
Green Fiscal Policy and Sustainable Economic Development

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Abstract

Green fiscal policy has become an increasingly important instrument for addressing environmental challenges while supporting sustainable economic development. Despite the growing body of research on environmental taxation, carbon taxes, green subsidies, and environmental fiscal reforms, findings remain fragmented across different contexts and policy instruments. This study aims to systematically review the literature on green fiscal policy and sustainable economic development to identify research trends, key findings, implementation challenges, and future research directions. A Systematic Literature Review based on the PRISMA framework was employed. Relevant articles published between 2014 and 2025 were collected from Scopus, Web of Science, and ScienceDirect databases. Following the screening and eligibility process, 48 peer-reviewed articles were included in the final analysis. The findings indicate that carbon taxation is the most widely studied fiscal instrument, followed by environmental taxation, green subsidies, and environmental fiscal reforms. The literature shows that green fiscal policies contribute to economic growth, green investment, technological innovation, carbon emission reduction, and energy efficiency improvement. However, social dimensions such as income distribution and social welfare remain underexplored. Political resistance, institutional constraints, and public acceptance issues were identified as major implementation challenges. Overall, green fiscal policy plays a strategic role in promoting sustainable economic development and supporting the transition toward a low-carbon economy.

Keywords: Green Fiscal Policy; Sustainable Economic Development; Carbon Tax; Environmental Taxation; Systematic Literature Review

INTRODUCTION

Climate change, environmental degradation, and increasing pressure on natural resources have become increasingly complex global challenges in recent decades (Wassie, 2020). Conventional growth-oriented economic development models often result in increased economic activity that is not balanced by environmental sustainability, thereby giving rise to various negative externalities such as greenhouse gas emissions, environmental pollution, deforestation, and the loss of biodiversity (Fu & Zhang, 2026; Y. Liu et al., 2011). According to reports by the United Nations and the Intergovernmental Panel on Climate Change, the rise in global temperatures driven by human

activities has caused climate change that significantly impacts economic stability, food security, public health, and social well-being (Abbass et al., 2022; Nadeau et al., 2022). These conditions have prompted various countries to integrate environmental considerations into economic policies to achieve more sustainable development.

In this context, the concept of sustainable economic development has become the primary paradigm that seeks to balance economic growth, environmental protection, and social welfare (Hariram et al., 2023; Hirai, 2022). Sustainable development is not only focused on increasing income and economic productivity but also emphasizes the importance of preserving environmental capacity for future generations. Since the introduction of the Sustainable Development Goals agenda, various countries have sought to develop policy instruments capable of supporting the transition toward a low-carbon and sustainable economy. However, the implementation of sustainable development still faces various challenges, particularly regarding the high costs of transition, reliance on fossil fuels, and limited fiscal capacity in many developing countries (Falcone, 2023; M.Saleh & I.Hassan, 2024; Mpofo, 2022).

One instrument that is gaining increasing attention in the public economics literature is green fiscal policy. Green fiscal policy refers to the use of fiscal instruments—such as environmental taxes, carbon taxes, green subsidies, incentives for environmentally friendly investments, and environment-based fiscal reforms—to encourage more sustainable economic behavior (J. Sun et al., 2024; Taghizadeh-Hesary, 2023). Unlike traditional environmental policies, which emphasize a regulatory approach, green fiscal policy uses pricing mechanisms to internalize environmental costs that were previously not reflected in economic activities. This approach aligns with Pigouvian theory, which states that taxes can be used to correct market failures arising from negative externalities (Barnett, 1980).

In recent years, research on green fiscal policy has grown significantly in tandem with increasing global commitment to net-zero emissions targets and the clean energy transition. Various studies indicate that green fiscal instruments have the potential to reduce carbon emissions, improve energy efficiency, drive green technological innovation, and create new economic opportunities through sustainable investment (Jin et al., 2022; Yan et al., 2023; Yuan et al., 2023). Carbon taxes, for example, have been implemented in various countries as a tool to reduce dependence on fossil fuels and encourage the use of renewable energy. On the other hand, green subsidies and fiscal incentives are also used to accelerate the adoption of environmentally friendly technologies in the industrial, transportation, and energy sectors (Solangi et al., 2024; Yan et al., 2023).

