

GROWTH IN PRIVATE CREDIT OFFERS OPPORTUNITIES BUT REQUIRES VIGILANCE

BY **RALPH VERHOEKS AND ANNICK VAN OOL**

Lending via private credit is on the rise. Private credit involves loans that are not traded on public markets and are provided by non-banks, usually through investment funds. Dutch insurers and pension funds are also investing more in private credit, often through investments in private credit funds. In this article, we focus on the drivers of growth in private credit and what opportunities and risks this development entails for the financial system.

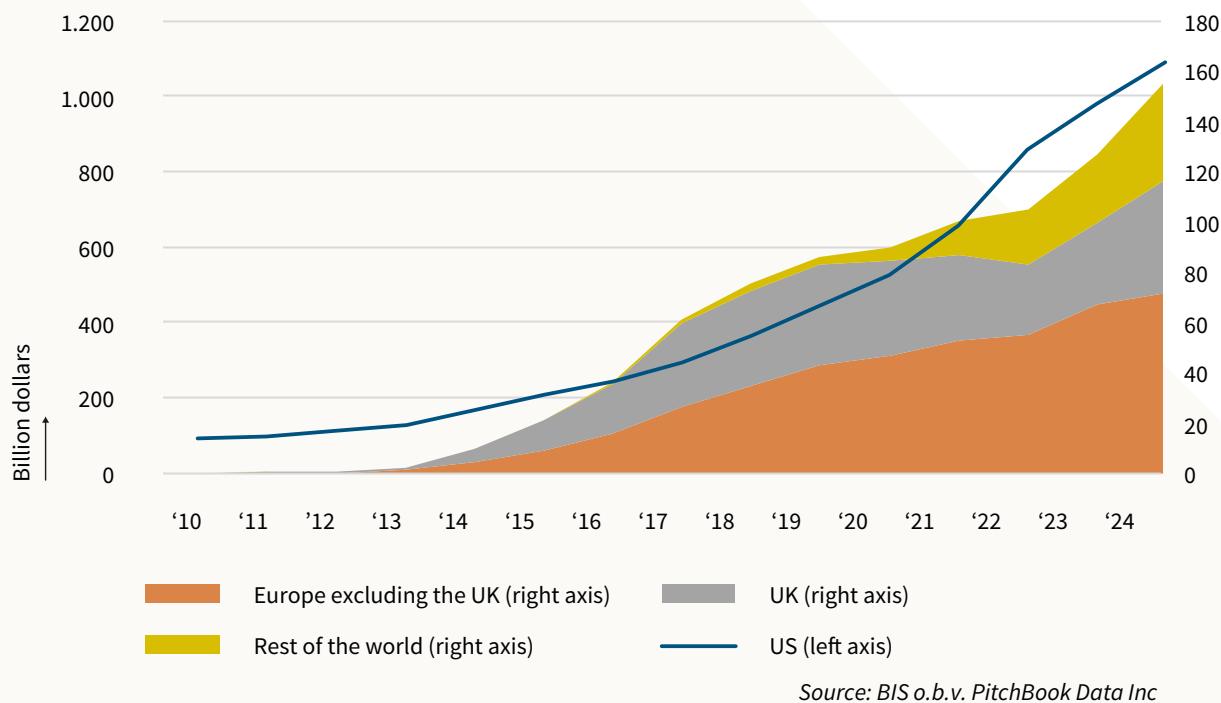
PRIVATE CREDIT WORLDWIDE

In recent decades, the global market for private credit has grown strongly, from about \$0.2 trillion in 2000 to more than \$2.5 trillion today. The United States is clearly at the forefront of this development, accounting for roughly half of the total private credit market and an annual growth rate of 20% (see Figure 1). In both the US and Europe, the market for private credit is now comparable in size to the market for leveraged loans and high-yield bonds. Research by the BIS shows that an increasingly diverse range of companies and sectors are also making use of this form of financing. Despite the rapid growth, private credit is still a relatively small part of lending to companies. In the US, it accounts for around 7% of lending, in Europe around 2%.

