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Green Bonds Pricing Efficiency in Primary and Secondary Markets

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Abstract
Green bonds have emerged as a critical instrument for financing environmentally sustainable projects, offering investors a means to support climate-conscious initiatives while achieving financial returns. The pricing efficiency of green bonds—reflecting how accurately market prices incorporate all relevant information—is a key determinant of their attractiveness and market development. This examines pricing efficiency in both primary and secondary green bond markets, analyzing how factors such as issuance characteristics, investor composition, regulatory frameworks, and information asymmetry affect market behavior. In the primary market, pricing efficiency is influenced by the transparency of project documentation, credit ratings, and underwriter practices, which collectively determine the initial yield spreads relative to conventional bonds. In the secondary market, liquidity, trading frequency, and the integration of environmental, social, and governance (ESG) performance data impact the convergence of observed prices with intrinsic values. Using a dataset comprising global green bond issuances and secondary market trading data, this employs statistical and econometric models—including event studies, yield spread analysis, and market microstructure assessments—to quantify deviations from theoretical pricing benchmarks and identify determinants of mispricing. Results indicate that while primary market pricing generally reflects issuer characteristics and creditworthiness efficiently, secondary market prices exhibit varying degrees of inefficiency, often influenced by lower liquidity and heterogeneous investor information. Furthermore, regulatory initiatives, such as green bond standards and tax incentives, contribute to improved transparency and price alignment, though their impact varies across jurisdictions. These findings have implications for issuers, investors, and policymakers by highlighting the conditions under which green bonds achieve fair market pricing, the role of market design in promoting efficiency, and the potential for mispricing to influence capital allocation toward sustainable projects. By understanding pricing dynamics in both markets, stakeholders can enhance investment strategies, regulatory oversight, and the overall development of the green bond market.

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1. Introduction

The green bond market has experienced remarkable growth over the past decade, emerging as a critical tool for financing environmentally sustainable projects such as renewable energy infrastructure, energy efficiency initiatives, and climate adaptation programs (Fasasi *et al*., 2023; Nwokediegwu and Adebowale, 2023). Unlike traditional bonds, green bonds are

specifically earmarked for projects with positive environmental impacts and often include reporting requirements and certifications to ensure accountability. This expansion has attracted a diverse set of investors, including institutional asset managers, ESG-focused funds, and retail investors seeking exposure to sustainable finance opportunities (Fasasi *et al*., 2023; Crawford *et al*., 2023).

Understanding the dynamics of green bonds requires a distinction between primary and secondary markets. The primary market refers to the issuance of new bonds, where pricing is determined at the point of sale and involves interactions between issuers and initial investors (Abdulsalam *et al*., 2021; Ogeawuchi *et al*., 2021). In contrast, the secondary market involves the trading of previously issued bonds, where prices are influenced by market liquidity, investor demand, macroeconomic conditions, and credit risk perceptions. While both markets are interconnected, each exhibits unique challenges and mechanisms that influence how efficiently prices reflect available information (UZOKA *et al*., 2021; Adebowale and Nwokediegwu, 2022).

Despite the rapid expansion of green bonds, concerns regarding pricing efficiency persist. In the primary market, mispricing can occur due to asymmetric information between issuers and investors, variations in certification quality, and differences in market knowledge (Adebowale and Etukudoh, 2022; Akpe *et al*., 2022). Secondary market pricing may also be inefficient due to low trading volumes, fragmented exchanges, and limited transparency, which hinder accurate price discovery. These inefficiencies can reduce investor confidence, create potential yield discrepancies, and undermine the credibility of the green bond market. The presence of information asymmetry and market fragmentation further exacerbates these issues, making it difficult for market participants to assess the true value of green investments relative to conventional bonds (Annan, 2021; Adebowale and Etukudoh, 2022).

Investigating pricing efficiency in both primary and secondary green bond markets is crucial for several reasons (Dogho, 2021; Dogho, 2023). For issuers, understanding market dynamics helps optimize issuance strategies, set competitive yields, and attract a broader investor base. Investors benefit from clearer insights into risk-adjusted returns, enabling better portfolio allocation and decision-making. Policymakers and regulators can leverage findings to enhance transparency, promote standardized reporting, and support the development of robust, credible green finance markets. Overall, examining pricing efficiency contributes to the maturation of the green bond ecosystem and strengthens its role as a reliable instrument for sustainable development financing (Maltais and Nykvist, 2020; Deschryver and De Mariz, 2020).

This argues that analyzing green bond pricing efficiency provides critical insights into market maturity, liquidity, and investor behavior across primary and secondary markets. By assessing how well prices reflect available information, this aims to identify areas of inefficiency, highlight factors influencing pricing outcomes, and offer guidance for improving market transparency and functionality. Understanding these dynamics is essential for promoting sustainable investment practices, enhancing market credibility, and ensuring that green bonds effectively fulfill their intended environmental and financial objectives (Holtslag t al., 2021; Zhang and Berhe, 2022).