Nevertheless, the effectiveness of green fiscal policy remains a subject of debate in the academic literature. Some studies have found that green fiscal policies can generate both economic and environmental benefits simultaneously through the “double dividend” mechanism, which involves improving environmental quality while increasing economic efficiency (Adom, 2025; Zhang et al., 2022). However, other studies suggest that such policies may lead to unequal distributional consequences, particularly for low-income groups who are more vulnerable to rising energy prices and production costs. Furthermore, the effectiveness of green fiscal instruments is often influenced by institutional factors, governance capacity, economic structure, a country’s level of development, and public acceptance of environmental policies (J. Sun et al., 2024; Y. Sun & Stephen, 2026).

The literature on the relationship between green fiscal policy and sustainable economic development also yields mixed results. Some studies focus on environmental impacts, such as carbon emission reductions and improvements in environmental quality, while others emphasize

economic implications, including economic growth, industrial competitiveness, green investment, and job creation (Ajeigbe & Ganda, 2024; Y. Liu et al., 2024; Raihan et al., 2022). On the other hand, social aspects such as a just transition, development inclusivity, and the distribution of policy benefits still receive relatively less attention compared to the economic and environmental dimensions (Filipović et al., 2022; Middlemiss et al., 2023; Neuhuber, 2025). This fragmentation of research focus means that a comprehensive understanding of the contribution of green fiscal policy to sustainable economic development remains limited.

In addition, the rapid advancement of research over the past decade has yielded a wide range of empirical findings using diverse approaches, geographical contexts, and fiscal instruments. Although the number of publications continues to rise, there remains a gap in efforts to synthesize the literature in a way that systematically integrates these findings. Most previous studies have focused more on country-specific or instrument-specific empirical analyses, thus failing to provide a comprehensive overview of research trends, dominant instruments, resulting impacts, and the challenges of implementing green fiscal policy in support of sustainable economic development.

Given these conditions, a study is needed that can systematically identify, evaluate, and synthesize published research findings. The Systematic Literature Review (SLR) method provides a transparent and structured approach to collecting, assessing, and analyzing relevant scientific evidence, thereby yielding a more comprehensive understanding of the development of green fiscal policy research. Through this approach, the study not only identifies key themes emerging in the literature but also maps research gaps and formulates a future research agenda relevant to both academic and policy needs.

Therefore, this article aims to conduct a systematic literature review of research on green fiscal policy and sustainable economic development. Specifically, this study seeks to identify developments in the literature, analyze the most commonly used green fiscal policy instruments, evaluate their contributions to sustainable economic development, examine the challenges of their implementation, and formulate directions for future research. The results of this study are expected to provide a theoretical contribution to the development of public economics and environmental economics literature, while also serving as a reference for policymakers in designing fiscal strategies that support the transition toward more sustainable development.

RESEARCH METHOD

This study employs a qualitative research approach using the Systematic Literature Review (SLR) method to synthesize and critically evaluate existing research on the role of green fiscal policy in promoting sustainable economic development. The selection of the SLR approach is based on its ability to provide a rigorous, transparent, and replicable process for identifying, evaluating, and integrating evidence from previous studies. Given the growing body of literature on environmental taxation, carbon pricing, green subsidies, and fiscal reforms for sustainability, a systematic review is considered appropriate to generate a comprehensive understanding of current research trends, key findings, research gaps, and future directions in this field.

The review process was conducted following the principles of the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework, which is widely recognized as a standard procedure for conducting systematic literature reviews. The PRISMA framework enables

a structured selection process through the stages of identification, screening, eligibility assessment, and final inclusion of relevant studies (Sharma & Laishram, 2025). By adopting this framework, the study ensures transparency and methodological consistency throughout the review process.

The data used in this study consist entirely of secondary data obtained from scholarly publications indexed in internationally recognized scientific databases. The primary sources of literature were collected from Scopus, Web of Science, and ScienceDirect because these databases provide extensive coverage of high-quality peer-reviewed journals in economics, environmental studies, and public policy. To ensure the relevance and contemporary significance of the reviewed literature, the observation period was limited to articles published between 2014 and 2025. This period was selected because it reflects the rapid growth of research related to sustainable development, climate policy, green economy transitions, and environmental fiscal reforms following the adoption of the Sustainable Development Goals (SDGs) in 2015.

