E-ISSN: 1116 - 3240 P-ISSN: 3026-9334
MPRI-JAIMR | INTERNATIONAL JOURNAL OF AFRICAN INNOVATION & MULTIDSCIPLINARY RES.
VOL. 10 NO. 2 – OCTOBER, 2025

AN EMPIRICAL REVIEW OF THE MACROECONOMIC CONSEQUENCES OF THE GREEN TRANSITION

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DOI: https://doi.org/10.70382/mejaimr.v10i2.078

Abstract

The green transition has always been registered as a sense of driver of structural economic change mainly because it is so wide-ranged, demanding in terms of policy prerequisites, and massive monetary commitments. The purpose of the review is to evaluate the empirical data on macroeconomic implications of green transition. The macroeconomic indicators that were put into consideration in this study comprised output and growth effect, inflation dynamic, and labor market effect. A methodology was used that is a systematic review, which included 127 empirical studies in the form of peer-reviewed journals and institutional reports published between 2015-2024. The results showed that renewable energy investments and carbon pricing mechanisms can have important positive impact on economic growth in the long run and generate short-term inflationary pressure. As it was found in the review, strategic policy sequencing is the key variable that defines whether green transition policies will result in a net macroeconomic presence or absence. This means that, economies with properly planned green transition policies will perform well in terms of macroeconomic performance than those ones with piece meal policies. This is where the importance of integrated policy frameworks is important in improving the economic performance in the process of sustainability transitions. The review concludes that a thorough transition planning is very important to achieve good macroeconomic results.

Keywords: Green Transition, Macroeconomic Performance, Renewable Energy, Inflation, Employment, Policy Sequencing.

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Therefore, the present review suggests that policies regarding the green transition, in terms of investment planning, social protection, and financial regulation, need to be more coordinated and transparent, regardless of the size of transition that will be undertaken. The governments, as well, need to evaluate the prospects and problems of green transition in a holistic way, evaluate technological potential and institutional strength to improve sustainable economic transformation with the least amount of disruptions.

Introduction

Green transition is traditionally considered to be one of the most important structural economic changes of the modern world as it is global, complex in terms of technology, and entails huge financial costs, offering opportunities and challenges to economic stability and growth (IMF, 2023; Stern, 2022). In that regard, the main objective of the transition policies is to balance between the environmental sustainability and economic development, which leads to the development of new growth perspectives and addresses the transition costs (World Bank, 2023).

Green transition is a term that refers to the transition of economic models that rely on fossil fuels to renewable energy although maintaining economic competitiveness, societal inclusion, and environmental sustainability (OECD, 2023). Simple transitions may include the gradual implementation of renewable energy, but complicated transitions may include the establishment of long-term technological alliances or even a joint venture with the countries of co-fate, which may imply basic commitments between the countries and international organizations (UNEP, 2023). The policies and implementation strategies in green transition can be continuously refined, not only to adapt to technological discoveries and the market environment, but primarily to be more effective, fair, to have interoperability and to make the processes of organizing economic systems more digital (NGFS, 2023).

To the international, systematic green transition can be found back in its early years of environmental policy of the 1970s. It can be traced to 1972 when the United Nations Conference on the Human Environment put the principles of international environmental governance in place (Stern, 2022). With time, the policy regarding the environment transformed and was usually viewed as a limitation to economic development (Nordhaus, 2023). Nevertheless, in the 2010s, with technological advances that created cost-competitive renewables and electric mobility, the environmental policy shifted to the strategy of green growth and became an economic opportunity (IEA, 2023). The dynamics of climate science and technology that had changed dictated that economic policymakers should not focus purely on the tactical sides of transition but instead consider it to be a

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strategic aspect and not purely an environmental compliance problem. It is stressed that the historical emphasis on the cost of compliance is still topical, but the green transition process is a forward-thinking and strategic action (Stiglitz, 2023).

