

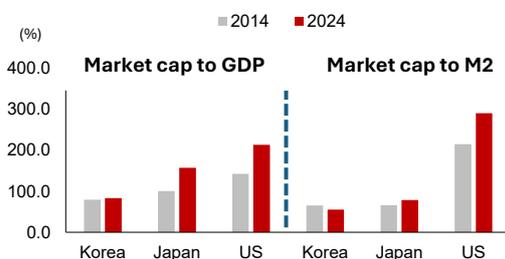
3. Revitalizing Korean Stock Markets¹

Korea’s equity market has long faced structural undervaluation despite strong economic fundamentals, reflecting persistently low capital efficiency, weak corporate governance, and limited shareholder returns. To address these challenges, the authorities have implemented a broad reform agenda—including the Value-Up program, Commercial Act and tax reforms, and measures to improve foreign investor access—which has supported a strong rebound in equity prices in 2025. Going forward, ensuring that these valuation gains extend to small and mid-sized firms will require sustained firm-level efforts to improve return on equity and institutional support to maintain investor confidence.

Korea Discount and Structural Causes

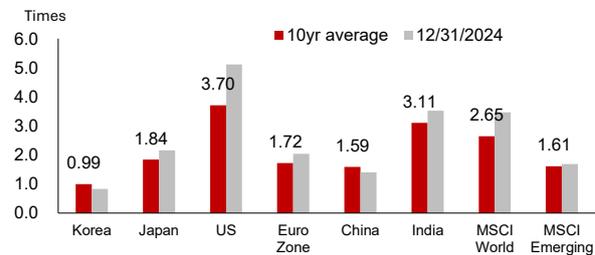
1. Korea’s equity market has long suffered from a structural undervaluation, often referred to as the “Korea Discount.” Despite the country’s advanced level of economic development and market liquidity comparable to developed markets, Korean equities remain underappreciated globally and continue to be classified by MSCI as an emerging market. Over the past decade, Korea’s ratios of market capitalization to GDP and to M2 have stagnated or declined, while those of major advanced economies such as the US and Japan have expanded markedly (Figure A3.1). The KOSPI’s price-to-book ratio (PBR) has remained persistently low — averaging around 0.99 over the past 10 years — far below the averages of 2.65 for 23 advanced economies and 1.61 for 24 emerging markets (Figure A3.2). Most KOSPI-listed companies continue to trade below their book value, reflecting a deep and prolonged undervaluation of Korean equities.

Figure A3.1. Market Cap to GDP and M2



Source: BOK; Bank of Japan; Federal Reserve Board; Haver; CEIC ; AMRO staff calculations

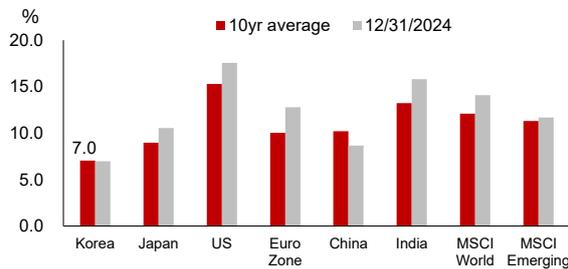
Figure A3.2. Price-to-Book Ratio



2. Key reasons cited for the lackluster equity performance include low capital productivity, weak corporate governance, and insufficient shareholder returns. Over the past decade, the average return on equity (ROE) of Korean firms hovered around 7 percent—lower than major peers—suggesting inefficient capital utilization (Figure A3.3). In Korea’s conglomerate-affiliated firms, known as “chaebol groups,” controlling shareholders often play a dominant role in corporate governance, leading to conflicts of interest between majority and minority shareholders. As a result, minority shareholder protection and board independence have been assessed as relatively weak. The average dividend payout ratio, at 31.3 percent over the past 10 years, also remains low, reflecting firms’ persistent reluctance to return profits to shareholders (Figure A3.4).

