Abstract

Green bonds present a promising tool enabling investors in fixed-income markets to finance environmental projects. Yet, the pricing of green bonds with respect to conventional bonds remains an open question. This thesis investigates the existence of a yield differential between green and equivalent conventional bonds in the secondary market. By matching green bonds with synthetic conventional bonds and performing a fixed effects panel regression of the yield spread, we find evidence of a small negative premium associated with green bonds ("green premium"): as a result of high demand from value-seeking investors, the yield of green bonds is on average 1.12 basis points lower than that of their conventional counterparts. The variation in the magnitude of the green premium with bond characteristics is further examined through a cross-sectional regression. We show that external verification of the bond's green credentials and assurance on its post-issuance allocation report significantly increase the estimated green premium. Finally, the green bond's yield seems to decrease in case proceeds are used to finance new projects, while refinancing existing projects results in an increase in the bond's yield. Our findings provide valuable insights into the field of green bond pricing. While the average size of the estimated green premium does not present a discouragement for mainstream investors to engage in green bonds, the areas of green credibility and additionality need to be addressed in order to enhance investors' trust in the innovative instrument.

JEL Classification	C31, C33, G12, G14, Q01, Q56
Keywords	green bonds, green premium, sustainable investments, investors' preferences
Title	Financing Climate Action: The Pricing of Green Bonds and Its Determinants

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