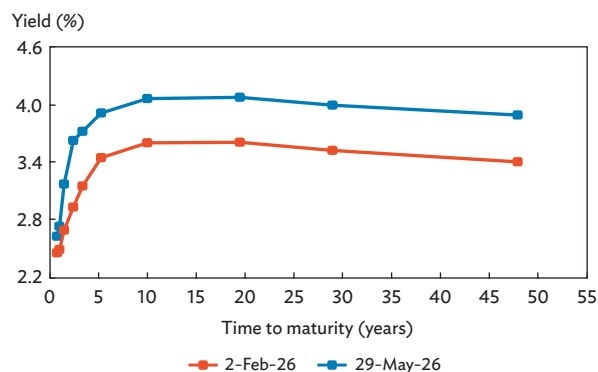


Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea rose an average of 45 basis points across all tenors between 2 February and 29 May, reflecting the Bank of Korea’s (BOK) increasingly hawkish policy stance (Figure 1). The BOK left the base rate unchanged in its February and April meetings, noting that it would continue to assess the impact of the Middle East conflict on inflation, growth, and financial markets. While the BOK continued to maintain the base rate at its 28 May meeting, it also signaled the onset of future rate hikes as inflationary pressures persist. Its forward guidance indicated a 47.6% probability of a 50 basis points increase in the base rate over the next 6 months.

Figure 1: Local Currency Government Bond Yields in the Republic of Korea



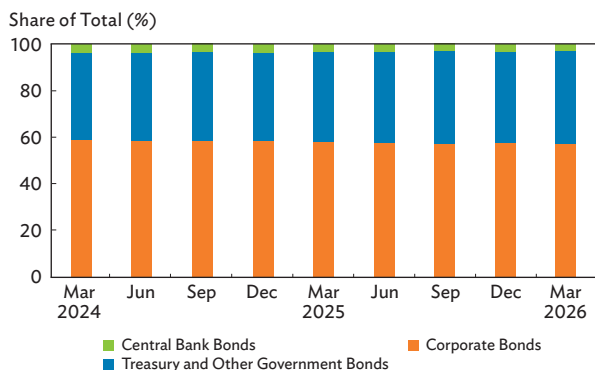
Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Total LCY bond outstanding in the Republic of Korea reached KRW3.5 trillion at the end of March. Growth moderated to 0.6% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2026 from 1.4% q-o-q in the previous quarter due to reduced corporate issuance.

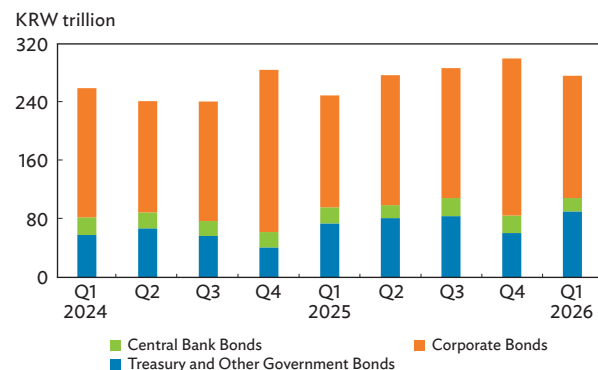
Corporate bonds continued to dominate the LCY bond market with a share of 57.2% at the end of March, while the government bond market’s share remained stable at 39.9% (Figure 2). Corporate bond issuance contracted 22.1% q-o-q in Q1 2026 as higher bond yields dampened funding demand, while government bond issuance surged 40.4% q-o-q in line with the government’s front-loading policy (Figure 3).

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



Sources: Bank of Korea and KG Zeroin Corp.

Figure 3: Quarterly Bond Issuance in the Republic of Korea’s LCY Bond Market



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

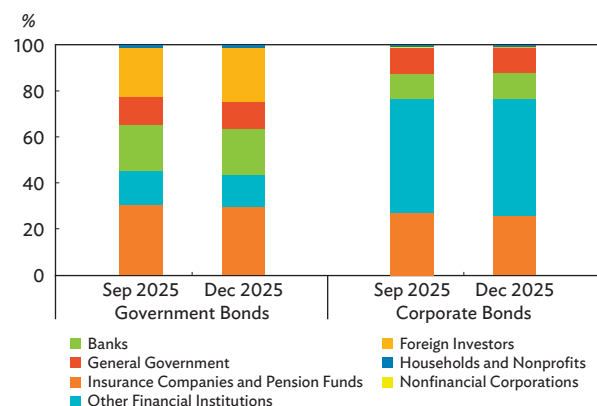
The Republic of Korea’s LCY government bond market continued to have a diverse investor base, with holdings spread across five major investor groups—led by insurance companies and pension funds with a share of 29.9% at the end of December 2025 (Figure 4A). Foreign investors were the second-largest group, with their share rising to 23.3% from 21.0% in the previous quarter, as net foreign inflows rose to KRW24.0 trillion from KRW3.2 trillion during the same period (Figure 4B). This was driven by the October 2025 confirmation of the Republic of Korea’s inclusion in the FTSE World Government Bond Index, effective April 2026. In contrast, LCY corporate bonds outstanding continued to be held by two major investor groups: other financial institutions (50.9%) and insurance companies and pension funds (26.0%).

