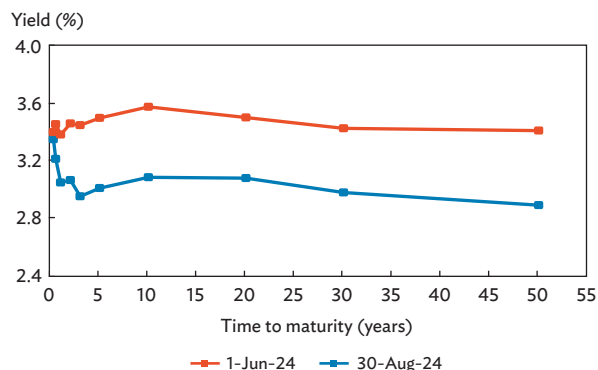


Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 1 June and 30 August, driven by expected rate cuts from the Bank of Korea and the United States Federal Reserve. On average, yields fell 39 basis points during the review period (Figure 1). The expectations of a rate cut by the Bank of Korea at its upcoming October meeting—and as market participants priced in a rate cut by the Federal Reserve in its September meeting—pulled down yields. While the Bank of Korea left the base rate unchanged at its 11 July and 22 August meetings, the central bank indicated that the timing of a rate cut depends on the path of inflation and gross domestic product growth, as well as the impact of rising household debt on financial stability. The recent 0.2% quarter-on-quarter (q-o-q) contraction in the Republic of Korea's economy in the second quarter (Q2) of 2024 also contributed to market participants pricing in a rate cut in October. Furthermore, in its 22 August meeting, the Bank of Korea lowered its 2024 economic growth and inflation forecasts by 0.1 percentage point each to 2.4% year-on-year and 2.5% y-o-y, respectively, from its May forecasts.

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

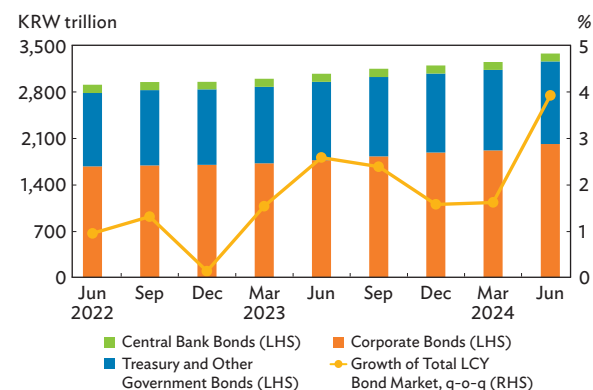


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The Republic of Korea's LCY bonds outstanding grew at a faster pace in Q2 2024 as the stock of both government and corporate bonds increased during the quarter. The size of the Republic of Korea's LCY bond market rose 3.9% q-o-q to reach KRW3,398.3 trillion at the end of June (Figure 2). The Republic of Korea's government bond market increased 2.7% q-o-q in Q2 2024 due to higher quarterly issuance of Treasury bonds. Meanwhile, corporate bonds outstanding grew 5.0% q-o-q because of the smaller volume of maturities, despite a contraction in issuance.

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

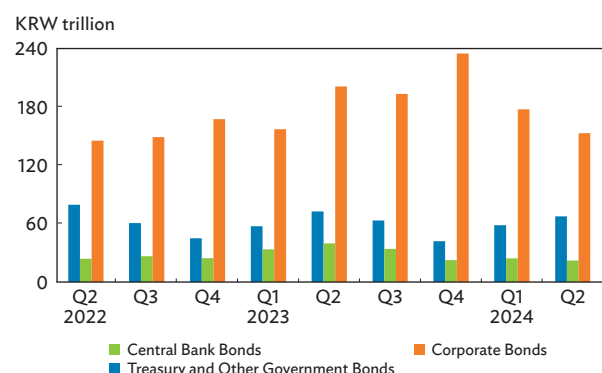


KRW = Korean won, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Sources: Bank of Korea and KG Zeroin Corp.

