SOCIETY OF SHAREHOLDERS

Inside Sweden’s Thriving Capital Markets.

GPW WARSAW STOCK EXCHANGE

Regulatory Research Series

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Executive Summary

By multiple measures, Sweden's capital market stands out as Europe's most efficient relative to the size of its economy. Domestic stock market capitalization relative to GDP ranks third in Europe (159% GDP, 2.5x EU average), the number of listed companies second (953). Market performance over the past 25 years has been exceptional. Swedish equities delivered an average annual return of 7.9%, on par with the S&P 500 7.85% and well above the Stoxx 600 5.5%. Swedish households are highly exposed to capital markets, holding the lowest share of financial assets in cash or deposits among EU countries (19%, compared with 40–70% in many other nations), reflecting a strong equity culture and broad public participation in investing. Sweden also ranks at or near the top in Europe in terms of number of IPOs (a net increase by 522 between 2014 and 2024), corporate bond issuance, private equity and venture-capital investment.

Sweden's capital-market success is the result of a synergistic combination of policy choices, institutional arrangements, and cultural factors, rather than any single reform. The analysis identifies five key factors that together underpin the remarkable development of the Swedish capital market.

1. **Robust Funded Pension System**. Sweden's pension schemes provide a substantial domestic investor base, with national pension assets reaching approximately 115% of GDP by 2024. Nearly universal participation—through auto-enrolment and mandatory contributions—combined with a higher allocation to equities than in any other EU country (around 87% in the default AP7 fund and approximately 50% in occupational plans) generates strong returns for savers while supplying abundant capital to financial markets. Low fees and broad investors' choice (more than 400 funds available in the mandatory pillar) have further reinforced both system performance and public trust.
2. **Pro-Equity Tax Incentives**. Sweden has pioneered tax policies that encourage stock investment by making risky assets more attractive. Notably, the *Investeringssparkonto* (ISK)—a tax-advantaged investment account introduced in 2012—taxes only a notional risk-free return on assets (approximately the government borrowing rate), allowing investors to retain all returns earned above the risk-free rate. This favourable tax treatment of equities, as opposed to the direct taxation of dividends and capital gains, has spurred a surge in retail participation: by 2024, roughly 40% of Swedish adults had opened ISK accounts. The policy effectively incentivizes households to assume greater risk in pursuit of higher returns, contributing to Sweden having the highest share of equity funds in total fund assets in Europe (around 69%, compared with approximately 33% on average across Europe).
3. **Effective Corporate Governance (Dual-Class Shares & Minority Protection).** Sweden's corporate governance framework strikes a distinctive balance between empowering controlling shareholders and safeguarding minority investors. Dual-class

share structures are widespread and allow founding owners to retain up to 10:1 voting edge per share. This encourages more companies to go public, as they can sell a large number of shares while founders retain strategic control, thereby increasing free float and market depth. At the same time, Sweden imposes stringent minority-shareholder protections that go well beyond EU requirements. This framework contributed to the increasing number of listed companies which defies the general downward trend in Europe.

4. **Thriving Private Equity & Venture Capital Ecosystem**: Rather than undermining public markets, Sweden's large private equity sector (ranked 4th globally in terms of capital raised in 2025) complements and reinforces stock-market growth. Uniquely, an IPO is the most common exit route for Swedish PE-backed companies (accounting for 29% of exit value in recent years), which generates two beneficial dynamics. First, venture-capital-backed companies often list at an earlier stage on growth markets (MTFs), with their shares acquired by local institutional investors, notably pension and insurance funds. Second, when PE-led buyouts result in delistings, these companies frequently return to public markets at a later stage.
5. **Competitive and client-focused Banking Sector**: Bank lending plays an extensive role in Sweden, yet banks are highly competitive and technology-driven, without stifling capital-market development. Swedish consumers are proactive and quick to switch financial service providers—over 16% changed an investment product provider between 2017 and 2022, the highest rate in Europe—forcing banks to continuously improve value, which often means actively offering investment services instead of deposits. In addition, the strong performance of bank equities has contributed materially to overall stock-market returns, reinforcing public confidence in capital markets as a vehicle for long-term wealth creation.

Sweden's rise as a leading European capital market underscores that market development is not solely a function of scale. Between 2000 and 2024, the median IPO size was just USD 8 million—evidence that the market is facilitating SME access to capital. The Swedish case highlights that market growth also depends on trust, which is most effectively built at the local level. Sweden can serve as a role model for European equity markets because it demonstrates how to achieve both scale and trust.

Sweden: Europe's Most Effective Capital Market

When adjusted for the size of the economy and population, Sweden has undoubtedly the most developed capital market in Europe. This assessment is not based on a limited set of indicators but reflects Sweden's consistently strong performance across the full range of commonly used measures of capital market development.

The most commonly used measure for comparing the size of capital markets is the capitalization of domestic listed shares relative to GDP (Figure 1). On this basis, Sweden ranks among the top three European countries, alongside Switzerland and Denmark. However, market capitalization relative to GDP is an imperfect indicator. Differences in the classification of companies as "domestic" can lead to substantial variation across data sources. Moreover, in smaller economies the presence of a single very large firm may significantly distort the comparison, as illustrated by Denmark (Novo Nordisk accounting for 44% of the MSCI Denmark index) and, more recently, the Netherlands (ASML accounting for 48% of the MSCI Netherlands index).

Figure 1 Market capitalization to GDP in selected European countries at the end of 2024

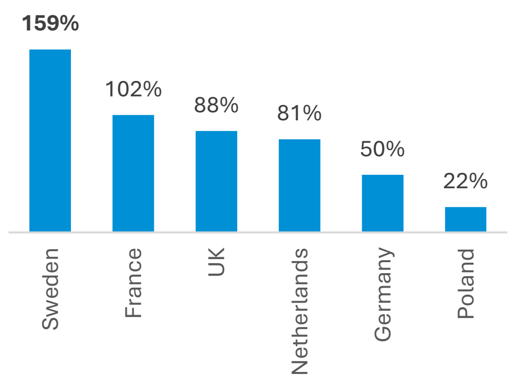
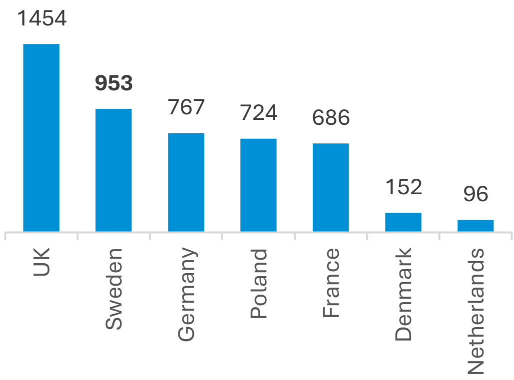


Figure 2 Number of listed companies in selected European countries at the end of 2024



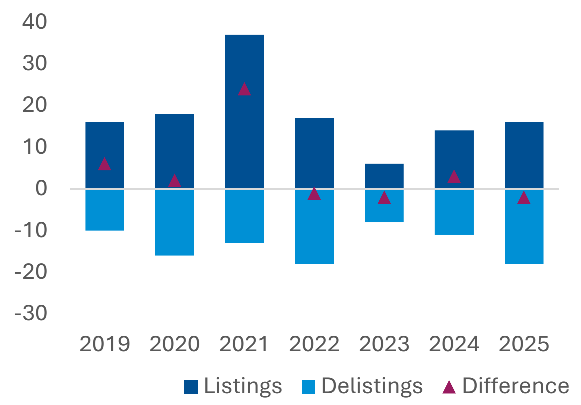
Source: OECD (2025b), supplemented with GPW data for Poland.

High ownership concentration is not a defining characteristic of the Swedish equity market. On the contrary, measured by the number of listed companies per capita, Sweden ranks among Europe's leading markets, surpassed only by a small number of countries with significantly smaller populations. In absolute terms, Sweden is exceeded only by the United Kingdom in the total number of listed companies (Figure 2).