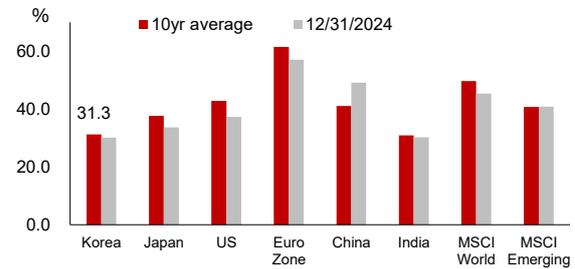
¹ Prepared by Bora Lee, Senior Economist

Figure A3.3. Return on Equity



Source: Bloomberg

Figure A3.4. Dividend Payout Ratio

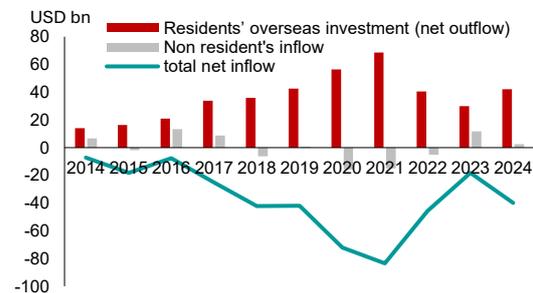


Source: Bloomberg

Initiatives to Revitalize Korea's Stock Markets

3. As domestic and foreign investors have turned away from the equity market and capital has increasingly concentrated in real estate, the government has recognized the resulting drag on economic dynamism. Foreign investors have remained hesitant to enter the Korean market due to relatively low return expectations compared with global peers. As a result, domestic firms face higher funding costs stemming from depressed valuations, which constrain their ability to secure external financing for new-growth investments. At the same time, limited shareholder-return policies such as dividends and share buybacks have led many domestic investors to turn to overseas equity markets (Figure A3.5). Moreover, a long-standing perception of housing as a safe asset has further compounded these dynamics, channeling excessive capital into real estate and restricting inflows into equities.² In response, the government has launched a multi-pronged policy initiative aimed at enhancing corporate value and improving capital market accessibility to attract both domestic and foreign investment into the equity market.

Figure A3.5. Equity Flows of Residents and Nonresidents



Source: BOK

4. In early 2024, the government introduced the Corporate Value-Up Program³ to encourage listed companies to voluntarily formulate and disclose value-up plans. Firms voluntarily set both financial and non-financial targets—such as dividend payout ratios, share buybacks and cancellations, board composition, and ESG improvements—and disclose specific actions to achieve them. The authorities have moved beyond simple recommendations by actively supporting firms' voluntary efforts to enhance corporate value,

² As of end-2024, total household credit amounted to KRW 1,925.9 trillion, of which KRW 1,300.2 trillion (67.5 percent) consisted of housing-related loans

³ Korea's Value-Up program draws reference from Japan's experience. In Japan, even after the structural reorganization of its stock market, around 50 percent of Prime Market and 60 percent of Standard Market listed companies continued to record ROEs below 8 percent and PBRs below 1, raising concerns over weak capital profitability and growth potential. In response, the Tokyo Stock Exchange (TSE) announced in March 2023 its policy statement titled "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," calling on listed companies with PBRs below 1x to make voluntary efforts to enhance corporate value.

providing incentives to high-performing participants and promoting stable capital inflows through the Korea Value-Up Index and related ETFs (Table A3.1).⁴ Since the introduction of the program in May 2024, corporate value-up disclosures have rapidly expanded, led by large-cap companies. As of end 2025, a total of 171 firms had publicly announced corporate value-up plans, representing 44.5 percent of the Korean stock market's total market capitalization.

