The green debt halo effect: is there any advantage on going green?

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Green bonds are financial instruments whose purpose is to incentivize green projects, thereby combating climate change. In this paper, we find that the outstanding debt of bond issuers experience positive price shift following the announcement of green bond issuance, suggesting a green halo effect on debt. This corroborates the hypothesis that green bond issuance is a signal to investors that the issuer acknowledges and commits to mitigating climate risks, reducing the perceived bond default risk. We quantify the effect by conducting an event study where green and conventional bond announcement events are considered. For each event, abnormal returns of outstanding bonds of the issuers are calculated. The abnormal returns are further regressed on bond characteristics and appropriate control variables. We find a significantly positive effect where, all else equal, green bond labelling increases the abnormal return experienced by outstanding bonds We further show that externally reviewed green bonds experience a more pronounced effect, and also document substantial regional and industrial differences. Conclusively, we provide evidence that a green halo debt effect exists. Since the effect might represent a reduction in issuers' cost of debt capital, it may provide bond pricing advantages to the issuer, and more generally, a financial incentive to issue green bonds.