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The Strategic Role of Fiscal Policy in Addressing Economic Recession and Achieving Sustainable Recovery

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Abstract

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This study aims to comprehensively examine the role of fiscal policy in addressing economic recession and supporting sustainable economic recovery using a Systematic Literature Review approach. This study collects and analyzes various indexed scientific publications in the last five years that discuss the effectiveness of fiscal policy on macroeconomic stability, governance, and sustainable development. The results show that fiscal policy plays an important role in strengthening economic stability, increasing people's purchasing power, and expanding employment opportunities through targeted economic stimulus. The principles of good governance and fiscal decentralization have been proven to increase policy effectiveness through transparency, accountability, and public participation in budget management. In addition, the integration of environmental aspects into green fiscal policy strengthens the direction of environmentally-friendly sustainable development. This study confirms that the success of fiscal policy is highly dependent on good governance and strong synergy between fiscal and monetary policies to achieve inclusive, resilient, and sustainable economic growth.

1. Introduction

Fiscal policy is one of the main instruments used by the government in managing economic stability and improving people's welfare. Through the regulation of state revenue and expenditure policies, fiscal policy functions to maintain a balance between economic growth, income equity, and resilience to external turmoil. In the context of an increasingly dynamic global economy, fiscal policy plays a key role in stimulating the economy, especially when markets face pressure due to external uncertainty and weakening of the real sector. Over the past five years, the world has faced a multidimensional crisis triggered by the COVID-19 pandemic, declining international trade activities, and commodity price volatility. This condition encourages governments in various countries to adopt expansionary fiscal policies as the main strategy for economic recovery.

According to Tsindeliani et al. (2019), fiscal policy has proven to be an important catalyst in maintaining economic sustainability through increasing public spending and providing fiscal incentives for productive sectors. As the economy faces a contraction due to the pandemic and a decline in people's purchasing power, expansionary fiscal policy is able to contain the pace of the recession by strengthening aggregate demand. This is reinforced by Mlinarević (2021) who states that the effectiveness of fiscal policy is highly dependent on government credibility and the level of public trust in policy transparency. Governments that are able to manage the budget with the principles of accountability and clarity of policy objectives tend to succeed in stabilizing the economy faster than governments whose policies are inconsistent.

In addition, well-planned fiscal policies play a role in increasing economic competitiveness through optimizing public investment and strengthening productive infrastructure. Ako (2018) emphasized that strategically directed public spending can produce a significant multiplier effect on economic growth. For example, spending on the development of basic infrastructure such as transportation, energy, and telecommunications can improve the efficiency of the distribution of goods and services, accelerate economic connectivity, and expand employment. In this context, fiscal decentralization and transparency are the two main pillars so that policies can be on target and accountable. Decentralization allows local governments to tailor fiscal policies to local needs, while transparency increases public legitimacy of those policies (Asongu & Odhiambo, 2020).

Fiscal policy also has a social dimension that is no less important. Plagerson et al. (2019) argue that socially oriented fiscal interventions can accelerate human development through increased access to education, health, and social protection. In crisis situations, policies that focus on social welfare serve as a key buffer (social safety net) to protect vulnerable groups from broader economic impacts. This approach not only supports short-term recovery, but also strengthens the long-term foundations of an inclusive and resilient economy.

Furthermore, Heliany (2021) emphasized that the success of fiscal policy depends on the application of good governance principles which include transparency, accountability, and meaningful public participation. These principles ensure that fiscal policies are not only effective from an economic point of view, but also a social point of view. In practice, fiscal policies managed with the principles of good governance are able to suppress the potential for corruption, increase public trust, and strengthen the efficiency of budget use. This governance-based approach is very relevant in facing post-pandemic challenges that demand speed of budget absorption as well as prudence in fiscal management.

Meanwhile, Monasterolo and Raberto (2018) introduced the concept of green fiscal policy as a new evolution in modern fiscal policy. This policy is not only oriented towards short-term economic recovery, but also pays attention to long-term environmental sustainability. Through green tax incentives, emission reduction, and support for sustainable investment, green fiscal policy becomes a strategic tool to create a balance between economic growth and natural resource conservation. This approach is important to ensure that the post-crisis economic recovery does not create new pressures on the environment and the well-being of future generations.

