The European Liquidity Gap

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Executive Summary

European equity markets are often viewed as structurally less liquid than those in the United States, raising concerns about capital-market competitiveness and the cost of equity financing, particularly for smaller and growth-oriented firms. We show that this perception is only partly correct: Europe's liquidity disadvantage is concentrated among smaller firms, while large-cap European stocks now trade at costs much closer to comparable U.S. stocks. We reach this conclusion through a comprehensive comparison of equity-market liquidity in Europe and the U.S. over 2010–2024, covering around 2,000 European stocks. We quantify the "liquidity gap" as the difference in trading costs (measured primarily using bid-ask spreads) between European and U.S. stocks, matched by size and volatility to ensure an apples-to-apples comparison across markets.

Key findings

- **Liquidity in large-cap European stocks has converged toward U.S. levels.** Large European stocks have become substantially cheaper to trade, although trading costs remain higher than for similar U.S. stocks. In 2024, large-cap effective spreads were 29% higher in Europe than in the U.S., compared with 66% in 2010.

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- **The liquidity gap is concentrated among smaller firms.** For European stocks outside the large-cap segment, liquidity has deteriorated substantially over the past fifteen years. The average trading costs for such stocks in 2024 were around 68% higher in Europe than for comparable stocks in the US.

- **The liquidity gap varies substantially between European countries.** Differences in market structure, investor composition, and firm characteristics are associated with substantial cross-country variation in liquidity, even after controlling for firm size. Even within the same exchange groups, substantial differences remain. For example, within Euronext, Netherlands-listed stocks are among the most liquid in Europe, whereas Belgium-listed stocks are relatively illiquid. Similarly, within Nasdaq Nordic, Sweden-listed stocks exhibit markedly smaller liquidity gaps than Denmark-listed stocks.

The figure below summarizes the evolution of market liquidity in Europe and the U.S. from 2010 to 2024, separately for large-cap and non-large-cap stocks. It highlights three central patterns: a pronounced convergence in large-cap liquidity across regions, a persistent liquidity gap among smaller firms, and a trend toward rising trading costs for smaller stocks in Europe and the U.S. alike.

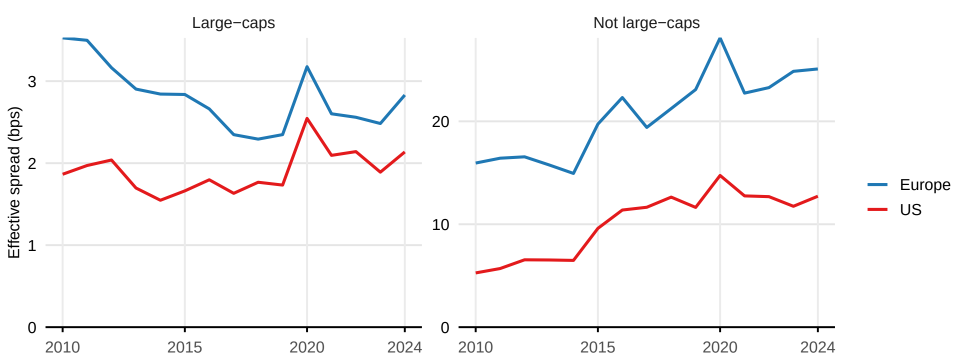

Figure 1: Equity-market liquidity in Europe and the United States, 2010–2024. Average effective bid-ask spreads for European and matched U.S. equities, shown separately for large-cap (> \$5bn) and non-large-cap stocks (≤ \$5bn). Lower values indicate more liquid markets.

Policy implications

The results suggest that concerns about European equity-market liquidity need to be reframed. Liquidity is no longer a binding constraint for capital-market competitiveness in the trading of large stocks. Instead, the persistent liquidity gap among smaller firms points to structural frictions that limit secondary-market trading and investor participation.

The pronounced cross-country heterogeneity in liquidity further indicates that national market design and investor composition continue to play an important role, despite exchange consolidation and regulatory harmonization. The Netherlands and Sweden stand out as relatively liquid markets, including outside the large-cap segment. Their local market structures and institutional features may therefore provide useful reference points for policy discussions.

Specifically, we identify four factors that are strongly associated with higher liquidity: Stocks with higher free float and broader retail ownership tend to be more liquid. In addition, stocks listed on larger exchange groups are cheaper to trade, consistent with prior evidence that some degree of

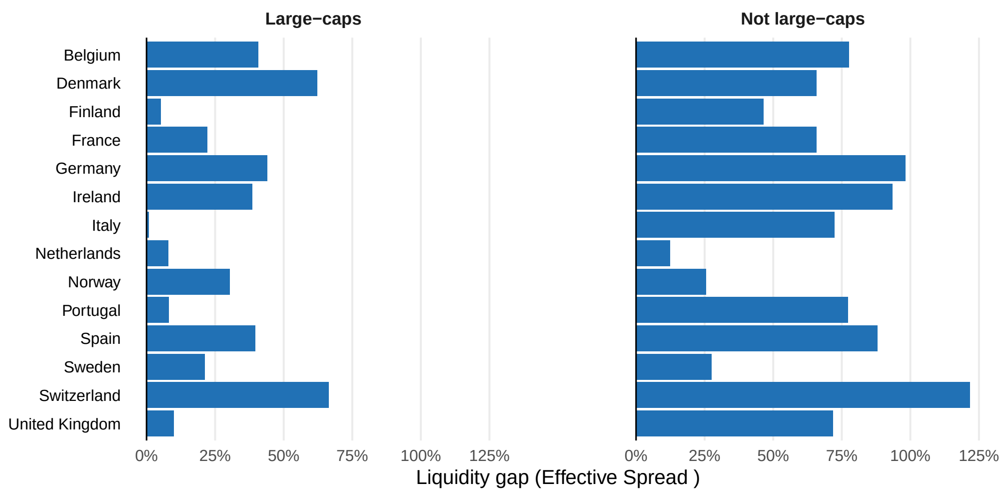

Figure 2: Liquidity Gap Across Countries of Listing. Liquidity gaps between European and U.S. equities in 2024, across European countries and firm size segments. The liquidity gap is defined as the log difference in average effective bid-ask spreads, with positive numbers indicating that liquidity in European stocks is worse than for similar stocks in the U.S. Stocks are categorized by size as either Large-cap ($>$ \$5bn) or Not large-cap ($\leq$ \$5bn).

exchange consolidation can benefit liquidity. However, our analysis does not speak to the extreme case of a single pan-European monopoly exchange. For small stocks, more intense competition for trade flows is also associated with higher liquidity. While our results are descriptive in nature, they are consistent with previous research that find causal links from these factors to higher market liquidity.

Full paper

The full paper is available at https://ssrn.com/abstract=5782262.

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