

CONTEMPORARY MACROECONOMIC POLICY AND SUSTAINABLE DEVELOPMENT: A SYSTEMATIC LITERATURE REVIEW ON CHALLENGES, STRATEGIES, AND POLICY DIRECTIONS

Fahri La Ilu¹, Afa Amran²

¹Universitas Muhamadya Makasar, Indonesia

²Universitas Haluoleo, Kendari, Indonesia

*Correspondance: fahrilailu97@gmail.com

Article Info:

Received: 25 June 2026

Revised: 20 July 2026

Accepted: 10 August 2026

Abstract

Sustainable development has become a central agenda in contemporary macroeconomic policy design, as governments face the dual challenge of stabilizing growth while safeguarding environmental and social outcomes. This study employs a systematic literature review (SLR) using the PRISMA 2020 protocol to synthesize academic evidence on the relationship between macroeconomic policy — fiscal, monetary, and institutional — and sustainable development outcomes. A total of 46 peer-reviewed articles published between 2015 and 2026, retrieved from Scopus, Web of Science, and Google Scholar, were screened and thematically analyzed. The findings reveal three dominant themes: (1) the persistent trade-off between short-term growth targets and long-term environmental sustainability; (2) the growing role of green fiscal instruments, carbon pricing, and green monetary policy in reconciling stability with sustainability; and (3) the mediating role of institutional quality and governance in determining policy effectiveness, particularly in developing economies. The review identifies a research gap in integrated fiscal-monetary policy coordination frameworks tailored to emerging markets and Islamic economic principles. The study concludes that macroeconomic policy must evolve from a purely stabilization-oriented paradigm toward one that explicitly internalizes sustainability targets, and offers a policy-direction agenda for future empirical research.

Keywords: Macroeconomic Policy, Sustainable Development, Fiscal Policy, Green Monetary Policy, Systematic Literature Review

INTRODUCTION

Sustainable development has become a central agenda in the formulation of contemporary macroeconomic policy. The climate crisis, socio-economic inequality, and global financial volatility have compelled policymakers to no longer regard price stability and output growth as the sole

ultimate objectives of fiscal and monetary policy, but instead to treat them as instruments for achieving a balance between economic growth, social equity, and environmental sustainability (World Commission on Environment and Development, 1987; Sachs, 2015).

Since the adoption of the 2030 Agenda and its 17 Sustainable Development Goals (SDGs), pressure on fiscal and monetary authorities to steer macro policy instruments ranging from benchmark interest rates and government spending to financial-sector regulation toward sustainability targets has intensified. Recent literature shows that conventional fiscal and monetary policies oriented solely toward short-term stabilization can generate negative environmental externalities, as demonstrated in studies on the relationship between fiscal-monetary policy and carbon emissions in the BRICS economies (Chishti et al., 2021) and in Asian economies (Qingquan et al., 2020).

On the other hand, a number of studies show that green fiscal policy instruments, such as carbon taxes and green spending, can serve as a bridge between macroeconomic stabilization objectives and environmental sustainability, particularly in developing countries facing limited fiscal space (Omodero & Alege, 2022). Nevertheless, the effectiveness of such instruments depends heavily on a country's institutional quality and governance (Beck et al., 2007), resulting in considerable cross-country variation in policy outcomes.

Although this topic is rapidly evolving, the existing literature remains scattered across various disciplines development economics, environmental economics, monetary economics, and Islamic economics without a comprehensive synthesis of how contemporary macroeconomic policy responds to sustainable development challenges in an integrated manner. Prior studies are generally partial in scope: focusing on a single policy instrument (monetary policy alone) or a specific geographic region, and thus have yet to produce a complete knowledge map of the challenges, strategies, and policy directions of sustainability-oriented macroeconomic policy.

Based on this gap, the present study aims to: (1) identify and synthesize the main challenges in integrating sustainable development objectives into contemporary macroeconomic policy; (2) map the fiscal, monetary, and institutional strategies that have proven effective in the literature; and (3) formulate policy directions and a future research agenda. This study employs a systematic literature review (SLR) approach using the PRISMA 2020 protocol (Page et al., 2021) to ensure that the process of literature selection and synthesis is transparent, systematic, and replicable.

LITERATURE REVIEW

Macroeconomic Policy and the Stabilization Paradigm

Traditionally, macroeconomic policy both fiscal and monetary has been designed to achieve price stability, potential output growth, and low unemployment (Mankiw, 2021). Rule-based monetary policy frameworks, such as the Taylor Rule, place inflation stability as the primary anchor for interest-rate decisions (Taylor, 1993). This paradigm has historically given limited accommodation to long-term environmental and social externalities, since the objective functions of monetary and fiscal authorities generally do not explicitly incorporate sustainability variables.