Economic departments of governments especially in developing economies have faced challenges of involving the private sector and communities in the process of transition planning and implementation (AfDB, 2023). This means that the urgent climate needs are not met using well-advanced transition strategies but ad-hoc procedures (World Bank, 2023). With its different capabilities and limitations, national economies in green transition, such as most of the emerging economies, experience similar macroeconomic challenges as advanced economies. In this light, it is critical to explore the macroeconomic implications of green transition policies everywhere in the world.

Statement of the Problem

The IPCC (2023) identifies the two phenomena of climate change and economic transformation as having been extremely problematic since, in the world, more than 3 billion individuals are highly susceptible to climate change, and almost 200 million are affected by energy poverty. The implementation of green transition faces a range of macroeconomic problems such as inflationary forces due to carbon pricing, fiscal limitations due to withdrawal of subsidies, and replacement of employees in conventional energy industry (ILO, 2023). As a result, short-term economic shocks in the economy and long-term sustainability benefits will be generated (IMF, 2023). The process of transition, which has structural differences in energy systems and an industrial pattern, poses a threat to the stability of the economy because it requires capital to be reallocated (BIS, 2023). Poor transition plans will probably lead to economic inefficiency, social instability and sluggish climate targets hence will adversely affect the sustainable development targets (OECD, 2023).

Prior to the Paris Agreement, a great number of economies were experiencing stable energy regimes founded on fossil fuels, as far as reliable energy supply is concerned, as well as set employment pattern in extractive sectors, predictable infrastructure development, stable fiscal collections due to energy taxes, integrative world energy markets, well-behaved supply chains of conventional energy and other ancillary advantages. There was a high reliance among most economies on fossil fuels without proper diversification measures to be used in the future. Similar to other structural changes, economies are currently experiencing the impact of transition pressures: stranded assets, technological dislocation, reskilling of the workforce, regional economic inequalities, financial revenue insecurities, and social resistance to change (World Bank, 2023). It is on this basis that this review will attempt to investigate the macroeconomic implications of green transition policies around the world.

Aims and Objectives

The general objective of the review is to investigate how green transition policies affect macroeconomic performance.

The specific objectives of the review are to:

i. assess the empirical evidence on output and growth effects of green transition policies
ii. examine the inflation dynamics associated with different transition pathways
iii. evaluate the labor market impacts and employment transitions across sectors
iv. analyze financial stability implications and investment reallocation patterns
v. identify optimal policy sequencing and institutional frameworks for successful transitions

Concept of Green Transition

The concept of green transition is described as the shift in production and consumption systems in the economies of countries to become environmentally sustainable and climate resilient. It represents a large part of investment flows in the world because it goes beyond 1.7 trillion every year, and developing countries need substantial foreign assistance (IEA, 2023). Over the past decades, governments have tried to find ways of meeting climate targets without jeopardizing their economies. Green transition is an important part of meeting these goals because it helps to develop low-carbon infrastructure and sustainable economic structures (UNEP, 2023).

Green Transition Process

The concept of green transition process is an important element of the economic policy in modern time which becomes one of the central factors of sustainable development. As Hepburn et al. (2023) claimed, the transition process includes the efforts made by the national economies in order to reorganize and introduce climate considerations and improve economic resilience by involving innovation and diversification. Some of the activities that constitute green transition include the adoption of renewable energy sources, encouraging energy efficiency, the introduction of carbon pricing, sustainable development of infrastructure, and the encouragement of a circular economy (OECD, 2023). According to NGFS (2023), the green transition defines the overall transformation into the low-carbon and climate-resilient development trajectories. Green transition has been discussed on an international scale and established extensive policy formulation, cross-border collaboration, and technological advancement (IMF, 2023).

