

# **Fiscal Decentralization and Green Growth: A Comparative Study of Western and Central-Eastern EU Countries**

Aleksander Aristovnik<sup>1</sup>, Sabina Hodžić<sup>2</sup>, Dejan Ravšelj<sup>1</sup>

<sup>1</sup> Faculty of Public Administration, University of Ljubljana, Slovenia

<sup>2</sup> Faculty of Tourism and Hospitality Management, University of Rijeka, Croatia

**Abstract:** Rising energy consumption and continued reliance on fossil fuels across European Union (EU) countries have led to increased emissions, intensifying environmental challenges. Due to the special natural and geographical conditions of the Central-Eastern European EU countries, these challenges are even more pronounced. This is due to their heavy dependence on coal, the high cost of modernising infrastructure, low public awareness of environmental issues and ongoing political and institutional instability. The EU Green Deal, with its integrated climate strategies, has begun to shift this trajectory, and progress in Central-Eastern EU countries is becoming increasingly evident. Within this framework, fiscal decentralization plays a crucial role by empowering local governments to shape environmental policies and implement decarbonization measures, fostering green growth through programs tailored to local needs and development priorities. Therefore, this paper aims to examine the impact of fiscal decentralisation on green growth, using panel data analysis based on a sample of 25 EU countries over the period from 1995 to 2023. The results show that higher levels of fiscal decentralisation are significantly associated with lower greenhouse gas emissions intensity, thereby supporting green growth, with the effect being more pronounced for Central-Eastern EU countries. Further insights from control variables related to the Environmental Kuznets Curve, structural economic composition, and renewable energy consumption reveal additional noteworthy differences between Central-Eastern and Western EU countries. The findings suggest that enhancing fiscal decentralisation, particularly in Central-Eastern EU countries where its impact on reducing greenhouse gas emissions is more pronounced, can serve as a strategic policy lever for promoting green growth by empowering local governments to design and implement regionally tailored environmental measures, provided that such efforts are complemented by support for renewable energy development.

**Keywords:** fiscal decentralization, green growth, comparative perspective, panel data analysis, Western EU countries, Central-Eastern EU countries