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Sweden's capital markets journey

A key component in fostering growth and a more competitive Europe is to improve European businesses' access to funding through **a more developed capital market**. Likewise, European savers should have access to investment alternatives that offer better long-term returns than traditional bank savings accounts. This would be a **win-win** for households, businesses, economic growth and the demographic challenge. Ultimately, it is a matter of social justice and economic efficiency.

The Capital Markets Union (CMU) and, more lately, Savings and Investment Union (SIU) initiative is crucial to achieve this. While achievements have been made over the course of the past decade, it is obvious that the efforts undertaken both at Member State and EU level have been insufficient.

Sweden is seen by many as a well-developed capital market, which can serve as a source of inspiration for the EU. In particular, **Sweden stands out** for its **deep capital market and high level of retail participation**.

A few examples:

- If we look at **households' allocation of their financial assets**, financial instruments and products account for some 90 per cent. Put differently, Swedes only hold some 10 per cent of their financial assets in bank deposits or cash. This is the lowest number in the EU.

- Correspondingly, the **participation on capital markets is broad** with some 70 per cent holding investments funds directly (i.e. disregarding what exposure they might have through the state or occupational pension schemes; if included, virtually all Swedes hold investment funds).

- **Assets held for pension purposes** is also high with Sweden accounting for some 13 per cent of all pension assets in the EU, although only some 2 per cent of the population.

- And a fourth striking metric is the number of initial public offerings (**IPOs**) which over the course of the past decade is above 500. According to the Financial Times last year, this was more than Germany, France, Spain and the Netherlands combined over the same period.

This article seeks to provide an assessment of the Swedish journey with the purpose of contributing to the European discussion on developing our capital markets. While there is no claim to portray the full story and all relevant aspects, this article seeks to outline some of the **components that have been of great importance** in bringing the Swedish capital market to the point where it is today. They are grouped into four areas:

1. Incentives for retail savings in capital markets

2. Funded pension systems and institutional investments in equities

3. A tax regime supporting entrepreneurs and wealth accumulation

4. Framework conditions promoting openness and adaptation

The Swedish capital market in the early 1980s

In depicting the development of the Swedish capital market it is necessary to start in the early 1980s. **Sweden was a very different country** compared to what it is today. We were not members of the EU. We were not a market economy in any proper sense of the word. And our capital market was among the most closed off and regulated in the world. And the little market activity that we had was effectively stemmed by the introduction of a financial transaction tax in 1983 (and extended in 1987).

Sweden experienced a very strong economic performance in the 1950s and 1960s. However, stagnation set in during the subsequent decades, marked by low productivity, a lack of structural reforms and continuous devaluations of the krona exchange rate.

Politicians in charge at the time realised that Swedish **economic policy broadly had hit a dead end**. In terms of the financial sector, a number of reforms were undertaken including the abolition of credit controls in 1985 and currency controls in 1989. But prior to this the first tax incentives for retail investors to invest in equities had been introduced already in the late 1970s.

In hindsight, reforms appear more logical and thought-through than they were at the point of decision. **There was no grand strategy** of turning Sweden into a hub for capital market activity or the domicile of some of the region's largest banking groups. Rather, it was the pressing needs of an underperforming economy in need of structural change which triggered these reforms – not to mention the even more profound changes to the Swedish society which came as a result of the financial crisis of the early 1990s. As a prime example: Sweden reformed the public pension system because it became apparent that the pension system at that time was no longer fiscally sustainable, rather than an idea that a partly funded pension system provides the basis for a vibrant capital market.

1. Incentives for retail savings in capital markets

The first area one should have a look at is our long tradition of incentivising retail investors to participate in capital markets.

The first tax incentives for savings in capital markets was introduced in 1978 ("aktiesparfonder").[1] It was done with the explicit motivation to broaden share ownership in Sweden. In 1984, they were replaced by a similar tax incentivised form of savings ("allemansfonder").[2] There was **broad political support in encouraging Swedes to invest in shares and investment funds already four decades ago**. And it had an effect: by the early 1980s close to half a million Swedes were directly invested in the stock market

[1] Capital gains have traditionally been taxed on a cash flow basis with dividends and coupons taxed when received, and capital gains taxed when realized, in both cases at a statutory rate of 30 percent. For the aktiesparfonder, the amounts allocated to the account were deductible to the income tax at 20 per cent (30 per cent as of 1980) and capital gains were tax-exempt for up to six years.

