

**OPINION**Capital Markets  
Division**Key Issues in the Capital Markets for 2025**

In 2024, Korea's capital markets underperformed global peers, weighed down by declines in stock indices, reduced trading volumes, and sluggish performance across key industries. In contrast, the bond market remained favorable for issuance, supported by a downward trend in interest rates. Entering 2025, the Korean stock market has rebounded from its downturn, while facing challenges including corporate earnings divergence, internal and external uncertainties, and potential investor exits. In the bond market, favorable issuance conditions are expected to continue, driven by key interest rate cuts, though increased Korea Treasury Bond (KTB) issuance is likely to aggravate the supply-demand imbalance and interest rate volatility may pose market risks.

In the meantime, major regulatory and structural changes are set to reshape the capital markets in 2025. These reforms include stricter delisting criteria, the resumption of short selling, and the introduction of over-the-counter (OTC) brokerage, alongside the launch of alternative trading systems (ATS) and regulatory reforms of virtual assets and security tokens. They are expected to enhance market integrity and efficiency, strengthen investor protection, and improve market competitiveness. Ultimately, these changes aim to create more stable and trusted capital markets, where companies focus on improving corporate governance and securing new growth drivers and investors prioritize mid- to long-term corporate vision over short-term market fluctuations.

In 2024, the Korean stock market underperformed its global counterparts, weighed down by overall index declines, reduced trading volumes, and weakness in key sectors. The market

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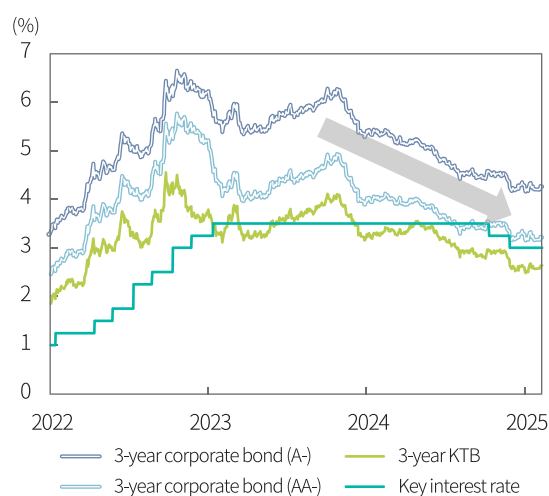
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showed an upward trend in the first half of the year but reversed course in the second half. As a result, the KOSPI dropped 9.6% year-over-year, while the KOSDAQ, heavily composed of small- and mid-cap stocks, declined even further by 21.7%. Weakened investor sentiment led to the trading volume contraction of 9.9% in the KOSPI market and 13.8% in the KOSDAQ market. Compared to 29 major global economies, the Korean stock market ranked among the bottom four, exhibiting relatively poor performance. By sector, the semiconductor industry, which accounted for 26% of the total market capitalization, experienced a 23% decline in stock prices, placing significant downward pressure on the overall market. Other major industries, such as electrical equipment and chemicals, also posted substantial declines. Amid this downturn, foreign investors continued to buy domestic stocks, though their net purchases plunged year-over-year. Meanwhile, retail investors sustained their selling trend for a second consecutive year, signaling a retreat from active market participation.

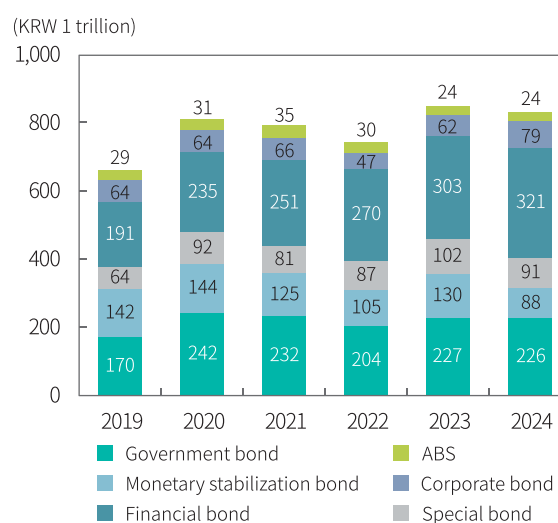
The Korean bond market benefited from a favorable issuance environment in 2024, supported by a steady decline in market interest rates. With concerns over an economic slowdown and key rate cuts, the three-year Korea Treasury Bond (KTB) yield fell 56 basis points over the year (Figure 1). Lower market rates (or rising bond prices) incentivized bond investments and simultaneously reduced financing costs for issuers, driving a rise in private credit bond issuance. In 2024, the issuance of public bonds declined year-over-year,<sup>1)</sup> while corporate and financial bond issuance rose by 27.7% and 5.9%, respectively (Figure 2). In addition, non-financial companies took advantage of the favorable conditions to expand their fundraising through public corporate bond offerings. Notably, issuance of lower-rated bonds (A+ and below) also increased, reflecting positive investment sentiment for credit instruments.