Concept of Macroeconomic Performance

In the opinion of Blanchard (2023), macroeconomic performance can be assessed through conventional indicators which may include GDP growth, inflation stability, and

employment levels. Performance criteria differ from one economy to another; and the economic objectives being evaluated and the methods used to do so refers to the achievement of sustainable development goals. Depending on the analytical framework employed, macroeconomic performance might be interpreted differently. Performance can also be assessed from national accounts perspective or through broader welfare measurements (Stiglitz, 2023). According to Rodrik (2023), in order to determine how well an economy is performing, you must be able to measure multiple dimensions of economic outcomes; and as such, performance is viewed as the achievement of economic stability, sustainable growth, and equitable distribution. According to Sachs (2023), "macroeconomic performance" is the outcome of economic policies and structural conditions within a national economy. He further said that macroeconomic performance is made up of three different components of how well an economy functions: output stability, environmental sustainability, and intergenerational equity. Acemoglu (2023) further identified critical elements for evaluating macroeconomic performance in the green transition context, including green growth rates, carbon productivity, and just transition indicators. Consequently, World Bank (2023) noted that investment efficiency, innovation capacity, social inclusion, and environmental quality are key measures of macroeconomic performance in sustainability transitions.

Empirical Review

Okafor et al. (2023) carried out a study on the effect of green policies on economic performance: The case of renewable energy adoption in Sub-Saharan Africa. The study employed mixed-methods research approach and explanatory research design. Purposive sampling technique was employed to select 85 policy makers and energy sector experts who responded to the questionnaire. Data were analyzed with descriptive statistics (mean and standard deviation) and inferential statistics (correlation analysis and regression analysis). Findings revealed that green policies (renewable investment, carbon pricing, energy efficiency) affect economic performance to a large extent. Also, the three independent variables accounted for 62% of change in economic performance. Hence, the study recommended that green policies should be implemented strategically as they help to improve economic performance.

Similarly, AfDB (2023) conducted a literature review on the impact of energy transition on African economies. The study assessed 20 articles by analyzing and synthesizing their objectives, methodologies, outcomes and recommendations. Findings revealed that effective transition policies enable economies to achieve energy security, foster technological innovation, and gain competitive advantages in green markets.

Also, IMF (2023) looked at carbon pricing and inflation dynamics using econometric analysis of cross-country data. Data collected from national accounts and price statistics

were analyzed with panel regression methods. It was found that well-designed carbon pricing with revenue recycling minimizes inflationary impacts while improving economic efficiency.

Batten et al. (2023) looked at 'the role of renewable investment on economic growth in advanced economies'. Using a panel data research design with econometric methods, data from national accounts were analyzed. From investment analysis, it was discovered that renewable energy deployment, energy efficiency, and green industrial policies had a positive impact on economic growth'. The economies exhibited improved resilience through energy transition planning. The transition process was optimized when integrated with industrial policy and the relationship with social partners was properly managed leading to superior performance. The governments carried stakeholders along in the transition process. Periodic review of the transition strategy ensured that the changing global conditions were incorporated in the process.

In the European Union, ECB (2023) undertook a study on the financial stability implications of green transition. Data was gathered from financial institutions and climate stress tests. The study revealed that the existence of transition risks influences financial stability in a number of ways. The identified financial stability issues included credit risks and market risks that were considered to be inherent. Nonetheless, the research reported that the financial regulation based on traditional methods was inadequate in dealing with risk of climate. Also revealed is the fact that the reporting of climate risks was increasingly becoming transparent, a significant move towards the realization of financial resilience.

In addition, NGFS (2023) carried out a research that explored the macroeconomic implications of various transition strategies with disorderly and orderly transitions being the case study. The study indicated the significant cost disparity that was realized in the transition cases. Policy preparation was questioned, especially in the situation when nations hesitated to act on climate. It was found out that the economy did not go through a comprehensive transition planning process by the policymakers. The fact that other nations were adopting similar policies was the only reason why some countries were relying on it. Being too different in terms of economic contexts, these countries did not sufficiently take macroeconomic implications into account but rushed to the climate policies. The hurried policy making process had a number of repercussions. Since only a small number of stakeholders was involved in the process, important economic and social aspects were ignored.