The number of listed companies in Sweden is not only high but has also been increasing, a pattern that distinguishes Sweden from both European and global markets. Between 2014 and 2024 the total number of listed companies increased by 522. The number of IPOs exceeded the number of delistings in eight of those years, whereas this occurred in only two years across the remaining EU. Over the same period, on the regulated Nasdaq Stockholm market alone, 229 companies were listed, compared to 117 delistings. Although the trend has flattened over the past four years (Figure 3), Sweden's performance remains comparatively stronger than that observed in Europe or the United States (Adams and Benham 2024).

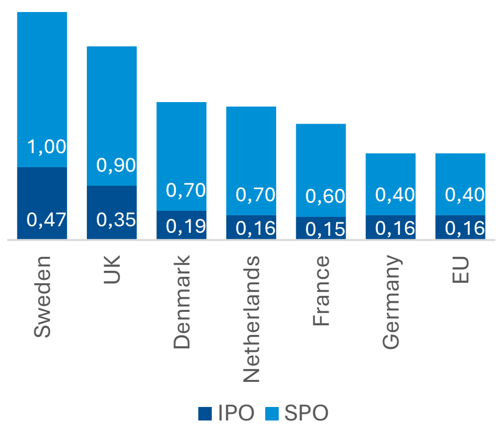
It is important to note that Swedish companies access public equity markets primarily to raise new capital (Figure 4), rather than merely to provide liquidity for existing shareholders. The issuance of new equity is particularly common among smaller firms. Between 2000 and 2024, the median IPO size amounted to just USD 8 million—the lowest among comparable countries, approximately one-third of the corresponding figures in the United Kingdom and France, and well below the EU median of USD 20 million (OECD 2025b).

Figure 3 Listings and delistings on Nasdaq Stockholm Main Market



Source: Nasdaq

Figure 4 Average capital raised by public companies 2000-2004 as a percentage of GDP

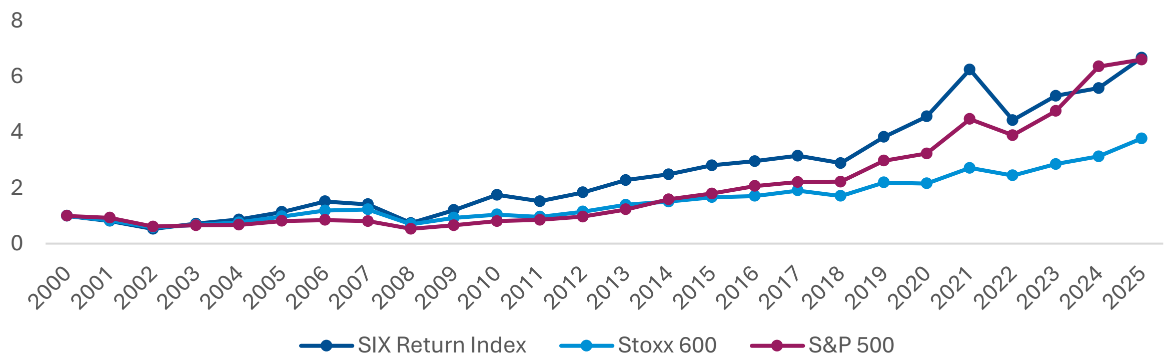


Source: OECD (2025b)

Another important point of comparison between the Swedish and European equity markets concerns the returns generated for shareholders. Over the past quarter century, Sweden has been one of the few global markets to keep pace with the United States in terms of cumulative returns (Figure 5Figure 1). The broad market index SIX RX delivered an annual realized return of 7.89% in euro terms, broadly in line with the 7.85% recorded by the S&P 500 and substantially higher than the 5.47% achieved by the Euro Stoxx 600.

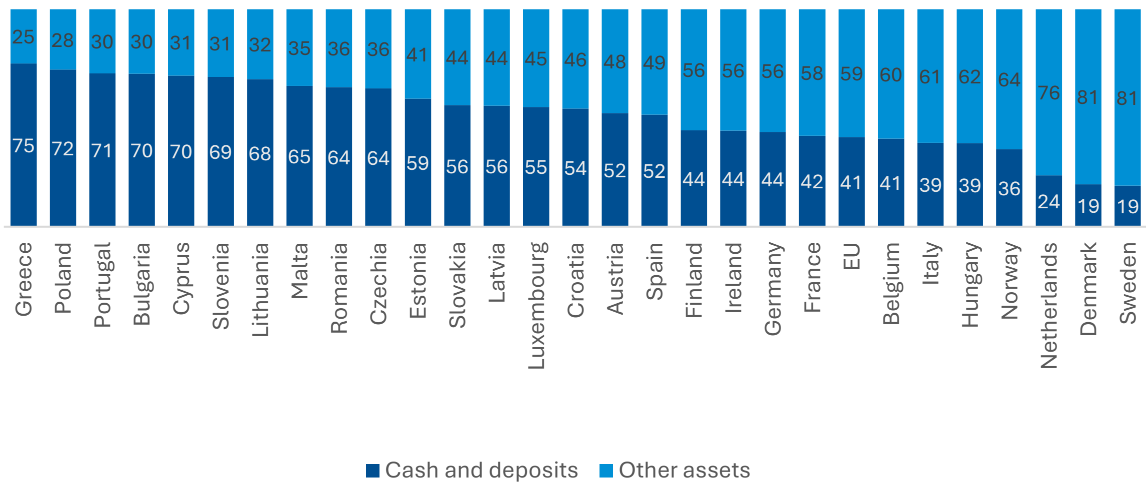
Capturing these long-term returns requires meaningful household exposure to capital markets. In this respect, Sweden also stands out. As shown in Figure 6, Swedish households allocate the smallest share of their financial assets to cash and deposits among EU countries, indicating a comparatively strong reliance on market-based investment instruments.

Figure 5 Total return in EUR calculated on Swedish, European and US equity indexes 2001-2025



Source: Bloomberg

Figure 6 Composition of selected household financial assets in European countries at the end of 2024



Source: Jansson (2025), updated based on Eurostat nasa_10_f_bs.
The other asset category excludes: unlisted shares, other equity, non-life insurance technical reserves, loans, financial derivatives, other accounts as these items don't reflect households' deliberate allocation decisions.

The Swedish public equity market comprises three main trading platforms: Nasdaq Stockholm, Nordic Growth Market, and Spotlight Stock Market. Nasdaq Stockholm, part of the Nasdaq Group, functions as the country's primary stock exchange and is the largest exchange in the Nordic region. It clearly dominates the Swedish equity market, with 724 listed companies accounting for more than 99% of total domestic market capitalization. The remaining platforms—Nordic Growth Market (NGM) and Spotlight Stock Market—primarily serve smaller, growth-oriented companies (Table 1).

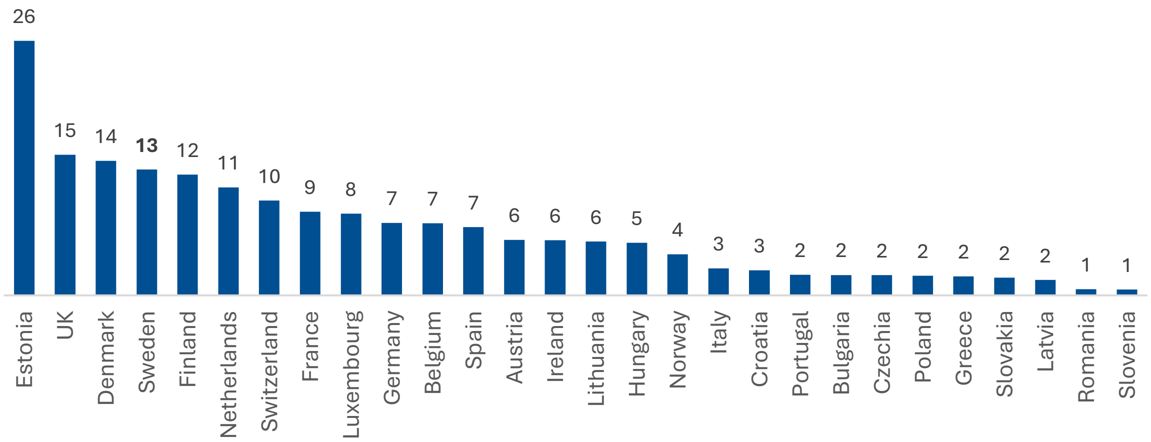
Table 1 Main trading platforms in Sweden, end of 2024

