OPINION

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Expanding Household Participation in Capital Markets: Rationale and Challenges

The wealth-accumulation pattern of Korean households—heavily concentrated in real estate—limits the flow of surplus funds into high-productivity industries, thereby constraining the economy's growth potential and dynamism. Research indicates that revitalizing corporate financing through capital markets promotes private-sector growth, particularly among innovative firms, and supports overall economic growth. This suggests that if household funds were more actively channeled into domestic capital markets, they could contribute meaningfully to stronger economic growth.

Meanwhile, periods of heightened expectations for housing price appreciation in Korea have been accompanied by rapid increases in household debt and widening financial imbalances. Since housing investments involve large transaction sizes and typically rely on leverage, whereas capital market products can be purchased without leverage, promoting capital market-based asset formation could also help alleviate the household debt problem.

However, the persistence of a real estate-oriented household asset structure suggests that it is difficult for households to voluntarily change their asset allocation behavior. Therefore, policy incentives are needed to encourage greater household participation in the domestic capital market. In particular, as household preparedness for retirement income remains insufficient, enhancing tax incentives for pension contributions could serve as an effective policy measure. Ultimately, the most critical factor in increasing household capital inflows into the domestic capital market is ensuring that it delivers stable and sufficient returns capable of fostering investor confidence. Accordingly, it will be essential to continue strengthening the institutional and operational foundations of the capital market in order to further enhance its credibility.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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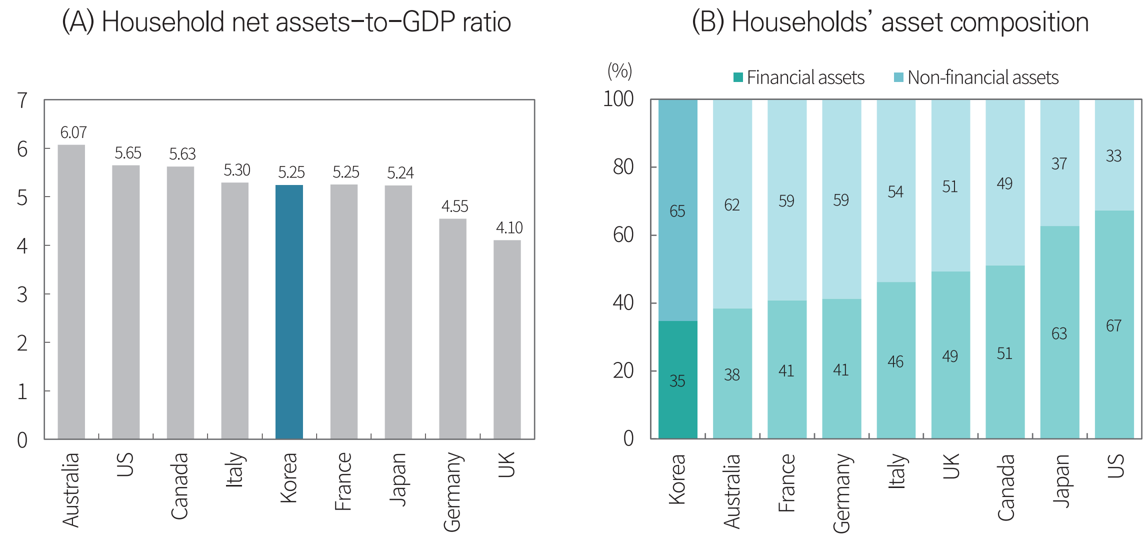
Recently, discussions have been expanding around the need to more effectively channel funds into high-productivity sectors by revitalizing capital markets. Against this backdrop, this article examines why the inflow of household assets into capital markets needs to be expanded from a capital-supply perspective and discusses challenges required to achieve this objective.

