

Department of Business and Management
Master's Degree in Corporate Finance

Chair of Advanced Corporate Finance

The Rise of Private Credit:
An Empirical Analysis of Drivers and
Implications on Market Risk

Prof. Pierluigi Murro

SUPERVISOR

Prof. Michela Altieri

CO-SUPERVISOR

Gianmarco Pompei – ID. 795191

CANDIDATE

Academic Year 2025/2026

INDEX

1. Introduction	1
1.1 Study Overview	1
1.2 Gaps in Academic Literature and Research Questions	2
2. Private Credit: an Overview	4
2.1 The Centrality of Credit in the Economic Cycle	4
2.2 Definitions and Main Characteristics of Private Credit	10
2.3 The Role of Private Credit in the Financial System	12
2.4 Credit Solutions and the Subjects Involved	15
2.5 The Recent Developments: the Drivers for Growth	21
2.6 The Italian Market	30
3. Private Credit and Financial Stability	35
3.1 A Brief on Regulatory Framework	35
3.2 The Interplay between Private Credit and Financial Stability	46
3.3 Literature Review	53
4. Empirical Analysis	61
4.1 Methodology	61
4.2 Research Hypothesis	69
4.3 Regression Analysis	72
4.4 Event Study	77
4.5 Discussion of Results	80
5. Conclusions	83
Bibliography	86
Appendix	90

Abstract

The continuous access to credit is a fundamental condition for firms to grow and sustain the economic cycle. Conventionally, public and private credit channels constitute the pillars of the credit market, granting the necessary funds to the economic actors, fostering economic growth in the ultimate instance. While providing different solutions and involving different risk balances, Public and Private Credit are closely tied and constitute a spectrum of opportunities for both borrowers and lenders. Due to a combination of enabling conditions, Private Credit is a phenomenon with growing momentum in financial markets over the recent years. Following the 2008 Great Financial Crisis, the financial system has undergone multiple phases of market volatility to date, leading financial institutions and market participants to adopt increasingly diversified and evolving funding solutions.

Against the above background, this thesis investigates the development and the establishment of Private Credit as a key source of financing for companies. After an initial overview of the Private Credit market and the relative areas of analysis of this financing solution, the empirical section is developed to provide empirical evidence deriving from the market. More specifically, the results of the analysis conducted in the U.S. and Europe show that the degree of bank stringency and the level of policy interest rates can explain the growth in the Private Credit market from 2009 to 2024. At the same time, the negative news associated with the status of Private Credit market do not exert a significative impact on the stability of financial markets. The work provides an insightful contribution to the existing strand of academic literature based on recent market evidence while representing a starting point for future research in the field.

1. Introduction

1.1 Study Overview

The allocation of funds in the credit market is a major enabler in supporting the correct functioning of the wider financial system and, ultimately, fostering the economic growth. Over the last decades, the dynamics affecting the credit market, through its multiple channels, have emerged as a key source of interest for players in the financial system and policymakers. More specifically, the global financial system has witnessed, in twenty years, a significant structural transformation, featured by a progressive reduction of prominence of traditional sources of financing in favour of alternative channels. In this evolution process, private credit, which can be defined as the provision of loans by non-banks to companies, has emerged as an increasingly pivotal component of the financial ecosystem.

The growing role of Private Credit is not a casual event but rather can be interpreted as the result of a convergence of both regulatory and macroeconomic factors. Tight regulation of the banking sector, tightened by the post-2008 crisis reforms (i.e. the introduction of Basel III), has limited the possibility of traditional lenders to take risks and hold illiquid loans on their balance sheets. This contraction in the supply of capital has generated a substantial financing gap in the system, filled by new players such as specialized credit funds. These entities, drawing on capital from institutional investors (mainly pension funds, insurance companies, sovereign wealth funds) in search of higher returns during a period of contracted interest rates, have been able to allocate resources directly into the entrepreneurial sector, since, because of their nature, were not exposed to the stringent banking regulations.

The growing recourse to this solution and the participation of new players in this segment has rapidly transformed Private Credit from a niche market to a pillar of corporate financing, especially for medium-sized companies, conventionally less prone to access public capital markets. The flexibility of the solutions offered the speed of execution of transactions and the ability to structure specific financing structure represent a clear competitive advantage compared to the rigidity of bank credit channel. However, the rise of the Private Credit as a new asset class raises important questions regarding financial stability and transparency. The inherent illiquidity of investments, the lack of daily market

pricing and the concentration of risk within a limited number of players in the market are all elements requiring careful evaluation.

This thesis therefore aims to critically investigate the risk-return profile of the Private Credit instruments, analysing the different operational strategies (ranging from direct lending to distressed debt) and offering a perspective on the opportunities and potential challenges featuring this rapidly evolving segment. Furthermore, the research aims to provide an analytical and in-depth overview of the sector which is redefining the traditional scheme of access to capital from corporates.

1.2 Gaps in Academic Literature and Research Question

As the Private Credit sector has expanded, a number of academic and non-academic studies have focused on understanding the dynamics of the sector, trying to identify the main empirical evidence from multiple points of view. A first area of analysis undoubtedly relates to the drivers supporting the development of the sector. The recent contribution from Avalos et al. (2025)¹ is intended to define the main drivers supporting the origination of new loans in the Private Credit segment in the US market. To a similar extent, the earlier studies from Aramonte (2020)² and Boyarchenko and Elias (2024)³ provide a general context for the developments in the Private Credit market, including the reasons for its widespread adoption. In addition to this, multiple analyses over the recent years are capturing the market trends in terms of volumes, market players and credit solutions, providing a constantly updated view on market direction, with specific reference to the US market (Morgan Stanley, 2024)⁴. Finally, a third area of interest relates to the understanding of the risks brought by growth of Private Credit, in relation to the broader financial market stability. A pivotal contribution in this direction comes from Cai and Haque (2024)⁵, but also Muminović (2024)⁶ and Ivashina (2025)⁷ add

¹ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

² Aramonte, S. (2020). Private credit: recent developments and long-term trends.

³ Boyarchenko, N., Elias, L. (2024). *Financing private credit* (No. 1111). Staff Reports.

⁴ Morgan Stanley (2024). Private Credit. An Important Alternative for Market Allocation.

⁵ Cai, F., Haque, S. (2024). Private credit: Characteristics and risks.

⁶ Muminović, H. (2024). The Rise and Risk of Private Credit. *Studia Iuridica Montenegrina*, 6(1), 43-54.

⁷ Ivashina, V. (2025). Private Credit: What Do We Know?. Available at SSRN 5683442.

interesting perspectives on how the Private Credit segment can impact the systemic risk in the financial market, though mainly from a qualitative point of view.

Based on the discussion developed above, some gaps can be identified in the existing research. A first aspect regards the lack of a unique perspective considering the three dimensions described above, enlarging at the same time the view the global Private Credit market. Accordingly, the research intends to discover the dynamics underlying the significant development of Private Credit, taking a closer view to the recent developments while providing empirical evidence on the trends featuring the market. In particular, the research questions investigated in the analysis are:

- *What are the drivers of the growth in the market of Private Credit on global scale?*
- *How does the growth of Private Credit affect global financial markets?*

Against such research questions, the thesis is aimed to contribute to the existing research on Private Credit at a threefold level. First, the study provides an updated and extensive review of discussion on Private Credit proposing an overview of the most recent evidence and market trends. A second contribution relates to the comparative considerations relating to the drivers for growth and the determinants for risks in the system. Finally, the analytical section addresses the research questions, providing a key piece of evidence in a market whereby limited research studies are available to date.

The work is structured as follows. Chapter 2 provides a comprehensive overview of the phenomenon of Private Credit starting from the definition of the broader role of credit in the financial system and delving into the main definitions and dynamics in the market and the drivers for growth. A dedicated section is also dedicated to the overview of the Italian market. Through the discussion developed in Chapter 3, the risks brought about from the growth in Private Credit are discussed. A brief description is elaborated on the key traits of the regulatory framework which have impacted the conventional financing activity from bank and then an in-depth discussion is provided on the interplay between the Private Credit and the financial stability, taking the perspective of academic literature. Chapter 4 addresses the analytical part of the study, with the determination on the one side of the drivers for growth and, on the other side, the potential risks factors emerging from the market. The main conclusions of the study are summarized in the final section of the research.

2. Private Credit: an Overview

Private Credit represents a fundamental, and to a certain extent a transformational, argument in the financial discussion. In today's complex financial ecosystem, the connection between supply and demand for capital is shifting away from the conventional banking channel, giving rise to new credit solutions. This chapter provides an overview of the dynamics, the characteristics and the main criticalities encompassing the Private Credit market, from an analysis of its role within the financial system to the characteristics of the different actors involved, while also providing an overview of the most recent trends affecting the sector.

2.1 The Centrality of Credit in the Economic Cycle

Conventionally, the credit market can be defined as the economic place in which supply and demand of financial resources meet, with the facilitation of banking institutions. This market is characterized by the presence of banks that collect resources from savers (surplus units) and provide them (transformed in terms of liquidity and risk) to deficit units. The credit market is part of the financial system, and it is through this system that resources are transferred, facilitating economic exchanges and expanding the ways in which goods and services are purchased (Mishkin et al, 2023)⁸. The financial system plays a fundamental role in supporting the economic growth and in the development of the society. In a nutshell, it is possible to identify the following fundamental functions of a financial system through which it can affect economic system (Ferrari et al., 2018)⁹:

- The credit market supports the efficient exchange of goods and services through the provision of payment services and the consequent reduction of transaction costs. Through the increase in transactions, specialization increases, with a consequent stimulus in productivity growth, a positive cycle which has supported over the decades the evolution of the system and the players operating within it.

⁸ Mishkin, F. S., Eakins, S. G., Forestieri, G. (2023). *Istituzioni e mercati finanziari*, 9a Edizione. Pearson Italia.

⁹ Ferrari, A., Gualandri, E., Landi, A., Vezzani, P. (2018). *Il sistema finanziario: funzioni, mercati e intermediari*. G Giappichelli Editore.

- By collecting savings from a broad audience of players, financial institutions and markets can help overcome the indivisibility of investments and allow economies of scale to be exploited.
- Institutions and markets have a positive impact on investments and resource allocation, through a reduction in screening and monitoring costs and an increase in investment projects that can be financed. Furthermore, it is the financial system that identifies entrepreneurs with potentially innovative and technologically successful projects with a stimulus for innovation and growth;
- Financial systems help reduce agency problems between majority and minority shareholders on the one hand and management on the other. This results in a better allocation of resources, a significant improvement in corporate governance and in capital accumulation;
- Banks collect savings from diversified agents: in this way they can transform short-term liabilities into long-term assets, stimulating long-term investments (with consequent reduction of volatility) and growth;
- Markets and financial institutions facilitate the start-up of risky but innovative activities, guaranteeing savers a contractually established interest.

Therefore, it can be said that financial instruments, markets and institutions have an influence on economic growth, which mainly results from their ability to reduce transaction and information costs. The general consideration that credit affects the business cycle is well established in economic theory. For example, Bernanke and Gertler (2000)¹⁰ identifies the collapse of the banking sector as one of the main determinants of the Great Depression. In the same direction, earlier studies in the 1990s (Kiyotaki and Moore, 1997)¹¹ show how the credit market amplifies the fluctuations of the business cycle, playing a role of financial accelerator. The assumption that the banking system has taken on an increasingly central role in economic activities and consequently for the development and growth of countries can be seen from the fact that the repercussions and negative effects of the 2008 financial crisis have also spread to the real economy. However, the weakness found in the banking sector during the crisis has also been favoured by the creation of new activities and new financial instruments that have

¹⁰ Bernanke, B. S., Gertler, M. (2000). Monetary policy and asset price volatility.

¹¹ Kiyotaki, N., Moore, J. (1997). Credit cycles. *Journal of political economy*, 105(2), 211-248.

changed the way banks operate (i.e. lending activities). In fact, there has been a shift from the traditional model of granting credit to the originate and distribute model, according to which the more the risk is distributed, the more it is reduced (Mishkin et al., 2023)¹². In particular, the receivables issued are regrouped together, divided into segments and then marketed as new securities. The introduction of these new instruments and the securitization of loans have allowed banks to obtain new inflows, new funds necessary for the granting of new loans. The crux of this new way of operating was that we did not accurately measure the riskiness of these securities before they were placed on the market. As a result, individual investors were not put in a position to assess the risk they were taking, creating and buying these instruments. These operations were among the triggers of the 2008 financial crisis, which soon resulted into a wider economic crisis. Therefore, the development of credit to the private sector continues to be a key challenge for most economic systems because of the implications for economic and financial stability. There are many studies that have analysed the possible effects, evaluating the policy options that can counteract and reduce these risks. Some analyses have shown that private sector credit in the euro area (and therefore monetary and credit aggregates) has significant informational content for forecasting the developments of some economic variables (inflation, prices).

Below an overview of such contributions has been realised using different empirical methodologies and assessing multiple economic and financial dimensions.

Since the 1990s, analyses have been carried out on the determinants of lending to the private sector in euro area countries, also using simultaneous models such as VECM (Vector Error Correction Model) which have specified the existence of long-run equilibrium relationships between credit variables and real variables. Within this strand of research, De Bandt and Jacquinot (1992)¹³ analyse the financing decisions of French firms on the basis of a short-term (quarterly) econometric model in the period 1977-1989. The results confirm the importance of financing to companies, which rely on bank loans to finance their increased working capital needs and then issue securities on the financial

¹² Mishkin, F. S., Eakins, S. G., Forestieri, G. (2023). *Istituzioni e mercati finanziari*, 9a Edizione. Pearson Italia.

¹³ De Bandt, O., Jacquinot, P. (1992). The financing of corporate firms in France: An econometric model. *Economic Modelling*, 9(3), 253-269.

market to balance their overall debt. Panagopoulos and Spiliotis (1998)¹⁴ analysed loans to firms in Greece, considering the equations of credit supply and demand. Using multiple aggregate variables, they showed the strong impact of delayed wages and loans on firms' demand for credit and the insignificance of interest rates, mainly in response to the tight control imposed by the authorities during the period considered.

For Spain, Nieto (2007)¹⁵, through a single-equation model, searches for the main explanatory factors of changes in credit to Spanish firms, assuming the behaviour of the determinants is exogenous. The results showed that, in the long run, household indebtedness is positively determined by real spending, gross wealth, and the completion of outstanding loan repayments, and negatively by the cost of borrowing and the unemployment rate.

Growth, in the short run, is influenced by changes in long-term interest rates and employment. Hofmann (2004)¹⁶ finds stable long-term relationships between the stock of loans to the private sector and some national macroeconomic variables (in 16 countries in euro area). Additional tests suggest that long-run credit development cannot be explained only by the factors of standard credit demand (i.e. real GDP and real interest rate) but also by the property variable. In doing so, the author identifies the long-run relationships that link credit demand positively to GDP and property prices (in real terms) and negatively to the interest rate. Following on this, the analysis from Calza et al. (2006)¹⁷ also addresses loans granted to the private sector focusing on the euro area compared to Hofmann. In line with evidence from Hofmann, authors identify a long-run relationship between the real stock of loans and a small set of national macroeconomic variables. Empirical results suggest that not loans but changes in funding help predict future changes in inflation.

¹⁴ Panagopoulos, Y., Spiliotis, A. (1998). The determinants of commercial banks' lending behavior: some evidence for Greece. *Journal of Post Keynesian Economics*, 20(4), 649-672.

¹⁵ Nieto, F. (2007). The determinants of household credit in Spain. *Banco de España Research Paper No. WP-0716*.

¹⁶ Hofmann, B. (2004). The determinants of bank credit in industrialized countries: do property prices matter?. *International finance*, 7(2), 203-234.

¹⁷ Calza, A., Manrique, M., Sousa, J. (2006). Credit in the euro area: An empirical investigation using aggregate data. *The Quarterly Review of Economics and Finance*, 46(2), 211-226.

It is generally difficult to distinguish between supply and demand factors in the behavioural relationships of credit aggregates. For example, as far as Italy is concerned, Casolaro, Eramo and Gambacorta (2006)¹⁸ who developed an econometric model for bank credit to companies. Bank loans are expressed on the basis of the ratio of fixed capital formation to gross operating margin (which approximates the need for external financing), on the basis of the assets fixed on the balance sheet of companies (measured by the capital stock) and on the basis of the differential between the rate on short-term loans and the yield on the interbank market (which approximates the relative cost of bank credit compared to alternative forms of financing). The results show in the long term a direct link between bank credit and fixed assets and the ratio between fixed investments and EBITDA and a negative correlation with the interest rate differential. On the other hand, in the short term, companies' bank debt choices are more influenced by liquidity constraints and price conditions. The analysis also showed a rather slow process of readjustment towards long-term equilibrium in the case of exogenous shocks.

As far as consumer bank credit in Italy is concerned, Casolaro and Gambacorta (2005)¹⁹ develop an econometric model based on two equations, one for loans for house purchase and the other for residual loans (mainly consumer credit and current account loans). Both variables showed a close link with real interest rates and the dynamics of aggregate demand. For the purchase of homes, they also showed a link with the performance of the stock and real estate markets. The model, therefore, has allowed the analysis of the presence of structural changes due to the transformations that took place in the credit market in recent decades, allowing the breakdown of the contribution to the growth of credit to households among the different factors. The results of the simulations carried out show that the real interest rate, GDP, consumption, house prices, equity wealth and the introduction of tax benefits contribute to the increase in credit to households. The contribution provided by Pericoli et al. (2013)²⁰ is different, generalizing the existing

¹⁸ Casolaro, L., Eramo, G., & Gambacorta, L. (2006). Un Modello Econometrico Per Il Credito Bancario Alle Imprese in Italia (An Econometric Model for Bank Credit to Corporations in the Euro Area). *Moneta e Credito*, 59(234).

¹⁹ Casolaro, L., & Gambacorta, L. (2005). Un modello econometrico per il credito bancario alle famiglie in Italia (An econometric model for bank lending to households in Italy). *Moneta e Credito*, 58(229).

²⁰ Pericoli, F. M., Galli, R., Frale, C., & Pozzuoli, S. (2013). Bank lending in a cointegrated VAR model. *Government of the Italian Republic (Italy), Ministry of Economy and Finance, Department of the Treasury Working Paper*, (8).

results in the literature and considering the statistical-inferential problems generated by the economic crisis at the end of 2008 have identified a forecasting model for the supply of credit to the private sector in Italy. In particular, the identified model allowed to detect a structural change in the long-term trend (caused by the economic and financial crisis) and showed a common trend (i.e. a similar trend) between bank loans and real GDP (in fact altered by the crisis). A new element, compared to the existing VECM econometric literature, is the use of monthly data and the possibility of using cointegration equations even in the presence of structural breaks. The following four variables were considered: nominal 3-month interest rate, real stock of credit to the private sector (households and non-financial firms), annualized monthly inflation rate and real GDP, through which two co-integration relationships were identified. The first vector represents the positive relationship between the nominal 3-month interest rate and the rate of consumption inflation over the long run. The second vector describes the long-run relationship between real lending, real GDP and the inflation rate, where real lending is positively correlated to the level of general activity and negatively to the rate of consumer inflation, which in turn is directly linked to the policy rate and thus to the cost of credit.

A fair amount of literature, including Büyükkarabacak and Valev (2010)²¹, has dealt with issues related to the development of credit and banking crises. For Italy, for example, Panetta and Signoretti (2010)²² analyse the evolution of bank lending in Italy during the financial crisis, to assess the contribution of supply and demand to lending dynamics. The analysis attributes the deceleration in credit, to falling demand. As far as households are concerned, the drop in demand is mainly caused by the weakness of the real estate market and the fall in consumption, while, for businesses, by the lower financial needs due to the sharp contraction in investments.

What has been reported so far represents only a limited portion of the literature on credit analysis, a brief excursus on the empirical work carried out on the demand and supply of credit, on the links between credit trends and the economic cycle, on the variables that contribute to the explanation of credit (to the financial crisis we have witnessed and more

²¹ Büyükkarabacak, B., Valev, N. T. (2010). The role of household and business credit in banking crises. *Journal of Banking & Finance*, 34(6), 1247-1256.

²² Panetta, F., & Signoretti, F. M. (2010). Credit demand and supply in Italy during the financial crisis. *Bank of Italy Occasional paper*, (63).

recently the banking crisis) and, conversely, on how financial and credit variables help explain the different economic phases that have characterized recent years.

2.2 Definitions and Main Characteristics of Private Credit

In recent years, a growing number of companies, especially unlisted Small and Medium Enterprises, have taken advantage of alternative finance solutions to fund their development plans. In more general terms, the term alternative finance refers to everything that goes beyond the conventional banking channel (i.e. funding operations that move private capital and are linked to the world of Private Credit and Private Equity). The term Private Credit refers to all debt instruments subscribed through non-banking channels by institutional investors. In recent years, these instruments have become increasingly central for the financing of dynamic and fast-growing Small and Medium Enterprises, companies which have limited or no access to traditional credit channels (Aramonte and Avalos, 2021)²³. In brief, Private Credit is the provision of debt finance to companies from funds – rather than banks, bank-led syndicates, or public markets. In established markets, such as the US and Europe, private debt is often used to finance buyouts, though it is also used as expansion capital or to finance acquisitions (Preqin, 2025)²⁴.

Along with the trend becoming more popular, also Private Credit definition seems responding to multiple aspects. Private Credit can cover private debt investments which are non-publicly traded financing solutions, devised from entities, such as private credit funds or Business Development Companies (or BDCs), not belonging to the conventional banking sector, with the ultimate goal to provide funds to private businesses. More specifically, Private Credit solutions can be typically provided to middle-market companies reporting annual revenues in the range between \$10 million - \$1 billion. Nevertheless, the reach of Private Credit solutions has expanded recently to larger firms traditionally funded by leveraged loans.

