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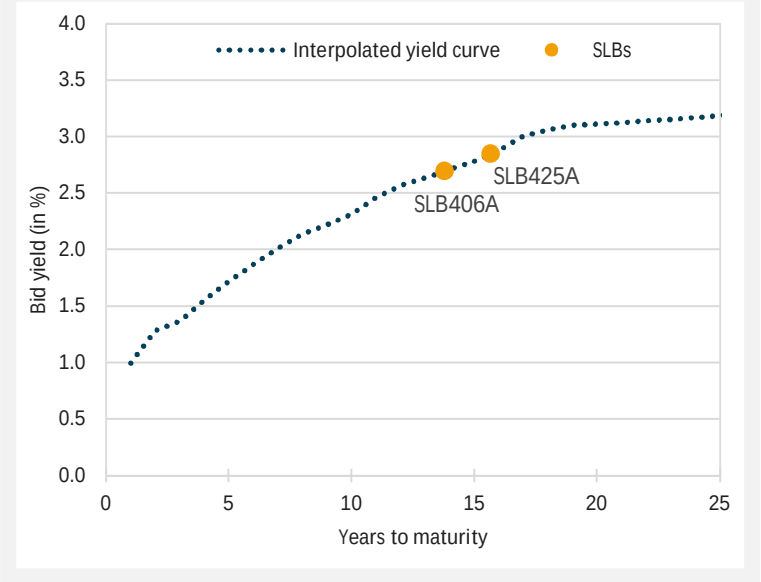
Thailand prices new government SLB

Jonas David* | 14 Sep 2026 | 6 minute read

SUMMARY

- Thailand priced its new SLB (THAIGB 2.86% 2042s, ISIN: TH062303M505) with targets linked to emission reduction and biodiversity conservation.
- The bond priced broadly in line with the government bond yield curve, suggesting that the embedded coupon optionality did not carry meaningful pricing implications.
- More meaningful coupon adjustments could have enhanced the financial materiality of the structure, and future issuance could benefit from a greater emissions weight.

Figure 1. Thailand's government bond yield curve, with the new SLB highlighted in bold (SLB425A). Source: AFII, ThaiBMA, accessed 10 Sep 2026.



The Kingdom of Thailand has launched its new Sustainability-Linked Bond (SLB) with May 2042 maturity and 2.86% coupon. As part of the bookbuilding on 10 September, the Initial Price Talk (IPT) was announced at 2.77%-2.89% and final pricing was broadly in line with the curve that day amid global upward pressure on government bond yields.[1] According to Bloomberg, the issuance amount of THB 25bn was higher than previously indicated (THB 15bn).[2] Settlement date is 17 September.

The two targets are linked to greenhouse gas (GHG) emission reduction and biodiversity conservation, and are a major step forward in terms of ambition and scope.[3] As such, the issuance shows the role SLBs can play in supporting climate and nature policies. Both targets require a departure from historical trends, and we use illustrative probabilities of 20% and 40%, respectively, of achieving them. However, with coupon steps of just +/-0.025% p.a. for each of the two targets, the signalling value appears greater than the option value for investors. Notably, the differing observation dates and related reporting time lags give the nature target greater weight as interest rate adjustments would apply for longer.

Our option pricing analysis suggests a small positive option value (0.047% upfront, equivalent to around -0.4bps running in spread terms). Accordingly, the optionality appears too small to be material to pricing. In our view, more meaningful step sizes, and/or longer periods they would apply to, would have enhanced the financial materiality of the structure and thereby increased the prospects of a pricing benefit.

[1] The IPT range midpoint (i.e. 2.83%) coincided with the previous day's closing level of the interpolated yield curve for such a maturity. On 10 September, the interpolated closing level was around 2.85% based on our calculations.
[2] "Press release", PDMO, 19 Aug 2026.
[3] For a detailed analysis of the targets and other key considerations, see our recent note "Thailand prepares new SLB issuance", AFII, 27 Aug 2026.