Segment	Name	Number of Companies	Market cap EUR bln
Regulated	Nasdaq Stockholm Main Market	346	906,7
MTF	Nasdaq Stockholm First North Growth Market Premier	64	7,1
MTF	Nasdaq Stockholm First North Growth Market	314	13,3
Regulated	Nordic Growth Market Main Market	10	0,8
MTF	Nordic Growth Market Nordic SME	82	0,9
MTF	Spotlight Stock Market	137	1,6

Source: OECD (2025b)

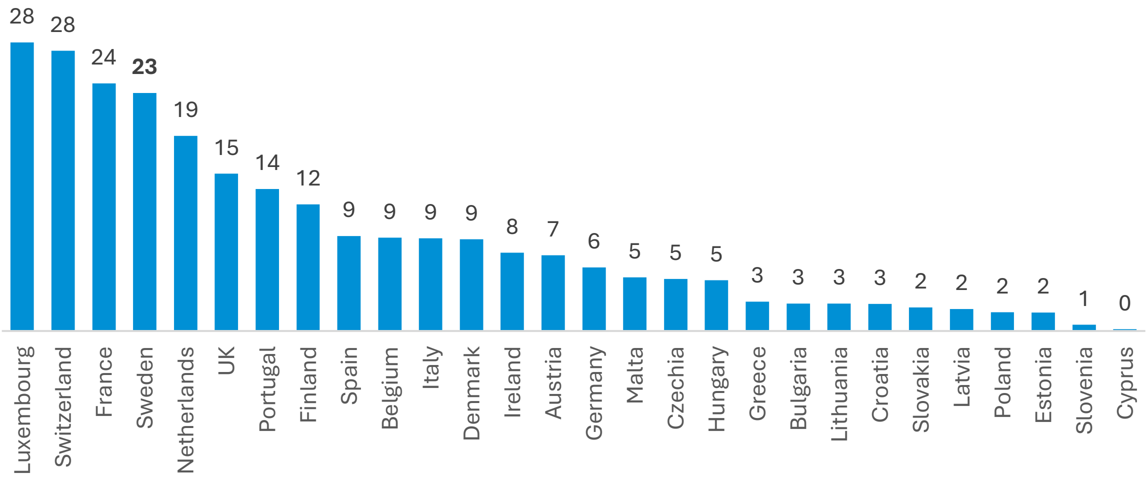
Sweden stands out not only with respect to public equity markets. On average, it also ranks fourth in Europe in terms of venture capital investment relative to GDP (Figure 7) and holds the fourth-largest volume of outstanding non-financial corporate bonds (Figure 8).

Figure 7 VC investments as a percentage of GDP 2020-2024 average for European countries. Values divided by 100.



Source: OECD

Figure 8 Outstanding bonds issued by nonfinancial corporations as a percentage of GDP in 2024



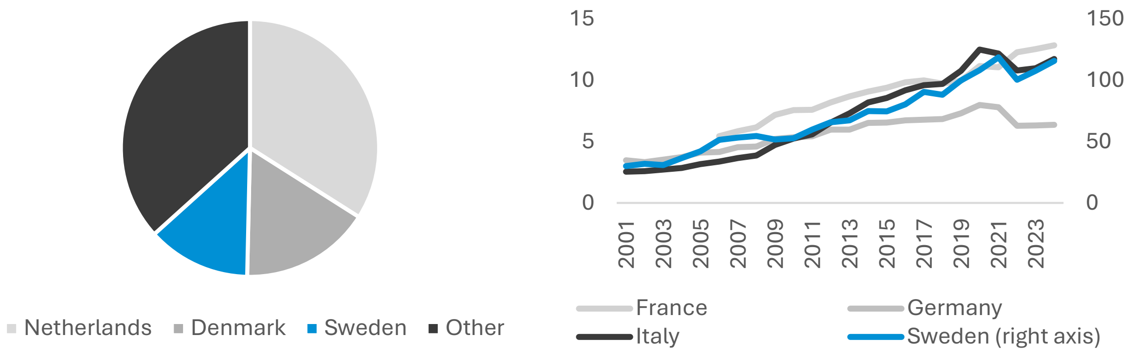
Source: Own elaboration based on data from Bank of International Settlements and Eurostat (countryeconomy.com for the UK).

Overall, the evidence suggests that Sweden has developed a model of capital market development that has proven effective in its domestic context. Whether this model can be successfully adapted to other EU countries remains an open and policy-relevant question. Addressing it requires a careful examination of the key factors underlying Sweden's capital market performance.

Factor 1 – Strong Funded Pension Pillar

A substantial body of economic literature underscores the pivotal role of pension funds in fostering capital market development in both advanced and emerging economies (Meng and Pfau 2010; Carvajal et al. 2019; Khan et al. 2025). Accordingly, reforms aimed at strengthening funded pensions pillars have consistently featured among key policy recommendations, from the European Commission's first Action Plan on Capital Markets Union (EC 2015) to the more recent strategic reports by Draghi (2024), Letta (2024) and Kukies and Noyer (2026).

Figure 9 EU pension assets in 2024, pension assets to GDP for selected EU countries 2001-2024.



Source: OECD, DSD_FP@DF_PA.

Sweden provides a clear illustration of the successful development of a funded pension system (Figure 9).

Pillar 2—the occupational pension—is in most cases negotiated through sector-specific collective agreements, each associated with its own dedicated pension plan.

Pillar 3, with the exception of the legacy individual pension savings account (IPS), does not include products benefiting from preferential tax treatment conditional on holding assets until retirement. Instead, it incorporates ISK and PEI, which are discussed later.

Figure 10 presents an overview of the Swedish pension architecture, which can broadly be described within a three-pillar framework, albeit with some conceptual flexibility.

The mandatory Pillar 1 includes a separate funded component, in which contributions are directed to investment funds selected by the future pensioner. At the same time, a funded element also operates within the state-run part of Pillar 1. So-called buffer funds partially cover the liabilities of the PAYGO system by investing in public assets (AP1–AP4) as well as private equity (AP6).

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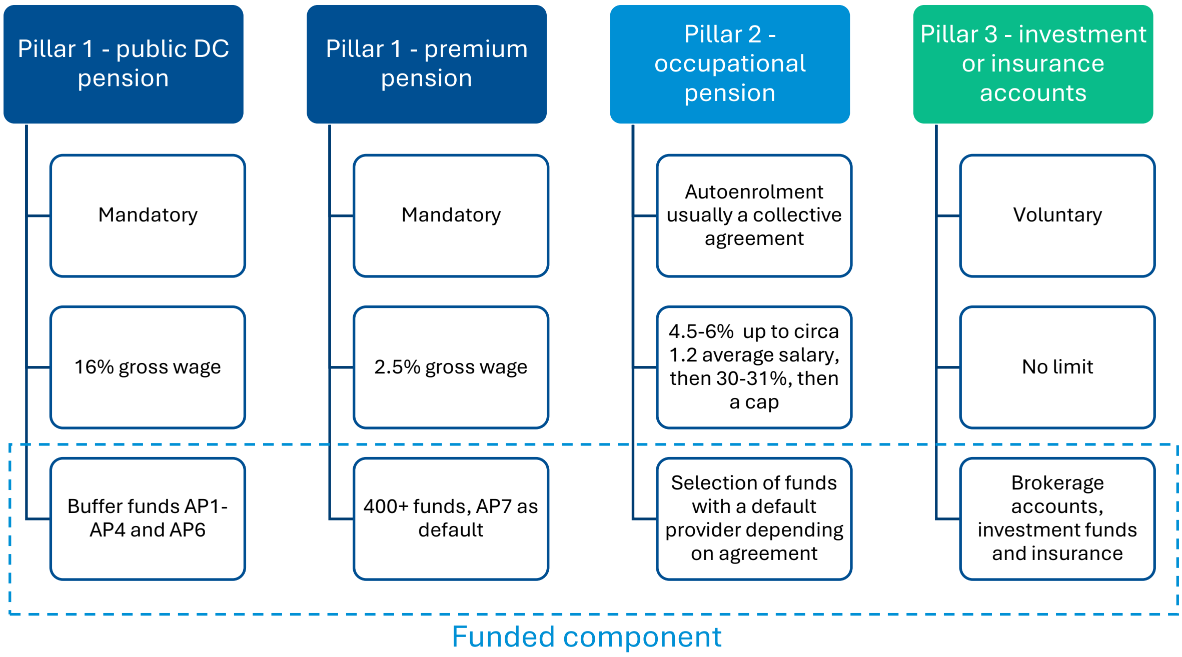
Figure 10 Swedish pension system and its funded components.