²³ Aramonte, S., Avalos, F. (2021). The rise of private markets. *BIS Quarterly review*, 37(December), 69-82.

²⁴ Preqin (2025). Lesson 4: Asset Classe Private Debt.

More specifically, Private Credit solutions envision the definition of terms and conditions of the financing to meet the specific needs of both the borrower and lender, without the mandatory requirement to operate in compliance with the requirements provisions. This bilateral origination of a credit facility between a single borrower and lender can be referred also to as direct lending, a definition including also deals involving a restricted number of lenders. Financing from direct lending funds have generally higher seniority compared to other Private Credit loans which are addressed to more junior tiers of the firm's capital structure. Also, in most cases, Private Credit feature floating rates. A key aspect relates to the possibility of trading such loans on the secondary market. Considering the lack of a liquid secondary market dedicated to Private Credit financing, in most cases lenders hold these loans until agreed maturity or when a refinancing event occurs.

This peculiar feature requires the loan agreements to include specific features, uncommon to traditional bank loans, such as a structured equity component, high prepayment penalties, or a role in oversight or management of the company (Cai and Haque, 2024)²⁵. According to the International Monetary Fund view (2024)²⁶, the Private Credit relates to nonbank corporate credit, issued outside the conventional channel of public securities or commercial banks. In this view, bank financing, syndicated loans and publicly traded securities-related loans are separate type of financial instruments. Another interesting perspective comes from Aramonte (2020)²⁷ who refers as Private Credit to non-bank direct credit to companies, generally with earnings below \$100 million. Some general characteristics arise from this synthetic overview of the definitions of Private Credit and can be summarized as below (Avalos et al., 2025)²⁸:

- *Non-bank source of funding*: capital comes from funds managed by alternative asset managers (such as pension funds, insurance companies, and institutional investors), not from commercial banks.

²⁵ Cai, F., Haque, S. (2024). Private credit: Characteristics and risks.

²⁶ International Monetary Fund (IMF) (2024). The rise and risks of private credit. Global Financial Stability Report, chapter 2, April, 53–76.

²⁷ Aramonte, S. (2020). Private credit: recent developments and long-term trends.

²⁸ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

- *Privately traded in nature*: financing instruments (loans, bonds, etc.) are not listed on a stock exchange and terms are negotiated privately and bilaterally between the borrower and the lender (or a restricted number of lenders).
- *Flexibility and customization*: unlike standardized bank credit, terms and conditions relating to repayment terms, instalments, and interest rates can be very specific from time to time, to meet the specific needs of the company requesting the financing. Furthermore, such financing agreements are not subject to regulatory requirements applicable to publicly traded debt securities.
- *Objective*: Private Credit financing is mainly addressed to Small and Medium Enterprises or provided to support buyout transactions, acting as an alternative to traditional bank credit.

In summary, this overview allows to take a quick understanding on the main traits defining the Private Credit universe, considering its differentiation from the other forms of debt, but at the same time the complementarities with the latter instruments.

2.3 The Role of Private Credit in the Financial System

While in Europe the phenomenon of non-bank lending is relatively recent, the USA has been a pioneer since 1980s with the establishment of the first Business Development Companies, vehicles designed to support the allocation of capital to small and medium-sized private companies (Pelizzon et al., 2025)²⁹. Subsequently, Business Development Companies have also evolved in the form of listed companies, to be able to offer a greater liquidity profile, despite the fact that the underlying investments are illiquid by nature. In the following years, Private Credit then continued to develop in the US, also thanks to the emergence of alternative operators (with the first funds set up by operators such as Apollo Global, Blackstone, Oaktree, etc.). However, the Private Credit asset class has gained traction on a larger scale and globally only after the 2008 global financial crisis. This because banking institutions, subject to increasingly stringent capital and prudential requirements, have reduced their credit exposure to certain categories of companies, particularly in the mid-market segment considering the higher risk profile. Such

²⁹ Pelizzon, L., Mattiello, R., Schlegel, J. (2025). *Growth of non-bank financial intermediaries, financial stability, and monetary policy* (No. 458). SAFE Working Paper.

contraction in the banking financial supply has generated a lending gap that has opened an opportunity for the entry of alternative players. In this scenario, regulatory developments have been a crucial enabling factor for the institutionalisation of Private Credit, allowing non-bank operators to operate in a more structured way and within a regulated perimeter.

In the discussion of role of Private Credit, it is important to define which are the major benefits associated with this source of financing (International Monetary Fund, 2024 and Avalos et al., 2025)^{30 31}:

- Diversification of capital sources, thanks to access to alternative instruments that offer greater stability of the financial structure and a better balance between equity and debt.
- Flexibility of financing structures, with tailor-made solutions that adapt to the specific needs of the company (in terms of duration, type of instrument, amortization method, presence of equity components from a hybrid perspective, etc.).
- Faster execution time than the banking channel: due to the direct nature of discussions in defining the terms of financing, lenders and borrowers can better define a mutual balance.
- Medium-long term support from a financial partner, particularly relevant in organic growth transactions, acquisitions or debt restructuring, as well as leveraged buyouts (LBOs) - in synergy with the intervention of Private Equity funds.
- Access to the expertise of highly qualified managers, who can also support the company from a strategic point of view thanks to their in-depth knowledge of specific segments and markets.
- Significant alternative to the bond market or other financing alternatives which are not practicable for small and medium enterprises.

At the same time, key advantages emerge for investors:

³⁰ International Monetary Fund (IMF) (2024). The rise and risks of private credit. Global Financial Stability Report, chapter 2, April, 53–76.

³¹ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

- Portfolio diversification, thanks to exposure to a non-traditional asset class that allows for greater customization, combining different investment strategies according to the desired risk-return profile.
- Lower volatility and correlation with listed markets, as private assets are not subject to the daily volatility of public markets, but are valued on the basis of the fundamentals of the underlying companies, with medium-long term time horizons.
- Attractive (risk-adjusted) returns, supported by higher spreads, illiquidity premiums (compared to public corporate bonds) and a typically floating-rate structure which are recently benefiting from rising interest rate environments.
- Predictable, contracted cash flows, generated by interest on loans, providing a recurring source of income similar to that of traditional fixed income instruments.
- Financing structure negotiated directly between the fund and the sponsor/debtor, characterized by careful due diligence and specific downside-risk protection mechanisms (e.g., covenants that guarantee greater control over the levels and ability to repay the borrower's debt, pledges and call options).
- More attractive risk-reward than other illiquid asset classes such as Private Equity, thanks also to the priority of debt in the capital structure.

Private Credit has established itself as an instrument capable of offering "equity-like" returns, less volatile and with an attractive risk-reward profile, thanks to more predictable cash flows and greater downside-risk protection.

Table 1 – Overview of Main Advantages of Private Credit

Borrowers	Diversification of Capital Structure
	Flexibility of Financial Structure
	Faster Execution Time
	Medium-Long Term Support from Experienced Financial Partner
	Access to the expertise of highly qualified managers
	Alternative to Bond Market
Investors	Portfolio diversification and Lower correlation with listed markets
	Attractive Risk-Adjusted Returns
	Predictable Cash Flows
	Financing structure directly negotiated
	More attractive risk-reward than other private asset classes

2.4 Credit Solutions and the Subjects Involved

Private Credit consists of six sub-strategies, classified according to the types of borrowers to whom the loans are provided (i.e. Distressed or Venture strategies), the types of loans (i.e. Direct Lending or Mezzanine), or the type of collateral (i.e. Asset-Based). Each of these strategies accounts for a dedicated segment in the market and offers a balance of risk/reward characteristics as described below (Munday et al., 2019)³²:

Direct Lending: this strategy involves the issuance of debt primarily to private companies of non-investment grade quality in the middle market segment and generally place an emphasis on current income generation like other fixed income investments. As a rule, direct lending focuses its investment activity on first lien and uni-tranche debt.

Asset-Based Finance: describes a wide range of strategies that target assets rather than operating companies. Such strategies include loans on real assets, such as real estate and infrastructure, or a range of assets such as equipment and fleet financing, or balance sheet

³² Munday, S., Hu, W., True, T., Zhang, J. (2019). *Performance of private credit funds: A first look*. SSRN.

assets of financial intermediaries such as student loans, credit card debt, or general credits held by non-financial corporations.

Distressed Debt: this type of investment involves providing loans to companies that are in "distressed" conditions due to issues such as imminent bankruptcy or other difficulties in meeting debt obligations, with the intention of achieving profit generation after the company's turnaround. Distressed debt has a risk/return profile similar to that of equities due to issuer-specific factors that have a greater effect on debt performance.

Mezzanine Lending: offers borrowers a "hybrid" instrument because it includes bond and equity characteristics of the financing. These debt issues often offer the possibility of equity participation through conversion rights or other types of integrated equity options. Mezzanine debt is subordinated to first-lien debt.

Special Situations: this strategy emphasizes flexible solutions for planned events, such as business expansion, or unplanned events during difficult times, such as corporate restructuring. Also known as opportunistic or structured credit strategies, they meet the needs of debtors who are initially performing but who can later become companies in distressed conditions.

Venture Debt: like venture capital, venture debt focuses on start-up companies or early-stage businesses looking for funding. Debt financing for these companies has grown as early-stage companies seek to increase their working capital or capital investments without resorting to new equity issuances with dilutive effects.

Multi-Strategy: finally, some investors adopt a diversified strategy aimed at balancing the risk-return profile of the different categories of credit solutions. While this cannot be considered as a separate category, it accounts as an investment strategy, gaining a somewhat significant share in terms of AUM as Private Credit becomes an increasingly pursued investment class.

Figure 1 – Share of Private Credit AUM by Category³³

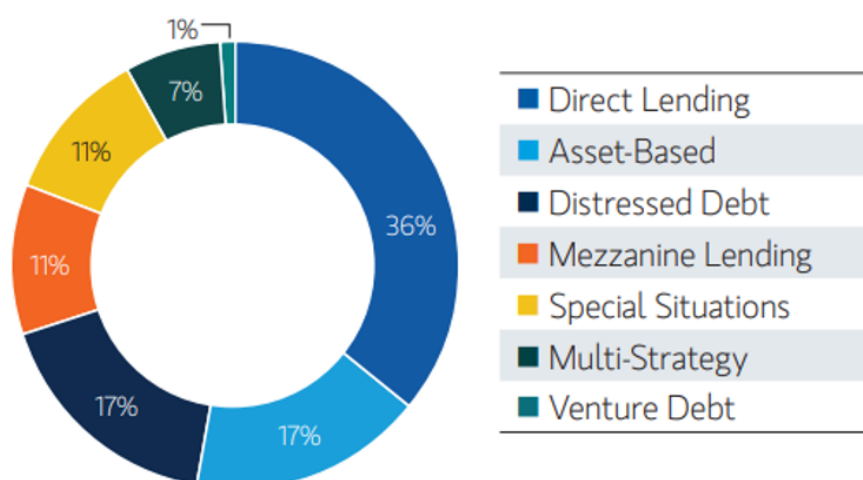


Figure 1 displays the Private Credit market overview in terms of solutions allocation (AUM) as of 2024. A relatively major share is covered from Direct Lending which accounts for 36% of the global Private Credit market, a segment which has shown a drastic increase in 15 years (up from 9% in 2010). Direct Lending is a leading category within Private Credit strategies that involves the grant of direct loans of an illiquid nature to middle market companies. Direct Lending usually refers to first lien loans (including uni-tranche loans), but second lien and mezzanine loans are also provided to finance middle market companies and have developed because of the same dynamics that have affected investments in senior first lien direct lending.

The middle market segment accounts for a large chunk of firms in the US economy, about one-third of private sector GDP, and continues to expand, with earnings growth of 8% in the third quarter of 2024. Middle market borrowers typically do not fit into the credit profile of the broadly syndicated loan market or are not interested in undertaking the often longer and less flexible process of applying for broadly syndicated loans trade unions. Therefore, a large part of the middle market segment is turning to Direct Lending to meet its needs in terms of capital needs. In exchange for the capital provided to such borrowers, direct lenders can expect to obtain higher interest rates to offset the increased credit risk

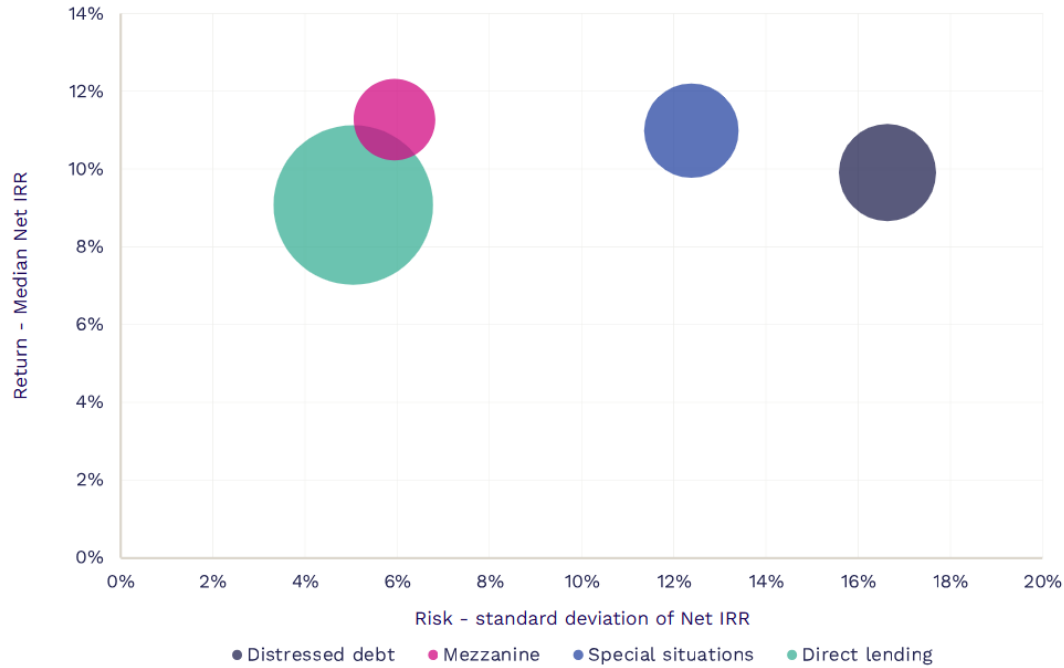
³³ Adapted from EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

associated with smaller companies, as well as an illiquidity premium for offering non-tradable issues on the public market. These direct loans are often subject to extended negotiation with safeguard clauses that provide lenders with downside protection.

In recent years, the global Private Credit market has shown a remarkable ability to evolve and adapt both to the financial needs of companies and to investors' capital allocation strategies. While Direct Lending remains the predominant strategy, the Private Credit asset classes have progressively been enriched with new solutions, designed to respond to the growing complexity of the market and the different risk/return profiles required. The expansion of the Private Credit universe has favoured the emergence of vehicles specialized in vertical strategies (e.g., distressed debt) or thematic funds focused on specific sectors (i.e. Real Estate). Also, specialization (defined in terms of investment strategy, type of instrument, geographical area or specific sector) still represents a distinctive element in the Private Credit solutions space, considered a competitive advantage in terms of origination capacity, speed of execution and risk analysis. However, in a context of growing AUM and increasing participation by institutional and retail investors, some managers are progressively adopting multi-strategy approaches, with the aim of increasing portfolio diversification and mitigating concentration risks.

It is interesting at this point to discuss about the different considerations relating to the risk-return profile of the different product categories. To this extent, Figure 2 provides a graphical comparison, combining the two dimensions of the expected returns (expressed in terms of Net IRR) and the risk (expressed in terms of standard deviation against the Net IRR). Figure 2 displays that how Direct Lending achieves the comparatively lowest level of returns but associated with the lowest risk level across the Private Credit strategies as it is placed a senior lien. Mezzanine debt features a higher risk level than more senior debt tranches but at the same time a higher return than Direct Lending.

Figure 2 – Private Credit Risk/Return Profile by Solution³⁴



As discussed, Special Situation solutions target companies in distress conditions, and thus, there chart shows a peculiar price assessment as the value is impacted by the circumstances of the borrower. Special Situations returns within this strategy are similar to mezzanine debt but are generally associated with greater degree of risks. Finally Distressed debt tends to yield substantial returns but is features by the highest risk as well due to the default risk of borrowing company. In this case, debt would be priced at a significant discount compared to other strategies.

Regardless of the strategy pursued, the Private Credit process gathers three categories of actors: the investors who provide the capital, the managers who administer it and the companies which make recourse to such credit solutions. Here is a detailed list of the main players, with sources (Avalos et al., 2025, Morgan Stanley, 2025) ³⁵ ³⁶.

³⁴ Prequin (2025). Lesson 4: Asset Classe Private Debt.

³⁵ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

³⁶ Morgan Stanley (2024). Private Credit. An Important Alternative for Market Allocation.

Capital Providers (Investors/Lenders)

These are the individuals who place their funds in private credit funds with the aim of obtaining a fixed return. Their profile is generally associated with long-term investment horizon. The following are mainly institutional investors:

- Pension funds (public and private).
- Insurance companies.
- Sovereign Wealth Funds.
- Endowment funds and foundations.
- Family offices and high net worth individuals (HNWIs).
- To a lesser extent, but growing, retail investors through specific vehicles (such as European Long-Term Investment Funds in Europe).

Intermediaries/Asset Managers

These actors manage the funds that raise capital from investors and allocate it to borrowing firms. Intermediaries can be also quite diversified in terms of nature, however common to each one is the feature that they have little scope to transform maturity.

- Asset management companies (SGRs) and specialized alternative investment managers.
- Private debt funds (which can be structured as Business Development Companies, ELTIFs, interval funds, etc.).
- Banks and private lending platforms that act as leverage providers.
- Private Equity companies that, in some cases, use private credit instruments to finance their operations (LBOs).

Borrowers (Borrowers/Companies)

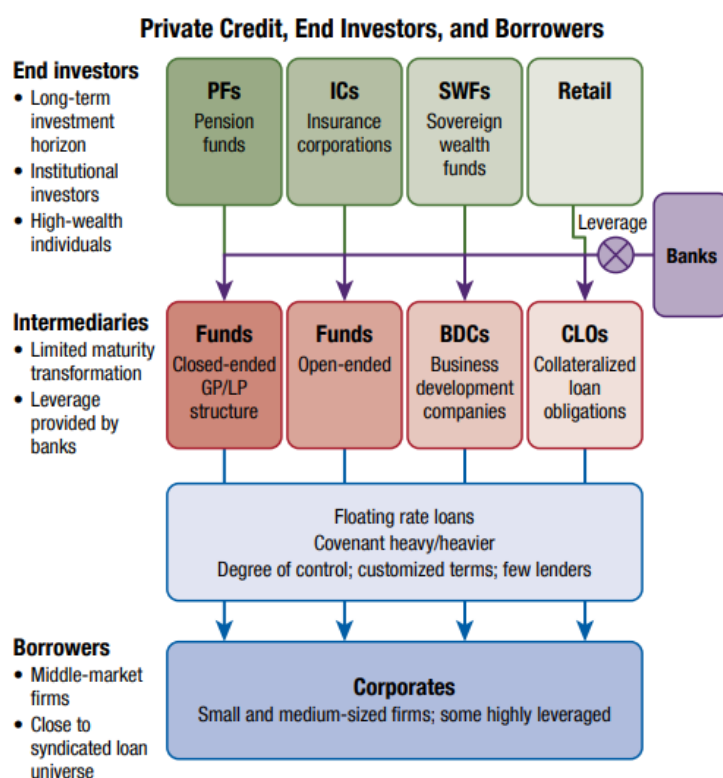
Finally, borrowers are the entities receiving funding from Private Credit solutions as listed below.

- Small and Medium Enterprises are often the main focus of the private debt market in Europe, which may find it difficult to access traditional bank credit.

- Medium-market companies and private equity-backed businesses with high leverage.
- Companies choosing Private Credit for the flexibility of the terms, the speed of execution and the customization of contracts (covenants) compared to standardized bank loans.

The discussion elaborated so far, allows to understand the complexities of the Private Credit ecosystem and the interplay among different players, which are driven by different strategies and risk/return profiles. Nevertheless, the multiple products and the variety of capital providers and intermediaries act as enablers for diversification in the systems, facilitating the capital allocation to borrowing companies.

Figure 3 – Overview of the main actors in the Private Credit Market³⁷



2.5 The Recent Developments: The Drivers for Growth

As discussed in the previous sections, Private Credit has recorded a seamless growth over the last 15 years proving a significant resilience throughout the economic cycle. However,

³⁷ International Monetary Fund (IMF) (2024). The rise and risks of private credit. Global Financial Stability Report, chapter 2, April, 53–76.

taking a closer view to the expansion of this market segment, it is possible to appreciate how such a trend is the result of an evolution related to several forces which reshaped the financial markets paving the way to Private Credit. The growth of Private Credit is due to a combination of factors related to both the supply and demand of capital, which are driving AUM to exceed the value \$3 billion in the coming years. Below the main drivers for Private Credit growth are listed and described, based on the review of the main contributions in the field (Avalos et al., 2025; Aramonte, 2020; and Boyarchenko and Elias, 2024)^{38 39 40}. Four main areas can be seen as the driver for growth in Private Credit: tighter banking regulation and the retreat from the traditional banking system; the search for yield by institutional investors; the enhanced flexibility of Private Credit solutions; and risk diversification.

