PRIVATE ASSETS AND NBFI: COMBINING INNOVATION AND RESILIENCE

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Bank–NBFI linkages: stronger safeguards, incomplete visibility

Non-bank financial intermediaries connect to banks in very different ways, and those connections are where financial stability risks accumulate. Insurers and pension funds hold long-term, largely investment-grade portfolios. Open-ended funds offer daily redemptions and must manage liquidity accordingly. Leveraged entities, notably hedge funds, take directional and financing risk. These business models differ profoundly in how they behave under stress and connect to banks.

Those connections are the heart of the matter. While they can help share risk, they may also create vulnerabilities. In the euro area, NBFI entities fund roughly 15% of bank balance sheets, much of it at very short contractual maturity, while banks' asset-side exposures to NBFIs amount to around 10% of total assets. Because euro area banks are net debtors to the sector in aggregate, the dominant vulnerability is bank-side funding and liquidity risk. In the US, by contrast, banks are net lenders and extend substantial credit lines.

This funding is concentrated and correlated. It comes through deposits, unsecured short-term debt securities and securities financing transactions, provided by overlapping NBFI counterparties. Money market funds in Europe, for instance, both supply dollar repo and hold banks' dollar commercial paper. A systemic price shock could trigger simultaneous redemptions and margin calls across NBFI groups, prompting them to withdraw liquidity from banks at once. Short-term debt and repo markets could dry up precisely when banks need them, first hitting the largest banks that receive most NBFI funding, then spreading outward.

Against this backdrop, insurers and pension funds could stabilise rather than introduce volatility. They hold predominantly investment-grade bank debt, are internationally diversified, and are not concentrated in any single name among G-SIBs and larger banks. Yet even here there is a caveat: a downgrade below investment grade could force cliff-edge liquidations, so normal-times stability does not eliminate tail risk.

The safeguards are largely in place, but system-wide visibility remains incomplete.

A key set of risks lies in cross-border bank–NBFI linkages. Banks' reverse-repo lending to NBFIs has grown, with the largest exposures to potentially leveraged entities, including hedge funds. Much of this activity is US-dollar-denominated and government-bond-collateralised, intermediated by a small group of EU banks bridging global markets. FX-swap and dollar-funding dependencies add a further transatlantic channel. This is where leverage, concentration and interconnectedness converge.

It is also where a data blind spot lies. Many of the most material counterparties are non-EU entities, generally outside EU reporting requirements. These linkages are likely to persist, and a fully coordinated global data initiative appears unlikely in the near term. Authorities therefore cannot yet assemble a timely, complete view of leverage, liquidity and concentration. The pragmatic answer is a centralised mechanism for data access and sharing among authorities, building on granular sources already available, including AnaCredit, securities financing transaction data, and securities holdings statistics, combined with deeper supervisory cooperation across borders.

But better data access is only the first step. Authorities must translate fragmented information into a forward-looking view of how stress propagates across banks, NBFIs and markets. That is why sectoral stress testing must be complemented by holistic, system-wide frameworks. The relevant shocks are not confined to individual balance sheets: they involve dense linkages and overlapping exposures, collateral dynamics, repo constraints, credit-line drawdowns, redemption pressures and valuation shocks across sectors and jurisdictions. System-wide stress-test models that reflect contagion and feedback loops better capture cascading risks and cross-market spillovers. Embedding NBFI behaviour and cross-border exposures into such frameworks would turn scattered indicators into a coherent assessment of systemic resilience.

On the regulatory substance, Europe is comparatively well equipped. AIFMD II, the UCITS framework, the ELTIF regime and Solvency II already include features supporting financial stability: liquidity management tools, leverage limits, redemption safeguards, disclosure requirements, and intervention powers for authorities. These place EU market-based finance ahead of several other models internationally. The gap is therefore less a lack of safeguards than an incomplete system-wide picture of how those safeguards would perform under stress.

The objective is to preserve the benefits of interconnectedness, diversification and risk sharing, while identifying and mitigating emerging vulnerabilities. Authorities need to see leverage, liquidity and interconnectedness clearly enough, and early enough, to act before stress becomes systemic. Europe has built strong foundations. The task now is to match those safeguards with system-wide visibility and forward-looking stress testing.