*Author to contact: jda@anthropocenefii.org. See important disclaimer.

Introduction

The Kingdom of Thailand, rated A- / Baa1 / BBB+ (S&P / Moody's / Fitch) for local currency long-term debt, has returned to the SLB market. The new bond is the first sovereign SLB globally tied to 2035 NDC targets, and only the second one – after Chile[4] – to embed the 30x30 biodiversity target.

The recently updated Sustainability-Linked Financing (SLF) Framework outlines the targets linked to GHG emission reduction and biodiversity conservation.[5] The more ambitious 2035 NDC target (net emissions of 152 $MtCO_2e$ by 2035, a 47% reduction from 2019 levels) is a significant commitment. Meanwhile, the targeted increase in protected areas only covers terrestrial and inland waters. Still, reaching 30% by 2030 from 18.44% would be a meaningful improvement. Both targets are aligned with international climate and biodiversity commitments, namely the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework (GBF).

Expanding our earlier analysis of the targets and key considerations for investors,[3] we assess the coupon step-up/step-down mechanism and pricing.

Pricing considerations

Building on our extensive work on SLB pricing,[6] we use an option pricing model to assess the bond structure. Key input factors are the probability of achieving the Sustainability Performance Targets (SPTs) and the potential interest rate adjustments (i.e. size and period they would apply to).

KPI/SPT 1: Emission reduction

- Net GHG emissions, all IPCC sectors including Land Use, Land-Use Change, and Forestry (LULUCF) / Reduce to 152 $MtCO_2e$ by 2035, representing a 47% reduction (135.2 $MtCO_2e$) compared to 2019 levels (287.2 $MtCO_2e$).

A reduction to 152 $MtCO_2e$ by 2035 is a significant commitment, and more ambitious than the previous target, which was based on reductions relative to a business-as-usual scenario. As shown in Figure 2 (next page), emissions have been on a gradual upward trajectory for some time – achieving the target requires a directional change and policymakers aim to reach peak emissions before 2030.[7]

Assigning a probability of achieving this target is not straightforward. In a previous analysis, we derived a probability of close to 20% of achieving it, which we will use as an illustrative assumption for now.[8] However, different market observers might reach different conclusions based on their assessments of the expected decarbonisation pathway.

[4] "New biodiversity SLB underpins Chile's leading role", AFII, 7 Jan 2026.
[5] "Kingdom of Thailand Sustainability-Linked Financing Framework", PDMO, Aug 2026.
[6] For more details on Sustainability-Linked Bond option pricing please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.
[7] "Thailand's Second Nationally Determined Contribution (NDC 3.0)", Department of Climate Change and Environment, 4 Nov 2025.
[8] We used an implicit 2030 target as a proxy (278.6 $MtCO_2e$) and derived a linear trend to net zero by 2050. As a fundamental directional shift towards decarbonisation is necessary, we use a probability distribution with higher volatility (i.e. twice the historical volatility). However, this probability is primarily based on statistical analysis and should be complemented by fundamental analysis over time, particularly as there is more visibility regarding policy implementation and technical innovations. For details, see "Thailand: linking bonds to NDC targets", AFII, 5 Feb 2026.

For the later pricing analysis, the key point here is that the probability of achieving the target appears considerably lower (i.e. 20%) than the probability of missing it (i.e. 80%), which results from the more ambitious target.

Figure 2. Thailand's historical emissions and SPT 1 based on 2035 NDC (net, incl. LULUCF). Source: AFII, PDMO, PRIMAP-hist national historical emissions time series v2.7, UNFCCC.

