Overview

A. Introduction

The bond market in the Republic of Korea is undergoing significant changes as part of larger reforms in the Korean capital market. Policymakers and regulatory authorities recognized the need to make the Korean market more investor-friendly overall and more accessible to foreign investors by addressing identified issues and weaknesses with a set of policy measures announced as far back as 2022—a move seen as favorable in view of the expected inclusion of Korean government bonds in international bond indices in the coming years. Quite a number of these changes will have been implemented by the time of publication of this update note, with other measures being phased into the market over the next few years. This update note offers information on those changes in the context of the structure of the original *ASEAN+3 Bond Market Guide Republic of Korea*, with only relevant sections being displayed here.

Most notably, the Government of the Republic of Korea abolished the need for new foreign investors to obtain an Investor Registration Certificate (IRC) in late 2023, a practice that had been in place for nearly 3 decades but was often seen as a hurdle to market entry even if the actual process had become fairly straightforward in recent years. Chapter II.K offers a detailed description of the new market entry process using the Legal Entity Identifier (LEI).

Policy measures for improved market access also included a liberalization of the foreign exchange (FX) market, with investors now able to conduct FX transactions with a third party or register to become a direct market participant (see details in Chapter II.M).

Other measures already implemented include the exemption of withholding tax for foreign investors on interest stemming from Korea Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs), as is explained in Chapter VI.H, and the introduction of an indirect market access option for foreign bond investors via international central securities depositories' (ICSDs) use of an omnibus account; details on the latter are available in Chapter II.K and II.M.

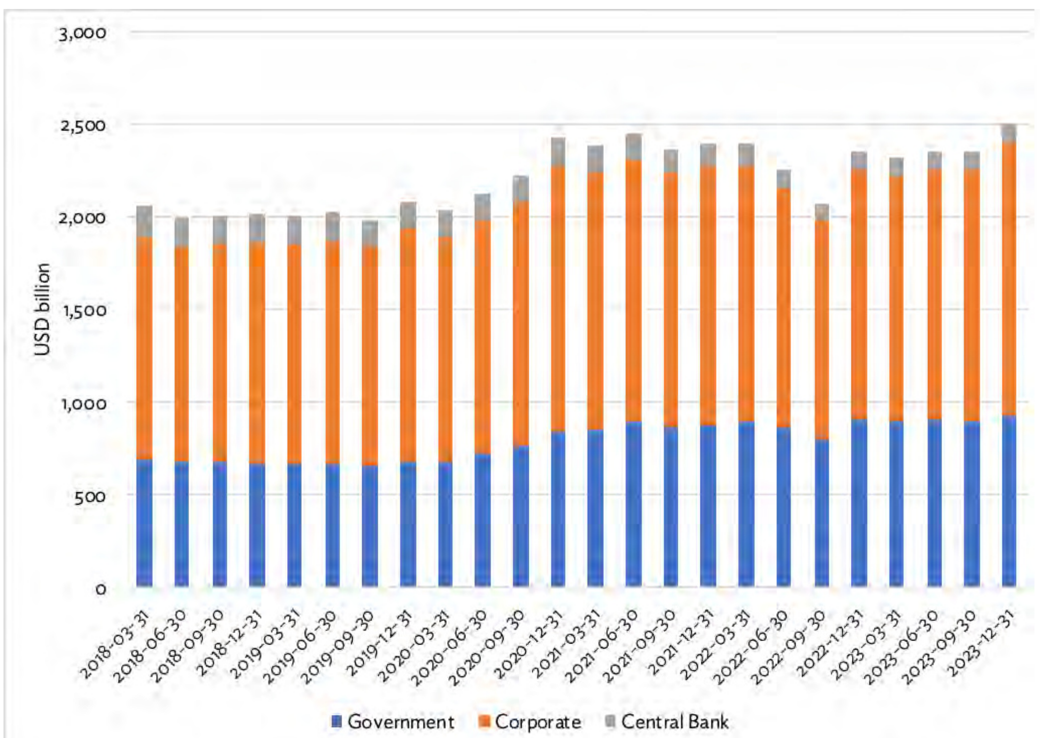
Ongoing and very recent changes relate to the improvement of disclosure in English (see Chapter II.G) and the introduction of long-term KTB futures contracts on Korea Exchange (KRX); details on the latter are available in Chapter IV.J.

