

The Importance of Going Green: Evaluating the Impact of Green Bond Issuance on Stock Prices of European Listed Companies

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Abstract:

Green bonds have become increasingly important financial instruments for funding sustainable development goals, with Europe leading the way in green bond issuances. This study, which investigates the impact of green bond issuance on the stock prices of European listed companies, provides crucial insights. Employing the event study methodology, this research analyses market reactions across different geographical regions (Central and Eastern Europe, Northern Europe, Southern Europe, and Western Europe), company sizes, bond issuance sizes relative to company capitalisation, and green bond certifications. The findings indicate that, generally, the issuance of green bonds does not result in a significant change in the stock prices of the issuing companies. This overall lack of impact remains consistent across different geographical regions, company sizes, and issuance sizes. However, a notable exception is observed with the certification status of green bonds. Specifically, certified green bonds generally show a more favourable market perception with no significant change in stock prices. In contrast, non-certified green bonds are associated with a decline in the stock prices of the issuing companies. These results underscore the importance of certification in green bond issuance and suggest that financial markets react differently based on the certification status of the bonds. With its significant findings, this research contributes to the sustainable finance literature by providing empirical evidence on how green bond issuance impacts company market value, informing investment decisions and policy-making to support the development of green finance.

Keywords:

Green bonds, Event study, Sustainable finance, Financial geography, Stock price reaction, Green bond certification.