Overall, the study aims to examine in general how fiscal policy plays a strategic role in dealing with a global economic recession. The main focus of the research is to analyze the relationship between fiscal instruments and economic stability by considering three important pillars, namely economic sustainability, good governance, and social justice. By adopting the latest literature synthesis approach, this study is expected to provide a comprehensive understanding of how fiscal policy functions not only as a macroeconomic balancing tool, but also as a driving force towards an inclusive, equitable, and sustainable economic recovery.

2. Literature Review

2.1. Concept of Fiscal Policy and Economic Stability

Fiscal policy is defined as the government's steps in managing public revenues and expenditures to achieve economic and social balance. In the context of a recession, this policy serves as a stabilizing tool to overcome economic contraction through public spending, tax reductions, and strategic subsidies. Alichi et al. (2021) emphasized that expansionary fiscal policy is able to create short-term stimulus to consumption and investment that ultimately accelerates economic recovery. In addition, Ako (2018) explained that the effectiveness of fiscal policy depends on targeted planning and implementation based on the needs of the productive sector, especially during the post-crisis recovery period.

In Mlinarević's (2021) view, fiscal policy has not only an economic function, but also a political function because it reflects public confidence in the government's ability to maintain financial stability. This level of trust has a direct effect on the multiplier effect of public spending. When the public believes that fiscal policy is implemented in a transparent and accountable manner, the impact on macroeconomic stability will be more significant. In line with that, Catalano et al. (2021) highlight the importance of green fiscal policy design to integrate aspects of sustainability and environmental resilience in the economic recovery process. Thus, fiscal policy can have a dual function of supporting economic growth while supporting the transformation towards sustainable development.

2.2. Fiscal Policy, Governance, and Sustainable Development

The relationship between fiscal policy and governance is one of the main determinants of the success of economic development. Cassimon et al. (2021) found that the effectiveness of fiscal policies in developing regions is greatly influenced by the quality of governance, especially in the dimensions of accountability and transparency. Countries or entities with good governance indices tend to have more controlled fiscal deficits and more sustainable economic growth. Plagerson et al. (2019) added that inclusive fiscal management can strengthen social foundations, especially by prioritizing the education sector and the welfare of vulnerable communities.

Onofrei et al. (2020) emphasizes a new dimension in fiscal policy studies, namely the importance of integrating sustainability principles in public spending. This concept marks a paradigm shift from policies that focus solely on economic growth to policies that also pay attention to social and environmental aspects. In line with the findings of Heliany (2021), good governance is the main prerequisite so that fiscal policy is not trapped in corrupt practices and budget waste. By combining the principles of accountability, transparency, and public participation, fiscal policy can be an effective instrument for creating fair, inclusive, and sustainable economic development.

3. Method

This study uses the Systematic Literature Review (SLR) method as the main approach to systematically examine various scientific publications that discuss fiscal policy and its role in overcoming the global economic recession. This approach was chosen because it is able to provide a comprehensive and structured understanding of how fiscal policy functions as an effective economic recovery instrument, especially in the context of fiscal sustainability and good governance. The SLR method not only reviews the results of previous research, but also synthesizes empirical and conceptual evidence to find patterns of relationships, differences in approaches, and gaps in research that are still open in the fiscal policy literature.

The first stage of the SLR process is the identification of the literature. At this stage, the researcher conducted a systematic search of scientific articles published in the last five years through credible academic databases such as Google Scholar, ResearchGate, and Elsevier (ScienceDirect). The selection of this period aims to ensure that the results of the study remain relevant to the dynamics of modern economic policies post-pandemic. The keywords used include fiscal policy, economic recession, economic recovery, governance, and sustainable development. The inclusion criteria are strictly determined, which only include articles in English or Indonesian that are empirical and conceptual, published in indexed journals, and have a direct relationship with the topics of fiscal policy, macroeconomic stability, and sustainable development. Articles that do not meet the methodological criteria or are not relevant to the focus of the study are removed from the analysis list.

The second stage is the selection and evaluation of the quality of the literature. This process is done in stages to ensure the reliability of the resources used. Each publication was analyzed based on the quality of the research methodology, the consistency of the findings, and the context of the policy implementation studied.