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Navigating the bank-NBFI nexus toward systemic resilience

The global financial landscape is being transformed through rapid innovation in non-bank financial intermediation (NBFI), which significantly diversifies capital allocation and market dynamism. While the expansion of investment funds and the private credit market brings substantial benefits, it simultaneously introduces complex vulnerabilities that can amplify financial shocks. Balancing financial innovation with systemic resilience requires a macroprudential framework that internalizes the risks of the deepening bank-NBFI nexus.

A primary challenge to resilience stems from the structural liquidity mismatch in many investment vehicles, particularly open-end funds. These funds provide liquid access to often illiquid underlying securities. During stress events, adverse shocks can trigger large-scale redemptions, forcing fund managers to liquidate holdings via fire sales. This mechanism creates a negative feedback loop where forced sales depress asset prices, further deteriorating fund performance and driving more redemptions. Systemic risks are potentially compounded by the expansion of global bond fund holdings, implying liquidations may amplify the negative impact on market liquidity and asset valuations.

Recent innovations in private credit, encompassing private equity and private debt funds, represent a new frontier in the "innovation-risk paradox." Large financial institutions increasingly provide specialized products, such as subscription financing and net asset value (NAV) financing, to foreign investment funds to improve yields and core profitability. While offering attractive interest spreads, these products possess risk profiles distinct from traditional corporate lending. Subscription financing is typically secured by the capital commitments of high-credit-quality limited partners, making defaults historically rare. In contrast, NAV financing uses the valuation of a fund's underlying investment assets as collateral, making loans highly sensitive to rapid shifts in market valuations and the operating environment. Furthermore, fund managers must remain mindful of redemption risks that may become a destabilizing factor for private markets and trigger sudden outflows.

Systemic resilience depends on the stability of the entire interconnected ecosystem. Innovation has deepened links between sectors, where banks provide liquidity and credit to NBFIs to minimize regulatory costs. Consequently, stress in the fund sector translates into bank balance sheet impairments. A critical insight is the explicit link between asset price declines and the real economy. When funds are forced into fire sales, sharp price drops worsen corporate funding conditions and create adverse wealth effects for households. This may lead to an economic slowdown that returns to the banking sector via increased credit costs and higher default probabilities for borrowers.

> **Ultimately, financial innovation and systemic resilience are complementary.**

To effectively combine innovation and resilience, the financial system must move toward "exploratory scenario analysis." Traditional stress tests focusing solely on the banking sector are no longer sufficient for a modern, globalized economy with the NBFI sector. Authorities should prioritize modeling the NBFI sector's behavioral reactions and account for second-round effects, including how foreign shocks propagate through international fund holdings into domestic markets. Such analysis is essential given the inherent complexity of the NBFI sector and the lack of historical stress events referencing modern fund behaviors.

Closing data granularity gaps is vital for systemic resilience. Monitoring is often constrained by limited details of the financial conditions, leverage, and positions of private funds and hedge funds. Resilience requires transparency to identify multi-layered credit exposures and hidden leverage within alternative investments. Banks must work towards real-time portfolio management of all fund-related exposures. Proactive risk management also necessitates that banks account for potential drawdowns on committed credit lines during stress events, which exert liquidity pressure and increase credit costs.

Resilience should be integrated into financial innovation via macroprudential tools. Mechanisms such as swing pricing charge redeeming investors for liquidity costs, reducing the first-mover advantage that often drives runs. As digital innovations gain momentum, robust safeguarding is necessary to ensure they do not become conduits for systemic vulnerability. International coordination remains essential to monitor global shocks and cross-border risk transmission.

Ultimately, financial innovation and systemic resilience are complementary. Innovation drives dynamism, while resilience provides the stable infrastructure for sustainable growth. By fostering a balanced prudential environment grounded in transparency, granular data, and forward-looking analysis, the financial system can ensure new frontiers in capital allocation contribute to long-term stability.

PATRICK AMIS

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Further NBFI transparency would benefit all market participants

The NBFI sector has been a key focus of market participants attention for some time. The ECB is no different. We have kept a close monitoring of emerging trends and risks, especially those which could spill into the European banking sector.

The NBFI sector has emerged as a complementary funding source to traditional banks, providing diversified financing to the economy. NBFI actors increasingly act also as funding providers to banks. However, the sector's growth can create vulnerabilities which could create contagion to wider financial markets and infrastructures if risks materialise. In ECB banking supervision, we are focused on those structures and products that create interconnections between the banks we supervise and NBFIs. These interconnections are mainly created via direct lending and securitisations and market products such as repos, securities lending and derivatives.