Current Status of Household Asset Structure in Korea

Relative to the size of its economy, Korean households' net assets are by no means small compared to those of other major economies. Korea's household net assets-to-GDP ratio stands at 5.25, which is broadly in line with the average of major advanced countes (Figure 1 (A)). However, Korean households' asset composition differs substantially from that of these economies. As shown in Figure 1 (B), non-financial assets account for a notably large share (65%) of Korean household assets, while financial assets constitute only 35%.[1)]

Figure 1. Comparison of household assets with major countries



Note: 1) The household sector includes non-profit institutions serving households (NPISHs).
2) Net assets = financial assets + non-financial assets - financial liabilities.
3) As of 2023.
Source: National statistical agencies of each country, author's calculations

1) The figures are calculated based on each country's household balance sheet. As these statistics are compiled using aggregate data for the entire household sector, they differ from statistics derived from household-level surveys. For reference, according to the Survey of Household Finances and Living Conditions—a household-level survey in Korea—the share of real assets in total household assets was 75.2% in 2024.

The tendency of Korean households to accumulate wealth primarily through real estate becomes even clearer when viewed through the lens of net asset distribution. Table 1 compares the share of real estate in household assets across wealth brackets (top 1%, 1–10%, 10–50%, and bottom 50%) between Korea and the United States, where capital markets are highly developed. In Korea, the higher a household's net assets, the greater the share accounted for by real estate; in contrast, in the United States, the share of real estate declines as household wealth increases. This contrast underscores the fundamentally different ways in which households in the two countries construct their asset portfolios.

Table 1. Comparison of real estate share by household net worth distribution in Korea and the U.S.

(Unit: %)

	Korea				US			
	Top 1%	Top 1-10%	Top 10-50%	Bottom 50%	Top 1%	Top 1-10%	Top 10-50%	Bottom 50%
2012	79.1	74.1	68.9	49.8	12.5	19.4	29.8	48.7
2016	78.7	72.3	68.9	52.8	13.1	19.9	32.8	48.4
2020	77.3	78.1	71.6	52.1	14.3	21.1	35.4	50.6
2024	79.4	75.2	70.9	48.8	13.1	23.8	38.7	49.4

Note: 1) Share of real estate assets in total household assets.
2) For Korea, figures are based on the Survey of Household Finances and Living Conditions. For the United States, figures are based on the Distributional Financial Accounts.
3) Data as of end-March each year.
Source: Ministry of Data and Statistics, Federal Reserve, author's calculations

In general, households—the sector that generates excess income over consumption—supply savings that finance corporate and government economic activities. However, the real estate–centered asset structure of Korean households limits the flow of household surplus funds into high-productivity industries, thereby constraining the economy's growth potential and dynamism.

Rationale for Expanding Household Participation in Capital Markets

Empirical studies suggest that greater fundraising through capital markets promotes private sector growth—particularly among innovative firms—and supports overall economic growth. Didier et al. (2021)[2), using firm-level data from 65 countries, demonstrate that firms obtaining

2) Didier, T., Levine, R., Montanes, R. L., Schmukler, S. L., 2021, Capital market financing and firm growth, *Journal of International*

financing through capital markets grow faster, expand employment, and increase both tangible and intangible assets, thereby strengthening their productive capacity. This positive effect is particularly pronounced among firms facing tighter financing constraints, such as small start-ups and R&D-intensive enterprises.[3] Furthermore, countries with more developed capital markets relative to bank-centered financial systems tend to have a higher prevalence of smaller, younger, and more R&D-intensive listed firms. These findings imply that if Korean household funds were to flow more actively into domestic capital markets, they could help finance innovative, high-growth companies and ultimately contribute to stronger economic growth.

In this context, a similar argument for channeling household savings into capital markets has recently gained traction in Europe. The Draghi Report[4]—commissioned by the European Commission to propose a roadmap for restoring growth and competitiveness in the European economy—identified low capital market integration and insufficient channeling of household savings into capital markets as major obstacles to financial intermediation efficiency.[5] The report noted that, because most European households hold their savings in safe assets such as bank deposits, household savings have not been effectively mobilized for productive investment. As a result, despite higher savings rates than in the United States, European household wealth has increased less since the global financial crisis, due to its concentration in low-yield assets rather than in capital market instruments.[6]

By contrast, in the capital market–oriented U.S. financial system, household assets flow actively into capital markets. Approximately 50% of U.S. household assets are invested in equities, bonds, investment funds, and pensions—assets linked to capital markets (Table 2). This demonstrates that surplus household capital in the United States serves as a critical source of funding for capital market development and corporate investment.