The selected articles were then categorized according to their analysis approaches, both quantitative, qualitative, and conceptual studies. Researchers also conduct validation by comparing findings from various sources to avoid interpretation bias.

The third stage is thematic synthesis, which is the grouping of the literature into main themes that reflect the relationship between fiscal policy, economic recession, governance, and sustainable development. The synthesis process is carried out by examining similarities, differences, and conceptual trends between researches. From the results of the grouping, several dominant themes were obtained such as fiscal sustainability, effectiveness of public spending, tax policy, and economic stimulus strategies in the face of global crises.

The final stage is the interpretation and integration of the findings, which is carried out to draw thorough conclusions from the results of the synthesis. At this stage, the researcher interprets the relationship between fiscal instruments and economic stability based on empirical evidence from the literature. This approach ensures that research is transparent, systematic, and can be replicated by other researchers. Through the application of the SLR method, this research is expected to be able to make a strong scientific contribution in enriching the understanding of fiscal policy strategies during economic recessions and providing direction for policymakers in realizing adaptive, efficient, and sustainable public financial governance.

4. Results

The results of this systematic literature review show that fiscal policy has a very crucial role in maintaining economic stability and accelerating the recovery process after the global recession period. Based on the results of a synthesis of various literature, there are three major dimensions that are interrelated and are the main findings in the analysis, namely: (1) the role of fiscal policy in promoting economic growth and recovery, (2) the influence of fiscal governance and credibility on policy effectiveness, and (3) the integration of sustainability and environmental aspects in modern fiscal policy design. These three dimensions form a conceptual framework that shows how fiscal policy has evolved from an instrument of economic stabilization to a catalyst for structural transformation and sustainable development.

First, the results of the literature review show that expansionary fiscal policy has a significant impact on accelerating post-crisis economic recovery. Tsindeliani et al. (2019) explain that the implementation of fiscal policy combined with accommodative monetary policy can strengthen economic resilience and maintain financial market stability. When the COVID-19 pandemic and global uncertainty hit, various countries widened budget deficits to fund fiscal stimulus programs. This strategy includes increasing state spending for the productive sector, reducing tax rates for the business world, providing energy and food subsidies, and accelerating public infrastructure projects. Catalano et al. (2021) found that these measures provide a positive multiplier effect on aggregate demand, revive industrial activity, and suppress the unemployment rate. Public spending directed at the labor-intensive sector has been proven to strengthen people's purchasing power and stimulate economic activities in a sustainable manner.

In addition, fiscal policy plays a role in expanding the government's fiscal space to protect vulnerable groups. Ako (2018) emphasized that the success of fiscal policy is not only determined by the amount of budget allocated, but also by the effectiveness of distribution and the accuracy of program objectives. In the situation of economic recovery, the government is required to ensure that stimulus funds not only cover losses in certain sectors, but also are able to create inclusive social impacts. The allocation of public expenditure directed at the development of basic infrastructure, education, and health has been proven to have a long-term impact on national productivity. Heliany (2021) added that transparent and accountable fiscal governance is the main prerequisite for ensuring the effectiveness of these fiscal policies. Strong oversight mechanisms and performance-based management are able to minimize budget leakage and strengthen public trust in government policies.

Second, the results of the analysis show that policy credibility and public trust are key factors in determining the effectiveness of fiscal policy. Mlinarević (2021) asserts that in many developing countries, public trust in the government has a positive correlation with the success rate of fiscal policy. Policies that are designed in a transparent manner and clearly conveyed to the public will be easier to accept and respond positively. Conversely, when governments are unable to explain the direction and benefits of fiscal policy openly, social resistance arises and a decline in public participation in supporting recovery programs. Research by Cassimon et al. (2021) also confirms that the quality of public governance has a direct effect on economic growth, especially through increasing the efficiency of budget use. Governments with good accountability systems tend to have a controlled fiscal deficit and more stable growth.