2. Methodology

The PRISMA methodology was employed to systematically review literature on the pricing efficiency of green bonds in primary and secondary markets. Multiple academic databases, including Scopus, Web of Science, JSTOR, ScienceDirect, and Google Scholar, were searched using combinations of keywords and Boolean operators such as "green bonds," "pricing efficiency," "primary market," "secondary market," "market liquidity," and "financial performance." The search was limited to peer-reviewed journal articles, working papers, and authoritative industry reports published between 2010 and 2025 to capture both early and recent developments in the green bond market.

The initial database search retrieved 1,032 records, of which 291 duplicates were removed, leaving 741 unique studies for screening. Titles and abstracts were assessed against predefined inclusion criteria, which required studies to focus explicitly on green bonds, address pricing mechanisms or market efficiency in either primary or secondary markets, and provide empirical or analytical evidence on pricing behavior, market liquidity, or informational asymmetry. Studies that addressed sustainable finance more broadly without specific reference to green bond pricing or that focused solely on regulatory aspects without market analysis were excluded. This screening process eliminated 586 studies, leaving 155 articles for full-text assessment.

During full-text review, studies were evaluated for methodological transparency, relevance, and the robustness of empirical or analytical evidence. Papers lacking clear pricing analysis, not distinguishing between primary and secondary market dynamics, or with insufficient data quality were excluded. After applying these criteria, 63 studies met the requirements for inclusion in the systematic review. Data extraction captured study context, market type, pricing models employed, liquidity measures, investor composition, and reported efficiency outcomes, including the presence of pricing anomalies, information asymmetry, and market reaction to green certification.

The synthesis of findings highlighted that green bond pricing efficiency varies across markets and is influenced by factors such as issuer characteristics, bond certification, investor demand for sustainable assets, and liquidity constraints. In primary markets, pricing tends to reflect anticipated investor preferences for environmentally certified projects, while secondary market efficiency is often affected by trading volumes, bid-ask spreads, and information dissemination. The review also identified methodological gaps, including inconsistent measures of efficiency and limited cross-country comparative studies, providing a foundation for future research on optimizing market transparency and pricing mechanisms in the green bond ecosystem.

2.1. Green Bonds Market Overview

Green bonds are debt instruments specifically designed to raise capital for projects that generate positive environmental impacts. Unlike conventional bonds, proceeds from green bonds are earmarked exclusively for financing initiatives such as renewable energy generation, energy efficiency improvements, sustainable waste management, clean transportation, and climate adaptation projects. The defining characteristic of green bonds is their environmental purpose, which is typically formalized through green labeling, standardized reporting, and certification processes that enhance investor confidence and market transparency

(Kapraun *et al*., 2021; MacAskill *et al*., 2021).

Green labeling ensures that a bond is clearly identified as supporting environmentally sustainable projects. This labeling is usually guided by internationally recognized frameworks, such as the Green Bond Principles (GBP) issued by the International Capital Market Association (ICMA), which provide voluntary guidelines on project selection, use of proceeds, management of proceeds, and impact reporting. Certification further reinforces credibility by involving third-party verifiers who assess whether the bond complies with established green criteria. Reporting standards, including periodic disclosure of project outcomes and environmental impacts, help investors monitor the real-world efficacy of funded projects and reduce concerns about greenwashing. Collectively, these features distinguish green bonds from traditional bonds, providing both accountability and assurance that capital is contributing to sustainable development goals.

The green bond market has experienced substantial growth since its inception in 2007, when the European Investment Bank and the World Bank issued the first labeled green bonds. Global issuance has expanded rapidly, reaching hundreds of billions of dollars annually, driven by rising investor demand for sustainable finance, supportive policy frameworks, and the increasing urgency of climate-related risk mitigation. Regional differences are notable: Europe has emerged as a dominant market, accounting for a significant share of total issuance, supported by robust regulatory initiatives, tax incentives, and sustainability-linked frameworks. The Asia-Pacific region, led by China and Japan, has also witnessed rapid growth, often motivated by national environmental policies and commitments to carbon neutrality. North America, particularly the United States, has shown gradual adoption, with major corporates and municipalities increasingly issuing green bonds in response to ESG-oriented investor demand. Growth drivers include increasing corporate sustainability commitments, regulatory encouragement, the development of green indices, and heightened awareness of climate risk among financial institutions. Moreover, innovations such as green sukuk and sustainability-linked bonds have broadened market appeal, attracting a more diverse pool of issuers and investors (Anbumozhi, 2021; Waslander *et al*., 2021).

The investor landscape for green bonds is diverse, comprising both institutional and retail participants, each with varying objectives and engagement levels. Institutional investors, such as pension funds, insurance companies, and sovereign wealth funds, are prominent market participants due to their long-term investment horizons and regulatory mandates to incorporate ESG considerations. These investors often prioritize transparency, verification, and alignment with sustainability goals, favoring bonds with robust certification and reporting mechanisms. ESG-focused mutual funds and exchange-traded funds (ETFs) also allocate substantial capital to green bonds, providing liquidity and fostering market depth. The development of green indices, such as the S&P Green Bond Index or the Bloomberg MSCI Green Bond Index, facilitates benchmark-driven investments and enables asset managers to track market performance systematically.