Of course, not all business models or financial structures are created equal when it comes to risk. One should not forget that a number of NBFI activities are already covered by a sound regulatory and supervisory framework (e.g. insurance activities or regulated funds). Business models and financing structures which rely on short-term or potentially unstable funding sources are the riskiest however like all market players, we have to contend with a lack of transparency and data on many components of the market and on a range of products. Also, in recent years, financial innovation is facilitating the emergence of complex group structures that provide technology-enabled financial services across jurisdictions and sectors. These operators have the potential to pose threats to operational resilience in areas such as payments and crypto-asset services with spillover effects at the system level.

The European regulatory framework, made up of AIFMD II, UCITS, ELTIF, Solvency II, MICAR and related regulation, provides comparatively strong ex-ante safeguards against the excessive build-up of risks. This creates a robust architecture within which NBFIs must operate, but it does not always allow for the identification of risk concentrations and second round effects. As a result, there are still many unseen relationships and networks that could create problems to our financial markets and to our banks.

In the ECB banking supervision, we proactively address risks with banks and deepen our understanding of NBFI connections, but we can never foresee every possible outcome, so we also prepare for contingency.

For direct lending we are actively monitoring banks' exposure to private markets to ensure robust risk management practices. From our oversight of a subset of banks engaged in private market activities, we have observed that most exposure arises indirectly through lending to investors, private equity or private credit funds, and portfolio companies of these funds.

While the ECB Banking Supervision focuses on understanding banks' vulnerabilities to the NBFI sector.

As private markets grow, it is important that banks strengthen their processes to address specific challenges, particularly in the area of fund financing. Key areas for improvement include better aggregation and identification of private market exposures, adaptation of credit risk management frameworks to fit the specific risks posed, and enhanced collateral valuation with improved transparency.

For market-based products, we have conducted various analyses focused on banks' Counterparty Credit Risk (CCR) exposures stemming from derivatives and repo transactions. These analyses revealed that NBFIs contribute significantly, accounting for 27% of aggregate CCR exposures. Notably, key deficiencies in CCR management practices were identified and are being addressed through high-priority measures. We use a range of tools to assess these risks including on-site inspections, off-site deep dives and targeted reviews, while also supporting future work on understanding the role of principal trading firms as market makers and liquidity providers. This combined approach strengthens oversight and helps addressing identified weaknesses in Banks' CCR management.

While we are focused on banks, enhanced transparency of the NBFI sector, coming from non-regulated actors in particular, would benefit market participants and financial stability as a whole. If a crisis hits, the first thing that every market player, including the ECB, needs is data. Bridging the information gap would go a long way to improving the understanding of the risk environment, the interconnections, concentrations and potential spillover effects across market participants in the event of a crisis.

PETRA HIELKEMA
Chair – European Insurance and Occupational Pensions Authority

What is funding beyond banks good for? "*Absolutely nothing*" is not the right answer.

The EU's investment needs cannot be met by public finances or bank lending alone. Fiscal constraints are increasing across Member States, while tighter credit conditions and concerns about further bank-sector leverage limit the scope for additional bank financing. A greater contribution from non-bank financial intermediation is therefore both desirable and necessary.

The term NBFI does not describe a homogeneous sector. It encompasses entities with different business models, risk profiles and regulatory frameworks, including investment funds, family offices, pension institutions and insurance companies. Some operate under relatively light regulation, while others, such as European insurers, are subject to comprehensive prudential frameworks.

Since 2016, Solvency II has proven resilient through multiple episodes of financial and economic stress, establishing itself as a benchmark for prudential regulation through its integrated quantitative and qualitative requirements.

The same clarity is needed for private credit. Broadly, it refers to lending outside the traditional banking system or public capital markets. Yet, it lacks a universally accepted definition, and its perimeter differs across sectors and jurisdictions, making comparisons difficult. For example, insurers generally classify mortgages as private credit, whereas banks typically do not. Such differences complicate market measurement and underline the need for consistent terminology and reporting.

Private credit provides long-term financing for illiquid assets such as infrastructure and corporate investments, often meeting financing needs that listed markets cannot easily satisfy. As these investments generate relatively predictable cash flows over long horizons – while still carrying credit risk – they are particularly suited to investors with long-term liabilities.