LCY bond issuance fell 6.8% q-o-q to KRW242.0 trillion in Q2 2024, driven by a contraction in the corporate bond segment. Corporate bond issuance dropped 13.9% q-o-q in Q2 2024 due to lower corporate funding requirements amid a slowdown in domestic and global economic growth. Meanwhile, issuance of government bonds rose 15.4% q-o-q in Q2 2024, which was still in line with the government's frontloading policy in the first half of the year (Figure 3).

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

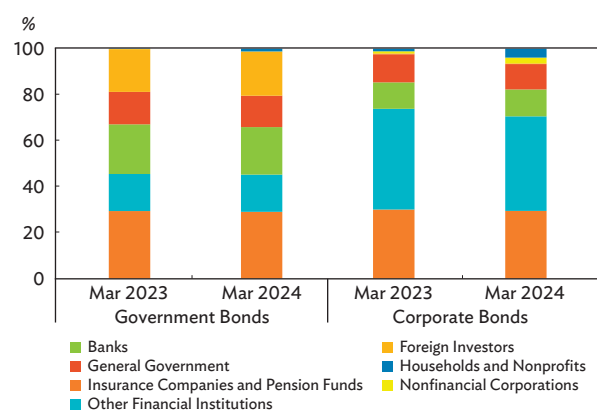


KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Sources: Bank of Korea and KG ZeroIn Corp.

Investor Profile

The Republic of Korea’s LCY government bond market continued to have one of the most diverse investor bases in emerging East Asia at the end of March.¹⁵ The Republic of Korea had the second-lowest Herfindahl–Hirschman Index score in the region at the end of March.¹⁶ Insurance companies and pension funds remained the largest investor group in the LCY government

Figure 4: Local Currency Bonds Outstanding Investor Profile



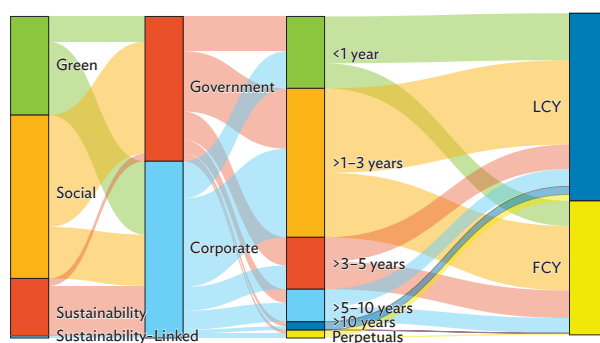
Sources: AsianBondsOnline and Bank of Korea.

bond market with a share of 29.0%; followed by banks and foreign investors with shares of 20.7% and 19.2%, respectively (Figure 4). Meanwhile, the corporate bond market has a less diverse investor base and is largely held by two major investor groups. Other financial institutions held a share of 41.1%, followed by insurance companies and pension funds at 29.4%. Foreign holdings of the LCY corporate bond market remained negligible at the end of March.

Sustainable Bond Market

Sustainable bonds outstanding in the Republic of Korea at the end of June were mostly social bonds and carried tenors of 3 years or less. The Republic of Korea was the second-largest sustainable bond market in the region with outstanding bonds worth USD177.6 billion at the end of June on marginal contraction of 1.3% q-o-q. Social bonds comprised 50.8% of the sustainable bond market, of which the majority were issued by the government (Figure 5). This was followed by green bonds at 30.7%, mostly coming from the private sector. Almost 70% of the sustainable bonds outstanding carried maturities of less than 3 years, resulting in an overall size-weighted average tenor of 3.1 years. In terms of currency denomination, about 60% of sustainable bonds outstanding at the end of June were denominated in Korean won.

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



FCY = foreign currency, LCY = local currency.
Source: AsianBondsOnline calculations based on Bloomberg LP data.

¹⁵ Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People’s Republic of China; Hong Kong, China; and the Republic of Korea

¹⁶ The Herfindahl–Hirschman Index is a common measure of market concentration. The index is used to measure the investor profile diversification of the local currency bond market by summing the squared share of each investor group in the bond market.