Retail investors, while representing a smaller proportion of the market, are increasingly engaged through green bond funds and structured products, reflecting growing public interest in sustainable finance. Innovative platforms and digital investment channels have made green bonds more accessible to individual investors, who are motivated by the dual objectives of financial return and environmental impact. This broad investor base enhances market liquidity, reduces risk premia, and contributes to the overall pricing efficiency of green bonds. Moreover, the alignment of investor demand with corporate sustainability objectives has incentivized issuers to adopt higher standards of transparency and reporting, reinforcing market credibility.

The green bond market has evolved from a niche segment into a significant component of sustainable finance, driven by environmental imperatives, investor demand, and supportive regulatory frameworks. Defined by their dedicated environmental purpose, green bonds incorporate key features such as labeling, reporting standards, and third-party certification, which promote accountability and reduce the risk of greenwashing. Market development is characterized by robust global issuance growth, regional differences in adoption, and diverse issuance structures that cater to a broad spectrum of sustainability objectives (Huang *et al*., 2020; Bellavitis *et al*., 2021). The investor base—comprising institutional investors, ESG-focused funds, and increasingly retail participants—plays a crucial role in promoting liquidity, transparency, and market credibility. As environmental challenges intensify and capital markets increasingly incorporate ESG criteria, the green bond market is likely to continue expanding, providing essential financing for sustainable development projects and contributing to the transition toward a low-carbon global economy.

2.2 Pricing Efficiency Concepts

Pricing efficiency is a fundamental concept in financial markets, reflecting the extent to which asset prices incorporate all available information. In the context of green bonds, pricing efficiency determines whether investors pay fair value for securities while accounting for environmental credentials, issuer risk, market conditions, and broader economic indicators as shown in figure 1. An efficient green bond market ensures that prices accurately reflect both financial and non-financial factors, facilitating optimal capital allocation and promoting investor confidence (Yeow and Ng, 2021; Dorfleitner *et al*., 2022).

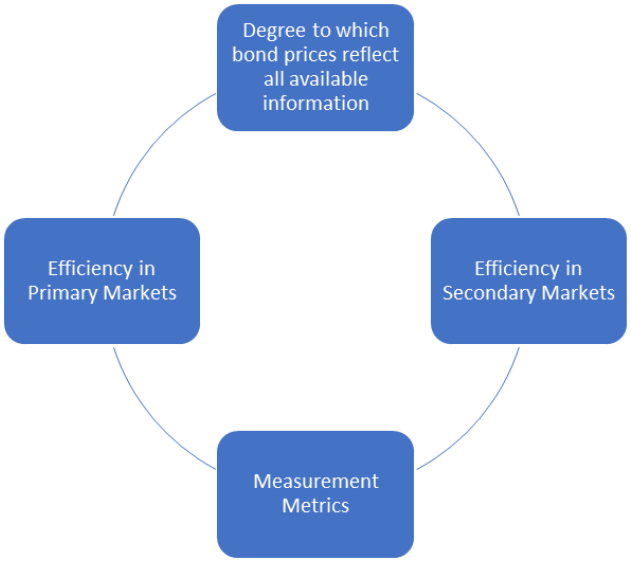

Fig 1: Pricing Efficiency Concepts

At its core, pricing efficiency refers to the degree to which bond prices reflect all publicly available and relevant

information. In an efficient market, security prices adjust rapidly and accurately to new information, leaving little scope for arbitrage opportunities or systematic mispricing. For green bonds, relevant information extends beyond traditional financial metrics to include environmental project outcomes, third-party certifications, and regulatory frameworks that influence the risk-return profile. Pricing inefficiencies, whether arising from informational asymmetries, limited investor awareness, or liquidity constraints, can lead to over- or underpricing, which may distort investment decisions and reduce market credibility.

In primary markets, pricing efficiency is assessed in terms of the fairness and accuracy of the bond issuance process. Fair issuance pricing implies that bonds are offered at a level consistent with their risk-adjusted expected returns, considering factors such as credit quality, environmental certification, maturity, and market demand. Underpricing can occur when issuers set the offer price below the market-clearing level to ensure successful subscription, often reflecting strategic decisions to attract institutional investors or generate positive signaling effects. Conversely, overpricing can discourage participation and lead to undersubscription. Book-building practices, widely used in green bond issuances, play a critical role in achieving pricing efficiency by aggregating investor demand, allowing issuers to adjust pricing dynamically to reflect market sentiment (Malecki, 2021; Ekeland and Lefournier, 2021; Broadstock *et al*., 2022). The degree of transparency in book-building, as well as the credibility of pre-issuance information, significantly affects the efficiency of primary market pricing.

In secondary markets, pricing efficiency is closely linked to liquidity, trading activity, and the speed at which new information is incorporated into prices. Liquid markets with high trading volumes and narrow bid-ask spreads tend to be more efficient, as the frequent interaction between buyers and sellers allows for continuous price discovery. Secondary market efficiency also depends on the responsiveness of bond prices to new information, such as changes in interest rates, credit ratings, or updates on the environmental performance of funded projects. Delays in price adjustment or persistent bid-ask anomalies may indicate inefficiencies, which can undermine investor confidence and reduce market participation.

