access to primary education may be hindered less by a shortage of educational resources like schools and teachers, and more by issues such as gender discrimination, lack of transportation, and insufficient household income to support a child's school attendance. These challenges reflect a shift in how development is perceived, a shift that has increasingly drawn the focus of governments across many developing nations.

Classical Approach

Froyen, (2003) research that the existence of full employment in the economy was always accepted by classical economics. Because they supported full employment, they opposed the government's overbearing role. The classical economists believed in perfect competition since their theories were founded on Say's law of the market. They made a compelling case that government action is unnecessary if the resources are being used to their maximum potential. Intervention by the government only disrupts the market economy's automatic mechanisms. Additionally, Musgrave (1979) contributed to the extensive and expanding body of research on the theory of public goods. Froyen claims that classical economists distrusted the government and emphasized the balance between the interests of the individual and the nation when the market was unrestricted by laws other than those required to maintain market competition.

Keynesian Approach

The Keynesian perspective, as presented by John Maynard Keynes in his seminal work '*The General Theory of Employment, Interest and Money* (1936)', offers a sharp critique of classical economic thought, particularly the belief that markets are self-correcting in the long run. Keynes famously stated that "in the long run, we are all dead," suggesting that relying exclusively on market forces to adjust over time is an inadequate approach for addressing pressing economic issues in the present. Rather than assuming that economies will automatically return to full employment without intervention, Keynes argued that government action is crucial in the short run to mitigate economic downturns. Keynesian economists argue that free markets lack automatic self-correcting mechanisms to ensure full employment; rather, employment levels are driven by the amount of effective demand within the economy.



When effective demand i.e., the total spending in the economy declines, it leads to higher unemployment, as firms reduce production in response to lower sales. In contrast, when demand increases, firms are incentivized to hire more workers to meet the rising need for goods and services. Keynesians also stress that organizations like trade unions can have a big influence on wage levels and price stability, and that prices and wages are not as variable as classical economics implies. For example, trade unions can negotiate higher wages, which may affect the cost structure of firms and contribute to inflationary pressures in the economy. To address these issues, Keynesian economists advocate for active state involvement in the form of fiscal policy. During periods of economic depression, when effective demand is low, they argue that the government should increase its expenditure, even if it means running a budget deficit. This increased public sector spending would stimulate demand, encourage investment, and ultimately reduce unemployment. Conversely, during periods of inflation, when demand outstrips supply and prices are rising, Keynesian economists recommend that the government reduce its expenditure and run a budget surplus to cool down the economy. In conclusion, Keynesian economics stresses the importance of government intervention in achieving macroeconomic stability, particularly with regard to full employment and price stability. It views public sector expenditure as an exogenous factor, meaning it is determined by external policy decisions rather than by market forces, and as an essential tool for fostering economic growth and stability. Through this framework, Keynesians argue that the government has a vital role to play in smoothing out the business cycle and maintaining a healthy economy.

Ghani and Din (2006) examined into how public investment contributes to economic growth and how public investment and economic growth in Pakistan are related. The results showed that the main force behind growth is private investment and that it is impossible to make definitive inferences regarding the relationship between state investment and consumption and economic progress. The VAR model is used to examine how public investment contributes to economic growth. The VAR model consisted of four variables: public investment (IG), private investment (IP), public consumption (CG), and GDP (Y). Data on these variables in real terms for 1973 through 2004 may be found in a number of economic survey editions.

The extensive cross-country panel dataset on public sector performance and efficiency was assembled by Hauner and Kyobe (2008). It included 114 countries across all income levels between 1980 and 2006, with around 1,800 country-year observations for the education sector and roughly 900 observations for the health sector. These metrics were regressed on possible demographic, institutional, economic, and geographic factors. The most obvious result was that poorer sector efficiency was typically linked to increased government spending in relation to GDP. The study also discovered that institutional and demographic characteristics are important, and that public sector performance and efficiency are greater in wealthier nations. Liu, Hus and Younis (2008) examined the causal relationship between GDP and public expenditure for United States of America using data from the period 1947-2002. The causality results revealed that total government expenditure causes growth of GDP. On the other hand,



growth of GDP does not cause expansion of government expenditure. Moreover, the estimation results indicated that public expenditure raises the U.S. economic growth.