Tighter Banking Regulation. Post-global financial crisis regulatory interventions (i.e. Basel III) have increased capital and liquidity requirements for conventional banking institution, reducing their ability and propensity to lend, particularly to smaller companies or those with higher risk profiles. Taking a closer look, the impact of Basel III can be understood by analysing how the new rules have changed the behaviour of traditional banking operators, creating a gap that non-bank operators have been able to fill. Additionally, Basel III introduced more stringent standards to strengthen banks' balance sheet in response to the 2008 financial crisis. As a result, banks have been required to retain more capital buffers and maintain higher liquidity to avoid contagion in case of new shocks in the market. Overall, the combination of these requirements has increased the cost of capital for banks. Faced with higher operating and capital costs, banks turned to a significant review of their lending strategies. First, traditional financing institutions reinforced their balance sheets and focused on high-grading asset classes more in line with regulatory risk-return profiles. Thus, loans to Small and Medium Enterprises (also referred to as the "mid-market" segment) or those with more complex structures became less attractive, as they required more capital provision than loans to large corporations or standardized residential mortgages. This strategic retreat of banks from riskier or less

³⁸ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

³⁹ Aramonte, S. (2020). Private credit: recent developments and long-term trends.

⁴⁰ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

liquid market segments has left many companies uncovered that needed financing for growth, acquisition or restructuring.

In such a scenario, Private Credit funds have emerged as the natural alternative, as they are not subject to the same stringent prudential supervision as Basel III. This has allowed them to fill the supply gap where banks were no longer able to (or were just less prone to) operate. Without regulatory constraints, Private Credit funds can structure more flexible debt transactions, tailored to the specific needs of each company. These funds can invest in long-term and less liquid loans, offering an additional return (illiquidity premium) to institutional investors seeking higher returns in a lower interest rate environment. Another aspect relates to the decision-making processes which are often faster and more efficient when compared to banking procedures and bureaucracies. In summary, Basel III did not directly cause the growth of Private Credit, but it triggered a systemic change in the financial landscape, making the traditional banking model less efficient in providing capital to certain segments of the real economy.

Institutional Investors' Search for Returns

In parallel with the retreat of banks, there has been a growing and persistent search for yield from institutional investors. The phase following the 2008 great financial crisis, has been featured by an extensively accommodating policy from all the central banks around the world, in the attempt to sustain the recovery of the economy and reinstate trust in the system. In an environment of historically low (and sometimes negative) interest rates, pension funds, insurance companies and sovereign wealth funds have explored alternatives to generate the returns needed to meet their long-term targets. Private Credit has been an attractive solution, offering historically attractive yields and relative stability, with perceived volatility lower than other asset classes. These long-term investors are particularly well placed to endure the inherent illiquidity of private debt investments, where capital remains locked up for several years.

Flexibility and Customization for Borrowers

On the demand side, Small and Medium Enterprises have been attracted by the flexibility offered by Private Credit funds as they see their financing solutions as a major opportunity

to access funds otherwise not available through conventional channels. Unlike standardised bank loans or bonds issued on the public markets, private financing offers tailor-made solutions, customised lending structures and faster execution timelines, better suited to the needs of companies. In addition, in times of volatile financial markets, Small and Medium Enterprises value the certainty of execution and confidentiality that private credit provides, avoiding the fluctuations and disclosures associated with stock exchange listing processes. The relationship that is established between the fund and the borrowing company can often be seen as a real partnership, built on the support to long-term growth, rather than a simple transaction. As part of this aspect, Private Credit solutions (mainly Private Debt) offer a higher degree of customization of financing terms (i.e. specific and more flexible covenants) and foresee the availability from the lenders to renegotiate such terms if required. The latter case may be strategically significant, as a default case may foreclose the possibility to resort to new financing through the banking system.

Growth of Private Equity

The development of Private Credit cannot be fully understood without considering the parallel growth of Private Equity. Market evidence from the last few years show how the pattern has grown in tandem with Private Credit, being a key source of the capital required to fund leveraged acquisitions (LBOs). To a certain extent, following the 2008 financial crisis, the Private Equity market has undergone similar pressures compared to Private Credit, with low equity markets valuations pushing companies to tap private risk capital. The large availability of available capital (dry powder) held by Private Equity fund has driven, and continues to drive, demand for direct Private Credit.

Diversification of Risk

For investors, Private Credit offers a significant diversification opportunity compared to traditional publicly traded asset classes (i.e. shares and bonds) as well as an additional guarantee through we defined collateral structures, which mitigates the liquidity and insolvency risks. At the same time, as Private Credit is uncorrelated to other asset classes, it represents a diversification on the portfolio held by large asset managers.

While the above-described drivers all concurred to the current state of the market, it is interesting to understand how the Private Credit has evolved as a financing solution for Mid-Cap Companies. Ivashina (2024)⁴¹ contends that Private Credit has grown in close connection with the development of Private Equity activity. Table 2 below summarizes the main phases of this relationship, highlighting the key role of Private Credit.

Table 2 – Private Credit as a Private Equity financing Solution⁴²

Period	Mid-Cap Deals Financing
<i>Before 2000s</i>	Leverage is increasingly adopted in LBO transactions, fuelling the development of Private Equity deals through the issuance of mezzanine debt. Business Development Companies emerge as new players, but with limited scale.
<i>2000-Global Financial Crisis</i>	Private Debt funds establish themselves as providers of junior debt through a captive model, that is, providing financing to the same mid-cap Private Equity funds.
<i>Global Financial Crisis-Covid19</i>	During this phase Small and Medium Enterprises increasingly transition to privately agreed debt solutions with specialized funds, which evolves into a different operating model, dedicated to provide financing solutions to mid-cap firms.
<i>Post Covid-19</i>	Mid-cap firms see the recourse to Private Credit firms as a constant alternative in the financing mix and, at the same time, the “originate-to-distribute” model gains popularity in the market.

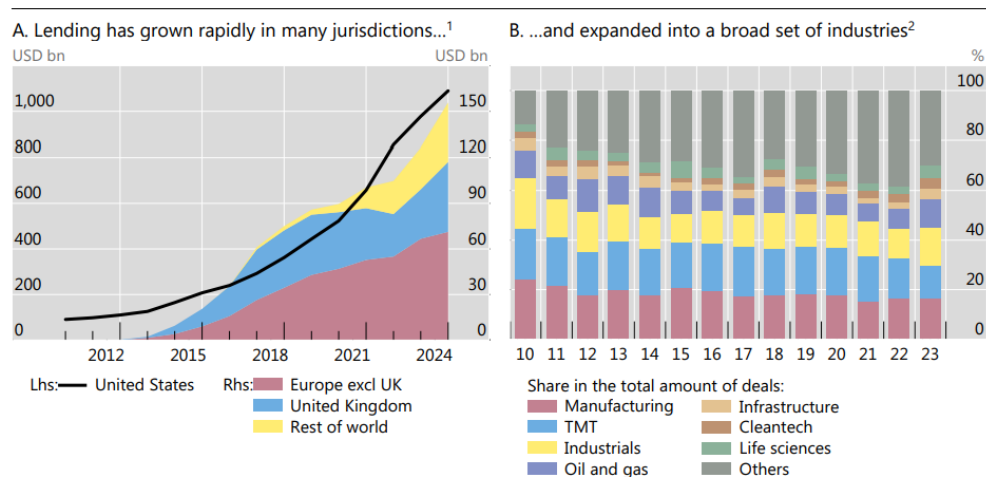
At this point, discussion requires an in-depth understanding of the main trends shaping the Private Credit market, including an overview of the volumes at stake. The growth of

⁴¹ Ivashina, V. (2025). Private Credit: What Do We Know?. Available at SSRN 5683442.

⁴² Author’s elaboration based on Ivashina, V. (2025). Private Credit: What Do We Know?. Available at SSRN 5683442.

Private Credit has seen seamless across the main jurisdictions, with the US market taking the largest share. The overall outstanding volumes have increased 12x from nearly \$100 billion (completely in the US market) in 2010 to over \$1.2 trillion in 2024. As mentioned, the US accounts for the largest single market with over 87% of the total outstanding loans as of today, increasing from \$90 billion in 2010 to over \$1 trillion in 2024 (Figure 4).

Figure 4 – Evolution of Private Credit Over Time⁴³



TMT = technology, media and telecommunications.

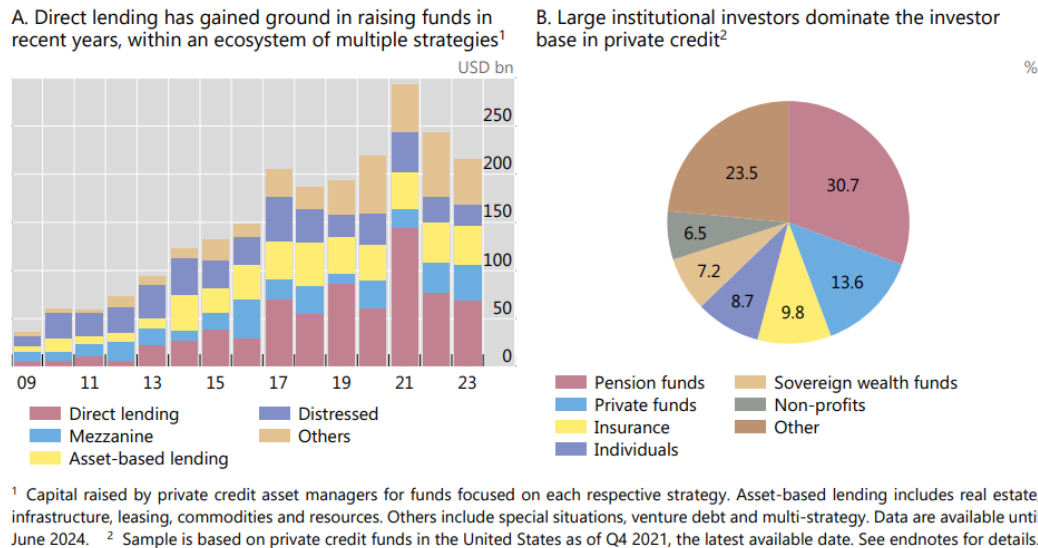
¹ Total volume of outstanding direct and asset-based loans by region of the borrower. ² As a share of total originated amounts. See endnotes for details.

The European market (excluding the UK) stands up for nearly 6% of the total values in the market with UK accounting for 3–4%. In the Rest of the World area, Canada covers the large part of volumes with nearly 3%. Private Credit funds address a substantial set of different industrial sectors. Among the leading sectors, manufacturing, tech, TMT, and industrials shifted from two thirds of the markets in terms of deal activity to below 40% as of 2024 (Figure 4). The remainder of the other industries, (mainly cleantech and life sciences) account for an increasing share of the market.

⁴³ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

Figure 5 - Private credit: fundraising by strategy type and composition of investor base

44



Taking the asset side view, funds show a certain specialization in determined strategies. For the last ten years, Direct Lending has played a leading role in the market (Figure 5). The success aspect of the strategy lays on financing scheme, in which funding is based purely on a company's ability to generate cash flow from their day-to-day activities, rather than requiring tangible collateral. Business Development Companies are major players in this specific segment. Another common approach relates to Mezzanine lending which involves extending junior, or subordinated, debt to larger firms, frequently combined with the option for an equity stake. These tools effectively serve as a bridge, sitting somewhere between traditional debt and actual company ownership. Here in the US, that figure is bigger than the total volume of outstanding leveraged loans or high-yield bonds combined.

Looking at the capital sources, these come from mostly institutional investors with a long investment profile. This segment includes public and private pension funds, major insurance companies, and sovereign wealth funds (Figure 5). Insurance firms, especially, have been increasingly pouring funds into Private Credit allocations over the recent years. Such large investors are primarily moving after a significant risk-adjusted return in the

⁴⁴ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

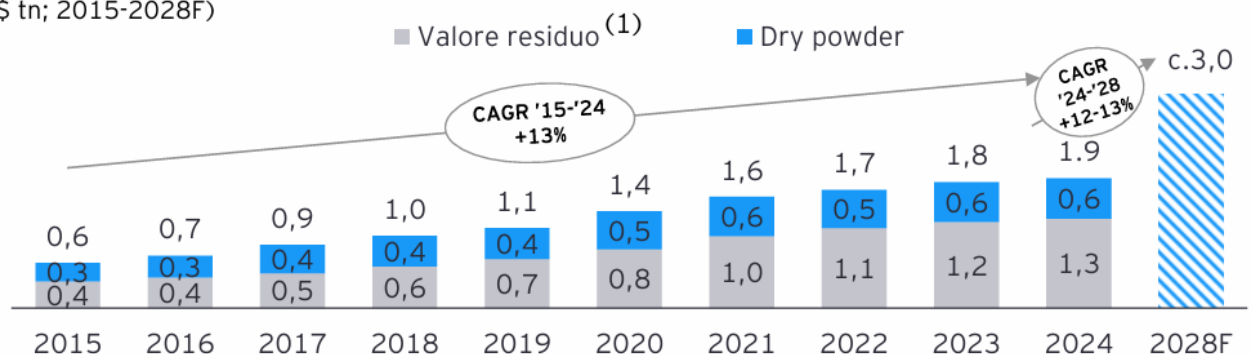
long-term. Retail investors appear still a marginal portion in the market, but their share is slowly expanding.

After peaking in 2021, supported by low interest rates, high post-pandemic liquidity and investors' growing search for stable returns, global funding in Private Credit has gradually normalized. From 2022 to date, rising rates and greater selectivity among institutional investors have contributed to a decline in new contributions. However, volumes remained high even in a challenging macroeconomic and geopolitical environment, confirming the resilience of the asset class. From 2025, a new expansionary phase is expected for Private Credit, also reflecting the expected recovery in the Private Equity deal flow, where dry powder levels remain high, an expectation based on the historical synergistic trends. The raising of capital by Private Credit funds is foreseen to be mainly driven by institutional investors. However, in recent years there has been a gradual entry of new investors (such as insurance companies, banks and most recently retail customers), which are supporting the expansion of the funding base, supporting the further growth of the asset class. In terms of investor composition, the Private Credit market has so far been predominantly supported by institutional investors, attracted by the combination of stable returns and diversification compared to traditional asset classes.

Figure 6 – The Global Evolution of Private Credit (AUM) ⁴⁵

Evoluzione Globale del Private Credit - AuM

(\$ tn; 2015-2028F)



⁴⁵ Adapted from EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

At the end of 2024, global Private Credit AUM exceeded \$1.9 trillion, reaching a new all-time high, fuelled by the record volumes of funding recorded in the previous two years (Figure 6). The overall figure includes both the capital invested and the so-called dry powder (i.e. the resources already committed but not yet allocated). This significant capital buffer highlights two key dynamics: on the one hand, strong investor confidence in the sector's long-term prospects, while on the other hand, a high investment potential yet to be addressed, which can be selectively activated to seize emerging market opportunities. At the same time, the rise in dry powder also reflects a more prudent and selective approach by managers, in response to a changing macroeconomic environment. The outlook for the coming years remains solid: it is estimated that global AUM could grow to \$3.0 trillion by 2028, sustained by the continued inflow of capital from different sources and the progressive consolidation of the asset class within the global financial system.

In summary, it is possible to outline some key trends emerging in the market of private credit, which can be considered at the same time the outcome and the enabler for the sustained growth of this segment of the financial markets. A first aspect relates to the larger collaboration with the banking system. Over the recent years, it is emerging an increasing synergy between banks and Private Credit funds, through co-investment or direct investment models from a "capital light" perspective, risk transfer, distribution of funds through private banking networks and other forms of specific partnerships. The democratization of the asset class has seen an increasing involvement of retail investors, thus expanding the investor base. The trend is especially valid in the USA, but also in Europe it has been favoured by regulations such as ELTIF 2.0. In the Italian market, where private savings are high, this represents an important potential for raising capital, but examples of funds with semi-liquid approaches are still in their infancy. Additionally, the growth of evergreen funds is an emerging trend in funding, particularly in the retail segment, with the emergence of funds with no set maturity offering greater flexibility and the possibility of continuous access to capital.

Finally, Private Credit funds have made specialization (both in terms of types of financing products and underlying sectors) a competitive advantage by offering greater expertise, speed of execution and screening capabilities. However, in a context of expanding AUM and increasing involvement of retail investors, some fund managers have begun to

implement diversification strategies aimed at reducing the concentration of their portfolios with a view to containing risk.

2.6 The Italian Market

Italy has historically been based a bank-centric financial system, with Small and Medium Enterprises being heavily dependent on bank credit. In recent years, however, there has been a progressive diversification of sources of financing. To this extent, Private Credit has established itself as an increasingly important source of financing for Italian companies, thanks to a series of dynamics that have favoured its growth and will continue to influence its development. A key aspect is undoubtedly financing, favoured by the effects of the financial crisis of 2008-2012 and the consequent tightening of banking regulation, as well as by a growing process of consolidation among credit institutions. In line with the broader market conditions, the lower accessibility to bank credit and the absence of a bond market developed for Small and Medium Enterprises have created fertile ground for Private Credit, which has established itself as an alternative financing channel, capable of offering flexible solutions that can be adapted to the needs of companies.

Before 2012, most of the financing to companies came from lenders, while a small portion came from the bond market, a starkly different situation than in economies such as the United States. After the 2008-2012 crisis, regulators imposed stricter rules on banks for lending, triggering a gradual credit crunch. The already mentioned introduction of the Basel III rules and the additional provisions of Basel IV have increased capital and liquidity requirements for Italian credit institutions, limiting their ability to finance companies with lower ratings and creating a significant funding gap in the system. Additionally, a peculiarity of the Italian banking system, the progressive consolidation of main financial institutions, a process underway for several years, have accentuated the tendency of large banks to focus on transactions with larger corporates, adopting more selective and standardized credit criteria, leaving the demand from the Small and Medium Enterprises segment even more unaddressed.

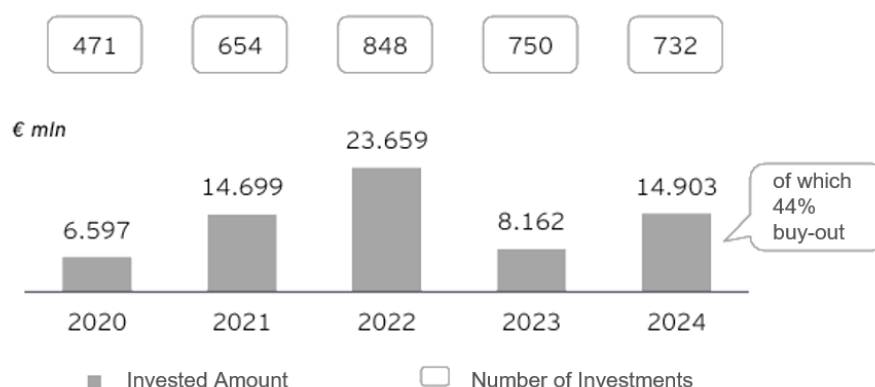
In Italy, Private Credit is also progressively integrating into the traditional financial system. Indeed, banks are adopting models of collaboration and co-investment with funds or distributing their credit solutions in a hybrid model. The synergy between banks and funds is not limited to a mere allocation of capital but translates into new operating models

capable of expanding access to credit for Small and Medium Enterprises with flexible instruments and, at the same time, offering new products to institutional and retail investors. Another area of interest refers to the role of public players. In addition to the significant flow of direct investments, public support has also materialized indirectly through guaranteed instruments. The Central Guarantee Fund has progressively extended coverage to minibonds issued by Small and Medium Enterprises, reducing the risk for investors. In addition, SACE, the public export-insurance company, has created a fund dedicated to private debt export facilities, subscribing to multiple minibonds of companies oriented towards internationalization. In 2024, around 51% of Private Credit's detained from Italian fund inflows came from other institutional investors, although private, such as pension funds, social security funds and insurance companies (a sharp increase compared to the 20% of 2023).⁴⁶ The mix of public and private capital has allowed the market to grow rapidly and to resist even in adverse economic phases.

Private Credit is increasingly consolidating its role as a strategic partner in Private Equity transactions, in LBO transactions. Collaboration with Private Equity operators brings several advantages for credit funds. Among these benefits, it is possible to mention a more stable and structured deal pipeline, the establishment of better governance standards in target companies, ensuring greater transparency and risk control, and the possibility of syndicating tranches with other investors, given the presence of strong sponsors, which on turn increases the overall financing capacity. Figure 7 provides an overview of the Private Equity activity in Italy in the period 2020-2024.

⁴⁶ EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

Figure 7 – Investment Activity in Private Equity in Italy⁴⁷

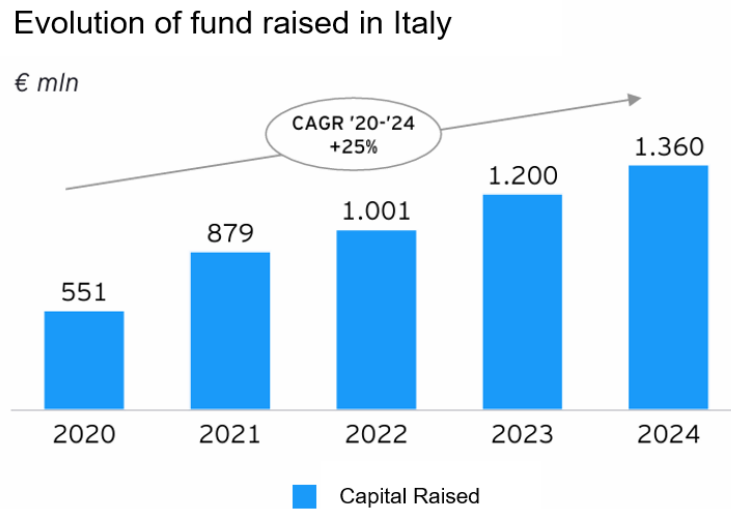


In 2023, Private Equity investment activity in Italy slowed sharply, because of macroeconomic uncertainty and the high level of interest rates, which negatively affected the valuations of target companies while reducing at the same time the exit opportunities for Private Equity investors. However, already in the first month's of 2024 market shown significant signals of recovery, with volumes up 83% at the end of the year compared to 2023. This renewed momentum in Private Equity is also positively reflected in the Private Credit market, thanks to the expected increase in direct lending loans, the main source of financing for LBO transactions. Private Equity and Private Credit act as complementary asset classes, with a growing role of Private Credit in supporting the evolution of the Italian entrepreneurial sector, not only as part of extraordinary transactions but also in long-term development plans.