The measurement of pricing efficiency employs several metrics to quantify how closely observed prices align with theoretical values. Yield spreads, calculated relative to risk-free benchmarks or conventional bonds, provide insight into whether green bonds are priced at a premium or discount, reflecting investor valuation of environmental attributes. Pricing errors, defined as deviations from model-predicted prices based on credit risk, maturity, and macroeconomic conditions, highlight discrepancies that may arise from informational asymmetry or market frictions. Liquidity-adjusted measures incorporate bid-ask spreads and trading volumes to account for the impact of market depth on price formation (Vermaand Kundlia, 2021; Ryu *et al*., 2022). Event studies, which analyze price reactions to specific news events or disclosures, enable researchers to assess the speed and magnitude of information assimilation, offering a dynamic perspective on efficiency. Together, these metrics provide a comprehensive framework for evaluating both the fairness of initial offerings and the effectiveness of ongoing market operations.

Pricing efficiency in green bond markets encompasses the accurate reflection of financial and environmental information in both primary and secondary markets. In primary markets, efficiency ensures fair issuance, appropriate pricing, and effective book-building, while in secondary markets, liquidity, trading activity, and responsiveness to new information are key determinants. Measurement tools such as yield spreads, pricing errors, liquidity-adjusted metrics, and event studies allow for rigorous assessment of efficiency, helping investors, issuers, and regulators optimize market functioning. Understanding these concepts is essential to fostering transparent, credible, and sustainable green bond markets that can support long-term investment in environmentally beneficial projects.

2.3. Factors Affecting Green Bond Pricing

The pricing of green bonds is influenced by a combination of market-specific characteristics, investor perceptions, and macroeconomic conditions. Unlike conventional bonds, green bonds carry additional considerations related to environmental impact, reporting standards, and project sustainability, which can affect both primary issuance and secondary market tradinga shown in figure 2. Understanding these factors is critical to assessing pricing efficiency and promoting investor confidence in the green bond market.

Information asymmetry occurs when investors lack complete or reliable knowledge about the underlying projects financed by green bonds. High-quality disclosure and transparency are essential for mitigating this asymmetry, as investors need credible data to assess both financial returns and environmental impact. Detailed reporting on project objectives, expected outcomes, and compliance with green standards helps reduce uncertainty, influencing investor demand and willingness to pay a fair price. Poor or inconsistent disclosure, conversely, can lead to pricing discounts due to perceived risk, higher yields required by investors, or hesitancy to participate in the market (Semieniuk *et al*., 2021; Grewal *et al*., 2021). Studies indicate that bonds with clear environmental reporting often exhibit lower yield spreads compared to less transparent counterparts, highlighting the critical role of disclosure in efficient pricing.

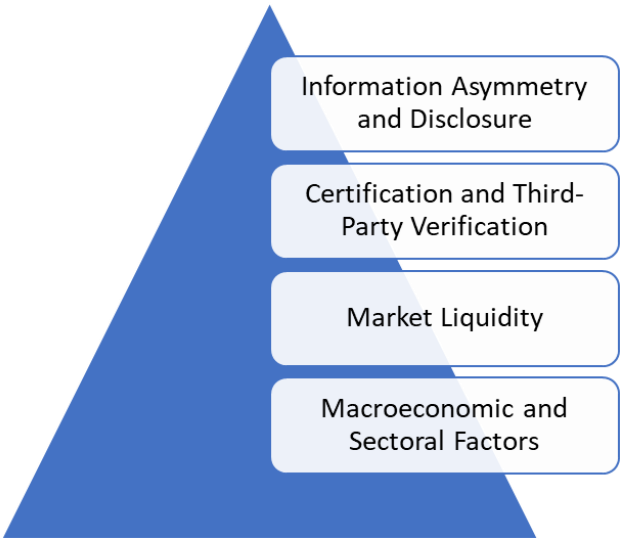

Fig 2: Factors Affecting Green Bond Pricing

Third-party certification plays a pivotal role in validating the green credentials of bonds and reducing investor uncertainty.

Certification frameworks such as the Climate Bonds Standard or independent verification by environmental auditors provide assurances that the proceeds are genuinely allocated to sustainable projects. Bonds with credible certification often enjoy enhanced marketability, as investors perceive lower reputational and environmental risk. The presence of third-party verification can therefore improve pricing efficiency by narrowing the gap between the perceived and intrinsic value of the bond. Conversely, the absence of such validation may result in risk premiums or reduced participation, particularly among institutional investors prioritizing environmental compliance and ESG performance.

Liquidity is a central determinant of pricing efficiency in both primary and secondary green bond markets. High trading volume, deep order books, and active investor participation enhance price discovery, enabling bond prices to more accurately reflect available information. Illiquid markets, however, can create wider bid-ask spreads and increased volatility, leading to potential mispricing. Secondary market activity is particularly important, as many investors rely on the ability to trade bonds after issuance to manage risk exposure or adjust portfolio allocations. Market fragmentation, limited issuance sizes, and concentrated investor bases can exacerbate liquidity constraints, resulting in deviations from fair value pricing.