On the legislative side, the introduction of the Electronic Securities Act in 2019 and its subsidiary regulations, to cement the drive toward a dematerialized securities market, is also laying the foundation for a formal definition of digital assets and the formulation of a digital asset framework and related products, enabling fintech innovation and the use of resultant big data. Policymakers are expected to promulgate a dedicated law, while intending to amend existing laws and regulations in line with international best practice (see details in

Chapter II.C). The impact of the Electronic Securities Act, 2019 on both market actors and practices is explained in a number of different sections of this update note.[4]

In parallel with the above features, the Korean market has also been very prolific in the introduction of sustainable finance instruments in line with global developments. Since 2018, when the Korea Development Bank issued both the first green bond and social bond in the domestic market, the issuance volume and variety of sustainable finance instruments—the typical technical terms used in the Korean market are either "socially responsible investment (SRI) bonds" or "environmental, social, and (corporate) governance (ESG) bonds"—has grown significantly in the Korean market. At the same time, the Government of the Republic of Korea and Korean corporates have also tapped international bond markets for sustainable finance instruments to great effect. Supporting this development is the so-called "K-Taxonomy" and related guidelines, a policy framework that defines SRI and ESG activities, and also offers incentives to issuers of such bonds, as explained in Chapter III.B and other sections.

Figure 1.1: Local Currency Bonds Outstanding in the Republic of Korea, 2018–2023 (USD billion)

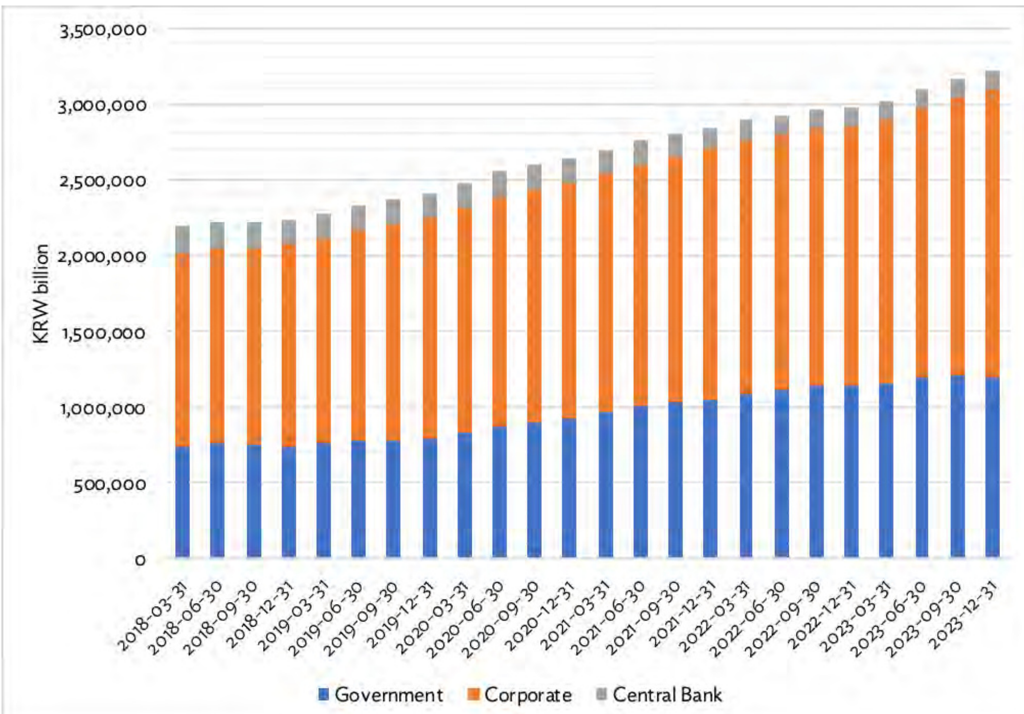


USD = United States dollar.
Note: Data as of December 2023 and include bonds issued by nonresidents.
Source: AsianBondsOnline. Data Portal. https://asianbondsonline.adb.org/data-portal/?indicator=LCY_Bond_Market_USD&economies=KR&years=2021\u005e2022\u005e2023\u005e2024 (accessed 13 March 2024).

[4] The Electronic Securities Act, 2019 (official name: Act Concerning Electronic Registration of Stocks/Bonds, etc.) was ratified by the National Assembly in 2016, but only became effective on 16 September 2019, after a period of deliberation about the act's enforcement decree. The text of the act is available in English from the Korea Law Translation Center at https://elaw.klri.re.kr/eng_mobile/viewer.do?hseq=38455&type=new&key=.

