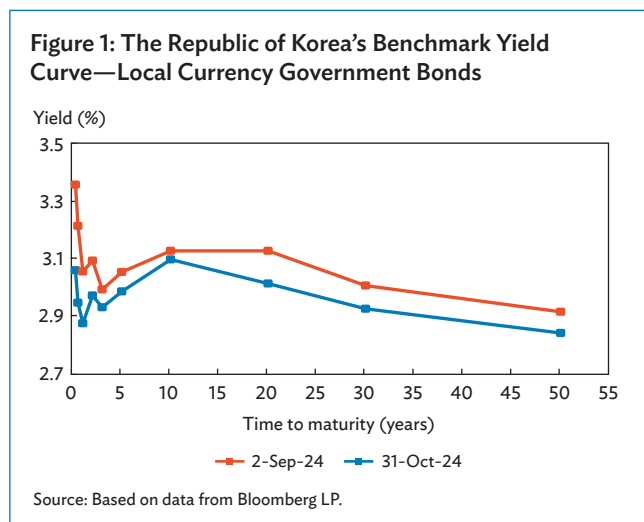


Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 2 September and 31 October. Yields fell an average of 13 basis points (bps) during the review period, with tenors of less than 1 year posting the largest average decline of 28 bps (**Figure 1**). Yields fell ahead of the expected monetary policy easing by the United States Federal Reserve at its 17–18 September meeting, when it ultimately cut the federal funds rate by 50 bps. Moreover, on 11 October, the Bank of Korea cut the base rate by 25 bps to 3.25% amid stable inflation and a slowdown in household debt growth. Inflation eased from 2.0% year-on-year (y-o-y) in August to 1.6% y-o-y and 1.3% y-o-y in September and October, respectively.

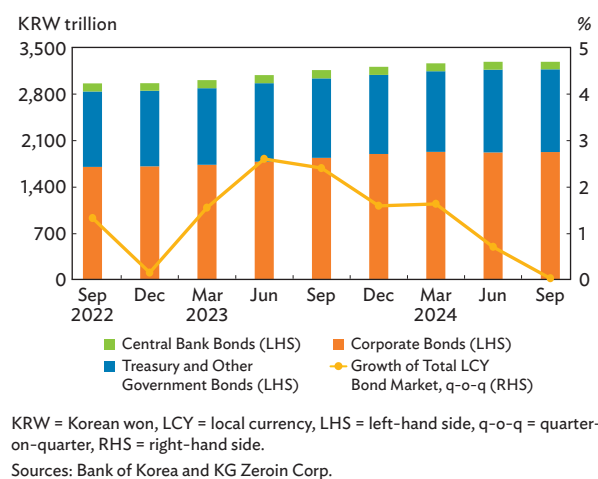


Local Currency Bond Market Size and Issuance

The Republic of Korea's LCY bond market posted marginal growth of 0.01% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2024, reaching a size of KRW3,292.5 trillion at the end of September. The Republic of Korea remained the second-largest LCY

bond market in emerging East Asia, comprising almost 10% of the regional bond total.¹⁵ The stock of government bonds, which accounted for 38.1% of the total bond market, was barely changed in Q3 2024 from the previous quarter due to reduced issuance. Meanwhile, corporate bonds, which comprised 58.5% of total bonds, rose 0.3% q-o-q in Q3 2024. This was a reversal from the 0.5% q-o-q contraction in the second quarter, as issuance increased during the quarter (**Figure 2**).