The successful development of the Swedish pension system would not have been possible without a set of structural features that created conditions not only for strong long-term outcomes, but also for short-term public confidence that the system was moving in the right direction. This confidence strengthens the system's legitimacy and helps shield it from disruption by political processes or individual decisions. Four such features can be identified.

1. **Competition and choice of over 400 funds**

Each pillar offers scope for individual choice. In Pillar 1, future pensioners can choose from more than 400 investment funds representing different investment philosophies. There are no fees for switching funds, nor are there any limits on the number of switches allowed. At the same time, individuals are not left alone in making these choices.

First, a wide range of online tools is available to support fund comparison. Second, an independent Swedish Fund Selection Agency is responsible for selecting the investment funds available within the premium pension system. Its mandate is to ensure that the funds on offer are managed by reputable, high-quality fund managers who adhere to stringent sustainability standards (Better Finance 2025). Third, a public default option—AP7—provides a life-cycle investment strategy designed for the average saver.

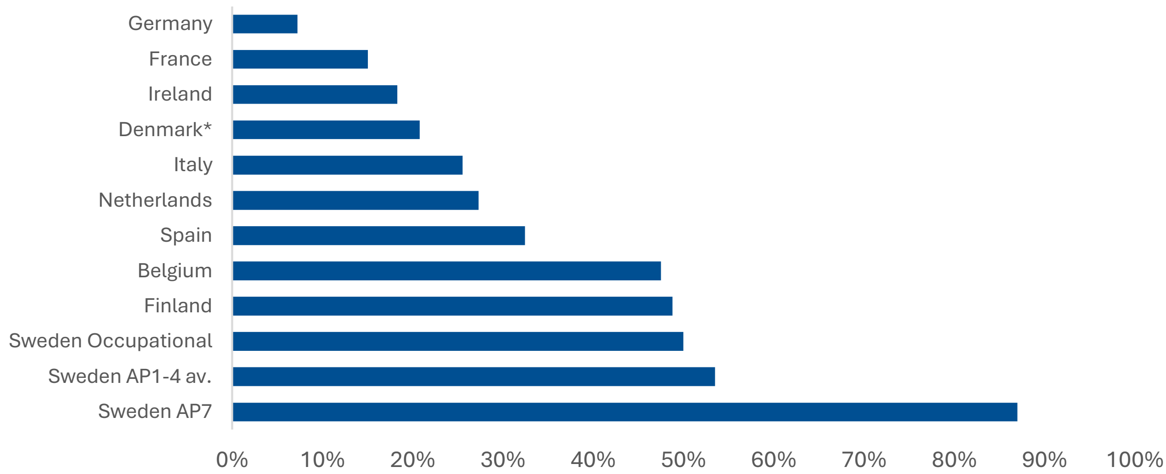
In Pillar 2, the extent of individual choice depends on the collective agreement in place, but participants can decide on at least half of the contribution. This choice concerns both the insurance provider and the investment strategy. If no active decision is made, a default option applies.

In Pillar 3, there are no default options, as all initiative lies with the individual saver. At the same time, the range of available investments is the broadest, with no restrictions on asset classes—apart from direct holdings of cryptocurrencies—or on geographic allocation.

2. High equity allocation

A high exposure to equities is important not only for the development of capital markets, but also for the success of the pension system itself. A higher equity allocation increases long-term returns, which has two positive systemic consequences. First, it strengthens public support for the system, as future pensioners observe their hard-earned savings generating tangible returns. Second, the contributions required to meet retirement goals may be lower, thereby reducing labour-market distortions and encouraging participation. Figure 11 presents the share of assets allocated to equities in the ten largest EU pension systems by pension asset value in 2024. Swedish Pillar 1 and Pillar 2 funds clearly top the list.

Figure 11 Equity allocation in pension products in top ten EU countries in terms of pension assets value



Source: OECD (2025b) for Sweden, OECD (2025a) for other countries. Allocation for Denmark is substantially higher due to large undisclosed positions. Judging by returns reported Better Finance (2025) it is likely closer to 50%.

3. Near-universal coverage

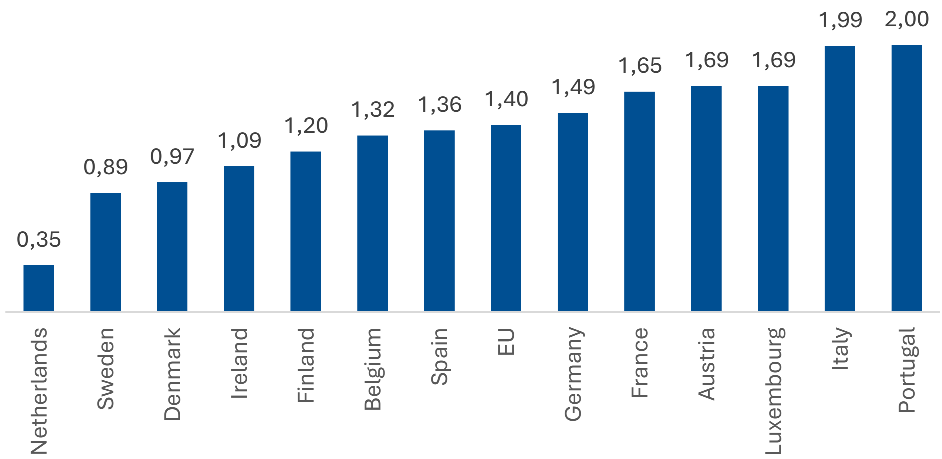
The premium pension covers all employed individuals, as participation is mandatory. At the same time, it contributes to higher participation in other pension arrangements. The default fund, held by 70% of Swedes in 2024 (Pensionsmyndigheten 2025), generated a real return of 7.5% over its 24-year existence (2001–2024)(Better Finance 2025), a performance that is difficult to match among pension funds globally. Such returns have encouraged participation in other pillars.

In Pillar 2, the fact that contributions are financed primarily—or in some cases entirely—by employers has helped occupational pensions achieve near-universal coverage (exceeding 90%). In Pillar 3, by contrast, where individuals save on a voluntary basis, the most popular form of supplementary savings—ISK—has nonetheless attracted more than 40% of the adult population.

4. Low fees

Low charges on clients' investments contribute both to higher net returns and to the perception of fairness within the system. Sweden is the European leader in this respect in Pillar 3 (Figure 12) and likely ranks very high in Pillar 2, as occupational pension costs typically amount to around 15 basis points annually plus a fixed fee (Better Finance 2025), although comparable European data are difficult to obtain. An important reason for low fees, in addition to high participation, is that the same investment funds are offered across pillars, albeit with different pricing structures. This approach allows for the build-up of scale, enhances brand familiarity, and simplifies the system. Investment funds achieve a stable asset base by serving Pillar 1 and Pillar 2 participants, which in turn enables them to offer competitive rates even in an environment where distribution costs are higher.

Figure 12 Total expense ratio for retail investment funds in selected EU countries in 2024



Source: ESMA (2025). The value for the Netherlands seems the lowest but the majority of funds' sales takes place via paid advice that costs at least 0.5% per year.