Table A3.1. Corporate Value-Up Guidelines

Category	Description
Objective	A leap forward for the Korean stock market through voluntary shifts to a corporate culture oriented toward shareholder value
Timeline	Feb 2024: Announcement of 'Corporate Value-Up Disclosure to Support the Takeoff of the Korean Stock Market' May 2024: Publication of Value-Up Guidelines and launch of value-up disclosure system Nov 2024: Listing of Value-Up Index ETF, ETN and index futures
Key Features of Corporate Value-Up Disclosure	Definition: Listed firms voluntarily establish future growth strategy that aims to enhance shareholder returns, improve capital efficiency, boost growth potential and strengthen market valuation Scope: All firms listed on KOSPI and KOSDAQ Frequency: At least once a year
Incentives for Value-Up Disclosing Firms	<ul style="list-style-type: none"> ➤ Recognized value-up companies receive benefits such as preferential treatment in exemplary taxpayer selection and inclusion priority in the Korea Value-Up Index. ➤ Related financial institutions have created a joint KRW500 billion Value-Up fund to invest in Value-Up Index ETFs and component stocks, and in Value-Up disclosing companies not included in the index. ➤ Tax incentives to promote value-up efforts <ul style="list-style-type: none"> • Companies that expand shareholder returns receive a 5% corporate income tax credit on the amount of increased shareholder return. • Shareholders of such companies pay a reduced separate taxation rate on increased dividend income. ➤ A White Paper is published as an annual review to assess participation and implementation of the Value-Up initiative, analyze whether it has led to actual improvements in investment indicators, and strengthen communication with the market. ➤ The Value-Up program provides support for listed companies, disclosure training, one-on-one consulting and English translation to help listed companies implement their Value-Up plans effectively.
Korea Value-Up Index / ETF	Constituents: 100 representative companies by industry Rebalancing frequency: Annually Selection criteria: Market representativeness, profitability, shareholder return, valuation quality and high capital efficiency

5. To strengthen internal corporate governance, the first and second amendments to the Commercial Act have been completed, and a third round of reform is under way. Initial amendments to the Commercial Act strengthened protections for minority shareholders and enhanced the functioning of boards of directors, while reinforcing the independence of audit committees to improve overall corporate governance transparency. Complementing these measures, tax law amendments introduced separate taxation of dividend income, with the aim of encouraging higher dividend payouts and promoting equity investment through tax incentives. Under the ongoing third round of reform, efforts are focused on mandating the cancellation of treasury shares, thereby reducing the risk that controlling shareholders use treasury stock to entrench their control (Table A3.2).

⁴ Incentives for high-performing participants, such as eased accounting and disclosure requirements, preferential inclusion in the Korea Value-Up Index, and related tax incentives

Table A3.2. Commercial Act Amendments

Phase	Clause / Topic	Before Amendment	After Amendment	Effective Date
1st Phase (Jul 2025)	Establishment of directors' fiduciary duty to shareholders	Subject of fiduciary duty: the company only	Subject of fiduciary duty: the company and shareholders	Jul 2025
	Introduction of independent directors and expansion of their appointment ratio in listed companies	Ratio of outside directors was a quarter or more	Change of term "outside director" to "independent director," and revision of ratio of independent directors on board to at least a third	Jul 2026
	Strengthening of the combined 3% rule in the appointment or removal of audit committee members in listed companies	In the case of the controlling shareholder, the aggregated 3% rule applies only when appointing or removing audit committee members who are inside directors	For the controlling shareholder, the aggregated 3% rule applies at the appointment or removal of audit committee members, with the addition of independent directors	Jul 2026
	Electronic shareholders' meeting	Statute not enacted	Mandatory for large listed companies	Jan 2027
2nd Phase (Aug 2025)	Mandatory cumulative voting rights in listed companies	Opt-out permitted by articles	Mandatory for firms with assets more than KRW2 trillion	Aug 2026
	Expanded separate election of audit committee members	Only one member separately elected	At least two must be separately elected	Aug 2026
3rd Phase (Planned)	Mandatory cancellation of treasury shares	Voluntary	Must be cancelled immediately or within one year after acquisition	
Revisions to Tax Incentives (Dec 2025)	Dividend tax benefits	If the combined total of interest and dividend income exceeds KRW20 million, it becomes part of comprehensive income and may be taxed at up to 45%	Separate taxation for high-dividend firms: ≤20mn 14%, 20mn-300mn 20%, 300mn-5bn 25%, >5bn 30%	Apr 2026