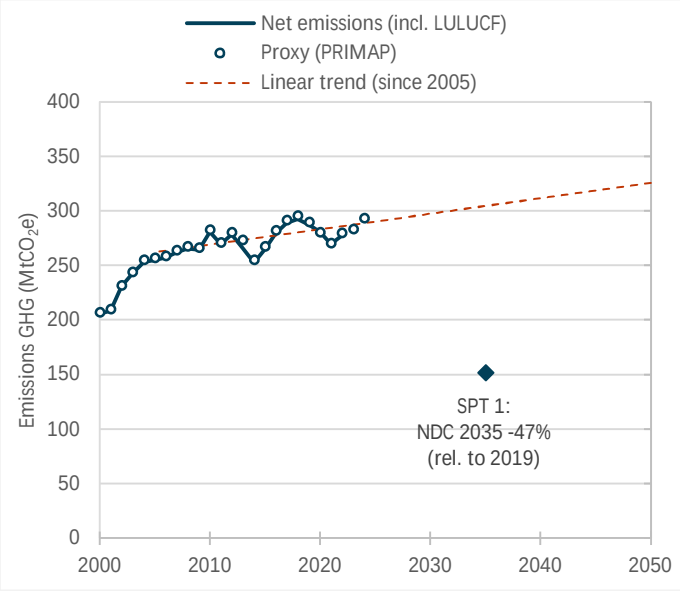
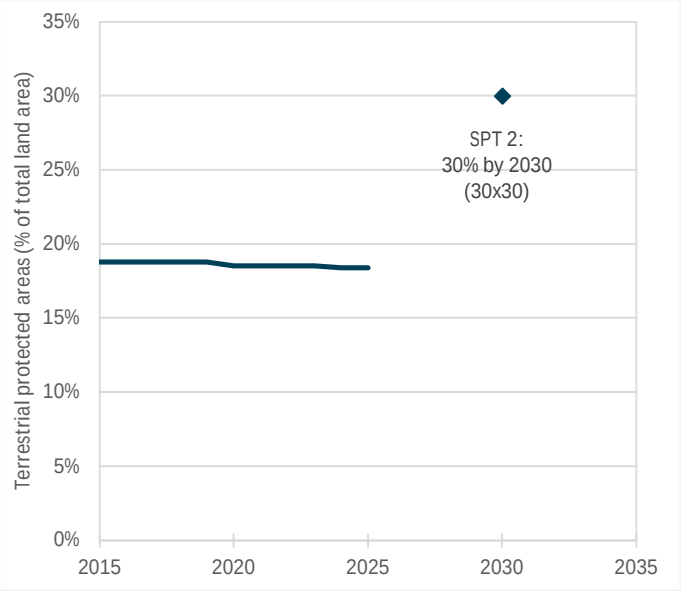


Figure 3. Terrestrial protected areas in Thailand and SPT 2 based on 30x30. Source: AFII, PDMO, World Bank / Protected Planet.



KPI/SPT 2: Protected areas increase

- Percentage of terrestrial and inland water protected areas and Other Effective Area-Based Conservation Measures (OECMs)[9] relative to the total national land area / Achieve at least 30% by 2030, compared to 18.44% in 2024.

As shown in Figure 3, terrestrial protected areas have been flat to marginally lower over the last decade.[10] As such, an increase to 30% by 2030 will require substantial improvement and so appears ambitious. Ultimately, the expansion of protected areas depends on policy priorities and approvals, while designation of OECMs is often voluntary and dependent on the willingness of involved parties to participate.[11]

As historical data analysis provides limited insights here, we use an illustrative probability of 40% of achieving the target, mainly to reflect the ambition while acknowledging the policy-driven nature of the KPI.

Interest rate adjustments

Based on the information memorandum,[12] the coupon would increase/decrease by 0.025% per annum if the SPTs are missed/achieved. This is in line with Thailand's previously issued SLB.

