

# Nordic capital markets: key features and learnings

## 1. Overview of Nordic capital markets

The chair opened the discussion by noting that the Nordic region capital markets are widely regarded as well-functioning and are characterised by high market capitalisation relative to GDP, substantial pension savings invested in capital markets, and strong retail participation. Their success is underpinned by key attributes such as trust, stability, transparency, and close cooperation among market stakeholders.

An industry speaker also described the Nordic capital markets as deep, liquid, inclusive, trusted, digitalised, and accessible to both institutional and retail investors, with Sweden as a leading example. Built over five decades of reforms, experimentation, and cooperation, the success of the Swedish market rests on four main pillars: an effective pension system, simplified and transparent taxation, a dynamic and innovative business environment, and broad financial literacy, all supported by a high level of societal trust and transparency.

An official added that Finland shares these same core strengths. The Finnish capital market benefits from a pre-funded pension system providing a stable source of long-term capital that can be invested in equity; an active venture capital (VC) and private equity (PE) sector supporting the financing of growth firms; and strong steadily increasing retail participation in equity markets, particularly among younger investors.

Another industry speaker described the Nordic region as “best in class” in operating an integrated financial ecosystem, supported by exceptionally high household investment and long-term investor participation. Over the past six decades, Denmark, Sweden, and Finland have achieved average annual equity returns exceeding 7%, outperforming most markets, including the United States, and demonstrating the benefits of sustained investment. Retail participation is particularly strong, accounting for between 15% and 25% of secondary-market trading in IPOs, the highest rate in Europe. These trends are supported by sophisticated online brokers, comprehensive investment services provided by banks, and widespread financial literacy.

## 2. Main strengths and best practices of the Nordic capital markets

The panellists further detailed three key components of the Nordic capital markets: a high level of retail participation, a strong pre-funded pension system, and an effective SME financial ecosystem.

### 2.1 High level of retail participation

An industry speaker stressed that Swedish households are highly exposed to the financial markets: mortgages are typically on variable rates and sensitive to interest rate changes; state and occupational pensions have significant equity exposure (between 30 and 50% for occupational pensions); and many individuals invest directly in company shares through investment savings accounts (ISK). This openness to financial risk is facilitated by Sweden's comprehensive welfare system, which provides the security that enables greater financial market participation and long-term investment. Household savings are channelled into productive investment through multiple pathways including direct investments, investment funds, VC and PE investment, as well as institutional funds and bank lending.

Another industry speaker noted that while all Nordic markets show high levels of retail participation, Sweden has been the most successful. The ISK investment savings account introduced in 2012 has been a key driver of this success and represents a model that could be replicated across the EU. Savings invested in Swedish ISKs now represent 30% of Sweden's GDP (€ 200 billion in assets in 2024). In the rest of the EU, retail participation remains a largely untapped resource. If all EU countries achieved similar levels of participation, household investments could account for about 30 % of EU GDP - over €5 trillion - far exceeding the annual €800 billion investment gap identified in the Draghi report. Although tax incentives play a role, with the first €8,000 of returns being tax-free, the ISK's success lies primarily in its simplicity, ease of use and accessibility. The ISK allows individuals to invest without tracking each gain or loss, instead paying a flat annual tax of 0.9 % on total holdings with minimal reporting. Accounts can be opened online in minutes, data is automatically transmitted to tax authorities, and universal banks play a key role by issuing accounts and providing investment advice.

This simplicity has fostered broad participation and high liquidity, democratising capital markets by allowing all citizens to invest in equities, with tax incentives relatively more beneficial for those with smaller portfolios. Nearly 40 % of Swedes now use such accounts, which have helped to increase household investment in equities and funds from 32% in 2002 to approximately 50% in 2021 and to reduce reliance on bank deposits. These dynamics have also created stronger incentives for firms to go public.

An official observed that a key feature of the ISK is its tax neutrality, meaning comparable investment products are taxed in the same way, so investors' choices are not distorted by differences in tax treatment. In Finland, retail equity investment is also supported by a share savings account. Discussions are ongoing on how to reform and broaden this scheme to further strengthen capital formation.

## 2.2 Highly developed pre-funded pension systems

An industry speaker considered Denmark's pension system to be the cornerstone of its strong savings culture and a major driver of long-term capital formation. Although designed primarily to secure retirement income rather than to serve capital markets, it provides significant indirect benefits in terms of market depth and resilience.

