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Liquidity in the Swedish Stock Market – An International Perspective

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A liquid stock market promotes low capital costs for firms, efficient price discovery and thus effective capital allocation, as well as low transaction costs for investors.

The report traces the development of liquidity in the Swedish stock market from 2010 to 2024 and compares it with trends in the United States and the rest of Europe.

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About the report

This report is based on a larger study of European stock market liquidity, *The European Liquidity Gap*, authored by Jonathan Brogaard (University of Utah), Björn Hagströmer (Stockholm University), and Abalfazl Zareei (ESCP Madrid).

The main data source for this report is the Global Liquidity Panel (GLP), a database containing liquidity measures for the world's major stock markets from 2010 to 2024. It has been developed by Jonathan Brogaard, Björn Hagströmer, and Abalfazl Zareei.

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The views expressed in this paper are solely the responsibility of the author and should not be interpreted as reflecting the views of Sveriges Riksbank.

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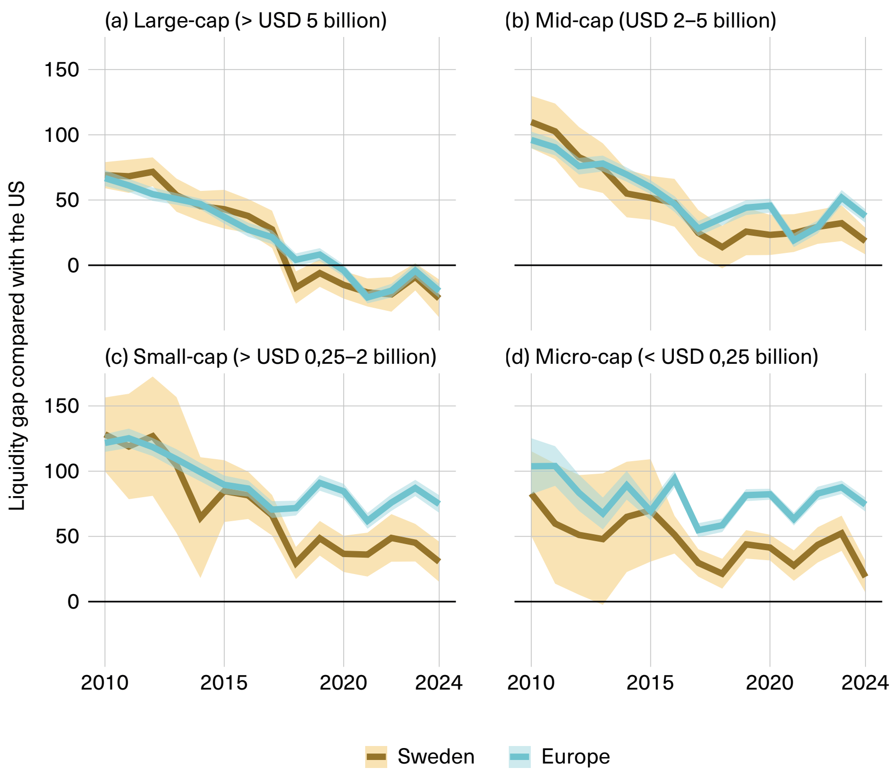
Key findings

- Overall, liquidity in Sweden has improved, especially up until 2018, and remains strong in an international comparison.
- The liquidity gap vis-à-vis the U.S. narrowed significantly in both Sweden and Europe between 2010 and 2018.
- Liquidity differs markedly across large-cap, mid-cap, small-cap, and micro-cap segments. Shares in the very smallest Swedish companies have seen a deterioration in liquidity over time.
- Large-cap Swedish stocks are more liquid than comparable U.S. ones, whereas small- and mid-cap Swedish stocks are less liquid.
- Turnover on the Swedish stock market is low compared with the U.S., which can make it costly for institutions to trade large blocks of shares.
- Sweden has higher liquidity (lower effective spreads) than the rest of Europe in all segments except large-caps, where the difference is close to zero.
- A case study of the pandemic period suggests that the Swedish stock market has greater resilience than its U.S. and European counterparts.

The liquidity gap versus the U.S.



Recommendations

- *Safeguard household equity ownership.* Research strongly supports that retail participation in the stock market benefits liquidity.
- *Foster stronger competition between exchanges.* The fact that Swedish equities are now actively traded on several venues has boosted liquidity, but competition among European exchanges remains much weaker than in the U.S.
- *Promote a pan-European stock market.* While Europe's exchange landscape has seen some consolidation, listings still largely follow national borders. A pan-European market, with harmonized listing and trading rules, could increase liquidity and broaden the investor base, potentially leading to higher stock valuations.
- *Encourage higher free float.* A low share of freely tradable stock (known as "free float") can undermine liquidity.

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