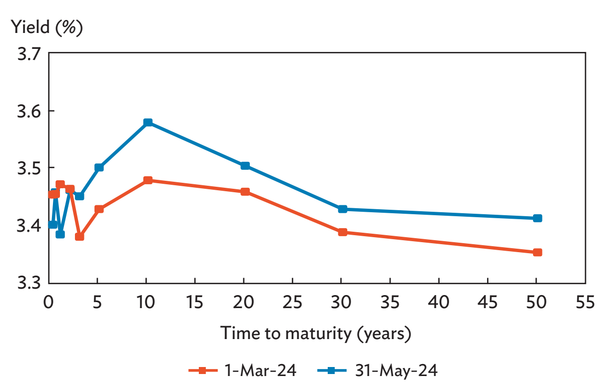
Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea rose for most tenors between 1 March and 31 May due to a delay in the expected rate cut by the Bank of Korea (BOK) and the United States Federal Reserve. Yields rose a marginal 6 basis points on average for maturities of 3 years and longer, but fell at the short-end of the curve (with the exception of the 6-month tenor), during the review period (**Figure 1**). Market expectations of a rate cut this year were tempered following the BOK's 24 May monetary policy meeting when it left the base rate unchanged at 3.50% for an 11th straight meeting, stating that the increased upside risks to inflation still do not justify a rate cut. While inflation has slowed, upside risks have increased due to an improvement in economic growth and heightened foreign exchange volatility. Consequently, the BOK, in its 24 May meeting, raised the 2024 annual growth forecast to 2.5% from the February forecast of 2.1%, but maintained its inflation forecast at 2.6%. The delay in the United States Federal Reserve's rate cut also contributed to the rise in yields in the Republic of Korea's government bond market during the review period.

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

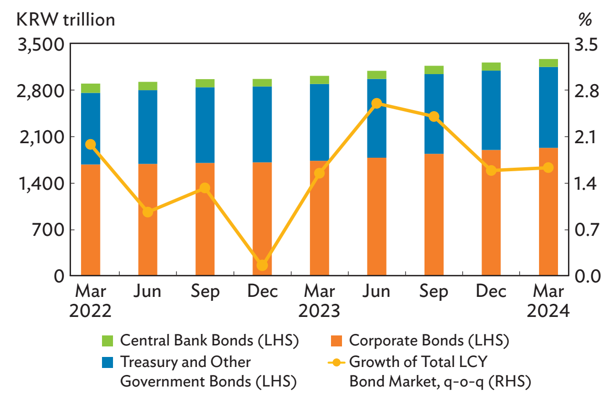


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in the Republic of Korea rose 1.6% quarter-on-quarter (q-o-q) to reach KRW3,269.3 trillion at the end of March, driven by growth in both the government and corporate bond segments. The Republic of Korea's government bond market rose 1.6% q-o-q in the first quarter (Q1) of 2024, a rebound from the 0.3% q-o-q decline in the previous quarter, driven by increased issuance of Treasury bonds (**Figure 2**). Meanwhile, corporate bonds outstanding grew 1.8% q-o-q, despite the decline in issuance, due to a small volume of maturities.

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



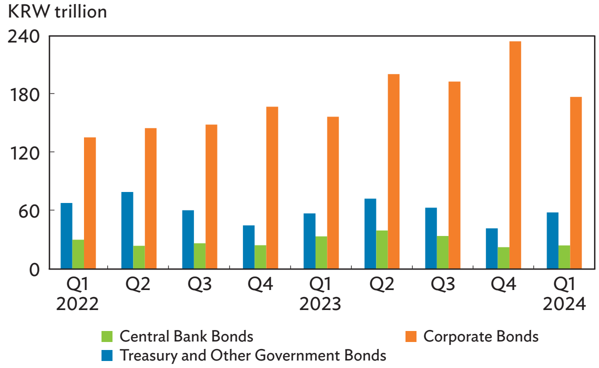
KRW = Korean won, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Sources: Bank of Korea and KG Zeroin Corp.