6. To enhance foreign investors' access to the Korean capital market, authorities have implemented wide-ranging regulatory reforms since late 2023 to align the domestic framework with global standards. The 30-year-old foreign investor registration requirement was abolished, enabling investors to open securities accounts without prior registration using legal entity identifiers (LEIs) or passport numbers. Regulations on over-the-counter derivatives transactions by non-residents were eased to improve convenience and operational efficiency. In addition, onshore foreign-exchange trading hours were extended to 2am (KST) to increase global accessibility of the Korean won. Mandatory English disclosures for key corporate filings have also been expanded since 2024 to improve information access for international investors. To strengthen the equity market's global credibility, the dividend distribution process was revised—requiring companies to set dividend amounts before the record date—and short-selling was resumed to enhance market functioning and transparency (Table A3.3).

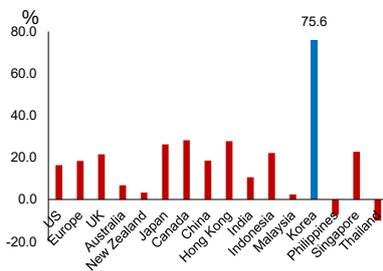
Table A3.3. Measures to Enhance Foreign Investment Environment

Policy / System	After Enhancements	Effective Date
Abolition of Foreign Investor Registration System	Foreign investors can trade on domestic listed securities without needing LEI registration or an approval number	Dec 2023
Operational Convenience for Integrated Account Management	Reduced reporting frequency from real-time to once per month	Dec 2023
Improving Convenience of Over-the-counter Transactions for Foreign Investors	Expands types of OTC trades under post-reporting instead of pre-approval	Dec 2023
Mandatory English Disclosure	Requires large KOSPI firms to disclose in English within three business days	Jan 2024
Improved Dividend Procedures	Improves dividend procedures: reforms the process of "fixing the dividend record date (typically Dec 31) before determining the dividend amount" to a procedure of "determining the dividend amount first, then fixing the record date," thereby establishing an institutional basis that enables investment decisions based on known dividend amounts	2024 (at regular general meeting)
Extended FX Market Hours	Extended hours from 0900-1530 to 0900-0200 the next day	Jul 2024

Resumption of Short-Selling	Resumed short-selling for KOSPI 200 and KOSDAQ 150 constituent stocks after 17 months (since Nov 6, 2023), and for all other listed stocks after about five years (since Mar 16, 2020)	Mar 2025
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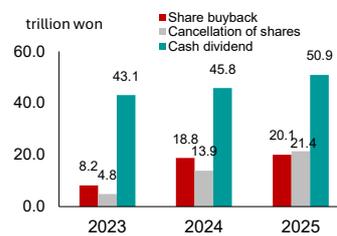
7. These multi-faceted policy packages represent meaningful progress in addressing the root causes of the so-called Korea Discount from multiple angles. Since July 2025, net foreign inflows have increased, and Korean equities have recorded one of the highest returns among major global markets, rising 75.6 percent in 2025 (Figure A3.6). Corporate efforts to enhance value are also reflected in improving shareholder-return indicators (Figure A3.7). Over the past three years, both cash dividends and share cancellations have steadily risen. As a result, the Korea Value-Up Index rose 89.4 percent in 2025, outperforming the KOSPI by 13.8 percentage points (Figure A3.8).