In Korea, however, the continued reliance on real estate as the primary vehicle for wealth

Money and Finance 118, Article 102459.

3) In general, smaller, younger, and more innovative companies face greater difficulties in securing external financing, as they have fewer tangible assets to pledge as collateral and provide less accessible information about their business.

4) Draghi, M., 2024, The future of European competitiveness.

5) Part A of the Draghi Report (“A Competitiveness Strategy for Europe”) makes the following observation: “A key reason for less efficient financial intermediation in Europe is that capital markets remain fragmented and flows of savings into capital markets are lower.” (p.63)

6) To address these issues, the report recommended that Europe establish a Capital Markets Union to integrate its fragmented national capital markets and, by promoting the use of private pensions, channel household funds into capital markets to support productive investment.

accumulation has, during periods of heightened expectations for property price appreciation, led to rapid household debt growth and resulting financial imbalances (Figure 2). Recently, the Bank of Korea has also cited rising real estate price expectations and increases in household debt as constraints on lowering the policy rate, reflecting how elevated household leverage can burden monetary policy operations.

Housing investments typically require leverage due to their large transaction sizes, whereas investments in capital market instruments can be made without leverage. Hence, promoting capital market–based asset formation may help alleviate the persistent problem of household debt—one of Korea's structural economic risks.

Table 2. Share of U.S. household assets by category

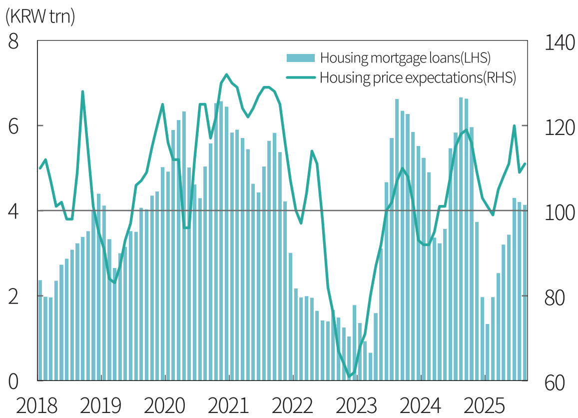
(Unit: %)

	2015	2020	2025
Non-financial assets	30.2	29.3	31.8
Financial assets	69.8	70.7	68.2
Corporate equities	**13.4**	**17.6**	**21.2**
Debt securities	**3.3**	**2.5**	**3.0**
Investment funds	**8.4**	**9.3**	**8.9**
Pension	**22.5**	**20.1**	**16.9**
Owner's equity in noncorporate businesses	9.4	8.8	7.9
Deposits	8.8	9.1	7.5
Others	4.1	3.4	2.9
Total	100.0	100.0	100.0

Note: The household sector includes non-profit institutions serving households (NPISHs).

Source: Federal Reserve (Financial Accounts)

Figure 2. Household mortgage loans and housing price expectations



Note: 1) Housing mortgage loans refer to the change in bank mortgage lending (3-month moving average).

2) Housing price expectations are based on the Consumer Tendency Survey's one-year-ahead outlook. A value above (below) 100 indicates that more households expect prices to rise (fall).

Source: Bank of Korea

Challenges for Channeling Household Assets into Capital Markets

Thus, expanding household participation and capital inflows into domestic capital markets is essential both to enhance economic growth and to mitigate household debt vulnerabilities. However, given the deeply entrenched real estate–centered asset structure of Korean households, a spontaneous shift in asset allocation is unlikely, underscoring the need for policy measures to incentivize greater household participation in the domestic capital market.

Considering that Korean households are insufficiently prepared for post-retirement income, one possible policy measure is to strengthen tax incentives for pension contributions. As shown in Figure 3, the replacement rate of Korea's mandatory pension schemes is only 31.2%—far below the OECD average of 50.7%. Consequently, households must supplement retirement income through private pension savings. However, due to their heavy concentration in real estate, private pension balances remain inadequate, and the level of liquid assets available for retirement income is also low.

