The economics of the greenium: How much is the world willing to pay to save the Earth?

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Summary

Sadly, not much. This paper provides a theoretical and empirical analysis of the greenium, the price premium the investor pays for green bonds over conventional bonds. We explain in simple economic terms why the price premium of a green bond essentially represents a combination of the non-pecuniary environmental benefit of the bond, as perceived by the investor, and the effective cost of issuing it, as measured by the additional issuing costs of the bond netted off a range of monetary and non-monetary benefits associated with the issuance. Our empirical model decomposes the greenium into a time-varying market component which is common to all green bonds and an idiosyncratic component which is

specific to a certain green bond itself. Using a global green bond dataset larger than any previous studies, we find that the greenium on average amounts to, sadly, just over one basis point. However, it can vary quite significantly among individual green bonds and our result suggests that a key factor underlying the variation is that they are subject to the risk of greenwashing to different extents.