Factor 2 – Tax incentives for higher equity allocations

Swedish policy on the taxation of capital-market investment began to change in the late 1970s. The initial motivation was to make the Swedish stock market more democratic and to reduce companies' reliance on bank financing and large family ownership groups. The series of reforms that ultimately led to the introduction of the ISK appeared, at the time, to have little in common and were far from constituting a coherent strategy (see Box 1). On closer examination, however, a recurring common thread emerges: risky investments were consistently taxed more favourably than safe ones. Initially, this approach took the form of a maximum allocation limit to government bonds (25%) in tax-favoured investment funds. Ultimately, the policy instrument evolved into pegging the tax rate on assets to the risk-free rate. As of 2026, the mechanism operates as follows.

Box 1 Tax incentives for capital market investment in Sweden 1978-2026

The current system of taxation of personal investment income is the result of a long evolutionary process, during which a wide range of policy proposals were tested. Prior to the first reform, investment income was subject to a progressive income tax applied on a cash-flow basis, *i.e.* to dividends, coupons, and realized capital gains. The following changes were subsequently introduced:

1978 – *aktiesparfonder* – equity investment funds investing exclusively in Sweden. Purchasing units in these funds generated two types of tax benefits: 20% (increased to 30% from 1980) of contributions were tax-deductible, and capital gains and dividend income were taxed at a zero rate provided that fund units were held for at least six years. An annual limit on contributions applied.

1984 – *allemansfonder* – investment funds that replaced *aktiesparfonder*. Contributions were no longer tax-deductible, but the lock-up period for exemption from capital income tax was abolished. Instead of an annual limit, a monthly contribution cap was introduced to encourage regular saving. *Allemansfonder* were restricted to investing in Swedish assets.

1990–1991 – imputed taxation – *allemansfonder* ceased to be tax-free, and a low annual tax on imputed income was introduced, alongside an increase in contribution limits. A similar approach led to the introduction of a new insurance-based savings product—endowment insurance (*kapitalförsäkring*)—with no limits on contributions and no geographic restrictions on asset allocation.

1998 – liquidation of *allemansfonder* – endowment insurance became the only tax-favoured investment product, which contributed significantly to its growing popularity.

2012 – *investeringssparkonto* (ISK) – investment accounts subject to a tax on imputed income based on the government borrowing rate (GBR), alongside a standard 30% tax on capital gains. For the first time, directly held shares and bonds became eligible for preferential tax treatment. There were no geographic restrictions on investments.

2016 – floor rate and bonus rate – as the GBR declined toward zero, a bonus rate of 75 basis points was added, and a minimum total rate of 1.25% was introduced, resulting in a minimum ISK tax rate of 0.38%.

2018 – increase in the bonus rate – the bonus rate applied to ISK was raised to 1%.

2025–2026 – tax-free thresholds for ISK – a tax-free allowance of SEK 150,000 was introduced in 2025, increasing to SEK 300,000 in 2026.

Source: Own elaboration based on Government Offices of Sweden (2025) and Thomadakis (2025).

To calculate the tax on an ISK account, the value of assets at the beginning of each quarter is added to the total amount of contributions made over the year, and the sum is divided by four. An annual tax rate is then applied to this weighted average asset value, but only to the portion exceeding the tax-free threshold of SEK 300,000 (approximately EUR 28,000). The applicable tax rate is determined by the following formula:

$$(GBR + 1\%) * 30\%$$

where GBR denotes the weighted average cost of government borrowing as of November of the previous year. As the GBR in the last week of November 2025 stood at 2.55%, the resulting tax rate for 2026 is 1.065%

As Figure 13 shows, the tax rate applied to ISK accounts has not always been at its current level. In fact, the rate applicable in 2026 is the second highest since the introduction of the ISK and is almost double the historical average rate of 0.57%. Had the tax rate been as high throughout the period of rapid expansion as it has been over the past three years, the surge in ISK popularity shown in Figure 14 might not have occurred. It is worth noting that the bulk of the growth in the number of accounts took place when the tax rate was typically below 0.5% and no tax-free allowance was in place. **This illustrates the core mechanism that encourages investment in assets with high expected returns, primarily equities: investors are taxed only on the imputed risk-free return, while retaining all returns earned above the risk-free rate.**

Figure 13 Tax rate on ISK and Government borrowing rate

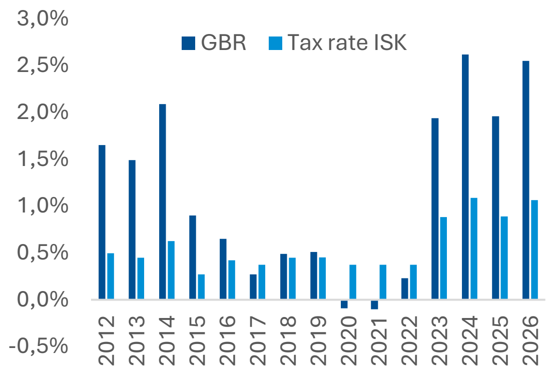
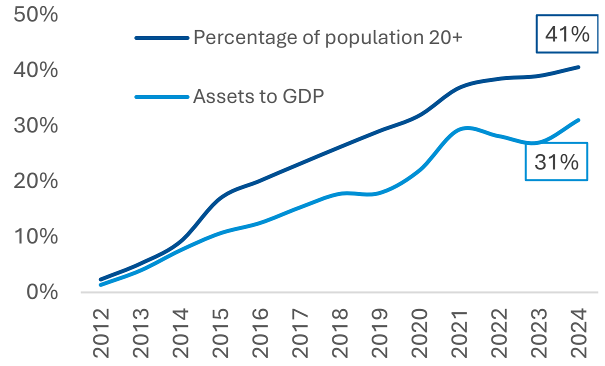


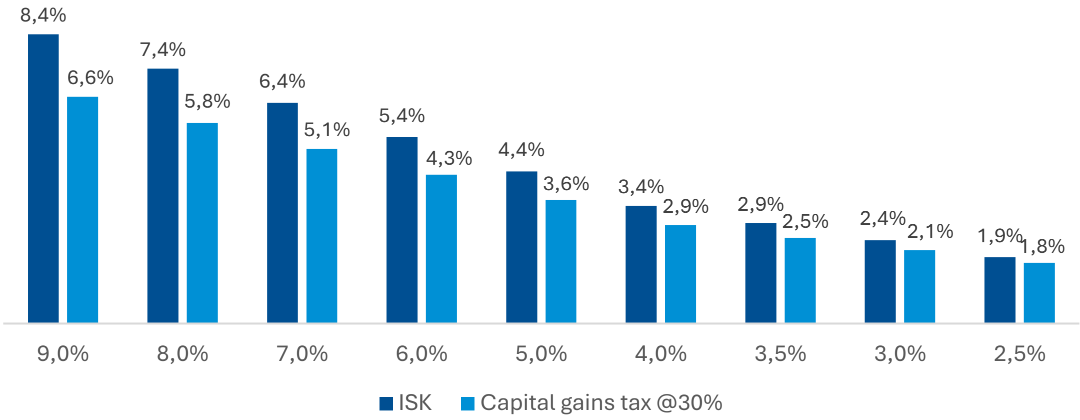
Figure 14 Growth in popularity of ISK



Source: Own elaboration based on data from Swedish Tax Authority and Eurostat.

