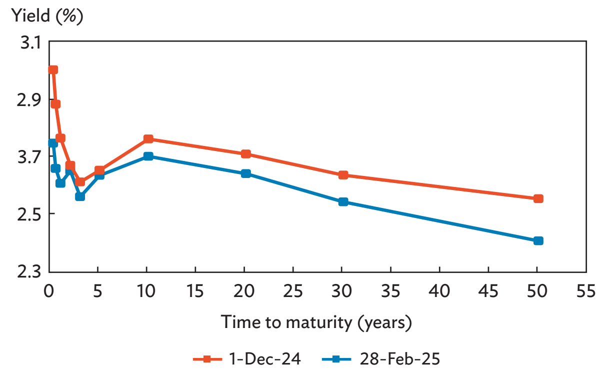
Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 1 December 2024 and 28 February 2025. Yields fell an average of 11 basis points (bps) across all tenors, with tenors of 1 year and below declining the most at an average of 21 bps (**Figure 1**). Yields fell on increased expectations of further rate cuts by the Bank of Korea as economic growth is expected to slow in 2025. The Bank of Korea, in its 25 February monetary policy meeting, cut the base rate by 25 bps to 2.75% to support the economy and mitigate downside risks to growth. These include developments in both trade policies in the United States and the domestic political situation. The Bank of Korea also lowered its 2025 annual growth forecast to 1.5% from the November forecast of 1.9%, while the inflation forecast was maintained at 1.9%. The Republic of Korea's economic growth slowed to 1.2% year-on-year in the fourth quarter (Q4) of 2024 from 1.5% year-on-year in the third quarter due to weaker consumer spending and export growth, and a continued contraction in investments.

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

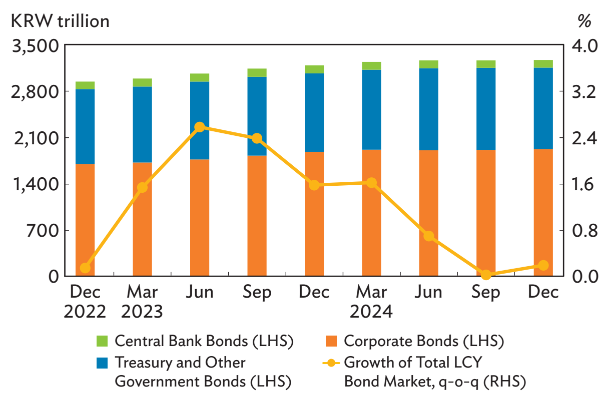


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The size of the Republic of Korea's LCY bond market posted minimal growth of 0.2% quarter-on-quarter (q-o-q) in Q4 2024, driven by the corporate bond market. The Republic of Korea continued to be the second-largest LCY bond market in emerging East Asia with a size of KRW3,298.5 trillion at the end of December, accounting for 8.5% of the total regional bond market.[16] Corporate bonds continued to comprise a majority of the Republic of Korea's LCY bond market in Q4 2024 with a share of 58.7% (**Figure 2**). The stock of corporate bonds grew 0.6% q-o-q in Q4 2024, supported by a surge in issuance during the quarter. Government bonds, with a share of 37.8% of the total LCY bond market, fell 0.5% q-o-q on reduced borrowing.

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 rose 18.0% q-o-q to KRW284.9 trillion in Q4 2024 as the issuance of corporate bonds surged during the quarter. Issuance of corporate bonds rose 35.8% q-o-q in Q4 2024, versus 7.4% q-o-q in the previous quarter, as companies continued to take advantage of declining bond yields amid market expectations of rate cuts by the Bank of Korea

