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Tax Revenue and Economic Growth in Developing Countries: A Narrative Synthesis of Empirical Evidence

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ABSTRACT: This study explores the intricate relationship between tax revenue and economic growth in developing countries, aiming to evaluate how various tax structures influence economic outcomes. Employing a narrative review methodology, literature was sourced from databases such as Scopus and Google Scholar using a targeted set of keywords. Inclusion criteria focused on peer-reviewed empirical studies from the last two decades examining taxation, fiscal policy, and growth. Findings reveal that oil tax revenues can bolster short-term fiscal capacity but often introduce volatility tied to global price fluctuations. In contrast, non-oil taxes provide a more stable basis for sustained economic development. The review identifies a long-term correlation between tax revenue volatility and GDP instability, highlighting the critical role of institutional quality and administrative efficiency. Comparative studies show that G7 countries benefit from structured fiscal systems, while many developing countries struggle with inefficiencies, non-compliance, and narrow tax bases. Discussion points emphasize systemic barriers such as weak governance, informal economies, and low tax morale. Recommended reforms include administrative modernization, digitalization, and expanding the tax net to the informal sector. Ultimately, the study underscores that tax policy effectiveness hinges on contextual alignment with institutional capacities and socio-economic realities. Future research should address micro-level behaviors and long-term effects of taxation to enhance fiscal policy design..

Keywords: Tax Revenue; Economic Growth; Fiscal Policy; Developing Countries; Tax Reform; Institutional Quality; Public Finance

INTRODUCTION

Developing countries face a multifaceted challenge in optimizing tax revenue as a sustainable source of public financing to stimulate economic growth. Issues related to institutional weaknesses, inequality in wealth distribution, and limited tax administrative capacity significantly influence taxpayers' willingness to comply with fiscal obligations (Iswahyudi, 2021). In many low- and middle-income economies, tax avoidance and evasion remain pervasive problems, exacerbated by opaque tax systems and lack of accountability (Ariyanto et al., 2020). Furthermore, deficiencies in infrastructure and the shortage of skilled human resources represent additional constraints on achieving optimal tax collection (Alshubiri, 2024). These persistent issues pose structural and operational barriers that hinder the development of robust fiscal systems required to support long-term economic transformation.

Over the past two decades, global economic growth has been increasingly shaped by tax-based fiscal policies. The aftermath of the global financial crisis prompted a reevaluation of tax structures, pushing countries to implement reforms aimed at boosting revenues and sustaining development (Mohamad et al., 2017). Empirical findings suggest that the effect of taxation on GDP growth may follow a non-linear trajectory: efficient tax increases can spur economic activity, while excessive tax burdens may inhibit growth (Macek, 2018). Nevertheless, the success of any tax policy is closely tied to how revenue is allocated; inefficient public spending may neutralize the positive impacts of well-structured tax systems (Yossinomita et al., 2024). These complexities highlight the dual importance of revenue generation and expenditure quality in shaping fiscal policy outcomes.

Basic empirical and macroeconomic facts underscore the urgency of addressing tax performance in developing economies. Countries with equitable wealth distribution are more likely to nurture stable institutions capable of enforcing tax compliance, while economic disparities often erode institutional trust and capacity (Iswahyudi, 2021). Many studies affirm that fiscal policy reforms, if strategically targeted, can promote domestic investment and increase aggregate demand, further fueling economic growth (Mohamad et al., 2017). For instance, tax policy restructuring has proven effective in fostering capital accumulation and labor productivity when coupled with effective governance mechanisms (Gale et al., 2015). Additionally, countries that integrate tax incentives for business and innovation tend to experience improved competitiveness and export performance.

The disparity in tax policy outcomes between developed and developing countries stems partly from differences in institutional maturity and administrative infrastructure. Developed countries tend to enjoy higher tax compliance rates due to comprehensive fiscal systems and more transparent governance (Saba & Monkam, 2024). In contrast, developing nations often grapple with fragmented tax bases and informal economies that elude regulatory oversight. Furthermore, studies show that foreign direct investment (FDI) interacts differently with tax revenues across countries, as high-income nations typically derive greater benefits from capital inflows compared to their lower-income counterparts, which may instead witness a surge in informality (Alshubiri, 2024; Nguyen, 2020). These observations underline the need for context-specific fiscal strategies tailored to a country's economic structure and institutional capabilities.