Broader macroeconomic conditions, such as prevailing interest rates, inflation expectations, and monetary policy, influence bond yields and investor demand. Rising interest rates, for example, can increase required yields, compressing bond prices. Credit ratings are another critical factor, reflecting the issuer's default risk and overall financial stability. Sector-specific risks, such as technological uncertainties in renewable energy projects or regulatory changes affecting green infrastructure, further impact investor perception and pricing. Investors often demand higher yields for bonds associated with higher operational or environmental risks, which can lead to pricing variations across sectors and geographies (Agliardi, 2021; Breitenstein *et al*., 2021).

In combination, these factors create a complex pricing environment for green bonds. Information quality, third-party certification, liquidity conditions, and macroeconomic context all interact to shape investor expectations and pricing outcomes. Bonds with transparent reporting, credible verification, strong market liquidity, and favorable macroeconomic and sectoral conditions tend to achieve more efficient pricing, reflecting both financial and environmental value. Conversely, gaps in disclosure, lack of certification, low liquidity, or adverse macroeconomic conditions can lead to mispricing, yield distortions, and reduced market participation. Understanding these determinants is essential for issuers, investors, and regulators seeking to promote a transparent, efficient, and credible green bond market that effectively supports sustainable investment objectives.

2.4. Empirical Studies and Evidence

Empirical research on green bonds has increasingly focused on evaluating their pricing efficiency in both primary and secondary markets, comparing them to conventional bonds, and identifying factors influencing market behavior. Pricing efficiency reflects the degree to which bond prices accurately incorporate all relevant information, providing insights into investor behavior, market maturity, and the influence of environmental, social, and governance (ESG) considerations (Rannou *et al*., 2021; Selmi *et al*., 2021).

In the primary market, studies have investigated whether green bonds are fairly priced at issuance, examining phenomena such as underpricing, yield spreads, and first-day returns. Evidence suggests that green bonds are often issued with slightly lower yields relative to comparable conventional bonds, reflecting the so-called "greenium," or premium associated with environmentally labeled securities. First-day returns of green bond issuances tend to be modest but positive, indicating moderate underpricing that can attract initial investor participation while signaling confidence in the issuer. The issuance yield spreads are influenced by issuer credit quality, project type, certification standards, and prevailing market conditions. High-quality third-party verification and alignment with established frameworks, such as the Green Bond Principles, are associated with narrower spreads and greater primary market efficiency, suggesting that transparency and credibility are central to initial pricing dynamics.

In secondary markets, pricing efficiency is assessed through price discovery mechanisms, volatility patterns, and liquidity effects. Green bonds often exhibit lower trading volumes compared to conventional bonds, especially in nascent markets, leading to periods of illiquidity that can temporarily distort price signals. Nonetheless, studies show that secondary market prices generally adjust to incorporate relevant information about issuer performance, macroeconomic conditions, and ESG project outcomes. Volatility patterns tend to be lower for green bonds with strong certification and high-quality collateral, reflecting investor confidence in the environmental impact and creditworthiness of the issuer. Liquidity is a key determinant of secondary market efficiency; bonds with larger issuance sizes, inclusion in green indices, and active institutional investor participation display faster price adjustments and reduced bid-ask spreads.

Comparative analyses reveal that green bonds and conventional bonds exhibit both similarities and differences in pricing efficiency. While both categories respond to credit ratings, macroeconomic factors, and interest rate changes, green bonds show additional sensitivity to ESG-related disclosures and certification quality. Research indicates that the greenium effect can reduce expected yields slightly, but this is often offset by strong demand from institutional and ESG-focused investors. In some markets, green bonds demonstrate slightly slower price discovery due to lower liquidity, though the presence of dedicated indices and active trading platforms has mitigated this effect over time. Overall, while green bonds are not perfectly efficient relative to conventional bonds, their pricing behavior increasingly reflects both financial and non-financial information, indicating maturation of the market (Naeem *et al*., 2021; Teti *et al*., 2022).

Market segmentation plays a significant role in the empirical evidence on pricing efficiency. Regional differences in regulatory frameworks, investor sophistication, and market maturity influence both primary and secondary market behavior. European markets, characterized by strong ESG regulations, standardized green bond frameworks, and active institutional participation, exhibit higher pricing efficiency and lower underpricing than emerging markets. In Asia, particularly China and Japan, rapid growth in green bond issuance has led to heterogeneous pricing patterns, with

newer issuances occasionally experiencing higher yield spreads due to limited secondary market liquidity and variable certification standards. North American markets are evolving steadily, with greater integration of green bond indices enhancing transparency and market efficiency. Market segmentation also reflects differences in investor preferences, local infrastructure for verification, and regional economic conditions, all of which shape the pricing dynamics of green bonds relative to conventional securities.