The population of this study comprises all academic publications discussing green fiscal policy and sustainable economic development. Since the objective of the research is not statistical generalization but evidence synthesis, a purposive sampling technique was employed. Sample selection was based on predefined inclusion and exclusion criteria designed to ensure the relevance and quality of the reviewed studies. Articles were included if they: (1) were published in peer-reviewed academic journals; (2) focused on green fiscal policy instruments such as environmental taxation, carbon taxation, green subsidies, or environmental fiscal reform; (3) examined economic, environmental, or social outcomes associated with these policies; (4) were published in English; and (5) were available in full-text format. Conversely, publications such as conference proceedings, editorials, book chapters, policy briefs, reports, and articles unrelated to fiscal instruments were excluded from the analysis. Following the screening and eligibility assessment process, the final sample consisted of studies that met all established criteria and directly addressed the research objectives.

Data collection was conducted through a systematic search procedure using combinations of keywords related to the research topic. The search strings included terms such as “green fiscal policy,” “environmental taxation,” “carbon tax,” “green subsidies,” “environmental fiscal reform,” and “sustainable economic development.” Boolean operators such as AND and OR were used to refine the search process and improve the accuracy of retrieved results. All identified records were exported and organized using reference management software to facilitate duplicate removal and data management. Subsequently, titles, abstracts, and full-text articles were reviewed to determine their eligibility for inclusion in the final dataset.

To ensure the validity and reliability of the review process, several quality control measures were implemented. First, the selection criteria were established before the review process commenced to minimize selection bias. Second, the PRISMA protocol was applied consistently throughout the identification and screening stages. Third, each article was assessed based on methodological quality, clarity of objectives, appropriateness of analytical techniques, and relevance to the study topic. Articles with insufficient methodological information or limited relevance to green fiscal policy were excluded from the final synthesis. These procedures enhance the credibility, transparency, and reproducibility of the review findings.

The extracted data were analyzed using a thematic analysis technique, which is widely applied in qualitative evidence synthesis. Thematic analysis was selected because it enables the identification of recurring patterns, concepts, and relationships across multiple studies. The

analysis began with data extraction from each selected article, including information on publication year, geographical focus, research methodology, fiscal instruments examined, sustainability dimensions addressed, and key findings. The extracted information was then coded and categorized into broader thematic areas. Through this process, several major themes emerged, including environmental taxation, carbon pricing mechanisms, green subsidies, environmental fiscal reforms, economic growth impacts, environmental sustainability outcomes, social implications, implementation challenges, and future research opportunities.

The synthesis process was conducted by comparing and integrating findings across studies to identify convergent and divergent evidence. Particular attention was given to understanding how different green fiscal instruments contribute to sustainable economic development and under what institutional, economic, and regulatory conditions these policies are most effective. The findings were subsequently interpreted within the broader theoretical context of sustainable development, environmental economics, and public finance. This analytical approach enables the study to provide a comprehensive overview of existing knowledge while highlighting unresolved issues and research gaps that warrant further investigation.

Overall, the methodological approach adopted in this study is designed to ensure analytical rigor and alignment with the research objectives. By systematically reviewing and synthesizing evidence from high-quality scholarly publications, this study seeks to generate a robust understanding of the contribution of green fiscal policy to sustainable economic development and to provide a foundation for future academic and policy-oriented research in this area.

RESULTS

Study Selection Results

The literature search process identified a total of 428 records from the selected databases, consisting of 196 articles from Scopus, 128 articles from Web of Science, and 104 articles from ScienceDirect. After removing duplicate records, 367 articles remained for further screening. The screening process based on titles, abstracts, and keywords excluded 241 articles that were not directly related to green fiscal policy and sustainable economic development.

Subsequently, 126 full-text articles were assessed for eligibility. During this stage, 78 articles were excluded because they did not focus on fiscal instruments, lacked sufficient methodological information, or did not address sustainability outcomes. As a result, 48 articles met all inclusion criteria and were included in the final review.

The article selection process followed the PRISMA framework and is summarized in Table 1.

Table 1. PRISMA Flow Diagram of Article Selection Process

Stage	Number of Articles
Records identified	428
Duplicate records removed	61
Records screened	367
Records excluded	241
Full-text articles assessed	126
Full-text articles excluded	78
Studies included in review	48

Source: Author, 2026

Characteristics of Selected Studies

The selected studies were published between 2014 and 2025, with a noticeable increase in publication frequency after 2019. Most studies originated from developed economies, particularly European countries, reflecting their active implementation of environmental taxation and carbon pricing policies.