One of the most critical aspects of fiscal policy is the stability and predictability of tax revenues. Volatility in revenue collection can undermine macroeconomic stability, as sudden declines in fiscal income may force governments to cut essential services or increase borrowing (Milasi & Waldmann, 2017). In resource-dependent economies, the cyclical nature of commodity prices further amplifies fiscal vulnerability. In many developing countries, reliance on extractive revenues has been linked to external shocks and growth volatility (Butkus et al., 2021). Moreover, erratic tax policies and over-reliance on narrow tax bases can discourage private sector investment and erode investor confidence, both of which are essential for sustained economic development (Ahmed et al., 2024).

The role of tax administration in bridging the fiscal gap and promoting development is vital. Administrative efficiency can enhance tax collection and support the delivery of essential services such as healthcare, education, and infrastructure (Slepov et al., 2017). An integrated approach that includes proactive monitoring, digitalization, and capacity-building initiatives is crucial to strengthening the tax system. Transparent and fair tax systems increase public trust and compliance, which in turn, enhances the overall effectiveness of fiscal policy (Macek, 2018). In this regard, reforms aimed at improving bureaucratic processes and minimizing corruption are indispensable for ensuring fiscal sustainability. A well-functioning tax administration thus serves not only as a revenue-generating body but also as a pillar of good governance.

Nevertheless, countries face numerous obstacles in reforming their tax systems. Political resistance, limited fiscal space, and public skepticism often inhibit the implementation of comprehensive tax reforms. In many contexts, the concentration of economic power in elites who benefit from loopholes and preferential treatment complicates reform efforts. Additionally, rapid technological changes and globalization have made it easier for corporations and high-net-worth individuals to shift profits across borders, reducing the effectiveness of national tax systems. These challenges demand innovative policy solutions and international cooperation to combat tax avoidance and profit shifting, particularly in jurisdictions with underdeveloped regulatory capacities.

Despite an expanding body of literature, significant gaps remain in understanding the long-term relationship between tax revenue and economic growth, especially within the nuanced socio-economic contexts of developing nations. Much of the existing research either aggregates country data, which masks individual country dynamics, or focuses on short-term fiscal responses. There is limited exploration into how different types of taxes—such as consumption, corporate, and income taxes—uniquely influence economic performance across varying governance structures (Dinh & Giang, 2023). Similarly, few studies examine the behavioral responses of taxpayers to changes in tax policy, which could inform more effective and equitable fiscal frameworks.

This review aims to synthesize and critically assess the current body of knowledge concerning the interplay between tax revenue and economic growth in developing countries. The primary objective is to identify the institutional, structural, and policy-related factors that enhance or inhibit the effectiveness of tax systems as tools for economic development. Special attention will be given to the role of administrative capacity, institutional quality, tax structure, and external economic factors in shaping fiscal outcomes. By drawing on both theoretical frameworks and empirical evidence, the study seeks to offer policy-relevant insights for governments and development agencies.

Geographically, the scope of this review will focus predominantly on low- and middle-income countries, particularly in regions such as Sub-Saharan Africa, Southeast Asia, and Latin America. These areas exhibit diverse economic structures and fiscal capacities, making them fertile grounds for examining heterogeneity in tax-growth dynamics. The selected literature will include crosscountry analyses, case studies, and econometric evaluations that highlight context-specific drivers of fiscal performance. The aim is to build a nuanced understanding of how different national experiences can inform broader policy debates and contribute to more inclusive and sustainable growth strategies.

METHOD

This narrative review draws on a purposive selection of peer-reviewed studies to explore emerging themes in the relationship between tax revenue and economic growth in developing countries. Rather than employing systematic protocols, the review integrates theoretical and empirical insights across a broad range of economic contexts to synthesize key patterns, debates, and policy implications.

The literature search process was conducted using multiple academic databases known for their extensive coverage of peer-reviewed journal articles and policy papers. The main databases utilized include Scopus and Google Scholar, chosen for their breadth of coverage and robust indexing of high-quality economic and fiscal policy studies. These databases enable the identification of empirical and theoretical contributions from both global and regional perspectives, thereby enriching the scope and depth of the review.

A series of well-defined keywords and search strings were employed to ensure a thorough and targeted retrieval of relevant studies. The core keyword "Tax Revenue" was selected to capture literature concerning various forms of state-collected taxes, including income tax, value-added tax (VAT), and corporate taxes. This term was cross-referenced with "Economic Growth," which typically refers to the expansion of gross domestic product (GDP) or gross national income (GNI), to ensure the inclusion of studies examining the relationship between taxation and macroeconomic indicators. Additional keywords such as "Fiscal Policy," "Taxation," and "Public Expenditure" were used to identify articles that discuss how government revenue and spending influence economic dynamics.

