

Financial development and sectoral CO₂ emissions in Malaysia

ABSTRACT

The paper examines the impacts of financial development on sectoral carbon emissions (CO₂) for environmental quality in Malaysia. Since the financial sector is considered as one of the sectors that will contribute to Malaysian economy to become a developed country by 2020, we utilize a cointegration method to investigate how financial development affects sectoral CO₂ emissions. The long-run results reveal that financial development increases CO₂ emissions from the transportation and oil and gas sector and reduces CO₂ emissions from manufacturing and construction sectors. However, the elasticity of financial development is not significant in explaining CO₂ emissions from the agricultural sector. The results for short-run elasticities were also consistent with the long-run results. We conclude that generally, financial development increases CO₂ emissions and reduces environmental quality in Malaysia.

Keyword: Financial development; Sectoral carbon emissions; Cointegration method; Malaysia