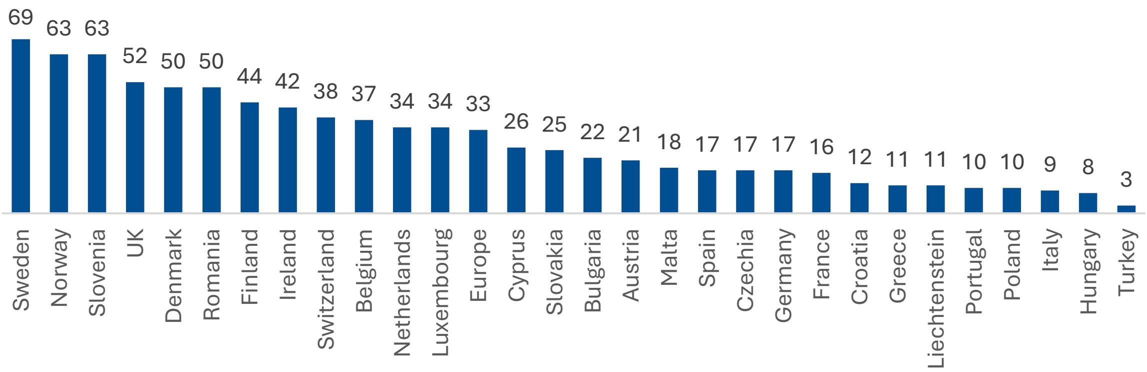
Figure 15 presents the benefits to investors arising from ISK taxation as a function of the realized five-year return. For returns close to the risk-free rate in Swedish krona (2.5%), there is no material advantage to switching tax regimes, and highly risk-averse investors may prefer to remain under the capital-gains tax system. By contrast, for higher returns of 8–9%—corresponding to the long-term nominal average in global equity markets according to UBS (2025)—the difference in annual net returns becomes substantial, making equity investment significantly more attractive on an after-tax basis. These incentives to take on greater risk appear to be effective: Swedish investment funds record the highest share of equity funds among European countries (Figure 16).

Figure 15 Investment for 5 years with returns from 2.5% to 9% in two tax regimes: ISK and capital gains tax



Source: Own elaboration assuming an average tax rate on ISK of 0.57%.

Figure 16 Share of equity funds in country's fund assets for selected European countries at the end of 2024



Source: Jansson et al (2025)

More favourable tax treatment of risky assets is the most important advantage of the ISK system, but it is not the only one. The tax regime also makes the financial system more competitive. It lowers barriers to switching product providers, as there is no lock-in effect associated with unrealized capital gains. In addition, it creates a level playing field across different investment approaches: direct holdings, investment funds, and portfolios managed by investment firms are all taxed in the same way. There is also no differentiation based on the cash-flow characteristics of assets—dividends and capital gains are treated neutrally.

Finally, the system is simple. Even though pre-filled tax returns have become standard in digitally advanced countries, complexity remains a relevant issue. An asset-based tax system frees individuals from the need to optimize their tax obligations, allowing them to redirect their attention and cognitive resources to other purposes.

Factor 3 – Dual class shares and efficient minority protection

Sweden has developed a distinctive and effective governance framework governing the relationship between shareholders, companies, and management. Conflicts of interest appear to be well managed without resorting to excessive regulation or imposing high compliance costs.

One of the major obstacles to companies going public is the reluctance of original shareholders to relinquish control, a reluctance that is grounded in several legitimate concerns. Founders may wish to continue leading the company themselves or to retain decisive influence over the choice of leadership. Where shareholdings are substantial, controlling owners may also seek to closely monitor the company in order to protect their investment. In addition, some shareholders may lack confidence in systems of decentralized control in which responsibility lies primarily with the board, including the nomination of board members, as is the case in the United Kingdom. Finally, there may be concerns that a public listing could expose the company to takeover risk and lead to a loss of its identity.

Some of these concerns may be exaggerated, but they are nonetheless real and tend to discourage companies from accessing public markets altogether. Even when reluctant shareholders decide to take their company public, they often retain a large share of ownership in closely held stakes, as is common in a typical EU country and globally (Figure 17). Both outcomes are clearly suboptimal from the perspective of capital-market development.

Large holdings by a dominant investor reduce the free float, which negatively affects market liquidity. Concerns about further dilution may also block new share issuances, even when the company's situation would benefit from additional equity financing. At the individual level, the need to hold a substantial portion of personal wealth tied to a single company results in poor portfolio diversification and may lead to excessive risk aversion, thereby constraining the firm's growth opportunities.

The most straightforward response to insufficient control for dominant shareholders would be to grant them greater control. However, one important reason for their reluctance to relinquish control has not yet been mentioned: private benefits. A controlling shareholder may use this control to secure lucrative employment opportunities for family members or favourable contracts for other companies they own. Excessive control is therefore also inefficient, as it erodes the investor base by enabling the exploitation of minority shareholders.

The Swedish response to this dilemma consists of three elements. The Swedish corporate governance system combines strong shareholder rights with extensive minority-shareholder protection and efficient, decentralized regulatory and dispute-resolution mechanisms.

Figure 17 Share of companies where largest shareholder owns more than 30% of equity

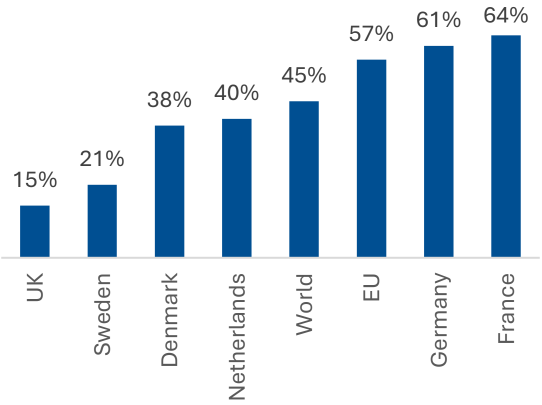
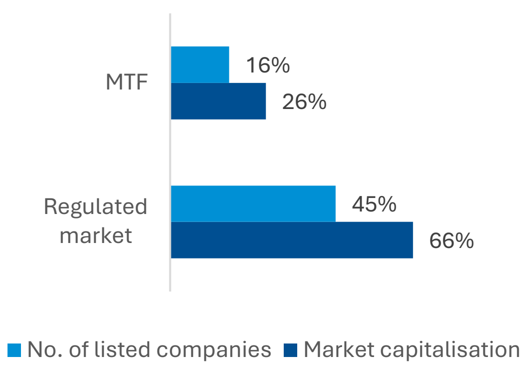


Figure 18 Share of Swedish listed companies with dual class share structures, end-2024



Source: OECD (2025b)

1. Strong majority shareholders and dual class shares

The general shareholders' meeting has very strong powers in Sweden. It has unrestricted competence to decide on any matter concerning the company, including at a detailed business level. Shareholders not only appoint or dismiss board members, but candidates for board positions are also selected by a nomination committee composed of shareholder representatives. While a shareholder with majority voting control can wield significant influence, effective governance nonetheless requires an active shareholder—or coalition of shareholders—that monitors the company, works with the board, and participates in key decisions such as board elections.

Importantly, the exercise of these powers does not require a simple majority in terms of equity capital. As shown in Figure 18 around two-thirds of companies listed on the regulated market in Sweden (measured by market capitalization) use dual-class share structures that allow for a maximum voting ratio of 10 to 1 between the strongest and weakest voting shares. In practice, this means that an equity stake of approximately 10% can be sufficient to secure full control over the powers of the general meeting. This arrangement enables an increase in free float and greater diversification by dominant shareholders, without forfeiting the perceived benefits of control.

2. Extensive minority protection

To counterbalance the strong position of controlling shareholders, the Swedish system incorporates a range of additional protective measures that safeguard the interests of other shareholders, often going well beyond EU legal requirements. The most important among these include the following:

- EU rules applicable to regulated markets are extended to MTFs, including the Takeover Directive and the Shareholder Rights Directive.
- A prospectus is required for securities offerings above EUR 2.5 million, one of the lowest thresholds in the EU.

- Pre-emptive rights may be excluded only if approved by the general shareholders' meeting with a two-thirds majority of share capital, not merely of votes. Moreover, if those entitled to subscribe include key decision-makers or their close relatives, a nine-tenths majority of both shares and votes is required.
- A group of shareholders representing at least 10% of share capital may demand an extraordinary general meeting and the appointment of a special auditor, tasked with reviewing whether minority interests are adequately considered in the company's business practices, including dividend decisions.
- Major corporate decisions, with the exception of board elections, require a qualified majority in which both votes and capital are taken into account. Any shareholder may challenge a general meeting decision in court, and the court has the authority to replace it with an alternative ruling.

3. Efficient regulation and conflict resolution

The strong position of controlling shareholders, combined with extensive minority-protection measures, would not yield an efficient system if it were not accompanied by effective regulation and efficient conflict-resolution mechanisms. In Sweden, both are provided in a decentralized manner by industry experts rather than by politicians or civil servants.