[9] An OECM is defined as a geographically defined area other than a Protected Area, which is governed and managed in ways that achieve positive and sustained long-term outcomes for the in-situ conservation of biodiversity, with associated ecosystem functions and services and where applicable, cultural, spiritual, socio-economic, and other locally relevant values (Source: Protected Planet, accessed 9 Sep 2026).
[10] While the KPI is based on a broader definition, recent data points are comparable, making this a useful proxy.
[11] For further details, see page 25 of the SLF Framework.
[12] "SLB Information Memorandum FY B.E.2569 No.1", PDMO, 14 Sep 2026.

As SPT 1 and 2 have different observation dates and reporting time lags, the adjusted coupons would apply from different points in time, as summarised in Table 1. This implies that SPT 2 has an disproportionate structural weight based on the maximum cumulative undiscounted adjustment (+/-0.2125% compared to +/-0.0375% for SPT 1).

As the coupon either steps up or down per SPT, there will be a coupon adjustment in 2033, but it could be fully offset from 2040 until maturity if the adjustment for SPT 1 is in the opposite direction.

Table 1. Potential interest rate adjustments for SPT 1 and 2. Source: AFII, Ministry of Finance of Thailand.

	Observation date	Interest rate adjustment date	Payable from	Affected coupon payments (s/a)	Coupon step Size (p.a.)	Max. cumulative adjustment (undiscounted)
SPT 1	31-Dec-35	17-Nov-40	17-May-41	3	+/-0.025%	+/-0.0375%
SPT 2	31-Dec-30	17-Nov-33	17-May-34	17	+/-0.025%	+/-0.2125%

Option value

Our SLB Pricer allows market participants to quantify the present value impact of coupon changes in SLBs, with the option to incorporate their own scenario probabilities.[13]

In Thailand's dual step-up/down mechanism with two SPTs, four scenarios are embedded in the structure (i.e. two binary outcomes, one per SPT), as summarised in Table 2. Based on probability-weighted scenarios and related coupon adjustments, there is a small positive option value (0.047%, upfront) as coupon step-ups are more likely than step-downs.

Translating this into a running value in spread terms results in -0.4bps. In principle, this would imply the bond could have priced at a marginally lower yield than a conventional equivalent based on our working assumptions. In practice, any new issue premium is might be of higher magnitude than this calculated option price, making it hard concretely to allocate value to the SLB option.

For context, the maximum option value (i.e. 100% probability of both SPTs being missed) would result in a running value of -1.4bps over the full life of the bond.

Table 2. Option scenarios for SPT 1 and 2, each weighted by its assigned probability. Source: AFII, Ministry of Finance of Thailand.

Scenarios	Probability	Coupon step up/down	Payable from	Affected coupon payments (s/a)	Option value (upfront)	Option value (running, z-spread)
SPT 1 – miss	80%	+0.025%	17-May-41	3	+0.020%	-0.1bps
SPT 1 – achieve	20%	-0.025%	17-May-41	3	-0.005%	+0.0bps
SPT 2 – miss	60%	+0.025%	17-May-34	17	+0.096%	-0.8bps
SPT 2 – achieve	40%	-0.025%	17-May-34	17	-0.064%	+0.5bps
				Sum:	+0.047%	-0.4bps

Overall, the optionality appears too small to be material to pricing, given the relatively small coupon adjustments and the short period they apply to for SPT 1. In our view, a more meaningful step size could have enhanced the financial materiality of the structure and thereby increased the prospects of a pricing benefit.

[13] "Sustainability-Linked Bond Pricer", AFII, accessed 10 Sep 2026.