Empirical studies demonstrate that green bonds exhibit pricing characteristics influenced by both financial fundamentals and ESG considerations. In primary markets, underpricing and the greenium effect reflect investor willingness to pay for environmental benefits, while secondary market efficiency depends on liquidity, certification quality, and trading activity. Comparative analyses indicate that green bonds are broadly aligned with conventional bonds in response to credit and macroeconomic factors but incorporate additional ESG-related information (Bocquet *et al*., 2021; Nurminen, 2021). Regional market segmentation underscores the importance of local regulatory frameworks, market maturity, and investor sophistication in shaping pricing efficiency. Collectively, these findings highlight the evolving nature of the green bond market and provide guidance for issuers, investors, and policymakers seeking to enhance market transparency, liquidity, and fair pricing.

2.5. Implications for Stakeholders

The efficiency of green bond pricing has profound implications for multiple stakeholders in the sustainable finance ecosystem, including issuers, investors, and policymakers. As green bonds become a critical instrument for funding environmentally beneficial projects, understanding the dynamics of pricing efficiency is essential for optimizing decision-making, managing risks, and promoting sustainable market growth.

For issuers, pricing efficiency directly influences capital-raising strategies and overall market credibility. Efficient pricing allows issuers to align the bond's offer price with market demand, ensuring that they neither leave value on the table through underpricing nor discourage investor participation through overpricing (Nikolova and Wang, 2022; Huang and Zhang, 2022). Issuers must carefully consider certification choices, such as obtaining third-party verification or adhering to internationally recognized green bond principles, as these designations can impact perceived credibility and investor willingness to pay a green premium. Furthermore, issuers need to target the appropriate investor segments, balancing institutional demand for high-quality, sustainable assets with retail investors' expectations for stable returns. By leveraging insights from primary and secondary market pricing, issuers can optimize their issuance strategies, including book-building approaches, coupon settings, and timing, to maximize capital efficiency while maintaining transparency and market trust. A robust pricing strategy not only facilitates successful fundraising but also strengthens the issuer's reputation in the burgeoning green finance landscape, positioning them as credible participants in the sustainability agenda.

For investors, pricing efficiency informs the assessment of fair value, yield expectations, and liquidity risks. Investors rely on accurate pricing to determine whether a green bond provides appropriate compensation relative to its risk profile, including credit risk, maturity, and project-specific environmental performance. The existence of a green premium—where investors accept lower yields in exchange for environmental benefits—requires careful evaluation against prevailing market conditions and comparable conventional bonds. Additionally, secondary market efficiency affects liquidity risk, as narrow bid-ask spreads, adequate trading volumes, and rapid incorporation of new information enable investors to enter and exit positions without significant price distortion. Efficient markets also facilitate informed decision-making regarding portfolio allocation, risk management, and impact investing objectives. Investors benefit from transparency in issuance documentation, standardized environmental reporting, and credible certification, which collectively enhance confidence that pricing accurately reflects both financial and non-financial attributes (Venter and Van Eck, 2021; Schloesser and Schulz, 2022).

Policymakers and regulators play a critical role in shaping the structural and informational environment that supports green bond market efficiency. Regulatory frameworks and disclosure standards can significantly reduce information asymmetry, improve transparency, and promote investor confidence. By mandating clear reporting of environmental objectives, project outcomes, and risk factors, regulators help ensure that pricing reflects all relevant information, reducing the likelihood of mispricing or market distortions. Standardization of green bond frameworks, including uniform taxonomies, certification protocols, and accounting guidelines, further enhances comparability and supports cross-border investment flows. Policymakers can also foster market development by incentivizing sustainable issuance through tax benefits, preferential regulatory treatment, or public-private partnership initiatives. Effective oversight encourages broader participation, reduces systemic risk, and reinforces the credibility of green financial instruments, thereby facilitating a more efficient allocation of capital toward sustainable projects.

The interplay among these stakeholders underscores the systemic importance of pricing efficiency. Issuers benefit from market-aligned pricing strategies that optimize fundraising outcomes, while investors gain from transparent and reliable price signals that support risk-adjusted returns and impact-focused allocation. Policymakers and regulators, by enforcing disclosure and standardization, create the conditions necessary for markets to operate efficiently, enabling both issuers and investors to make informed decisions. Collectively, these dynamics contribute to the credibility, growth, and resilience of green bond markets, supporting the broader objectives of sustainable development and environmental stewardship.

Pricing efficiency in green bonds carries critical implications across the stakeholder spectrum. For issuers, it informs strategic decision-making and capital optimization; for investors, it enhances the assessment of fair value, yield, and liquidity; and for policymakers, it guides regulatory frameworks that improve transparency and market integrity. By understanding and leveraging these implications, stakeholders can collectively advance efficient, credible, and impactful green bond markets that mobilize resources toward environmentally sustainable initiatives (Ajiga, 2021; Ogbuefi *et al*., 2022).

2.6. Challenges and Limitations

Despite the rapid growth of the green bond market, several challenges and limitations impede pricing efficiency in both primary and secondary markets. These constraints are largely structural, informational, and methodological, affecting the ability of investors to accurately assess the fair value of green bonds and, consequently, influencing market development and investor confidence.