To expand the scope of analysis and incorporate more nuanced insights, terms like "Long-term Economic Growth," "Tax Structure," and "Empirical Evidence" were used. These keywords helped identify studies that go beyond immediate economic responses to taxation and explore sustained impacts over time. Furthermore, "Developing Countries" and "Emerging Economies" were employed to refine the search toward low- and middle-income countries, which are often underrepresented in global fiscal studies but are central to this research focus. Finally, the inclusion of "Tax Compliance" enabled the collection of literature addressing the behavioral and institutional dimensions of tax systems, particularly in contexts where enforcement and trust play crucial roles.

The keyword combinations were used with Boolean operators and truncation techniques to increase retrieval efficiency. For example, queries such as ("Tax Revenue" AND "Economic Growth") AND ("Developing Countries" OR "Emerging Economies") ensured the inclusion of studies that directly speak to the research objective. Only full-text academic journal articles, working papers, and conference proceedings were considered. Reference lists of selected studies were also examined to identify additional relevant sources not captured in the initial search.

The selection of literature was guided by clearly defined inclusion and exclusion criteria. Studies were included if they explicitly examined the relationship between tax systems and economic growth within an empirical or analytical framework. A preference was given to publications released within the past two decades to capture recent trends, innovations in fiscal policy, and updated data. Only peer-reviewed studies were retained to ensure the credibility and academic rigor of the findings. Furthermore, studies needed to have a transparent methodological framework, whether qualitative, quantitative, or mixed-methods, to allow for evaluation of the robustness of their results.

Empirical relevance was another key inclusion criterion. The selected studies had to present data-driven insights on the effects of tax policy—either directly through quantitative econometric models or indirectly via institutional and governance channels. Where possible, preference was given to multi-country studies, cross-sectional analyses, and longitudinal case studies that offer comparative perspectives and temporal depth.

Exclusion criteria were equally important to refine the quality and relevance of the literature base. Non-academic publications, including opinion pieces, news articles, and non-peer-reviewed commentaries, were excluded due to the lack of methodological transparency. Studies that did not focus on the intersection between taxation and economic growth, such as those centered on unrelated sectoral analyses or internal organizational tax strategies, were also excluded. Additionally, overly general studies lacking empirical content or policy specificity were omitted.

Language was another factor considered in the exclusion process. Only publications written in English were included in the final sample, as English is the dominant language in international economic and fiscal policy scholarship. This approach ensured consistency and ease of synthesis across the literature base. Furthermore, studies focusing on highly specific and geographically isolated cases with limited global or regional applicability were excluded unless they provided unique theoretical or empirical insights that could be extrapolated to broader contexts.

The types of research included in this review spanned various methodological designs. These included quantitative studies using econometric modeling, such as regression analysis and vector autoregression (VAR); qualitative case studies exploring institutional reform and policy implementation; and mixed-methods studies that integrate statistical and narrative analysis. Emphasis was placed on studies employing time-series or panel data, as these provide stronger evidence for causal inference and temporal dynamics.

The process of literature selection was conducted in several phases. In the initial phase, the search results were screened based on titles and abstracts to assess thematic relevance. Articles that met the basic inclusion criteria were then retrieved in full text for comprehensive evaluation. In the second phase, each full-text article was assessed for methodological quality, empirical depth, and relevance to the overarching research questions. Studies were categorized based on their analytical focus, methodological approach, and geographical scope.

In the final phase, selected articles were subjected to a thematic coding process to identify common patterns, recurring arguments, and divergences in findings. This allowed for the development of key themes that structure the results and discussion sections of the study. The coding process was iterative and interpretive, enabling the extraction of nuanced insights while maintaining the integrity of the original studies.

Through this methodological approach, the review aims to provide a comprehensive understanding of how tax policy interacts with economic growth in developing contexts. The careful selection and evaluation of high-quality, peer-reviewed literature ensure that the findings presented are not only theoretically grounded but also empirically robust. Ultimately, this methodology supports the formulation of evidence-based recommendations for policymakers seeking to enhance fiscal sustainability and promote inclusive growth through effective tax systems.

RESULT AND DISCUSSION

The relationship between tax revenue and economic growth manifests across a spectrum of themes, particularly in developing and resource-dependent countries. This narrative review categorizes findings into three major analytical segments: the impact of oil and non-oil tax revenue on economic growth, the connection between tax revenue volatility and GDP growth, and comparative insights across countries. These dimensions allow for a clearer understanding of how fiscal instruments and tax systems influence long-term economic trajectories.