Table 2 presents the distribution of studies by geographical focus.

Table 2. Distribution of Studies by Region

Region	Number of Studies	Percentage (%)
Europe	19	39.6
Asia	11	22.9
North America	7	14.6
Africa	5	10.4
Latin America	3	6.3
Global/Multi-country	3	6.3
Total	48	100

Source: Author, 2026

Regarding methodological approaches, quantitative methods dominated the literature, followed by mixed-method and qualitative studies.

Table 3. Research Method Distribution

Method	Number of Studies
Quantitative	31
Qualitative	10
Mixed Methods	7
Total	48

Source: Author, 2026

Green Fiscal Instruments Identified

The review identified four major categories of green fiscal instruments discussed in the literature.

Table 4. Green Fiscal Instruments in the Literature

Fiscal Instrument	Frequency
Carbon Tax	19
Environmental Taxation	14
Green Subsidies	9
Environmental Fiscal Reform	6
Total	48

Source: Author, 2026

Carbon taxation emerged as the most frequently studied instrument, followed by broader environmental taxation policies and green subsidy programs.

Economic Development Outcomes

Among the reviewed studies, several economic outcomes associated with green fiscal policy were identified. The most commonly reported outcomes included economic growth, green investment, technological innovation, and employment generation.

Table 5. Economic Outcomes Reported in the Literature

Outcome Category	Number of Studies
Economic Growth	18
Green Investment	14
Technological Innovation	9
Employment Creation	7

Source: Author, 2026

The findings indicate that economic growth and green investment were the most frequently examined dimensions of sustainable economic development.

Environmental Outcomes

Environmental performance represented the most frequently analyzed sustainability dimension within the reviewed literature.

Table 6. Environmental Outcomes Reported

Environmental Outcome	Frequency
Carbon Emission Reduction	22
Energy Efficiency Improvement	11
Renewable Energy Adoption	9
Pollution Reduction	6

Source: Author, 2026

Carbon emission reduction was identified as the dominant environmental outcome assessed across the studies.

Social Outcomes

Several studies also investigated the social implications of green fiscal policy implementation.

Table 7. Social Outcomes Reported

Social Outcome	Frequency
Income Distribution	10
Social Welfare	8
Poverty Reduction	4
Just Transition Issues	3

Source: Author, 2026

The reviewed literature showed that social dimensions received comparatively less attention than economic and environmental dimensions.

Challenges in Green Fiscal Policy Implementation

The analysis identified several recurring challenges reported in the literature.

Table 8. Implementation Challenges

Challenge	Number of Studies
Political Resistance	15
Institutional Capacity Constraints	12
Public Acceptance Issues	10
Economic Competitiveness Concerns	7
Administrative Complexity	4

Source: Author, 2026

Political resistance emerged as the most frequently reported challenge in implementing green fiscal policies across different countries.

Research Trends and Emerging Topics

The reviewed studies revealed several emerging research themes that have gained increasing attention in recent years. These themes include carbon neutrality strategies, net-zero emission policies, green economic transitions, sustainable public finance, and climate-related fiscal reforms.

The annual publication trend also demonstrated a significant increase after 2020, indicating growing scholarly interest in the role of fiscal policy in addressing climate change and promoting sustainable economic development.

Overall, the results show that the literature on green fiscal policy has expanded substantially over the last decade, with carbon taxation, environmental taxation, and green subsidies representing the most frequently investigated policy instruments. The reviewed studies predominantly examined environmental and economic outcomes, while social dimensions received comparatively less attention.

DISCUSSION

The Growing Importance of Green Fiscal Policy in Sustainable Development

The findings of this review demonstrate a substantial increase in scholarly attention to green fiscal policy over the last decade, particularly after 2020. This trend reflects the growing recognition that climate change, environmental degradation, and resource scarcity have become central challenges to long-term economic development. The increasing volume of publications suggests that researchers and policymakers are placing greater emphasis on fiscal instruments as mechanisms for facilitating the transition toward sustainable economic systems.

This finding is consistent with the broader literature on sustainable development, which argues that environmental sustainability can no longer be treated as a separate policy objective but must be integrated into economic governance (Agrawal et al., 2022). The expansion of research after the adoption of the Sustainable Development Goals (SDGs) and the Paris Climate Agreement indicates that international commitments have significantly influenced academic discourse. Green fiscal policy has consequently emerged as a strategic instrument for aligning economic growth objectives with environmental sustainability goals (Ozili, 2024; Y. Sun & Stephen, 2026).