Figure A3.6. Stock Index Return by Country as of end-Dec 2025



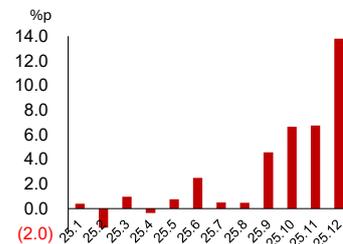
Source: Bloomberg

Figure A3.7. Trend in Shareholder Returns



Source: Korea Exchange (KRX)

Figure A3.8. Excess Return of Korea Value-Up Index over KOSPI



Source: KRX; AMRO staff calculations

Challenges and the Way Forward

8. Nevertheless, a substantial portion of listed firms continue to trade below a PBR of 1, and undervaluation remains entrenched among smaller and mid-sized companies, suggesting that the reform initiative will require time to gain full traction across the market. While the average PBR of Korean stocks stood at 1.35 as of end-2025, around 70 percent of individual stocks still trade below a PBR of 1, and more than 60 percent of firms record ROE levels below the long-term average of 7 percent (Figures A3.9 and A3.10). This indicates that recent gains in headline indices have been driven largely by a narrow group of large-cap outperformers, rather than broad-based improvements in underlying capital efficiency. Samsung Electronics and SK Hynix together accounted for about half of the increase in total KOSPI market capitalization in 2025. Participation in the Value-Up Program remains correspondingly limited. As of end-2025, only 171 firms—around 6 percent of listed companies—had joined the program, of which 64 percent were large-cap firms with market capitalization exceeding KRW 1 trillion, while only nine were small firms. This underscores that the initiative has yet to gain meaningful traction among small and mid-sized companies.

Figure A3.9. Proportion of KOSPI Firms with PBR <1

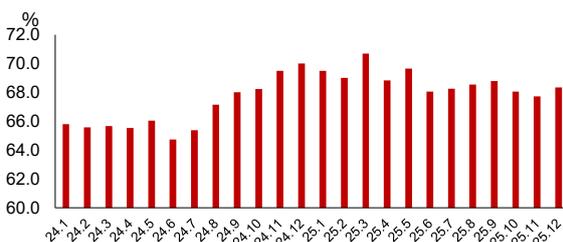
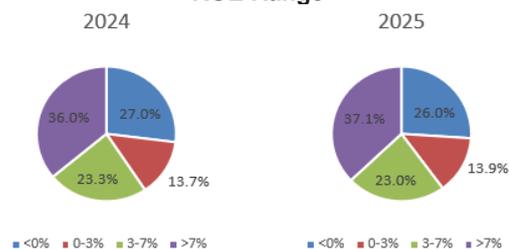


Figure A3.10. Distribution of KOSPI Firms by ROE Range



Source: Bloomberg

Source: Bloomberg; AMRO staff calculations

9. Continued efforts are needed to ensure that stock market gains translate into real economic activity and contribute to a virtuous cycle of growth. The stock market rally in 2025 was driven by expectations of higher shareholder returns, supportive government policies, and improvements in corporate earnings. To achieve more fundamental and sustainable improvements in the equity market, the following policy actions are necessary.

- A framework should be established that enables corporate profitability and growth to improve on a sustained basis, allowing ROE to rise structurally over the long term. Firms should enhance capital efficiency through the restructuring of low-return and non-core businesses and the rebalancing of business portfolios, while improving the quality of equity through shareholder return policies such as dividends and share buybacks. In addition, stronger corporate governance and greater management accountability for capital efficiency would help ensure that ROE improvements prove durable and sustainable, rather than driven by short-term earnings gains.
- Institutional foundations should be strengthened to ensure that stock price gains translate into tangible real-economy outcomes, including higher corporate investment and job creation. Targeted financial support, tax incentives, and regulatory reforms for high-potential innovative industries will help ensure that capital market vitality spreads to the broader real economy. In parallel, stronger institutional mechanisms are needed to ensure the timely exit of zombie firms from the stock market, as their continued presence distorts capital allocation, exacerbates investor losses, and erodes market confidence.
- The ongoing value-up initiative should be institutionalized as a long-term program, rather than a one-off policy, by building sustained trust among market participants. To this end, the disclosure of corporate governance assessment results would allow investors to directly compare and evaluate corporate transparency, while enhanced support for mid-sized and small firms with limited disclosure capacity would help broaden the value-up program beyond large corporates. To promote constructive oversight of corporate management, further strengthening the stewardship code is warranted to encourage more active shareholder engagement by pension funds and asset managers.

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