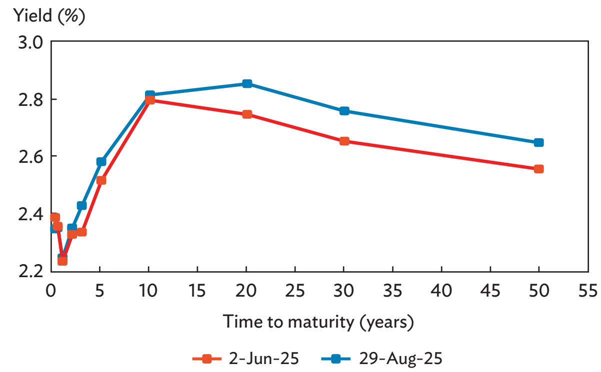
Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea rose for most maturities between 2 June and 29 August on changing expectations of when the Bank of Korea (BOK) would resume monetary policy easing. Yields rose an average of 6 basis points (bps) for maturities of 1 year and longer, while declining an average of 2 bps for maturities of less than 1 year (**Figure 1**). The BOK left the base rate unchanged at 2.50% at its 10 July and 28 August meetings, following a 25 bps rate cut in May, amid uncertainty in the domestic economic growth outlook and as it continues to monitor developments in household debt and housing prices. The BOK in its August meeting noted that while economic growth has improved, risks to the outlook remain due to the United States' tariff policies. The BOK also raised its 2025 growth and inflation forecasts to 0.9% year-on-year (y-o-y) and 2.0% y-o-y, respectively, from the May forecasts of 0.8% y-o-y and 1.9% y-o-y. The Republic of Korea's economic growth inched up to 0.6% y-o-y in the second quarter (Q2) of 2025 after remaining unchanged in the previous quarter, driven by improved domestic consumption and continued export growth. Moreover, the increased bond supply due to the passing of the second supplementary budget in July also contributed to the rise in yields.

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

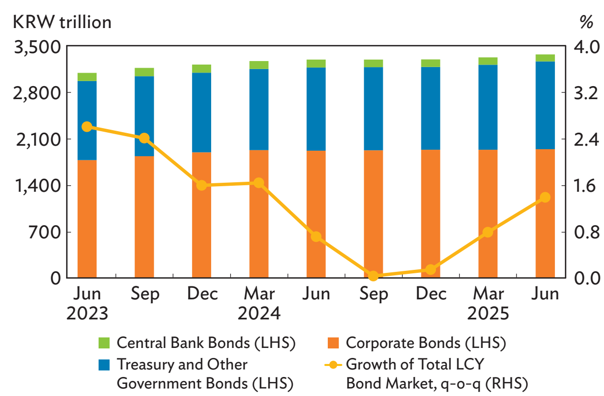


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The Republic of Korea's LCY bonds outstanding grew 1.4% quarter-on-quarter (q-o-q) to KRW3,370.4 trillion at the end of June. Growth in Q2 2025 was higher than the 0.8% q-o-q marginal increase recorded in the first quarter (Q1) of 2025, supported by higher growth in both the government and corporate bond segments. Corporate bonds continued to dominate the bond market with a 57.6% share of total bonds outstanding at the end of June (**Figure 2**). Corporate bonds outstanding increased 0.3% q-o-q in Q2 2025, following a 0.1% q-o-q contraction in Q1 2025, due to a rebound in issuance. Meanwhile, government bonds rose 3.5% q-o-q in Q2 2025, driven by higher issuance during the quarter.

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 rebounded in Q2 2025 amid the government's expansionary fiscal policy and monetary policy easing. Total LCY bond issuance rose 11.3% q-o-q to KRW277.6 trillion in Q2 2025, led by higher issuance in both government and corporate segments (**Figure 3**). Government bond issuance increased 10.2% q-o-q in line with the government's front-loading policy in the first half of the year and also to fund the first supplementary budget approved in May. Corporate bond sales in the Republic of Korea rose 16.0% q-o-q in Q2 2025, a reversal