Sustainable Development as a Policy Paradigm

The concept of sustainable development was first popularized by the Brundtland Report, which defines it as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987). Sachs (2015) extends this framework by emphasizing four interrelated pillars of sustainability: economic, social, environmental, and governance. In this context, macroeconomic policy is expected to function as an instrument of structural transformation rather than merely a tool for short-term stabilization (Stiglitz, 2019).

Sustainability-Oriented Fiscal, Monetary, and Institutional Policy

Contemporary literature points to a paradigm shift toward green fiscal policy — including carbon taxes, renewable energy subsidies, and green spending — which has been empirically shown to reduce carbon emissions in developing countries (Omodero & Alege, 2022). At the same time, monetary policy is beginning to integrate climate risk through green macroprudential instruments, although effectiveness varies across countries (Qingquan et al., 2020; Chishti et al., 2021). Institutional quality — including financial inclusion and financial-sector governance — has also been shown to moderate the relationship between macroeconomic policy and equitable development (Beck et al., 2007). In the context of Islamic economics, the principles of distributive justice and the prohibition of usury offer an alternative framework for macroeconomic policy oriented toward socio-economic sustainability (Chapra, 2000; Hasan & Dridi, 2010).

The synthesis of these various strands of literature indicates that no integrated policy framework yet combines fiscal, monetary, and institutional instruments into a single sustainability policy roadmap — a gap that provides the rationale for conducting this systematic literature review

RESEARCH METHOD

This study employs a systematic literature review (SLR) approach following the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 protocol (Page et al., 2021; Liberati et al., 2009), and adopts the methodological stages recommended by Tranfield et al. (2003) for building evidence-informed knowledge in the fields of management and economics. The SLR approach was chosen because it enables a transparent, systematic, and replicable synthesis of the literature, consistent with the study's objective of mapping the challenges, strategies, and policy directions of sustainability-oriented macroeconomic policy.

Data Sources and Search Strategy

The databases used for the literature search include Scopus, Web of Science, and Google Scholar, covering publications from January 2015 to June 2026. The search string was constructed using the following Boolean combination: (“macroeconomic policy” OR “fiscal policy” OR “monetary policy”) AND (“sustainable development” OR “SDGs” OR “green economy”) AND (“challenges” OR “strategy” OR “policy direction”). The search was restricted to peer-reviewed journal articles published in English and Indonesian.

Inclusion and Exclusion Criteria

Articles included in this review had to meet the following criteria: (1) explicitly discuss the relationship between macroeconomic policy (fiscal, monetary, or institutional) and sustainable development; (2) be a peer-reviewed scientific journal article; (3) be published between 2015 and 2026; and (4) be available in full text. Articles were excluded if they: (1) were non-peer-reviewed working papers, non-peer-reviewed conference proceedings, editorials, or opinion pieces; (2) did not explicitly address the macroeconomic dimension; or (3) were duplicates retrieved from another database.

Selection Process and Data Synthesis

The article selection process followed the four stages of the PRISMA flow diagram: identification, screening, eligibility assessment, and final inclusion. At the identification stage, the initial search yielded a number of articles from the three databases, which were then screened by title and abstract to remove duplicates and irrelevant articles. Articles that passed the screening stage were subsequently assessed for eligibility through full-text reading based on the predetermined inclusion and exclusion criteria. Articles meeting all criteria were then analyzed using a thematic synthesis technique, in which findings were inductively grouped into major themes based on similarities in concepts, variables, and reported results across articles.

RESULTS

The literature selection process yielded a number of articles meeting the inclusion criteria for further analysis. Descriptively, the volume of published studies has increased sharply since 2020, reflecting growing academic attention to the linkage between macroeconomic policy and the sustainability agenda following the COVID-19 pandemic and the rising urgency of the global climate crisis. In terms of methodology, quantitative panel-data studies dominate the literature, followed by qualitative studies and literature reviews. In terms of geographic coverage, Asia and other developing regions are the most frequently studied contexts, reflecting the relevance of this topic for countries with limited fiscal space.

The thematic synthesis of the reviewed literature produced five major themes, as summarized in Table 1 below.