WHY IS PRIVATE CREDIT GROWING?

The growth of private credit is partly due to the tightening of capital requirements for banks following the lessons learned from the financial crisis. For risky loans and investments, banks need to hold more capital. As a result, banks are more selective in their lending and less willing to lend to companies with a riskier profile, especially for longer maturities. Private credit has partly filled the gap that has arisen after this retreat of banks. In addition, the possibility of more customization plays a role in the growth of private credit. Whereas private credit was traditionally mainly used by small and medium-sized companies, it is increasingly being adopted by larger companies to better meet their specific financing needs. The period of prolonged low interest rates has also contributed to the growth >

FIGURE 1: PRIVATE CREDIT LOANS HAVE GROWN RAPIDLY IN MANY COUNTRIES



of private credit. The *low for long* period prompted institutional investors to search for yield. As a result, alternative investments – including private credit – in particular have grown. Even with higher interest rates, growth continues. For investors, portfolio diversification - due to the (expected) low correlation with public markets - and higher returns are a reason to increase their allocation.

INSTITUTIONAL INVESTORS DOMINATE THE PRIVATE CREDIT MARKET

In the Netherlands, the number of private credit investment funds is limited. The total assets of private credit funds at Dutch asset managers equals approximately 8 billion euros at the end of 2024. However, Dutch financial institutions also invest in foreign investment funds.

Worldwide, institutional investors are the most important investors in private credit funds. Dutch pension funds and insurers are also increasingly investing in private assets, including private

credit and private equity funds. For example, the average allocation of Dutch insurers to private assets increased from around 5% in 2016 to 14% of the total investment portfolio at the beginning of 2025 and for pension funds from 7% to 14%. This allocation consists mainly of private credit for insurers, while Dutch pension funds invest mainly in private equity and infrastructure.¹ Among insurers, we see that this trend is being accelerated by the involvement of private equity parties, which are expanding their participations in life insurers and investing part of the premiums collected in (their own) private asset funds. The IMF has shown that insurers that have been taken over by a private equity party invest significantly more in illiquid assets worldwide.

IS PRIVATE CREDIT A RISK TO FINANCIAL STABILITY?

A greater role for non-bank parties in lending leads to more diversity and competition in credit markets. This increases the resilience of >

¹ Unfortunately, due to the lack of a standardised framework for the classification of private assets, it is not possible to determine the exact exposure to private credit based on supervisory data.

the financial system, because the dependency on banks decreases. In addition, a greater role for private markets can contribute to economic growth. Private credit offers the possibility of targeted financing to more innovative and risky companies that have difficulty accessing traditional credit channels. It is precisely these companies that are important for future growth potential. The fast implementation and tailor-made conditions also provide advantages. From this perspective, the growth of private credit is a welcome development, which is also stimulated by European initiatives under the Savings and Investment Union (SIU) strategy. Within this strategy, the EC aims to promote an integrated and well-functioning capital market within the EU, in which cross-border financing is simplified, investments are better channeled to growth companies, and dependence on bank financing is reduced.