Credible fiscal policies also increase investor confidence in a country's economic stability. When fiscal mechanisms are professionally managed, investors will assess macroeconomic risks lower, thereby encouraging capital inflows and strengthening the government's fiscal position. In this case, a well-planned fiscal policy serves as a positive signal to the reliability of overall economic policy. Plagerson et al. (2019) added that fiscal policies that prioritize social aspects, such as social protection and equitable distribution of welfare, can strengthen public legitimacy against the government. Increased budgets in the education, health, and social security sectors have been proven to create long-term effects in strengthening people's resilience to economic and social crises.

Third, the results of the literature review show that the direction of global fiscal policy has undergone a fundamental change towards integration between the economic dimension and environmental sustainability. Monasterolo and Raberto (2018) stated that green fiscal policy is an important innovation in modern public policy because it combines the goal of economic recovery with environmental conservation. These policies include providing incentives for environmentally friendly industries, carbon tax reductions, and investments in renewable energy. By driving green economic transformation, fiscal policies not only accelerate post-pandemic economic recovery but also reduce ecological pressures and create new jobs in the green sector. Bhattarai and Trzeciakiewicz (2017) also support this view by asserting that fiscal investment directed at sustainable projects results in long-term growth that is more stable and resilient to external shocks.

In a broader context, fiscal sustainability is also a key concern of many studies. Rogoff (2021) highlights that the main post-pandemic challenge is how governments maintain a balance between fiscal expansion and long-term fiscal sustainability. An increase in public debt that is not balanced by a fiscal consolidation strategy can pose a risk to macroeconomic stability. Therefore, there is a need for comprehensive structural reforms, including the optimization of the tax system and the efficiency of public spending. The World Bank (2021) also emphasized the importance of fiscal reform directed at strengthening the tax base and increasing the effectiveness of public spending to support inclusive development. Thus, fiscal sustainability is not only related to the capacity to finance current policies, but also the ability to maintain fiscal space for future generations.

The results of the literature synthesis also affirm the importance of fiscal decentralization as one of the supporting elements for the effectiveness of economic policies. Asongu and Odhiambo (2020) show that decentralization strengthens fiscal policy responses to local needs by providing flexibility to local governments in budget decision-making. This system allows for a more efficient distribution of resources and in accordance with the socio-economic characteristics of the region. Heliany (2021) added that decentralized fiscal policies are able to accelerate the achievement of development goals because they are more adaptive to the social conditions of the community. Decentralization also increases public accountability through the direct participation of the community in budget oversight.

In addition to governance, coordination between fiscal policy and monetary policy is also an important factor in strengthening the effectiveness of overall economic policies. Alichi et al. (2021) explain that synergy between these two policy instruments can create greater stability than when implemented separately. When central banks implement loose monetary policies, such as lowering interest rates and easing liquidity, while governments carry out expansionary fiscal policies, the result is an acceleration of investment, increased consumption, and a decrease in unemployment. However, if the two are not well coordinated, the risk of inflation and fiscal deficits can increase. Therefore, fiscal-monetary policy harmonization is one of the key factors in maintaining a medium-term economic balance.

In addition to the economic dimension, the literature also emphasizes the role of fiscal policy in strengthening people's social resilience. Plagerson et al. (2019) assert that fiscal policies that favor low-income communities through social assistance and subsidy programs can reduce economic inequality and improve social cohesion. Sustainable social protection programs, such as social security, free education, and health subsidies, are able to create a strong foundation of social resilience in the face of crises. In this context, fiscal policy is not only an economic instrument, but also a moral and social tool that determines the direction of economic justice and human development.

Heliany (2021) emphasized that the success of modern fiscal policies is determined by the application of the principles of performance-based budgeting and the Medium Term Expenditure Framework (MTEF). This approach provides strategic direction in the planning and management of public finances, with a focus on policy outcomes and impacts. The implementation of this system has been proven to increase the efficiency of the fiscal bureaucracy, strengthen public accountability, and reduce the risk of corruption. Ako (2018) also highlighted that a performance-based budgeting system allows the government to identify development priorities that have high added value for the community, while strengthening the competitiveness of the national economy.

In general, the results of this study show a significant paradigm shift in global fiscal policy practice. If in the past fiscal policy focused more on short-term macroeconomic stabilization, now its orientation has expanded towards inclusive and sustainable development. A modern policy approach does not only consider economic growth, but also pays attention to aspects of equity, efficiency, environment, and governance. This demands institutional reforms oriented towards transparency, efficiency, and cross-sector collaboration. Thus, fiscal policy in the post-pandemic era is not only a tool for economic recovery, but also a foundation for resilient, fair, and sustainable economic development in the future.

