

CHART OF THE WEEK

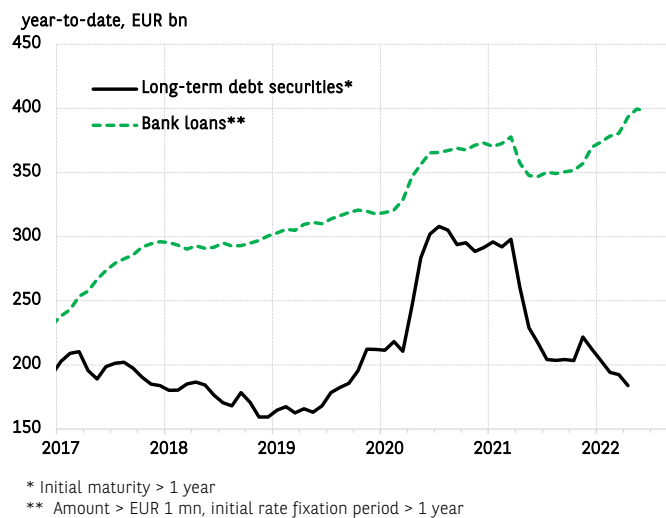


31 August 2022

EUROZONE: THE RISE IN CORPORATE BOND YIELDS MAKES BANK LENDING MORE ATTRACTIVE FOR NON-FINANCIAL CORPORATIONS

Laurent Quignon

Gross issuance of debt securities and new bank loans



Source: ECB, BNP Paribas calculations

In the first half of 2022, large non-financial companies in the euro area were more inclined to take out new bank loans than to issue debt securities. According to the latest data available, bond issuance remained depressed in July and August.

At the beginning of 2022, the average costs of negotiable debt and business bank loans were at comparable levels (for example, 1.1% for French companies in January 2022, according to calculations by the Banque de France¹). The cost of bank loans is now, on a relative basis, markedly lower (1.65%) since the surge in inflation and tensions on the bond market have led to a much more perceptible average increase in the cost of negotiable debt issued by non-financial companies (3.69% in June 2022).

This illustrates the stylised fact whereby bank loans are more attractive than market financing when market rates are high. Bank loans are backed by stable liquid resources or comparable maturities, whose average cost is less rigid in periods when market rates are falling. On the other hand, this average cost rises more moderately when rates increase (especially in exchange for the liquidity service provided to depositors, notwithstanding customer arbitrage in favour of more costly resources), which allows banks to limit the rise in corporate lending rates and means companies regain some competitiveness.

In the current context of heightened concerns about inflation and the slowdown in economic activity, the expansion of risk premiums, which is greater for negotiable debt than for bank loans, is contributing to the widening gap between financing costs on the markets and via the banks.

¹ Bank loans in euros with a term of over one year and for an initial amount of over EUR 1 million. Securities with an initial maturity of more than one year, denominated in euros and with a fixed coupon rate; yields of varying maturities brought to a constant maturity of five years.

laurent.quignon@bnpparibas.com

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