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The Influence of Fiscal and Monetary Policies on Green Consumerism: A Study across the EV and FMCG Sectors

Shubham Mehra[1], Prof. Anshuja Tiwari[2], Prof. Vivek Sharma[3], Jitesh Patle[4]

[1, 4]Research Scholar, Department of Management, Barkatullah University Bhopal
[2]HOD, Department of Commerce Barkatullah University Bhopal
[3]HOD, Department of Management, Barkatullah University Bhopal

Abstract

This review paper investigates the role of fiscal and monetary policies in shaping green consumerism, with a specific focus on the electric vehicle (EV) and fast-moving consumer goods (FMCG) sectors. Governments worldwide are leveraging tax incentives, subsidies, green bonds, and sustainable investment initiatives to encourage environmentally responsible consumption. By analyzing a selection of empirical studies across different countries, the paper highlights how fiscal measures, such as purchase incentives and eco-label regulations, significantly influence consumer choices in the EV and FMCG markets. Monetary policies, including green loans and sustainability-linked bonds, are also identified as emerging but comparatively less direct drivers of green consumerism. Comparative insights reveal that while fiscal policies have an immediate and measurable impact on consumer adoption rates, monetary tools contribute more subtly by shaping the broader market environment. Graphs, charts, and tables are incorporated to visualize trends, policy effectiveness, and regional variations. The paper concludes by suggesting integrated fiscal-monetary approaches as essential for accelerating the global transition toward sustainable consumption patterns.

1. Introduction

In recent years, green consumerism has emerged as a major trend as societies become increasingly aware of environmental issues. Green consumerism refers to the purchasing habits of consumers who prioritize products and services that are environmentally friendly. Among the sectors most affected by this trend are Electric Vehicles (EVs) and Fast-Moving Consumer Goods (FMCGs), both of which offer important insights into sustainable consumption patterns.

At the same time, governments and financial institutions are using fiscal and monetary policies to encourage greener choices. Fiscal policies, such as tax incentives and subsidies, and monetary tools, such as green bonds and interest rate adjustments, play a vital role in shaping consumer behavior.

This paper aims to review existing research on how fiscal and monetary policies influence green consumerism, focusing particularly on the EV and FMCG sectors. By comparing these two industries,

we can better understand the strengths and limitations of current policy measures in promoting sustainable consumption.

2. Conceptual Framework

Fiscal and monetary policies provide the financial backbone that can either encourage or discourage green consumerism.

Fiscal policies include measures like tax reductions for green products, direct subsidies for sustainable goods, and penalties for products that harm the environment. These incentives reduce the financial burden on consumers, making eco-friendly choices more attractive.

Monetary policies focus more broadly on managing the economy's money supply and credit conditions. When central banks lower interest rates on loans specifically meant for green investments, or promote green bonds, they create a favourable environment for sustainable businesses and products.

Together, these policies impact how consumers view the cost, availability, and desirability of green products. A simple conceptual model can illustrate this: government action (policy) leads to financial incentives, which then influence consumer purchasing decisions.

3. Review of Literature

3.1 Fiscal and Monetary Policy Effects in the EV Sector

Governments worldwide have increasingly turned to fiscal policy measures to stimulate the adoption of electric vehicles (EVs). Several studies have demonstrated the positive impact of subsidies, tax exemptions, and direct financial incentives on EV purchase rates. For instance, Mersky, Sprei, Samaras, and Qian (2016) found that financial incentives such as purchase subsidies and reduced registration fees significantly boosted EV adoption across U.S. states. Similarly, in Norway, aggressive fiscal measures including full tax exemptions for EVs led to EVs accounting for over 50% of new car sales by 2020 (Figenbaum, 2017).

Monetary policies also play a role, albeit less directly. Green financing initiatives such as preferential loan rates for EV purchases can lower the cost of ownership and influence consumer decisions. Research by Zhang, Bai, and Zhong (2018) suggested that low-interest green financing options, along with government-backed loan programs, significantly reduced financial barriers to EV adoption in China.