Total LCY bond issuance fell 13.0% q-o-q to KRW259.8 trillion in Q1 2024, dragged down by a contraction in the corporate bond segment. Issuance of corporate bonds dropped 24.4% q-o-q in Q1 2024 due to the rise in domestic yields being driven by the delay in the Federal Reserve's expected rate cut (**Figure 3**). Meanwhile, issuance of government bonds jumped 39.6% q-o-q due to the government's plan to finance the spending of more than 65% of the 2024 budget during the first half of the year.

This market summary was written by Angelica Andrea Cruz, consultant, Economic Research and Development Impact Department, ADB, Manila.

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



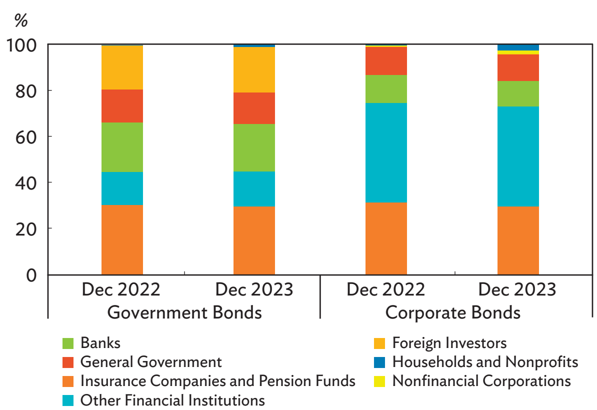
KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Sources: Bank of Korea and KG Zeroin Corp.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY bond market in 2023. The group held a collective share of 29.8% of total LCY bonds outstanding at the end of December, slightly lower than the 30.8% share in December 2022. In the government bond market, insurance companies and pension funds held a share of 29.8%, while banks and foreign investors were the next two largest investor groups with shares of 20.5% and 19.7%, respectively (**Figure 4**). The corporate bond market has a less diverse investor profile, with two major investor groups—other financial institutions (43.5%) and insurance companies and pension funds (29.6%)—continuing to hold almost three-quarters of total LCY corporate bonds outstanding. Foreign holdings in the LCY corporate bond market remained negligible at the end of December 2023.

Figure 4: Local Currency Bonds Outstanding Investor Profile

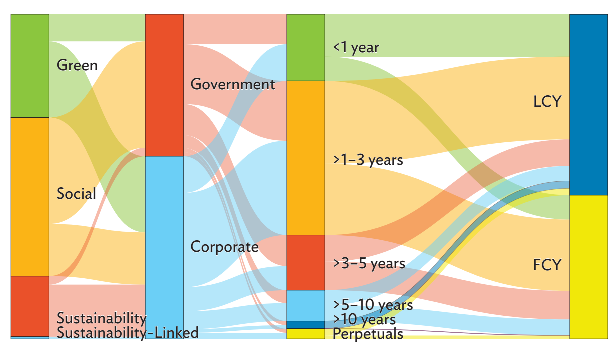


Sources: *AsianBondsOnline* and Bank of Korea.

Sustainable Bond Market

Nearly half of sustainable bonds outstanding in the Republic of Korea were social bonds, while bonds issued by the corporate sector and those carrying tenors of over 1 year to 3 years comprised a majority of total sustainable bonds outstanding at the end of March (Figure 5). The Republic of Korea's sustainable bond market reached a size of USD172.8 billion at the end of March, making it the second-largest sustainable bond market in emerging East Asia.[17] Social bonds comprised 48.9% of the sustainable bond market, followed by green bonds with a 31.8% share. Over half (56.3%) of the overall sustainable bond market comprised issuances by the corporate sector, while the government was the primary issuer of social bonds. About two-thirds of the sustainable bond stock had maturities of 3 years or less, resulting in a weighted average tenor of 3.0 years.

Figure 5: Market Profile of Outstanding Sustainable Bonds in the Republic of Korea at the End of March 2024



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[17] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.