



**TOPICS:**

Credit Risk

**SOURCE:**

Financial Stability Board

## FSB Warns on Private Credit Vulnerabilities

- The report defines **private credit as nonbank direct lending to medium-sized companies through privately negotiated bilateral arrangements**, with the global market estimated at between USD 1.5–2 trillion by the end of 2024. The report highlights both **the economic benefits and emerging vulnerabilities** of private credit.
- On the **positive side**, private credit broadens financing access for underserved firms, supports economic activity and diversifies credit provision beyond traditional banks. However, the FSB identifies substantial interconnectedness between private credit funds, banks, insurers, pension funds and private equity firms. Banks provide subscription lines, NAV facilities, revolving credit facilities and securitisation support to private credit funds, creating direct and indirect exposures that may amplify systemic risk during periods of stress.
- The FSB also raises **concerns regarding borrower quality and leverage**. Many private credit borrowers are highly leveraged, concentrated in lower single-B credit categories and increasingly reliant on payment-in-kind structures and refinancing arrangements. The report notes that certain valuation and accounting practices, including EBITDA adjustments,

may obscure underlying leverage and credit deterioration. Although current default rates remain relatively low, broader measures incorporating distressed restructurings indicate increasing stress within the market.

- Additional vulnerabilities include **liquidity mismatches, layered leverage across investment structures, growing retail participation, and opacity in valuations and private ratings**. The report stresses that private credit has not yet been tested through a prolonged economic downturn at its current scale. A key regulatory concern is the lack of harmonised data, definitions, and loan-level transparency, which limits effective supervisory oversight and risk monitoring across jurisdictions.
- The FSB concludes by recommending further international work focused on **improving data collection, strengthening supervisory coordination, assessing nonbank interconnections and enhancing monitoring of liquidity and leverage risks** within the private finance ecosystem.

