

## Republic of Korea

### Yield Movements

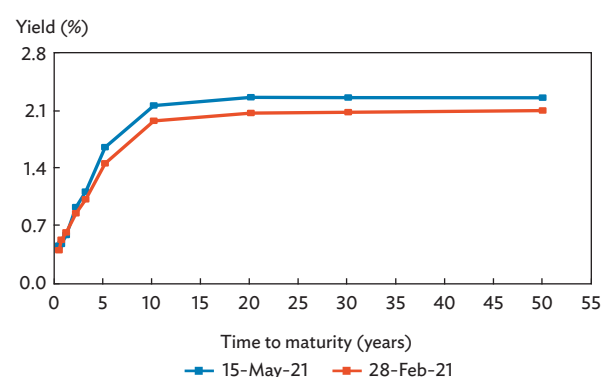
The Republic of Korea's local currency (LCY) government bond yields rose for most tenors between 28 February and 15 May (**Figure 1**). The yield for the 3-month tenor rose 6 basis points (bps), while yields for the 6-month and 1-year tenor fell 5 bps and 3 bps, respectively. Yields for the 2-year and 3-year tenors rose 8 bps on average, while the 5-year tenor rose the most with a 20-bps increase. Yields for long-term tenors of 10–50 years rose 18 bps on average. The spread between 2-year and 10-year yields widened to 123 bps from 112 bps during the review period.

Domestic bond yields in the Republic of Korea largely tracked the upward trend in United States (US) Treasury yields. Yields increased in the US on rising inflation expectations and speculation that the Federal Reserve would tighten monetary policy earlier than expected. On the domestic front, increased bond issuance arising from the passage of a supplementary budget contributed to the rise in yields in the Republic of Korea, albeit to a lesser extent. On 25 March, the National Assembly passed the KRW14.9 trillion supplementary budget, bringing the 2021 budget to KRW572.9 trillion. Despite the Bank of Korea's announcement of its bond purchase program to address oversupply concerns and stabilize the market, yield volatility remained high. As a result of volatility from the middle to the long-end of the yield curve, investors demand for short-term paper rose, which resulted in declining yields.

The Bank of Korea on both its 15 April and 27 May monetary policy meetings decided to leave the base rate unchanged at 0.50%. The Bank of Korea noted that global economic growth had strengthened on the back of economic stimulus and accelerated vaccine distribution. Domestic economic growth was also deemed to have strengthened, supported by the continued recovery in exports and investments. Economic growth for 2021 was projected to be around 4.0%, compared with the February forecast of 3.0%.

The Republic of Korea's economic growth accelerated to 1.7% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2021 from 1.1% q-o-q in the fourth quarter

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



Source: Based on data from Bloomberg LP.

(Q4) of 2020. The higher growth was mainly driven by the recovery in consumption, which rose 1.3% q-o-q in Q1 2021 after a 1.1% q-o-q contraction in the previous quarter. Growth in gross fixed capital formation also accelerated to 2.5% q-o-q in Q1 2021 from 1.8% q-o-q in Q4 2020. Meanwhile, exports posted a lower growth rate of 2.0% q-o-q from 5.3% q-o-q. The Republic of Korea's economy grew 1.9% year-on-year (y-o-y) in Q1 2021, reversing a 1.1% y-o-y contraction in Q4 2020. Inflation continued to accelerate in the first 4 months of 2021, rising from 0.6% y-o-y in January to 2.3% y-o-y in April, driven by increased prices for agricultural and livestock products, and the impact of rising crude oil prices on industrial goods.

The LCY bond market has attracted a massive amount of net foreign inflows in Q1 2021, particularly in the months of February and March, with net inflows reaching KRW8,988 billion and KRW9,164 billion, respectively. This was a rebound from the KRW899 of net outflows registered in Q4 2020, and a large increase from the KRW1,158 billion of net inflows in January. The net inflows trend continued in April, albeit at a smaller amount of KRW3,346 billion.