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1) In 2024, the issuance volumes of government bonds, monetary stabilization bonds, and special bonds fell by 0.5%, 32.3%, and 10.7% year-over-year, respectively.

**Figure 1. Key interest rate and bond yield**

Source: Bank of Korea, Korea Financial Investment Association

**Figure 2. Issuance volume by bond type**

Source: Yonhap Infomax

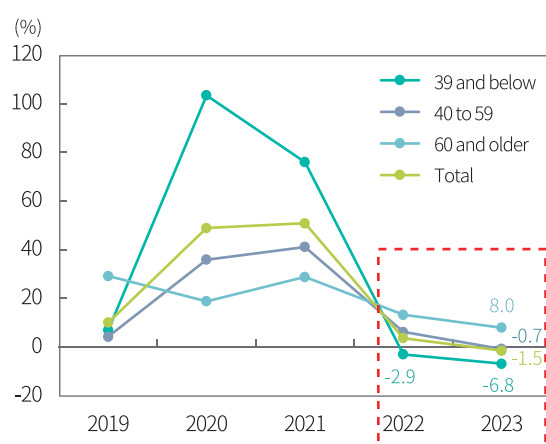
In January 2025, the prolonged downturn in the KOSPI and KOSDAQ markets, which persisted through several months, came to a halt, with both indices rebounding by around 5%. This year, the upcoming large-scale initial public offerings (IPOs) are heightening interest in the primary market, and operating profit prospects for listed companies in 2025 appear more optimistic than in the previous year. However, it should be noted that ongoing domestic and global uncertainties, coupled with downward revisions to Korea's economic growth projections, may weigh on corporate earnings forecasts. Market polarization, driven by widening earnings divergence, as well as the potential investor exits, may have an adverse impact on the market. In the bond market, expectations for additional key rate cuts in 2025 are likely to sustain a favorable bond issuance environment, but market volatility driven by interest rate fluctuations remains a key risk factor. Considering these domestic and global dynamics, this article examines the key issues shaping Korea's capital markets in 2025.

### Key issues in the Korean stock market for 2025

Amid the recent downturn in the Korean stock market, investor demand for foreign equities and alternative assets has been gradually rising. Notably, younger investors who entered the market during the pandemic are shifting away from domestic equities, leading to a decline in net buying of Korean stocks and diversification of investments into foreign equities and

virtual assets. The proportion of domestic stock holdings among investors aged 39 and below decreased for two consecutive years in 2022 and 2023 (Figure 3). In 2024, Korean investors net purchased US stocks worth KRW 15 trillion, while net selling KRW 2 trillion in Korean stocks (Figure 4). Although this trend is considered a positive move in terms of portfolio diversification, the heavy concentration in the US market, particularly in a handful of stocks, limits the expected risk-mitigation effects. This has raised concerns over the contraction of Korea's capital markets and the weakening of the Korean won, necessitating policy measures to encourage a more balanced investment approach and enhance the competitiveness of the Korean stock market.

