

THE EFFECT OF COUNTRY ESG PERFORMANCE ON PUBLIC DEBT: EVIDENCE FROM EUROPE

Filippos Ioannidis
School of Economics
Aristotle University of Thessaloniki, Greece
Email: fiannidi@econ.auth.gr

Theodoros Kostakidis
School of Economics
Aristotle University of Thessaloniki, Greece
Email: tkostaka@econ.auth.gr

Kyriaki Kosmidou*
School of Economics
Aristotle University of Thessaloniki, Greece
Email: kosmid@econ.auth.gr

Athanasios Kazanas
School of Economics
Aristotle University of Thessaloniki, Greece
Email: tkazanas@econ.auth.gr

*Corresponding Author: Kyriaki Kosmidou , kosmid@econ.auth.gr

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Abstract

We study whether and how a country's environmental, social, and governance (ESG) performance relates to public debt. We develop an ESG performance index from 17 sustainability indicators retrieved from World Bank. Our assumption is that ESG scores affects debt levels, since sustainability has a significant impact on a country's creditworthiness and, therefore, it is a potential risk factor, along with traditional sovereign risk factors like cost of debt, inflation, and GDP growth. Using a sample of quarterly observations from 20 Eurozone countries over the period 2003-2021, empirical findings indicate that increased performance of ESG score is linked to lower debt to GDP ratio.

JEL classifications: G11, F34

Keywords: ESG Performance, Public Debt, Sustainability, Eurozone