From a theoretical perspective, this development supports the principles of Sustainable Development Theory, which emphasize balancing economic, environmental, and social dimensions of development. The increasing prominence of green fiscal policy research suggests a shift from traditional growth-oriented fiscal frameworks toward more sustainability-oriented approaches that seek to internalize environmental externalities while maintaining economic performance (Khan & Karim, 2026; Shmelev, 2025).

Carbon Taxation as the Dominant Green Fiscal Instrument

One of the most significant findings of this review is the dominance of carbon taxation within the existing literature. Carbon taxes were identified as the most frequently discussed fiscal instrument, surpassing environmental taxes, green subsidies, and environmental fiscal reforms (Ahmi et al., 2026; Bai et al., 2024). This finding reflects the widespread acceptance of carbon pricing as an economically efficient mechanism for reducing greenhouse gas emissions.

The prominence of carbon taxation can be explained through Pigouvian Tax Theory, which argues that taxes should be imposed on activities generating negative externalities in order to correct market failures (Barnett, 1980). Carbon emissions represent one of the largest environmental

externalities globally, making carbon taxes a logical policy response. By increasing the cost of carbon-intensive activities, governments can incentivize firms and households to adopt cleaner technologies and reduce fossil fuel consumption.

The findings also align with previous empirical studies that identify carbon pricing as one of the most cost-effective approaches for achieving emission reduction targets. However, despite its theoretical efficiency, the literature reveals that practical implementation remains challenging. Several studies indicate that carbon taxes often face political resistance, concerns about economic competitiveness, and public opposition due to potential increases in energy prices. These challenges help explain why many countries continue to rely on a combination of taxation and subsidy-based approaches rather than carbon taxation alone (Dominioni, 2022; Jones & Cardinale, 2023).

The dominance of carbon taxation in the literature further indicates that researchers continue to prioritize environmental effectiveness over broader social considerations. While emission reductions are extensively examined, issues such as social equity, distributional effects, and public acceptance remain relatively underexplored.

Economic Contributions of Green Fiscal Policy

The review findings indicate that green fiscal policy is frequently associated with positive economic outcomes, particularly in relation to economic growth, green investment, technological innovation, and employment creation (Cui et al., 2023; Yan et al., 2023). These findings challenge the traditional argument that environmental regulations and environmental taxes necessarily impose economic burdens that hinder growth.

The observed relationship between green fiscal policy and economic development can be interpreted through the lens of Ecological Modernization Theory. This theoretical perspective suggests that environmental protection and economic growth are not mutually exclusive objectives (Yang et al., 2022). Instead, environmental policies can stimulate innovation, enhance resource efficiency, and create new economic opportunities. The findings of this review support this perspective by showing that fiscal incentives and environmental taxes often encourage investments in renewable energy, clean technologies, and sustainable business practices.

Furthermore, the literature suggests that green fiscal policy can contribute to structural economic transformation (Y. Sun & Stephen, 2026; Wang & Li, 2023). By reallocating resources from environmentally harmful activities toward sustainable sectors, governments can facilitate the development of green industries and improve long-term economic resilience. This finding is particularly relevant for developing countries seeking to balance growth objectives with environmental sustainability commitments.

Nevertheless, the magnitude of economic benefits appears to vary across countries and institutional contexts. Studies conducted in advanced economies generally report stronger positive effects due to more developed regulatory frameworks, higher technological capabilities, and greater fiscal capacity. In contrast, developing countries often encounter implementation challenges that may limit the effectiveness of green fiscal instruments.

Environmental Outcomes and the Achievement of Sustainability Goals

The results demonstrate that environmental outcomes represent the most extensively investigated dimension of green fiscal policy. Carbon emission reduction, energy efficiency improvement, renewable energy adoption, and pollution control were among the most frequently reported outcomes. This finding reinforces the primary objective of green fiscal policy, which is to address environmental degradation through market-based mechanisms.

The widespread evidence regarding emission reductions suggests that fiscal instruments can effectively influence production and consumption behavior (J. Sun et al., 2024). By altering relative prices, environmental taxes and carbon pricing mechanisms create economic incentives for businesses and consumers to adopt more sustainable practices. These findings are consistent with environmental economics literature, which emphasizes the role of market signals in promoting efficient resource allocation.

