

Republic of Korea

Yield Movements

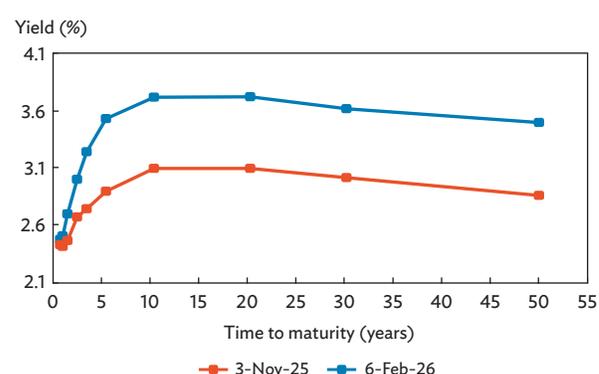
The Republic of Korea's local currency (LCY) government bond yield curve shifted upward between 3 November and 6 February as the Bank of Korea (BOK) pursued a hawkish policy stance. Yields rose an average of 43 basis points for all tenors following the BOK's 15 January monetary policy meeting signaling the possible end of its easing cycle (Figure 1). The BOK maintained the base rate at 2.50% at both its 27 November and 15 January meetings amid stable economic growth and inflation, and as risks to financial stability remained. Risks continued to include rising household debt and housing prices, and foreign exchange volatility. The BOK also removed language on any "further potential rate cuts," which had appeared in previous statements, from its January monetary policy statement. In addition, the number of members open to a rate cut within the next 3 months declined to one from three (out of six) in the November meeting, increasing the possibility of there being no rate cut in the near term. Subsequently, the BOK held the base rate unchanged at 2.50% in its 26 February meeting.

Local Currency Bond Market Size and Issuance

Expansion of the Republic of Korea's LCY bonds outstanding eased in the fourth quarter (Q4) of 2025 on reduced issuance of government bonds. Total LCY bonds outstanding in the Republic of Korea reached KRW3,496.1 trillion at the end of December, reflecting an increase of 1.4% quarter-on-quarter (q-o-q) (Figure 2). The expansion moderated from 2.3% q-o-q in the third quarter (Q3) of 2025 due to reduced issuance of government bonds. Government bonds outstanding marginally increased 0.6% q-o-q, while expansion in the corporate bond segment was roughly stable at 1.9% q-o-q in Q4 2025.

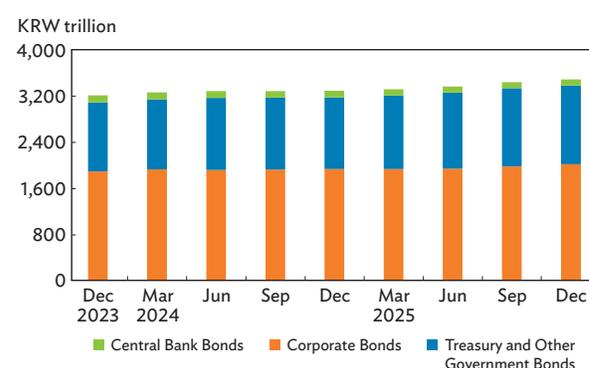
LCY bond issuance in the Republic of Korea rose in Q4 2025, solely driven by the corporate bond segment. Total LCY bond issuance grew 3.4% q-o-q in Q4 2025,

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

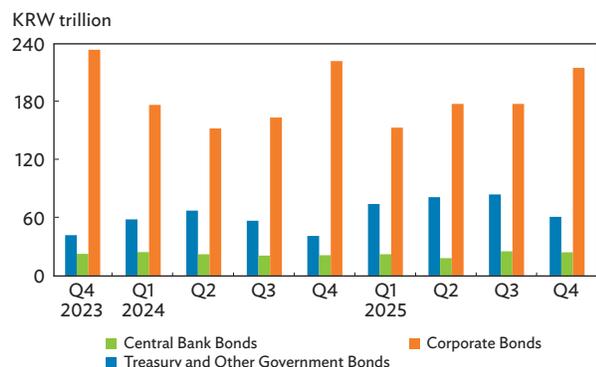


KRW = Korean won.

Sources: Bank of Korea and KG Zeroin Corp.