The Korean won strengthened in March and April; its performance was closely tied to that of the domestic equities market. However, the gain was reversed as the won weakened in early May amid volatility in the equities

market, which was partly due to the lifting of the ban on short selling. As a result, the Korean won registered a slight depreciation of 0.4% from 28 February to 15 May, settling at KRW1,128.54 per US dollar.

## Size and Composition

The Republic of Korea's LCY bonds outstanding posted growth of 2.4% q-o-q in Q1 2021 to reach KRW2,695.5 trillion (USD2,381.6 billion) at the end of March (**Table 1**). This was higher than the 1.2% q-o-q growth registered in Q4 2020. Growth in Q1 2021 was largely driven by the surge in issuance of central government bonds during the quarter. Corporate bonds also posted an increase, albeit at a slower pace. On a y-o-y basis, the Republic of Korea's LCY bond market expanded 8.9%, which was slightly lower than the 9.4% growth registered in Q4 2020.

**Government bonds.** The Republic of Korea's LCY government bond market expanded 4.0% q-o-q and 13.1% y-o-y to reach a size of KRW1,122.4 trillion at the end of Q1 2021. This was largely driven by the 5.9% q-o-q growth in central government bonds, which amounted to KRW769.3 trillion at the end of March. Issuance of central government bonds surged 33.6% q-o-q in Q1 2021, reaching KRW50.4 billion as a result of the government's frontloading policy. In December, the Ministry of Economy and Finance announced plans to spend 72.4% of the original 2021 budget in the first half of the year as part of its support for economic recovery. Increased

bond issuance is expected to continue in the succeeding quarter as the government subsequently passed a KRW14.9 trillion supplementary budget in March, with partial spending also expected to be in the second quarter of the year.

Government agency bonds outstanding increased 1.5% q-o-q to KRW195.8 trillion at the end of March. Meanwhile, the stock of Monetary Stabilization Bonds issued by the Bank of Korea fell 1.3% q-o-q to KRW157.2 trillion as the volume of maturities exceeded new issuance. The Bank of Korea reduced its issuance of 1-year and 2-year bonds in March in an effort to ease the yield volatility caused by the sharp rise in US Treasury yields.

**Corporate bonds.** The Republic of Korea's LCY corporate bond market posted marginal growth of 1.2% q-o-q to reach a size of KRW1,573.2 trillion at the end of March, as issuance slowed during the quarter. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea at the end of Q1 2021, with aggregate bonds outstanding amounting to KRW949.4 trillion and accounting for 60.3% of the total LCY corporate bond market. Financial institutions involved in securities trading continued to comprise the largest share of the top 30 list at 40.5%, followed by banks with a share of 24.2%. State-owned Korea Housing Finance Corporation remained the largest issuer with bonds outstanding valued at KRW146.8 trillion at the end of March.

**Table 1: Size and Composition of the Local Currency Bond Market in the Republic of Korea**

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>2,476,170</b>	<b>2,032</b>	<b>2,633,219</b>	<b>2,424</b>	<b>2,695,546</b>	<b>2,382</b>	<b>2.8</b>	<b>8.7</b>	<b>2.4</b>	<b>8.9</b>
Government	992,346	814	1,078,982	993	1,122,368	992	4.2	6.6	4.0	13.1
Central Government Bonds	645,928	530	726,766	669	769,339	680	5.6	10.6	5.9	19.1
Central Bank Bonds	165,710	136	159,260	147	157,230	139	1.0	(3.2)	(1.3)	(5.1)
Others	180,708	148	192,956	178	195,799	173	2.5	2.8	1.5	8.4
Corporate	1,483,824	1,218	1,554,237	1,430	1,573,178	1,390	1.9	10.2	1.2	6.0

( ) = negative, KRW = Korean won, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency-USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.

