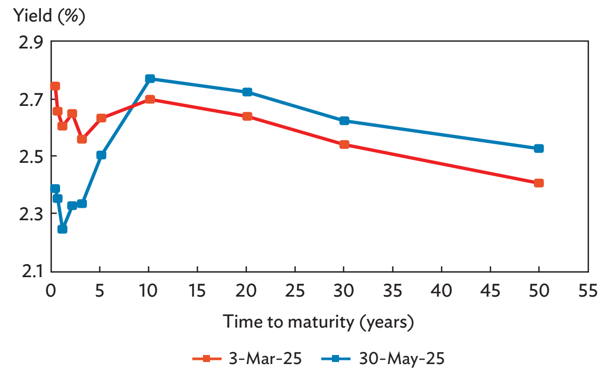
Republic of Korea

Yield Movements

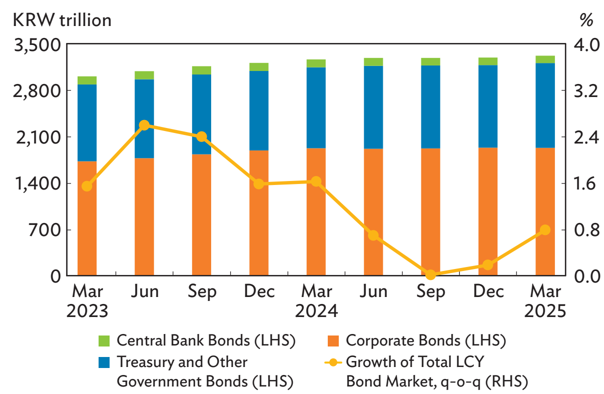
Local currency (LCY) government bond yields in the Republic of Korea fell for most maturities between 3 March and 30 May on expectations of further rate cuts by the Bank of Korea (BOK). Yields declined an average of 28 basis points (bps) for maturities between 3 months and 5 years (**Figure 1**). Yields fell on increased expectations of further monetary policy easing by the BOK to support the economy amid stable inflation. The BOK cut the base rate by another 25 bps to 2.50% at its 29 May monetary policy meeting. The BOK previously cut the base rate by 25 bps to 2.75% in February before holding rates steady in April. The BOK also lowered its economic growth forecasts for 2025 and 2026 to 0.8% and 1.6%, respectively, from the February forecasts of 1.5% and 1.8%, as ongoing global trade tensions continue to dampen demand and exports. The Republic of Korea's economy was unchanged in the first quarter (Q1) of 2025, following growth of 1.1% y-o-y in the previous quarter, on slower growth in exports and private and public spending, and a contraction in gross fixed capital formation. Meanwhile, yields for longer-term maturities inched up an average of 9 bps following approval of the first supplementary budget in early May. The government announced plans to increase the proportion of long-term bonds in its adjusted 2025 issuance plan to reflect the supplementary budget, putting upward pressure on yields at the long-end of the curve.

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



Source: Based on data from Bloomberg LP.

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.

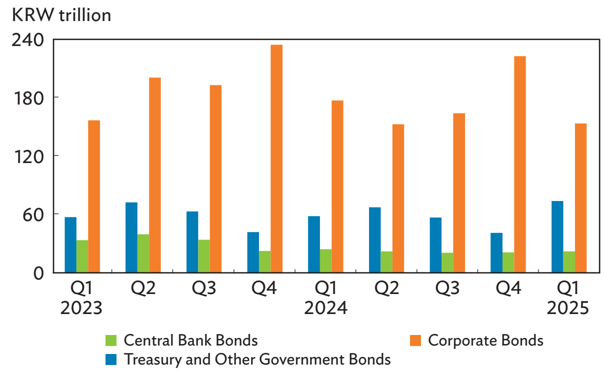
Local Currency Bond Market Size and Issuance

The Republic of Korea's LCY bond market rose at a faster pace in Q1 2025 to reach a size of KRW3,324.6 trillion, solely driven by the government bond segment. Overall growth accelerated to 0.8% quarter-on quarter (q-o-q) from 0.2% q-o-q in the prior quarter. Government bonds outstanding rose 2.6% q-o-q in Q1 2025 due to a surge in issuance during the quarter. Meanwhile, the corporate bond market, which continued to comprise a majority of the total LCY bond market, marginally contracted 0.1% q-o-q in Q1 2025 on reduced issuance (**Figure 2**).