The Italian Private Credit market has experienced significant growth in recent years, both in terms of capital raised and investments made. Although the figures for the first half of 2024 suggested a slight contraction (in line with the international context), 2024 turned out to be a record year for the Italian Private Credit market: funding in fact reached almost €1.4 billion, up 13% compared to 2023 and more than double the level of 2020 (€551 million). Figure 8 displays such evolution encompassing the 5-year period 2020-2024.

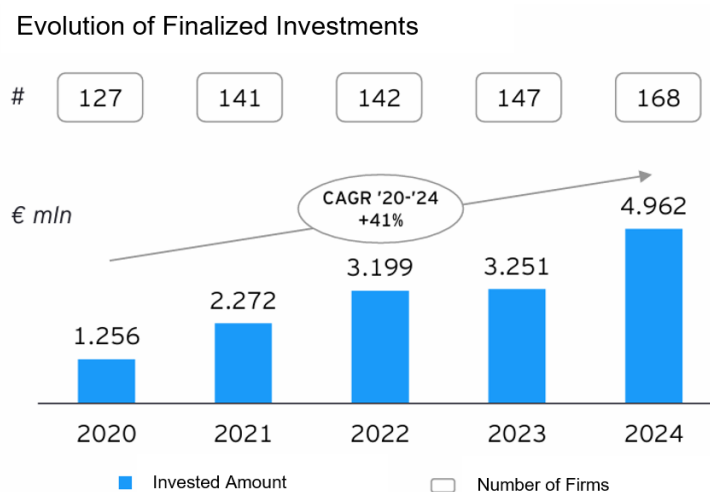
⁴⁷ Adapted from EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

Figure 8 – Growth in Private Credit capital raised ⁴⁸



Also, in terms of loans, 2024 showed an exceptional peak in investments with a value of €5 billion, (up +53% compared to the previous year). In 2023, in fact, the value of investments stood at €3.3 billion, in line with 2022. The number of Italian companies that received funding increased, standing at 168 (+14% compared to 147 in 2023). Overall, 2024 stands out as the year with the highest value ever recorded for investment activity, even higher than the previous peak of the two years 2022-2023, dictated by post-Covid-19 pandemic operations.

Figure 9 – Evolution of Investments Finalized⁴⁹



⁴⁸ Adapted from EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

⁴⁹ Adapted from EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

After peaking in 2022-2023, Private Credit investments continued to grow, reaching almost €5bn in 2024, with deals mainly aimed at supporting LBO processes, internal growth and acquisitions (Figure 9). In the Italian context, Private Credit transactions are mainly focused on direct loans, which accounted for 55% of the total in 2023. Alongside these transactions, there is a significant use of bond instruments (such as minibonds, at 38%) and, to a lesser extent, hybrid instruments such as mezzanines and convertibles (7%).

Private Credit in Italy is mainly aimed at medium-sized companies, which are pivotal in the country's entrepreneurial and industrial structure. In 2024, 58% of the target companies show less than 250 employees, while in terms of turnover, companies with less than €50 million make up 45% of the total, confirming the asset class's orientation towards the mid-market. Although direct lending remains the prevailing strategy in Italy as well, the market shows a growing diversification in the types of investment. In line with the international market, vehicles specialized in targeted strategies are emerging, such as Special Situations funds, Unlikely-to-pay loans, or vehicles dedicated to Real Estate Debt, responding to increasingly specific financing needs of firms.

Looking at the main market players, the sector is mainly led by large international asset managers, who have developed global platforms dedicated to Private Credit. These players, largely American institutions, benefit from economies of scale, global collection capacity and access to extensive relational networks, elements that allow them to structure complex transactions that are often also characterized by significant ticket sizes. Major managers include players such as Apollo Global Management, Blackstone Credit, Ares Management and KKR Credit. At the same time, alongside these global players, the market has progressively been populated by specialized operators, often focused on certain market segments or geographical areas. Although these funds show a less developed scale, they stand out on the market for their high level of sector specialisation, in-depth knowledge of local contexts and operational flexibility.

3 Private Credit and Financial Stability

The growth of Private Credit has emerged as a response to limited credit through conventional banking channel; however, it accounts for an increasingly significant share of credit in the global financial system. To this end, Chapter 3 investigates the degree through which the Private Credit growth may have an impact on financial stability. After an initial overview of the regulatory framework regulating the Private Credit across the main jurisdictions, the discussion will delve into the interplay between Private Credit and financial stability, providing a review of the main academic contributions in the field.

3.1 A Brief on Regulatory Framework

The argumentation developed so far has pointed out to Private Credit as the natural response to the new regulatory framework of Basel III, through which policymakers have attempted to curb the market deviations leading to the 2008 financial crisis. The discussion elaborated in Chapter 2 has provided a summary of the main aspects of the regulatory framework of the post-global financial crisis period, which has contributed to a transformation in banks' ability to grant new credit or hold certain assets on their balance sheets, turning a significant pressure on demand for direct lending. The Basel III regulatory framework has been formulated to address the contagion resulting from the collapse of certain exposed banks to the entire market during the global financial crisis. The Basel III framework is based on three target risk measures, whereby banks are required to maintain minimum levels of capital, liquidity and funding stability. More specifically, the main goals pursued by the adoption of Basel III are (Basel Committee, 2017)⁵⁰:

- Improved quality, consistency and transparency of the capital base. It is essential for the banks to maintain high-quality capital base against their risk exposures. The financial crisis has shown that losses on credits and related provisions reduce the profit buffers that are part of banks' primary quality capital. The Basel III framework also introduces the differences in the definition of capital between

⁵⁰ Basel Committee. (2017). High-level summary of Basel III reforms. *Bank for International Settlements, Basel Committee on Banking Supervision*, 77.

jurisdictions and the lack of information that would allow operators to fully assess and compare the quality of capital between different institutions.

- Better risk coverage. One of the main lessons learned from the crisis is the need to strengthen risk coverage within the capital framework. The failure to capture the presence of material risks on and off-balance sheet, as well as exposures related to derivative instruments, contributed significantly to accentuating the crisis.
- Integration of risk-based ratios with a leverage ratio. One of the underlying features of the crisis was the accumulation of an excessive degree of leverage in the banking system, both on and off the balance sheet, a characteristic that had already characterized previous shocks in the financial market. In the most critical phase of the crisis, the banking sector was forced by the market to deleverage, which amplified the pressure on asset prices, further accentuating the interplay between losses on credit, erosion of banks' capital and shrinking credit availability. In view of this, it is introduced a leverage ratio with two major objectives: i) to keep under control the level of leverage in the banking sector, helping to reduce the risk of destabilizing deleveraging processes that may cause damage to the financial system and the economy; and ii) introduce additional safeguards mechanism against model risk and measurement errors, integrating risk-based coefficients with a simple, transparent and independent risk measure.
- Reduction of procyclicality and promotion of countercyclical buffers. One of the most destabilizing elements of the crisis has been the pro-cyclical amplification of financial shocks to the banking system, financial markets and the economy more generally. The tendency of market participants to behave in a pro-cyclical manner has been accentuated by a variety of channels, including accounting standards applied to assets valued at market value and held-to-maturity loans, margin adjustment practices, and the accumulation and decumulation of leverage by financial institutions, corporates and consumers. Basel III introduces a series of measures aimed at strengthening banks' resilience in the face of these pro-cyclical dynamics. These measures will help to ensure that the banking sector absorbs shocks rather than passing risk on to the financial system and the wider economy.

As net result, all the levers above described had a univocal direction to contain the level of credit issued in the system from banking institutions. As observed during the financial crisis, the losses incurred by the banking sector during a recession preceded by a period of excessive credit expansion can be extremely large. They can destabilise the banking sector, causing or accentuating a contraction of the real economy, which can in turn further destabilise the banking sector. These interconnections highlight the particular importance for the banking sector to build capital buffers in periods when credit growth is at excessive levels. The build-up of such reserves should have the added benefit of helping to curb excessive credit growth. The Basel Committee introduces a regime that will adjust the size of the capital buffer, established through the capital preservation mechanism presented in the previous section, if there are indications that credit has grown to excessive levels. The purpose of the countercyclical buffer is to achieve the broader macroprudential objective of protecting the banking sector in times of excessive aggregate credit expansion.

The discussion elaborated thus far has highlighted the impact of Basel III and, to a certain extent, the introduction of the Basel IV framework, in effect since January 2025, has further exacerbated the implications on credit conditions. The role of Basel IV is to strengthen the stability of the global banking system by introducing more stringent capital requirements, increasing the comparability and risk sensitivity of calculations (especially for risk-weighted assets), improving transparency and standardising operational risk management, with the aim of making banks more resilient to shocks and establishing a common operating framework between institutions.

While the above-described frameworks have an impact on credit activities taking the perspective of banks, a dedicated set of regulations addresses the sphere of Private Credit, with differences from country to country. Indeed, while accounting for a growing interest in the financial ecosystem, as of today, Private Credit does not entail a unique regulatory framework. On the contrary, regulations addressing this phenomenon appears quite scattered in the main financial markets, as no univocal legislation body applies to such activities. Aiming to provide an overview of the existing regulatory frameworks covering the Private Credit sector, below the main regulatory aspects of the main markets (i.e. United States, Europe and Rest of the World) are described.

United States

Regulation in the United States relating to the private credit sector (private credit) and Business Development Companies has distinct, though interconnected, architectures that reflect different approaches to financial supervision and investor protection. The regulatory framework is primarily based on federal laws, most notably the Investment Company Act of 1940 and the Securities Exchange Act of 1934, with the Securities and Exchange Commission (SEC) acting as the key supervisory body.

In the U.S. regulatory framework, Private Credit refers to non-bank loans (often bilateral or finalized through small club deals), provided to private or medium-sized companies outside traditional public capital markets. Most private credit funds are structured as an entity exempt from registration with the SEC as an investment company under the Investment Company Act of 1940. These exemptions are generally obtained through two specific elements: the number of qualified investors (typically up to 100 beneficiaries), and the nature of such investors, required to be qualified purchasers. As a result, these funds operate under significant operational flexibility but are only accessible to institutional or high-net-worth investors, thus featuring limited degree of transparency and liquidity. In particular, they are not subject to capital and liquidity requirements as those of traditional banks.

Investment advisers who manage these funds are still subject to SEC oversight under the Investment Advisers Act of 1940, which requires registration (unless exempt reporting adviser exemptions apply) and adherence to specific rules on compliance, recordkeeping and management of conflicts of interest. The SEC has also recently finalized rules aimed at improving *disclosure* and transparency for private fund advisors.

On a different extent, the Business Development Companies represent a unique regulatory vehicle, established by Congress with the specific purpose of channelling capital to small and medium-sized U.S. companies that are struggling to access traditional financing. Although they are also closed-end companies, Business Development Companies are not technically registered as full investment companies under the 1940 Act but operate under a 1940 Act-lite regime. Unlike exempt private funds, Business Development Companies are subject to many of the protective provisions of the 1940 Act, including governance and compliance requirements, but benefit from operational flexibilities, such as the use of higher leverage (up to a debt-to-equity ratio of 2 to 1).

Furthermore, such vehicles are required to invest at least 70% of their assets in eligible U.S. private companies and offer them significant management assistance.

Business Development Companies are required to register under the Securities Exchange Act of 1934 and periodically file detailed public reports. Their tax structure, similar to that of Regulated Investment Companies, allows for income pass-through, provided they distribute at least 90% of their taxable income to shareholders, avoiding taxation at the entity level. In summary, while traditional private credit operates primarily in the regulatory shadow for non-qualified investors, Business Development Companies offer a regulated and transparent pathway for a wider audience of investors (including retail investors, especially for publicly traded Business Development Companies) to access this illiquid asset class, while maintaining disclosure and governance requirements rigorous. The accurate assessment of illiquid assets remains a focal point for the SEC's oversight on both fronts.

Europe

The European market has undergone a significant regulatory effort in the last decade, aimed at addressing, among the other, the risks related to Private Credit and providing a coherent treatment across the Union. The main result is the regulation of the European Long-Term Investment Fund (ELTIF) vehicles, which has been issued in 2015 and further reviewed in 2023, as described below.

ELTIF

The Regulation (EU) 2015/760 provides uniform rules on the authorisations, investment policies and operating conditions of Union alternative investment funds (EU AIFs) marketed in the Union as ELTIFs. In particular, the main pillars of the ELTIF framework are outlined in this paragraph.

- *Eligible portfolio undertaking*: a qualifying portfolio undertaking shall meet some key requirements at the time of the initial investment. Such criteria refer to the nature of the company which shall not be a financial company and is required to be established in a Member State of the Union (or in a country outside the Union,

provided that such country is not identified as a high-risk third country or it is not included in the list of non-cooperative jurisdictions for tax purposes).

- *Eligible investment assets*: assets shall only be eligible for investment by an ELTIF if they fall into one of the following categories:
 - Equity or quasi-equity instruments: such instruments shall be issued by: i) a qualifying portfolio undertaking and acquired by the ELTIF, that qualifying portfolio undertaking or a third party through the secondary market; ii) a qualifying portfolio undertaking in exchange for an equity or quasi-equity instrument previously acquired by the ELTIF, that qualifying portfolio undertaking or a third party via the secondary market; or iii) an undertaking in which an eligible portfolio undertaking holds a capital holding in exchange for an equity or quasi-equity instrument acquired by the ELTIF;
 - Debt instruments issued by a qualifying portfolio undertaking;
 - Loans granted by the ELTIF to an eligible portfolio undertaking with a maturity not exceeding the maturity of the ELTIF;
 - Units or shares of one or more ELTIFs, European venture capital funds, European social entrepreneurship funds, undertakings for collective investment in transferable securities and EU alternative investment funds managed by EU alternative investment fund managers, provided that those entities invest in eligible investments and have not themselves invested more than 10 % of their assets in any other collective investment undertaking;
 - Real assets;
 - Bonds issued, within the meaning of Regulation (EU) 2023/2631 on European green bonds, by a qualifying portfolio undertaking (as subsequently amended).

An ELTIF should invest at least 55% of its capital in eligible investment assets.

- *Authorization*: an application for authorisation for an ELTIF shall contain:
 - the fund's regulation or instrument of incorporation;
 - information on the identity of the manager of the proposed ELTIF, its current and previous fund management activity and its experience;

- where the ELTIF may be marketed to retail investors, a description of the information to be made available to investors, including a description of how complaints submitted by retail investors will be handled;
- information on the identity of the depositary and, when required by the competent authority of an ELTIF that can be marketed to retail investors, the written agreement with the depositary;
- a description of the information to be provided to investors, including arrangements for handling complaints submitted by retail investors;
- additional information may be required in particular cases.

The Regulation also lists the documentation to be provided by an EU AIFM, applying to the management of an ELTIF, established in another Member State to the competent authority of the ELTIF. The ESMA shall maintain a central public register of each authorised ELTIF, together with its manager, the competent authority, the dates of authorisation and marketing of the ELTIF, as well as other relevant information.

- *Liability:* managers are responsible for ensuring compliance with the regulations and are equally responsible for any violations. They are also responsible for any loss or damage resulting from non-compliance with the regulations.
- *Investment Policy:* ELTIFs are subject to specific investment rules, since, as anticipated in previous sections, funds are required to invest at least 55% of their capital in eligible assets. Such above investment limits do not apply to ELTIFs marketed only to professional investors. As a general rule, an ELTIF may not invest more than:
 - 20% of its capital in instruments issued by, or loans granted to, any single qualifying portfolio undertaking;
 - 20% of its capital in a single real asset;
 - 20% of its capital in units or shares of any ELTIF, European venture capital fund, European social entrepreneurship fund, undertakings for collective investment in transferable securities or EU AIFs managed by EU AIFMs; and
 - 10% of its capital in assets, where those assets have been issued by a single body; however, an ELTIF may raise the 10% limit to 25% where the bonds

are issued by a credit institution that has its registered office in a Member State and is subject by law to special public supervision to protect bondholders.

The aggregate value of simple, transparent and standardised securitisations in an ELTIF pool may not exceed 20 % of the value of the capital of the ELTIF. The total risk exposure of a counterparty of the ELTIF arising from OTC derivative transactions, buybacks or passive buybacks may not exceed 10 % of the value of the capital of the ELTIF. The assets and cash lending position of ELTIFs must be combined with those of the collective investment undertakings in which the ELTIFs have invested to assess the compliance of ELTIFs with portfolio composition and diversification requirements, and with lending limits (see below).

- *Cash lending*: an ELTIF may borrow money, provided that such lending does not represent more than 50 % of the net asset value of the ELTIF in the case of ELTIFs that can be marketed to retail investors, and no more than 100 % of the net asset value of the ELTIF in the case of ELTIFs marketed only to professional investors. The manager of the ELTIF shall specify in the prospectus of the ELTIF whether the ELTIF intends to borrow cash as part of its investment strategy and, if so, also specify the lending limits.
- *Redemption of units or shares of ELTIFs*: investors in an ELTIF cannot request the redemption of their units or shares before the end of the life of the ELTIF. Redemptions to investors are possible from the day following the so-called end-of-life date of the ELTIF. The rules or instruments of incorporation of the ELTIF shall clearly indicate a specific date for the end of life of the ELTIF and may provide for the right to temporarily extend the life of the ELTIF and the conditions for exercising that right. By way of derogation, the rules or instruments of incorporation of an ELTIF could provide for the possibility of redemption during the life of the ELTIF if certain conditions are met. The life of an ELTIF shall be consistent with the long-term nature of the ELTIF and shall be compatible with the life cycles of each of the individual assets of the ELTIF, measured by the illiquidity profile and economic life cycle of the asset and the stated investment objective of the ELTIF. Investors must always have the option of being repaid in

cash. In-kind redemption from the assets of the ELTIF shall only be possible under certain conditions.

- *Retail investor protection:* to ensure a high level of protection for retail investors, a suitability assessment shall be carried out regardless of whether the units or shares of ELTIFs are acquired by retail investors from distributors or managers of ELTIFs or through the secondary market. The distributor or, in the case of an offer or direct placement of units or shares of an ELTIF to a retail investor, the manager of the ELTIF shall issue a clear written notice informing the retail investor of the following:
 - where the life of an ELTIF offered or placed to retail investors exceeds ten years, the ELTIF product may not be eligible for retail investors who are unable to sustain such a long-term and illiquid commitment;
 - where the rules or instruments of incorporation of an ELTIF provide for the possibility of combining units or shares of the ELTIF, the availability of such a possibility does not guarantee or authorise the retail investor to withdraw or obtain redemption of his or her units or shares of the ELTIF concerned.

ELTIF 2.0

Over the years, ELTIF have established themselves as a key instrument to provide financial support to the European Union's real economy, investing in a wide range of areas such as social infrastructure and transport, real assets and SMEs. Based on the aspects described in the ELTIF section, such vehicles are also the only alternative investment fund label that enjoys a harmonised regime allowing allocation across borders to both professional and retail investors. On 20 March 2023, the Regulation (EU) 2023/606 (ELTIF 2.0) amending the original Regulation (EU) 2015/760 on ELTIFs was published in the Official Journal of the European Union. The measure is part of the package of reforms announced in November 2021 by the European Commission (so-called "Tax Reform"), the objective of which, is to make ELTIFs more accessible to investors.

ELTIFs become more accessible by removing barriers to entry for retail investors. In addition, important changes are planned both supply side (portfolio composition) and demand side (access to retail investors). The new rules will also allow investment, under

certain conditions, in long-term innovative activities and projects located in countries outside the European Union if they bring benefits to the real economy of the latter. For ELTIFs already marketed, a transitional regime has been provided for diversified depending on whether those funds have completed the fundraising phase. ELTIFs that have not completed their fundraising will have to comply with the new forecasts by 11 January 2029. The main introduction can be summarized through some main areas (Ghudushauri, 2024)⁵¹:

- Qualified Investment Activities: introductions are made on possibility to finance projects/activities located in non-EU countries, new definition of 'real assets' and expansion of eligible assets (e.g. STS securitisations and green bonds of eligible portfolio undertakings).
- Composition and Diversification Portfolio: elimination of the minimum threshold of 10 million euros for investment in individual real assets and raising of the market capitalization threshold of eligible portfolio companies to 1.5 billion euros.
- Master-Feeder Frameworks and Funds of Funds: possibility for the manager to establish Master-Feeder structures headed by a Master ELTIF and possibility for ELTIFs to invest in other funds than just ELTIFs.
- Limitations to Financial Leverage: the initial threshold of 30% leverage has been raised to 100% for ELTIFs intended for professional investors and to 50% for ELTIFs that can be marketed to retail investors.
- Retail Placement: the obligation to set up local structures has been abolished as well as the minimum investment of 10,000 euros and the concentration limit of 10% of the aggregate portfolio.
- Sustainability Requirements: compliance is introduced with the disclosure obligations set out in the SFDR Regulation, and definition of investments in line with the European Green Deal. Furthermore, there is the evaluation on the possibility of establishing green ELTIFs.