[2] No tax deductions but capital gains were indefinitely tax-exempt until the system was adjusted in 1990, applying tax on an imputed return basis from that year. In 1997 the special taxation model was abolished altogether, and capital gains were taxed at the standard rate of 30 per cent.

using the “aktiesparfonder”, and with the successor “allemansfonder” that number had increased to 1.7 million in 1990 (some 20 per cent of the population). The allemansfonder could also be used for savings in investment funds (with UCITS funds available as of 1991), making them suitable for monthly savings which became a common practice.

In parallel, the broad interest in stock investments was also underpinned by the Swedish Shareholders’ Association (*Sveriges Aktiesparares Riksförbund*), founded in 1966, and the association *Aktiefrämjandet*, active mainly in the 1980s. The former organisation works to promote share ownership and strengthen the rights of retail investors. The Swedish Shareholders’ Association has been a key player in making equities investments more accessible and equitable for ordinary investors in Sweden. Together, these organisations have contributed to increased knowledge about shares, improved shareholder policies and a wider public participation in equities investment in Sweden.

A cornerstone in the somewhat later tax reform, in the early 1990s, was the desire to reward savings and discourage borrowing. The reform included a special tax on endowment insurance policies (“kapitalförsäkring”), which incentivised households to increase their savings.

The current form of “incentivised” savings still includes endowment insurance policies but has been complemented with the “investeringssparkonto” (**ISK**) which was introduced in 2012 and which nowadays is more common among retail investors. The ISK is not a savings product in itself, but an account structure in which a broad range of financial assets can be held (like the previous account models). Investments in an ISK are taxed on the basis of an imputed income, not the actual income. It is not tax-beneficial by necessity, but with a simple form of taxation based not on a cash flows but on an imputed income automatically reported to the tax authority, the administrative burden is very low.[3] The ISK has become very popular with almost 40 per cent of all Swedes having one and with total savings in ISKs corresponding to some 30 per cent of Swedish GDP. In order to further enhance its attractiveness, a tax exemption for the first SEK

[3] The imputed income is calculated as the average market value over a year multiplied by a “standard” rate of return. The standard rate of return is defined as the long-term government loan rate plus one percentage point. In other terms, imputed income = average annual market value × (long-term govt loan rate + 1 %). The imputed income is taxed at the statutory rate of 30 percent. Actual cash flows from the asset holdings, i.e., dividends, coupons or realized capital gains, trigger no additional taxation. Losses are not tax deductible.

150 000 invested was introduced in 2025, to be increased to SEK 300 000 in 2026.

The strong interest in capital markets has also provided for downward **pressure on fees and commissions** with the average Swedish equity investment fund fee being 0.9 per cent in 2023, compared to the EU average of 1.4 per cent.[4] Collective bargaining in occupational pensions have also contributed to this downward pressure (see further below).

It is worth mentioning that although a sizable and growing share of the Swedish population has been active on capital markets ever since the late 1970s, presumably furthering financial literacy, some 40 per cent of retail investors' savings in equity investment funds and listed shares are in Swedish assets. So even a comparatively financially literate country with a market capitalisation that is only some 1 per cent of the world total has a **strong home bias**.

In sum, Sweden has had various forms of tax-incentives for retail savings in capital markets for most of the past five decades. While the size of the incentives has varied, a key factor has been the **administrative simplicity** of the various account models used and that they have been in place for a long time, cementing behavioural change in savings practices. Financial literacy has come from learning by doing.

Through these incentives, share ownership was broadened among the Swedish population comparatively early on and investing in shares and investment funds became common. **A culture of share ownership and capital market savings** also among "ordinary people" has been established, with Swedish retail investors holding some 260 per cent of GDP in financial instruments and products (non-listed equities holdings included). In addition to providing returns to retail savers themselves, this provides a major contribution to the overall pool of investable capital available to the market.

2. Funded pension systems and institutional investments in equities

The second area one should look at is the pre-funding of pension systems and institutional investors' allocations into equities. In addition to direct retail investments, this is the other main source of capital. Total assets in the

[4] Source: ESMA, 2025 Costs and Performance of EU Retail Investment Products 2024 – Annexes.