Total LCY bond issuance contracted 12.5% q-o-q to KRW249.4 trillion in Q1 2025, driven by reduced issuance of corporate bonds. Sales of corporate bonds fell 31.0% q-o-q in Q1 2025 amid the weak economic outlook brought about by global trade tensions (**Figure 3**). Meanwhile, the issuance of government bonds surged 79.5% q-o-q in Q1 2025 to support the government's front-loading policy of spending 75% of the total budget in the first half of the year.

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

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

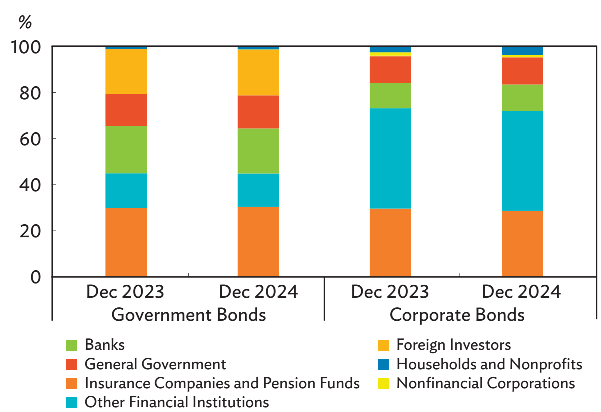


KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Sources: Bank of Korea and KG Zeroin Corp.

Investor Profile

The Republic of Korea's LCY government bond market continued to have one of the most diverse investor bases in emerging East Asia in 2024.[12] The government bond market's investor profile was barely changed at the end of December from a year earlier, with the stock of outstanding bonds continuing to be held by five major investor groups (**Figure 4**). Insurance companies and pension funds remained the largest investor group in the government bond market with a share of 30.4%, followed by foreign investors (19.8%) and banks (19.6%). Meanwhile, the Republic of Korea's LCY corporate bond market is still dominated by two major investor groups who together held a collective share of 72.2% at the end of 2024: other financial institutions held 43.5% of the corporate bond market, followed by insurance companies and pension funds with a share of 28.7%. Foreign holdings in the corporate bond market remained negligible.

Figure 4: Local Currency Bonds Outstanding Investor Profile

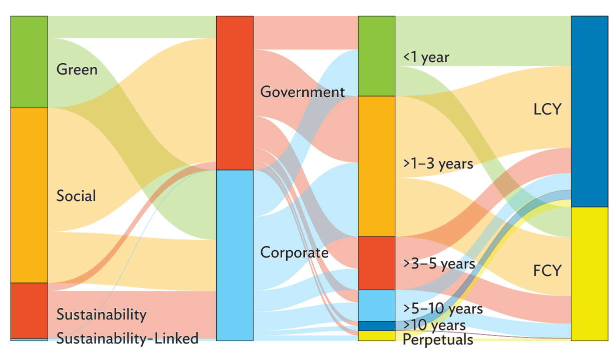


Sources: *AsianBondsOnline* and Bank of Korea.

Sustainable Bond Market

Firms from the public and private sectors continued to be active issuers in the Republic of Korea's sustainable bond market. The Republic of Korea's sustainable bond market contracted slightly by 0.6% q-o-q to reach a size of USD183.1 billion at the end of Q1 2025. Sustainable bonds outstanding issued by private companies comprised 52.6% of the total, while the public sector accounted for the remaining 47.4% (**Figure 5**). By bond type, social bonds—almost three-quarters of which come from the public sector—dominate the Republic of Korea's total sustainable bond market with a share of 54.0%. Green bonds followed with a 28.2% share, mostly issued by the private sector. Nearly 70% of sustainable bonds outstanding at the end of March had remaining tenors of 3 years or less, resulting in a size-weighted average tenor of 3 years. The Korean won continued to be the predominant currency of outstanding sustainable bonds with a share of 58.8%. This was followed by the United States dollar (29.8%) and the euro (8.0%).

Figure 5: Market Profile of Outstanding Sustainable Bonds in the Republic of Korea at the End of March 2025



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

12 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.