A fundamental challenge in green bond pricing is the limited availability and quality of relevant data. Many green bonds have relatively short issuance histories, making it difficult to establish reliable benchmarks for yield spreads, default probabilities, and sector-specific risk factors. Additionally, reporting standards vary widely across issuers and jurisdictions, resulting in inconsistent disclosure regarding the environmental impact of financed projects. The lack of standardized data formats and fragmented reporting across multiple platforms further complicates comparative analysis (Saini *et al*., 2021; Kothandapani, 2022). In secondary markets, insufficient data on trading volumes, bid-ask spreads, and historical price movements hampers accurate price discovery. This scarcity of comprehensive, high-quality data increases information asymmetry, forcing investors to rely on incomplete or inconsistent sources when evaluating bond pricing, which may lead to mispricing and suboptimal investment decisions.

Another significant limitation is the risk of greenwashing, whereby bonds are labeled as "green" without fully meeting environmental or sustainability criteria. Misrepresentation of the environmental benefits of projects can distort investor perception and undermine confidence in the green bond market. Even with third-party verification, discrepancies in certification standards or lax auditing procedures can result in uncertainty about whether the proceeds genuinely contribute to environmental objectives. The prevalence of greenwashing can force investors to demand higher yields as compensation for perceived reputational and environmental risks, potentially affecting both the primary issuance price and secondary market trading values. Ultimately, greenwashing reduces the credibility of green bonds and may slow the adoption of sustainable finance instruments.

The relative immaturity of the green bond market presents structural constraints that influence pricing efficiency. Secondary markets for green bonds are often small, with low trading volumes and limited market depth. This illiquidity can result in wider bid-ask spreads, increased price volatility, and delayed adjustment to new information, undermining efficient price discovery. In primary markets, limited historical issuance and scarce benchmarking tools make it difficult for issuers to set accurate yields that reflect both credit and environmental risks (Dor *et al*., 2022; Springer *et al*., 2022). The market's small scale also restricts the diversity of investors, concentrating demand among a few large participants, which may exacerbate pricing distortions. Until market size, liquidity, and institutional participation increase, green bond pricing may continue to reflect inefficiencies.

Green bonds finance a wide variety of projects with diverse environmental objectives, including renewable energy, energy efficiency, pollution control, and climate adaptation initiatives. This heterogeneity complicates pricing comparisons, as the risk and return characteristics vary significantly depending on the project type, geographical location, and technological maturity. Investors cannot easily apply uniform valuation models, as two bonds labeled "green" may carry very different risk profiles and cash flow expectations. Differences in project scale, regulatory exposure, and environmental impact further increase complexity, requiring more sophisticated analysis to assess fair value accurately.

In combination, these challenges—limited data availability, greenwashing risk, market immaturity, and project heterogeneity—pose significant constraints on the efficiency of green bond pricing. They increase information asymmetry, introduce uncertainty, and reduce market transparency, ultimately affecting investor confidence and market growth. Addressing these limitations will require coordinated efforts to standardize reporting frameworks, enhance data quality, improve certification protocols, and foster deeper, more liquid markets. Only through such measures can the green bond market achieve reliable pricing efficiency and fulfill its potential as a sustainable financing mechanism (Baker *et al*., 2022; Chatziantoniou *et al*., 2022).

2.7. Future Research Directions

As the green bond market continues to expand, identifying avenues for future research is critical to enhancing pricing efficiency and promoting investor confidence. While existing studies have explored basic determinants of bond yields, market liquidity, and certification effects, several areas remain underexamined, particularly in the context of a rapidly evolving global sustainable finance landscape (Cortellini and Panetta, 2021; Saadaoui *et al*., 2022). This highlights four key directions for future investigation: ESG ratings, global market integration, advanced modeling techniques, and policy innovations as shown in figure 3.

Environmental, Social, and Governance (ESG) ratings have become increasingly important in evaluating the sustainability and risk profile of green bonds. However, the methodologies for ESG scoring vary across providers, leading to inconsistent assessments of environmental performance and investment risk. Future research could explore the role of standardized ESG ratings in improving pricing efficiency. By analyzing whether bonds with higher ESG scores consistently achieve lower yield spreads or better secondary market liquidity, researchers can assess the extent to which ESG transparency reduces information asymmetry and mispricing. Additionally, studies could investigate the interaction between ESG scores and certification frameworks, determining whether standardized scoring improves investor trust and facilitates more accurate price discovery. Understanding these dynamics could inform investors, issuers, and regulators about the value of integrating ESG metrics into bond valuation models.