Swedish pension system corresponds to some 118 per cent of GDP, which may be compared with the EU average at 32 per cent. In addition to the issue of pre-funding itself, one should also look at the way in which the Swedish public pension system, the occupational pension system and insurance companies allocate their investments.[5]

Public pension system

Sweden undertook a major reform of its public pension system in 1960 when the national supplementary pension scheme ("ATP") was introduced as a complement to the national basic pension ("folkpension"). The ATP-system was **a pay-as-you-go system** financed through a combination of levies and taxes and payouts were channelled through the state budget. However, it was acknowledged that high birth rates during the 1940s over time would imply a significant increase in payouts and, to build up reserves for these forthcoming outflows, the fees levied were initially set higher compared to what was needed for covering outflows. Excess levies were set off in **a public pension (reserve) fund** which was established for this purpose.[6] It started accumulating capital, which was invested in fixed income. In 1974 certain parts of the fund were mandated to invest in shares as well, and in 1988 a further extension of the mandate was undertaken to cover real estate. In 1996, it was allowed to invest a smaller share in private equity. By 1999 total assets under management in the public pension (reserve) fund was some EUR 85bn (ca 38 per cent of GDP).

In 1982, fees levied began to no longer cover pension outflows, meaning that the system would become a drain on public finances – although significant amounts had been set off in the pension (reserve) fund over the past two decades. Following years of public enquiries and deliberations among the major political parties, the public pension system was reformed in the 1990s. While the principally most important reform was to introduce a gradual transition from defined benefit to defined contribution, it was also decided that a share of the mandatory pension contribution was to be set off in a special investment scheme labelled the **premium pension**. In this system, citizens could choose from an array of investment funds themselves.

[5] Terminologically asset managers would typically also be included in "institutional investments". For the purposes here though, they are rather to be seen as the mean through which retail investors channel their direct savings in investment funds.

[6] Formally it was one single pension fund, but managing its assets was split between initially three different "fondstyrelser" which were complemented by additional boards as its mandate was extended.

This share of contributions was set (and has remained) at 2.5 per cent of the pensionable income and means that virtually all Swedes with a pensionable income are holders of investment funds – which has contributed to increasing the interest in savings in financial assets and thereby financial literacy. However, it should be noted that the vast majority of premium pension savers do not make active fund investment choices themselves, which means their premium pension is directed to the default selection. Introduced in 1999, cumulative assets under management in the premium pension today are some EUR 237bn (close to 40 per cent of GDP).[7]

The premium pension is financially managed by the Swedish Pensions Agency, and the Swedish Fund Selection agency procures funds to the premium pension fund market. By using the huge capital under management, **the agencies have a strong bargaining position vis-a-vi the asset managers**. This has allowed the agencies to put significant downward pressure on fees. The average capital weighted fee in the premium pension is 0.12 per cent.[8]

The national (reserve) pension fund from the ATP-system was also reorganized as part of the reform. The previous construction with nominally one fund with separate fund boards and segments was replaced by six different funds acting independently from one another, out of which five (the First–Fourth AP Funds and the Sixth AP Fund) were organized as so called **buffer funds**, or pension reserve funds, whereas the Seventh AP Fund was set up as the state default alternative within the premium pension system. Today, the buffer funds manage some EUR 186bn in total (ca 35 per cent of GDP).[9] The buffer funds' purpose is to manage the deficits and surpluses that arise when pension contributions paid in differ from pensions paid out.

Occupational pension system

Some **90 percent of all employees in the Swedish labour market has an occupational pension scheme** based on collective agreements between social partners, meaning unions and employers' organisations (mandatory).

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[7] Source: Swedish Pensions Agency. Currency calculation: SEK 2 711 bn / 11.43 = EUR 237 bn

[8] The management fees for the Seventh AP Fund's AP7 Equity Fund and AP7 Fixed Income Fund amounted to 0.05 percent and 0.04 percent of managed assets respectively in 2023. This can be compared with the average management fee for the approximately 450 funds that were part of the premium pension system at the end of 2023, which was 0.20 percent.