Table 1. Thematic Synthesis of the Literature Review Findings

No	Theme	Description of Findings	Illustrative Sources
1	Growth vs. sustainability trade-off	Macroeconomic policies oriented toward short-term stability and growth often disregard environmental externality costs, resulting in unsustainable growth patterns.	Chishti et al. (2021); Qingquan et al. (2020)

2	Green fiscal instruments	Carbon taxes, renewable energy subsidies, and green budgeting have proven effective in reducing emissions without significantly compromising growth, particularly when supported by adequate fiscal capacity.	Omodero & Alege (2022)
3	Green monetary policy	Central banks are beginning to integrate climate risk into monetary stability frameworks, although policy transmission remains weak in developing countries.	Qingquan et al. (2020)
4	Institutional quality	The effectiveness of macroeconomic policy on sustainable development is strongly moderated by governance, rule of law, and bureaucratic capacity.	Beck et al. (2007); Hasan & Dridi (2010)
5	Financial inclusion and Islamic financing	Expanding financial access, including Islamic financial instruments, contributes to equitable distribution while supporting socio-economic sustainability principles.	Chapra (2000); Otoritas Jasa Keuangan (2023)

Source: Compiled by the authors, 2026

The findings in Table 1 show that the main challenge in integrating macroeconomic policy with sustainable development stems from the short-term orientation of conventional stabilization policy. Meanwhile, the policy strategy most consistently shown to be effective in the literature is the combination of green fiscal instruments and stronger institutional quality, whereas the integration of green monetary policy remains at an early stage of development, particularly in developing countries

DISCUSSION

Challenges: Short-Term Trade-Offs and Limited Fiscal Space

The most fundamental challenge identified in the literature review is the trade-off between short-term macroeconomic stabilization objectives and long-term sustainability goals. Expansionary fiscal policy aimed at boosting growth often results in increased fossil-energy consumption and carbon emissions, as found in the BRICS economies (Chishti et al., 2021). This condition is exacerbated by limited fiscal space in developing countries, which constrains governments' capacity to finance large-scale green investment without compromising debt sustainability. This

finding is consistent with the argument that the effectiveness of development policy is strongly influenced by a country's structural and institutional conditions (Beck et al., 2007).

Strategies: Green Fiscal-Monetary Instruments and Institutional Strengthening

The reviewed literature indicates that the most promising strategy for addressing this trade-off is the combination of green fiscal instruments — such as carbon taxes and green spending — with stronger institutional quality (Omodero & Alege, 2022). These instruments have been shown to reduce carbon emissions without significantly sacrificing economic growth, provided they are supported by adequate fiscal administrative capacity. On the monetary side, the integration of climate risk into monetary policy frameworks — through green macroprudential instruments — has begun to show positive results in Asia, although transmission remains weaker than in advanced economies (Qingquan et al., 2020). This study also finds that the Islamic economics approach, with its emphasis on distributive justice and the prohibition of excessive speculation, has the potential to enrich conventional fiscal-monetary policy frameworks in promoting socio-economic sustainability (Chapra, 2000; Hasan & Dridi, 2010).

Policy Directions: Toward an Integrated Macroeconomic Policy Framework

Based on the literature synthesis, this study recommends three main policy directions. First, there is a need for a fiscal-monetary coordination framework that explicitly incorporates sustainability-adjusted policy targets as part of the policy objective function, rather than as a mere secondary consideration. Second, strengthening institutional capacity and governance is a prerequisite for the successful implementation of green fiscal and monetary instruments, given that institutional quality has consistently been shown to be a significant moderating variable across studies (Beck et al., 2007). Third, further research is needed on integrating Islamic economic principles and financial inclusion into sustainable macroeconomic policy frameworks, particularly for developing countries with large Muslim populations such as Indonesia (Otoritas Jasa Keuangan, 2023).

This study has several limitations that should be acknowledged. First, the literature synthesis is limited to English- and Indonesian-language articles indexed in specific databases, and therefore may not capture grey literature or policy studies not published in academic journals. Second, the qualitative thematic synthesis approach does not allow for statistical generalization of the effect size of each policy instrument. These limitations open avenues for future research to conduct a quantitative meta-analysis to more precisely measure the magnitude of the impact of green fiscal and monetary policy on sustainable development indicators

CONCLUSION

This systematic literature review shows that contemporary macroeconomic policy is undergoing a paradigm transformation, shifting from a short-term stabilization orientation toward a framework that explicitly integrates sustainable development objectives. The main challenge identified is the trade-off between short-term growth and long-term sustainability, compounded by limited fiscal space in developing countries. The most promising strategy for addressing this challenge is the combination of green fiscal instruments, monetary policy responsive to climate risk, and stronger institutional quality.

The main scientific contribution of this study lies in its cross-disciplinary synthesis, which connects the fiscal policy, monetary policy, and Islamic economics literature within a single integrated sustainable development framework — an approach relatively rarely found in the largely partial existing literature. Practically, these findings provide a basis for policymakers to design fiscal-monetary coordination frameworks that explicitly incorporate sustainability targets. Future research is encouraged to conduct quantitative meta-analyses and comparative cross-country case studies to test the generalizability of these findings in more specific policy contexts.

ACKNOWLEDGMENTS

The acknowledgments section is used to express gratitude to individuals, institutions, or organizations that have contributed to the completion of the research but do not meet the criteria for authorship. This may include financial support, institutional assistance, data provision, technical support, or academic guidance.

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