How Monetary Conditions Shape ESG Pricing in the Thai Corporate Bond Market

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Research summary. Bond-pricing data from the Thai Bond Market Association (ThaiBMA).

Background

For Thai issuers and investors, one question has become routine: does a stronger ESG profile really translate into cheaper funding? The common assumption is that it does, and that it does so steadily, so that a well-rated firm pays a little less whatever the conditions. This study tests that assumption and suggests it is incomplete. It asks instead whether the market's valuation of ESG moves with the stance of monetary policy, using Thailand between 2020 and 2025 as the testing ground. The period spans the record-low rates of the pandemic (a policy rate of 0.50 percent), a tightening that took the rate to a peak of 2.50 percent in September 2023, and the easing that followed, all while ESG reporting was becoming standardised under the 2017 Corporate Governance Code and the 56-1 One Report framework.

Data and method

The analysis covers 80 non-financial companies listed on the Stock Exchange of Thailand, giving 373 firm-year observations. This is an unbalanced panel, since not every firm is covered in every year. Credit spreads are constructed from ThaiBMA's daily secondary-market (mark-to-market) prices and the government yield curve; ESG scores come from Refinitiv; and the policy rate from the Bank of Thailand. The estimation uses firm and year fixed effects, which remove both fixed company characteristics and any shock common to all firms in a given year. What is left is how the ESG–spread association differs across firms as the policy rate changes. These controls absorb important confounders but do not, on their own, establish cause and effect.

Main results

Three patterns emerge. First, the pricing of ESG does not look constant; the association appears to strengthen when policy rates are higher. The estimated interaction between ESG and the policy rate is −0.030 and is significant at the 10 percent level ($p = 0.058$). Read descriptively, a firm whose ESG score is one standard deviation higher tends to have spreads lower by roughly five to nine basis points, with the larger figures arising when policy rates are higher (the rate peaked at 2.50 percent in September 2023). Second, the clearest statistical evidence is for governance. The governance pillar interacts with the rate at −0.034 ($p = 0.018$), while the environmental and social interactions are also negative (−0.015 and −0.020) but the estimates do not provide sufficient evidence to distinguish them from zero. One reading is that investors weigh governance quality more heavily when rates are higher, although the study does not test individual governance attributes such as board independence directly. Third, the sign of the interaction is unchanged under dynamic-panel GMM, where the coefficient runs from −0.037 to −0.040. The sign also holds within the investment-grade and other subsamples. We regard the GMM estimates as preliminary pending the Hansen J and AR(2) tests, a review of instrument counts, and sensitivity checks using alternative instrument sets.

Implications for the Thai market

For issuers, the estimates suggest that the association between governance and lower spreads may be more pronounced when policy rates are higher than when they are low. One caveat matters here: the spreads are secondary-market yield spreads (the extra yield over government bonds that investors require on outstanding issues), not a direct measure of the all-in cost of issuing a new bond. For institutional investors, the pattern raises a question it does not settle: whether adjusting ESG exposure across the cycle would improve risk-adjusted outcomes relative to a fixed tilt. For the SEC and the SET, it is consistent with the weight already placed on concrete governance standards as the ISSB-aligned disclosure regime takes shape. For ThaiBMA, the data and the method sit naturally behind a spread benchmark that adjusts for ESG quality conditional on the monetary regime.

Caveats and ongoing work

These results are best read as a first, exploratory pass rather than the final word. The headline estimate is consistent in sign across every specification but only moderately precise (significant at 10 percent, not 5 percent), and it rests on one country, one rate cycle and a single ESG provider. One loose end is the inflation channel: the interaction between ESG and consumer price inflation comes out with the opposite sign, so that mechanism is left open rather than claimed. Work now under way widens the ESG inputs to TRIS Rating, MSCI, and SET ESG Ratings (the graded successor to the Thailand Sustainability Investment, or THSI, list, renamed in late 2023), keeping the earlier binary THSI membership and the later graded ratings separate; adds the placebo tests and full GMM diagnostics noted above; and extends the test to other ASEAN markets.

The study relies on ThaiBMA's bond-pricing infrastructure for the daily secondary-market valuations and the Thai government yield curve that underlie the spread measures.