Sources: The Bank of Korea and KG Zeroin Corporation.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Republic of Korea

Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (USD billion)		KOSPI	KOSDAQ	
1. Korea Housing Finance Corporation	146,844	129.7	Yes	No	No	Housing Finance
2. Industrial Bank of Korea	73,020	64.5	Yes	Yes	No	Banking
3. Mirae Asset Securities Co.	65,508	57.9	No	Yes	No	Securities
4. Korea Investment and Securities	59,758	52.8	No	No	No	Securities
5. KB Securities	51,641	45.6	No	No	No	Securities
6. Hana Financial Investment	51,288	45.3	No	No	No	Securities
7. NH Investment & Securities	36,826	32.5	Yes	Yes	No	Securities
8. Samsung Securities	31,243	27.6	No	Yes	No	Securities
9. Korea Land & Housing Corporation	30,406	26.9	Yes	No	No	Real Estate
10. Shinhan Investment Corporation	30,074	26.6	No	No	No	Securities
11. Shinhan Bank	28,132	24.9	No	No	No	Banking
12. Korea Electric Power Corporation	27,410	24.2	Yes	Yes	No	Electricity, Energy, and Power
13. Korea Expressway	24,940	22.0	Yes	No	No	Transport Infrastructure
14. The Export–Import Bank of Korea	22,635	20.0	Yes	No	No	Banking
15. Meritz Securities Co.	21,107	18.6	No	Yes	No	Securities
16. Kookmin Bank	20,864	18.4	No	No	No	Banking
17. KEB Hana Bank	19,930	17.6	No	No	No	Banking
18. Woori Bank	19,580	17.3	Yes	Yes	No	Banking
19. Korea National Railway	19,210	17.0	Yes	No	No	Transport Infrastructure
20. NongHyup Bank	19,190	17.0	Yes	No	No	Banking
21. Shinyoung Securities	18,981	16.8	No	Yes	No	Securities
22. Hanwha Investment and Securities	18,330	16.2	No	No	No	Securities
23. Korea SMEs and Startups Agency	17,588	15.5	Yes	No	No	SME Development
24. Shinhan Card	16,605	14.7	No	No	No	Credit Card
25. KB Kookmin Bank Card	14,550	12.9	No	No	No	Consumer Finance
26. Hyundai Capital Services	14,385	12.7	No	No	No	Consumer Finance
27. NongHyup	13,200	11.7	Yes	No	No	Banking
28. Standard Chartered Bank Korea	13,100	11.6	No	No	No	Banking
29. Samsung Card Co.	11,558	10.2	No	Yes	No	Credit Card
30. Korea Gas Corporation	11,469	10.1	Yes	Yes	No	Gas Utility
<b>Total Top 30 LCY Corporate Issuers</b>	<b>949,370</b>	<b>838.8</b>				
<b>Total LCY Corporate Bonds</b>	<b>1,573,178</b>	<b>1,389.9</b>				
<b>Top 30 as % of Total LCY Corporate Bonds</b>	<b>60.3%</b>	<b>60.3%</b>				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SMEs = small and medium-sized enterprises, USD = United States dollar.

Notes:

1. Data as of 31 March 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
3. Corporate bonds include equity-linked securities and derivatives-linked securities.

Sources: *AsianBondsOnline* calculations based on Bloomberg LP and KG Zeroin Corporation data.

**Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021**

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Shinhan Bank <sup>a</sup>			Kookmin Bank <sup>a</sup>		
1-year bond	0.92	200	1-year bond	0.85	300
1-year bond	0.90	300	2-year bond	0.99	300
1-year bond	0.88	330	2-year bond	0.99	350
1-year bond	0.91	510	10-year bond	2.26	500
1-year bond	0.89	550	NongHyup Bank <sup>a</sup>		
2-year bond	0.99	530	1-year bond	0.91	230
2-year bond	1.02	620	1-year bond	0.88	500
Woori Bank <sup>a</sup>			2-year bond	0.92	200
1-year bond	0.88	250	3-year bond	1.31	400
1-year bond	0.96	270	LG Chem		
1-year bond	0.99	400	3-year bond	1.14	350
2-year bond	1.05	300	5-year bond	1.51	270
2-year bond	1.02	300	7-year bond	1.76	200
2-year bond	0.99	450	10-year bond	2.14	260
			Naver Corporation		
			3-year bond	1.24	250
			5-year bond	1.60	450

KRW = Korean won.