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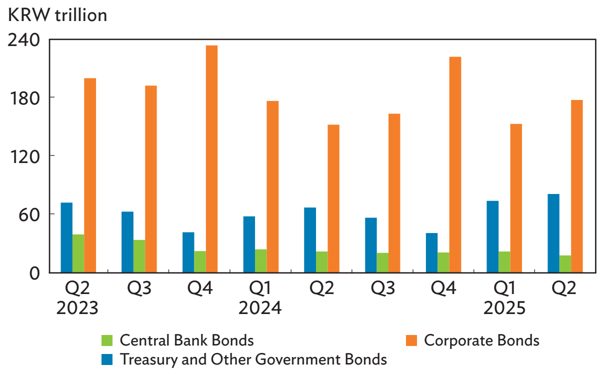
Figure 3: Composition of Local Currency Bond Issuance in the Republic of Korea



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

Sources: Bank of Korea and KG Zeroin Corp.

from the 31.0% q-o-q contraction in Q1 2025, as local firms front-loaded their bond issuance ahead of potential market volatility resulting from the June election. The expected policy rate cut by the BOK in May also provided a more favorable environment for bond issuance.

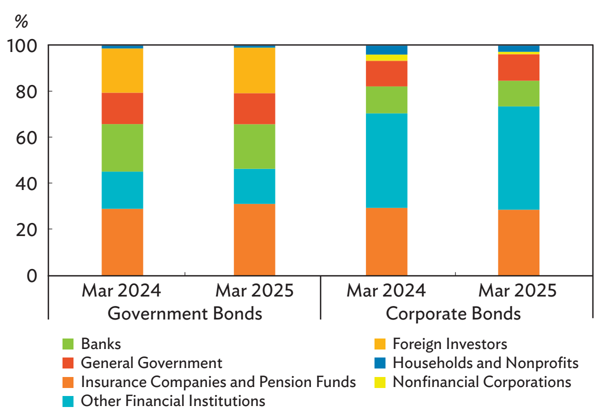
Investor Profile

Financial institutions continued to be the largest investor group in the Republic of Korea's LCY bond market. Insurance companies and pension funds (31.1%), banks (19.4%), and other financial institutions (15.3%) collectively accounted for a majority share of the LCY government bond market at the end of March (**Figure 4**). Foreign investors held 19.7% of government bonds outstanding, which was roughly at par with their holdings share at the end of March 2024. In the LCY corporate bond market, other financial institutions, insurance companies, and pension funds were the largest investor groups, accounting for nearly three-quarters of the total market. Meanwhile, foreign holdings in the corporate bond market remained negligible.

Sustainable Bond Market

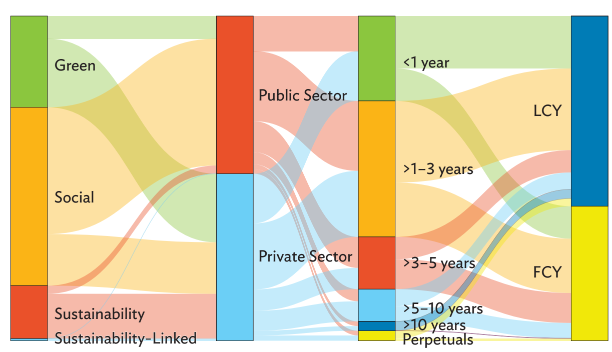
Social bonds and green bonds continued to dominate the Republic of Korea's sustainable bond market. The Republic of Korea's sustainable bond market grew by 1.0% q-o-q to reach a size of USD184.9 billion at the end of June, mainly comprising social bonds and green bonds (**Figure 5**). Issuers in both the private and public sectors were active with nearly equal outstanding shares of 51.4% and 48.6%, respectively. Social bonds, of which almost three-quarters came from the public sector, comprised a majority (54.9%) of the total sustainable bond market. Meanwhile, green bonds, which were mostly issued by the private sector, had a share of 28.1% at the end of June. The size-weighted average maturity of outstanding sustainable bonds was 3.0 years at the end of June, while nearly 60% were denominated in Korean won.

Figure 4: Local Currency Bonds Outstanding Investor Profile



Sources: *AsianBondsOnline* and Bank of Korea.

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



FCY = foreign currency, LCY = local currency.

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