Thinking ahead

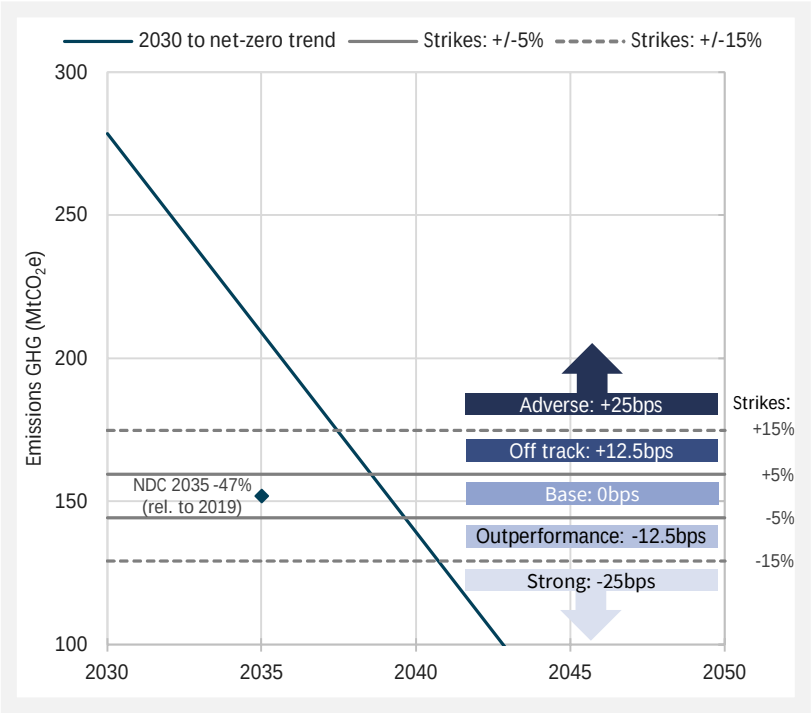
In an earlier paper, we explored how performance-linked bonds tied to NDCs could evolve further in the context of Thailand and outlined a proposal for a transition linker.[14]

This structure is designed to embed transition progress into bond pricing. If well structured, it could result in a lower cost of capital for the issuer, creating a strong incentive for decarbonisation. For investors, higher payouts would provide a hedge against a failed transition scenario.

As illustrated in Figure 4, the coupon would adjust in several steps if the government under- or outperforms relative to its decarbonisation targets.

Embedding the more ambitious 2035 NDC target is a first step in the direction of such an instrument.

Figure 4. Thailand's NDC targets for 2035 (net emissions), linear net-zero trend (2030-2050), and proposed transition linker strike levels around 2035 target. Source: AFII, PDMO, PRIMAP-hist national historical emissions time series v2.7.



Our proposal envisages a 20-year bond, primarily to capture a longer period over which potential coupon adjustments would apply, and to allow for more meaningful step sizes. In combination, this would increase the prospects of a pricing benefit (i.e. a lower yield than a conventional bond).

Conclusions

Thailand's new 2042 SLB priced broadly in line with the government's interpolated yield curve, and the embedded coupon optionality does not appear to have carried meaningful pricing implications. Still, the bond offers investors a sustainability structure with a marginal, contingent overlay.

Structurally, the biodiversity target carries the greater weight as SPT 2 affects a greater number of the semi-annual coupon payments (17 compared to 3 for SPT 1). Therefore, most of the structure's total contingent coupon impact sits with the nature target. Considering the ambitious emissions target, future issuance could benefit from a greater weight tied to it.

The binding constraint is coupon step size, not the targets' ambition. Even a 100% probability of missing both targets would leave the maximum cumulative adjustment at 0.25% (undiscounted), or about -1.4bps in running option value terms. More meaningful steps, and/or longer periods they would apply to, would improve the structure's financial materiality and thereby the prospect of a pricing benefit.

[14] "Thailand: linking bonds to NDC targets", AFII, 5 Feb 2026.

On our own probability assumptions, the bond offers a small positive option value to bondholders. Assigning illustrative probabilities (i.e. 20% of achieving the 2035 emissions target, 40% for the 30x30 target) gives a net option value of +0.047% upfront, or roughly -0.4bps running. These inputs are subjective, and investors taking a different view on either target might arrive at a different option value. Our SLB Pricer allows market participants to price their own probability-weighted scenarios.[13]

Version log

Date	Comment
14 Sep 2026	Document published
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