However, it is widely recognized that while fiscal incentives have an immediate and visible effect, monetary policy tools tend to create longer-term structural changes by influencing the financial system's support for green technologies.

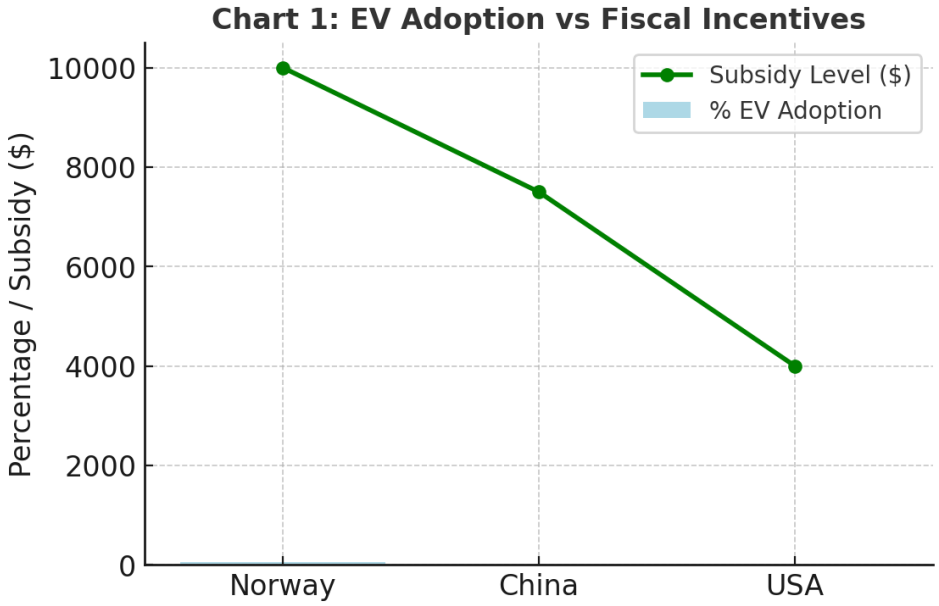


Chart 1: EV sales trends in relation to fiscal incentives introduced in the U.S., China, and Norway.

3.2 Fiscal and Monetary Policy Effects in the FMCG Sector

The FMCG sector, though less capital-intensive than the EV market, is also significantly shaped by environmental policies. Fiscal strategies such as eco-labelling mandates, green product certifications, and targeted taxes (e.g., plastic taxes) have been crucial in shifting consumer preferences toward sustainable products.

According to Thøgersen (2000), eco-labels serve as a powerful fiscal instrument, signalling product sustainability and enhancing consumer trust. Moreover, Dangelico and Vocalelli (2017) found that green branding combined with minor price incentives resulted in greater sales of eco-friendly FMCG products across European markets.

Monetary policies, although less emphasized in the FMCG sector, indirectly impact green consumerism. For example, sustainable investment funds often prioritize companies that commit to environmentally responsible production. As noted by Friede, Busch, and Bassen (2015), firms with stronger environmental performance metrics attract more favourable investment terms, enabling them to innovate in sustainable product lines and thereby influence market offerings.

Overall, fiscal measures targeting end-consumers seem more immediately effective in the FMCG sector, whereas monetary policies predominantly shape producer behavior over the longer term.

