

## **Granger Causal Nexus between Financial Development and Energy Consumption: Evidence from Cross Country Panel Data**

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**Abstract :** This paper examines the Granger causal nexus between financial development and energy consumption in the group of 35 Financial Action Task Force (FATF) Countries over the period 1988-2012. The study uses two financial development indicators such as private sector credit and stock market capitalization and seven energy consumption indicators such as coal, oil, gas, electricity, hydro-electrical, nuclear and biomass. Using panel cointegration tests, the study finds that financial development and energy consumption are cointegrated, indicating the presence of a long-run relationship between the two. Using a panel vector error correction model (VECM), the study detects both bidirectional and unidirectional causality between financial development and energy consumption. The variation of this causality is due to the use of different proxies for both financial development and energy consumption. The policy implication of this study is that economic policies should recognize the differences in the financial development-energy consumption nexus in order to maintain sustainable development in the selected 35 FATF countries.

**Keywords :** energy consumption, financial development, FATF countries, Panel VECM

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