

# Republic of Korea

## Yield Movements

Government bond yields in the Republic of Korea rose for most tenors between end-September and end-December (**Figure 1**). The rise in yields covered tenors of 3 years and longer, with increases ranging from 3 basis points (bps) for the 3-year tenor to 23 bps for the 20-year tenor. In contrast, the 1-year tenor fell 6 bps and the 2-year tenor declined 1 bp. The yield hike for most tenors can be attributed to expectations of a domestic and global economic recovery. Between end-December and end-January, yields fell for all tenors. Meanwhile, the yield spread between the 2- and 10-year tenors widened 15 bps between end-September and end-December, and remained unchanged between end-December and end-January.

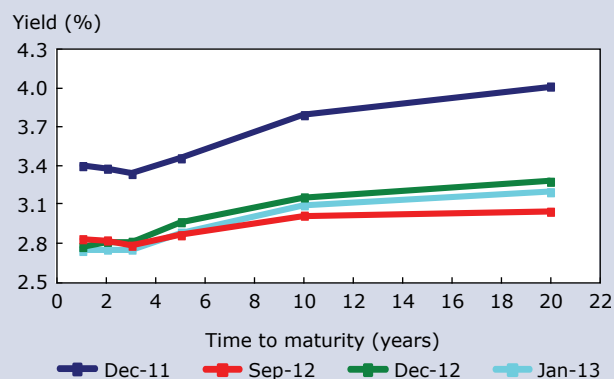
The Bank of Korea's Monetary Policy Committee decided on 14 February to keep the base rate—the 7-day repurchase rate—steady at 2.75%. Consumer price inflation inched up to 1.5% year-on-year (y-o-y) in January from 1.4% in December. For the full-year 2012, the inflation rate stood at 2.2%, the lowest since 2006.

Real gross domestic product (GDP) grew 0.4% quarter-on-quarter (q-o-q) and 1.5% y-o-y in 4Q12, based on advance estimates of The Bank of Korea. For the full-year 2012, the real GDP growth rate stood at 2.0%. Between 3Q12 and 4Q12, the y-o-y growth rate rose from 1.6% to 2.8% for private consumption expenditure, from 2.9% to 4.0% for total exports of goods and services, and from 1.1% to 3.1% for total imports of goods and services. In contrast, the y-o-y growth rate of gross fixed capital formation fell to -4.1% in 4Q12 from -2.3% in 3Q12.

## Size and Composition

Total local currency (LCY) bonds outstanding in the Republic of Korea grew 10.5% y-o-y and 2.8% q-o-q to reach KRW1,566 trillion (US\$1.5 trillion) at end-December (**Table 1**). The

**Figure 1: The Republic of Korea's Benchmark Yield Curve—LCY Government Bonds**



LCY = local currency.  
Source: Bloomberg LP.

outstanding size of LCY government bonds stood at KRW609 trillion, which was up 3.7% from a year earlier and 0.9% from end-September. The central government's bonds outstanding expanded 6.0% y-o-y and 0.5% q-o-q to KRW416.1 trillion, spurred by increases of 6.7% y-o-y and 0.7% q-o-q in Korea Treasury Bonds (KTBs). Meanwhile, the outstanding amount of central bank bonds—known as Monetary Stabilization Bonds (MSBs)—slipped 1.0% y-o-y but rose 0.4% q-o-q to level off at KRW163.1 trillion. Industrial finance debentures fell, albeit marginally, by 0.1% y-o-y but expanded 9.4% q-o-q to reach KRW29.9 trillion.

In 4Q12, issuance of LCY government bonds amounted to KRW71.6 trillion, up 7.6% from a year earlier and 13.1% from the previous quarter. Issuance of central bank bonds rose 5.0% y-o-y and 11.5% q-o-q to KRW43.5 trillion, while that of industrial finance debentures surged 114.0% y-o-y and 262.2% q-o-q to KRW5.9 trillion. In contrast, central government bond issues fell 0.7% y-o-y and 2.2% q-o-q to KRW22.2 trillion.