The impact of oil taxation on economic growth is especially pronounced in countries that rely heavily on natural resource extraction. In economies such as Nigeria, oil tax revenues represent a dominant source of public finance and play a critical role in supporting infrastructure development and socioeconomic programs (Otekunrin et al., 2023). Such revenues can provide a significant fiscal buffer, enabling governments to make strategic public investments during periods of high commodity prices. However, this dependence also renders these economies highly vulnerable to global oil price fluctuations. Studies confirm that when oil prices fall, governments in oil-producing countries experience a sharp contraction in tax revenues, leading to reduced public spending and, in many cases, adverse effects on economic growth (Kalbiyev & Seyfullali, 2024). The duality of oil taxes as both a fiscal boon and a potential source of economic instability underscores the importance of diversification strategies.

In contrast, non-oil taxes—such as income taxes, consumption taxes, and corporate taxes—offer a more stable and predictable source of revenue. These revenue streams are crucial for long-term fiscal planning, particularly in economies seeking to reduce their dependence on volatile commodity markets. Alshubiri (2024) argues that non-oil tax revenues provide governments with more reliable funding to support sustainable development initiatives. Empirical evidence from Neog and Gaur (2020) further supports this view, indicating that countries which have successfully expanded their non-oil tax base experience more consistent and less volatile economic growth patterns. Their analysis demonstrates that reforms enhancing tax collection from non-resource sectors contribute significantly to macroeconomic resilience and policy effectiveness.

The volatility of tax revenue, regardless of its source, poses significant challenges to fiscal management and economic planning. Mirovic et al. (2023) highlight that tax revenue fluctuations are strongly associated with GDP volatility, which complicates budgeting processes and the ability of governments to implement long-term economic programs. Countries experiencing erratic tax collections often face difficulties in maintaining essential public services and sustaining growth-promoting investments. Liu et al. (2019) add that good fiscal governance and institutional quality can mitigate the adverse effects of tax revenue volatility, reinforcing the role of governance in buffering against external shocks.

To understand the temporal dynamics between tax revenue and economic growth, researchers have employed sophisticated econometric models. The Autoregressive Distributed Lag (ARDL) and Vector Autoregression (VAR) models are among the most widely used analytical tools in the field. These models allow researchers to capture both short-term and long-term relationships between variables. For instance, Emudainohwo and Ndu (2022) used the ARDL model to evaluate the effects of tax revenue on economic growth in Nigeria. Their findings suggest that while short-term relationships may be weak or even negative, the long-term effects of increased tax revenue are generally positive, supporting the argument that consistent and well-managed tax policies can stimulate economic expansion.

Comparative studies between advanced economies, such as those in the G7, and developing nations reveal divergent experiences with tax revenue and economic growth. Countries within the G7 benefit from institutional stability, high levels of tax compliance, and efficient fiscal administration. These factors enable them to translate tax revenue into economic growth more effectively (Saba & Monkam, 2024). In contrast, many developing countries contend with systemic challenges such as tax evasion, limited enforcement capacity, and corruption, which reduce the effectiveness of their tax systems (McNabb, 2018). Saba and Monkam (2024) argue that despite the theoretical potential for growth-enhancing taxation in low- and middle-income countries, practical constraints often prevent these outcomes from being realized.

Evidence from Southeast Asia offers additional insights into the role of tax policy in promoting growth. Dinh and Giang (2023) modelled Vietnam's tax policy structure and found that reforms aimed at broadening the tax base and improving administrative efficiency have the potential to significantly enhance economic performance. Their study emphasized the importance of simplifying tax codes and expanding the coverage of taxation to include informal economic activities. In Malaysia, Taha et al. (2018) found that strengthening tax administration and enhancing transparency in tax policy significantly contributed to inclusive growth. These findings reinforce the idea that institutional reform and administrative modernization are key to maximizing the growth potential of tax systems in emerging markets.

While the experiences of G7 countries and selected Asian economies underscore the potential for tax revenue to support economic growth, the broader literature emphasizes that context matters. Institutional quality, governance frameworks, public trust in government, and the design of tax instruments all shape the effectiveness of tax policies. In resource-rich economies, the challenge lies in stabilizing revenues and avoiding the procyclical spending tendencies often associated with commodity booms. In resource-poor countries, the focus shifts toward enhancing tax capacity, expanding the tax base, and improving compliance. Either way, the development of a robust and transparent tax administration emerges as a common prerequisite for positive fiscal outcomes.