In brief, the ELTIF framework, as amended in 2023, represent a homogenous framework promoting a coherent treatment of such funds across the Union, and thus fostering the rapid growth of Private Credit in the system. Differently from the U.S. case, it is possible

⁵¹ Ghudushauri, L. (2024). Basel IV: Implementation, Challenges and Prospects. *Economics & Business* (1987-5789), (2).

to see how the European approach has privileged a regulated model, defining specific qualifications and criteria to operate such funds.

Rest of the World

In the UK, the regulatory approach is characterised by a well-established framework, but with a key distinction compared to the U.S and European cases: corporate lending is not a regulated activity under the Financial Services and Markets Act (FSMA). Unlike loans to individuals or certain different cases, which fall under the consumer credit regime, direct financing to companies sees greater regulatory flexibility. The main restrictions relate to financial promotions and anti-money laundering (AML) requirements. Industry players, such as private debt funds, are still subject to general oversight by regulators, who mandate strict risk management and product governance policies to ensure that products are aligned with the interests of end customers.

In the Switzerland case, the core of the financial regulatory system is the Banking Act (Banking Act). Lending activities do not necessarily require a specific license, unless the institution accepts deposits from the public on a professional basis. The critical threshold is set by the so-called 20 rule: any subject who raises funds from more than 20 people or manages deposits of more than 100 million francs must obtain authorisation from FINMA, the financial market supervisory authority. For private debt funds, the relevant legislation is the Collective Investment Schemes Act, and the recently introduced Limited Qualified Investor Fund has revolutionized the industry. This structure allows qualified investors to launch credit funds without FINMA's prior approval, accelerating time-to-market while maintaining strict risk management standards. Another key element is the Anti-Money Laundering Act, under which, non-bank credit providers (such as securitisation vehicles or financing companies) are also considered financial intermediaries. Such vehicles are required to join a self-regulatory organisation (SRO) or submit to direct supervision, ensuring that the identity of the beneficial owner is verified.

Finally, taking the perspective of Canada, the regulatory landscape is similar to that of other developed jurisdictions, with a focus on investor protection and the stability of the financial system. Private Credit regulation is largely handled at the provincial level, although there are federal laws that apply to specific financial institutions. There are no

explicit limits on the amount of funding, and the instruments generally have a medium- to long-term duration. Funds operating in this space are required to comply with specific disclosure and authorisation requirements, with a particular focus on changes of control rules for investments in regulated assets. Supervision aims to balance market liquidity with the holding of less liquid assets, emphasizing discipline in the purchase and sale of holdings.

3.2 The Interplay between Private Credit and Financial Stability

The discussion developed thus far has highlighted the role of Private Credit as an endogenous response within the financial market in response to the restrictive credit conditions emerging following the great financial crisis. As a matter of fact, Private Credit has played a meaningful role in channeling funds to firms, fueling economic growth in parallel to the banking system. Nevertheless, the growing dimensions of the Private Credit market and increasing participation of both conventional and unconventional market players is a key aspect to be considered as the greater the incidence of Private Credit, the higher the potential impact on the global stability of the financial system.

In principle, the dynamics of the Private Credit channel, both in terms of credit risk and concentration, resemble those taking place in the traditional banking sector. Accordingly, the intrinsic default risks and the vulnerabilities referred to contagion may impact the financial stability and amplify the potential effect of negative shocks to the real economy (Adrian et al., 2019)⁵². A significant area of scrutiny relates to borrowers' risk, the mismatch in liquidity profile, the degree of leverage, the valuations of assets, and in the last instance the interconnectedness among all these factors. The transposition of credit volumes from the highly regulated and transparent banking sector to the relatively opaquer private credit funds pose some possible questions. Considering how bank activities are required to observe stringent regulation and supervisory oversight, and how debt issued on bond markets is subject to extensive disclosure requirements to promote wider market transparency, it is straightforward to understand that the Private Credit market is comparatively lightly regulated and less transparent. In addition, Private Credit

⁵² Adrian, T., Dong H., Liang N., Natalucci, F. (2019). A Monitoring Framework for Global Financial Stability. IMF Staff Discussion Note 2019/006, International Monetary Fund, Washington, DC, 2019.

loans are largely unrated and feature limited liquidity, with small or null recourse to third-party pricing services. As discussed, Private Credit instruments do not envision standardized terms, thus their rapid growth presents several risks whose potential implications, as of today, cannot be easily identified, as fundamentals are different from the conventional credit.

The lack of information is possibly the single most important factor limiting a thorough evaluation of how Private Credit may alter the stability in financial markets. Due to this data gap, the inherent relations and the contagion risks to which financial institutions are exposed are poorly understood, and a possible shock in the market could have material impact on the stability. Since the Private Credit sector has rapidly grown over the last 15 years, while raising as a material share of market only recently, it has not yet experienced any downturn, thus no safeguard mechanism has been implemented nor mitigation measures to address conventional market risks have been tested. It has to be recognized that as of 2025, the global systemic risks represented by Private Credit appear somehow contained, due to its relatively lower share in the credit market and considering how such credit loans are funded in large part through long-term capital, which mitigates the maturity transformation risk. Furthermore, the recourse to leverage is still not widespread, and this aspect in turn helps contain both liquidity and interconnectedness risks (Muminovic, 2024)⁵³.

The acceleration in terms of volumes of this asset class imposes some considerations though. With the rapid growth of private credit assets under management and intensifying competition with investment banks on larger transactions, supply and demand dynamics may change, thereby lowering underwriting standards, increasing the risk of loss on outstanding credit and making risk management models obsolete. Finally, the Private Credit sector could also experience a decrease in risk premiums and a weakening of covenants standards, as assets under management increase rapidly and the pressure to deploy capital increases (a phenomenon seen in past credit crisis). Immediate risks may seem contained, but the sector has significant vulnerabilities, is opaque to stakeholders and is growing rapidly under limited prudential supervision. Should such trends remain in place in the future, the vulnerabilities of Private Credit could rapidly have a systemic

⁵³ Muminović, H. (2024). The Rise and Risk of Private Credit. *Studia Iuridica Montenegrina*, 6(1), 43-54.

extent, spreading into the entire system. For the sake of the present discussions the main risks are described below (International Monetary Fund, 2024 and Muminovic, 2024) ⁵⁴ ⁵⁵:

- Counterparty and downturn risks. In the event of a sharp and unexpected economic downturn, the vulnerabilities of borrowers in the Private Credit market could trigger heavy and sudden losses. The discussion made so far has identified as the key borrowers in the sector small-medium companies often highly indebted, which operate with variable-rate loans. In an environment of zero (or negative) growth, these companies would find themselves facing the pressure of unsustainable operating costs and weak revenues, leading to a wave of insolvencies and, in turn, a further increase in financing rates.
- Impact on capital and opacity for investors. The deterioration of loans poses the risk of erosion of capital for institutional players (such as pension funds and insurance companies), which have increased their exposure on illiquid assets over the recent years. The lack of transparency on the quality of these underlying loans may turn into a serious issue as without consistent data, supervisors and companies themselves could find themselves completely unprepared for a significant write-down extended to the entire sector.
- The liquidity of retail funds. Although today the liquidity risk appears under control, the spread of Private Credit in the market and to new categories of investors (including retail) could alter the risk perception in the market. The growth of Private Credit solutions is entailing as diversification into semi-liquid solutions. If such funds increase their volumes, the risk of a run on redemptions would increase as well, increasing the potential for panic withdrawal of capital at the same time, destabilizing the system.
- Financial leverage and systemic interconnections. The network of Private Credit is growing and so does the interconnection of debt exposures. Even if a single fund may be moderately exposed, the entire supply chain (from ultimate borrowers to fund lenders) is leveraged by complexity. In the scenario of

⁵⁴ International Monetary Fund (IMF) (2024). The rise and risks of private credit. Global Financial Stability Report, chapter 2, April, 53–76.

⁵⁵ Muminović, H. (2024). The Rise and Risk of Private Credit. *Studia Iuridica Montenegrina*, 6(1), 43-54.

downturn, liquidity demands could propagate rapidly, forcing market players to close or reduce their positions at the same time, with negative effects that would extend to the entire financial system.

- Valuation uncertainty and loss of confidence. One of the weaknesses of the sector is the absence of a public price formation mechanism. This degree of opacity may allow managers to delay the accounting of losses, perhaps to continue collecting commissions or not to hinder the raising of new capital. However, this delay in recognizing losses could ultimately propagate a crisis of confidence with sudden devaluations resulting into a systemic shock.
- Contagion between financial sectors. The stability of the system could be threatened by the close links between private credit and other sectors, in particular to private equity groups. The latter have accumulated significant portfolios of illiquid assets, much more than their traditional competitors. The key issue is that, due to the limited data available to regulators, it is difficult to predict how a downturn in this market could affect other financial sectors.
- Risks for retail investors. The opening of Private Credit market to the retail world adds behavioural vulnerabilities. Since Private Credit solutions are complex and niche investments, there is a risk that the dangers could be minimized or poorly explained. Retail investors may not be fully aware of how difficult it is to mobilize capital or what the real probability of loss is in such an illiquid market.

Further to the above, Cai e Haque (2024)⁵⁶ suggest an overview of the main risks resulting from the interplay between Private Credit and financial stability. Similar interconnections are found in the European context from Pelizzon et al. (2025)⁵⁷. The main issues identified are described below.

- Limited liquidity: the lack of a secondary market makes Private Credit loans illiquid, which on turns results into a limited market discovery. Therefore, investors in such sector are required to hold their position until maturity, or in case they turn to earlier exit strategy, they may face substantial losses. While funds are

⁵⁶ Cai, F., Haque, S. (2024). Private credit: Characteristics and risks.

⁵⁷ Pelizzon, L., Mattiello, R., Schlegel, J. (2025). *Growth of non-bank financial intermediaries, financial stability, and monetary policy* (No. 458). SAFE Working Paper.

opening to hybrid funds maturities, this mismatch paves the way for a so-called first-mover advantage in the event of market downturn, posing pressures for early redemptions, asset fire sales, and thus ramifications of shocks in the market. Limited liquidity, mainly in leveraged derivatives positions, could propel such dynamics, thus requiring increased liquidity requirements.

- **Rise in corporate leverage and default:** as many Small-Medium Enterprises have limited collateral and are already heavily indebted, the most immediate mitigation is to reduce financing without the support of Private Credit. This dynamic is confirmed by the consistently higher yield differentials in Private Credit compared to syndicated loans. As a result, the sector pushes up the overall debt of companies, exposing them more to any financial shocks. In an environment marked by inflation and rising rates, the interest burden on floating-rate debt risks posing pressures in balance sheets, fuelling potential defaults in the event of a recession. An excessive degree of leverage can exacerbate the risks for non-bank intermediaries. Synthetic leverage generated by derivatives lacks transparency and inflates counterparty risk. When debt levels reach high thresholds, the risk of forced and sudden sales emerges, triggering systemic losses that affect banks and the real economy. This dynamic exacerbates market volatility, especially in the closing phases when portfolio rebalances take place.
- **Dry Powder and deterioration in credit quality:** the sustained accumulation of dry powder and the competitive pressure exerted by banks may weaken the quality of credit investigations. In the private credit sector, and in direct lending in particular, available liquidity has literally exploded, almost quadrupling compared to 2014 levels. As fund managers are tasked with delivering high returns to investors within set maturities, the scarcity of opportunities during economic slowdowns could push them into more risky trades. This often results in covenant-lite loans or, more generally, less stringent selection criteria. The strong concentration of these resources in the hands of a few large players exacerbates the problem: the fear is that, to pump up the internal rate of return (IRR), they will end up structuring fragile deals. Such a decline in deal quality sets the stage for an increase in future defaults, hurting fund bottom lines and investor profits, especially in the face of historically low recovery rates.

- Potential spillover to other nonbank institutions: Since fund managers have the legal power to demand the promised funds at any time, investors such as pension funds or insurance companies are exposed to the risk of equity calls at the time of credit market downturns when liquidity reserves are under stress. Considering the case of non-life insurance companies, these can be subject to a sudden increase in claims because of external shocks, such as natural disasters. Given that these companies must repay claims so quickly, holding shares in Private Credit funds could exacerbate liquidity crises if managers' payment requests coincide with a time of maximum financial vulnerability.
- Interconnections with bank institutions and financial system: although banks' direct exposure to Private Credit funds appears limited at the moment, the links between these two sectors of the financial system are growing for several reasons. First, it is increasingly common for banking institutions and private funds to join forces to finance individual operations. At the same time, banks are increasingly selling structured debt portfolios to private managers through so-called synthetic risk transfers. These strategies are implemented by institutions to lighten the regulatory capital load required on outstanding loans. However, these tools often lack transparency and present pitfalls for global financial stability, particularly as the sector has not yet faced a significant and cyclical recession. These dynamics indicate that Private Credit will play an increasingly central role in the resilience of financial markets. This linkage is fuelled by a significant network of exchanges: from securities financing transactions to derivative contracts and the sharing of assets or cross-shareholdings. In such an interconnected system, economic shocks can spread very quickly across jurisdictions and sectors, especially if several institutions are forced to react simultaneously to severe market tensions. The most recent empirical data confirm how deep these mutual dependencies are now.
- Growing volumes and geographical concentration: although size is becoming a key matter in the considerations of Private Credit, the simple volumes are not enough to define systemic risk. Thus, the amount of assets must be analysed with caution and in conjunction with other parameters. For instance, in the European panorama, a specific critical issue may be the geographical concentration of the Private Credit funds. If a significant share of the sector is operating in a few

financial districts, a failure in one of these nodes (i.e. triggered by stock market downturns, interest rate increase or policy restrictions) may generate a consequential effect on the broader financial stability in the European Union. This vulnerability becomes even more acute when the operators of these centres adopt similar investment strategies or hold similar assets. In such cases, the market turbulence is amplified by collective and synchronized reactions to shocks. This degree of geographical polarization is rooted on strategic reasons as well as regulatory arbitrage. Many institutions do not choose their headquarters just for economic reasons, but are also attracted by less strict supervision, favourable tax regimes or more flexible regulatory frameworks.

- Other Risks to Stability: a first aspect refers to the the lack of accurate, real-time and internationally consolidated data (particularly in relation to leverage, exposures in the private financial sector and cross-border flows) which hampers the ability of supervisors to adequately monitor the build-up of systemic risk. Financial instruments such as bilateral derivatives, private equity leverage and opaque fund structures are not required to comply with transparency frameworks. As such macro-prudential oversight is weakened. A second risk factor is the insufficient coordination and fragmentation of supervision across jurisdictions. Within the European Union, macroprudential supervision of non-bank financial intermediaries operates in a condition of fragmentation at the national level. Inconsistencies in supervision across countries foster regulatory arbitrage and limit effective responses to any systemic threat. Existing institutions, such as ESMA, lack strong coordination or intervention capabilities. The absence of a unified supervisory mechanism undermines the possibility of applying EU-wide macroprudential tools or carrying out meaningful system-wide stress tests. Finally, it is useful to mention the risk deriving from the moral hazard and the dependency from central bank due to the expectation of central bank interventions during crises (i.e. through the provision of emergency liquidity lines or asset purchases). This expectation paves the way for moral hazard, with non-bank intermediaries potentially incentivised to take excessive risks, based on the

assumption of a final bailout. Such opportunistic behaviors may result into capital misallocation, during phases of markets downturns (Buiter *et al.*, 2023)⁵⁸.

The above-described overview allows to understand how several potential risks emerge in the Private Credit sector. More specifically, the lack of a homogenous information basis and the continuous growth in the market since the 2008 financial crisis, limits the understanding of the real interconnections between Private Credit and the broader financial system. While still envisioning a phase of growth, with no systemic risk emerging as of today, the reversal in economic conditions and investor's sentiment could swiftly expose the vulnerabilities of Private Credit, requiring regulatory authorities to act promptly to curb the potential impacts of a downturn in the market.

3.3 Literature Review

The interplay between the dynamics of Private Credit and the broader credit market has encompassed some of the key risks and vulnerabilities as of the conventional credit market. Although the Private Credit segment has not yet resulted in a market downturn providing empirical evidence on the impacts on the financial sector, some studies have investigated the recent trends in the Private Credit. Market evidence provides interesting arguments supporting some of the argumentation discussed in the previous paragraph.

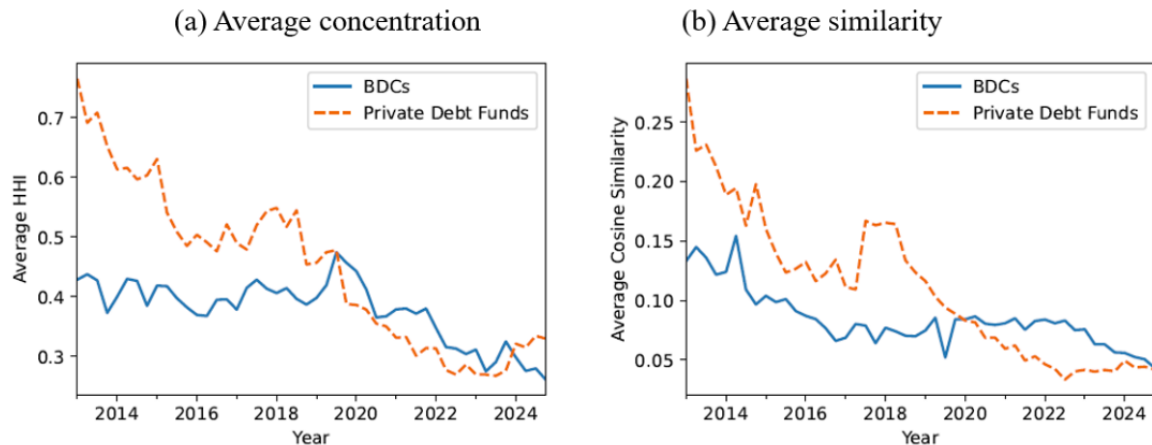
Starting with overview provided in the study by Berrospide *et al.* (2025)⁵⁹, a key aspect emerging in the Private Credit market is the concentration and similarity between bank credit exposures to private credit. In other words, it is important to understand the level of diversification between banks' credit commitments held in Private Credit vehicles and the degree of similarity of such commitments across different banking institutions. The authors investigate the first issue through the Herfindahl-Hirschman Index for a sample of banks portfolios. Considering that the Herfindahl-Hirschman Index allows values in the range from 0 to 1, values close to 1 are associated with lower diversification (or conversely higher concentration) in terms of credit commitments to borrowers. On the

⁵⁸ Buiter, W. H., Cecchetti, S. G., Dominguez, K. M., Sánchez Serrano, A. (2023). Stabilising financial markets: lending and market making as a last resort (No. 13). Reports of the Advisory Scientific Committee.

⁵⁹ Berrospide, J., Cai, F., Lewis-Hayre, S., Zikes, F. (2025). Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications.

contrary, values close to 0 reflect a higher degree of diversification (or conversely lower concentration). Figure 10 (Panel (a)), outlines how the average Herfindahl-Hirschman Index value has declined significantly for both business development companies and Private Credit fund portfolios during the analysed period (2014-2024), but nevertheless remains in line with values showing moderate concentration.

Figure 10 – Concentration and Similarity for BDCs and Private Debt Funds⁶⁰



In terms of the similarities between bank exposures and Private Credit, the approach proposed by Girardi et al. (2021)⁶¹ is followed to determine the cosine similarity metrics for paired banks. This measure allows values in the range from -1 to 1, whereby values closer to 1 reflect higher similarities between bank credit commitments and Business Development Companies as well as Private Credit. Figure 10, (Panel (b)) outlines the results and in line with the Herfindahl-Hirschman Index, evidence demonstrates how also the level of portfolio similarity has reduced during the 2014-2024 decade, with data collected for the last years showing low levels of similarity. Taking both metrics in perspective, it is possible to conclude that while considering the increase of banks' exposure to Private Credit, the degree of concentration looks moderate and therefore, banks cannot be considered exposed to the same risks featuring the Business Development Companies and the Private Credit. This result suggests that generalized

⁶⁰ Berrospide, J., Cai, F., Lewis-Hayre, S., Zikes, F. (2025). Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications.

⁶¹ Girardi, G., Hanley, K. W., Nikolova, S., Pelizzon, L., Getmanski Sherman, M. (2021). Portfolio similarity and asset liquidation in the insurance industry, *Journal of Financial Economics*, 141(1), 69-96.

credit lines drawdowns in Private Credit funds should not result in a consequential and similar effect on banks.

As the next piece of analysis, the authors further investigate the scenario of extended drawdowns during phases of market stress. A critical element for the main banking institutions derives from a potential sudden and massive recourse to credit lines by Private Credit vehicles in phases of financial instability. If market disruptions limit access to capital, these entities could find themselves forced to draw heavily on the funds guaranteed by banks. To quantify the scope of such a scenario, an extreme stress situation has been assumed in which private debt funds fully exhaust the remaining margins of their exposures. This projection indicates an increase in the utilization rate of about 44 percentage points, translating into additional withdrawals of \$36 billion: a figure that represents approximately 2% of the CET1 capital of the banks monitored in the Y-14 system. As shown in Figure 11, a similar increase in the levels of drawdowns is expected to have a limited impact on both aggregate CET1 capital ratio (about 2 basis points) and on the aggregate Liquidity Coverage Ratio (LCR, about 1 percentage point). In addition, it is worth to consider that such loan portfolios are subject to continuous monitoring from supervisory bodies through stress tests.