Sustainable Bond Market

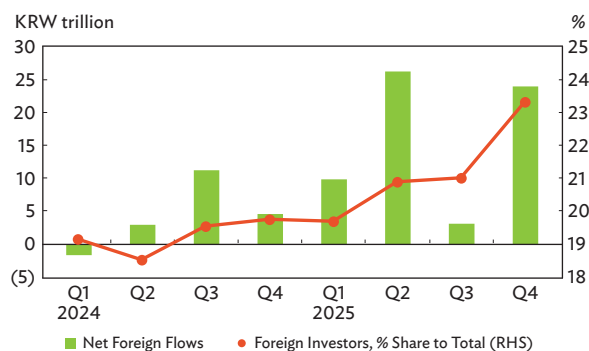
The Republic of Korea’s sustainable bond market declined 2.0% q-o-q to USD184.0 billion at the end of March as maturities exceeded new issuance (Figure 5A). Social bonds and green bonds continued to dominate the total sustainable bond market with shares of 54.2% and 29.2%, respectively. Sustainable bond issuance rose 7.2% q-o-q to USD11.2 billion, largely driven by increased public sector issuances of green and social bonds (Figure 5B). The Republic of Korea’s sustainable bonds outstanding remained concentrated in the short term with 70.4% of the total having remaining tenors of less than 3 years, resulting in a size-weighted average tenor of 2.9 years in Q1 2026.

Figure 4: Investor Profile of Local Currency Bonds in the Republic of Korea

A. Investor Profile



B. Foreign Holdings Share and Net Foreign Flows in LCY Government Bonds

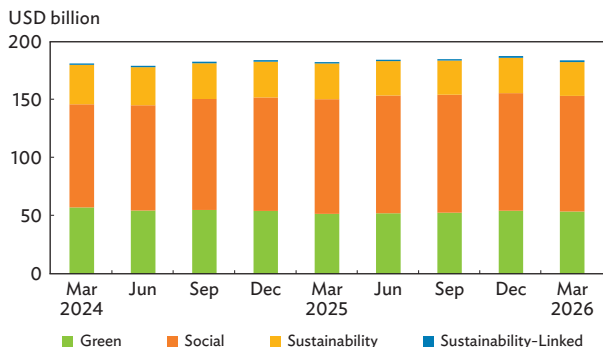


(-) = negative, KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side.

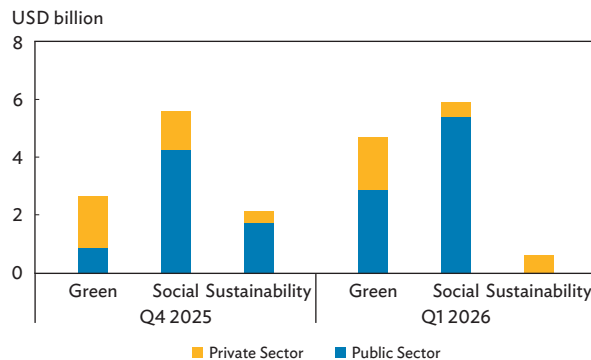
Sources: AsianBondsOnline, Bank of Korea, and Financial Supervisory Service.

Figure 5: Sustainable Bond Market in the Republic of Korea

A. Sustainable Bonds Outstanding



B. Sustainable Bond Issuance



Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar.
 Source: AsianBondsOnline calculations based on Bloomberg LP data.

Policy and Regulatory Developments

Government Announces Measures to Stabilize the Public Sector Bond Market

On 26 March, the Government of the Republic of Korea announced measures to help stabilize the government bond market amid heightened volatility stemming from the Middle East conflict. These measures included an emergency bond buyback conducted in two tranches of KRW2.5 trillion each on 27 March and 1 April. In addition, the government will launch a task force to closely monitor, assess, and facilitate foreign capital inflows following the Republic of Korea’s inclusion in the FTSE World Government Bond Index effective 1 April.