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ENVIRONMENTAL PROTECTION, DEBT SUSTAINABILITY AND ECONOMIC COMPLEXITY

Abstract:

Nowadays, many governments of the OECD member states are struggling with high levels of national debt largely due to increased public expenditure during the Covid-19 pandemic. In addition, the ever-increasing levels of inflation have taken the spotlight of macroeconomic focus away from other policy objectives that were at the forefront of economic debates previously, such as environment protection. The focus of the current research is to assess the effectiveness of environment taxes as potential policy tools to help rebuild fiscal space, which is used as a measure of national debt sustainability. Furthermore, the research is extended to include the impact of environment taxes on economic complexity as a measure of an economy's production potential and sophistication. The research method is based on dynamic panel regression models using data for a period of 10 years. The research results reveal that environment protection policies should rely on resources taxes as they can also help improve fiscal space and increase economic complexity.

Keywords:

environment taxes, fiscal space, economic complexity, green taxes, resources taxes

JEL Classification: E62, H23, H63