Figure 11 - Private Credit Vehicles: Changes in Capital and Liquidity ratios ⁶²

Regulatory Ratio	Current (%)	Drawdown rate assumption	Implied Change in Numerator (\$ Bil.)	Implied Change in denominator (\$ Bil.)	New ratio (%)
CET1 ratio	13.02	0.5	0	18	13.0
LCR	122	0.4	-36	-14.4	121

The analysis shows that major U.S. banking institutions possess solid levels of capitalization and liquidity, which would allow them to cushion the risks of large withdrawals by Private Credit vehicles. As a result, concerns about financial stability related to the direct credit channel appear contained. However, it should be noted that this estimate represents the upper limit of the impact attributable exclusively to the private debt sector. In times of crisis, the liquidity requests of these operators could in fact overlap with similar tensions in other sectors, triggering a domino effect of the use of credit lines by various non-bank intermediaries. Such a scenario, which materiality cannot be

⁶² Berrospide, J., Cai, F., Lewis-Hayre, S., Zikes, F. (2025). Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications.

estimated in detail, might overcome historical precedents, considering that such institutions are now much more dependent on bank exposures for their liquidity than in the past.

Moving the focus to the different levels of interactions between banks and Private Credit, in addition to providing direct financing to Private Credit vehicles, banks have undertaken several other activities in the changing corporate credit landscape, intensifying their ties with the private debt sector and other non-bank intermediaries. Indeed, banks are progressively generating their own Private Credit operations, often through the acquisition of minority stakes in Private Credit funds and Business Development Companies. Chernenko et al. (2025)⁶³ provide compelling evidence on the emerging trend for banks to finance mid-market firms through directly or indirectly owned Private Credit funds and Business Development Companies on the one side avoiding the regulatory and supervisory costs of carrying such activities on their balance sheets, and on the other side sustaining higher returns by means of direct lending (Cook, 2024)⁶⁴.

The partnership between banking institutions and Private Credit operators is constantly expanding. As highlighted in a study from Morgan Stanley and Oliver Wyman (2024)⁶⁵, this growth opens up new profit channels for banks, which benefit from the financial support provided to the sector. Driven by a structural shift in demand for wholesale banking services, private lenders are eroding market share in areas historically dominated by banks, such as infrastructure financing and asset-based financing. It is therefore foreseeable that the exposure and intertwining between these two worlds will increase further, both through warehouse financing lines and through models in which the bank originates credit and then distributes it to private managers. In this way, banks evolve their business model (originate-to-distribute), allowing private credit vehicles to participate directly in the underwriting of transactions. At the same time, to mitigate the burden of regulatory constraints on leverage, banks tend to finance the first lien (less risky) portion, delegating the second-lien part or higher-yielding tranches to private

⁶³ Chernenko, S., Ialenti, R., Scharfstein, D. (2025). Bank Capital and the Growth of Private Credit, working paper, Harvard University.

⁶⁴ Cook, L. (2024). Current Assessment of Financial Stability. Brookings Institution, Washington, D.C., May 8.

⁶⁵ Morgan Stanley and Oliver Wyman (2024). Extending Credit: The Evolving Role of Wholesale Banks in Credit Markets.

funds. These transactions, often structured as synthetic risk transfers, allow banking institutions to remain competitive in direct lending by offloading the most critical components of debt to third-party investors. However, since banks often finance the same non-banks institution that should guarantee risk coverage, some of these risks remain, ultimately, within the banking system. This aspect highlights a peculiar feature of risk that exposes banks to somehow hidden but potentially systemic vulnerabilities.

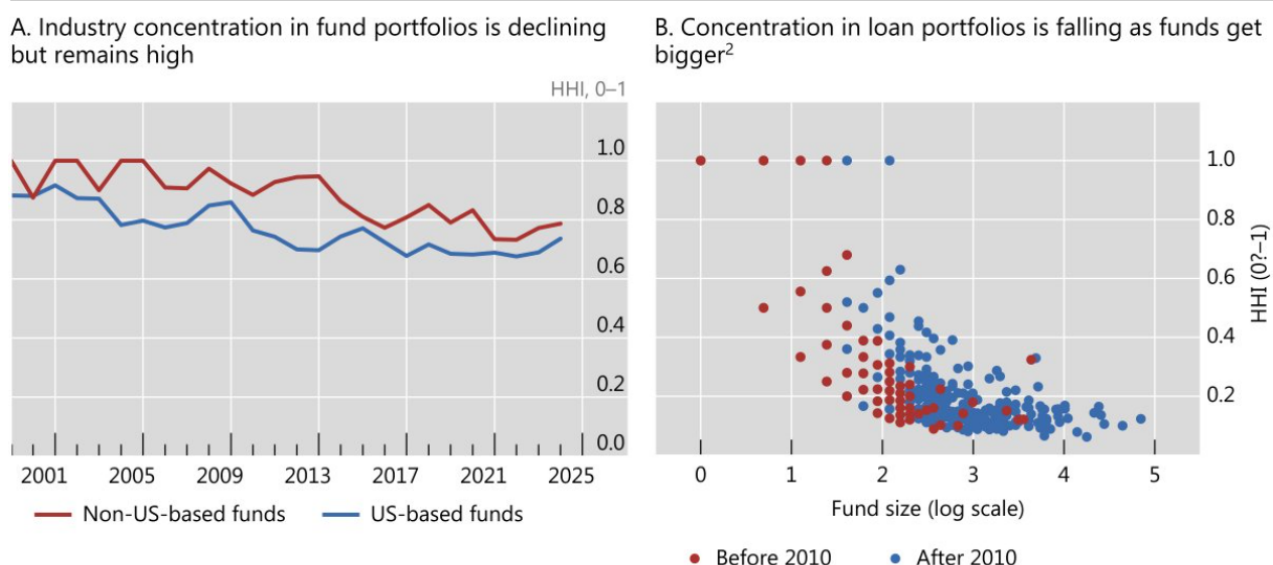
Avalos et al. (2025)⁶⁶ focus their research on the industrial diversification of Private Credit. The scope of action of Private Credit funds is progressively expanding to various industrial sectors. Manufacturing, hi-tech, media/telecommunications and heavy industry in the past absorbed more than two-thirds of all operations. Today, their overall share has fallen below the 40% threshold. Other areas, such as cleantech and life sciences, are gaining significant traction. Despite this general diversification, reality shows that the loans disbursed by individual funds remain extremely focused on a few market niches. The Herfindahl-Hirschman Index (HHI) averages 0.74 for US-based funds and 0.81 for European counterparties (Figure 12). For comparison, the same index for banks and other intermediaries active in the syndicated loan market stops at much lower levels, at 0.2 and 0.4 respectively (Aldasoro et al., 2022)⁶⁷. Concentration ratios show a downward trend with increasing average fund size, noting that for a given fund size, portfolio concentration remain at a similar level before and after 2010. Nevertheless, with significant increase in fund size, larger funds present a higher degree of diversification.

Concentration of portfolios in a few industries can provide advantages as well as downsides. On the one hand, focusing on narrow sectors allows fund managers to build up distinctive knowledge on the features of the borrower, refining credit control and management skills. Because of this vertical expertise, specialized institutions are able to offer more advantageous conditions (such as higher financing thresholds, interest rates better calibrated to risk and longer maturities) while also showing themselves more inclined to trust small, less transparent companies operating in their field of action. On the other hand, however, broader diversification acts as a shield against turbulence affecting individual regions or specific sectors, thus mitigating overall credit risk.

⁶⁶ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

⁶⁷ Aldasoro, I., Doerr, S., & Zhou, H. (2022). Non-bank lending during financial crises. *BIS Quarterly Review*.

Figure 12 – Concentration of Private Credit Funds by Industry ⁶⁸



¹ Herfindahl-Hirschman index (HHI) calculated for each lender across 40 industries. It ranges from zero (low portfolio concentration) to one (high concentration, with all loans concentrated in one industry). ² Fund size measured as the natural logarithm of one plus the number of loans.

Finally, Palladino and Karlewicz (2024)⁶⁹ contend that at the heart of systemic risk in private debt lies in a rather traditional credit threat: the danger that those who receive the loan will not be able to repay it, due to imprudent disbursement criteria, the fragility of individual companies or a worsening of the general economic situation. A company can go bankrupt because its product becomes obsolete, because it is crushed by competition or because of wicked management combined with excessive debt. As observed by Wigglesworth (2024)⁷⁰, the weight of financial burdens for many companies in the sector has almost doubled in just a few years. Typically, private borrowers are already heavily indebted, often under the control of private equity funds, and are discarded by traditional banks due to weak balance sheets, negative EBITDA, or lack of collateral. In contrast to this view, Cook (2024)⁷¹ points out that most companies still retain sufficient margins to honour scheduled payment installments and interest. However, without real transparency

⁶⁸ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

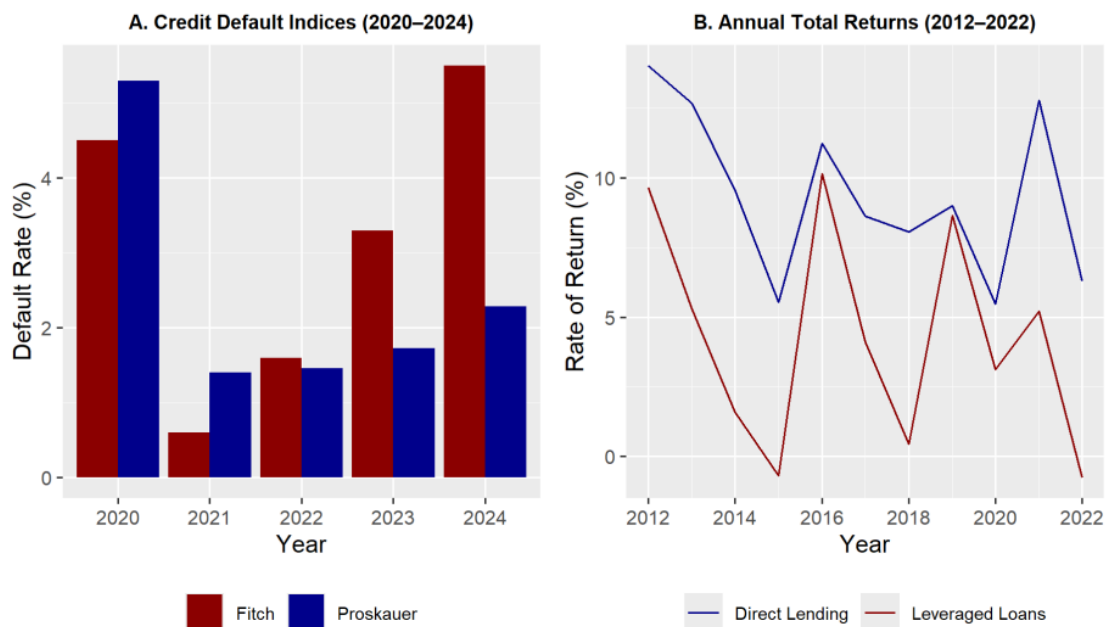
⁶⁹ Palladino, L., Karlewicz, H. (2024). The growth of private financial markets. *Political Economy Research Institute Working Paper Series*, 600.

⁷⁰ Wigglesworth, R. (2024). How Is Private Credit Weathering Its First Big Rate Hiking Cycle? *The Financial Times*, November 21, 2024.

⁷¹ Cook, L. (2024). Current Assessment of Financial Stability. Brookings Institution, Washington, D.C., May 8.

on the data, it remains difficult to understand on what basis this optimism is based. While this may apply to the giants that enter the bond market, the medium-sized companies that populate private credit portfolios are decidedly more exposed. These companies often lack diversified revenues and are more affected by sectoral crises, a risk amplified today by geopolitical tensions and the trade wars. In summary, there is no univocal evidence that bankruptcies are more frequent in Private Credit funds. As the Proskauer Credit Default Index indicates, default rates for senior-secured and uni-tranche loans have tended to be lower than those monitored by Fitch for leveraged loans in the U.S. (Figure 13).

Figure 13 – Comparative Defaults and Annual Total Returns⁷²



In conclusion, the analysis elaborated has shown that while Private Credit market is rapidly growing in terms of volume the degree of correlation with the traditional banking system appears still limited as of today. Also considering the risk dynamics of Private Credit alone, metrics do not show a significant higher risk profile compared to other financing channels. Such evidence, though not conclusive, provide a quite reassuring overview on the fact that Private Credit sector might not be exposure to critical

⁷² Palladino, L., Karlewicz, H. (2024). The growth of private financial markets. *Political Economy Research Institute Working Paper Series*, 600.

vulnerabilities in case of sudden market downturn, and the same holds for the wider financial system.

4 Empirical Analysis

Following the theoretical part, the thesis proceeds with the analysis of the main empirical aspects featuring the Private Credit market. Based on the discussion developed so far, the analysis conducted is aimed shed lights on the main drivers sustaining the growth of Private Credit volumes over the recent years as well as the reaction of financial markets to news relating to the status of Private Credit sector. To this end, after an overview of the methodology adopted, the research hypothesis is described. Then the results of the analysis are presented as basis for discussion of the main empirical considerations.

4.1 Methodology

The analytical part hinges on two main methodological approaches, that is, the regression model to detect the drivers for Private Credit growth and the event study, required to assess the degree of market reaction following news relating to the sustainability of Private Credit. The two methodologies are described below.

Regression Model

The determination of empirical evidence is conducted through a quantitative analysis, based on the above-described empirical data, and developed by means of a multiple linear regression model. The model, estimated through the method of the ordinary least squares (OLS), assumes that between the dependent variable (Y) and the independent or explicative variables (X) there is a linear relationship. It is assumed that, from uncorrelated sample data observations, it can be estimated several relationships corresponding to the single variables featuring the sample. Hence, the result will feature a series of β coefficients measuring the variation of dependent variable in function to the unit variation of each independent variable, being the other variables kept constant.

The analytical section is complemented with the commentary on the results for each β coefficient their respective significance and finally it is evaluated the general fit of the regression model. Here below, the model is expressed:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_n X_{ni} + \varepsilon_i$$

$$E(\varepsilon_i) = 0$$

Where:

Y_i is the dependent variable (where y_i represents the i -th sample observation of the dependent variable);

β_n is the slope corresponding to the n -th dependent variable X_n keeping constant the other dependent variables (where β_0 represents the regression intercept);

X_{ni} is the n -th independent variable (where x_{ni} represents the sample observation of the n -th variable subject to the analysis in respect to the i -th observation);

ε_i is the i -th error component of the model (where the expected value of the average of the errors of the model is equal to 0);

$n = 0, \dots, N$ identify the regression coefficients;

$i = 0, \dots, I$ identify the single observation.

The regression model is therefore used to understand the relationships between key transaction variables on abnormal returns. To verify the degree of fit and the accuracy of the model estimates, the R^2 coefficient and the F test will also be analysed. The coefficient of determination, or R^2 , is a measure that provides information about how well a model fits. In the context of regression, it is a statistical measure of how well the regression line is close to the actual data. It is therefore important in analysis aimed at predicting future outcomes or in hypothesis testing. On the other hand, with reference to the F test, this is used in understanding the significance of the regression model with respect to the reference population, indicating, if significant, how at least one variable of the model is significant in the analysis carried out.

Event Study

The value of securities is influenced by the information being circulated to market operators. Defining as an event of various typologies (i.e. macro, sectoral or micro) the dissemination of new information such as the updates on the national trade deficit, or the increase in sales of a production sector, or even the publication of brilliant results by a company), it is possible to observe a process of impact on securities prices from information to price that can be summarized in some main phases:

- changing macro, sectoral and micro conditions change the value of the firm and shares;

- information is available on the market and investors evaluate the "information" and decide whether to buy or sell a given security;
- investor behaviour affects the price, which changes and tends to align with the intrinsic value of the securities.

A defining feature of the event study analysis relates to the market efficiency. However, for the market to be efficient, what matters is that these conditions are verified in an approximate way. Reiterating the conditions, these can be summarized as: i) existence of a market consisting of many participants, ii) investors are rationale with homogeneous expectations, iii) no transaction costs and no taxes. However, for the market to be efficient, it is necessary that these conditions can occur also in a weak form. Thus, the market is, in fact, still efficient if: i) the non-homogeneity of expectations is not such as to allow some to constantly "beat" the market; ii) transaction costs and taxes do not discourage trade. Efficiency has some important implications, since if the market is efficient: There are not over/under-price securities and the price of a security equals its intrinsic value (Ciciretti *et al.*, 2018)⁷³.

Investors and operators receive, in their daily work, an enormous amount of information through multiple channels: general news, publication of short-term macroeconomic data, opinions and market rumours on political and economic policy events; market analysis (prepared by large financial institutions) and studies of different types. A substantial flow of information can be broken down into two distinct categories: scheduled news and unscheduled news. The former generally constitute news or announcements of quantitative macroeconomic information and are disseminated at fixed deadlines, although their values are unexpected. The latter, on the other hand, represent qualitative news, generally unpredictable in terms of the timing and content. Unscheduled news consists of an economic or institutional event, a statement or a clarification, which may be totally unforeseen or, although expected, not have a known ex-ante timing. The constant attention paid to the most up-to-date information is in contrast with the standard theories concerning the processes of price formation of financial assets, based on stable and predictable relationships between "fundamentals" and prices. Scheduled news

⁷³ Ciciretti, R., Iori, M., Trenta, U. (2018). *Eventi e News nei Mercati Finanziari*. Torino: Giappichelli.

involves the publication of macroeconomic data by governments or central banks. (Ciciretti et al., 2018)⁷⁴.

In particular, the analysis aims to demonstrate the reaction of the stock markets post-announcement and to observe the pattern of value creation around the day of the announcement. The effect of the transaction announcement on daily returns from stock prices is determined through the event study methodology. This analysis is widely adopted to observe the behaviour of data sets over a given period in the proximity of the studied event. The methodology of the event-study relies on three fundamental assumptions (MacKinlay, 1997)⁷⁵:

- Efficient markets: as mentioned, this means that prices incorporate all the relevant information available to market participants. Any new information regarding the issuer should be quickly incorporated into the prices as soon as it is made public. It follows that it is possible to study the change in prices following the disclosure of the relevant information, over a period within which that information will continue to exert an influence on the value of the company.
- The event cannot be anticipated: the market should not have had any information about the operation in advance. However, it is possible that some information may leak to the market in advance. This is especially true for M&A announcements or positive (or negative) news relating to the conditions of the debt markets, which in some cases may be anticipated from investors. The possibility that the news has already been leaked to the market justifies the adoption of a symmetrical observation window, the duration of which extends both before and beyond the date of the announcement.
- No other events occurred during the reporting period: therefore, no information must have occurred that could influence market prices that cannot be distinguished from those caused by the original event. The likelihood of confounding effects increases as the time window for detecting "abnormal" returns increases.

First, it is needed to determine the event of interest and the period in which the event will be reviewed (or event window). As mentioned, the event of interest concerns the detection

⁷⁴ Ciciretti, R., Iori, M., Trenta, U. (2018). *Eventi e News nei Mercati Finanziari*. Torino: Giappichelli.

⁷⁵ MacKinlay, A. C. (1997). Event studies in economics and finance. *Journal of economic literature*, 35(1), 13-39.

of daily returns of markets as a response to a particular announcement. Time windows can be defined in intervals of a few days up to months or years. Since the event study analysis described here aims to detect short-term reactions, different event windows are within the range of $[0; +2]$ with day 0 being the announcement date. It is assumed that this time frame is robust enough to include any leakage of information prior to the announcement date and thus neutralize possible over-reactions because of the event.

Over this period of time, the study will compare the actual returns of the stocks with the expected returns and determine possible abnormal returns. According to the author, the return of the market model is adopted, based on a linear relationship between the debt return and the equity return is assumed, as show in formulas below:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

$$E(\varepsilon_{it} = 0); \text{ var}(\varepsilon_{it}) = \hat{\sigma}_{\varepsilon_i}^2$$

Where:

R_{it} is the return of period t from title i ;

$R_{m,t}$ is the return of the period t on the market;

α, β are the market model parameters for observation i ;

$\sigma_{\varepsilon_i}^2$ is the oscillation term of the model with mean 0;

ε_{it} is the error component of the regression model for the observation i in the period t (where the expected value of ε_{it} is 0).

Looking at the formula above, the return R_{it} is given by a fixed α term, the market return $R_{m,t}$ multiplied by the β term and an error term (ε_{it}), reflecting the error in the estimation model. It is assumed that the expected value of ε_{it} is 0 and that the variance of ε_{it} ($\text{var}(\varepsilon_{it})$) is expressed by $\sigma_{\varepsilon_i}^2$.

The second step refers to the estimation of the abnormal market return or the market reaction, for which it is necessary to define an estimate window, which in general, is defined before the event study window to avoid any overlap in the estimation model and ensure independence between the two windows. The event window, in the time in which the estimated α and β parameters are used on market data to estimate what should be the expected return based on the market behaviour. To assess the abnormal return for the company's shares, the estimate period is set to the 90 days prior to the considered window.

Market reaction is determined by means of abnormal returns according to the formula below:

$$AR_{it} = R_{it} - E(R_{it}|X_t)$$

Where:

AR_{it} is the *abnormal return* for title i at time t ;

R_{it} is the real market return of the title i to time t ;

$E(R_{it}|X_t)$ is the expected return for title i at time t given the return of the market at time t .