Insures, whose liability structure enables investments over extended horizons, are thus natural providers of private credit. Considering direct and indirect exposures through funds to unlisted corporate bonds, credit-risk-bearing structured securities, mortgages and loans, while excluding intra-group exposures and lending to banks, European insurers held more than EUR 500 bn of private credit investments at the end of 2025, i.e. around 5% of total assets. Around 70% of these were in real estate and mortgages in Europe. They enhance diversification, offer attractive risk-adjusted returns and provide stable long-term cash flows (though subject to credit risk) aligned with insurers' obligations towards policyholders.

In a period of geoeconomic and political turmoil, soundly managed and supervised NBFIs and private credit can contribute to the European economy.

The expansion of private credit requires attention from both microprudential – due to demands that insurers develop the expertise needed to assess borrowers' credit risk over the loan lifecycle and comply with the Solvency II Prudent Person Principle (PPP) – and financial stability perspective, as borrower structures and financial engineering become more complex, and an increasing share of lending is directed towards sponsor-backed leveraged finance.

Although the asset class offers clear benefits, it also presents risks related to leverage, liquidity, valuation uncertainty, concentration and interconnectedness. These vulnerabilities may be amplified by the relative opacity of private markets and differences in regulatory oversight across NBFI sectors. Private credit exposures should thus be assessed through robust asset-liability management, sound credit assessment, appropriate valuation methodologies and effective monitoring of geographical, sectoral and counterparty concentrations to avoid that localised shocks quickly propagate through the financial system. The recent review of Solvency II reinforced its financial stability framework by requiring designated insurers to integrate macroprudential assessments into their ORSA and PPP processes and to strengthen liquidity risk management.

The appropriate policy response is not to discourage private credit but to ensure that its growth is accompanied by sound risk management, transparency and effective supervision. This requires recognising that not all NBFIs present the same risk profile or operate under equivalent prudential frameworks. Regulatory approaches should remain proportionate and risk-based, avoiding the mistake of treating all NBFIs alike. Well-regulated sectors, such as insurance, should not be assessed in the same way as entities subject to less demanding supervisory standards.

Finally, effective oversight of private credit requires stronger supervisory cooperation. Given the cross-sectoral nature of private markets, data availability, information sharing and coordinated supervision are essential to identify emerging vulnerabilities, limit spillovers and prevent systemic risks from building up. A deeper European capital market, supported by responsible participation by NBFIs, can become a strategic source of financing for Europe's future, provided that financial innovation is matched by equally robust standards of governance, transparency and supervision.

LEE FOULGER
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System-wide scenarios: The next frontier in financial stability

For years, financial stress testing focused on individual institutions. Regulators asked whether a bank or insurer could survive a severe shock and maintain adequate capital and liquidity. Those exercises strengthened resilience across the financial sector. But recent episodes of market stress have revealed a different challenge: understanding how the financial system behaves as a whole.

Events such as the market turmoil of March 2020 and the UK liability-driven investment (LDI) crisis demonstrated that systemic vulnerabilities often arise not from the failure of a single institution, but from the collective behaviour of many market participants. When firms respond to stress at the same time—selling assets, raising liquidity or reducing risk—their actions can reinforce one another and amplify market disruption.

This has prompted a shift in regulatory thinking. Rather than focusing solely on individual firm resilience, authorities are increasingly seeking to understand resilience at the level of the entire financial system. System-wide scenario exercises have emerged as a key tool in this effort.

Unlike traditional stress tests, system-wide scenarios examine how different parts of the financial system interact during a shock. The objective is not simply to assess losses, but to identify amplification mechanisms, feedback loops and vulnerabilities that may emerge through the collective actions of firms. This reflects a recognition that financial stability depends as much on interconnections and behaviours as it does on the strength of individual balance sheets.

The Bank of England's first System-Wide Exploratory Scenario (SWES) exemplified this approach. It brought together banks, insurers, central counterparties and non-bank financial institutions to examine how participants might react to a severe market stress. The exercise focused on whether responses such as asset sales, deleveraging and liquidity management could amplify market dysfunction. Importantly, it addressed dynamics that individual firms cannot easily observe on their own because they lack visibility of how the wider market might behave.