METHODOLOGY

The methodology of systematic literature review used in this review entails the identification, evaluation, and synthesis of the empirical studies; literature pool with 127 studies consisting of peer-reviewed journal articles, institutional reports, working papers,

and case studies published between 2015-2024. In the review, the sampling method utilized was extensive sampling of empirical literature in question. The framework of analysis consisted of three components that include the evaluation of the evidence on the output impacts, inflation effects, and labor market effects of green transition. The quality review of each of the studies followed a systematic process and the studies were reviewed according to methodological rigor, quality of data used, method of analysis and applicability to research questions. Analysis of the evidence gathered was done through narrative synthesis and quantitative summary of findings. The synthesis analytical framework is as below:

$Y = f(X_1, X_2, X_3)$

Where,

Y = Macroeconomic Performance

X_1, X_2, X_3 = Green transition dimensions

X_1 = Output and growth effects, X_2 = Inflation dynamics, X_3 = Labor market impacts

Study Inclusion Results

This systematic review identified a total of 127 empirical studies and determined that 89 of the studies were of quality and would be incorporated in the final evidence synthesis of macroeconomic effects of green transition.

Evidence on Macroeconomic Consequences of Green Transition Synthesis.

The overview of the empirical results is presented in table 1. The synergistic effect of evidence in the literature can be attributed to the complicated association between green transition and macroeconomic performance. The other differences in conclusions might be explained by the situational issues which were not fully represented in the separate studies.

The results indicated that the carbon pricing schemes produce important, but diverse impacts (range 0.2-0.8% of GDP impact) on the macroeconomic performance. This means that the modeling and adoption strategy have a great effect on the economic performance. This is consistent with the research of IMF (2023) that determined that effective carbon pricing that involves revenue recycling could be useful in promoting economic efficiency.

On the same note, employment transition initiatives also have significant but conditional impacts (Range: 0.5-2.0% employment impact) on labor market outcomes. This means that the skills aligning and area policies have key impacts on the outcomes of employment. It follows the research of ILO (2023) that transition costs can be reduced by targeted active labor market policies.

Nevertheless, the impact of renewable energy investment on the macroeconomic performance is much positive (Average: 1.2-1.6x multiplier). This means that the more investment is put in renewable energy, the more the economic output would grow, other things being equal. This is in line with the reports by IEA (2023) that found out that more economic growth and innovation are achieved when strategic renewable energy deployment is implemented.

To conclude, when one sums up the empirical support on the dimensions, renewable energy investment is the most predictively positive contribution on the macroeconomic performance in green transitions. The point of such implication is that the economies that invest more in renewable energy as a part of extensive transition strategies would have a higher economic performance than ones that concentrate on individual instruments. This highlights the importance of investment-based transitions in improving the performance of macroeconomies. The diverse effects of other policy tools point out that the other policy instruments should be carefully designed and sequenced to maximize the benefits and minimize the expenses.

Table 1: Synthesis of Empirical Evidence on Macroeconomic Consequences

Macroeconomic Dimension	Key Findings	Evidence Strength	Contextual Factors
Output & Growth	Renewable investments show 1.2-1.6x multipliers; Delayed transitions cost 2-3% of GDP by 2030	Strong consistent evidence	Policy sequencing, investment efficiency, institutional capacity
Inflation Dynamics	Carbon pricing adds 0.2-0.8% to inflation; Critical minerals cause price volatility	Moderate varying evidence	Policy design, market structure, international coordination
Labor Markets	Net employment gains 0.5-2.0%; Significant sectoral reallocation	Strong consistent evidence	Skills policies, regional strategies, social protection
Financial Stability	Stranded asset risks of $1-4 trillion globally; Credit risks in high-emission sectors	Emerging evidence	Regulatory frameworks, disclosure standards, risk assessment

Source: Researcher's synthesis of empirical literature (2024)

CONCLUSION

This systematic review has summarised empirical findings on the macroeconomic impacts of green transition in 89 high-quality studies. These results show that although the transition poses complicated issues, the implementation of properly planned policies can bring about considerable economic gains and simultaneously control the expenditures.

The facts provide three major findings. First, renewable energy investments are always associated with high positive economic returns with multipliers of 1.2-1.6x and this is a

better investment than fossil fuels as it leads to a sustainable growth. Second, the employment effects, though overall positive, will have to be handled very carefully by implementing active policies in the labor market and strategic regional development to deal with the high sectoral and geographical displacement. Third, stranded asset and transition risks result in financial instability, which requires proactive regulation strategies and climate risk measurement.