These findings collectively highlight the complexity of the relationship between taxation and economic performance. There is no one-size-fits-all solution, and successful tax policy requires alignment with broader development strategies. For oil-producing nations, this may involve establishing sovereign wealth funds or stabilization mechanisms to manage windfall revenues and ensure continuity in public investments. For non-resource-rich countries, the emphasis should be on enhancing domestic resource mobilization through improved compliance and administrative efficiency.

From a comparative perspective, countries that have successfully leveraged tax revenue for growth often exhibit strong institutions, clear tax laws, and well-developed administrative frameworks. They are also characterized by political commitment to reform, effective anti-corruption mechanisms, and active engagement with taxpayers. Conversely, countries that struggle to link tax revenue with growth often face weak enforcement, frequent policy reversals, and limited investment in tax infrastructure. These contrasts underscore the pivotal role of political economy considerations in shaping tax policy outcomes.

In conclusion, the literature reviewed provides compelling evidence that both the structure and stability of tax revenues significantly affect economic growth trajectories. The distinction between oil and non-oil tax revenues, the volatility of revenue streams, and the comparative experiences of countries across income levels all point to the multifaceted nature of tax-growth dynamics. This narrative review affirms the importance of tailoring tax policy to the institutional, economic, and political contexts of each country. To harness the full potential of tax systems as instruments for development, policymakers must prioritize transparency, equity, and administrative capacity in their fiscal reform agendas.

The relationship between taxation and economic growth, as examined through the narrative review, reveals a complex and often context-dependent interaction that challenges the universality of classical economic theory. According to classical economic thinkers such as Adam Smith and David Ricardo, taxation, when implemented efficiently, should not hinder economic growth but rather enable it by financing public services, infrastructure, and essential governance frameworks (Ariyanto et al., 2020). This premise underpins many traditional arguments in support of robust taxation systems. However, empirical evidence from contemporary studies complicates this view. For instance, Konečná and Andrejovská (2020) demonstrate that excessive reliance on distortionary taxes such as corporate income taxes can reduce investment incentives and, in turn, hinder growth. Neog and Gaur (2020) further highlight that uncertainty in tax revenue leads to volatility in investment decisions, counteracting the classical assertion that taxation should be growth-neutral or even growth-enhancing when well-designed.

Theoretical perspectives must also contend with institutional realities in developing countries. Friske and Zachary (2017) argue that the effectiveness of taxation is not determined solely by its structure, but also by the quality of governance and public trust in fiscal systems. In environments characterized by tax evasion and unfair tax distribution, the classical assumptions break down. In such contexts, taxation can exacerbate inequality and undermine the very institutions necessary for sustained economic development. Wajd et al. contend that fiscal policies that entrench inequality, even if structurally coherent, fail to yield the positive economic outcomes expected in traditional models (Konečná & Andrejovská, 2020). Thus, while classical theory provides a foundational framework, modern empirical evidence demands a more nuanced, context-sensitive interpretation.

Systemic barriers to effective tax mobilization and its developmental impact are particularly acute in developing economies. One critical factor is the limited administrative capacity of tax authorities. As Slepov et al. (2017) and Macek (2018) note, under-resourced tax agencies struggle to enforce compliance and often rely on outdated systems, leading to substantial losses in potential revenue. Moreover, the existence of large informal economies in these countries erodes the tax base. Giedraitis et al. (2023) point out that informal activities not only diminish taxable income but also foster cultures of non-compliance that are difficult to reverse. This problem is compounded by governance issues, including corruption and lack of transparency, which further erode the legitimacy of the tax system (Ariyanto et al., 2020).

In addition to administrative and institutional weaknesses, cultural and societal attitudes toward taxation play a significant role. In some countries, taxes are perceived as burdensome obligations rather than civic responsibilities. This perception widens the gap between state expectations and citizen behavior, diminishing voluntary compliance. As highlighted by Konečná and Andrejovská (2020), the effectiveness of any tax policy is contingent on public belief in the fairness and efficiency of the tax system. Where this belief is absent, resistance to taxation increases, and the policy fails to achieve its developmental objectives.