Established through cooperation between unions, employers, and government, the Danish pension system now holds assets equivalent to around 200% of GDP. It is based on mandatory schemes that ensure broad coverage, collective risk-sharing, and high levels of trust. Unlike savings accounts that tend to mainly benefit wealthier households, the Danish pension system covers the entire population. Its defining feature is its long-term focus aimed at providing a stable income stream in retirement. There is no "leakage" at retirement, as funds remain invested rather than withdrawn as lump sums, and there is no requirement to reduce exposure to risk as retirement nears. Funds remain invested, sustaining returns throughout retirement. This collective, low-cost and scalable system keeps capital productively invested while protecting retirees. Although a domestic bias remains, portfolios are globally diversified to optimise returns.

## 2.3 Effective funding ecosystem for SMEs

An industry speaker emphasised that the SME financing ecosystem is particularly well developed in Sweden, supported by deep pools of capital. The First North growth market offers proportionate rules that allow SMEs to raise public equity more flexibly. Attempts to replicate this model in Finland, Denmark, or the Baltics have been less successful, underscoring that liquidity must first be built locally in a context where cross-border investment within the region and across the EU remains limited, and pension and investment funds are still largely confined within national borders. The Nordic IPO market has also been successful, with governments, banks, market infrastructures, and regulators working together to make Nordic markets increasingly attractive for international issuers, for example through euro-denominated listings and English-language prospectuses.

Another industry speaker complemented this perspective by highlighting the role of the Nordic high-yield bond market, which has become an important source of financing for small and mid-cap companies alongside equity funding. The market emerged in Norway in the early 2000s to serve capital-intensive sectors such as energy and shipping that had outgrown bank lending but were too small for US or European bond markets. Supported by Norway's main financial institutions and based on standardised Nordic documentation, it has expanded to around €70 billion, roughly 15–20 % of the wider European high-yield segment. Its success rests on three features rooted in simplicity: smaller minimum issuance sizes (around €50 million versus €500 million in euro markets); lighter documentation requirements accommodating different accounting standards and no mandatory credit ratings; and also short time-to-market (typically two to six weeks for smaller companies), enabling issuers to seize funding windows efficiently. These characteristics make the market particularly attractive for SMEs seeking affordable financing.

Although labelled "Nordic," it has become increasingly international, with about 40 % of issuance volumes and 30 % of the capital invested coming from outside the region, demonstrating the model's scalability and resilience as a financing platform.

The industry speaker added that ensuring a level playing field with US banks remains essential for the sound development of the bond market. Basel's Fundamental Review of the Trading Book (FRTB), currently postponed but due to take effect in 2 years, could harm bond-market liquidity if implemented in its current form, as higher capital charges would make it more expensive for banks to warehouse bonds and provide market-making services. A more proportionate approach would better preserve liquidity and the resilience of the market. The speaker explained that selling bonds requires market makers to buy existing, partly matured bonds from investors and hold them temporarily until they can be resold. This warehousing function is essential because, unlike equities, bonds mature and new issues are continuously brought to the market, meaning investor demand and available cash rarely align perfectly. If intermediaries lose the capacity to warehouse these positions, they will be unable to make markets effectively, which would negatively affect both investors and issuers.

An official noted that in Finland VC and PE funds are active but too small to support firms that scale up. Further action is needed to encourage the expansion of these funds and the internationalisation of growth companies to attract both domestic and foreign institutional investors.

## 3. Transferring Nordic best practices to the rest of the EU

In response to a question from the chair about the possibility of building on Nordic best practices to expand European capital markets, a public representative warned that the lessons from the Nordic experience may not be easily transferable to the rest of the EU. In a context of rising energy costs, intensifying competition from China, and the economic consequences of the war in Ukraine, Europe urgently needs to revitalise its business model and strengthen competitiveness by mobilising innovation and risk capital. Yet, the main factors behind the success of Nordic capital markets – pension reforms, tax incentives, and financial education – remain largely within national competence. Moreover, the Nordic capital market has taken five decades to develop. While best practices such as the Swedish ISK model are a valuable source of inspiration, it remains uncertain whether these measures alone can help to effectively channel Europe's large pools of passively managed household savings into innovative and productive investment. More centralised supervision or additional regulation is also unlikely to make a significant difference for equity investment, leaving open the question of how to attract more capital into innovation without distorting markets.