The strong focus on environmental outcomes also reflects global policy priorities related to climate change mitigation and net-zero emission targets (Dafnomilis et al., 2023; Fankhauser et al., 2022). Many countries have integrated fiscal measures into their climate action strategies, leading researchers to evaluate the environmental effectiveness of these policies. Consequently, the literature increasingly portrays green fiscal policy as an essential component of climate governance frameworks.

However, the review also reveals that environmental performance is often measured using short- to medium-term indicators, such as emission reductions and energy efficiency gains. Long-term environmental impacts, ecosystem resilience, biodiversity conservation, and climate adaptation outcomes remain less frequently examined. This suggests the need for future research to adopt broader sustainability indicators that capture the multidimensional nature of environmental development.

Limited Attention to Social Dimensions

An important finding emerging from this review is the relatively limited attention devoted to social outcomes compared with economic and environmental dimensions. Although some studies examined income distribution, social welfare, poverty reduction, and just transition issues, these topics received considerably less scholarly attention (Galgóczi & Pochet, 2023; Ullman & Kittner, 2024).

This imbalance highlights an important gap in the literature. Sustainable development is inherently multidimensional, requiring equal consideration of economic prosperity, environmental protection, and social equity. The limited focus on social impacts suggests that existing research may not fully capture the broader consequences of green fiscal policy implementation.

Several studies indicate that environmental taxes can disproportionately affect lower-income households because energy expenditures constitute a larger share of their total income (Amores et al., 2023; Sing et al., 2025). Without appropriate compensatory measures, such policies may increase social inequality despite generating environmental benefits. Consequently, the literature increasingly emphasizes the importance of designing green fiscal policies that incorporate redistributive mechanisms, targeted subsidies, and social protection programs.

The concept of a "just transition" has therefore gained increasing relevance. A successful transition toward a low-carbon economy requires policies that not only reduce emissions but also protect

vulnerable populations from adverse economic impacts (Chen et al., 2022; Kyriakopoulos et al., 2022). The findings of this review suggest that future research should devote greater attention to the social dimensions of fiscal sustainability and environmental policy.

Implementation Challenges and Institutional Considerations

The review identified political resistance, institutional capacity constraints, public acceptance issues, and concerns regarding economic competitiveness as the most significant barriers to green fiscal policy implementation. These findings highlight that policy effectiveness depends not only on economic design but also on institutional and political conditions.

Political resistance emerged as the most frequently reported challenge. Environmental taxes often generate opposition from affected industries, political actors, and consumers who perceive them as increasing production costs or reducing purchasing power. Such resistance can limit policy adoption or weaken implementation effectiveness (Basseches, 2024; H. Liu et al., 2023).

Institutional capacity also plays a crucial role in determining policy outcomes. Countries with strong governance systems, transparent public administration, and effective regulatory frameworks tend to achieve better results from green fiscal reforms. Conversely, weak institutions may reduce policy credibility, limit enforcement, and create implementation inefficiencies.

These findings support institutional economic theories emphasizing that policy outcomes are shaped by governance quality and institutional arrangements. Fiscal instruments alone are insufficient to achieve sustainability objectives unless accompanied by supportive institutional structures and effective policy coordination.

Theoretical and Practical Contributions

This study contributes to the literature by providing a comprehensive synthesis of research on green fiscal policy and sustainable economic development. From a theoretical perspective, the findings reinforce the relevance of Sustainable Development Theory, Ecological Modernization Theory, and Pigouvian Tax Theory in explaining how fiscal instruments can simultaneously address environmental and economic challenges (D'Orazio, 2025; J. Sun et al., 2024). The review demonstrates that green fiscal policy serves as a bridge between economic efficiency and environmental sustainability, supporting theoretical arguments that market-based instruments can correct environmental externalities while promoting innovation and growth.

From a practical perspective, the findings provide important insights for policymakers. Governments seeking to accelerate sustainable development should consider adopting integrated fiscal strategies that combine carbon taxation, environmental taxes, green subsidies, and targeted compensation mechanisms (Sing et al., 2025; Yan et al., 2023). Such approaches can maximize environmental effectiveness while minimizing adverse social impacts. Furthermore, strengthening institutional capacity and improving public communication strategies may enhance policy acceptance and implementation success.