<sup>a</sup> Multiple issuance of the same tenor indicates issuance on different dates.

Source: Based on data from Bloomberg LP.

Issuance of corporate bonds in the Republic of Korea declined 9.9% q-o-q in Q1 2021 to KRW129.1 trillion. However, the large quarterly decline came from a high base in Q4 2020 after a surge in issuance during the last quarter of the year. **Table 3** lists notable corporate bond issuances in Q1 2021, which remain dominated by financial institutions such as Shinhan Bank, Woori Bank, and Kookmin Bank.

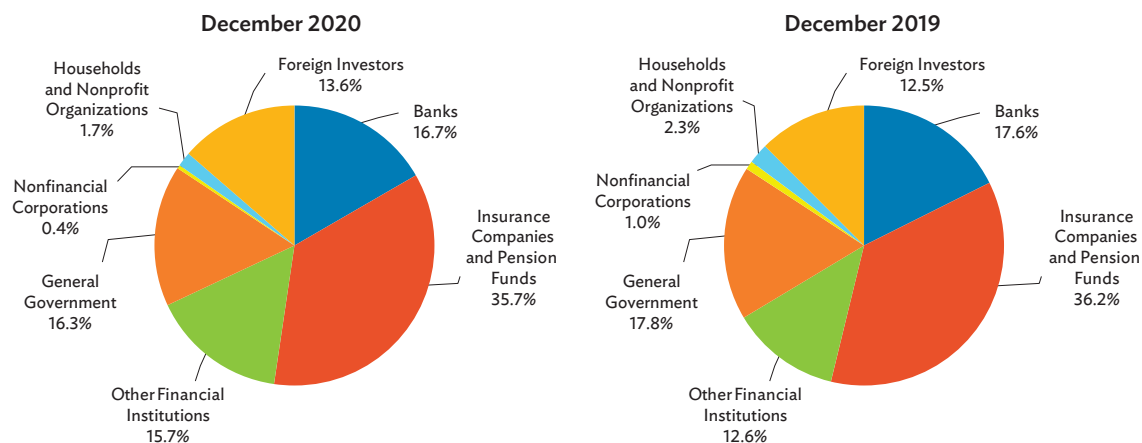
## Investor Profile

Insurance companies and pension funds remained the largest holders of LCY government bonds in the Republic of Korea at the end of December 2020 with a share of 35.7%, slightly lower than their share of 36.2% in December 2019 (**Figure 2**). Banks were the second-largest investor group, but their share declined to 16.7% from 17.6% during the review period. The same trend was registered for the holdings of the general government, with its share falling to 16.3% from 17.8%. Meanwhile, the share of other financial institutions rose to 15.7% from 12.6%. Foreign holdings of LCY government bonds also increased to 13.6% from 12.5% during the review period. Nonfinancial corporations and households continued to register negligible shares of 0.4% and 1.7%, respectively.

The Republic of Korea's LCY corporate bond market continued to be dominated by insurance companies and pension funds with a share of 37.3% at the end of December 2020; other financial institutions comprised a 36.7% share (**Figure 3**). Both investor groups registered an increase in their respective shares of 37.1% and 35.8% in December 2019. The share of the general government was only slightly changed at 13.7% in December 2020 versus 13.6% a year earlier, while banks' share increased to 9.6% from 8.5% during the review period. Foreign holdings of Korean LCY corporate bonds remained negligible at 0.1%.