Pham (2009) examined how government spending affected the economic development of China, Hong Kong, Malaysia, and Singapore between 1990 and 2008. The fixed effects panel OLS model is used to do this. Furthermore, government spending was broken down into three categories: general development, social development, and economic development. Similarly, the economic growth model included capital as a macroeconomic component. According to the data presented in this study, government spending has a major impact on long-term economic growth in China, Hong Kong, Malaysia, and Singapore. The empirical findings showed that government spending had a considerable beneficial impact on economic development and a negative impact on social and overall development.

Aryal (2015) used time series data from 1990–1991 to 2012–2013 to examine the pattern and impact of public spending on economic growth. A straightforward linear regression model and line graph were employed to illustrate the connection between public spending and economic expansion. The findings demonstrated that regular spending is growing at a faster rate than development spending. All of the variables are reported in nominal terms, and the regression result also demonstrates a positive correlation between regular and development expenditure and economic growth.

Adhikari (2017) used a tabular and straightforward linear regression model to investigate the trend and structure of public spending. The analysis employed descriptive analysis and was based on secondary data from 1990 to 2015. The pattern of recurring expenditures is higher than the development expenditures, according to the trend analysis. The result also showed that if public expenditure is increased by 100 percent the GDP increased by 90 percent.

Thus, above all the synthesized literatures have been found mainly focusing in the issue on increment of government expenditure naturally accelerates the economic growth however all the findings show not satisfactory growth rate acquired in Nepal. Therefore, this research tries access the connection between government expenditure and its causal relationship within specifying sector as economic growth in Nepalese agriculture.

Objective: to access the level of government expenditure in agriculture sectors and its impact on economic growth in Nepal.

Methods

This study has been focused on the issue of identifying the government expenditure in agriculture sectors and its impact on economic growth in Nepal. Thus, the research employs quantitative approach based on descriptive method employing mainly secondary sources of data specifying on economy survey report, 2005/06 to 2023/24; where I have used simple statistical tools and techniques such as percentage, ratio, average and other measurable techniques are used for analyzing the data. Other supporting sources of literatures such as from the journals, books, reports, and other academia related data on this topic have been also utilized through online and manual sources.



Results and discussion

Nepal initiated its systematic and planned development efforts following the establishment of democracy in 1951. Since then, the country has adopted a planned development approach, undertaking various development projects and allocating substantial public funds across different sectors. Despite these efforts, the results have fallen short of expectations. From the onset, public expenditure and policy measures have aimed to achieve high economic growth, efficient resource allocation, equitable wealth distribution, and price stability. Many economic indicators still show unsatisfactory performance, suggesting that these development goals have not been effectively met (Goode, 1984). One major issue with the public expenditure policy is that the growth rate of public spending has consistently outpaced the growth rate of Gross Domestic Product (GDP). Throughout the study period, public expenditure has steadily increased, mainly due to the expanding scope and scale of government activities. This rising government expenditure has implications for both the short-term and long-term economic landscape.

Impact of Public Expenditure on Agriculture GDP Growth

The GDP is the total value of final goods and services over a specific time period. The total value of goods and services generated in the economy is known as the gross domestic product. The GDP growth of the agriculture sector is two to four times more effective at raising the incomes of the poor than that of other sectors. Furthermore, when agriculture's role in economic advancement grows, the following trends can be seen:

Table 1

Impact of Public Expenditure on Agriculture GDP Growth

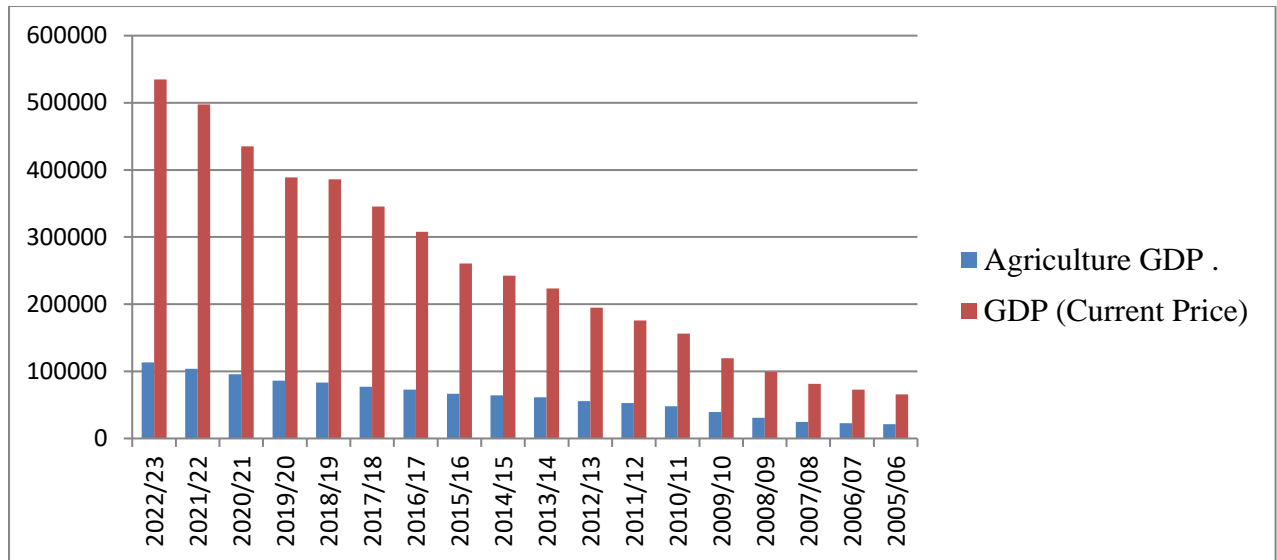
Fiscal Year(AD)	Agriculture GDP .	GDP (Current Price)	Percentage
2022/23	113275.09	534852.76	21.17874
2021/22	103907.34	497655.77	20.87936
2020/21	95849.48	435255.02	22.02145
2019/20	86251.8	388870.37	22.18009
2018/19	83288.73	385893.04	21.58337
2017/18	77187.49	345594.93	22.33467
2016/17	72926.95	307714.49	23.69955
2015/16	66555.33	260818.44	25.51788
2014/15	64271.28	242363.85	26.51851
2013/14	61309.38	223252.53	27.4619
2012/13	55794	194929.48	28.62266
2011/12	52885.11	175837.92	30.07606
2010/11	48032.61	156268.1	30.73731
2009/10	39575.53	119277.4	33.1794
2008/09	30955.31	98827.2	31.32266
2007/08	24719.1	81565.8	30.30572
2006/07	22682.3	72782.7	31.16441
2005/06	21170.44	65408.4	32.36655

Source: Economic survey report, 2005/06 to 2023/24

Table 1 shows that agriculture contribution in GDP has been downward trend it indicate industrial production or service sector strongly increase compare on primary sector decreasing trend from the base year 2005/6 to 2023/24 respectively

Figure 1

Contribution of Agriculture in GDP



Source: Economic survey report, 2005/06 to 2023/24

Figure 1 shows that agriculture contribution in GDP has been downward trend it indicate industrial production or service sector strongly increase compare on primary sector decreasing trend from the base year 2005/6 respectively.

Contribution of Non-Agriculture in GDP

The GDP growth in the not-agriculture sector or secondary sector is two to more effective in raising incomes among the poorest compared to other sectors. Industrial sector is also crucial role to economics growth in the economy is growing the trends are as follows;

Table 2

Contribution of Non-Agriculture in GDP

Fiscal Year(AD)	Non-Agriculture GDP.	GDP (Current Price)	Percentage
2022/23	356374.28	534852.76	66.63
2021/22	317307.16	497655.77	63.76
2020/21	275643.85	435255.02	63.33
2019/20	256600.65	388870.37	65.99
2018/19	250959.33	385893.04	65.03
2017/18	223914.7	345594.93	64.79
2016/17	199129.34	307714.49	64.71
2015/16	167584.88	260818.44	64.25
2014/15	154389.53	242363.85	63.70
2013/14	140936.16	223252.53	63.13
2012/13	121935.32	194929.48	62.55