[9] Source: AP-funds annual reports. Currency calculation: SEK 2 130 bn / 11.43 = EUR 186 bn

On top of this, five percent have an individual occupational pension agreement with their employer (voluntary). For many, the occupational pension can account for 20 to 30 percent of the total pension.

As regards the collectively negotiated occupational pensions, there are four central-level-agreements. The agreement that an employee is covered by depends on whether the employee works in the private, municipal and regional, or state sector. It also depends on the industry in which the employee works and whether the employee is a white-collar worker or a blue-collar worker. The pension schemes differ between the agreements in some respects, for instance the size of the contribution from the monthly salary and the degree to which the employee may make the investment decisions themselves.

The **pension selection centres**, who are owned by the social partners, play a crucial role in administering the collectively agreed pensions. The selection centres do not manage the pension themselves. Rather, they procure these services from occupational pension companies where the pension is placed in traditional insurance or unit-linked products. Most of these assets are placed in traditional insurance.

Many occupational pension agreements offer choices regarding how the pension should be managed, such as choosing underlying investments through unit-linked products. If the employee does not make an active decision, each agreement has a default selection where the pension is placed in a traditional insurance with one of the occupational pension companies procured by the selection centre. If the employee wants to make an active investment decision, the occupational pension companies often offer a selection of unit-linked products.

As these pension selection centres operate on behalf of large parts of the labour market, they are responsible for the allocation of significant sums of capital. Therefore, they have a **strong bargaining position** vis-a-vi the occupational insurance companies and can negotiate significantly lower fees.

The close connection to and **support from social partners** – trade unions in particular – has been important for the establishment and success of the occupational pension system. Beyond sharing responsibility for upholding the system as such, it has been a common practice for Swedish trade unions to educate their members in matters of financial literacy (especially pension savings). This has been a strong contributor to trust in the system.

In total, Swedish occupational pension companies have capital market investments that amount to some EUR 280bn (50 per cent of GDP).[10] Moreover, **Swedish occupational pension companies have invested in equities since long ago and they do so to a considerably larger degree than their European counterparts**. Whereas the average European occupational pension company invests some 15 per cent of their capital in equities, in Sweden it is almost 40 per cent.

Insurance companies

Another source of depth in Swedish capital markets is the insurance companies (property and life insurance) whose total capital markets investments is some EUR 353bn (63 per cent of GDP).[11] Swedish insurance companies invest approximately 20 per cent of their assets in equities, whereas the average among EU counterparts amounts to 15 per cent. One important explanation for this is the robust capitalisation of the Swedish insurance companies, which has allowed them to take on more risk in their portfolios. Swedish equities have subsequently been viewed as a profitable alternative, especially given the size and diversity of our stock market.

3. A tax regime supporting entrepreneurs and wealth accumulation

The third area one should look at is tax policy in general, and for wealth accumulation in particular.

For many years, Sweden was synonymous with high taxes and strong government involvement in economic matters. Today, that is no longer a valid depiction. While Sweden's tax incidence is still among the highest among OECD countries, our **tax policy has undergone substantial change over the past twenty years** and currently is at its lowest level since the mid-1970s (41 per cent of GDP in 2025). Important elements in this have been the gradual lowering of income and corporate taxation, as well as the abolishment of inheritance and gift taxes in 2004–2005 and the wealth tax in 2007. Special provisions under the tax code allows entrepreneurs to be

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[10] Source: Insurance Sweden. Currency calculation: SEK 3 203 bn / 11.43 = EUR 280 bn

[11] Source: Insurance Sweden. Currency calculation: SEK 4 039 bn / 11.43 = EUR 353 bn

taxed at a lower tax rate on dividends and capital gains, which have encouraged wealth formation.

Further, Sweden has tax rules to avoid chain taxation in the corporate sector, which allows entrepreneurs not to be taxed on capital gains from selling shares in their business, if the sale of the business is made through a holding company (i.e. a participation exemption).

While it is difficult to prove the causalities empirically, **private wealth** has increased in Sweden over this period, and it is reasonable to assume that changes in tax policy have contributed in this regard. This has been important from a capital markets perspective as it has allowed more individuals and new constellations of investors to play a part in a market previously dominated by a few families and their associated business spheres, not least through a number of private equity and venture capital firms established from the 1990s onwards.