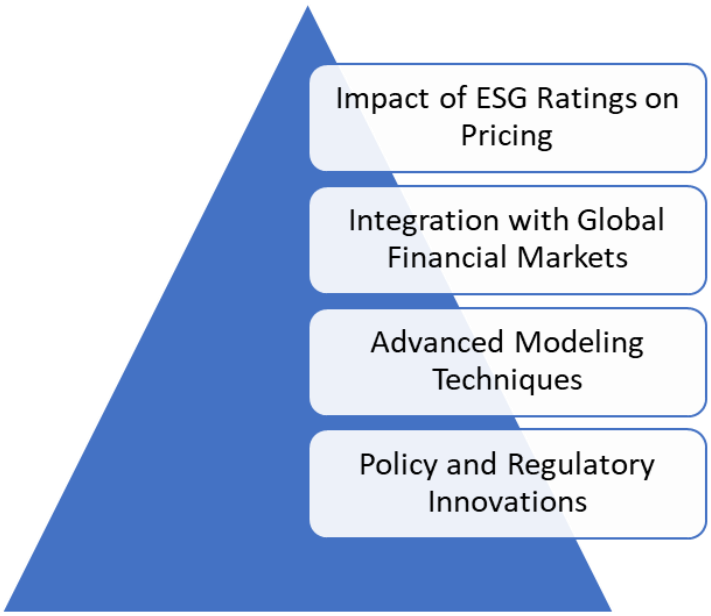

Fig 3: Future Research Directions

The green bond market is increasingly international, with cross-border issuances and participation from global investors. Future research should examine the effects of global market integration on pricing efficiency. Factors such as cross-listing on multiple exchanges, the presence of international institutional investors, and harmonization of reporting standards can influence both primary and secondary market performance. Comparative studies across jurisdictions could reveal how market openness, regulatory alignment, and capital mobility affect yield spreads, liquidity, and price volatility. Additionally, examining the correlation between local and global market conditions could provide insights into the transmission of macroeconomic and ESG-related information across borders, highlighting the potential benefits and risks of increased internationalization of green finance.

Traditional bond pricing models may not fully capture the complexities of green bond markets, which involve multiple dimensions of financial, environmental, and regulatory risk. Future research could leverage advanced modeling techniques, including machine learning, high-frequency trading data, and network analytics, to improve predictive accuracy and market understanding. Machine learning algorithms can detect nonlinear patterns and interactions among variables such as ESG scores, certification types, sector risks, and macroeconomic indicators. Network analytics can illuminate relationships between issuers, investors, and trading platforms, revealing how information and liquidity propagate through the market. By integrating these techniques, researchers can develop more robust pricing models, enabling better risk assessment, portfolio optimization, and evaluation of market efficiency under diverse conditions (Thakkar and Chaudhari, 2021; Omopariola and Aboaba, 2021).

Regulatory frameworks and policy incentives play a crucial role in shaping the green bond market. Future research could investigate the effects of mandatory green bond frameworks, tax incentives, and disclosure requirements on pricing efficiency. For example, standardized regulations could reduce investor uncertainty and facilitate more accurate pricing, while tax benefits may influence investor demand and yield spreads. Comparative studies across countries with differing regulatory approaches can provide empirical evidence on how policy interventions affect market transparency, liquidity, and fairness. Additionally, research could assess the long-term impact of these innovations on market growth, issuance volumes, and the ability of green bonds to channel capital toward environmentally sustainable projects effectively (Kelly *et al*., 2021; Cao *et al*., 2021).

Collectively, these research directions aim to enhance our understanding of green bond pricing efficiency and provide actionable insights for market participants. Standardized ESG ratings, global market integration, advanced modeling approaches, and informed policy interventions offer promising avenues to address existing inefficiencies, reduce information asymmetry, and foster a more transparent, liquid, and credible green bond market. By pursuing these studies, academics, practitioners, and policymakers can support the sustainable development objectives of green finance while ensuring that pricing mechanisms accurately reflect both financial and environmental value.

3. Conclusion

This provides comprehensive insights into the pricing efficiency of green bonds across primary and secondary markets, highlighting the evolving dynamics of this growing segment of sustainable finance. In the primary market, empirical evidence indicates that green bonds often experience slight underpricing at issuance, reflected in modest first-day returns and narrower yield spreads relative to conventional bonds. This “greenium” suggests that investors are willing to accept lower yields for environmentally aligned securities, underscoring the financial value attributed to ESG considerations. In secondary markets, pricing efficiency is influenced by liquidity, trading activity, and the quality of certification and reporting, with more mature markets demonstrating faster price discovery and lower volatility. Comparative analyses reveal that, while green bonds broadly align with conventional bonds in responding to credit and macroeconomic factors, their prices are also sensitive to ESG-specific disclosures and third-party verification,

reflecting an additional dimension of information assimilation.

The implications for market development are significant. For issuers, adherence to standardized frameworks such as the Green Bond Principles, along with transparent reporting and credible certification, enhances market credibility and investor confidence, potentially reducing yield spreads and improving capital access. Investors benefit from understanding the dual financial and environmental drivers of pricing, enabling more informed allocation decisions and risk management. Regulators play a critical role in promoting market integrity, standardizing disclosure requirements, and incentivizing sustainable investment practices, thereby supporting broader market growth.

A clear call to action emerges from these findings. Enhancing transparency, harmonizing reporting standards, and strengthening verification mechanisms are essential to further improve pricing efficiency and reduce the risk of greenwashing. Additionally, continued empirical research is needed to deepen understanding of market behavior, regional variations, and long-term performance impacts of green bonds. By addressing these priorities, stakeholders can foster a robust, efficient, and credible green bond market, advancing the mobilization of capital toward environmentally sustainable projects and contributing to global climate and sustainability goals.

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