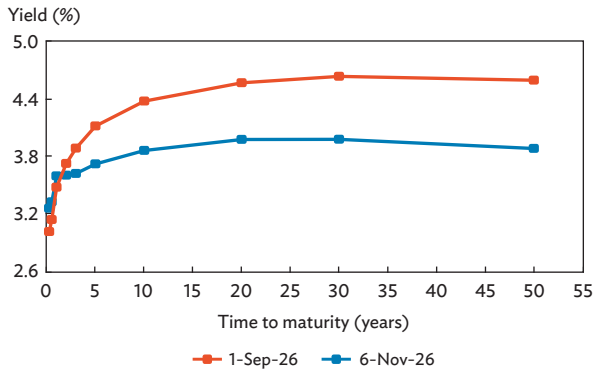
Republic of Korea

Yield Movements

Yields on local currency (LCY) government debt securities in the Republic of Korea declined for most tenors between 1 September and 6 November, supported by reduced bond supply (**Figure 1**). Yields for debt securities with tenors of 2 years and longer fell 46 basis points (bps) on average. On 1 October and 29 October, the government announced successive KRW5.0 trillion cuts in Treasury bond issuance for October and November to help ease upward pressure on yields. Meanwhile, yields at the short end of the curve rose an average of 18 bps on expectations of further monetary tightening by the Bank of Korea (BOK). At its 22 October meeting, the BOK kept the base rate unchanged at 3.00%, citing the need to assess the impact of the cumulative 50 bps rate hikes conducted in July and August. Nonetheless, the BOK maintained a relatively hawkish stance, indicating that the timing and pace of additional rate hikes would depend on developments in economic growth, inflation, and financial stability.

Figure 1: Yields for Local Currency Government Debt Securities in the Republic of Korea



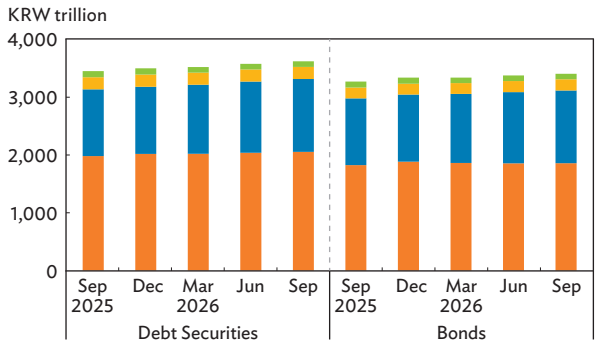
Source: Based on data from Bloomberg LP.

Local Currency Bonds Outstanding and Issuance

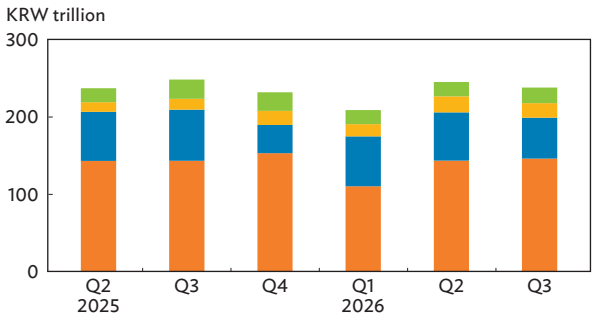
The Republic of Korea's total LCY debt securities reached KRW3,616.9 trillion at the end of September. Excluding debt securities with maturities of 1 year or less, LCY bonds outstanding amounted to KRW3,401.9 trillion (**Figure 2a**). Growth in LCY bonds outstanding moderated to 0.9% quarter-on-quarter (q-o-q) from 1.1% in the second quarter (Q2) of 2026 on reduced issuance for the quarter. Total bond issuance contracted 3.0% q-o-q to KRW237.7 trillion (**Figure 2b**). Sovereign

Figure 2: Local Currency Debt Securities Outstanding and Bond Issuance in the Republic of Korea

a. Local Currency Debt Securities Outstanding



b. Local Currency Bond Issuance





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

Notes:
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Data on bonds are based on *AsianBondsOnline* estimates.

Sources: Bank of Korea, Bloomberg LP, and KG Zeroin Corp.

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

issuance fell 15.4% q-o-q following the front-loading of government borrowing earlier in the year, while issuance of other government bonds contracted 8.5% q-o-q. In contrast, corporate bond issuance rose 1.8% q-o-q, reflecting increased fundraising activities by firms ahead of expected monetary tightening by the BOK.

Investor Profile

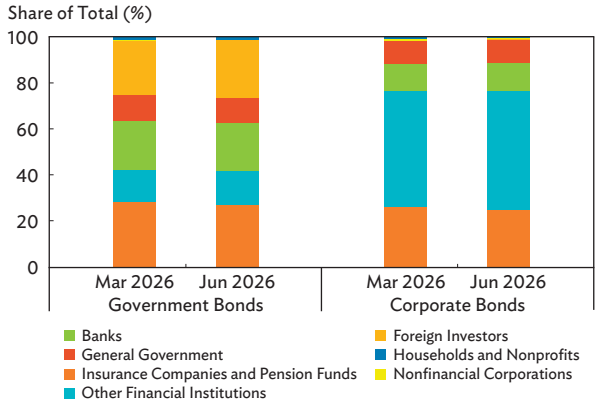
The investor profile of the Republic of Korea's LCY bond market remained broadly unchanged in Q2 2026 from the previous quarter. Insurance companies and pension funds continued to hold the largest share of the sovereign bond market at 27.3%, although this was down from 28.5% in March (**Figure 3a**). The holdings share of foreign investors continued to rise in Q2 to 25.1% from 23.6% in the previous quarter, as net foreign inflows rose to KRW13.7 trillion from KRW0.1 trillion (**Figure 3b**). Net foreign inflows rebounded in Q2, largely supported by the April 2026 inclusion of the Republic of Korea in the FTSE World Government Bond Index. In contrast, the investor profile of the corporate bond market remained less diverse and was dominated by two major groups: other financial institutions (51.6%) and insurance companies and pension funds (25.2%).