An industry speaker added that the Nordic experience demonstrates that building deep and resilient capital markets requires long-term persistence and consistent

policy direction. To achieve similar progress, EU reforms already underway should be accelerated and sustained over time, ensuring that the benefits of stronger capital markets accrue to future generations.

The chair observed that the success of Nordic capital markets was achieved within the existing EU policy framework, illustrating that much can already be done within the current set up and that it is now up to Member States to make full use of available opportunities to further develop their markets.

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## **4. The role of the EU authorities in supporting capital market development**

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Acknowledging that the key levers for strengthening European capital markets, such as pensions, taxation and education, remain under national competence, several panellists highlighted complementary actions that can be undertaken at EU level to foster market development and integration.

### **4.1 Coordinating best practices across Member States**

An industry speaker underlined that the European Commission can promote reform by integrating best practices, such as those identified in Sweden, into country-specific recommendations that should be monitored at EU level. In response to a question from another panellist on whether such monitoring could lead to sanctions for non-compliant countries, the industry speaker considered that sanctions would go too far but that a transparent “naming and shaming” approach could encourage lagging states to act.

Another industry speaker supported the view that EU authorities should focus more on peer comparison and the exchange of best practices than on new regulations, enabling countries to learn from each other.

A public representative also advocated benchmarking Member States on indicators of capital market development, such as pension coverage, to guide EU-level action in these areas.

### **4.2 Stimulating demand for capital and innovation**

An industry speaker observed that while developing the supply of capital is largely a national responsibility, much can be done at the European level to stimulate demand for capital, notably by fostering projects that offer attractive investment opportunities. Creating an environment in which companies can thrive will naturally draw investment into these projects.

A second industry speaker added that European regulation should prioritise growth objectives more, alongside risk management, and that the European rulebook should be streamlined to reduce excessive compliance burdens that undermine efficiency.

A third industry speaker agreed that simplifying requirements and making it easier for companies to

operate would accelerate growth and support innovation. Europe should be more selective in terms of regulation, while showing greater ambition on digitalization and tokenization, technologies that, although sometimes viewed as a source of new risk, have the potential to drive growth and efficiency.

An official suggested that the EU can play a complementary role to Member States by fostering confidence and aligning its instruments, including the upcoming budget, to channel more resources toward innovation and dynamic firms. Retaining and expanding growth companies in Europe, rather than seeing them acquired by US investors, is key in particular to revitalising public markets, which requires expanding VC and PE funds.

A public representative highlighted that EU programmes such as InvestEU offer further scope for action, but greater ambition is needed in simplifying procedures and placing stronger emphasis on SMEs in the next Multiannual Financial Framework. Establishing a cross-cutting SME and start-up quota across EU programmes, similar to existing green or social-spending targets, could help redirect innovation funding toward smaller firms. Comparable quotas could also be applied within public procurement rules.

### **4.3 Lifting barriers to cross-border markets**

An industry speaker stressed that too many barriers still hinder the flow of capital within the EU, particularly at the post-trading level, despite interconnectivity. Cross-border issuance also remains limited, hindering the efficiency of European capital markets and the creation of a level playing field across Member States. EU level action is needed to establish common rules and remove remaining obstacles, as these barriers cannot be resolved at the national level. European instruments and frameworks such as passporting and UCITS demonstrate how harmonized rules can benefit the entire European market.

A public representative agreed that the EU has a key role to play in advancing harmonisation initiatives, including ideas such as a “28th regime” for company registration, which would, however, require accompanying adjustments to tax and labour rules to be effective.

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## **Wrap up**

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The chair concluded the debate by highlighting several key takeaways from the panel discussion. At national level, building strong capital markets depends on developing large sources of capital through pension funds and broad retail participation, supported by trust and collaboration. While progress will take time, reforms must begin now to secure long-term retirement income and sustainable investment capacity in line with SIU objectives. At European level, sharing best practices and even “naming and shaming” lagging countries, could help drive reform. Finally, developing larger and more international VC and PE funds will be essential to provide greater financing for innovation and scale-ups.