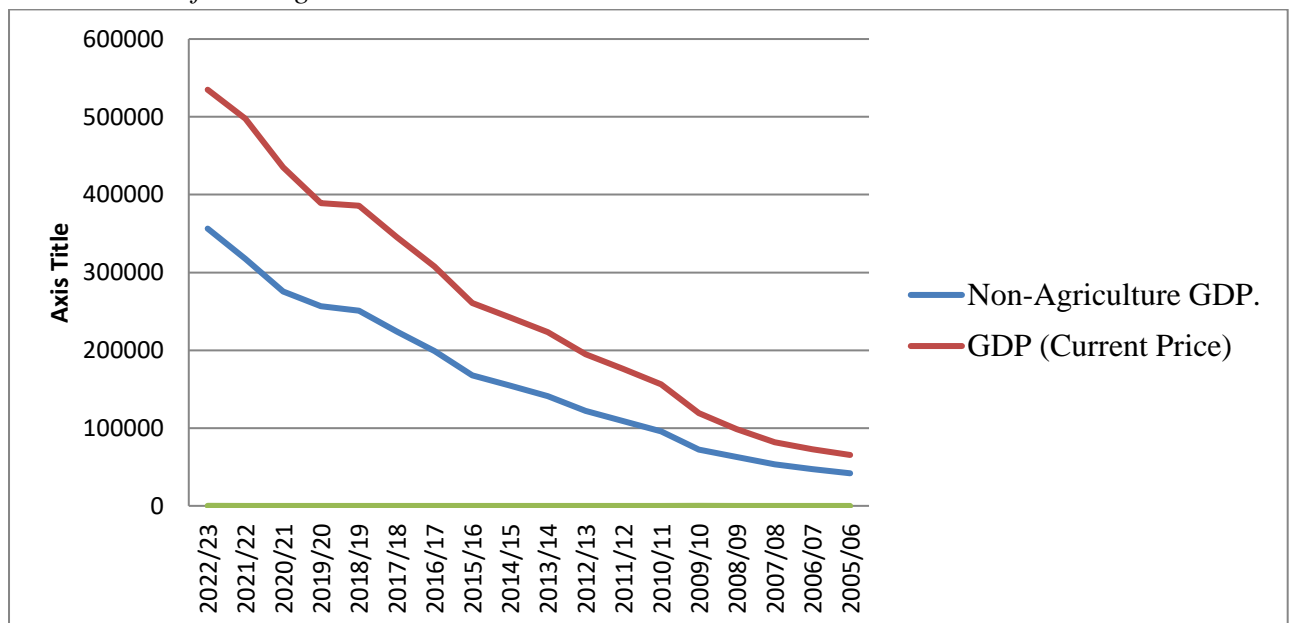
2011/12	108957.29	175837.92	61.96
2010/11	95920.53	156268.1	61.38
2009/10	72281.62	119277.4	60.60
2008/09	62933.67	98827.2	63.68
2007/08	53225.08	81565.8	65.25
2006/07	47054.1	72782.7	64.65
2005/06	41862.57	65408.4	64.00

Source: Economic survey report, 2005/06 to 2023/24

Table 2 shows that non-agriculture contribution in GDP has been consistently upwards and downwards sloping from the base year 2005/6 respectively.

Figure 2

Contribution of Non-Agriculture in GDP



Source: Economic survey report, 2005/06 to 2023/24

Figure 2 shows that non-agriculture contribution in GDP has been consistently upwards and downwards sloping from the base year 2011/12 respectively.

The presented data reflects the significant trends in the contributions of agriculture and non-agriculture sectors to the Gross Domestic Product (GDP) of a given economy over a span of several fiscal years. The agriculture sector, which traditionally plays a vital role in economic growth of many developing nations, appears to have experienced a gradual decline in its share of GDP from the fiscal year 2005/06 through to 2023/24. This decline, as shown in Figure 1 and Table 4.3.2, indicates a shrinking contribution of agriculture to the national economy, reflecting the broader trend of industrialization and service sector expansion. In 2005/06, agriculture's share in GDP was 32.37%, but by 2023/24, it had fallen to approximately 21.18%. This downward trend could signal a shift in economic focus from the primary sector towards more diversified and capital-intensive sectors like industry and services. As economies develop, the contribution of agriculture to GDP typically reduces due to factors like



mechanization, rural-urban migration, and the growth of other sectors such as manufacturing, services, and technology. However, despite the decline in the agriculture share, the sector remains crucial, particularly for income generation in rural areas, where it continues to provide employment and sustenance for a significant portion of the population.