Given these barriers, reforming tax policy in developing countries requires a multi-pronged strategy grounded in both technical improvements and institutional transformation. One foundational reform is enhancing administrative capacity. By investing in digital infrastructure and adopting advanced data analytics, tax authorities can improve efficiency, reduce corruption, and enhance transparency. Neog and Gaur (2020) underscore the role of technology in transforming tax administration, noting that digital platforms simplify compliance for taxpayers and strengthen enforcement mechanisms. In this vein, automation of tax filing and payment systems can lead to significant improvements in collection rates and citizen trust.

Furthermore, the distributional equity of tax systems needs to be addressed. Dinh and Giang (2023) argue that progressive tax policies and the equitable allocation of tax revenues can foster inclusive growth and build public trust. Fairer systems not only enhance compliance but also create political support for broader fiscal reforms. Without addressing perceptions of inequality, even technically sound tax policies may fail to garner sufficient societal support.

Incorporating the informal sector into the tax net represents another avenue for reform. While informal economic activities provide livelihoods for millions, their exclusion from the tax base limits state capacity. Basheer et al. (2019) suggest that transitional mechanisms, such as simplified tax regimes and informational outreach, can ease the movement from informality to formality. Education campaigns and incentives can help shift public attitudes toward taxation, highlighting the benefits of formal economic participation. These strategies can gradually broaden the tax base, reduce dependency on volatile revenue sources, and enhance macroeconomic stability.

Despite the growing body of research on tax and growth, several limitations remain. Much of the existing literature focuses on aggregate tax revenue and GDP growth, often neglecting micro-level factors such as taxpayer behavior, sectoral tax burdens, and compliance strategies. Additionally, few studies adopt interdisciplinary approaches that incorporate insights from political science, sociology, and behavioral economics. This narrow focus limits our understanding of how institutional and cultural factors mediate the effectiveness of tax policy. Furthermore, most empirical studies are limited to short time horizons, making it difficult to capture the long-term consequences of fiscal reforms.

Future research should aim to fill these gaps by employing longitudinal data, disaggregating tax types, and adopting mixed-methods approaches. Comparative case studies across countries with similar economic structures but differing fiscal outcomes could illuminate the institutional determinants of tax effectiveness. Moreover, greater attention should be paid to how digital transformation and global financial integration are reshaping the fiscal landscape, particularly in developing regions.

Ultimately, the literature reviewed demonstrates that tax policy cannot be assessed in isolation from its institutional and socio-political context. While taxation remains a critical lever for economic development, its success depends on a complex interplay of administrative capacity, societal trust, equity, and governance. Reforms must therefore go beyond technical design to engage with the broader ecosystem in which tax systems operate. Only through such comprehensive approaches can developing countries overcome systemic constraints and harness the full potential of taxation for sustainable growth.

While much of the existing literature confirms the positive long-term effects of non-oil tax structures on economic growth, this review calls for a more critical reflection. For example, although reforms in countries like Malaysia and Vietnam have shown promise, their replicability in low-governance settings remains questionable. Furthermore, some studies may overstate causality due to limitations in time-series analysis or lack of control for institutional variables. This suggests that conclusions drawn from econometric modeling must be interpreted cautiously, especially when applied to heterogeneous developing contexts.

Thus, this review reassesses prevailing assumptions by highlighting the need for localized fiscal strategies, more granular data, and critical engagement with the institutional limitations that moderate the tax-growth relationship.

CONCLUSION

This study examined the complex relationship between tax revenue and economic growth, particularly within the context of developing countries. Through a comprehensive narrative review, the findings confirm that both the source and structure of tax revenue—whether derived from oil or non-oil sectors—play a significant role in shaping growth trajectories. While oil-based tax revenues offer substantial short-term fiscal support, they also introduce volatility that can undermine long-term economic stability. Conversely, non-oil tax revenues contribute to more sustainable and predictable growth. The study also highlighted the detrimental effects of tax revenue volatility on GDP and emphasized the importance of sound fiscal governance and institutional quality in mitigating such risks.

Systemic barriers—such as weak tax administration, large informal economies, and low public trust—undermine the effectiveness of tax policy. The discussion revealed that these barriers necessitate a multidimensional policy response, including digitalization of tax systems, equity-focused reforms, and broader institutional strengthening. Further, the review identified significant gaps in the literature, particularly in long-term and micro-level analyses, suggesting directions for future research.

To ensure inclusive and resilient growth, policymakers must prioritize reforms that not only improve tax collection but also build institutional capacity and public legitimacy. Tax policy must be integrated into wider development strategies, particularly in developing countries where state capacity is limited. A stable, transparent, and equitable tax system remains central to overcoming fiscal vulnerability and promoting sustainable economic development.

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