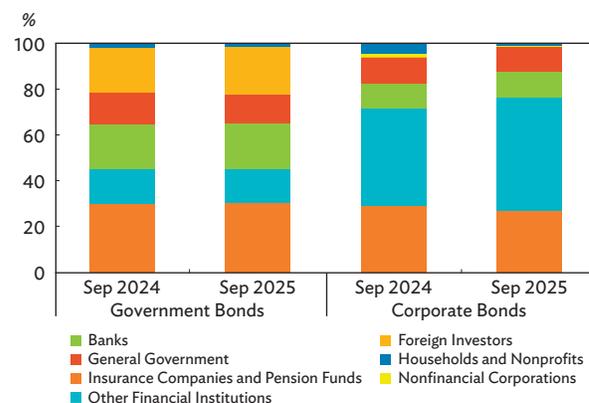
accelerating from a 2.8% q-o-q increase in Q3 2025, as the quarterly surge in corporate bond issuance outpaced the contraction in government bonds (Figure 3). Issuance of government bonds fell 30.4% q-o-q as the government had met most of its funding needs in prior quarters. Corporate bond sales surged 21.0% q-o-q, largely driven by the finance sector. Banks increased their issuance of bonds in Q4 2025 to secure liquidity amid an outflow of funds from low-yield bank deposits as investors sought higher returns in the equity market.

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.

Investor Profile

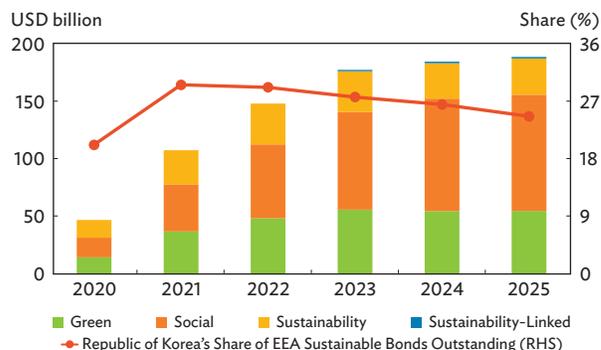
The Republic of Korea’s LCY government bond segment has a more diverse investor profile than the corporate bond segment. LCY government bonds outstanding continued to be held by five major investor groups—led by insurance companies and foreign investors with shares of 30.4% and 21.0%, respectively, at the end of September 2025 (Figure 4). Other major investor groups and their respective holdings share include banks (19.6%), other financial institutions (15.2%), and the general government (12.6%). Meanwhile, the LCY corporate bond market’s investor profile comprises two major groups. Other financial institutions held almost half of corporate bonds outstanding at the end of 2025, with their collective share increasing to 49.5% from 42.7% a year earlier, followed by insurance companies with a share of 27.0%, down from 29.0%.

Sustainable Bond Market

The Republic of Korea’s sustainable bond market reached a size of USD188.4 billion at the end of 2025, remaining the second-largest sustainable bond market in emerging East Asia.²³ The Republic of Korea’s sustainable bonds outstanding comprised 24.6% of the regional total. While its share of the regional total has declined in recent years, the Republic of Korea’s sustainable bond market continued to grow in 2025, albeit at a slower pace following rapid expansion during the COVID-19 pandemic (Figure 5). Total sustainable

bonds outstanding rose 2.3% year-on-year (y-o-y) in 2025, moderating from 4.0% y-o-y in 2024, as issuance marginally declined 1.9% y-o-y. By bond type, social bonds continued to dominate the Republic of Korea’s sustainable bond market with a share of 53.6%. Most social bonds come from the public sector, led by Korea Housing Finance, which provides sustainable housing finance. Green bonds comprise the second-largest share at 28.9%, primarily comprising issuances from the private sector. Around 70% of total sustainable bonds outstanding have remaining maturities of less than 3 years, resulting in a size-weighted average tenor of 2.9 years.

Figure 5: Sustainable Bonds Outstanding in the Republic of Korea



EEA = emerging East Asia, RHS = right-hand side, USD = United States dollar.

Notes:

- Emerging East Asia is defined to include the member states of ASEAN plus the People’s Republic of China; Hong Kong, China; and the Republic of Korea.
- Data include both local currency and foreign currency sustainable bonds.
- Sustainability-linked bonds include transition-linked bonds.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

²³ 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.