4. Framework conditions promoting adaption and openness

A fourth and final area one should look at is the broader character of the Swedish economy and the framework conditions under which the Swedish capital market has developed.

Sweden is a **small open economy** and has, as such, always been dependent on global markets with strong reliance on export-oriented businesses. And it is probably true to claim that **Swedish banks** to some extent **followed their customers abroad** and, in doing so, developed a comparatively strong edge in the capital markets' practice. In this sense, the financial sector mirrors the underlying real economy towards which it provides its services.

Another important and related aspect has been the continuous **flow of financial services professionals** between Stockholm and global financial centers over many decades. A typical example has been the young Swedes educated here, seeking employment in the City of London, and then returning home after a number of years, bringing skills and new practices with them.

Looking at structural change in the financial services sector, there are a number of examples worth mentioning.

During the 1980s, it became clear that the tightly regulated financial sector was no longer feasible. The Riksbank struggled to uphold credit controls, and the state faced increasing funding needs while Swedish banks' balance sheets, due to credit regulations, were already heavy with government bonds. Capital markets were deregulated at the end of 1980s, followed by a tax reform in 1990–1991. However, Sweden experienced a domestic financial crisis in the early 1990s, which led to major structural reforms of the monetary and fiscal policy frameworks. These reforms resulted in the development **of a more advanced Swedish fixed income market**, providing an alternative funding source for the state and allowing the Riksbank to use interest rates to steer credit supply. These reforms also made it easier for the commercial banks to issue money market instruments.

Further, the possibilities of **digitalisation** were utilized early on, with the dematerialization of financial assets in 1989, which made trading and settlement more efficient. Other parts of the financial plumbing – clearing and settlement of payments being the prime example – was digitalized early on as well. The first and still most used form of e-ID in Sweden was also developed by the major banks. This mean of electronic identification has been important for extending the use of online banking (as well as other) services in Sweden.

Another major disruption was the founding of new market operator OM which introduced **electronic trading** as one of the first venues in the world in the late 1980s – and eventually went on to acquire the centuries-old Stockholm Stock Exchange in 1998. This was followed by further take-overs across the Nordic-Baltic region before a merger between then OMX and Nasdaq was completed in 2008. While OMX/Nasdaq has been the dominant player, other actors have been and are still providing trading venues as well.

At the front end, niche actors like Nordnet and Avanza were founded in the second half of the 1990s **offering online brokerage service to retail investors**, sharpening competition with the universal banks dominating trading services up until then.

And one should not forget **the structure of the Swedish banking system** which is strongly concentrated today. That was not always the case but has been the result of various waves of consolidation since the 1970s, not least to mention the savings-banks which in large parts were merged and incorporated in what today is Swedbank. Swedish banks in general have also been able to broaden their product offering beyond that of traditional deposit-taking and lending, for instance providing both retail and corporate customers with asset management services. This has supported their role as central players in the financial system, as it has become more capital markets oriented.

And a final and more subtle aspect is the area of **corporate governance** in general and capital markets in particular, where there has been a long tradition of **self-regulation** and a sense of shared responsibility among market actors. This has been spearheaded by organisations like the Swedish Corporate Governance Board and the Association for Generally Accepted Principles in the Securities Market. Another trait which has characterised the Swedish capital market since the end of the 19th century is shares with multiple voting rights, which has been important in supporting long-term investing and shareholder engagement.

Conclusions from Sweden's journey

- Do not look for a master plan – it is rather a matter of incremental reform.

- Encourage retail participation and be clear on short-term risk and long-term rewards.

- Size of tax incentives is important, but so is administrative simplicity.

- Letting retail investors make their own decisions on allocation with their own savings drives financial literacy.

- Crucial to create a pool of capital of certain size – and it is difficult to see how this can be achieved without mobilising institutional investors in general and pension systems in particular.

- Social partners can play an important role in gaining acceptance and understanding for an occupational pension system with auto-enrolment by involving the employees to a greater extent.

- Make sure those institutional actors invest in equities.

- Tax code needs to allow for risk-taking and wealth accumulation.
- Embrace structural change, also in finance.
- National framework conditions beyond the remit of financial markets are also important; your financial system will mirror the real economy towards which it provides its services.
- A more capital markets-oriented financial system does not have to be to the detriment of banks.