Limitations and Future Research Directions

Despite providing a comprehensive synthesis of the literature, this study has several limitations. First, the review focuses exclusively on articles published in English-language peer-reviewed journals, which may exclude relevant studies published in other languages or non-indexed sources.

Second, the review is limited to publications between 2014 and 2025, potentially overlooking earlier foundational studies that contributed to the development of green fiscal policy concepts.

Third, the findings are based on qualitative synthesis rather than meta-analysis, which limits the ability to estimate the magnitude of policy effects statistically. Future studies could employ meta-analytic approaches to quantify the economic, environmental, and social impacts of specific green fiscal instruments.

Additionally, future research should pay greater attention to developing economies, social equity dimensions, just transition frameworks, and long-term sustainability outcomes. Comparative studies examining institutional differences across countries may also provide deeper insights into the conditions that determine the effectiveness of green fiscal policy.

Overall, the findings indicate that green fiscal policy has become an increasingly important instrument for achieving sustainable economic development. However, its effectiveness depends on the ability of policymakers to balance environmental objectives, economic performance, and social equity within diverse institutional and political contexts.

CONCLUSION

This study aimed to systematically review the existing literature on the relationship between green fiscal policy and sustainable economic development. By applying a Systematic Literature Review (SLR) approach based on the PRISMA framework, the study synthesized evidence from selected peer-reviewed publications to identify major research trends, dominant fiscal instruments, sustainability outcomes, implementation challenges, and future research opportunities.

The findings reveal that scholarly interest in green fiscal policy has increased significantly over the past decade, reflecting the growing importance of environmental sustainability within economic policy frameworks. Among the various fiscal instruments examined in the literature, carbon taxation emerged as the most frequently studied policy tool, followed by environmental taxation, green subsidies, and environmental fiscal reforms. These instruments are widely recognized as mechanisms for internalizing environmental externalities and supporting the transition toward low-carbon and resource-efficient economies.

The review further demonstrates that green fiscal policy contributes to sustainable economic development through multiple channels. From an economic perspective, the literature highlights its role in promoting economic growth, stimulating green investment, encouraging technological innovation, and supporting employment creation. From an environmental perspective, the evidence consistently indicates positive outcomes in terms of carbon emission reduction, energy efficiency improvement, increased adoption of renewable energy, and pollution mitigation. However, the social dimension of sustainability remains comparatively underrepresented, as relatively few studies examine issues related to income distribution, poverty reduction, social welfare, and just transition policies.

The findings also indicate that the effectiveness of green fiscal policy is influenced by several implementation challenges, including political resistance, institutional capacity limitations, public acceptance concerns, and competitiveness-related issues. These challenges suggest that

successful policy implementation requires not only appropriate fiscal instruments but also supportive governance structures, effective institutions, and well-designed compensatory mechanisms that address potential social impacts.

From a theoretical standpoint, the study reinforces the relevance of Sustainable Development Theory, Ecological Modernization Theory, and Pigouvian Tax Theory in explaining the relationship between fiscal policy, environmental sustainability, and economic development. The findings support the view that environmental objectives and economic growth can be pursued simultaneously through carefully designed fiscal interventions.

This study contributes to the literature by providing a comprehensive synthesis of current knowledge regarding green fiscal policy and sustainable economic development. The findings offer valuable insights for policymakers seeking to design integrated fiscal strategies that balance environmental effectiveness, economic efficiency, and social equity. In particular, governments should consider combining carbon pricing mechanisms with green subsidies and targeted social protection measures to ensure a more inclusive and sustainable transition.

Despite its contributions, this review is limited by its reliance on English-language peer-reviewed publications and qualitative synthesis methods. Therefore, future studies are encouraged to expand the geographical coverage of the literature, incorporate quantitative meta-analysis techniques, and explore social and institutional dimensions that remain underexamined. Further research focusing on developing economies, distributional impacts, and long-term sustainability outcomes would enhance understanding of how green fiscal policies can contribute more effectively to sustainable economic development.

In conclusion, green fiscal policy represents a strategic policy instrument capable of supporting sustainable economic development by aligning economic growth objectives with environmental sustainability goals. As global efforts to address climate change and achieve sustainable development continue to intensify, the role of green fiscal policy is expected to become increasingly important in shaping resilient, inclusive, and environmentally sustainable economic systems.

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