While the Korean bond market's size remained relatively stable in local currency (LCY) terms over the 3-year period ending in 2023, if measured in US dollar terms (**Figure 1.1**), the market posted a growth of 21.5% compared to the beginning of 2018, the year in which the original *ASEAN+3 Bond Market Guide Republic of Korea* was published. The amount of bonds outstanding expanded on increased KTB issuance in 2020 and 2021 in response to the fiscal impact of the coronavirus disease (COVID-19), before holding relatively steady in both 2022 and 2023. If measured in LCY terms, the overall growth of the domestic bond market from 2018 to 2023 amounted to 47.0% (**Figure 1.2**).

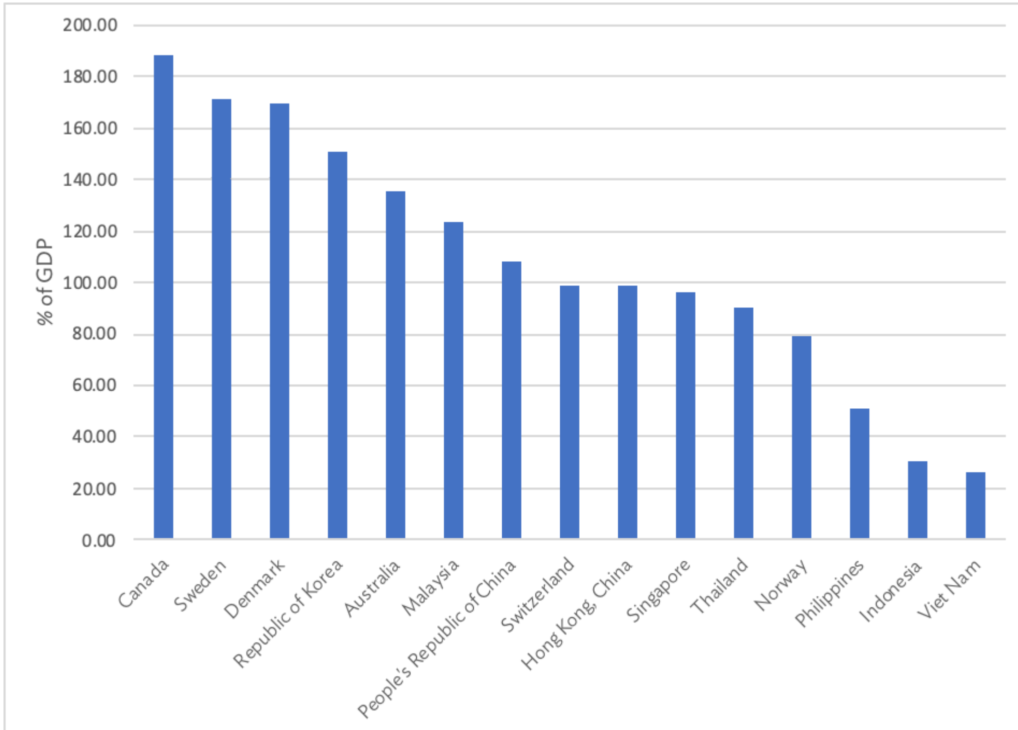
Figure 1.2: Local Currency Bonds Outstanding in the Republic of Korea, 2018–2023 (KRW billion)



KRW = Korean won.
Note: Data as of December 2023 and include bonds issued by nonresidents.
Source: AsianBondsOnline. Data Portal. https://asianbondsonline.adb.org/data-portal/?indicator=LCY_Bond_Market_USD&economies=KR&years=2021\u005e2022\u005e2023\u005e2024 (accessed 13 March 2024).

The Korean LCY bond market as a whole is of significant size when compared to other regional bond markets and selected markets overseas, particularly when measured in relation to gross domestic product (GDP) (**Figure 1.3**).

Figure 1.3: The Republic of Korea's Local Currency Bond Market Size versus Selected Markets (% of GDP)



GDP = gross domestic product.
Notes: GDP and bond market measured in United States dollar terms. Data as of December 2022.
Sources: AsianBondsOnline, Bank for International Settlements, World Bank.

The chart shows that the Korean LCY bond market is significantly bigger, as a share of GDP, than many other LCY bond markets in the region. It is also larger than established bond markets in some major economies around the world.

It is envisaged that the follow-on effect from the abovementioned policy measures and those still to come, including the likely inclusion of Korean government bonds in international bond indices, will be beneficial for the further growth and segmentation of the Korean bond market and the capital market overall.