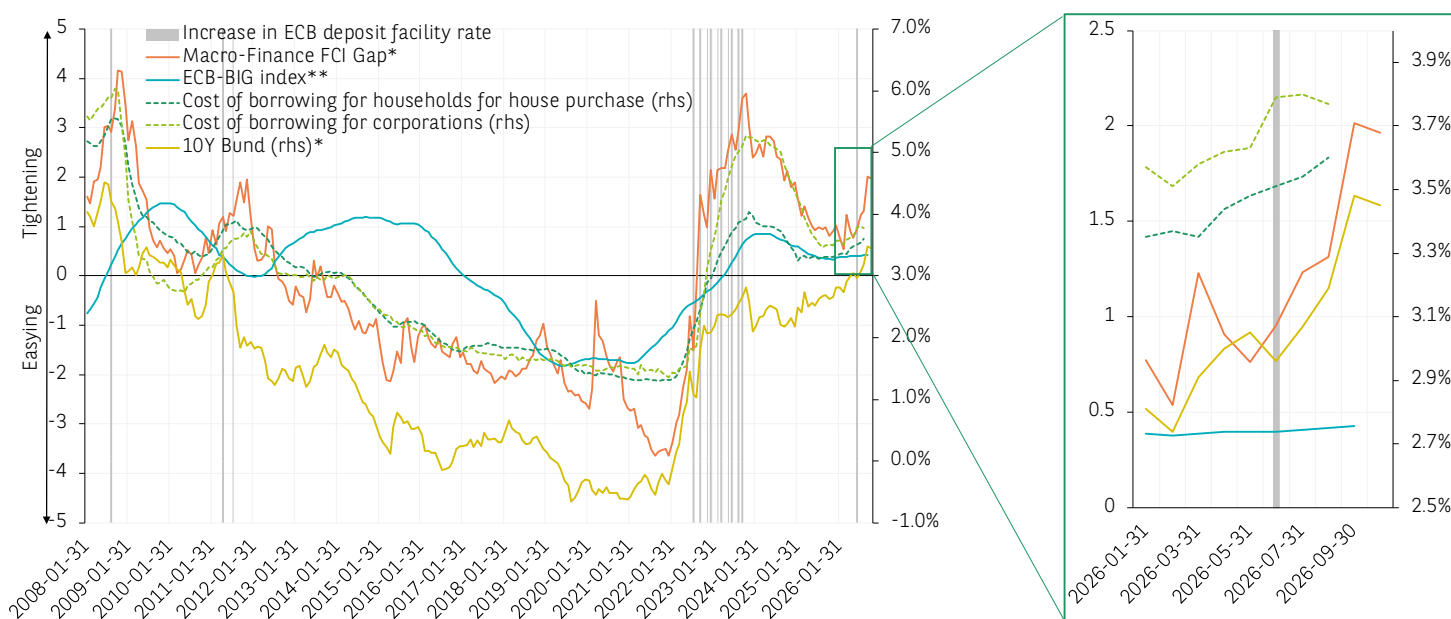


FINANCIAL CONDITIONS IN THE EUROZONE: A TIGHTENING TEMPORARILY TEMPERED BY CREDIT VOLUMES

Thomas Humblot

Since June 2026, the ECB has been publishing¹ a new indicator that helps to assess the transmission of its monetary policy to the economy: the Broad Intermediation Gauge² (ECB-BIG). This new tool has revealed that, thus far, strong credit growth has limited the restrictive impact of tightening financial conditions caused by rising interest rates in the Eurozone. However, this offsetting effect is beginning to fade.

Credit volumes have temporarily cushioned the rise in interest rates



The ECB-BIG: a new indicator for a broader view of financial conditions

The ECB-BIG complements the range of indicators used by the European Central Bank (ECB) to assess the effective transmission of its monetary policy. This new tool provides a comprehensive view of how restrictive (or expansive) financial conditions are in the Eurozone. It stands out for its approach that focuses more specifically on intermediation conditions. Therefore, the ECB-BIG provides a more comprehensive view than most other financial condition indicators of financial conditions. In fact, it covers variables relating to the volume of bank lending to households and businesses (the 'volume' component). Traditionally, this type of indicator tends to focus more on market variables (primarily interest and exchange rates), share prices and corporate spreads. In addition, the 'price' component of the ECB-BIG is extended to include the cost of bank loans, which is another new feature.

The rise in interest rates was temporarily offset by increased lending

By aggregating the variables relating to banking and non-banking intermediation conditions, the ECB-BIG shows that rising interest rates (negative price effect) were offset in particular by lending volumes, which have continued to rise in 2026 (positive volume effect). A more 'traditional' indicator of financial conditions, the Macro-Finance FCI (MF-FCI) — which is, incidentally, included in the ECB-BIG — reveals a much more pronounced tightening over the same period (see the orange curve in the chart). However, this offsetting of the price effect by the volume effect is now beginning to wane, a sign that monetary policy is being effectively transmitted to the economy. Financial intermediaries are gradually passing on the rise in rates to their customers (see the dotted green lines, which represent the composite indicators of the cost of new loans to households and businesses, combining interest rates for different maturities), while lending volumes are falling. As a result, between July and August 2026, seasonally adjusted flows of loans to households and businesses almost halved.

¹ P. Lane, 2026, [The Outlook for the Euro Area Economy](#), Background slides for Reuters NEXT Europe, London, 16 June 2026

² A. Allayioti et al., 2026, [The ECB-BIG index: tracking credit conditions in the euro area](#), ECB Economic Bulletin, Issue 5/2026

In the longer term, financial conditions are expected to tighten, including as measured by the ECB-BIG

Despite the very sharp widening of sovereign spreads between 28 September and 2 October, financial conditions as measured by the MF-FCI did not tighten, with sovereign yields actually falling over this period (with the exception of the OAT and the BTP), for example. Nevertheless, the high volatility of the bond market, particularly in the sovereign segment, is likely to continue to affect financial conditions. Looking slightly further ahead, the ECB's key interest rate rises — the one that occurred on 16 September and another that we anticipate for December 2026 (both +25 bp) — are likely to result in a more pronounced tightening. With a time lag of a number of weeks, financial conditions, as defined by the ECB-BIG, are also expected to tighten. The price effect is likely to lead to a negative volume effect on this occasion.

thomas.humblot@bnpparibas.com

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