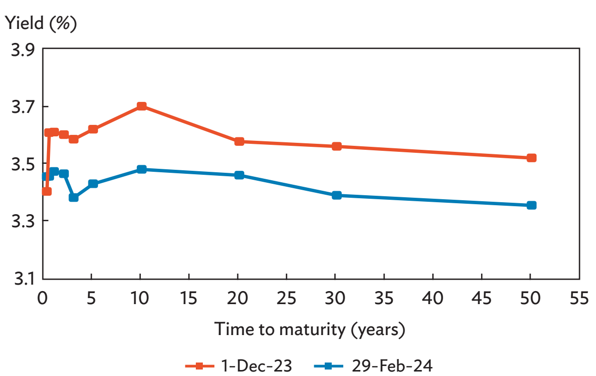
Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for almost all tenors between 1 December 2023 and 29 February 2024 (Figure 1). Bond yields largely fell in December following the Federal Reserve meeting at which it lowered its quarterly median federal funds rate projections for 2024, boosting expectations that it will start easing this year. However, yields picked up again in January as the timing of the Federal Reserve's rate cuts remained uncertain. The decline in yields was also limited by the Bank of Korea's decision at its 11 January and 22 February monetary policy meetings to maintain its current restrictive monetary policy stance, lowering expectations of an early rate cut. The central bank deemed that even as inflation continued to slow, uncertainties regarding the inflation outlook remained. These include movements of global oil and agricultural product prices and the direction of domestic and global economic growth.

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

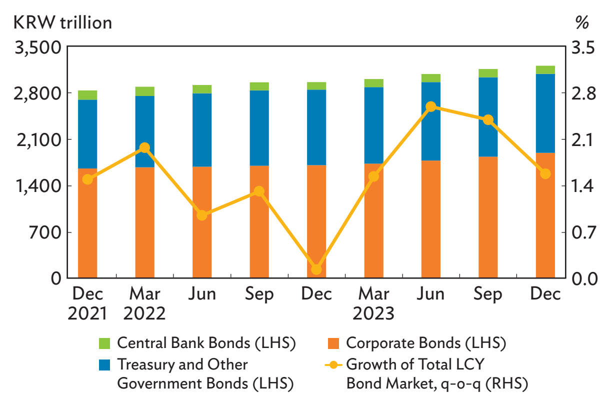


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The Republic of Korea's total LCY bonds outstanding grew 1.6% quarter-on-quarter (q-o-q) to reach KRW3,217.0 trillion at the end of the fourth quarter (Q4) of 2023, led by an expansion in the corporate bond segment. Overall growth in the LCY bond market in Q4 2023 moderated from 2.4% q-o-q in the previous quarter as the stocks of government bonds and central bank bonds fell (**Figure 2**). Corporate bonds grew 3.1% q-o-q and continued to account for over half of the total LCY bond market in Q4 2023 due to a surge in issuance during the quarter. Meanwhile, government bonds outstanding declined 0.3% q-o-q due to reduced issuance during the quarter.

Figure 2: Composition of Local Currency Bonds Outstanding in the Republic of Korea



KRW = Korean won, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Sources: Bank of Korea and KG Zeroin Corp.

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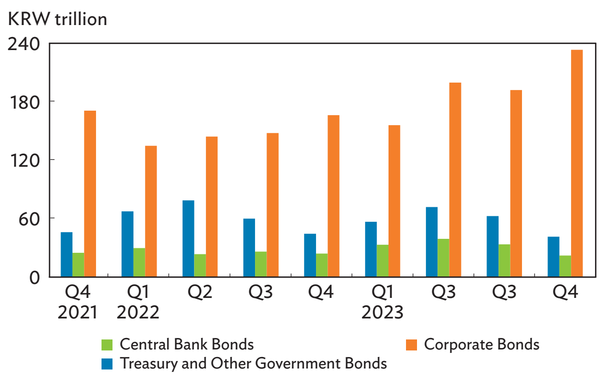
Total LCY bond issuance rose 2.9% q-o-q to KRW298.7 trillion in Q4 2023, driven solely by the rebound in the corporate bond segment. Corporate bond issuance in the Republic of Korea surged 21.4% q-o-q in Q4 2023, a reversal from the 3.8% q-o-q decline in the third quarter (Q3) (**Figure 3**). Issuance rose during the quarter as companies refinanced maturing debt. Meanwhile, issuance of government bonds continued to fall in Q4 2023, declining 33.8% q-o-q, following a 12.9% q-o-q contraction in Q3 2023. This was the result of the government's frontloading policy of releasing 65% of the budget in the first half of the year and fulfilling most of its borrowing requirements by the end of Q3 2023.

Figure 3: Composition of Local Currency Bond Issuance in the Republic of Korea

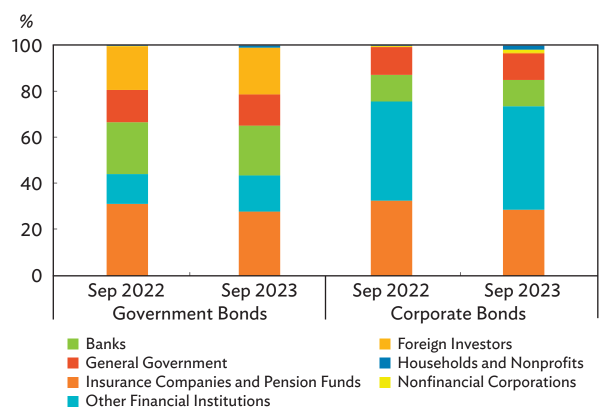


KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Sources: Bank of Korea and KG Zeroin Corp.

Investor Profile

Insurance companies and pension funds continued to hold the largest share of the Republic of Korea's LCY bonds outstanding. Insurance companies and pension funds held 27.8% of LCY government bonds outstanding at the end of September 2023, which was lower than their 31.2% share a year earlier. Banks and foreign investors were also among the top investor groups in the LCY government bond market with holdings shares of 21.6% and 20.3%, respectively, at the end of September 2023 (**Figure 4**). Meanwhile, other financial institutions held 45.0% of all LCY corporate bonds outstanding, up from a 43.1% share in September 2022. Insurance companies and pension funds were the second-largest investor group with a holdings share of 28.6%, which was a notable decline from 32.6% a year earlier. Foreign holdings in the LCY corporate bond market remained negligible at the end of September 2023.

Figure 4: Local Currency Bonds Outstanding Investor Profile



Sources: *AsianBondsOnline* and Bank of Korea.