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## **Impact of Fiscal Policies on Economic Growth in Developing Countries**

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### **Abstract**

Fiscal policy is a major economic instrument used by governments to influence economic growth, maintain macroeconomic stability, and promote development in developing countries. This study examines the impact of fiscal policies on economic growth using secondary data and empirical literature published between 2015 and 2024. The research focuses on key fiscal policy instruments including government expenditure, taxation, fiscal deficits, and public debt management. A descriptive and analytical research design was adopted to evaluate the relationship between fiscal policy measures and economic performance in developing economies. The findings of the study indicate that productive government expenditure on infrastructure, healthcare, and education positively contributes to economic growth by improving productivity and human capital development. Efficient taxation systems were also found to support economic expansion by generating revenue necessary for public investment and social welfare programmes. However, excessive taxation, persistent fiscal deficits, rising public debt, and weak institutional quality may negatively affect long-term economic growth and macroeconomic stability. The study further reveals that governance quality, transparency, and expenditure efficiency significantly influence fiscal policy effectiveness in developing countries. The research concludes that balanced fiscal management, sustainable debt practices, and efficient allocation of public resources are essential for achieving stable and inclusive economic growth. The study contributes to existing literature by providing a comprehensive understanding of fiscal policy impacts in developing economies through secondary data analysis.

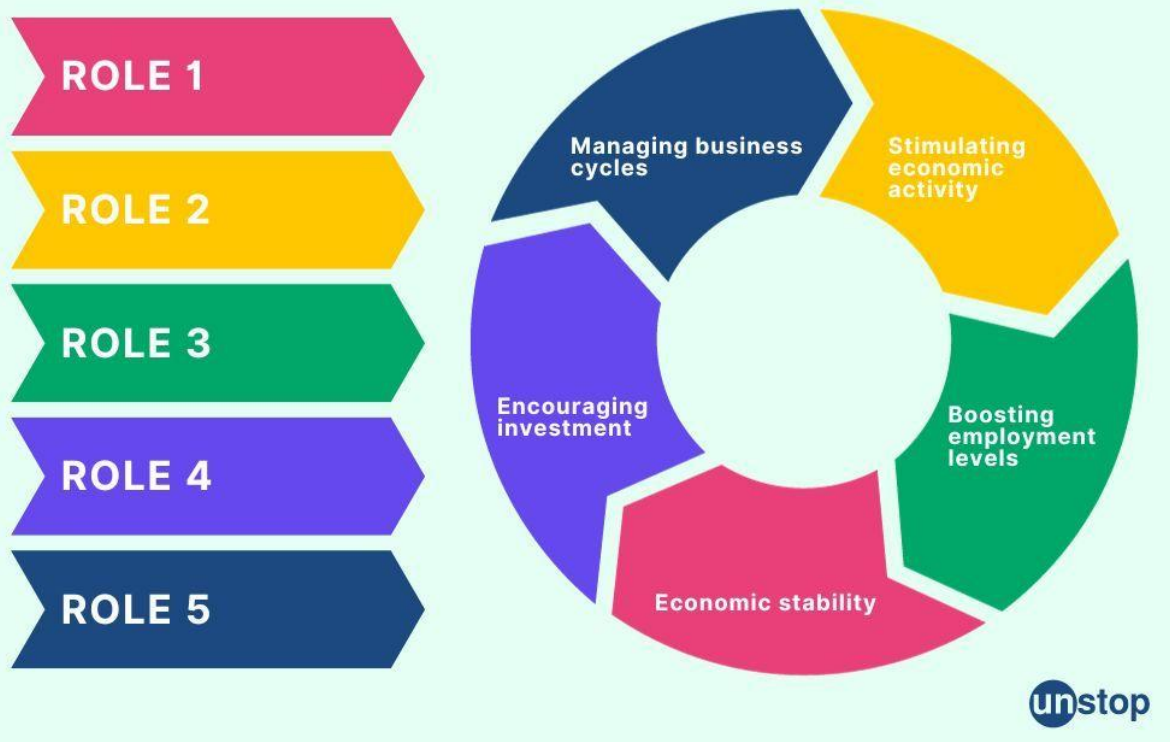
### **Keywords**

Fiscal policy, economic growth, developing countries, government expenditure, taxation, fiscal deficits, public debt, macroeconomic stability, economic development, secondary data analysis

## **Introduction**

Fiscal policy remains one of the most significant macroeconomic instruments employed by governments to influence economic performance, regulate aggregate demand, and promote long-term development. In developing countries, where structural constraints, institutional weaknesses, unemployment, inflationary pressures, and poverty persist, fiscal policy assumes a particularly critical role in shaping economic growth trajectories. Governments in these economies utilise taxation, public expenditure, borrowing, and budgetary management to stimulate production, encourage investment, reduce inequality, and maintain economic stability. The relationship between fiscal policy and economic growth has therefore become a central issue in development economics, especially following recurrent global financial crises, debt challenges, and the economic disruptions associated with the COVID-19 pandemic (Nguyen et al., 2021).

## Role Of Fiscal Policy In Economy



Economic growth in developing countries is influenced by numerous interconnected factors, including capital formation, infrastructure development, institutional quality, technological progress, and human capital accumulation. Fiscal policy directly affects many of these determinants through government spending on education, healthcare, transportation, and industrial support. Productive public expenditure has the potential to generate multiplier effects that enhance employment opportunities, increase productivity, and stimulate private sector activity. Conversely, ineffective fiscal management, excessive public debt, and inefficient taxation systems may constrain economic expansion and create macroeconomic instability (Afonso & Jalles, 2015).