To obtain the market model parameters for title i , the methodology of the Ordinary Least Squares Model (OLS) provides consistent estimators. For firm i , the market parameters are determined estimates as:

$$\hat{\beta}_i = \frac{\sum_{t=T_0+1}^{T_1} (R_{it} - \hat{\mu}_i) (R_{mt} - \hat{\mu}_m)}{\sum_{t=T_0+1}^{T_1} (R_{mt} - \hat{\mu}_m)^2}$$

$$\hat{\alpha}_i = \hat{\mu}_i - \hat{\beta}_i \hat{\mu}_m$$

$$\hat{\sigma}_{e_i}^2 = \frac{1}{L_2-2} \sum_{t=T_0+1}^{T_1} (R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt})^2$$

Where:

$\hat{\alpha}_i, \hat{\beta}_i$ are the estimates of the return of Title i ;

$\hat{\sigma}_{e_i}^2$ is the error of estimation;

$\hat{\mu}_i, \hat{\mu}_m$ are respectively the estimates of the average return of the stock and the market within the estimate period;

With T_0 and T_1 representing the upper and lower bound of the prediction period prior to the event window. The extent of the interval L_1 is determined as $T_1 - T_0$. The extension of the reference period of the analysis is determined in relation to the nature of the event studied. In the case of events that are not anticipated, (i.e. not foreseeable or not preceded by a leak), the event window within which the market reaction is calculated begins on the date of the event. In the case of anticipated events, it is more appropriate to consider a

symmetrical event window, that is. starting before the announcement and ending following the announcement day. For the case being considering in this analysis no interval prior to the announcement date is considered.

After having determined both the prediction window, in which the model's parameters are estimated, and the event window, in which the market reaction is observed around the announcement date, the abnormal returns for the announcement i are expressed by the following formula:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt}$$

Where:

AR_{it} is the abnormal return for company i at time t ;

R_{it} is the real return for company i at time t ;

R_{mt} is the market return to time t .

At this point, it is necessary to understand the extent to which the estimated AR are significant from a statistical viewpoint, that is, whether the market reaction is sensitive to the announcement or not. To this end, it is introduced a statistical test, under which the null assumption of AR with average 0, and variance 1 is tested. The formula below exposes the determination of the AR variance:

$$\sigma^2(AR_{it}) = \sigma_{e_i}^2 + \frac{1}{L_I} \left[1 + \frac{(R_{mt} - \hat{\mu}_m)^2}{\hat{\sigma}_m^2} \right]$$

Where:

$\sigma_{e_i}^2$: the noise term is the variance attributable to the sampling error in α_i and β_i ;

L_I : is the length of the prediction interval.

Under the null assumption H_0 , that the event does not affect the returns of the company i :

$$AR_{it} \sim N(0, \sigma^2(AR_{it}))$$

It then continues with the aggregation of abnormal returns through time (in the event window) and through titles. The cumulative abnormal returns for a given window are calculated as:

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}$$

$$\sigma_i^2(t_1, t_2) = (t_2 - t_1 + 1)\sigma_{ei}^2$$

Where:

$CAR_i(t_1, t_2)$ are the cumulative abnormal returns for title i in the event window;

σ_{ei}^2 is the variance of CAR_i (under the assumption of independence of abnormal returns);

With T_1, T_2 being the upper and lower limits of the event window, respectively;

L_2 represents the length of the event window and is calculated as $T_2 - T_1$.

Under the null hypothesis H_0 :

$$CAR(t_1, t_2) \sim N(0, (\sigma_i^2(t_1, t_2)))$$

At this point, we proceed to the aggregation between securities to draw general conclusions on abnormal returns. The average cumulative abnormal returns between securities are estimated:

$$ACAR(t_1, t_2) = \frac{1}{N} \sum_{i=1}^N CAR_i(t_1, t_2);$$

$$var(ACAR(t_1, t_2)) = \frac{1}{N^2} \sum_{i=1}^N \sigma_i^2(t_1, t_2)$$

Where:

$ACAR(t_1, t_2)$ is the mean of cumulative abnormal returns;

$var(ACAR(t_1, t_2))$ is the variance of the means of cumulative abnormal returns;

N is the number of events considered.

Finally, to test the null hypothesis that abnormal returns mean is zero, the statistic test to be used is:

$$\theta_1 = \frac{ACAR(t_1, t_2)}{var(ACAR(t_1, t_2))^{1/2}} \sim N(0, 1)$$

For the scope of this thesis, the last part of the methodology, aimed at understanding the statistical significance of the results, is not implemented due to the limited number of events observed.

4.2 Research Hypothesis

As presented in the opening section, the aim of the empirical section relates to the investigation of two research hypothesis, described below, which are the ultimate scope of the study.

Hypothesis 1: Can the banking credit condition explain the growth in the market of Private Credit on global scale?

The Research Hypothesis 1 deals with the investigation of the drivers leading to the sustained growth of the Private Credit market over the last two decades. The academic discussion has identified a handful of different yet co-founding reasons supporting the recourse to Private Credit. First and foremost, restrictive banking regulation and higher scrutiny on credit issuance has accounted for a major share in explaining the phenomenon (Ivashina, 2025)⁷⁶. At the same time, the higher specialization of peculiar market players and the increasing role of private equity has further prompted the growth of the sector. In addition, an extended period of historically low interest rates, fuelled the search of returns outside the conventional channels of the financial system, increasing feeding the volumes directed to the Private Credit segment (Aramonte and Avalos, 2021)⁷⁷. Avalos et al. (2025)⁷⁸ identify some of the main drivers behind the growth of Private Credit, which are classified as: the degree of openness (or restriction) of the central banks' policy rates, the capacity of banks to satisfy credit demand, the stringency of regulations applicable to the banking system and the level of financial leverage for non-financial companies. The results find statistically significant evidence on the first three dimensions (policy rate, banking ability to satisfy credit and bank stringency) having an impact on the amount of new Private Credit loans issued on quarterly basis. Starting from this background, the study hereby intends to follow the methodology proposed by researchers to understand which variables result into an impact on the growth of Private Credit, separating the effect between the U.S. and Europe, to appreciate possible areas of commonalities and divergences. The approach will be followed to conduct the regression analysis aiming to identify potential commonalities and points of divergence in the obtained results.

⁷⁶ Ivashina, V. (2025). Private Credit: What Do We Know?. Available at SSRN 5683442.

⁷⁷ Aramonte, S., Avalos, F. (2021). The rise of private markets. *BIS Quarterly review*, 37(December), 69-82.

⁷⁸ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

Hypothesis 2: Can the growth in Private Credit affect the global financial system risk?

The Research Hypothesis 2 is defined in a slightly less direct way since, to date, no event has affected the Private Credit market, to an extent leading a widespread impact of systemic extent. An event study approach is proposed aiming to detect the degree to which news regarding the status of the Private Credit market affect the level of financial systemic risk. Multiple studies in financial disciplines have analysed the impact of new information on the price of publicly traded securities or on the level of risks, a to some of such contributions are summarized below.

Norden and Weber (2004)⁷⁹ explore the reaction of equity markets and Credit Default Swaps (CDS) to communications from the three major rating. Using the event studies methodology, the authors analyse the intensity of the markets' response by looking at abnormal returns and changes in CDS spreads. The results indicate that markets tend to anticipate not only actual downgrades, but also simple downgrade warnings issued by all agencies. A cross-analysis of the various events shows that it is the reviews for downgrades that have triggered the most significant impact. Finally, the magnitude of these reactions depends on the starting rating and the history of previous judgments.

The research from Zhang (2009)⁸⁰ addresses how stock prices and CDS spreads react to different critical scenarios, ranging from financial and economic distress to acquisitions and SEC investigations or leveraged buyouts. The data shows that the CDS market responds very effectively, with spreads immediately rising followed by a period of stability in the following month. On the equity front, on the other hand, the first four types of negative news trigger declines between 2% and 9%, while announcements of leveraged buyout transactions lead to a 7% rise, confirming the phenomenon of wealth transfer from bondholders to shareholders. Excluding buyouts, equities appear to be ahead of negative credit events compared to CDS. However, there appears to be some heterogeneity in the results: an over-reaction in the face of SEC investigations and an under-reaction in cases of financial crisis, dynamics that can probably be explained at the level of investors' information.

⁷⁹ Norden, L., Weber, M. (2004). Informational efficiency of credit default swap and stock markets: The impact of credit rating announcements. *Journal of Banking & Finance*, 28(11), 2813-2843.

⁸⁰ Zhang, G. (2009). Informational efficiency of credit default swap and stock markets: the impact of adverse credit events. *International Review of Accounting, Banking and Finance*, 1.

Neuhierl et al. (2010)⁸¹ analyses the reaction of stock prices in response to a wide range of business dynamics, including debt news. Interesting evidence concerns the month following the announcements, generally characterized by an increase in volatility and a contraction in the liquidity of securities. Comparing data before and during the financial crisis, there is a marked change in investor perception. During the crisis, the market reacted more positively to news signalling stronger and more visible cash flows (i.e. because of restructuring plans, new strategic partnerships, research successes, etc.). In contrast, events that threatened the stability of future revenues (such as legal hiccups, negative legal opinions, or project failures) shown a more significant downward impact. It also emerged that, during the crisis, capital raising transactions (through equity or debt) were judged less severely, while share buybacks generated abnormal returns even higher than the pre-crisis period. Finally, the uncertainty typical of periods of high instability has amplified the peaks in volatility following corporate communications.

Marshall et al. (2019)⁸² look at how the stock market reacted to debt issuance announcements (through public, banking and private channels) by large companies, focusing on the period around the 2008 global financial crisis. Before the crisis surfaced, results find that only bank debt announcements generated a positive reaction on stock prices, particularly in the case syndicated loans, suggesting that the presence of multiple lenders acted as a certificate of reliability for the borrowing firms. However, after 2008, abnormal returns linked to the announcement of new bank loans have decreased, both in absolute terms and in comparison, with other forms of debt.

Finally, Emine et al. (2015)⁸³ take into assessment the reaction of CDS spreads to announcements made by Standard & Poor's, Moody's and Fitch on company's creditworthiness. The results, reveal asymmetric dynamics in the markets, since positive news (that is the rating upgrade ratings or the improvement of the outlook) did not produce significant effects, whereas negative signals generated marked effects. Downgrades (such as downward revisions of the outlook) triggered significant changes

⁸¹ Neuhierl, A., Scherbina, A., Schlusche, B. (2010). Market reaction to corporate news and the influence of the financial crisis. *SSRN eLibrary*, 1-54.

⁸² Marshall, A., McCann, L., McColgan, P. (2019). The market reaction to debt announcements: UK evidence surrounding the global financial crisis. *The British Accounting Review*, 51(1), 92-109.

⁸³ Emine, O. K., Bekir, K., Kursat, Y. (2015). Reaction of Credit Default Swap Spreads to Rating Announcements: An Event Study for Turkey. *Journal of Economics Finance and Accounting*, 2(4).

both before and following the announcement, highlighting a possible significant phase of speculation or anticipation by market operators.

4.3 Regression Analysis

This paragraph provides a comprehensive overview of the regression analysis conducted on both the U.S. and European markets, describing the key variables adopted as well as the main characteristics of the sample and outlining the results of the analysis. In terms of the sample description, data are taken for the period from 2009 to 2024 on quarterly basis in order to appreciate the intra-year evolution in terms of the relationship among the considered variables. To this extent, data are taken into consideration for the multiple facets of the drivers leading to the growth of Private Credit. In light of the heterogeneous nature of the variables adopted, multiple data platforms are used, including Refinitiv, the Bank of International Settlement (BIS) Database, the Federal Reserve and the European Central Banks Databases, as well as the World Bank and the International Monetary Fund Portal (as better described below).

Variables

Private_Credit (Dependent Variable)

The variable expresses the amount of new Private Credit deals subscribed respectively in U.S. and Europe on quarterly basis. The inputs, taken from Refinitiv data platform, are assumed to be a reliable estimation of the evolution of new Private Credit issued. Considering the high level of dispersion of the observations, a natural logarithmic transformation is implemented on raw data to ensure a better fit of the regression model.

Policy_Rate (Independent Variable)

The variable is construed to reflect in the model the impact of the reference interest rate defined from the relevant central bank, that is, the Federal Reserve in the U.S. and the European Central Bank in Europe. Thus, the *Policy_Rate* express the degree of openness or restriction of the policy pursued from the central bank's policymakers in the system. The variable is expected to have a negative sign on the *Private_Credit* as the Policy Rate ultimately has an impact on the financing conditions of Private Credit deals.

Financial_Institutions_Index (Independent Variable)

The variable is determined as an aggregate value combining the following dimensions provided from the International Monetary Fund Data Portal: i) Financial Institutions Depth Index, summarizing the bank credit in GDP terms, ii) Financial Institutions Access Index, reporting the presence of bank offices and ATMs points per 100,000 adults, and iii) Financial Institutions Efficiency Index reporting data on bank's profitability (such as return on equity and net interest margin) and costs metrics.

Bank_Stringency (Independent Variable)

The *Bank_Stringency* is a variable construed to incorporate into the regression model the degree of regulatory stringency on banking activities, respectively for the U.S. and the European Union. The variable is realized through the Bank regulation and Supervision Survey, a questionnaire-based methodology adopted from the World Bank, with values defined between 0 and 1, whereby values closer to 0 represent a least stringent approach, and conversely, values closer to 1 indicate a more stringent approach.

Leverage (Independent Variable)

The variable indicates the incidence of debt from non-financial institutions calculated as percentage of the reference GDP (i.e. for the U.S. and the European Union as applicable). *Leverage* is expected to result into a moderate positive impact on the dependent variable, since in case of higher indebtedness in the system, there may be an additional push for mid-market companies to make recourse to Private Credit channels.

GDP (Control Variable)

The variable includes in the model the dimension relating to the impact of the economic growth on the amount of new private credit loans issued quarterly. Data are taken for the U.S. and Europe respectively from the Federal Reserve and the European Central Bank portals. In this case, the effect on the Private Credit can be twofold as a healthier economic momentum may drive more recourse to private channels as well as ease the credit thresholds in the banking system.

Inflation (Control Variable)

The variable incorporates in the model the possible effect relating to the level of inflation over the analyzed timespan. For the U.S., the CPI published from the Federal Reserve is considered, while for Europe, the HICP index, downloaded from the European Central Bank database, is adopted.

Results

The first analyzed regression relates to the U.S. market. Table 3 below summarizes the main results.

$$Private_Credit_{USi} = \beta_{US0} + \beta_1 Bank_Stringency_{USi} + \beta_2 Policy_Rate_{USi} + \beta_3 Financial_Institutions_Index_{USi} + \beta_4 Leverage_{USi} + \beta_5 GDP_Growth_{USi} + \varepsilon_{USi}$$

Coefficients					
Model 1	Coefficients Unstandardized		Standardized Coefficient	t	P-Value
	B	Std Err.	Beta		
(Constant)	15,516	14,795		1,049	,299
Bank_Stringency	6,777	1,495	,489	4,533	,000***
Policy_Rate	-,222	,097	-,253	-2,294	,025**
FI_Index	-,020	,017	-,127	-1,219	,228
Leverage	,094	,029	,351	3,274	,002***
GDP	,220	,091	,242	2,424	,019**
Inflation	,106	,073	,161	1,440	,155

*, **, *** Values significant for an α level respectively of 0,10, 0,05 e 0,01.

ANOVA					
	Sum of Squares	df	Quadratic Mean	F	P-Value
Regression	50,011	6	8,335	7,360	,000***
Residuals	64,551	57	1,132		
Total	114,563	63			

*, **, *** Values significant for an α level respectively of 0,10, 0,05 e 0,01.

Model Summary			
R	R-Square	R-Square Adj.	St. Error
,661 ^a	,437	,377	1,06418

Table 3 – Regression Model 1 Results

Table 3 summarizes the results from the Regression Model 1, providing some interesting evidence to draw considerations about the empirical analysis conduct and hinting practical implications about the relationships between the variables considered. First, the main relationship emerging on the dependent variable relate to *Bank Stringency* (+) and *Leverage* (+), both significant at a α level of 0.01, and *Policy_Rate* (-), significant at a α level of 0.05. Such results support the research hypothesis stating that the conditions of banking credit conditions can have a significant impact on the growth of Private Credit. In particular,

The results, although limited to the sample of the U.S. market, represent a significant interest in the context of the research, since, as expected, an increase in the level of *Bank_Stringency* and the level of *Leverage* in the systems, corresponds to an increase on the new *Private_Credit*, while an increase in the *Policy_Rate* results into a negative impact on the dependent variable. With reference to the other variable, *FI_Index*, in line with expectations, it shows a negative sign, but no significant effect is associated with the coefficient. It can be appreciated that the control variable *GDP* (+) is significant at a α level of 0.05, while *Inflation* (+) does not produce any significant effect.

Looking at the level of fit of the regression model, the value of Test F (7.360) is appreciable, as it is significant at a α level of 0.01. More specifically, the Test F shows that within the model there is at least one significant relationship between the independent variables and the dependent variable *Private_Credit*. Finally, as far as adaptation is concerned, the level of R^2 of .437 (R^2 Adjusted .377), while moderate, can be considered as positive in light the empirical nature of the study. The VIF test does not highlight any critical value in terms of multicollinearity (see Appendix).

The Second analyzed regression relates to the European market, which results are summarized in the Table 4 below.

$$Private_Credit_{EUi} = \beta_{0EU} + \beta_1 Financial_Institutions_Index_{EUi} + \beta_2 Policy_Rate_{EUi} + \beta_3 Bank_Stringency_{EUi} + \beta_4 Leverage_{EUi} + \beta_5 GDP_Growth_{EUi} + \varepsilon_{EUi}$$

Coefficients					
	Unstandardized Coefficients		Standardized Coefficient	t	P-Value
Model 1	B	Std Err.	Beta		
(Constant)	23,507	17,266		1,361	,179
Bank_Stringency	5,989	3,375	,251	1,775	,081*
Policy_Rate	-,496	,274	-,259	-1,811	,075*
FI_Index	-,011	,020	-,096	-,547	,587
Leverage	-,068	,062	-,189	-1,104	,274
GDP	,049	,059	,102	,842	,403
Inflation	,304	,112	,413	2,724	,009***

*, **, *** Values significant for an α level respectively of 0,10, 0,05 e 0,01.

ANOVA					
	Sum of Squares	df	Quadratic Mean	F	P-Value
Regression	49,286	6	8,214	3,849	,003***
Residuals	121,662	57	2,134		
Total	170,948	63			

*, **, *** Values significant for an α level respectively of 0,10, 0,05 e 0,01.

Model Summary			
R	R-Square	R-Square Adj.	St. Error
,537	,288	,213	1,46096

Table 4 – Regression Model 2 Results

The analysis of results proceeds with Table 4, which shows the findings obtained from the Regression Model 2. Also in this case, the evidence supports the considerations about the empirical analysis carried out and the practical implications regarding the relationships between the variables considered, though with slightly different results

compared to Regression Model 1. Looking at the relationship between the dependent variable and the independent variables, it appears that both *Bank_Stringency* (+) and *Policy_Rate* (-) remain significant however with a different level of α (0.10), implying that the relationship on the *Private_Credit* is less strong than in the previous case. At the same time, the variable *Leverage* turns non-significant in the European sample, while *FI_Index* remains in line with Regression Model 1. Despite the differences, regression output still allows to support the research hypothesis that in also in the European context the growth in *Private_Credit* volumes are explained from the general conditions of the conventional banking credit market. However, the dynamics through which the analysed dimensions affect the newly subscribed private loans could be different between the U.S. and Europe. Accounting for the control variables, the level of *Leverage* is found significant on the dependent variable, at an α level of 0.01, while GDP turns non-significant.

Looking at the level of adaptation of the regression model, Table 4 outlines a value of the Test F (3.849) lower than Regression Model 1, but still significant at an α level of 0.01. Thus, also in this case the Test F confirms that within the regression model there is at least one significant relationship between the independent variables and the dependent variable. Finally, as far as the model fit is concerned, the R^2 level of .288 (R^2 Adjusted .213) highlights a similar pattern, worsening compared to Regression Model 1, but still at a fairly acceptable level considering the empirical nature of the analysis. Again, no critical value in terms of multicollinearity emerges from the performance of the VIF test (see Appendix).

4.4 Event Study Analysis

The event study analysis is conducted considering a series of public announcements made from leading policymakers, investors or market experts and pointing out potential concerns on the Private Credit dimensions and its implications on the systemic risks for the financial system. The selected events have been chosen based on their resonance and their potential relevance to impact markets (in the same day and in the following day of the announcement) as summarized below (Table 6). It is possible to appreciate how the events tend to concentrate in the second half of 2025, with higher occurrence following

the announcement of the default affecting the U.S. manufacturer First Brands Group along the case of the lender Tricolor, both surfaced in October.

Table 6 – Summary of Main Announcements

N	Date	Source	Summary
1	3 June 2025	ECB	Hidden leverage and blind spots: addressing banks' exposures to private market funds
2	11 August 2025	International Banker	Regulators Show Growing Urgency in Addressing the Ballooning Threat of Shadow Lending to the Global Financial System
3	21 August 2025	Bloomberg	Default Warnings Start to Pile Up in the Private Credit Market
4	11 September 2025	Financial Times	Debt linked to collapsed subprime auto lender Tricolor tumbles
5	29 September	Wall Street Journal	Auto Supplier First Brands Files for Bankruptcy Amid Accounting Questions
6	16 October 2025	The Guardian	Head of IMF says risks in private credit market keep her awake at night
7	19 October 2025	The Guardian	What is private credit, and should we be worried by the collapse of US firms?
8	20 November 2025	FitchRatings	European Private Credit Growth Heightens Transmission Risks
9	16 December 2025	Reuters	Private credit pressures to fuel further defaults in 2026, says Morningstar DBRS
10	19 December 2025	FitchRatings	US Private Credit Defaults Broaden Across Sectors, Rises to 5.7% in November 2025

In brief, the announcements reflect both general assessment of the Private Credit market and the considerations on the potential spillover of default events occurred during

September on the financial system. Table 7 summarizes the results of the event study analysis.