Total LCY corporate bonds outstanding expanded 15.4% y-o-y and 4.1% q-o-q to reach KRW956.7 trillion at end-December. The expansion

Table 1: Size and Composition of the LCY Bond Market in the Republic of Korea

	Outstanding Amount (billion)						Growth Rate (%)									
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12		Nov-12		Dec-12	
	KRW	US\$	KRW	US\$	KRW	US\$	KRW	US\$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	1,522,869	1,370	1,544,160	1,416	1,565,497	1,446	1,471	1,565,704	1,471	2.1	9.6	1.4	1.4	1.4	2.8	10.5
Government	603,590	543	608,429	558	614,521	568	572	609,035	572	0.4	2.2	0.8	1.0	1.0	0.9	3.7
Central Bank Bonds	162,460	146	162,010	149	163,070	151	153	163,070	153	(1.3)	(4.1)	(0.3)	0.7	0.0	0.4	(1.0)
Central Government Bonds	413,848	372	417,034	382	421,570	389	391	416,113	391	1.3	5.8	0.8	1.1	1.1	0.5	6.0
Industrial Finance Debentures	27,283	25	29,385	27	29,881	28	28	29,852	28	(3.3)	(8.4)	7.7	1.7	(0.1)	9.4	(0.1)
Corporate	919,279	827	935,731	858	950,976	878	899	956,669	899	3.3	15.1	1.8	1.6	0.6	4.1	15.4

( ) = negative, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY-US\$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: EDAILY BondWeb and The Bank of Korea.

stemmed from increases in private corporate bonds outstanding, which climbed 21.9% y-o-y and 5.1% q-o-q, and increases in special public bonds outstanding, which climbed 19.1% y-o-y and 4.7% q-o-q. Meanwhile, the outstanding size of financial debentures, excluding Korea Development Bank (KDB) bonds, rose 1.0% q-o-q but fell 0.6% y-o-y.

The top 30 LCY corporate bond issuers in the Republic of Korea at end-December had combined outstanding bonds of KRW593.7 trillion, accounting for 62% of total LCY corporate bonds outstanding (**Table 2**). Korea Land & Housing Corp. remained the largest issuer of corporate bonds with a total outstanding amount of KRW57.9 trillion.

LCY corporate bond issuance in 4Q12 stood at KRW98.6 trillion, which was 3.5% higher than a year earlier and 1.9% more than in the previous quarter. The y-o-y increase was largely due to a 29.2% annual rise in issuance of special public bonds, while the q-o-q hike was bolstered by a 19.9% quarterly surge in financial debenture issues.

The largest corporate bond issues in 4Q12 included Nonghyup Bank's KRW700 billion 8-year bond offering a 3.33% coupon, Korea Land & Housing Corporation's KRW500 billion 3-year bond carrying a 3.02% coupon, and SH Corporation's KRW300 billion 1.5-year bond with a 3.08% coupon. The longest-dated LCY corporate bond issued during the quarter was Korea Land & Housing Corporation's 40-year bond worth KRW90 billion and carrying a 3.52% coupon. Among the high-yield corporate bond issues during the quarter were Dongbu Corporation's 1-year bond worth KRW42 billion with an 8.9% coupon, and Kolon Global Corporation's 2.5-year bond worth KRW100 billion with an 8.5% coupon.

## Liquidity

Liquidity in LCY government bonds slipped in 4Q12 as the turnover ratio fell to 1.01 from

**Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea**

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US\$ billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	57,871	54.4	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	47,414	44.5	Yes	No	No	No	Financial
3. Korea Deposit Insurance Corp.	45,200	42.5	Yes	No	No	No	Insurance
4. Korea Finance Corp.	41,270	38.8	Yes	No	No	No	Financial
5. Industrial Bank of Korea	30,115	28.3	Yes	No	Yes	No	Bank
6. KDB Daewoo Securities	29,844	28.0	Yes	No	Yes	No	Securities
7. Korea Electric Power Corp.	28,990	27.2	Yes	No	Yes	No	Utility
8. Woori Investment and Securities	24,767	23.3	Yes	No	Yes	No	Securities
9. Korea Investment and Securities	23,499	22.1	No	Yes	No	No	Securities
10. Mirae Asset Securities	19,735	18.5	No	Yes	Yes	No	Securities
11. Korea Expressway Corp.	19,370	18.2	Yes	No	No	No	Infrastructure
12. Kookmin Bank	18,868	17.7	No	Yes	No	No	Bank
13. Tong Yang Securities	18,298	17.2	No	Yes	Yes	No	Securities
14. Shinhan Bank	18,068	17.0	No	Yes	No	No	Bank
15. Woori Bank	15,502	14.6	Yes	No	No	No	Bank
16. Small & Medium Business Corp.	15,175	14.3	Yes	No	No	No	Financial
17. Korea Rail Network Authority	14,210	13.4	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	12,795	12.0	Yes	No	Yes	No	Utility
19. Hana Bank	12,764	12.0	No	Yes	No	No	Bank
20. Hyundai Securities	12,134	11.4	No	Yes	Yes	No	Securities
21. Hana Daetoo Securities	11,856	11.1	No	Yes	No	No	Securities
22. Korea Water Resources	9,729	9.1	Yes	No	Yes	No	Utility
23. Shinhan Investment Corp.	9,455	8.9	No	Yes	No	No	Securities
24. Shinhan Card	9,116	8.6	No	Yes	No	No	Financial
25. Hyundai Capital Services	8,301	7.8	No	Yes	No	No	Securities
26. Samsung Securities	8,195	7.7	No	Yes	Yes	No	Securities
27. Standard Chartered First Bank Korea	7,930	7.5	No	Yes	No	No	Bank
28. Korea Railroad Corp.	7,860	7.4	Yes	No	No	No	Infrastructure
29. Shinhan Financial Group	7,750	7.3	No	Yes	Yes	No	Financial
30. Nonghyup Bank	7,600	7.1	Yes	No	No	No	Bank
<b>Total Top 30 LCY Corporate Issuers</b>	<b>593,680</b>	<b>557.8</b>					
<b>Total LCY Corporate Bonds</b>	<b>956,669</b>	<b>898.8</b>					
<b>Top 30 as % of Total LCY Corporate Bonds</b>	<b>62.1%</b>	<b>62.1%</b>					

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.

Notes:

1. Data as of 31 December 2012.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

1.16 in 3Q12. For central government bonds, mostly KTBs, the turnover ratio dropped to 1.06 in 4Q12 from 1.24 in 3Q12. Also, the turnover ratio for central bank bonds, or MSBs, decreased to 1.06 from 1.18 in the previous quarter (**Figure 2**).

The number of KTB futures contracts traded fell to 9.3 million in 4Q12 from 13.4 million in 3Q12 due to less trading volume for both 3- and 10-year KTB futures (**Figure 3**). The proportion of 3-year contracts traded as a share of all KTB futures contracts slipped to 65% in 4Q12 from 71% in 3Q12, while the share of 10-year KTB futures contracts climbed to 35% in 4Q12 from 29% in 3Q12.

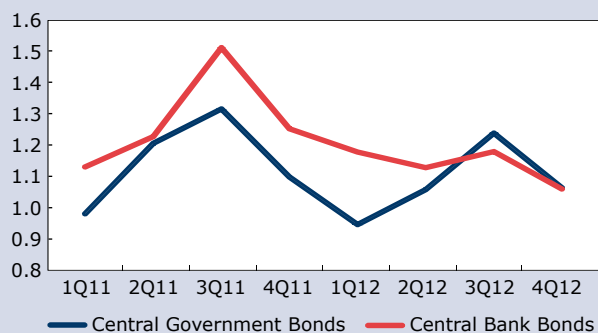
For LCY corporate bonds, the turnover ratio remained steady at 0.15 in 4Q12 for the second consecutive quarter. However, between 3Q12 and 4Q12, the turnover ratio for financial debentures inched up from 0.28 to 0.29, it fell for special public bonds from 0.18 to 0.16, and decreased slightly for private corporate bonds from 0.07 to 0.06 (**Figure 4**).