In contrast, the non-agriculture sector, which includes both the industrial and service sectors, has shown a consistent upward trajectory in its contribution to GDP over the same period. As shown in Figure 2 and Table 2, the non-agriculture sector's contribution to GDP grew from 64.00% in 2005/06 to 66.63% in 2022/23, illustrating the increasing dominance of industries and services in the national economy. This growth reflects the ongoing industrialization and urbanization processes that are common in developing economies. As the industrial sector expands, it typically leads to higher productivity, higher wages, and more diversified economic activities. The service sector, which includes finance, education, health, and information technology, also contributes significantly to this growth. It is clear from the data that the non-agriculture sector has not only maintained its importance but has gradually become the central driver of GDP growth.

Major Concerning Discussion of the Study

The contrasting trends between the agriculture and non-agriculture sectors underline the broader structural transformation of the economy. The steady decline in agriculture's share of GDP suggests a movement towards more capital- and technology-intensive sectors, which can yield higher returns and create more sustainable economic growth. The growth of the non-agriculture sector, on the other hand, suggests that industrial production and services have become more integral to the economy, particularly in urban centers where manufacturing, construction, and service-related activities are more concentrated.

In terms of economic development, these trends are significant. While agriculture remains vital for poverty alleviation, particularly in rural areas where it directly impacts the livelihoods of the poorest populations, the growth in non-agriculture sectors presents new opportunities for employment and income generation. Moreover, as the share of non-agriculture in GDP increases, it could signal the emergence of a more diversified and resilient economy, less reliant on the vagaries of agriculture, such as climate change, crop failures, or fluctuations in commodity prices.

The comparative analysis of agriculture and non-agriculture contributions to GDP shows that public expenditure and investments in both sectors will be critical for ensuring balanced and inclusive growth. While the agriculture sector requires attention to modernize practices, improve productivity, and ensure sustainability, the non-agriculture sector needs to continue receiving investments that can drive industrial growth, innovation, and services expansion. Policymakers need to focus on creating an enabling environment that fosters growth in both sectors while addressing the challenges faced by agriculture, such as limited access to credit, technology, and infrastructure.



Conclusion

The data and discussion present clear evidence of significant shifts in the structure of the economy, particularly in the contributions of agriculture and non-agriculture sectors to GDP over the study period. From 2005/06 to 2023/24, the share of agriculture in GDP has steadily declined, from 32.37% in 2005/06 to 21.18% in 2023/24. This indicates that agriculture's role in the national economy is diminishing, likely due to factors such as industrialization, mechanization, and rural-to-urban migration, which shift economic activity towards sectors that are more capital- and technology-intensive. While agriculture remains essential, particularly in rural areas where it provides employment and income, its decreasing share in GDP reflects broader economic development and diversification.

On the other hand, the non-agriculture sectors (which include industry and services) have experienced consistent growth in their contribution to GDP. The share of the non-agriculture sector has risen from 64% in 2005/06 to 66.63% in 2022/23. This growth is indicative of ongoing industrialization and urbanization, with manufacturing, construction, and services (like finance, education, and healthcare) becoming central drivers of economic activity. This trend points to a more diversified and resilient economy that is increasingly less dependent on agriculture.

This level of increasing government expenditure over the study period, as mentioned, likely supports both of these sectors, contributing to short- and long-term economic growth. The challenge for policymakers is to manage this structural transition by ensuring that investments in both sectors are balanced. While public spending should continue to modernize and support agriculture, it is equally important to invest in industrial and service sectors to drive innovation, employment, and economic growth.

This paper concludes in this study about a clear shift towards a more industrialized and diversified economy, with the non-agriculture sectors playing an increasingly important role. However, the agriculture sector's continued relevance, especially for poverty alleviation in rural areas, must not be overlooked. Public expenditure should be strategically directed to ensure that both sectors thrive and contribute to sustainable, inclusive economic growth.



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