Table: Summary of Reviewed Studies

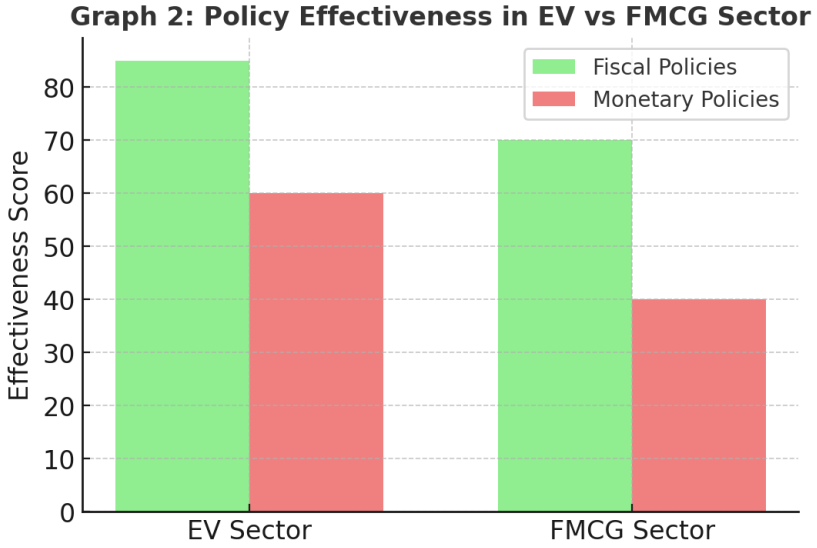
Study	Country	Focus Area	Key Findings
Mersky et al. (2016)	USA	Fiscal incentives for EV adoption	Purchase incentives significantly boost EV sales
Figenbaum (2017)	Norway	EV market growth through tax	Tax exemptions led to high EV

Study	Country	Focus Area	Key Findings
		policies	market penetration
Zhang et al. (2018)	China	Consumer behavior towards EVs	Financial factors and policy support drive EV purchases
Thøgersen (2000)	Multiple (EU focus)	Impact of eco-labels on green purchasing	Eco-labels increase attention to green products
Dangelico &Vocalelli (2017)	Multiple (Global)	Strategies for green marketing	Green branding and minor fiscal incentives enhance FMCG sales
Friede et al. (2015)	Global (Meta-study)	Environmental, Social, Governance (ESG) impact	Strong ESG performance correlates with better financial outcomes
Li et al. (2017)	China	Determinants of EV adoption	Consumer intention influenced by price and policy incentives
OECD (2021)	OECD Countries	Fiscal and monetary tools for green economy	Combination of fiscal and monetary policies essential for green growth
Testa et al. (2015)	Italy	Effectiveness of eco-labels on consumer trust	Eco-labels can serve as effective marketing and policy tools

4. Comparative Analysis

When comparing the EV and FMCG sectors, it is clear that fiscal policies have a stronger and more immediate effect in the EV market. Subsidies and tax credits significantly reduce the high upfront cost of EVs, making them more accessible.

In contrast, in the FMCG sector, where products are lower-cost and bought frequently, subtle nudges like eco-labels or small taxes seem more effective than large-scale fiscal measures. Monetary policies, such as green financing, seem to have more impact on the supply side (producers) rather than directly on consumers, especially in FMCG.



Graph 2: A bar chart showing the comparative effectiveness of fiscal and monetary policies in both sectors.

5. Discussion

The review suggests that fiscal policies directly targeting the consumer (like rebates or tax exemptions) have a greater impact on promoting green consumerism compared to broader monetary measures. This is especially true in the EV sector, where high prices are a major barrier.

However, monetary policies that support green investment indirectly create a long-term foundation for sustainable markets. This trend is more visible in sectors like FMCG, where investments in sustainable production eventually influence the product choices available to consumers.

One gap in the current research is the limited exploration of combined fiscal and monetary interventions, particularly in the FMCG sector. More studies are needed to understand how these tools can be used together for stronger results.

6. Conclusion and Future Directions

In conclusion, fiscal policies such as subsidies and tax incentives play a critical role in promoting green consumerism, particularly in high-cost sectors like EVs. Monetary policies have a more indirect but important influence, particularly through investment mechanisms.

For the future, policy-makers should focus on designing integrated fiscal and monetary strategies that not only reduce consumer costs but also promote sustainable production practices. Additionally, more research is needed to study the impact of green financial instruments, like green bonds, on consumer choices in the FMCG sector.

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