



**University of  
Zurich<sup>UZH</sup>**

## **Master Thesis**

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# **Influence of Environmental, Social and Governance (ESG) Scores on the Spread of Sovereign Bonds in Developed and Emerging Economies**

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Supervisor: Prof. Marc Chesney

Assistant: Anca Pana

Student: Shaun Jonathan Hundt

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## **Abstract**

This thesis investigates the impact of ESG scores on the spread of sovereign bonds in developed and developing economies. Based on a sample of 42 countries from 2007 to 2014 we conducted our analysis on five different groups of countries by running entity and time fixed effects regressions. It was found that our variable of interest ESG score had only a significant influence on the bond spreads of emerging economies and countries with an average ESG score below 6.5 (out of 10). On the other hand, rating by S&P had a significant influence on countries considered developed and ones that have an average ESG score above 6.5 at the 1% level and below 6.5 at the 10% level. Credit rating agencies have not yet fully integrated the ESG performance of a country in their framework but are slowly getting there. The results found seem logical, as ESG challenges are more severe in emerging countries and therefore, the classical country risk variables are not sufficient to assess correctly the riskiness of a country while for developed economies these traditional variables emerged as the dominant ones.