The cornerstone of Swedish self-regulation is the Association for Generally Accepted Principles in the Securities Market, a non-profit organization sponsored and governed by major financial-industry associations. The Association operates through five executive bodies that not only issue rules and recommendations, but also interpret the law at short notice and perform certain tasks delegated by the Financial Supervisory Authority—most notably the scrutiny of financial reporting by Swedish listed companies and rulings on public takeover bids.

Most of the rules governing corporate governance in Sweden—apart from EU law and the general principles set out in the Companies Act—take the form of soft law. The five bodies of the Association do not possess formal legal authority over the market, except in the two cases where powers have been delegated by the supervisory authority. Nevertheless, these rules and their interpretations are universally accepted and rarely challenged.

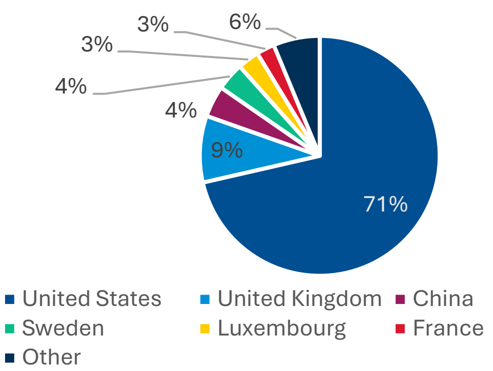
This broad acceptance stems from the fact that many private contracts, including those with stock exchanges and banks, explicitly refer to generally accepted market practice in the Swedish securities market. Non-compliance therefore gives rise to private legal sanctions. Moreover, Swedish courts frequently refer to good practice (god sed på aktiemarknaden) when ruling on capital-market matters. Market participants are aware of this, and as a result, court proceedings concerning disputes over governance or shareholder rights are very rare.

Factor 4 – Large private equity and venture capital ecosystem

Capital markets operate within a broader financial system, in which some actors compete with them. Private equity firms are often perceived as a threat to public markets. They are frequently accused of capturing the most lucrative phase of pre-IPO growth. In addition, private equity is said to target the most attractive listed companies for buyouts, contributing to the contraction of public markets. The Swedish case, however, clearly challenges this narrative as a general explanation of contemporary market dynamics and capital-market development. This becomes evident when examining data on the private equity industry in Sweden.

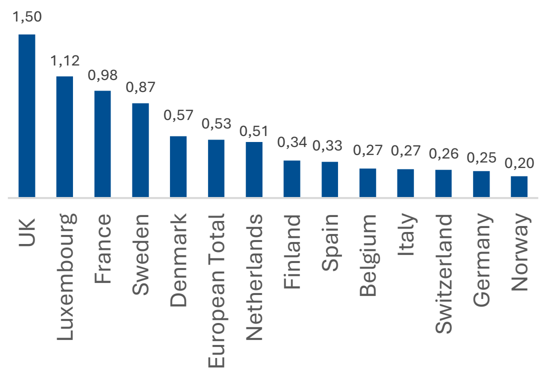
Swedish private equity funds are important global players. Sweden is home to four funds among the world's top 300 private equity firms, and its share of total capital raised ranks 4th globally, surpassed in Europe only by the United Kingdom (Figure 19). Although the Swedish private equity industry operates with global investors and global investment portfolios, the country nonetheless ranks highly among European economies in terms of domestic private equity investment relative to GDP (Figure 20). The Swedish private equity market therefore illustrates that private financing is not merely an alternative to public capital markets, but also a strong complement to them.

Figure 19 Amount raised by top 300 private equity funds in 2025 by domicile



Source: Own elaboration based on 2025 PEI 300 ranking.

Figure 20 Domestic private equity investment to GDP, percentage



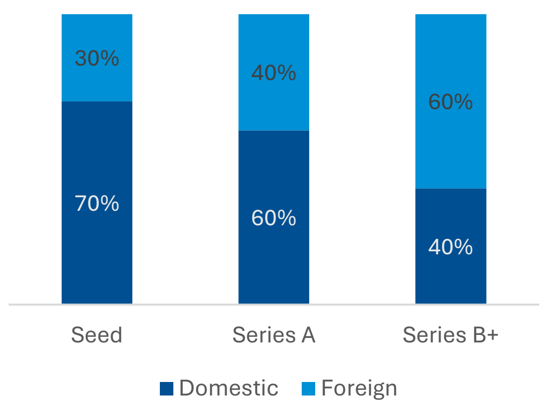
Source: Own elaboration based on reports by Invest Europe.

First, private equity increases the supply of companies potentially interested in going public by providing seed capital and subsequent rounds of financing for start-ups. Although global venture-capital funds actively seek investment opportunities internationally and are willing to provide capital, local players remain vitally important, particularly at early stages of development (Figure 21). Without the local knowledge and expertise that enable them to connect with domestic founders, many promising start-ups would never take off. At the same time, Swedish venture-capital funds are not excessively concentrated in seed and Series A financing. Sweden exhibits a much higher share of late-stage funding than most other European countries and nearly matches the profile observed in the Bay Area (dealroom.co 2025).

Second, private equity is a source of mature companies that are willing to be listed for the first time or re-listed after having been taken private. Private equity funds operate with a limited investment horizon, typically between five and eight years, during which they seek to restructure portfolio companies and substantially increase their profitability. After this period, they exit—repaying debt that is often used as an additional source of financing—and move on to investment opportunities aligned with their expertise. In other words, they need to divest and identify a buyer for their equity stake. Figure 22 shows the most likely exit routes by country.

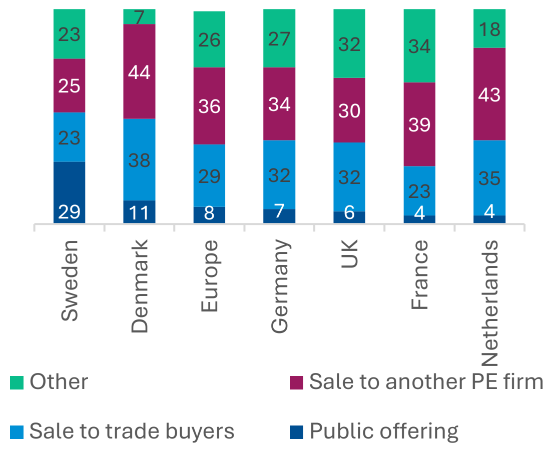
Sweden is again an outlier in Europe, in that over the past five years the most common exit route for Swedish companies has been an IPO (29% by value). In all other EU countries, a sale to another private equity firm is the dominant exit option, while IPOs remain the exception. **In Sweden, the private financing system works in tandem with the stock market: companies first grow with private funding—often including capital provided by local pension funds and insurance companies—and go public relatively early on a multilateral trading facility (MTF)**[1]. Although buyouts and resulting delistings are relatively common, acquired companies are very likely to return to public markets at a later stage.

Figure 21 VC investments structure calculated based on the number of fundraising rounds



Source: Own elaboration based on dealroom.co (2025)

Figure 22 Private equity exit channels



Source: OECD (2025b)

[1] A key feature of Sweden's MTF markets is that they serve as a bridge to listing on the regulated market. Since 2013, an average of 45% of new listings on regulated markets each year have come from MTFs. This is an important point: this natural flow between growth markets and the main markets means that domestic companies have continuous access to equity financing at every stage of development, which creates a pathway for companies to reach the main market, increases investor interest, and encourages initial listings on MTFs.

Factor 5 – Competitive banks engaging in digital distribution of investments products

Banks may also be viewed as an alternative—or even a potential impediment—to capital-market development. They are often accused of nudging companies toward bank loans rather than issuing shares or bonds, particularly when lending is more profitable than providing investment services. The Swedish case, however, once again contradicts this stereotype.

Swedish banks have demonstrated a structurally stronger operating model than many of their continental European peers. They invested early and consistently in digital channels and data-driven customer interfaces, which has supported high operational efficiency. **Ultimately, competitive banks have proven to be beneficial for capital-market development, primarily for two reasons.** First, competitive pressure to deliver better value to discerning Swedish customers has pushed banks further toward investment services and asset management. Second, the strong performance of bank equities has contributed to local equity returns, reinforcing trust in the ability of capital markets to generate long-term wealth.

