CHART OF THE WEEK

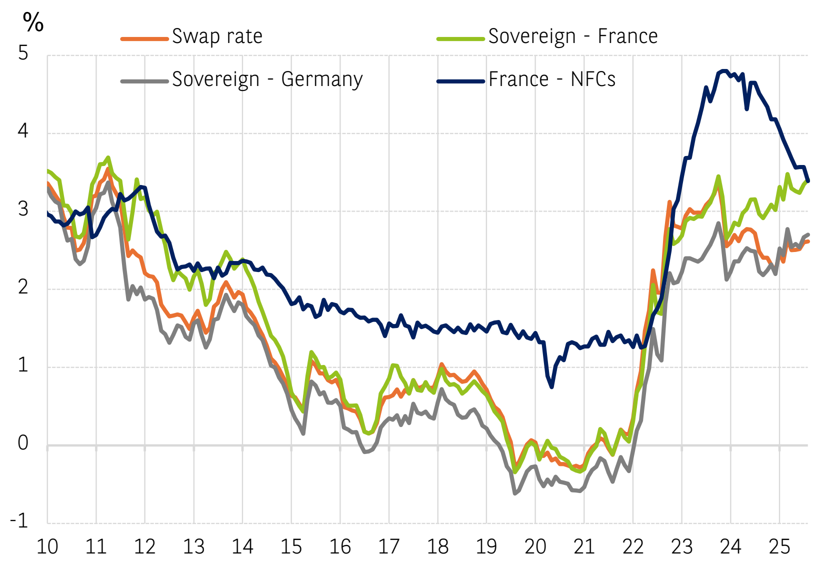
22 October 2025

SOVEREIGN INTEREST RATE VS. BANK LENDING RATE FOR NON-FINANCIAL COMPANIES: TOWARDS A DURABLE CONVERGENCE IN FRANCE?

Stéphane Colliac

The public debt ratio is rising again in the Eurozone, while its equivalent for non-financial companies (NFCs) is decreasing. The October 2025 Fiscal Monitor of the IMF forecasts that the public debt ratio will increase by 5 points of GDP in the euro area by 2030 compared to its 2024 level (87.2% of GDP, compared to 83.6% in 2019). Against this background, the debt of non-financial companies reached its lowest level since Q3 2007 in Q2 2025, at 66.6% of GDP.

10- YEAR SOVEREIGN RATE, SWAP RATE AND BANK LENDING RATE TO NFCs



SOURCE: ECB, BANQUE DE FRANCE, BUNDESBANK, BNP PARIBAS

Meanwhile, the average interest rate granted by banks to non-financial companies has decreased, while the 10-year sovereign rate has increased in several countries in the Eurozone. We focus on France, where both reached about 3.4% in August 2025. It is an unusual convergence: Is this abnormal or a phenomenon set to last?

The interest rate that a bank grants to its borrowers depends on the cost at which it finances itself (swap rate) plus a premium reflecting the risk associated with the borrower. See: "Eurozone: the bulk of the decrease in borrowing costs is behind us". However, if the interest rate that banks grant to NFCs is close to the sovereign rate, it is because the cost of their financing is lower. Thus, the 3-month/10-year swap rate has decreased and is now approaching the German rate, the European benchmark (and therefore the risk-free rate for sovereign rates).

The rise in sovereign rates, linked to the increasing debt observed in key countries such as France, but also in Germany, has not prevented the fall in the swap rate and therefore that of bank rates to NFCs. This results in a convergence between the French sovereign rate and the rate for NFCs, already observed during the Eurozone crisis: the effect of the rise in sovereign rates on credit conditions in the private sector could therefore be cushioned (as well as in 2025). All this before the quantitative easing of the ECB came to restore, lower sovereign rates, from 2015 onwards.

The monetary policy outlook is different today. According to our forecasts, the ECB has completed its cycle of rate cuts. It has brought the monetary policy to a broadly neutral territory, where it should stay over the next 12 months. In parallel, we expect that the sovereign rate remains high for longer (notably because German rates should face upward pressure, due to the increasing public debt). As long as the ECB's policy remains neutral, the new hierarchy, where the swap rate is lower than the French sovereign rate and the rate on NFCs is comparable to the sovereign rate, should therefore be expected to last. Such a convergence of financing costs between NFCs and sovereign rates can also be observed (and would remain the same) in other countries of the Eurozone.

stephane.colliac@bnpparibas.com

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Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com
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