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EMPIRICAL STUDY ON THE INTERDEPENDENCE BETWEEN ENVIRONMENTAL WELLBEING, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH

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Abstract

This study investigates the dynamic relationship between economic growth, energy consumption, financial development, and CO₂ emissions at macro level in the case of 49 countries from Europe and Central Asia over a two-year period. The research focuses exclusively on country-level characteristics and uses a heteroscedasticity-consistent standard error estimator (HC3) to analyze the aforementioned relationship. The proposed econometric models test whether: i) the level of development of financial markets, the extent of energy consumption, and the degree of economic freedom of a nation are environmentally beneficial, and ii) the economic development is influenced by the governmental and corporate engagement towards sustainability, growth of financial markets and environmental performance. Results of the first test support the view that emission intensity is positively linked with the high level of functioning of the money market and capital market, the extent of energy consumption by companies and individuals and the high degree of eco-efficiency. Results of the second test show that the commitment of nations to sustainability and corporate commitment to sustainability reporting positively influence economic growth, while financial development and environmental performance are detrimental to economic development.

Keywords: economic growth, emission intensity, energy intensity, financial development, sustainability reporting

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