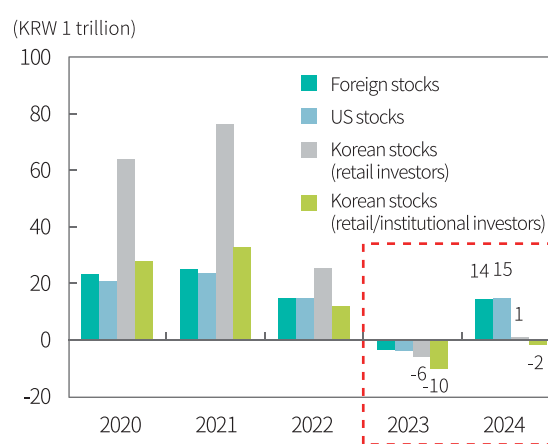
**Figure 3. Changes in domestic stock holdings by age group**



Note: YoY changes in actual shareholders of companies listed in Korea

Source: Data of actual shareholders of listed companies, published by the Korea Securities Depository

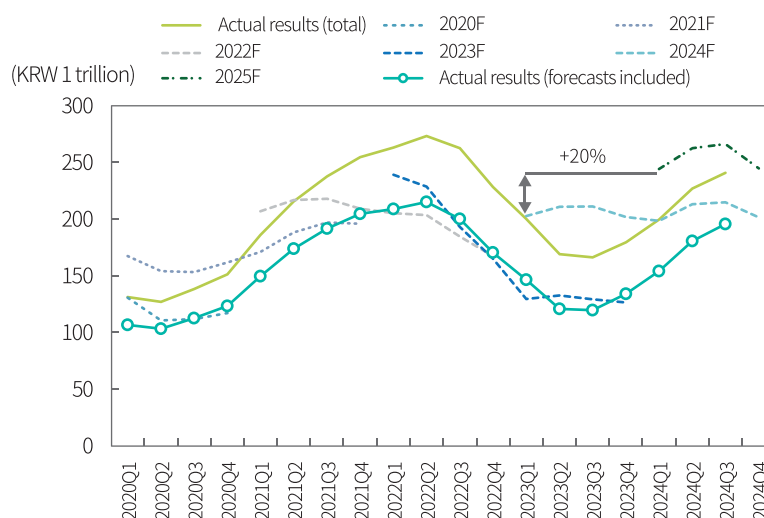
**Figure 4. Net purchases of domestic and foreign stocks by Korean investors**



Note: Domestic stocks = Sum of KOSPI and KOSDAQ net purchases by retail/institutional investors

Source: KRX, Foreign equity settlement data from the Korea Securities Depository

Corporate earnings forecasts for 2025 reflect expectations of a market recovery, with analysts projecting a roughly 20% increase in operating profits from 2024 levels (Figure 5). However, it should be noted that the government revised its economic growth forecast downward from 2.2% in July 2024 to 1.8% in January 2025 and internal and external uncertainties persist. Given these factors, a potential economic slowdown or additional risks could weigh on corporate revenue and earnings projections, highlighting the need for a cautious strategy to navigate greater market volatility.

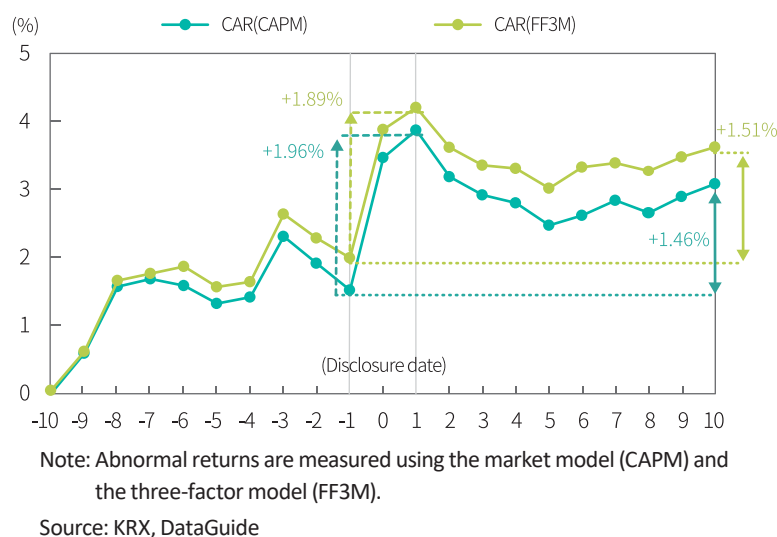
**Figure 5. Analysts' operating profit forecasts**

Note: 1) Analysis is based on 260 companies for which four consecutive years of forecast data are available.  
 2) "Actual results (total)" include all companies listed on the KOSPI and KOSDAQ markets, while "Actual results (forecasts included)" are derived from 260 companies analyzed.