Theoretical perspectives regarding fiscal policy and economic growth have evolved considerably over time. Keynesian economics emphasises the importance of government intervention during economic downturns, arguing that expansionary fiscal policies can increase aggregate demand and restore growth. In contrast, neoclassical theories suggest that excessive government intervention may crowd out private investment and reduce economic efficiency. Endogenous growth theories provide a more nuanced perspective by recognising that public investment in infrastructure, education, and innovation can generate long-term productivity improvements and sustainable economic growth (Bose et al., 2017). These competing theoretical frameworks have encouraged extensive empirical investigation into the effectiveness of fiscal policy in developing economies.

Developing countries often experience distinctive fiscal challenges that differentiate them from advanced economies. Limited tax bases, widespread informal sectors, dependence on commodity exports, political instability, and weak administrative capacities restrict the ability of governments to generate stable revenue and implement efficient fiscal programmes. Many governments rely heavily on external borrowing and foreign aid to finance public expenditure, which may increase fiscal vulnerability and debt burdens over time. Furthermore, fiscal deficits and inflationary financing mechanisms frequently undermine macroeconomic stability and investor confidence (Canh & Thanh, 2020). These conditions make the examination of fiscal policy effectiveness particularly important in the context of developing nations.

Public expenditure represents one of the most visible components of fiscal policy and has attracted substantial academic attention regarding its growth effects. Government spending on infrastructure development, healthcare systems, and educational institutions can improve productive capacity and support long-term economic expansion. Infrastructure investment enhances connectivity and industrial productivity, while expenditure on education and healthcare contributes to human capital development. However, the composition and efficiency of public spending remain critical determinants of fiscal outcomes. Unproductive expenditure, corruption, and poor governance may reduce the positive impact of fiscal interventions and lead to resource misallocation (Gemmell et al., 2018).

Taxation policy is another essential aspect of fiscal management in developing economies. Effective taxation systems enable governments to mobilise domestic resources necessary for development programmes and public investment. Nevertheless, excessive taxation may discourage entrepreneurship, reduce foreign direct investment, and weaken economic incentives. Developing countries often struggle to establish equitable and efficient tax systems because of administrative inefficiencies, tax evasion, and narrow tax structures. Consequently, policymakers face the challenge of balancing revenue generation with economic competitiveness and social equity (Nguyen & Darsono, 2022).

The impact of fiscal deficits and public debt on economic growth has also generated extensive scholarly debate. Moderate fiscal deficits may stimulate economic activity during recessions by increasing public expenditure and aggregate demand. However, persistent deficits financed through borrowing can increase interest rates, crowd out private investment, and create debt sustainability concerns. Several developing countries have experienced debt crises resulting from unsustainable fiscal practices and external borrowing dependence. International financial institutions such as the International Monetary Fund and the World Bank frequently advocate fiscal discipline and structural reforms to maintain macroeconomic stability and support long-term growth (Kimaro et al., 2017).

Recent global economic developments have further intensified interest in fiscal policy effectiveness within developing countries. The COVID-19 pandemic forced governments to adopt large-scale fiscal stimulus measures to support healthcare systems, businesses, and vulnerable populations. While such interventions were necessary to mitigate economic contraction, they also increased public debt and fiscal pressures in many developing economies. The post-pandemic recovery period has therefore renewed discussions concerning fiscal sustainability, public investment priorities, and economic resilience (Makin & Layton, 2021).

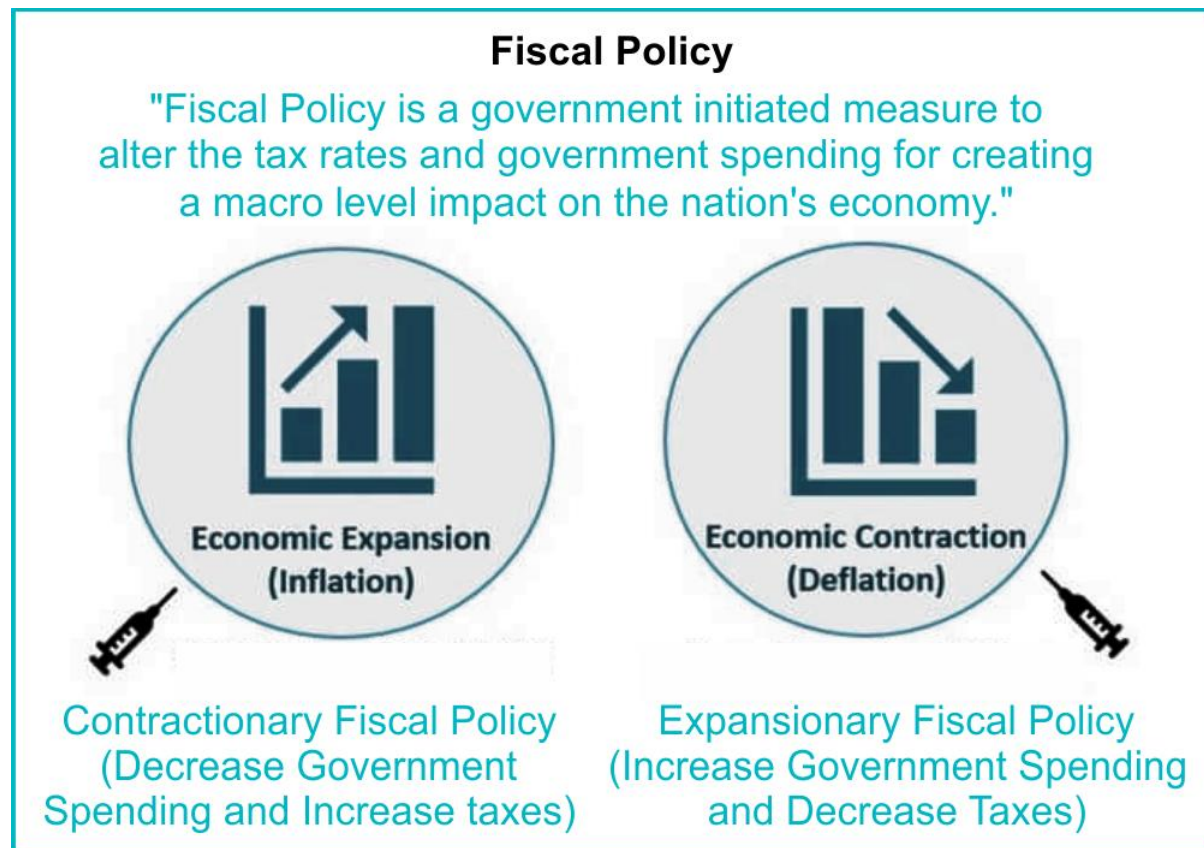
Despite extensive literature on fiscal policy and economic growth, empirical findings remain mixed and often context-specific. Some studies report positive relationships between productive government expenditure and economic growth, while others identify negative or insignificant effects associated with inefficient fiscal management and institutional weaknesses. Variations in methodology, regional