Figure 23 presents bank loans to GDP across European countries. This simple comparison leads to an unexpected conclusion: Sweden is a bank-based economy. Its ratio of bank loans to GDP rivals that of France and, within the EU, is clearly surpassed only by Luxembourg and Denmark. Bank financing therefore plays a major role for both companies and households, a feature typically associated with continental European financial systems.

What distinguishes Swedish banks from their European counterparts, however, is the strong returns they have delivered to shareholders (Figure 24). The annual rate of return in euro terms for the OMX Banks index between 2002 and 2025 amounted to 9.9%, substantially higher than the 4.2% recorded for the Stoxx 600 Banks index. Swedish banks are also markedly more profitable than their European peers (Figure 25).

High profitability is not necessarily a sign of economic health if it results from monopolistic practices that translate into excessive margins. This is clearly not the case in Sweden. Interest-rate margins are not excessive, and mortgage rates are among the lowest in Europe. High profitability instead reflects the provision of a broad range of financial services combined with low operational costs. **Moreover, the propensity to**

switch financial service providers in Sweden is among the highest in Europe, providing clear evidence of the absence of market entrenchment (Figure 26)[2].

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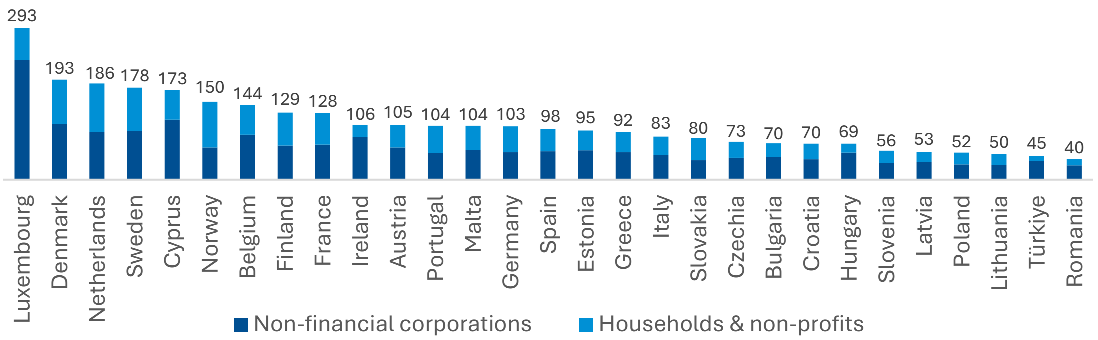
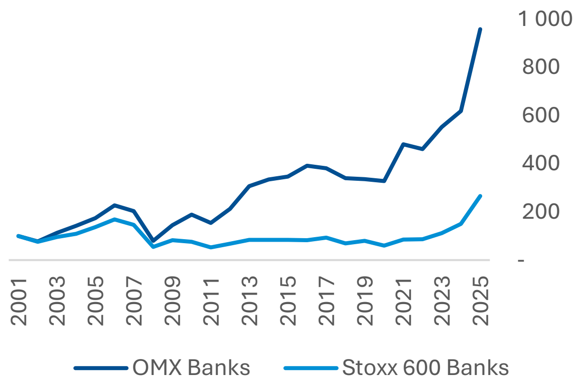
Figure 23 Bank loans to GDP in selected European countries



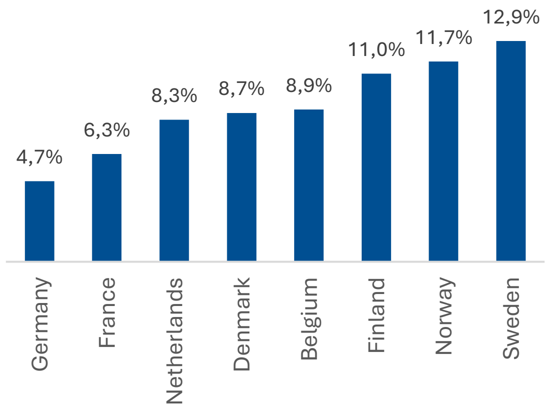
Source: Eurostat nasa_10_f_bs

Figure 24 Performance of banking stock in Sweden and in Europe (2001 = 100)



Source: Bloomberg

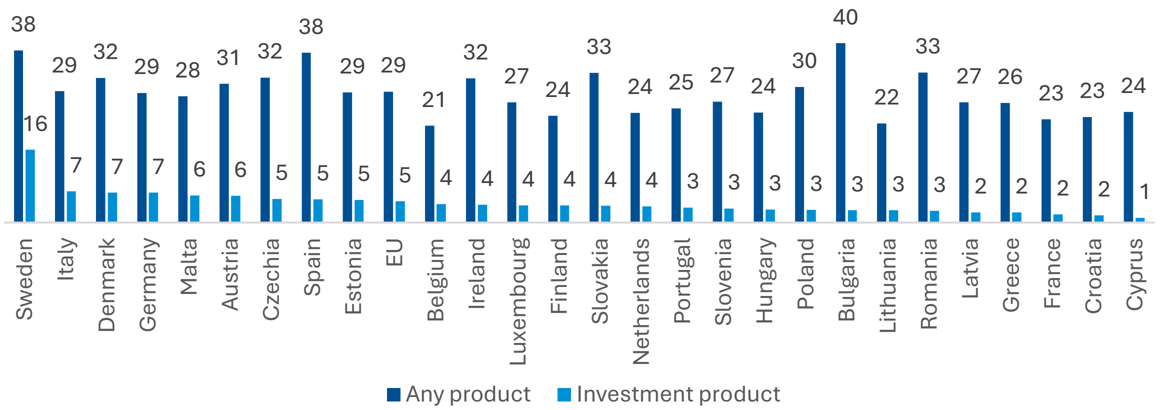
Figure 25 ROE of the banking sector in selected European countries



Source: Copenhagen Economics (2025)

[2] Importantly it is far the highest in the case of investment products which is believed to be one of the major contributors to the cost reduction in investment funds (Jansson et al. 2025).

Figure 26 Share of customers who have changed provider of an investment product and at least one financial product in the 2017-2022 period in selected European countries



Source: European Commission (2022)

Concluding remarks

It is difficult to comprehensively capture all the factors that contributed to the exceptional development of the Swedish capital market. Undoubtedly it required a lot of determination, experiments, and perhaps even some luck.

The commitment to build sustainable pension system resulted in creation of cornerstone public-market investors who were simultaneously prepared to allocate capital to venture capital and private equity. The idea to counterbalance what was perceived as an overly concentrated ownership structure produced nearly five decades of tax policies conducive to fostering an equity culture. Moreover, Sweden succeeded in establishing an efficient corporate governance framework that encourages public listings—by preserving the institution of dual-class share structures. It was equally fortunate to evolve family-office investment expertise into private equity institutions, one of which has grown into one of the top PE fund globally.

Swedish capital market didn't become the envy of Europe as a result of a meticulously designed and consistently executed long-term strategy. Rather, the Swedish trajectory is marked by solutions that challenge common assumptions. Sweden operates a mandatory pension insurance system, yet individuals retain broad discretion regarding the investment strategies pursued on their behalf. The third pension pillar exists with only a marginal role for dedicated pension products and with virtually unrestricted options for early withdrawal. The country hosts hundreds of predominantly local investment funds, yet their abundance has not prevented them from remaining among the most cost-efficient in Europe. Swedish households and enterprises are among most extensive users of bank funding in Europe yet the country simultaneously stands as a leader in market-based finance.

The above examples point to a broader conclusion: Sweden's rise to a leading position in European capital markets cannot be attributed to scale alone. It reflects a high-trust environment in which low transaction frictions allow market institutions and participants to operate with exceptional efficiency. This trust—rooted in stable local frameworks, strong investor engagement and a long-standing culture of financial participation—has enabled Sweden to develop one of the EU's most effective equity markets and a benchmark for market-development efforts across Europe.

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