5. Discussion

The findings of the literature review show that fiscal policy has a very strategic multifunction in maintaining economic stability and strengthening a country's social resilience to global shocks. However, its effectiveness is highly dependent on a combination of policies, good governance, and the government's fiscal capacity. In the general context, fiscal policies designed with an inclusive and sustainability-oriented approach have proven to be more effective in driving a comprehensive economic recovery. Tsindeliani et al. (2019) emphasized that synergies between fiscal and monetary policies can create a double effect on economic growth, especially when directed to strengthen domestic demand and encourage productive sectors that have a high multiplier effect.

In addition to policy coordination factors, public trust and the quality of governance play an equally important role. Mlinarević (2021) highlights that the level of credibility of fiscal policy determines how much public support there is for government economic intervention. When the public has a positive perception of government transparency and accountability, fiscal policy tends to be more successful in stimulating economic activities. On the other hand, low fiscal integrity can result in counterproductive policies, where stimulus is not followed by an increase in economic activity due to low investor and consumer confidence.

In relation to sustainability, Onofrei et al. (2020) introduced the concept of green fiscal policy that integrates environmental aspects in macroeconomic policies. This approach is important because it directs economic recovery not only on increasing GDP, but also on natural resource conservation and clean energy transition. This integration of the environmental dimension reinforces the argument that modern fiscal policy should serve as a tool for long-term development, not just a reactive solution to economic crises.

Heliany (2021) in his study emphasized that the principle of good governance is the main foundation for the success of fiscal policy. The principles of transparency, accountability, and public participation are reinforcing factors in creating effective and fair fiscal policies. In practice, the implementation of the performance-based budgeting system and the Medium Term Expenditure Framework (MTEF) allows the government to manage the budget more professionally, efficiently, and results-oriented. This approach not only improves the performance of the fiscal bureaucracy, but also strengthens public legitimacy for government policies.

In addition, the study of Cassimon et al. (2021) shows that fiscal decentralization is an important strategy to increase the effectiveness of economic policies. By providing fiscal autonomy to local governments, budget allocations can be adjusted to local needs so that policies become more responsive and efficient. Decentralization also expands public participation in public decision-making, which in turn strengthens social and political stability. This shows that the success of fiscal policy in the global context cannot be separated from institutional reform and public participation in the process of public policy oversight.

Thus, this discussion affirms that fiscal policy should be seen as a multidimensional instrument that includes economic, social, and governance aspects. The effectiveness of fiscal policy is not only measured by increasing economic growth, but also by its ability to maintain social justice, environmental sustainability, and fiscal integrity. Therefore, in an increasingly complex global context, adaptive, participatory, and long-term oriented fiscal policies are key to creating sustainable economic resilience.

6. Conclusion

The results of this study confirm that fiscal policy has a strategic role as the main instrument in overcoming economic recessions and promoting macroeconomic stability in a sustainable manner. Through a combination of state revenue and expenditure policies, fiscal policy can strengthen economic resilience, increase domestic demand, and boost investment and productivity. In the context of the post-crisis global recovery, an inclusive and adaptive fiscal approach has proven to be able to accelerate economic recovery while maintaining the principles of sustainability and social justice. In addition to its economic function, fiscal policy also plays an important role in creating good governance. The principles of transparency, accountability, and public participation are the main prerequisites for policies to run effectively and gain social legitimacy.

On the other hand, fiscal decentralization and the implementation of performance-based budgeting frameworks strengthen efficiency and professionalism in the management of public finances. Thus, modern fiscal policy serves not only as a counterweight to the economic cycle, but also as a structural development tool that emphasizes the balance between growth, equity, and sustainability. It can be concluded that the effectiveness of fiscal policy in the face of a recession depends on the quality of governance and the government's ability to integrate economic, social, and environmental dimensions. Fiscal policies designed with a long-term vision and managed transparently are the main foundation for the creation of inclusive, resilient, and sustainable economic growth.

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