characteristics, governance quality, and fiscal structures contribute to these inconsistent findings. Consequently, further examination of fiscal policy impacts in developing countries remains essential for understanding how governments can effectively utilise fiscal instruments to promote sustainable economic development.

This research paper aims to examine the impact of fiscal policies on economic growth in developing countries using secondary data analysis. The study focuses on evaluating the role of government expenditure, taxation, fiscal deficits, and public debt in influencing economic performance. By analysing existing empirical literature and secondary economic data, the research seeks to provide a comprehensive understanding of how fiscal policy contributes to growth outcomes in developing economies and the challenges associated with fiscal policy implementation.

### Importance of the Study

Fiscal policy occupies a central position in the economic management strategies of developing countries because governments depend heavily on taxation, public expenditure, and budgetary planning to stimulate economic activity and promote national development. In recent decades, developing economies have experienced substantial economic transformations characterised by industrialisation, urbanisation, demographic expansion, technological advancement, and increased integration into the global economy. Despite these developments, many countries continue to face persistent challenges such as poverty, unemployment, inflation, inadequate infrastructure, income inequality, and external debt burdens. Under such conditions, the effectiveness of fiscal policy becomes highly significant in determining whether economic growth can be sustained and translated into broader developmental outcomes. This study is important because it examines how fiscal policy instruments influence economic growth within the context of developing economies using secondary data evidence from existing empirical research and macroeconomic indicators.



The study is significant because fiscal policy decisions directly affect both short-term economic stability and long-term growth prospects. Government expenditure on infrastructure, education, healthcare, and public services has the potential to enhance productivity, stimulate investment, and improve human capital formation. Developing countries often rely on expansionary fiscal policies to accelerate industrial growth, generate employment opportunities, and reduce socio-economic disparities. However, ineffective allocation of public resources, corruption, weak institutions, and poor fiscal governance may limit the benefits of government intervention. By analysing the relationship between fiscal policy and economic growth, the study contributes to a deeper understanding of which fiscal approaches are more effective in supporting sustainable development in emerging economies (Siminica et al., 2019).

The importance of the study is further strengthened by the increasing fiscal pressures experienced by developing countries in recent years. Many governments have encountered rising public debt, widening fiscal deficits, and declining revenue generation capacities due to economic slowdowns, global financial instability, and external shocks. The COVID-19 pandemic significantly intensified these challenges by forcing governments to increase healthcare expenditure, provide economic stimulus packages, and support vulnerable populations. Although such measures were necessary to prevent severe economic contraction, they also created concerns regarding fiscal sustainability and debt management. Examining the impact of fiscal policies on economic growth therefore becomes essential for understanding how governments can balance economic recovery with long-term fiscal stability (Davoodi et al., 2022).

This study is also important because developing countries differ substantially from advanced economies in terms of institutional quality, economic structures, administrative efficiency, and financial capacity. Fiscal

policies that generate positive growth outcomes in developed nations may not necessarily produce similar effects in low-income or middle-income countries. Many developing economies face narrow tax bases, large informal sectors, political instability, and limited public sector efficiency, all of which influence fiscal policy implementation and effectiveness. As a result, there is a need for country-specific and region-specific understanding of fiscal policy impacts. The study contributes to this area by focusing specifically on developing countries rather than generalising findings from advanced economies (Phiri & Mukuku, 2019). Another important aspect of the study lies in its contribution to policy formulation and economic planning. Policymakers require evidence-based understanding of how taxation, government spending, fiscal deficits, and public borrowing affect economic performance. The findings of the study can assist governments in designing fiscal frameworks that encourage productive investment, strengthen public service delivery, and promote macroeconomic stability. The research also highlights the importance of fiscal discipline, transparency, and efficient resource allocation in achieving long-term development goals. Such insights are particularly valuable for governments attempting to meet sustainable development objectives while maintaining economic resilience in the face of global uncertainties (Aizenman et al., 2019).

The study also holds academic significance because previous empirical findings regarding fiscal policy and economic growth remain inconsistent and inconclusive. Some studies identify positive effects of public expenditure and fiscal expansion on economic growth, whereas others suggest that excessive government intervention, large fiscal deficits, and inefficient taxation systems may hinder economic performance. Differences in methodology, data selection, governance structures, and regional contexts contribute to these conflicting findings. By synthesising secondary data and existing literature, the present study helps provide a broader and more integrated understanding of the fiscal policy-growth relationship in developing countries (Nguyen et al., 2023).

Furthermore, the study is important because it addresses issues of socio-economic welfare and inclusive development. Economic growth alone does not automatically guarantee improvements in living standards unless fiscal resources are effectively utilised to support social development. Governments in developing countries use fiscal policy not only to stimulate production and investment but also to reduce poverty, improve healthcare access, strengthen education systems, and minimise inequality. Understanding the effectiveness of fiscal interventions therefore has implications beyond macroeconomic growth, extending to social justice, human development, and overall national welfare. The study consequently provides valuable insights into how fiscal policies can support balanced and inclusive economic progress in developing economies.