A key lesson was that market resilience cannot be assessed by looking at institutions in isolation. During periods of stress, actions that are rational for individual firms can collectively destabilise markets. Understanding these system-wide effects is increasingly important as financial intermediation becomes more market-based and interconnected.

The evolution of SWES also reflects broader changes in the financial system. The Bank's second exercise focuses on private markets, an area that has grown rapidly over the past decade. Private equity and private credit now play a significant role in financing businesses, while private market assets have expanded substantially in size. Yet these markets have limited experience of operating through prolonged economic stress, raising questions about how they might perform under adverse conditions.

Authorities need tools capable of assessing risks across the entire financial ecosystem.

This shift highlights an emerging feature of system-wide analysis: a greater focus on non-bank financial intermediation. As financing increasingly occurs outside the traditional banking sector, authorities need tools capable of assessing risks across the entire financial ecosystem. Vulnerabilities may emerge through interactions between banks, asset managers, insurers, pension funds and market infrastructures rather than within any single institution.

Looking ahead, system-wide scenarios are likely to become more sophisticated. Future exercises will probably move beyond assessing the impact of a shock and place greater emphasis on how markets evolve in response to that shock. Authorities are increasingly interested in endogenous risks—those generated by the financial system itself through behavioural responses and feedback loops.

We are also likely to see greater use of multi-round and iterative exercises, where participants adjust their actions as market conditions deteriorate and information changes. This reflects the reality that financial crises are dynamic events rather than static scenarios. We also need to develop our capabilities so we can undertake similar exercises in a way that is proportionate for the firms participating, while maintaining the robustness of results. Our aim is to build exercises that are repeatable at a desktop level with much lower cost after the initial investment.

Ultimately, system-wide scenarios represent a significant evolution in financial stability analysis. They reflect a shift from asking whether institutions are resilient individually to asking whether the system is resilient collectively.

The future of stress testing may therefore be less about institutions in isolation and more about understanding the interactions that connect modern finance. System-wide scenarios offer the prospect of identifying vulnerabilities before they crystallise, helping authorities build resilience not just at the level of individual firms, but across the financial system as a whole.

LINDA-ELING LEE
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The transparency gap in private assets is closing

As private assets reach individual investors, the case for independent data, common standards and timelier valuation has moved from useful to urgent.

When high-profile bankruptcies late in 2025 triggered a wave of redemption requests from investors in private-credit funds, they exposed a transparency gap. Without better information, investors struggled to tell whether the withdrawals reflected isolated problems or the start of something broader.

Advances in data and analytics are increasingly closing that gap not only in private credit but across private-asset investments, including private equity, private credit, real estate and infrastructure. The demand comes from two directions: private-asset managers, who need greater transparency to reach a broader range of investors, and institutional investors, who increasingly want consistent information about what they own and what those investments are worth.

An expanding market

Investors now hold more than USD 13 trillion in private assets. Private credit has been a major driver of that expansion, growing from under USD 100 billion two decades ago to USD 1.3 trillion today, faster than private equity over the same period, according to the MSCI Institute's Global Investment Tracker.

As private assets reach wealth and retirement channels, lagged data no longer suffices. Semi-liquid, or "evergreen," funds now exceed USD 500 billion in assets, up more than 30% in a single year, with retail investors accounting for roughly a fifth. These vehicles allow investors to subscribe and redeem at the manager-reported net asset value, which makes the accuracy and timeliness of that value critical in a way it never was for closed-end funds.

The demand is global, even if the market is not. The U.S. accounts for 61% of investment in private assets, with an even larger share of the private-credit market. Exposures, however, are unconstrained by borders, transmitting through syndicated loans, bank credit lines and cross-border holdings.

Stress is real, uneven and hard to see

Stress in private credit is not evenly distributed. As of the third quarter of 2025, our analysis shows that 15.7% of loans across private-credit funds were valued at less than 80% of principal, a rough threshold for distress, and more than 10% were valued at less than 50%. Smaller funds carried nearly 20% of loans below the 80% mark, against 13% for larger funds.

As private assets reach individual investors, transparency has moved from useful to urgent.

The harder problem is that a strategy label reveals little about the risk beneath it. In one example, analysis of three senior direct-lending funds showed that their risk looked alike. Modeling their actual holdings, however, revealed a wide range, with one fund's risk triple that of another.

The infrastructure is developing

The market is responding through more independent and consistent measurement in three areas.

