

European Equity Markets and SME Financing

Evidence from a Comparative Study of European Stock Exchanges (2005–2025)

Executive Summary

This report synthesises the findings of a comprehensive comparative study of equity capital issuance across selected European stock exchanges between 2005 and 2025. The analysis covers nearly 24,000 equity issues across France, Germany, the United Kingdom, Switzerland, Belgium, Ireland, the Netherlands, and the Nordic countries. The evidence challenges a core assumption underpinning current EU policy debates: that further centralisation of European capital markets will materially improve access to equity financing for small and medium-sized enterprises (SMEs).

The data shows that more than 90% of all equity capital issues in Europe are undertaken by SMEs, but that the effectiveness of equity markets in serving these firms varies widely across countries. These differences are not explained by fragmentation per se, but by deeply rooted national ecosystems for risk capital, taxation, savings behaviour, institutional investment, and market culture. In this context, excessive centralisation risks weakening those local ecosystems that currently function well, without solving the structural barriers to cross-border SME investment.

The central policy implication is that Europe's capital markets challenge is not primarily one of market structure, but of incentives, trust, and locally anchored risk capital formation.

1. Policy Context

The European Union has, for several years, pursued a strategy aimed at deeper integration and centralisation of capital markets. Fragmentation across national exchanges is frequently cited as an impediment to efficient capital allocation, reduced liquidity, and limited cross-border investment—particularly for SMEs. The underlying assumption is that a more centralised market would generate deeper liquidity pools and attract retail and institutional investors to finance smaller companies across borders.

This study provides empirical evidence that allows these assumptions to be tested against actual issuance behaviour across Europe's most developed equity markets.

2. Scope and Data

The study analyses approximately 24,000 equity capital market transactions from 2005 to 2025, drawing primarily on data from Euronext and Dealogic. The dataset has been cleaned

and harmonised to ensure cross-country comparability. Companies with a pre-issue market capitalisation below USD 10 million were excluded due to data quality constraints.

Equity issues are classified by company size (micro, small, mid, large, and mega cap) based on standard market capitalisation thresholds. This allows for a consistent comparison of SME versus large-cap activity across jurisdictions.

3. Core Empirical Findings

3.1 SMEs Dominate European Equity Issuance

Across all examined countries, SME issues account for an average of 93% of total equity transactions. This pattern is remarkably consistent across markets, regardless of size or overall market capitalisation. Large companies rarely issue equity; when they do, the amounts raised are substantial and typically marketed globally.

This finding has two important implications:

- European stock exchanges already function primarily as SME financing platforms.
- Large-cap financing is not materially constrained by market fragmentation.

3.2 Large Cross-Country Differences in SME Activity

While SMEs dominate issuance everywhere, the absolute number of SME equity issues varies dramatically between countries. Sweden and Norway stand out with exceptionally high levels of SME issuance relative to the size of their economies, while several larger EU countries exhibit far lower activity.

These differences are not cyclical, but structural and persistent over time.

3.3 Large-Cap Equity Is Already European and Global

France, Germany, and the UK dominate large-cap equity issuance in absolute value terms. These transactions attract international investors and are not meaningfully constrained by national market boundaries. For this segment, fragmentation does not appear to be a binding constraint.

4. Interpretation: Why SME Financing Is Local

The data strongly suggests that SME equity financing is inherently local in nature, a phenomenon often described as “home bias”. Several structural factors explain this:

1. Illiquidity and ownership constraints: SMEs have limited free float and market capitalisation, making them unsuitable for large international asset managers.
2. Limited research coverage: Companies below approximately EUR 200 million in market value receive little or no analyst coverage, reducing visibility for foreign investors.
3. Information asymmetries: News flow for SMEs is local, reinforcing the perception that domestic investors are better informed.



4. Taxation and legal frictions: Differences in capital gains taxation and the risk of double taxation discourage cross-border retail investment.

As a result, SME equity markets across Europe have evolved as national or even regional ecosystems, supported by local investors, intermediaries, and institutions.

5. Case Study: Sweden versus Norway

A longitudinal comparison between Sweden and Norway illustrates how policy, taxation, and institutional design shape SME equity markets.

Both countries have similar wealth distributions and a comparable number of high-net-worth individuals. However, Sweden exhibits:

- Significantly higher SME issuance volumes over time
- A much larger ecosystem of specialised SME funds
- Greater participation by institutional and semi-institutional investors

Contributing factors include long-term tax stability, early pension fund reforms allowing equity exposure, abolition of wealth and inheritance taxes, and the introduction of tax-efficient retail investment accounts (ISK). These measures were implemented gradually and consistently over decades, fostering trust and long-term risk capital formation.

The comparison suggests that successful SME markets are built through cumulative national policy choices rather than market centralisation.

6. Policy Implications for the EU

The findings point to several implications highly relevant for policymakers in Brussels:

1. **Centralisation is not a substitute for ecosystems**
A single European capital market will not, by itself, generate risk appetite, research coverage, or trust for SME investment.
 2. **One-size-fits-all reforms risk unintended consequences**
Further harmonisation may weaken well-functioning local markets without materially improving weaker ones.
 3. **Policy should focus on incentives, not only infrastructure**
Taxation of savings, long-term pension capital, retail participation, and stability of rules matter more than trading venue structure.
 4. **Fragmentation can be a strength for SMEs**
Local exchanges play a critical role in channelling capital to entrepreneurial companies and supporting regional growth.
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7. Conclusion

Europe's challenge in SME financing is not primarily one of market fragmentation, but of unevenly developed national ecosystems for equity risk-taking. Large-cap financing already



operates efficiently at a European and global level. SME financing, by contrast, depends on trust, proximity, incentives, and long-term policy consistency.

EU initiatives should therefore aim to complement, not replace, national capital market ecosystems. A balanced approach—supporting local strengths while addressing specific cross-border frictions—offers a more realistic path to strengthening Europe’s capacity to finance growth and innovation.

