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The Role of Green Bonds in The Process of Shaping the Level and Structure of The Regulatory Capital of The Commercial Banks in Poland

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Abstract

The purpose of this paper was to identify the main incentives for the commercial banks in Poland to issue green bonds under the Basel III capital standards. The main reason for undertaking this topic is the observed increased interest of green labelled financial instruments in the banking sector. The article verifies the research hypothesis which assumes that an issuance of green bonds may by an attractive source of raising funds for commercial banks in Poland only when the issued instruments are qualified as the Tier II instruments. The theoretical study required the analysis of the CRD IV/CRR Package. The empirical research was conducted for the eleven largest commercial banks in Poland according to the size of their balance sheet measured at 31.12.2019. The research period covered years 2010-2019. The analysis showed that the implementation of the Basel III capital adequacy standards in the Polish banking sector changed not only the structure and the level of the regulatory capital but also determined the sources of raising financial capital. The Tier II capital as a part of the regulatory capital may be chiefly created by the issuance of the subordinated debt including green bonds. The analysis of the 110 financial statements showed that the issuance of subordinated bonds have risen after the implementation of the Basel III regulations, however the green bonds were not a popular solution among the verified banks. The study indicates that the commercial banks in Poland may be interested to intensify the issuance of green bonds but only in the form of subordinated debt what allows them to meet the higher and stricter capital requirements imposed by the supervisory authorities.

Keywords: capital adequacy requirements, capital standards, green financing, prudential regulations, subordinated debt