Standardization. The market is coalescing around common classifications that allow investors to compare borrowers, collateral, risk drivers and performance characteristics more consistently. MSCI's PACS framework groups private assets by economic characteristics, separating, for example, sub-asset classes within private credit. That distinction matters because private credit is not a uniform asset class. For example, in Q1 2026, opportunistic lending returned 2.6%, compared with 1.0% for real-estate debt and just 0.3% for direct lending.

Timelier measurement. Innovations such as nowcasting enable daily private-asset indexes for credit and equity to estimate how values are moving between formal reporting dates. Ahead of the March 2026 repricing, for example, MSCI's private-credit index reflected stress weeks before quarterly valuations caught up.

Look-through. Investors increasingly have the ability to see the companies, sectors and risks beneath the funds they own across asset classes. Case in point: data-center investments across private assets were valued at USD 122 billion as of Q3 2025, with nearly 14% of data-center companies held by funds spanning more than one asset class, meaning exposure to the same underlying company could appear simultaneously in, for example, infrastructure, real estate and private equity allocations. Hence, a fund-level view alone can mask an investor's exposure.

A clearer view

Transparency will not make private assets resemble publicly listed assets, nor should it, and illiquidity remains inherent. Better information does not remove liquidity or valuation risk. But standardized classification, timelier measurement and more granular exposure analysis provide market participants with stronger tools to assess risk within portfolios and throughout the financial system.

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The evolving role of private markets in the financial system

The growth of private markets has broadened financing options for companies, infrastructure projects, and asset owners, while increasing diversification across the financial system. Private capital has also become an increasingly important source of funding for innovation and economic growth.

Yet, with private credit and non-bank financial institutions (NBFIs) more deeply embedded in global capital markets, understanding the implications for financial stability has become increasingly important. A conversation among market participants, policymakers, as well as independent providers of market intelligence and risk assessments is both necessary and welcome.

Balancing the opportunities and risks associated with private markets is also a particularly pressing policy challenge for Europe. Resilient and flexible alternative funding mechanisms will be central to building the Savings and Investment Union, implementing the competitiveness recommendations of the Draghi Report, and investing in the strategic assets necessary to deliver security, innovation, and growth.

Growing Interconnections

Risk becomes systemic when it has the potential to cause widespread disruption within the financial system and generate significant spillovers to the real economy. Despite private credit's limited liquidity and transparency, S&P Global Ratings' research suggests that current exposures among systemically important institutions, including banks and insurers, remain manageable.

However, the potential for systemic risk is rising as linkages deepen, financing structures become more complex, leverage increases, and semi-liquid investment vehicles gain market share. As a result, the central challenge is understanding how risks may be transmitted across an increasingly interconnected ecosystem of banks, NBFIs, insurers, pension funds, and private market vehicles.

Alternative asset managers now play an increasingly important role in credit intermediation. Private credit is funded through a network of investment vehicles supported by banks, insurers, pension funds, and sovereign wealth funds. Fund finance, Significant Risk Transfers, and other financing arrangements continue to deepen these links across the financial system.

Against this backdrop, S&P Global Ratings' Credit Conditions Committee has identified rising stress in private credit as a key risk that could impair liquidity, erode investor confidence, and increase market volatility. While these risks are currently most evident in North America, they could have broader implications as global markets become increasingly interconnected.

> Addressing these potential vulnerabilities will require greater coordination.

Pressure Points

Vulnerabilities in private credit can emerge when illiquid assets are combined with leverage, valuation uncertainty, or asset-liability mismatches. Recent market stresses highlight four areas of focus: (1) the growth of retail participation through semi-liquid structures; (2) increasing complexity and leverage within private market vehicles; (3) expanding exposures among banks, insurers, and pension funds; and (4) concentrations in sectors such as software that may face disruption from Artificial Intelligence.

These pressure points may appear manageable when considered individually. However, as private markets continue to expand and integrate more deeply into the broader financial system, understanding how these risks interact—and potentially reinforce one another—should remain a priority.

Addressing Vulnerabilities

As private markets scale and mature, the policy challenge will increasingly shift from monitoring individual exposures to understanding how risks are transmitted across the broader financial ecosystem.

Leverage warrants particular attention given that it is increasingly layered across borrowers, funds, financing vehicles, and investors. At the same time, valuation uncertainty may amplify and weaken investor confidence during periods of market stress. Limited transparency and varying disclosure practices also complicate risk assessment.