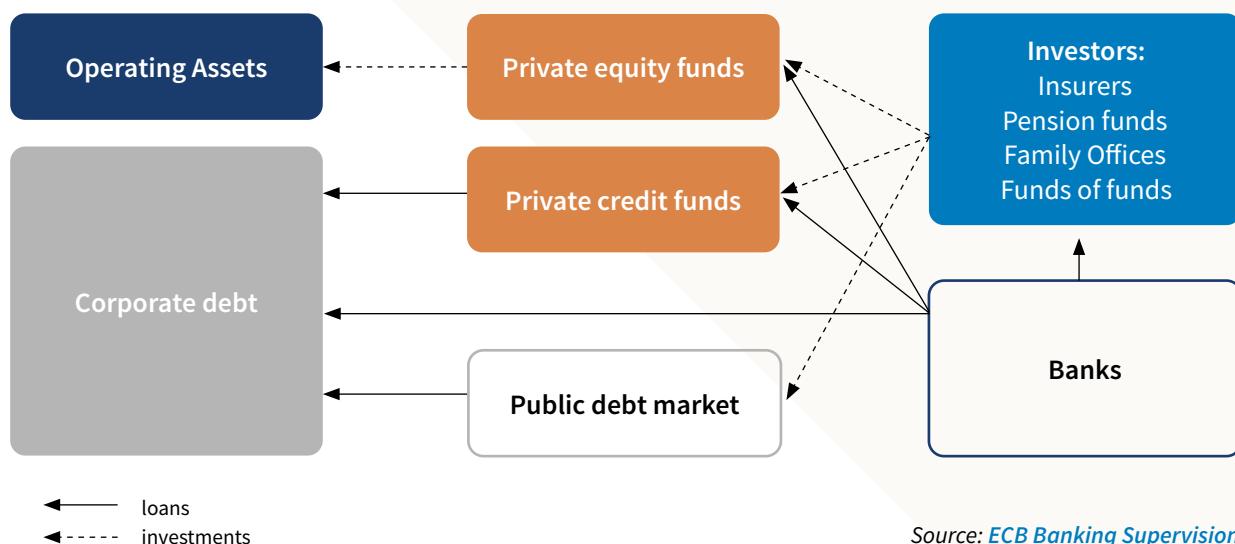
However, the increase in private credit also leads to risks. First of all, companies that use private credit tend to be more sensitive to the economic cycle, which can lead to large unexpected losses for investors in the event of a recession. This is because these companies are characterized by

their relatively small size, higher debt burden and limited financing options, for example due to low profitability or a lack of good collateral.

Second, valuations of private credit investments are surrounded by uncertainty. Loans are not traded on public markets, so the valuation depends on third parties. Due to the high degree of customization, there are also few comparable transactions and people are dependent on *mark-to-model* approaches. Fund managers also have an incentive to postpone revaluation and losses, as their remuneration and new investments often depend on recent performance. In a downside scenario, this could lead to a sudden, correlated increase in defaults.

Third, interconnectedness of financial institutions via private credit can lead to contagion risks. For example, different forms of leverage contribute to this interconnectedness. Although leverage within private credit funds is usually limited, there can be multiple forms and concentration of leverage in the total chain involved in private credit, from borrowing companies to investors and leverage providers such as banks (see Figure 2). >

FIGURE 2: THERE ARE MULTIPLE FORMS OF LEVERAGE IN THE TOTAL CHAIN OF PRIVATE CREDIT



For example, banks provide credit lines to private credit funds. They can also provide loans or lines of credit to companies that also borrow via private credit. In addition, interconnectedness increases when private equity parties acquire life insurers and subsequently increase the investment allocation to (their own) private asset funds. These different forms of interconnectedness can lead to contagion in stress scenarios and increase the risk of negative shocks propagating through the financial system.

Finally, increasing competition with investment banks may put pressure on underwriting criteria. As private credit serves increasingly larger companies, competition with banks in the syndicated loans market has increased sharply. This creates an incentive to weaken acceptance criteria and i.

CONCLUSION

The growth of private credit increases the diversity in lending and can therefore contribute

to economic growth, for example by financing start-ups and growth companies. But this trend also leads to risks. Given its limited size, the systemic dimension of this in the Netherlands currently seems limited. However, the explosive growth and opacity call for vigilance and emphasize the importance of more transparency. The growth of private credit and the shift to more illiquid and risky investments in general require that robust risk management by financial institutions is in place.

SOURCES

- Global Financial Stability Report ([IMF, October 2023](#))
- The global drivers of private credit ([BIS, March 2025](#))
- Promoting Global Financial Stability – Annual Report ([FSB, November 2024](#))
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RALPH VERHOEKS PHD
(left) and **ANNICK VAN OOL**
PHD (right) both work as
economist at the division
Financial Stability of De
Nederlandse Bank (DNB).