Table 7 - Results of Event Study

N	Window		
	[0]	[0;1]	[0;2]
1	0.04%	0.62%	0.51%
2	-0.22%	-0.28%	0.22%
3	-0.37%	0.00%	-0.04%
4	-1.10%	0.02%	0.02%
5	0.37%	0.20%	0.40%
6	0.27%	0.24%	0.39%
7	-0.03%	0.12%	-0.02%
8	0.18%	0.46%	0.65%
9	0.10%	0.06%	0.26%
10	-0.23%	-0.19%	0.05%

Results shown in Table 7 demonstrate a fairly heterogeneous behavior of S&P 500 Index following the release of negative news relating to the status of Private Credit market. Some negative reaction emerges in respect to the announcement day, however the relative count of positive and negative reactions is even (5 in each case). The situation appears trending positively as the event windows expand to [0;1] and [0;2] with a substantial increase of the positive aggregate market reactions. Such evidence suggests that while on the announcement date could show in some circumstances a negative market reaction, this is not a univocal trend, and the and some positive effects are observed. Nevertheless, markets seem capable of absorbing the news and revert to an overall positive reaction in the following days a proof that the potential negative news associated with defaults in the

Private Credit market are not seen as potentially material risks for the broader financial stability from the perspective of the S&P 500 index price.

4.5 Discussion of Results

Results shown in previous sections 4.3 and 4.4 display some interesting evidence on the dynamics featuring the Private Credit market. First, the analysis of the determinants highlights how the main variables impacting on the Private Credit newly issued are significant. The regression models have proposed a compared view between the U.S. and the European market, aiming to investigate commonalities and possible points of differences. To this extent, the two areas show both aspects in terms of the drivers supporting the growth of private equity. First, the level of bank stringency is found to be significant in both the regression models, a proof that the regulatory dimension plays a key role in fostering the development of credit market outside the convention banking channel. The degree of regulation and the restriction for bank to issue credit under the Basel III framework is a key factor in explaining the amount of new Private Credit on quarterly basis, in line with preliminary expectations based on the review of existing contributions.

Likewise, the level of interest rates is found to be a key determinant in the growth of Private Credit volumes over the period considered both in the U.S. and Europe. As the interest rate is the main instrument from central banks to regulate the demand and supply of capital in the system, it can be seen as a fundamental policy tool. To this extent, the analysis shows that, as expected, this variable is negatively associated with the amount of Private Credit issued, supporting a twofold consideration. First, this appears as the natural result of the restrictive/expansive policy action, which reflects into a direct impact not only on the conventional financing channel, but also in the Private Credit market. Additionally, such relationship witnesses the sensitivity of borrowers to the cost of capital also in this space.

In terms of the leverage level, this is found significant only in the U.S. market in positive terms with respect to the U.S. market. This relationship supports the assumption that the higher the degree of financial leverage in the system, the higher the recourse to the Private Credit channel, which appears capable of supplying the capital required to small and medium enterprises. Interestingly, this effect does not hold true in the European context,

proposing a potential difference on the relationship between the two dimensions. On the other hand, the financial institutions index is negatively associated to Private Credit in both models, however the relationship is not significant. Thus, while this finding opens to the interpretation that the penetration and the presence of banking institutions may deter the recourse to Private Credit, no generalization can be made, suggesting that this relationship needs to be further investigated.

Overall, assessing the results discussed in this thesis in comparison to the evidence obtained from Avalos et al. (2025)⁸⁴, it is possible to conclude that there is a substantial alignment, meaning that the set of variables identified are proven to be reliable proxies of the drivers supporting the growth of Private Credit after the global financial crisis. This study has presented the results separating the cases of the U.S. from Europe, a methodological approach which could explain some of the differences identified. Possibly, the single most important difference relates to the significance of the financial institution index, which proposes a possible area for further research.

Shifting the focus to the event study analysis realized to understand the market reaction to negative news on Private Credit market, some possible considerations can be drawn despite the apparent lack of consistency in results. The sample of announcements from relevant policymakers or experts in the market provided a non-homogenous pattern in the same day of announcement with an equal balance between positive and negative equity market reactions. Under the assumption that being the S&P 500 Index a global index incorporating the largest equity issuers in the world, its price variations would incorporate the increasing risk perceived from market players from potential distress in Private Credit market, the main conclusion is that such relationship is not strong enough to result into a systemic risk. Thus, if on the one hand, the Private Credit market has grown significantly over the last 15 years to account as a material share in the global credit market, the potential transmission of the risks to the wider financial system is perceived as contained now, even considering two major default cases occurred during 2025 in the U.S. This proposition seems consistent with the evidence discussed in paragraph 3.3 in which the empirical research conducted in the field demonstrated that the risk metrics are not

⁸⁴ Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.

reflecting as significant warning for distress in the Private Credit market to translate into systemic risk for the financial system.

Finally, some limitations of the analysis are discussed, to make a complete review of the results obtained. As discussed in previous paragraphs a part of the methodology section, the relatively recent evidence coming from the trends featuring the Private Credit market are quite concentrated on the main financial markets of the U.S. and Europe, focusing on a handful of key metrics. Due to this characteristic, the study replicates an empirical approach adopted in other research and tries to extend the field of research through the event study analysis. In this respect, the relative recent development of news on the Private Credit and the lack of sufficient observations, make it difficult to collect a significantly statistical sample to detect the potential impact of any reversal of the sentiment in the Private Credit market on the wider financial system. In addition, the nature of Private Credit loans reduces the data availability, limiting the comprehension on the impact of phenomenon which could emerge from more refined inputs on the quality of the loans as well as the creditworthiness of the borrowers. In terms of the time, it must be considered how the 15-year timespan correspond to a phase of uninterrupted growth of the Private Credit sector; thus, a longer period of analysis could be suggested in the future to appraise possible evolving trends. Nevertheless, although the analysis is carried out considering the above-described limitations, the obtained findings enable a grounded understanding of the dynamics affecting the Private Credit sector both in terms of drivers and potential impact on systemic risk.

5. Conclusions

The thesis discussed and analysed in detail the dynamics featuring the global Private Credit market, providing an updated perspective of the most recent developments. The rise and affirmation of Private Credit solutions can be seen now a transformative force for the financial sector and, in general, for the global economy, with this trend apparently keeping its momentum. While being dependent on the wider financial conditions, Private Credit sector has fostered, taking advantage of the increasing regulatory restrictions imposed on the banking system in the aftermath of global financial crisis, representing a key alternative in the capital market for medium and small enterprises. As the volumes of Private Credit market grow over time, an increasing convergence emerges toward the traditional financial system, as the players are in many cases banking institutions, private equity funds or other players tapping into this market. This marks a pivotal phase for the Private Credit market which, while growing, is expanding its relevance also in terms of stability risks for the wider financial system, an aspect increasingly scrutinized over the recent months.

Chapter 1 has proposed a comprehensive overview of the subject, delving into multiple dimensions. First, a general overview has been provided on the fundamental role of the credit channels as an engine for economic growth, an aspect paving the way to the growth of Private Credit as a response to the increasing regulation of banking activities. Then, the main characteristics of the Private Credit market have been explored, with a focus on the main advantages for both lenders and borrowers. In particular, on the one side, Private Credit represents a solution providing higher returns in a phase of historically low interest rates, allowing to diversify risks for lender, on the other side this is more flexible solution for borrowers who can receive more tailored credit facilities and access capitals not available through the banking systems. Over the time, the sector has evolved in terms of solutions provided, moving from direct lending (which still accounts for the major share in volumes) to distressed debt solution, special situations, mezzanine lending, asset-based loans and venture debt. The diversification of the strategies pursued results also in different risk/return profile, providing diversification opportunities for lenders. After more than 15 years from the financial crisis, the key drivers for growth of Private Credit remain the regulatory restrictions observed in the banking system, the search for returns from institutional investors (i.e. banks but also insurances, pension funds and sovereign

funds) and the increasing role of the Private Equity funds, leveraging on cross-solutions for their deals. A final section has been dedicated to the overview of the Italian market, which appears in line with the global trends, supported by a strong activity from Private Equity funds.

Through Chapter 3, the discussion has focuses on the potential impact of Private Credit on the stability of the financial markets, a point of interest 2025 on the backdrop of growing volumes combined with the signals of some defaults from large companies making recourse to this credit channel. As a matter of fact, the regulatory shift driven by Basel III (as recently reaffirmed through Basel IV) has played a major role in re-defining the scope of credit activities for banks in the aftermath of the global financial crisis. In response to that, the Private Credit emerged as a key solution mainly for small and medium companies and this trend has consolidated over nearly 15 years. Today, the regulations covering the activities in the Private Credit sector vary across jurisdictions, with the European Union showing the higher level of detail through the ELTIF approach. The growing volumes of capital have made the Private Credit an emergent area of attention in terms of systemic risk for the broader financial system, with the main risks relating to the interconnection with the rest of financial system, the lack of liquidity, the geographical concentration, the lowering of financing conditions and the possible spillover to other non-bank institutions. A final section dedicated to the literature review of the main contributions analyzing the indicators of impact on the global financial stability. While considering different metrics, the assessments made mainly on the U.S. market has provide a positive stance, with the aggregate level of concentration and defaults considered under the critical levels of risks, implying that Private Credit, as of today does not constitute a risk for financial stability.

The empirical analysis developed in Chapter 4 has provided twofold evidence in terms of the drivers of the growth of Private Credit and its impact on market stability. The first aspect has been addressed through a comparative regression model, taking in consideration separately the U.S. and Europe, highlighting that the key drivers fostering the recourse to Private Credit in both markets relate to the degree of Bank Stringency and the level of Policy Rates, both results in line with expectations. Mixed evidence relate to the Leverage while the banking penetration (measured through the Financial Institution Index) does not appear significant in either case. Such findings support the conclusion

that Private Credit market has directly benefitted from the evolving conditions in the conventional credit market. To a different extent, the emergence of negative news relating to the conditions of Private Credit, following some default cases, analysed through event study, have not demonstrated a univocal impact on equity markets, suggesting that the possible concerns on the size, lack of transparency and transmission of risks to the broader financial system are not supported from evidence.

In conclusion, Private Credit is a new frontier which has expanded the credit solutions in the financial sector and accounts today as a key part of the system in allocating capital. The increasing volumes and the significant involvement of financial institutions (both banks and non-banks) witnesses as this sector is today fundamental in filling the gap left from conventional banks. While the study has non highlighted signs of immediate risk for the financial system it is necessary for policymakers to maintain a high level of scrutiny of the sector, to avoid opportunistic behaviours leading to a new turmoil with the risk of spillover in the global financial system.

The study has embraced the discussion on a phenomenon of significant interest in the financial sector which is poised to play a key role in the coming years, as the Private Sector has consolidated itself as a major engine in connecting supply of capital with demand. Given the development stage of the studies in the field, the thesis therefore represents a starting point for forthcoming and more detailed studies. As a matter of fact, in parallel with the evolving nature of the Private Credit sector, it will be become increasingly important to comprehend its traits and the potential risks to ensure on the one side the continuous growth of the market, and on the other side the stability of the financial system. As discussed in the analytical part, only with additional data observations in longer time periods it will be possible to really understand the impact of Private Credit on the wider financial system and prevent any distortion of the market.

BIBLIOGRAPHY

- Adrian, T., Dong H., Liang N., Natalucci, F. (2019). A Monitoring Framework for Global Financial Stability. IMF Staff Discussion Note 2019/006, International Monetary Fund, Washington, DC, 2019.
- Aggarwal, D. (2024). The Promise and Peril of Private Credit. *Available at SSRN 5118491*.
- Aldasoro, I., Doerr, S., & Zhou, H. (2022). Non-bank lending during financial crises. *BIS Quarterly Review*.
- Aramonte, S. (2020). Private credit: recent developments and long-term trends.
- Aramonte, S., Avalos, F. (2021). The rise of private markets. *BIS Quarterly review*, 37(December), 69-82.
- Avalos, F., Doerr, S., Pinter, G. (2025). The global drivers of private credit. *BIS Quarterly Review*, 13.
- Basel Committee. (2017). High-level summary of Basel III reforms. *Bank for International Settlements, Basel Committee on Banking Supervision*, 77.
- Bernanke, B. S., Gertler, M. (2000). Monetary policy and asset price volatility.
- Berrospide, J., Cai, F., Lewis-Hayre, S., Zikes, F. (2025). Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications.
- Boyarchenko, N., Elias, L. (2024). *Financing private credit* (No. 1111). Staff Reports.
- Buiter, W. H., Cecchetti, S. G., Dominguez, K. M., Sánchez Serrano, A. (2023). Stabilising financial markets: lending and market making as a last resort (No. 13). Reports of the Advisory Scientific Committee.
- Büyükkarabacak, B., Valev, N. T. (2010). The role of household and business credit in banking crises. *Journal of Banking & Finance*, 34(6), 1247-1256.
- Cai, F., Haque, S. (2024). Private credit: Characteristics and risks.
- Calza, A., Manrique, M., Sousa, J. (2006). Credit in the euro area: An empirical investigation using aggregate data. *The Quarterly Review of Economics and Finance*, 46(2), 211-226.

Casolaro, L., Eramo, G., Gambacorta, L. (2006). Un Modello Econometrico Per Il Credito Bancario Alle Imprese in Italia (An Econometric Model for Bank Credit to Corporations in the Euro Area). *Moneta e Credito*, 59(234).

Casolaro, L., Gambacorta, L. (2005). Un modello econometrico per il credito bancario alle famiglie in Italia (An econometric model for bank lending to households in Italy). *Moneta e Credito*, 58(229).

Chernenko, S., Ialenti, R., Scharfstein, D. (2025). Bank Capital and the Growth of Private Credit, working paper, Harvard University.

Ciciretti, R., Iori, M., Trenta, U. (2018). Eventi e News nei Mercati Finanziari. Torino: Giappichelli.

Cook, L. (2024). Current Assessment of Financial Stability. Brookings Institution, Washington, D.C., May 8.

De Bandt, O., Jacquinot, P. (1992). The financing of corporate firms in France: An econometric model. *Economic Modelling*, 9(3), 253-269.

Emine, O. K., Bekir, K., Kursat, Y. (2015). Reaction of Credit Default Swap Spreads to Rating Announcements: An Event Study for Turkey. *Journal of Economics Finance and Accounting*, 2(4).

EY (2025). Private Credit: Opportunità per lo sviluppo del mercato in Italia EY Point of View. July 2025.

Ferrari, A., Gualandri, E., Landi, A., Vezzani, P. (2018). *Il sistema finanziario: funzioni, mercati e intermediari*. G Giappichelli Editore.

Girardi, G., Hanley, K. W., Nikolova, S., Pelizzon, L., Getmanski Sherman, M. (2021). Portfolio similarity and asset liquidation in the insurance industry, *Journal of Financial Economics*, 141(1), 69-96.

Ghudushauri, L. (2024). Basel IV: Implementation, Challenges and Prospects. *Economics & Business (1987-5789)*, (2).

Hofmann, B. (2004). The determinants of bank credit in industrialized countries: do property prices matter?. *International finance*, 7(2), 203-234.

International Monetary Fund (IMF) (2024). The rise and risks of private credit. Global Financial Stability Report, chapter 2, April, 53–76.

- Ivashina, V. (2025). Private Credit: What Do We Know?. *Available at SSRN 5683442*.
- Kiyotaki, N., Moore, J. (1997). Credit cycles. *Journal of political economy*, 105(2), 211-248.
- Marshall, A., McCann, L., McColgan, P. (2019). The market reaction to debt announcements: UK evidence surrounding the global financial crisis. *The British Accounting Review*, 51(1), 92-109.
- MacKinlay, A. C. (1997). Event studies in economics and finance. *Journal of economic literature*, 35(1), 13-39.
- Mishkin, F. S., Eakins, S. G., Forestieri, G. (2023). *Istituzioni e mercati finanziari*, 9a Edizione. Pearson Italia.
- Morgan Stanley (2024). Private Credit. An Important Alternative for Market Allocation.
- Morgan Stanley and Oliver Wyman (2024). Extending Credit: The Evolving Role of Wholesale Banks in Credit Markets.
- Muminović, H. (2024). The Rise and Risk of Private Credit. *Studia Iuridica Montenegrina*, 6(1), 43-54.
- Munday, S., Hu, W., True, T., Zhang, J. (2019). *Performance of private credit funds: A first look*. SSRN.
- Neuhierl, A., Scherbina, A., Schlusche, B. (2010). Market reaction to corporate news and the influence of the financial crisis. *SSRN eLibrary*, 1-54.
- Nieto, F. (2007). The determinants of household credit in Spain. *Banco de España Research Paper No. WP-0716*.
- Norden, L., Weber, M. (2004). Informational efficiency of credit default swap and stock markets: The impact of credit rating announcements. *Journal of Banking & Finance*, 28(11), 2813-2843.
- Palladino, L., Karlewicz, H. (2025). The Risks of Unregulated “Private” Credit Funds.
- Panagopoulos, Y., Spiliotis, A. (1998). The determinants of commercial banks’ lending behavior: some evidence for Greece. *Journal of Post Keynesian Economics*, 20(4), 649-672.
- Panetta, F., Signoretti, F. M. (2010). Credit demand and supply in Italy during the financial crisis. *Bank of Italy Occasional paper*, (63).

- Pelizzon, L., Mattiello, R., Schlegel, J. (2025). *Growth of non-bank financial intermediaries, financial stability, and monetary policy* (No. 458). SAFE Working Paper.
- Pericoli, F. M., Galli, R., Frale, C., Pozzuoli, S. (2013). Bank lending in a cointegrated VAR model. *Government of the Italian Republic (Italy), Ministry of Economy and Finance, Department of the Treasury Working Paper*, (8).
- Prequin (2025). Lesson 4: Asset Classe Private Debt.
- Wigglesworth, R. (2024). How Is Private Credit Weathering Its First Big Rate Hiking Cycle? *The Financial Times*, November 21, 2024.
- Zhang, G. (2009). Informational efficiency of credit default swap and stock markets: the impact of adverse credit events. *International Review of Accounting, Banking and Finance*, 1.

APPENDIX 1 – SAMPLE SUMMARY STATISTICS

U.S. Sub-Sample

	ln_PC	Bank_Stringency	Policy_Rate	FI_Index	Leverage	GDP	Inflation
Min	6,1956	0,4500	0,0000	871,0000	68,4700	-7,8768	-1,6234
Max	11,5428	0,6000	5,3750	902,0000	86,6300	7,7623	8,6356
Mean	8,1429	0,5153	1,1816	886,8750	75,2325	0,5901	2,4004
Median	7,7955	0,5000	0,1250	885,0000	74,6300	0,6522	1,9003
St. Dev.	1,3486	0,0603	1,7075	8,4544	5,0181	1,4840	2,0467

European Sub-Sample

	ln_PC	Bank_Stringency	Policy_Rate	FI_Index	Leverage	GDP	Inflation
Min	2,2701	0,5300	0,0000	594,0000	100,9000	-13,9000	-0,3771
Max	9,4978	0,6750	4,5000	632,0000	123,4000	14,9000	9,9551
Mean	6,2971	0,5825	0,7961	611,5000	110,3875	0,9109	2,0547
Median	6,3206	0,5500	0,1000	613,0000	110,1500	1,3500	1,5028
St. Dev.	1,6473	0,0569	1,2278	14,4222	4,5831	3,4175	2,2367

APPENDIX 2 – COLLINEARITY TEST

U.S. Sub-Sample

Variable	Collinearity Statistics	
	Tolerance	VIF
Bank_Stringency	,848	1,179
Policy_Rate	,812	1,232
FI_Index	,907	1,102
Leverage	,858	1,165
GDP	,991	1,009
Inflation	,796	1,257

European Sub-Sample

Variable	Collinearity Statistics	
	Tolerance	VIF
Bank_Stringency	,625	1,601
Policy_Rate	,609	1,642
FI_Index	,401	2,496
Leverage	,425	2,354
GDP	,848	1,180
Inflation	,544	1,840

APPENDIX 3 – CORRELATION MATRIX

U.S. Sub-Sample

	Private_Credit	Bank_Stringency	Policy_Rate	FI_Index	Leverage	GDP	Inflation
Private_Credit	1						
Bank_Stringency	.425	1					
Policy_Rate	-.330	.243	1				
FI_Index	-.0200	-.215	.096	1			
Leverage	.262	-.149	.150	.179	1		
GDP	.242	-.019	.019	.004	.003	1	
Inflation	.275	.169	.353	-.042	.270	.085	1

European Sub-Sample

	Private_Credit	Bank_Stringency	Policy_Rate	FI_Index	Leverage	GDP	Inflation
Private_Credit	1						
Bank_Stringency	.174	1					
Policy_Rate	-.251	.349	1				
FI_Index	-.226	.206	-.008	1			
Leverage	.125	-.349	-.456	-.580	1		
GDP	.273	-.116	-.152	-.152	.172	1	
Inflation	.372	.323	.057	-.423	.084	.292	1