## Scope of the research

The scope of this research is centred on examining the impact of fiscal policies on economic growth in developing countries through the use of secondary data and existing scholarly literature. The study focuses specifically on the major fiscal policy instruments employed by governments, including taxation, government expenditure, fiscal deficits, and public debt management. These fiscal components are analysed in relation to their influence on economic growth indicators such as Gross Domestic Product (GDP), investment levels, employment generation, productivity, and overall macroeconomic stability. The research aims to evaluate how fiscal policy measures contribute to economic development within the institutional and structural conditions commonly found in developing economies.

The geographical scope of the study is limited to developing countries, including low-income and middle-income economies across regions such as Asia, Africa, and Latin America. These countries are selected because they often experience similar developmental challenges, including limited infrastructure, unemployment, poverty, weak institutional frameworks, inflationary pressures, and dependence on external financing. Fiscal policy in such economies plays a particularly important role in stimulating economic activity and addressing socio-economic inequalities. By concentrating on developing nations, the research seeks to provide a focused understanding of fiscal policy effectiveness under conditions that differ significantly from those of advanced economies.

The study primarily examines the relationship between fiscal policy and economic growth during the contemporary economic period, with particular emphasis on literature and secondary data published between 2015 and 2024. This timeframe is significant because it captures recent global economic developments, including post-global financial crisis recovery, trade uncertainties, rising debt levels, and the economic consequences of the COVID-19 pandemic. These events substantially influenced fiscal decision-making in developing countries and altered government spending priorities, taxation structures, and borrowing practices. Focusing on recent data ensures that the study reflects current economic realities and policy challenges faced by developing economies.

The conceptual scope of the research includes both expansionary and contractionary fiscal policies. Expansionary fiscal measures such as increased public spending and tax reductions are examined in terms of their ability to stimulate aggregate demand, employment, and investment. Similarly, contractionary fiscal policies involving expenditure reductions or increased taxation are considered in relation to fiscal sustainability, inflation control, and debt management. The study also explores the composition of government expenditure, particularly spending on infrastructure, healthcare, education, and social welfare programmes, because these sectors are widely regarded as critical drivers of long-term economic growth and human capital development.

The research is limited to secondary data analysis and therefore does not involve primary data collection through surveys, interviews, or field investigations. The study relies on published academic journal articles, government reports, international financial institution publications, economic databases, and previous empirical studies. Secondary data sources such as reports from the International Monetary Fund, World Bank, Organisation for Economic Co-operation and Development, and peer-reviewed Google Scholar articles are utilised to analyse fiscal policy trends and economic growth patterns in developing countries. This approach allows the study to synthesise a broad range of empirical findings and macroeconomic evidence from multiple economies.

The analytical scope of the research includes the examination of theoretical and empirical perspectives regarding fiscal policy and economic growth. The study considers Keynesian, neoclassical, and endogenous growth theories to explain how fiscal interventions influence economic activity and long-term development. In addition, empirical studies from different developing countries are reviewed to identify common patterns, policy outcomes, and institutional factors affecting fiscal policy effectiveness. The research therefore combines theoretical understanding with practical evidence to provide a comprehensive analysis of the fiscal policy-growth relationship.

Although the study aims to provide a broad understanding of fiscal policy impacts, certain limitations define its scope. The research does not focus extensively on monetary policy, exchange rate management, or trade policy except where these factors interact directly with fiscal measures. Similarly, the study does not



conduct country-specific econometric modelling or primary statistical estimation, as its primary objective is to synthesise secondary evidence and existing literature. The findings are therefore intended to offer general insights into fiscal policy effectiveness across developing countries rather than highly specific policy prescriptions for individual nations.

## Literature Review

Afonso and Jalles (2015) examined the relationship between fiscal composition and long-term economic growth by analysing a panel of developed and developing economies. Their study argued that the composition of government expenditure is more significant than the overall size of public spending. Productive expenditure directed towards infrastructure, education, and healthcare was found to have a positive influence on economic growth, whereas excessive administrative and unproductive expenditures reduced growth potential. The researchers emphasised that developing countries often struggle with inefficient allocation of fiscal resources due to weak governance systems and institutional inefficiencies. Their findings highlighted that fiscal discipline combined with productive public investment can generate sustainable economic growth over the long term. The study further indicated that governments in developing countries should focus on improving expenditure quality rather than merely increasing spending volumes.

Gemmell, Kneller, and Sanz (2016) explored the effects of taxation and government expenditure on economic performance across a broad sample of countries. Their research demonstrated that fiscal policy can either stimulate or constrain economic growth depending on the structure of taxation and expenditure management. They found that distortionary taxes, particularly high corporate and income taxes, may discourage private investment and reduce productivity. Conversely, efficient public expenditure on infrastructure and social development can support economic expansion. The authors stressed that developing countries face particular challenges because their tax systems are often characterised by narrow tax bases, weak compliance mechanisms, and high levels of informality. The study concluded that fiscal policy effectiveness depends heavily on institutional quality and policy coordination.

Canh and Thanh (2020) investigated the dynamic relationship between fiscal policy and economic growth in emerging economies using panel estimation techniques. Their findings suggested that expansionary fiscal policies generally stimulate economic growth in the short term by increasing aggregate demand and employment opportunities. However, the study also identified risks associated with persistent fiscal deficits and unsustainable public borrowing. According to the researchers, many developing countries experience difficulties in maintaining fiscal sustainability because of excessive dependence on external debt financing. The study emphasised that while government intervention is necessary to support economic development, long-term growth outcomes depend on prudent fiscal management and efficient resource allocation.