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

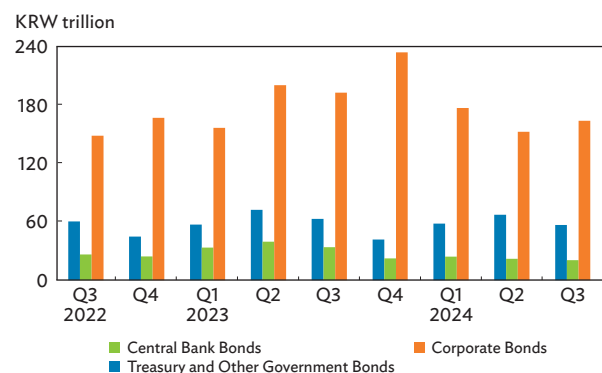


LCY bond issuance contracted 0.3% q-o-q to KRW241.4 trillion in Q3 2024 driven by reduced issuance of government bonds. Issuance of government bonds contracted 15.6% q-o-q in Q3 2024 as the government borrowed less during the quarter, following its frontloading policy in the first half of the year. Meanwhile, issuance of corporate bonds rebounded in Q3 2024, posting an increase of 7.4% q-o-q, a reversal from the 13.9% q-o-q contraction in the previous quarter (**Figure 3**). Issuance rose as companies took advantage of lower bond yields amid expected rate cuts by both the Bank of Korea and the Federal Reserve.

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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.

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

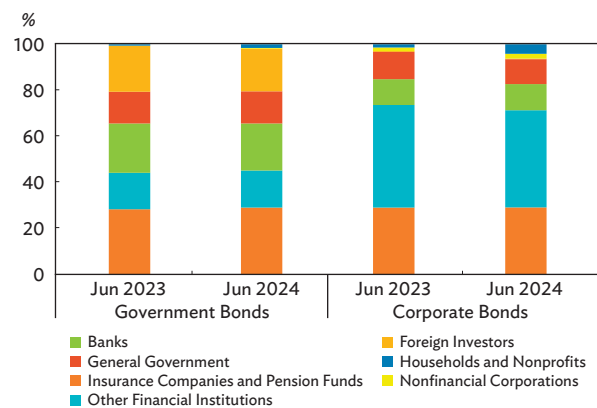


KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Sources: Bank of Korea and KG Zeroin Corp.

Investor Profile

The Republic of Korea’s LCY government bond market continued to have one of the most diverse investor bases in the region at the end of June 2024. The Republic of Korea had the second-lowest Herfindahl–Hirschman Index score in emerging East Asia at the end of June.¹⁶ Insurance companies and pension funds held the largest share of LCY government bonds outstanding at 29.0%. Banks, foreign investors, and other financial

Figure 4: Local Currency Bonds Outstanding Investor Profile



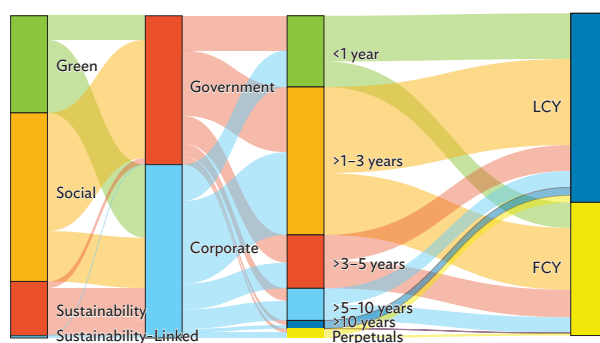
Sources: AsianBondsOnline and Bank of Korea.

institutions had shares of 20.5%, 18.5%, and 16.1%, respectively (Figure 4). Meanwhile, the corporate bond market had a less diverse investor base—with almost three-fourths of the market held by only two major investor groups. These include other financial institutions with a share of 42.3%, and insurance companies and pension funds with a collective share of 29.0%. Foreign holdings of corporate bonds remained negligible at the end of June.

Sustainable Bond Market

The Republic of Korea’s sustainable bond market at the end of September 2024 mostly comprised government-issued social bonds and private sector green bonds. The Republic of Korea had the second-largest sustainable bond market in emerging East Asia at the end of September with outstanding bonds reaching USD182.6 billion on 1.8% q-o-q growth. Social bonds accounted for 52.3% of the sustainable bond market, of which 70.1% came from the government (Figure 5). Green bonds were the next most common type of sustainable bonds at the end of September with a share of 30.1%, mostly issued by the private sector. Nearly 70% of sustainable bonds outstanding carried maturities of less than 3 years, resulting in an overall size-weighted average tenor of 3.1 years. Moreover, over half of the Republic of Korea’s sustainable bonds were denominated in Korean won.

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



FCY = foreign currency, LCY = local currency.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

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.