Sustainable Bond Market

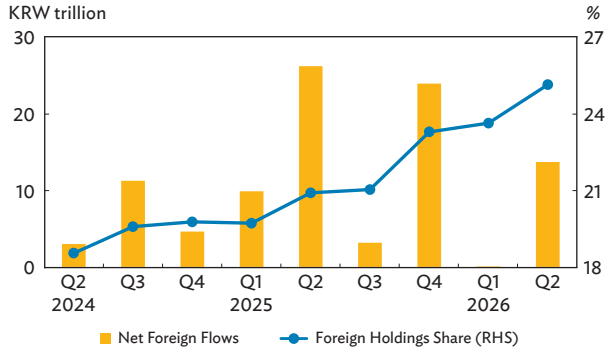
The Republic of Korea's sustainable bond market expanded 1.5% q-o-q to USD183.0 billion at the end of September as issuance increased during the quarter (**Figure 4a**). Total issuance rose 25.1% q-o-q, driven by higher issuance of social bonds and green bonds from government-related entities, and sustainability and transition bonds from corporates (**Figure 4b**). As a result, social bonds and green bonds continued to dominate the Republic of Korea's sustainable bond market with shares of 54.6% and 28.9%, respectively. Social bonds outstanding at the end of September remained largely concentrated among government-related entities, while other bond types were primarily issued by corporates. The maturity profile of sustainable bonds at the end of September showed 69.9% of outstanding bonds with remaining tenors of 3 years or less, resulting in a size-weighted average tenor of 2.9 years.

Figure 3: Investor Profile of Local Currency Bonds in the Republic of Korea

a. Investor Holdings Share



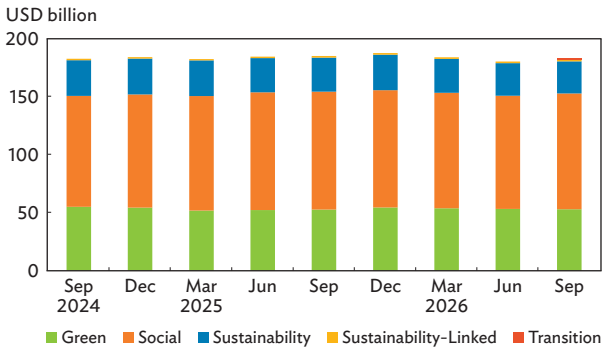
b. Foreign Holdings Share and Net Foreign Flows in LCY Sovereign Bonds



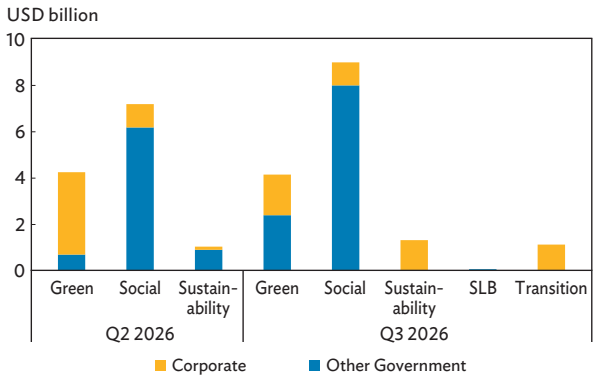
KRW = Korean won, LCY = local currency, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side.
Note: Net foreign inflows in Q1 2026 amounted to KRW73.0 billion.
Sources: *AsianBondsOnline*, Bank of Korea, and Financial Supervisory Service.

Figure 4: Sustainable Bond Market in the Republic of Korea

a. Sustainable Bonds Outstanding by Instrument Type



b. Sustainable Bond Issuance



Q2 = second quarter, Q3 = third quarter, SLB = sustainability-linked bond, USD = United States dollar.
Note: Issuance of sustainability-linked bonds amounted to USD0.03 billion in Q3 2026.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Policy and Regulatory Developments

Ministry of Finance and Economy Introduces Amendments to Foreign Exchange Transaction Regulations

On 16 September, the Ministry of Finance and Economy introduced amendments to foreign exchange transaction regulations primarily for the establishment of an offshore Korean won (KRW) settlement infrastructure to support foreign investor participation in the use and trading of the currency. The amendments (i) allow registered and eligible foreign financial institutions to open omnibus accounts with domestic banks and settle KRW transactions via the BOK-WireInt; (ii) permit institutions authorized to conduct KRW transactions to obtain unlimited KRW overdraft facilities from domestic banks for settlement purposes; and (iii) ease reporting requirements on eligible KRW-denominated capital transactions between nonresidents.[9]

[9] The Bank of Korea Won International Wire Network (BOK-WireInt) is the 24-hour offshore won settlement network launched by the BOK on 21 September on a pilot basis.