Source: DataGuide, Korea Capital Market Institute

Amid concerns over investor exits and corporate earnings uncertainty, some listed companies in Korea have outperformed the market by actively enhancing corporate value. Companies participating in Korea's Corporate Value-up Program have generated higher stock returns than the market average, posting abnormal returns of around 1.5% to 2% shortly after the disclosure of value-enhancement plans (Figure 6). However, broader participation is required for these efforts to have a market-wide impact. As of 2024, only 93 companies disclosed their value-up plans, with just 59 of them included in the KOSPI 200 index. In the short term, blue-chip companies should take the initiative by actively pursuing shareholder return policies. Over the long term, broader corporate efforts are needed to enhance fundamental competitiveness including corporate governance reforms, business diversification, and new growth engines. If these value enhancement activities gain traction, they are expected to improve the overall appeal of the Korean stock market and help restore investor confidence.

**Figure 6. Cumulative abnormal returns before and after value-up plan disclosure**



## Key issues in the bond market for 2025

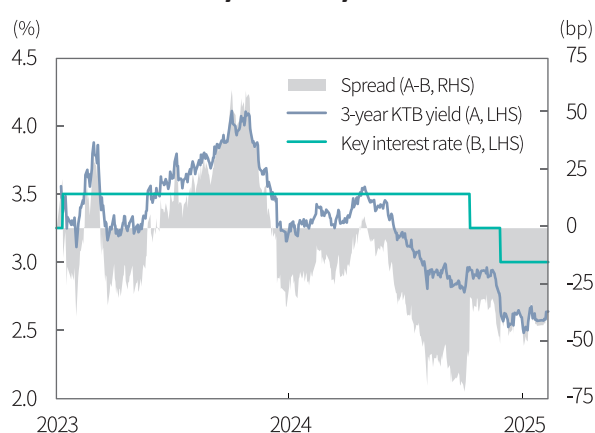
Several key issues are anticipated to shape the Korean bond market in 2025. First, the ongoing rate cut cycle is expected to support favorable bond issuance conditions throughout the year. Despite the two rate cuts implemented in 2024, expectations for further reductions have kept KTB yields consistently below the key interest rate (Figure 7). While additional rate cuts have bolstered investor sentiment toward bonds, Korea's inclusion in the WGBI<sup>2)</sup> is also projected to expand the foreign investor base, representing another positive development for the bond market. However, if actual rate cuts fall short of market expectations, investor sentiment would weaken, amplifying interest rate volatility.

Second, as government fundraising is set to surge in 2025, the resulting supply-demand imbalance is likely to deteriorate market conditions, which requires caution (Figure 8). The planned issuance of KTBs (excluding government bonds designated for retail investors) amounts to KRW 196.3 trillion, a considerable YoY increase of 24.5%. This figure is expected to rise further upon the addition of a supplementary budget. Moreover, the government plans to issue Foreign Exchange Stabilization Bonds (FX stabilization bonds) of up to KRW 20 trillion this

2) Korea's government bonds will be gradually incorporated into the WGBI over a one-year period from November 2025. Upon WGBI inclusion, a total of \$50-60 billion in funds tracking the index is expected to flow into the Korean market (Kim, H.S., 2023, Impact and implications of WGBI inclusion, Korea Capital Market Institute Issue Papers 23-02).