## Investor Profile

Insurance companies and pension funds were the largest investor group in LCY government bonds as of end-September, holding 25% of the total (**Figure 5**). They were followed by the general government—consisting of the central government, local government, and social security funds—which held 23% of the total, financial companies other than banks (19%), banks (18%), foreign investors (10%), households and nonprofit organizations (5%), and non-financial companies (1%). Between end-September 2011 and end-September 2012, the share of insurance companies and pension funds climbed 2 percentage points, while the share of financial companies other than banks rose 1 percentage point. On the other hand, the shares of the general government and foreign investors dropped 1 percentage point each.

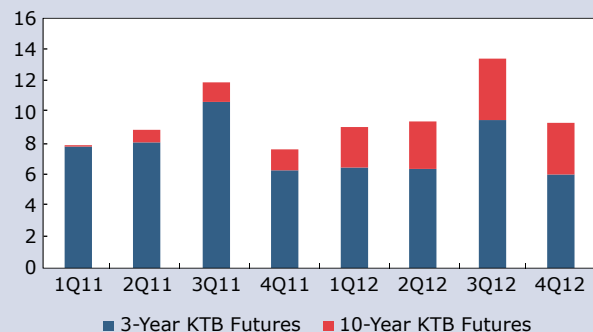
Insurance companies and pension funds were also the largest investor group in LCY corporate bonds, holding 33% of the total as of end-September

**Figure 2: Turnover Ratios for Central Government and Central Bank Bonds**



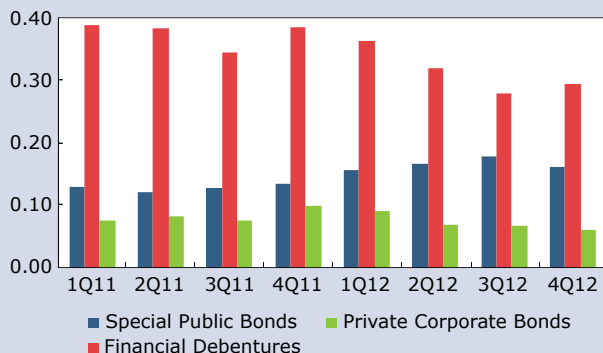
Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.  
Source: The Bank of Korea and EDAILY BondWeb.

**Figure 3: Trading Volume in KTB Futures Contracts** (millions of contracts)

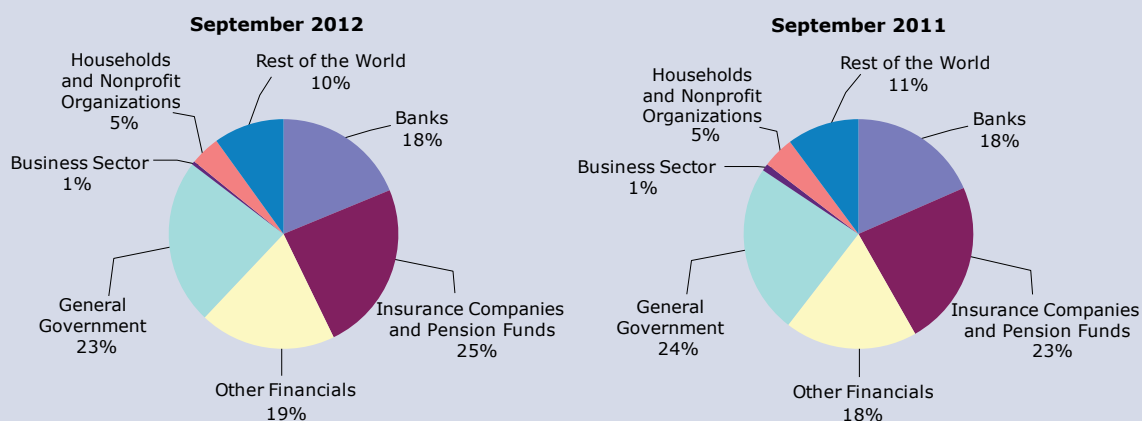


KTB = Korea Treasury Bond.  
Source: Korea Exchange.

