

Abstract

This study investigates the effects of a country's environmental, social and governance (ESG) performance on sovereign bond spreads in CEE countries. We used both the sovereign bond spreads vis-à-vis the U.S. and bond spreads vis-à-vis Germany. We employed a dynamic panel generalized method of moments model, based on a sample of 10 CEE countries from 2009 to 2018. The analysis reveals that overall, better ESG performance is associated with lower sovereign bond spreads. When looking at bond spreads vis-à-vis the U.S., all three sub-dimensions of ESG are found to have significant negative impacts on sovereign bond spreads. When using bond spreads vis-à-vis Germany, only environmental and governance sides show significant effects. In addition, the results suggest that environmental side has more pronounced economic impacts on sovereign bond spreads than the other two sides in CEE countries.