Nguyen, Schinckus, and Su (2021) analysed fiscal policy effectiveness in developing countries through dynamic panel modelling. Their research highlighted the importance of government expenditure in promoting economic growth, particularly in economies with limited private sector investment. Public investment in transportation infrastructure, healthcare systems, and education was found to improve productivity and enhance economic performance. However, the authors also noted that fiscal multipliers vary significantly across countries depending on governance quality, political stability, and institutional effectiveness. Developing countries with stronger institutions tended to experience greater positive effects

from fiscal expansion than countries characterised by corruption and weak public administration. The study reinforced the argument that institutional quality plays a central role in determining fiscal policy success. Kimaro, Keong, and Sea (2017) focused specifically on low-income Sub-Saharan African countries to examine the relationship between government expenditure efficiency and economic growth. Their findings indicated that public spending alone does not automatically generate economic growth unless resources are utilised efficiently. Expenditure inefficiencies, corruption, and weak implementation mechanisms were identified as major obstacles limiting the effectiveness of fiscal policy in African economies. The researchers argued that fiscal reforms should prioritise transparency, accountability, and improved public sector management to maximise developmental outcomes. Their study demonstrated that countries with better expenditure efficiency achieved higher growth rates despite having similar levels of government spending.

Bose, Capasso, and Murshid (2017) examined threshold effects of fiscal policy on economic growth in developing countries. Their study suggested that moderate government expenditure supports economic expansion, but excessive spending may create negative consequences such as inflation, debt accumulation, and crowding out of private investment. The researchers identified a threshold beyond which public expenditure ceases to produce positive growth outcomes. Their analysis highlighted that many developing economies face challenges related to fiscal imbalance because governments often increase expenditure without corresponding improvements in revenue generation. The study contributed to the debate regarding optimal fiscal size and emphasised the importance of balancing developmental objectives with fiscal sustainability.

Phiri and Mukuku (2019) explored the relationship between fiscal deficits and economic growth in developing economies. Their findings showed that moderate fiscal deficits can stimulate economic activity during periods of recession or low growth by increasing aggregate demand and supporting public investment. However, persistent deficits financed through borrowing were found to negatively affect long-term growth by increasing debt burdens and macroeconomic instability. The study also highlighted that high levels of public debt may reduce investor confidence and limit future fiscal flexibility. According to the authors, fiscal deficit management is particularly important in developing countries because these economies often possess limited borrowing capacities and weaker financial systems.

Aizenman, Jinjark, and Nguyen (2019) investigated fiscal policy responses in emerging economies under conditions of global uncertainty. Their research demonstrated that developing countries frequently experience external shocks arising from fluctuations in commodity prices, global financial instability, and international trade disruptions. Fiscal policy was identified as an essential stabilisation mechanism during such periods. However, the study also revealed that countries with high debt levels and weak fiscal institutions faced greater difficulties in implementing effective countercyclical policies. The researchers argued that strengthening fiscal frameworks and improving institutional resilience are necessary to support sustainable economic growth in developing countries.

Makin and Layton (2021) analysed the global fiscal response to the COVID-19 pandemic and its implications for developing economies. Their study highlighted that governments significantly expanded public expenditure to support healthcare systems, businesses, and vulnerable households during the pandemic. While fiscal stimulus measures helped mitigate economic contraction, they also increased fiscal deficits and public debt levels substantially. Developing countries were particularly vulnerable because of limited fiscal space and heavy dependence on external financing. The researchers noted that post-pandemic

fiscal recovery would require careful balancing between economic support measures and debt sustainability objectives. Their findings underscored the growing importance of effective fiscal management in periods of economic crisis.

Davoodi, Elger, and Fuli (2022) examined fiscal policy challenges in low-income developing countries following the COVID-19 crisis. Their research focused on the role of fiscal reforms in restoring economic stability and promoting long-term growth. The study found that targeted public expenditure in healthcare, education, and infrastructure contributed positively to recovery efforts. However, rising debt obligations and declining government revenues created significant fiscal pressures for many developing countries. The authors stressed that fiscal consolidation strategies should avoid reducing productive expenditure because cuts in developmental spending could weaken long-term growth prospects. Their analysis highlighted the importance of balancing fiscal discipline with developmental priorities.

Nguyen and Darsono (2022) investigated the relationship between taxation and economic growth in developing economies while considering the moderating role of institutional quality. Their findings revealed that effective tax systems contribute positively to economic development by enabling governments to finance public investment and social programmes. However, excessive taxation and inefficient tax administration were found to discourage entrepreneurship and foreign direct investment. The study emphasised that institutional quality significantly influences taxation outcomes because corruption and weak governance reduce tax compliance and revenue efficiency. The researchers concluded that developing countries should strengthen tax administration systems and broaden tax bases to enhance fiscal capacity and support economic growth.

Siminica, Gheorghe, and Dobrin (2019) analysed the effects of fiscal policy on economic development by comparing developing and developed economies. Their study suggested that fiscal policy has a stronger impact on economic growth in developing countries because governments play a larger role in providing infrastructure, public services, and social support. Public investment was identified as a key driver of industrialisation and employment generation in emerging economies. However, the researchers also noted that inefficient fiscal management and political instability frequently undermine the effectiveness of government intervention. Their findings reinforced the importance of governance reforms and fiscal accountability in achieving sustainable development outcomes.

Egbetunde and Fasanya (2017) examined public expenditure and economic growth in selected African countries using panel econometric analysis. Their findings indicated that capital expenditure on infrastructure and productive sectors positively influenced economic growth, while recurrent expenditure had weaker or negative effects. The study highlighted that developing countries often allocate substantial portions of their budgets towards administrative and consumption-related activities rather than productive investment. The researchers argued that reallocation of public expenditure towards infrastructure, education, and industrial development could significantly improve growth performance in developing economies.