Strategic sequencing, the combination of policy frameworks, and wholesome social protection measures are all critical to the success of the green transition policies. The empirical literature shows clearly that disorderly transitions may have much more economic costs, whereas well managed transitions may lead to innovation, productivity, and sustainable development.

Research in the future should focus on the distributional effects, transition pathways to emerging economies that are specific to context, and also better monitoring frameworks. Further empirical study and evidence-based formulation of policies will be key to both climate and economic success as the transition becomes even faster.

RECOMMENDATIONS

On the basis of the empirical evidence summed up in this review, it can be suggested to the policymakers, international institutions and stakeholders in the design and implementation of green transition strategies the following recommendations:

Investment and Industrial Policy Recommendations

- **Accelerate renewable energy deployment** through targeted investment incentives and streamlined permitting processes, given the consistent evidence of high GDP multipliers (1.2-1.6x) associated with clean energy investments (IEA, 2023; Okafor et al., 2023)
- **Implement green industrial policies** that support domestic clean technology manufacturing and supply chain development to capture economic opportunities and enhance energy security (Rodrik, 2023; AfDB, 2023)
- **Establish green investment banks** and dedicated financing facilities to mobilize private capital for transition projects, particularly in emerging markets facing annual financing gaps of $400-600 billion (World Bank, 2023; IMF, 2023)

Social Protection and Labor Market Recommendations

- **Develop comprehensive just transition frameworks** that include active labor market policies, retraining programs, and social protection measures to support workers and communities affected by transition-related job displacements (ILO, 2023; OECD, 2023)

- **Invest in skills development and vocational training** programs aligned with emerging green sectors, addressing the finding that 60-70% of workers in declining sectors require significant retraining for green jobs (ILO, 2023; World Bank, 2023)
- **Implement regional development strategies** specifically tailored to support fossil fuel-dependent communities, given the evidence of 10-25% GDP reductions in affected regions without adequate transition support (OECD, 2023; IMF, 2023)

Macroeconomic and Financial Policy Recommendations

- **Adopt sequenced carbon pricing mechanisms** that are gradually introduced alongside investment in alternatives and compensatory social measures to minimize inflationary impacts and distributional concerns (IMF, 2023; Batten et al., 2023)
- **Integrate climate risk assessment** into financial regulation and supervision, including mandatory climate stress testing for financial institutions to address the material risks identified in transition scenarios (NGFS, 2023; ECB, 2023; BIS, 2023)
- **Enhance international policy coordination** to manage cross-border spillover effects and prevent carbon leakage, while supporting developing economies through technology transfer and climate finance (UNEP, 2023; World Bank, 2023)

Governance and Institutional Recommendations

- **Strengthen institutional capacity** for integrated policy planning and implementation, ensuring coordination between energy, economic, environmental, and social ministries to address the complex interdisciplinary nature of transition challenges (OECD, 2023; AfDB, 2023)
- **Establish independent monitoring and evaluation frameworks** to track transition progress, economic impacts, and social outcomes, enabling evidence-based policy adjustments and accountability mechanisms (Stern, 2022; Stiglitz, 2023)
- **Promote multi-stakeholder engagement** processes that include businesses, communities, labor unions, and civil society in transition planning to build social consensus and enhance policy legitimacy (ILO, 2023; OECD, 2023)

Research and Knowledge Development Recommendations

- **Expand research on distributional impacts** of transition policies across income groups, regions, and sectors to inform more equitable policy design and targeted compensation mechanisms (Stiglitz, 2023; World Bank, 2023)
- **Develop emerging economy-specific transition pathways** that account for different starting points, capacities, and development priorities, moving beyond one-size-fits-all approaches (AfDB, 2023; IMF, 2023)

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- **Enhance data collection and monitoring systems** for tracking transition investments, employment effects, and economic outcomes to support evidence-based policy learning and continuous improvement (IEA, 2023; OECD, 2023)

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