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THE IMPACT OF CHINA’S MONETARY POLICY ON GREEN BONDS

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Abstract

Green bonds are an important tool for green finance financing, and their development is undoubtedly influenced by the central bank's monetary policy. Based on the daily data of ChinaBond Green Bond Index from 2010 to 2021, this paper adopts the event study method to study the impact of the central bank's monetary policy on the green bond market. The empirical results show that the impact of policy shocks on the green bond market is significant, that is, the loose monetary policy can significantly reduce the China Green Bond Index. However, the effects of different monetary policy tools vary, with significant impacts coming from the reserve requirement ratio adjustment and meeting minutes issued by the central bank. The identification strategy of the instrumental variable method also supports this result. Further, based on the structural vector autoregressive (SVAR) model, we find that the impact of monetary policy shocks on the entire bond market, including the green bond market, lasts for a long time, and the volatility of the green bond index is similar to that of corporate bonds, indicating that the pricing, issuance, and operation of green bonds converge to that of corporate bonds. Finally, this paper puts forward suggestions for the central bank to support the healthy development of the green bond market, such as launching targeted structural monetary policy tools to support green finance.

Key words: event study, green bond, monetary policy

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