Canh, Schinckus, and Thanh (2021) investigated fiscal decentralisation and economic growth in developing countries. Their research suggested that decentralised fiscal systems may improve public service delivery and economic efficiency by allowing local governments to respond more effectively to regional development needs. However, the study also identified risks associated with weak local administrative capacities and fiscal mismanagement. According to the researchers, successful fiscal decentralisation requires strong institutional frameworks, transparency, and effective coordination between central and local

governments. Their findings contributed to the broader understanding of how fiscal governance structures influence economic growth.

Murshed, Badiuzzaman, and Pulok (2020) studied the impact of government expenditure on economic growth in developing countries with particular attention to social sector spending. Their findings demonstrated that expenditure on healthcare and education contributes positively to human capital development and labour productivity. The study argued that long-term economic growth depends not only on physical infrastructure investment but also on improvements in human development indicators. The researchers highlighted that developing countries should prioritise social expenditure to achieve inclusive and sustainable growth outcomes. Nevertheless, they also warned that fiscal inefficiencies and corruption may reduce the effectiveness of social spending programmes.

Ilzetki (2019) analysed fiscal multipliers in emerging and developing economies and found that the effectiveness of fiscal expansion varies according to exchange rate regimes, trade openness, and public debt levels. The study suggested that government spending has stronger growth effects in economies with fixed exchange rate systems and lower debt burdens. In contrast, countries with high debt levels and macroeconomic instability experienced weaker fiscal multipliers. The research contributed to the understanding that fiscal policy outcomes are highly context-dependent and influenced by broader macroeconomic conditions.

Nguyen, Vu, and Tran (2023) examined fiscal sustainability and economic growth in developing Asia. Their study revealed that sustainable fiscal policies contribute significantly to investor confidence, macroeconomic stability, and long-term economic development. Excessive fiscal deficits and rising debt burdens were found to reduce growth prospects by increasing borrowing costs and limiting future government spending capacity. The authors emphasised that fiscal sustainability requires efficient taxation systems, prudent expenditure management, and effective debt control mechanisms. Their findings highlighted the importance of balancing developmental expenditure with fiscal responsibility in rapidly growing economies.

Overall, the reviewed literature demonstrates that fiscal policy plays a crucial role in shaping economic growth outcomes in developing countries. Most studies agree that productive government expenditure, efficient taxation systems, and prudent fiscal management can support economic development and macroeconomic stability. However, the effectiveness of fiscal policy depends heavily on institutional quality, governance standards, expenditure efficiency, and debt sustainability. The literature also indicates that fiscal policy outcomes differ across countries because of variations in economic structures, political conditions, and administrative capacities. Consequently, understanding the relationship between fiscal policy and economic growth requires careful consideration of both macroeconomic and institutional factors within developing economies.

## Methodology

This research is based entirely on secondary data analysis to examine the impact of fiscal policies on economic growth in developing countries. The study adopts a descriptive and analytical research design to evaluate the relationship between fiscal policy instruments and economic performance using existing scholarly and institutional sources. Secondary data were collected from peer-reviewed journal articles, academic publications, government reports, and international financial databases published between 2015

and 2024. Sources were primarily obtained through Google Scholar, World Bank reports, International Monetary Fund publications, and other recognised economic databases. The research focuses on key fiscal policy variables including government expenditure, taxation, fiscal deficits, and public debt, while economic growth is assessed using indicators such as Gross Domestic Product growth, investment performance, and employment trends. Relevant literature was systematically reviewed to identify theoretical perspectives, empirical findings, and policy implications associated with fiscal policy in developing economies. A qualitative synthesis approach was employed to compare and interpret findings from different studies and regions. The methodology enables comprehensive understanding of fiscal policy effectiveness across developing countries without conducting primary surveys or econometric estimations. The use of secondary data ensures reliability, broader geographical coverage, and access to recent economic evidence necessary for analysing fiscal policy impacts on economic growth.

## Results and Discussion

The analysis of secondary data and existing empirical literature indicates that fiscal policy has a substantial influence on economic growth in developing countries. Government expenditure, taxation systems, fiscal deficits, and public debt management collectively shape macroeconomic performance and development outcomes. The reviewed studies consistently demonstrate that fiscal policy effectiveness depends not only on the size of fiscal intervention but also on expenditure quality, institutional efficiency, governance standards, and economic stability. Developing countries often utilise fiscal policy as a major instrument to stimulate investment, increase employment, reduce poverty, and improve infrastructure development. However, the findings also reveal that inefficient fiscal management and weak institutions can significantly reduce the positive impact of fiscal interventions on economic growth.

The analysis shows that productive government expenditure contributes positively to economic growth in most developing economies. Public investment in transportation, energy infrastructure, healthcare, and education creates long-term developmental benefits by increasing productivity and improving human capital formation. Several studies observed that infrastructure expenditure stimulates private sector activity by reducing operational costs and enhancing market accessibility. Similarly, spending on healthcare and education strengthens labour productivity and contributes to sustainable economic expansion. Countries that allocate larger portions of their budgets towards productive sectors generally experience stronger economic growth compared to economies where expenditure is concentrated on administrative or recurrent spending.

At the same time, the findings indicate that the effectiveness of government expenditure depends heavily on efficiency and transparency. In many developing countries, corruption, weak public administration, and poor monitoring mechanisms reduce the developmental impact of fiscal spending. Large-scale public expenditure programmes often fail to achieve expected outcomes because of project delays, resource misallocation, and weak institutional oversight. Studies focusing on African and Asian economies highlighted that expenditure inefficiencies weaken fiscal multipliers and limit economic benefits. Therefore, the relationship between public expenditure and economic growth is strongly influenced by governance quality and institutional capacity.