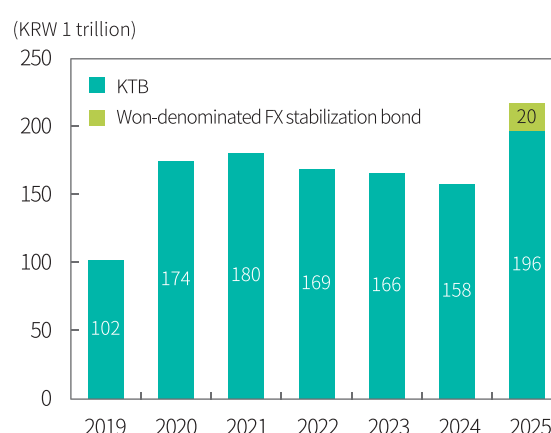
year, marking the first issuance of such bonds since 2004.<sup>3)</sup> The Bank of Korea's anticipated rate cuts are likely to mitigate the adverse effects of increased government bond issuance on the bond market. However, recently heightened global uncertainties suggest that such domestic and global developments could expand market volatility, further exacerbating the supply-demand imbalance in the bond market.

**Figure 7. Key interest rate and 3-year KTB yield**



Source: Bank of Korea, Korea Financial Investment Association

**Figure 8. Issuance of KTBs and won-denominated FX stabilization bonds**



Note: 1) The 2025 figures reflect the issuance limits for KTBs and won-denominated FX stabilization bonds.  
2) Government bonds for retail investors are excluded.

Source: Ministry of Economy and Finance, Yonhap Infomax

## Key regulatory changes for 2025

Various regulatory changes in 2025 are expected to enhance the efficiency of the Korean capital markets and advance investor protection.

First, diverse structural reforms will affect the capital markets at a macro level in 2025. Delisting requirements will be tightened to accelerate the exit of underperforming companies that fail to meet listing criteria. The existing delisting system prioritizes the possibility of corporate rehabilitation, granting marginal firms ample opportunities for turnaround. However, this approach has faced criticism for prolonging the presence of insolvent companies, thereby undermining market attractiveness and investor confidence. In response, financial

3) The maturity amount of special bonds (excluding MBS issued by the Korea Housing Finance Corporation) is expected to increase from KRW 48.3 trillion in 2024 to KRW 53.5 trillion in 2025. As a result, public enterprises' fundraising is also projected to rise, primarily driven by refinancing demand.

thresholds for listing maintenance will be progressively raised over a three-year period, and delisting procedures will be streamlined to improve market structure. In addition, the scope of companies subject to disclosure obligations will be expanded to enhance investor protection, while measures will be introduced to facilitate OTC markets, ensuring continued trading of delisted stocks. Furthermore, NexTrade, an alternative trading system (ATS) set to launch in the first half of 2025, is anticipated to transform the Korean stock market. By enabling after-hours trading, a range of order execution methods, and differentiated fee structures, NexTrade will contribute to establishing a competitive environment for stock trading, while providing investors with greater flexibility and broader trading options. On top of that, the introduction of a formal listing system for OTC brokerage businesses will bring OTC platforms under regulatory oversight, improving market transparency and efficiency.

**Table 1. Delisting reform plan**

| Category                                        |                    |             | KOSPI                 |         | KOSDAQ                       |         |
|-------------------------------------------------|--------------------|-------------|-----------------------|---------|------------------------------|---------|
|                                                 |                    |             | Market capitalization | Revenue | Market capitalization        | Revenue |
| Financial requirements<br>(unit: KRW 1 billion) | Current            |             | 5                     | 5       | 4                            | 3       |
|                                                 | From 2026          |             | 20                    | 5       | 15                           | 3       |
|                                                 | From 2027          |             | 30                    | 10      | 20                           | 5       |
|                                                 | From 2028          |             | 50                    | 20      | 30                           | 7.5     |
|                                                 | From 2029          |             | 50                    | 30      | 30                           | 10      |
| Review process                                  | Review process     | Formal      | First review          |         | First review                 |         |
|                                                 |                    | Substantive | Second review         |         | Third review → Second review |         |
|                                                 | Improvement period | Formal      | 2 years → 1 year      |         | 1 year                       |         |
|                                                 |                    | Substantive | 4 years → 2 years     |         | 2 years → 1.5 years          |         |

Source: Korea Exchange

Second, legislative efforts to protect shareholder interests are expected to continue this year. In 2024, directors' fiduciary duties to shareholders emerged as a focal point of capital market discussions, leading to multiple proposals to amend the Commercial Act and the Financial Investment Services and Capital Markets Act (FSCMA) to impose greater responsibility on directors. In 2025, discussions on these amendments are anticipated to gain momentum at the National Assembly, likely resulting in legislation for shareholder protection enhancement.

