

Energy Consumption, Financial Development and Economic Growth in FATF Countries: The Causal Nexus

Abstract

The association between energy consumption, financial development, and economic growth has received considerable attention in the development literature. While the research specifies that there are associations between these variables, a majority of the research mostly focuses on the impact of either energy consumption on economic growth or financial development on economic growth. This study focuses on the causal nexus between energy consumption, financial development, and economic growth across the 35 Financial Action Task Force (FATF) countries, namely Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, India, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States over the period 1961-2015. Specifically, the study first deploys dynamic panel data modelling to examine the determinants of both energy consumption and financial development in the selected countries. The Granger causality test is subsequently applied for studying the causal nexus between energy consumption, financial development, and economic growth. The empirical analysis finds that there exists disparity in energy consumption, financial development, and economic growth in these countries. The Granger causality test shows that both energy consumption and financial development have substantial impact on economic growth. It also shows that both energy consumption and financial development Granger cause each other. It is, therefore, necessary to have ample energy consumption and financial development and their integration in these FATF countries for achieving higher economic growth. The insufficiency of these two brings in different policy implications for these countries.

Keywords: Energy consumption, financial development, economic growth, Granger causality, FATF countries

