

Heterogeneous Effects of Inflation, Inflation Targeting, and Climate Commitments on Financial Development

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Abstract

This study explores the heterogeneous effects of inflation, inflation uncertainty, inflation targeting, and climate policy commitments on financial development across 197 countries from 2007 to 2021. Using a quantile regression framework, we examine how these macroeconomic factors influence financial development at different points in the distribution. The results reveal that inflation and inflation uncertainty have increasingly negative effects on financial development in more financially advanced economies. In contrast, inflation targeting is positively associated with financial development across all quantiles, with the strongest impact observed at the median. Furthermore, the moderating role of the Paris Agreement emerges as significant, particularly in reducing the adverse effects of inflation in countries with stronger institutional depth. Robustness checks using alternative proxies—Financial Institutions Index (FII) and Financial Markets Index (FM)—confirm the stability of the main findings. This study highlights the importance of distribution-sensitive policy design and underscores the complementary roles of monetary credibility and climate commitments in promoting resilient financial systems.

Keywords

Inflation uncertainty, Financial depth, Inflation targeting, Climate policy commitments, Quantile regression.