In addition, a new regulatory framework will be introduced to safeguard minority shareholders in M&A transactions involving listed companies. Boards of directors will be required to prepare and disclose opinions on the purpose of mergers and the appropriateness of merger value. In non-affiliate mergers, the appointment of external valuation agencies will become mandatory, while restrictions on merger valuation will be loosened. Further reforms on mergers between affiliates will follow in 2025, requiring the appointment of external valuation agencies to ensure that merger value is fairly determined based on market price, asset value, and profit value to protect shareholders. Additionally, legal amendments will be considered to introduce a mandatory tender offer system and grant priority allotment of shares newly issued by a subsidiary to parent company shareholders upon corporate split-offs. Meanwhile, concerns have been raised that public tender offers for delisting and large-scale paid-in capital increases for defending corporate control may put shareholders at a disadvantage, prompting regulatory improvements for shareholder protection.

Third, Korea's regulatory framework for virtual asset and security token markets is expected to undergo refinements in 2025. In line with the digital asset regulatory policy adopted by the new US administration inaugurated on January 20, 2025, the institutionalization of Korea's digital asset market will focus on aligning with international regulatory standards. Such regulatory improvements will be primarily implemented through the second-phase legislation on virtual assets, which is an expansion of the existing Act on the Protection of Virtual Asset Users. This legislation will introduce specific regulations on virtual asset issuers, disclosure obligations, virtual asset service providers, stablecoins, and self-regulatory organizations. Additionally, financial authorities are considering gradually allowing corporations to open real-name verified accounts for virtual asset transactions and introducing spot Bitcoin ETFs. Regarding security tokens, the amendment proposed in 2024 is expected to be enacted in 2025. Moreover, the revision to the Act on Electronic Registration of Stocks and Bonds will grant a presumption of rights to investors in distributed ledger-based security tokens, while amendments to the FSCMA will permit over-the-counter (OTC) brokerage businesses for non-conventional securities. These regulatory reforms are anticipated to enhance market reliability, user protection, and regulatory predictability. Furthermore, greater market accessibility and efficiency are likely to create new financial business opportunities, advancing innovation in Korea's digital finance sector.

Finally, short selling, which was banned in November 2023, is set to resume in March 2025, backed by the establishment of trading infrastructure and the improvement of regulations on illegal transactions. Institutions and corporations will face stricter obligations for internal controls and outstanding balance management, while the Korea Exchange (KRX) will introduce the Naked Short Selling Detecting System (NSDS) to tighten market oversight. Additionally, margin requirements will apply uniformly to both retail and institutional investors, and the loan repayment for short sales will be limited to a certain period, thereby creating a level playing field for short selling. Stronger penalties for illegal short selling will include heavier fines, account suspensions, and restrictions on serving as executives in listed companies. These regulatory improvements are expected to reduce market price volatility and spreads, alleviate stock price fluctuations, and ultimately ensure Korean stocks' eligibility for MSCI Developed Market Index inclusion, thereby enhancing the country's international credit standing.

## Conclusion

In 2024, despite the downturn in the Korean stock market and the slowdown in major industries, some companies achieved relatively strong performance through corporate value enhancement efforts, signaling the potential for future growth. Additionally, the bond market benefited from favorable issuance conditions, showing continued improvement. Looking ahead, 2025 is expected to bring significant policy changes, including regulatory reforms on delisting, short selling, and OTC brokerage, as well as regulatory improvements in virtual assets and security tokens. These changes are anticipated to elevate fairness and efficiency in the Korean capital markets, while strengthening investor protection.

However, persistent uncertainties over corporate earnings divergence, a shift in investor demand, and interest rate fluctuations underscore the need for a new approach for both companies and investors. To foster long-term growth, companies should reinforce fundamental competitiveness by improving corporate governance and identifying new growth engines. Investors should focus on prioritizing a company's mid- to long-term vision and potential, rather than being swayed by short-term market volatility. Ultimately, corporate efforts to enhance value should be aligned with investors' long-term investment strategies to drive sustainable growth and bolster investor confidence in the Korean capital markets.