



IMF Working Paper

Who's Going Green and Why? Trends and Determinants of Green Investment

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Abstract

This Working Paper should not be reported as representing the views of the IMF.

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

This paper fills a gap in the macroeconomic literature on renewable sources of energy. It offers a definition of green investment and analyzes the trends and determinants of this investment over the last decade for 35 advanced and emerging countries. We use a new multi-country historical dataset and find that green investment has become a key driver of the energy sector and that its rapid growth is now mostly driven by China. Our econometric results suggest that green investment is boosted by economic growth, a sound financial system conducive to low interest rates, and high fuel prices. We also find that some policy interventions, such as the introduction of carbon pricing schemes, or “feed-in-tariffs,” which require use of “green” energy, have a positive and significant impact on green investment. Other interventions, such as biofuel support, do not appear to be associated with higher green investment.

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