The reviewed evidence also demonstrates that taxation policy plays a crucial role in supporting economic growth by generating revenue for public investment and development programmes. Efficient tax systems



enable governments to finance infrastructure projects, social welfare schemes, and industrial development initiatives without excessive dependence on external borrowing. However, many developing countries face structural tax-related challenges such as narrow tax bases, tax evasion, informal economic activities, and weak tax administration systems. These problems limit revenue generation capacity and constrain fiscal flexibility.

The analysis further indicates that excessive or poorly designed taxation may negatively affect economic performance. High corporate taxes and complex taxation systems discourage entrepreneurship, reduce private investment, and weaken foreign direct investment inflows. Several empirical studies suggest that developing countries must maintain a balance between revenue mobilisation and investment incentives. Tax reforms aimed at improving compliance, broadening tax bases, and reducing administrative inefficiencies were frequently associated with improved economic performance and fiscal sustainability.

Fiscal deficits emerged as another important determinant of economic growth in developing economies. Moderate fiscal deficits were found to stimulate economic activity during periods of economic slowdown by increasing aggregate demand and supporting public investment. Expansionary fiscal policies implemented during recessionary conditions often contribute to employment generation and economic recovery. This pattern became particularly visible during the COVID-19 pandemic, when governments across developing countries adopted large-scale fiscal stimulus measures to support healthcare systems, businesses, and vulnerable populations.

Despite the short-term benefits of expansionary fiscal policies, the findings reveal that persistent fiscal deficits can create long-term economic challenges. Continuous deficit financing through borrowing increases public debt levels and may reduce macroeconomic stability. High debt burdens often lead to rising interest payments, reduced fiscal flexibility, and declining investor confidence. In many developing countries, debt servicing obligations consume substantial portions of government revenues, limiting the availability of resources for productive investment. Studies reviewed in the analysis consistently emphasised that sustainable economic growth requires careful management of fiscal deficits and prudent borrowing strategies.

Public debt management also emerged as a major issue affecting fiscal policy effectiveness in developing countries. External borrowing is frequently used to finance infrastructure projects and development programmes due to limited domestic savings and revenue generation capacities. While moderate borrowing can support economic growth by financing productive investment, excessive debt accumulation creates significant fiscal risks. Several studies identified a negative relationship between high public debt levels and long-term economic growth because large debt burdens increase financial vulnerability and reduce government spending capacity.

The analysis further demonstrates that institutional quality significantly influences the impact of fiscal policy on economic growth. Developing countries with stronger governance structures, transparent fiscal institutions, and effective administrative systems tend to achieve better growth outcomes from fiscal interventions. In contrast, economies characterised by political instability, corruption, and weak policy implementation mechanisms often experience limited benefits from government expenditure and taxation reforms. Institutional effectiveness therefore acts as a mediating factor between fiscal policy and economic performance.

Another major finding of the study is that the composition of government expenditure matters more than the overall volume of spending. Productive expenditure directed towards infrastructure, healthcare,

education, and industrial support generates stronger growth outcomes than expenditure focused on subsidies, administration, or politically motivated programmes. Several empirical studies reviewed in the research indicated that countries prioritising capital expenditure generally achieve higher economic growth rates compared to countries with high recurrent expenditure levels. This suggests that the developmental impact of fiscal policy depends heavily on expenditure prioritisation and policy planning.

The analysis also reveals that fiscal policy outcomes vary significantly across regions and countries because of differences in economic structures, governance quality, and institutional capacity. Emerging Asian economies generally demonstrate more effective fiscal policy implementation because of stronger industrial bases, relatively efficient institutions, and better infrastructure development strategies. In contrast, several low-income African economies continue to face challenges related to fiscal inefficiency, dependence on commodity exports, and limited administrative capacity. Latin American countries similarly experience fiscal challenges associated with inflation, debt instability, and political uncertainty. These regional variations indicate that fiscal policy effectiveness is context-specific and cannot be generalised uniformly across all developing countries.

The COVID-19 pandemic further highlighted the importance of fiscal policy in maintaining economic stability during periods of crisis. Governments increased healthcare spending, introduced wage support programmes, and implemented stimulus packages to prevent economic collapse. While these interventions provided temporary economic relief, they also increased debt levels and fiscal pressures. Post-pandemic recovery strategies in developing countries now require balancing fiscal consolidation with continued developmental investment. Excessive reductions in productive expenditure may weaken recovery prospects, whereas uncontrolled borrowing could increase debt vulnerability. Consequently, policymakers face the challenge of achieving fiscal sustainability while maintaining economic growth momentum.

The findings additionally suggest that fiscal decentralisation can contribute positively to economic growth when supported by effective governance mechanisms. Decentralised fiscal systems enable local governments to address regional development needs more efficiently and improve public service delivery. However, weak administrative capacities at local levels may reduce fiscal effectiveness and create resource management problems. Therefore, successful fiscal decentralisation depends on institutional coordination, accountability, and transparency.

The following table presents a literature review analysis summarising major studies related to fiscal policy and economic growth in developing countries.