Addressing these potential vulnerabilities will require greater coordination. This should include the development of improved data on leverage and interconnections, robust liquidity risk management, effective stress testing, as well as cross-border regulatory and supervisory cooperation. Efforts by regulators, including through the FSB and IOSCO, to advance transparency and risk monitoring are therefore welcome.

Enhancing Confidence

Private markets and NBFIs are an increasingly important source of capital and financial flexibility. As these markets continue to mature, effective risk assessment will depend on a holistic view of individual institutions and the broader financial ecosystem in which they operate.

As private markets become more interconnected with banks and other institutional investors, reporting standards and data availability will also take on greater significance. Enhancing financial resilience and market confidence therefore requires renewed dialogue among market participants and policymakers.

JOHN GOLDEN

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Private credit: financing the global industrial renaissance

Banks and private credit providers play complementary roles in financial markets. Banks, predominantly funded by short-term liabilities such as demand deposits, are key providers of liquidity and short- to medium-term financing, including working capital and revolving credit facilities to corporate issuers. In addition, banks provide essential financial services such as payments, cash management, FX, and M&A advisory. Private credit providers, meanwhile, are particularly well suited to provide tailored, long-term financing. They take long-dated investor capital and deliver scale, duration, and execution certainty for borrowers, as well as flexibility to customize financing structures. Because private capital is long-dated, it naturally matches the duration of longer-term assets and projects. Therefore, a financial system that effectively marshals the strengths of both banks and private credit providers better meets diverse borrower needs and reduces system-wide maturity transformation.

Investment-grade private credit is essential for financing the Global Industrial Renaissance, a massive industrial build-out currently transforming the world economy. Global financing needs for energy transition, utilities, next-generation manufacturing, defense, and digital infrastructure are estimated at tens of trillions of dollars over the coming decade. Meeting demand at this scale necessarily requires long-term capital beyond what banks can solely supply, including investment from institutional investors like insurance companies, sovereign wealth funds, and endowments, as well as individuals. Private credit is now an approximately $40 trillion, predominantly investment-grade market, dwarfing the $2 trillion direct lending market that frequently dominates public discourse. Investment-grade private credit spans numerous asset types including corporate loans, infrastructure debt, mortgages, asset-backed finance, equipment finance, aviation, supply-chain finance, and project finance—all essential for financing the Global Industrial Renaissance.

Rising energy demand illustrates how private credit can mobilize substantial long-dated investor capital to meet today's strategic financing needs. Global electrification, industrial expansion, transport, cooling, and the modernization of aging grids are increasing the need for reliable power. Global electricity demand is expected to grow by an average of 3.6% annually from 2026 through 2030, 50% faster than over the previous decade. Meeting this demand will require sustained investment across generation, transmission, distribution, storage, and grid resilience. These assets are capital intensive, often take years to develop, and require staged funding, execution certainty, and repayment profiles aligned with long operating lives. The buildout is therefore expected to require trillions of dollars of private capital, much of it investment grade given the scale and essential nature of the assets.

Private credit providers, in partnership with banks, are essential for mobilizing capital at scale.

A recent Apollo-led financing for EDF illustrates how private credit providers can meet financing needs at this scale in partnership with banks. Apollo-managed affiliates, funds, and strategic accounts agreed to invest up to £4.5 billion in fixed-rate callable notes issued by EDF, with proceeds expected to be used primarily for EDF projects in the United Kingdom, most notably the Hinkley Point C nuclear power station. The transaction was the largest private credit transaction in the sterling market and EDF's largest-ever capital funding transaction. It demonstrates how long-dated, investment-grade private capital can support critical power infrastructure, energy security, and reliable baseload generation, while banks remain central to structuring, advisory, hedging, and other essential services. This transaction is just one of many such deals that Apollo and other private credit providers have financed across the globe.

Private credit providers, in partnership with banks, are essential for mobilizing capital at scale to finance the Global Industrial Renaissance, offering long-term, match-funded, customized financing for assets that may be difficult to finance solely through bank balance sheets or public markets but are nonetheless critical to meeting global strategic objectives. By marshalling the strength of diverse capital markets that draw from both private capital and bank balance sheets, the European Union has a pivotal opportunity to finance its strategic objectives while positioning itself for substantial growth and innovation in the decades to come.