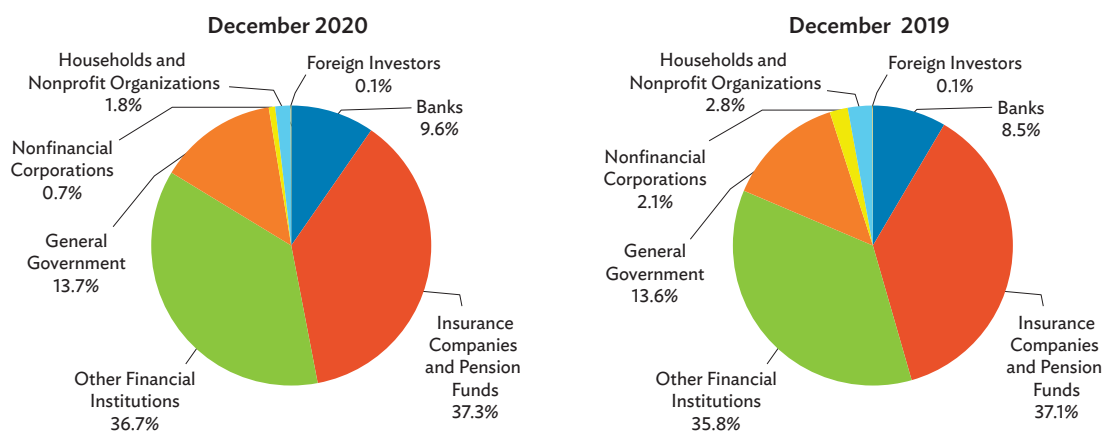
Foreign investor demand for the Republic of Korea's LCY bonds rebounded in the first 4 months of 2021, posting net inflows of KRW1,158 billion in January following an aggregate of KRW899 of net outflows in Q4 2020 (**Figure 4**). Net foreign inflows peaked in February and March at KRW8,988 billion and KRW9,164 billion, respectively. The Republic of Korea continued to be a safe haven relative to other bond markets in the region for which data are available, some of which recorded net outflows in the previous months amid rising US Treasury yields. Moreover, foreign institutions reinvested in short-term LCY bonds following a high volume of maturities in Q4 2020. The net inflows trend continued in April, albeit at a smaller amount of KRW3,346 billion.

**Figure 2: Local Currency Government Bonds Investor Profile**



Source: AsianBondsOnline and The Bank of Korea.

**Figure 3: Local Currency Corporate Bonds Investor Profile**



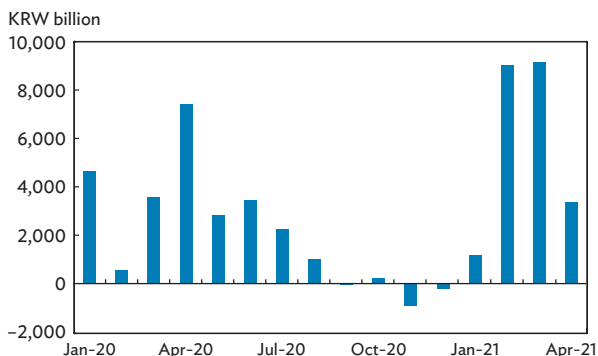
Source: AsianBondsOnline and The Bank of Korea.

## Ratings Update

On 28 April, S&P Global Ratings affirmed the Republic of Korea’s sovereign credit rating at AA with a stable outlook. The rating agency cited the Republic of Korea’s strong economic growth prospects relative to other developed countries, sound fiscal position, and robust net external creditor position as some of the reasons behind the rating affirmation. The stable outlook

is supported by expectations that the economy will post growth higher than most other high-income economies in the coming years and the government’s budget will return to a surplus in 2023. The rating agency also forecasts annual real GDP growth to be 3.6% and 3.1% in 2021 and 2022, respectively.

**Figure 4: Net Foreign Investment in Local Currency Bonds in the Republic of Korea**



KRW = Korean won.  
Source: Financial Supervisory Service.

## Policy, Institutional, and Regulatory Developments

### National Assembly Passes KRW14.9 Trillion Supplementary Budget

On 25 March, the National Assembly passed the KRW14.9 trillion supplementary budget, which was slightly less than the proposed KRW15.0 trillion. The additional budget will mostly be used to fund COVID-19 relief programs, support for small businesses hit by the pandemic, and job retention and creation programs. The supplementary budget brought the total 2021 budget to KRW572.9 trillion and increased the fiscal deficit to 4.5% of GDP.