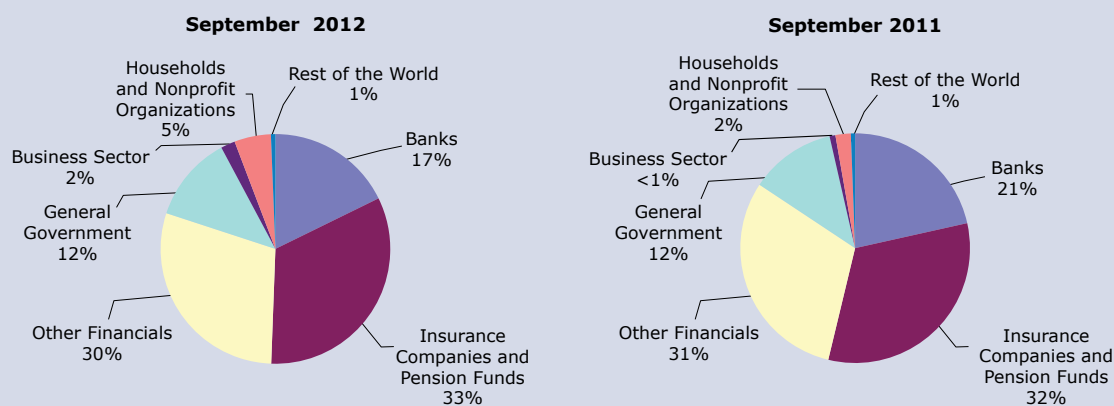
**Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds**



Source: EDAILY BondWeb.

**Figure 5: LCY Government Bonds Investor Profile**

LCY = local currency.  
Source: *AsianBondsOnline* and The Bank of Korea.

**Figure 6: LCY Corporate Bonds Investor Profile**

LCY = local currency.  
Source: *AsianBondsOnline* and The Bank of Korea.

**(Figure 6).** Financial companies other than banks were the second-largest corporate bondholders with a share of 30%, followed by banks (17%), the general government (12%), households and nonprofit organizations (5%), non-financial companies (2%), and foreign investors (1%). Compared with end-September 2011, the shares of households and nonprofit organizations, non-financial companies, and insurance companies and pension funds rose 3, 2, and 1 percentage point(s), respectively. On the other hand, the share of banks dropped 4 percentage points

and the share of other financial companies fell 1 percentage point.

## Policy, Institutional, and Regulatory Developments

### MOSF Announces KTB Issuance Plan for 2013

The Ministry of Strategy and Finance (MOSF) announced in January its issuance plan for KTBs for 2013. MOSF reported plans to issue a

total of KRW79.7 trillion worth of KTBs in 2013, with KRW57.5 trillion to be used for refinancing purposes.

### **FSC Releases Legislative Notice on Proposed Covered Bonds Act**

The Financial Services Commission (FSC) released a legislative notice on its proposed Covered Bonds Act in October. The notice includes the definition of covered bonds and eligible issuers, the cover pool, registration of the issuance plan and cover pool, the management of the cover pool, and the preferential rights of covered bond investors. The FSC reported in its January press release that the draft bill of the Covered

Bond Act was approved by the Cabinet on 29 January.

### **FSC Sets Implementation Plan for Basel III**

The FSC stated in December that it will set a specific timeline for domestic implementation of Basel III in the Republic of Korea, and that this will reflect global trends with respect to other countries' implementation experiences. The FSC reported that 11 countries had finalized their implementation plans for Basel III, while 15 countries, including the Republic of Korea, had drafted regulations for Basel III implementation.