**Table 1: Literature Review Analysis**

Author(s)	Year	Focus Area	Key Findings
Afonso & Jalles	2015	Fiscal composition and growth	Productive expenditure positively affects long-term growth
Gemmell et al.	2016	Taxation and expenditure	Efficient taxation and expenditure improve economic performance
Kimaro et al.	2017	Expenditure efficiency	Public spending effectiveness depends on governance quality
Bose et al.	2017	Fiscal thresholds	Excessive expenditure may reduce growth
Egbetunde & Fasanya	2017	Public expenditure in Africa	Capital expenditure supports economic growth
Phiri & Mukuku	2019	Fiscal deficits	Moderate deficits stimulate growth, persistent deficits harm stability

Aizenman et al.	2019	Fiscal policy and uncertainty	Strong institutions improve fiscal effectiveness
Siminica et al.	2019	Fiscal policy and development	Fiscal policy has stronger effects in developing economies
Murshed et al.	2020	Social expenditure	Healthcare and education spending improve productivity
Canh & Thanh	2020	Fiscal policy dynamics	Expansionary policies stimulate short-term growth
Nguyen et al.	2021	Fiscal policy effectiveness	Infrastructure investment promotes economic performance
Canh et al.	2021	Fiscal decentralisation	Local fiscal management can support regional growth
Makin & Layton	2021	COVID-19 fiscal response	Pandemic spending increased deficits and debt burdens
Davoodi et al.	2022	Post-pandemic fiscal reforms	Balanced fiscal consolidation is necessary
Nguyen & Darsono	2022	Taxation and institutions	Institutional quality improves taxation outcomes
Nguyen et al.	2023	Fiscal sustainability	Sustainable debt management supports long-term growth

The table highlights a consistent pattern across the literature indicating that productive fiscal policy measures contribute positively to economic development when supported by efficient governance and institutional quality. Most studies agree that infrastructure investment, social expenditure, and fiscal discipline are essential for sustaining long-term economic growth in developing countries.

The secondary data analysis also demonstrates the relationship between fiscal indicators and economic performance in selected developing regions. The following table summarises general fiscal trends identified in the reviewed literature.

**Table 2: Fiscal Policy Trends and Economic Outcomes in Developing Regions**

Region	Major Fiscal Characteristics	Common Economic Outcomes
Asia	High infrastructure investment and industrial support	Strong GDP growth and industrial expansion
Sub-Saharan Africa	Dependence on external borrowing and commodity revenues	Debt vulnerability and uneven growth performance
Latin America	High fiscal deficits and inflationary pressures	Economic instability and periodic recession
South Asia	Increasing social expenditure and public investment	Moderate growth with fiscal sustainability concerns
Middle East & North Africa	Oil revenue dependence and subsidy-based spending	Growth fluctuations linked to commodity prices

The data indicate that countries investing in productive sectors such as infrastructure and human capital generally experience stronger economic performance. However, economies heavily dependent on borrowing or commodity revenues remain vulnerable to external shocks and fiscal instability. Fiscal sustainability, efficient expenditure management, and institutional reforms therefore remain critical for achieving stable long-term growth.



Overall, the findings of the study confirm that fiscal policy is a fundamental determinant of economic growth in developing countries. Government expenditure, taxation, fiscal deficits, and public debt influence investment, productivity, employment, and macroeconomic stability. Nevertheless, the effectiveness of fiscal policy depends strongly on governance quality, expenditure efficiency, institutional strength, and fiscal sustainability. Developing countries that maintain balanced fiscal frameworks, prioritise productive investment, and strengthen institutional capacity are more likely to achieve sustainable economic growth and long-term developmental progress.

## Conclusion

The study examined the impact of fiscal policies on economic growth in developing countries using secondary data and existing empirical literature published between 2015 and 2024. The findings demonstrate that fiscal policy remains one of the most important macroeconomic tools for promoting economic development, stabilising economic activity, and supporting long-term growth in developing economies. Government expenditure, taxation, fiscal deficits, and public debt management significantly influence productivity, investment, employment generation, and macroeconomic stability.

**Table 3: Government Expenditure and GDP Growth in Selected Developing Countries (2020–2023)**

Country	Average Government Expenditure (% of GDP)	Average GDP Growth Rate (%)	Public Debt (% of GDP)
India	27.4	6.8	83.1
Indonesia	18.9	4.9	39.8
Brazil	41.5	2.7	88.9
South Africa	33.8	1.6	71.2
Nigeria	14.2	2.9	37.3
Bangladesh	13.6	6.1	39.5
Vietnam	21.7	6.4	36.8

Source: Compiled from World Bank Data Indicators (2023) and IMF Fiscal Monitor Reports (2024).

The analysis revealed that productive public expenditure, particularly in infrastructure, healthcare, and education, contributes positively to economic growth by improving human capital formation and enhancing economic efficiency. At the same time, the study found that the effectiveness of government spending depends heavily on institutional quality, governance standards, and expenditure efficiency. Developing countries characterised by corruption, weak administrative systems, and inefficient fiscal management often experience limited benefits from expansionary fiscal policies.

The research further highlighted the importance of efficient taxation systems in generating public revenue necessary for developmental activities. However, excessive taxation and weak tax administration may discourage private investment and reduce economic competitiveness. Fiscal deficits and public borrowing were found to provide short-term economic stimulus during periods of economic slowdown, but persistent deficits and rising debt burdens may create long-term fiscal sustainability challenges.

The findings also indicate that fiscal policy outcomes differ across developing regions because of variations in economic structures, political conditions, and institutional capacities. Countries with stronger governance frameworks and balanced fiscal strategies generally achieve better growth outcomes compared to economies facing fiscal instability and excessive debt dependence.

**Table 4: Tax Revenue, Fiscal Deficit, and Economic Growth in Developing Regions**

Region	Average Tax Revenue (% of GDP)	Average Fiscal Deficit (% of GDP)	Average GDP Growth Rate (%)
South Asia	11.8	-7.1	5.9
Sub-Saharan Africa	15.2	-5.8	3.4
Latin America	21.6	-6.3	2.8
East Asia & Pacific	18.4	-4.2	5.7
Middle East & North Africa	16.1	-5.1	3.1

Source: Prepared using data from World Development Indicators (2023), Asian Development Bank Reports (2024), and IMF World Economic Outlook Database (2024).

Overall, the study concludes that fiscal policy can effectively promote economic growth in developing countries when supported by prudent fiscal management, efficient resource allocation, institutional transparency, and sustainable debt practices. Governments should therefore prioritise productive expenditure, strengthen tax administration systems, and maintain fiscal discipline to achieve stable and inclusive economic development.

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