Many major economies enhance the role of private pensions and encourage retirement income accumulation by offering substantial tax incentives. In the United States, for example, the annual contribution limit for 401(k) plans—the most representative defined contribution pension scheme—reaches USD 70,000 as of 2025, illustrating the magnitude of the available tax benefits.[7)] Such tax incentives are instrumental in channeling household funds into capital markets through pension accounts. Moreover, they foster a virtuous cycle whereby household assets flow into the real economy while simultaneously reducing the government's long-term fiscal burden associated with old-age poverty.[8)]

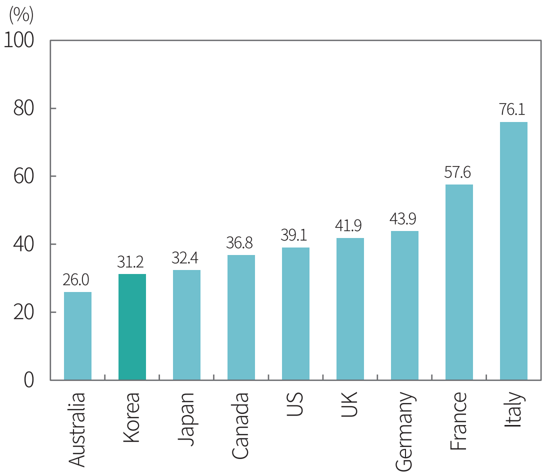
Ultimately, the most critical factor in channeling household funds into the domestic capital market is ensuring stable and sufficient returns that foster investor confidence. A comparison of long-term equity index performances across major economies shows that Korea's returns have historically been relatively low (Figure 4). Furthermore, real estate has demonstrated higher price appreciation relative to volatility than financial assets, which helps explain households' persistent preference for property investment. Recent efforts to improve the domestic capital market—by strengthening corporate growth and profitability, enhancing shareholder returns, and improving corporate governance—represent encouraging developments. Reflecting these expectations, Korean equity indices have recently outperformed major global benchmarks.[9)] Going forward, it will be essential to continue strengthening the institutional and operational foundations of the capital market in order to further enhance its credibility.

7) As of 2025, the combined contribution limit for employers and employees is USD 70,000, while the employee-only contribution limit is USD 23,500. In addition, the 401(k) contribution limit is adjusted annually to reflect inflation, and individuals aged 50 and older are eligible for additional catch-up contributions

8) However, improvements in institutional design and implementation are needed to facilitate the inflow of private pension reserves into capital markets. Although the default option system was introduced in July 2022 for defined contribution (DC) and individual retirement pension (IRP) plans, most participants continue to opt for principal-guaranteed products concentrated in safe assets such as deposits. As a result, the inflow of pension reserves into capital markets remains limited.

9) Bloomberg, 2025. 7. 1, Korean stocks gain on renewed optimism over corporate reforms.

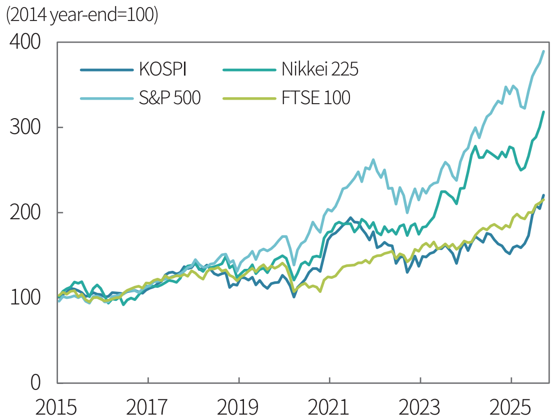
Figure 3. Gross pension replacement rates of mandatory schemes in major countries



Note: Gross replacement rate at the time of retirement for a worker with average earnings, based on mandatory public and private pension schemes.

Source: OECD, Pensions at a Glance (2023).

Figure 4. Major country stock Indices



Note: 1) Based on the Total Return Index.

2) From January 2015 to September 2025.