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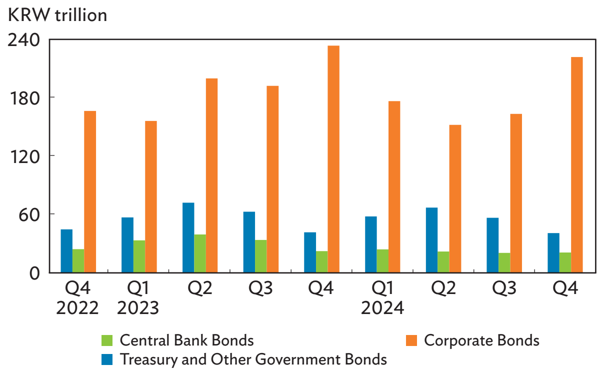
16 Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

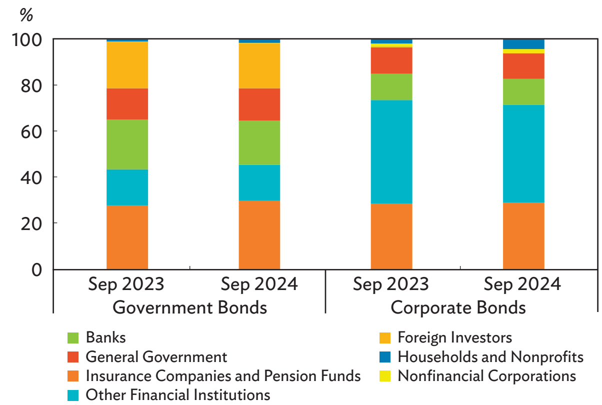
Figure 3: Composition of Local Currency Bond Issuance in the Republic of Korea



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

Sources: Bank of Korea and KG Zeroin Corp.

Figure 4: Local Currency Bonds Outstanding Investor Profile



Sources: *AsianBondsOnline* and Bank of Korea.

(**Figure 3**). Meanwhile, issuance of government bonds contracted 27.6% q-o-q in Q4 2024 as the government had already fulfilled most of its borrowing requirements in previous quarters.

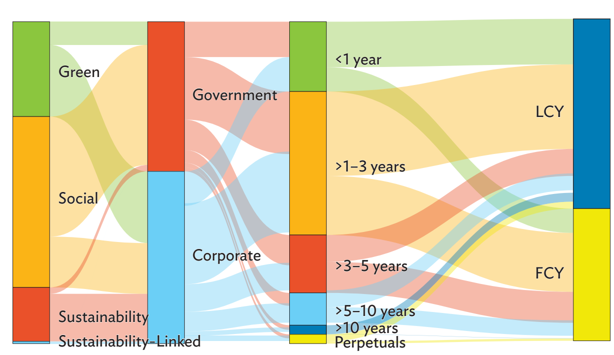
Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY bond market at the end of September. The Republic of Korea's LCY government bond market continued to have one of the most diverse investor bases in emerging East Asia as almost all outstanding bonds are held by five major investor groups. Insurance companies and pension funds had the largest share of LCY government bond holdings at 30.0%, followed by foreign investors and banks at 19.6% and 19.2%, respectively (**Figure 4**). Other major investor groups include other financial institutions (15.5%) and the general government (14.1%). On the other hand, the Republic of Korea's LCY corporate bond market still largely comprises two major investor groups: other financial institutions (42.7%) and insurance companies and pension funds (29.0%).

Sustainable Bond Market

Social bonds continued to dominate the Republic of Korea's sustainable bond market at the end of December 2024. The size of the Republic of Korea's sustainable bond market slightly rose 0.7% q-o-q to USD184.2 billion, making it the second-largest sustainable bond market in emerging East Asia at the end of December. The government and private sector are both active issuers of sustainable bonds with almost equal shares of outstanding sustainable bonds at 46.5% and 53.5%, respectively. Social bonds comprised 53.1% of the sustainable bond market and were largely issued by the government (**Figure 5**). Meanwhile, green bonds accounted for 29.5% and largely came from the private sector. The remaining maturities of outstanding sustainable bonds remained concentrated in tenors of less than 3 years (66.3%), resulting in a size-weighted average tenor of 3.0 years. In terms of currency denomination, nearly 60% of outstanding sustainable bonds at the end of December were denominated in Korean won.

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



FCY = foreign currency, LCY = local currency.

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