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Private credit – a spectre under scrutiny

The significance of private credit in Austria

Private credit is one of the fastest growing credit segments globally. An increase in redemption requests in early 2026 caused concern among financial market participants about the possible negative implications for financial stability. We quantify the direct exposure of Austrian and euro area banks to private credit vehicles. We use a novel LLM-based classification and find that Austrian exposure is low. Therefore, at present, private credit exposures pose no direct threat to financial stability in Austria. However, continued supervisory attention is warranted, given the dynamic development of the asset class, possible second-round effects and structural concerns including market opacity, cross-border complexity and regulatory arbitrage.

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Private credit is an alternative to bank lending and market-based financing

Banks and insurers interact with the market differently: banks mainly provide financing to private credit funds, while insurers typically invest in private credit funds.

Exposure of Austrian financial institutions to private credit is low

Private credit exposures of Austrian banks, insurers and pension funds are comparatively low, amounting to EUR 12.0 billion.

Financial market stability: modest risk but supervision stays vigilant

Currently, private credit exposures pose no material threat. Market opacity, second-round effects, cross-border complexity and regulatory arbitrage warrant continued supervisory attention.

The views expressed are those of the authors and do not necessarily reflect those of the Oesterreichische Nationalbank, the Financial Market Authority or the Eurosystem.

1 Abstract

Private credit vehicles are non-bank lenders providing debt financing to non-financial corporations. Their exponential growth in recent years, their opacity and the increase in redemption requests faced by private credit funds in early 2026 caused concern among financial market participants about the risks private credit funds pose to financial stability. We shed light on a relatively underexplored and opaque part of the financial sector by analysing granular data on Austrian financial institutions and euro area banks. In order to identify the private credit exposure of banks, we implement an LLM-based method to classify 68,205 debtors. For insurers we use data from the Financial Market Authority (FMA).

In total, we estimate Austrian financial institutions' exposure to private credit – comprising corporate, real estate and infrastructure private credit – at <1% of assets or EUR 12.0 billion. Thereof, Austrian banks' exposure to private credit funds is relatively low, at around EUR 4.4 billion (<0.5% of assets). Austrian insurers hold around EUR 6.2 billion (<5%) and pension funds EUR 1.4 billion (<5%), but both typically act as investors in private credit vehicles, in contrast to banks' role as lenders to private credit vehicles. Large euro area banking groups tend to hold a good part of their private credit exposure via their foreign subsidiaries. At present, private credit exposures pose no material risk to financial stability in Austria. However, structural vulnerabilities, including market opacity, cross-border complexity, misaligned incentives, regulatory arbitrage and lending to weaker borrowers, warrant continued supervisory attention as the market evolves and exposures grow.

2 Private credit – overview, market evolution and definition

"Private credit", often used synonymously with "direct lending", refers to debt financing provided directly by non-bank lenders to non-financial corporations. Typically, the bulk of this form of lending is provided by specialised and private credit funds. Private credit typically finances unrated, higher-risk mid-market companies, enabling investors to earn comparatively high returns in exchange for greater credit and liquidity risks. Lending rates are typically 200–400 basis points higher than those on comparable syndicated loans, compensating lenders for elevated credit and liquidity risks (Financial Stability Board, 2026). In terms of absolute performance, returns have been generally in the range of 9% to 10% per year.[1] In addition to higher returns, private credit offers diversification benefits due to its low correlation with traditional asset classes. However, the apparent stability of returns partly reflects infrequent valuation, which smooths reported returns and delays the incorporation of changing market conditions (Ellias and de Fontenay, 2023). Given their long investment horizon, private credit investments are primarily held by institutional investors with higher risk tolerance, such as pension funds, insurance companies, endowment funds, foundations and sovereign wealth funds. Banks primarily act as senior lenders and providers of liquidity and subscription credit lines for leveraged funds (Matvos et al., 2026).

Private credit funds are typically structured as closed-end funds. More recently, however, the market has increasingly opened up to retail investors through a range of investment vehicles, including business development companies (BDCs) in the USA, many of which offer limited periodic liquidity, and European Long-term Investment Funds (ELTIFs) in Europe.[2] The increasing use of semi-liquid fund structures has

[1] Private credit has historically generated annual returns of around 9–10%, with the Cliffwater Direct Lending Index (CDLI) – the most widely used benchmark for direct lending – reporting an average annual return of 9.6% over the past 20 years. In 2025, the index returned 9.3%, primarily driven by interest income. According to Preqin data, private credit funds reported an internal rate of return of 10.0% over five years. Reported returns vary across data providers, time periods and market segments.

[2] Despite rapid growth in recent years, the ELTIF market remains comparatively small. Unlike US BDCs, European ELTIFs have not experienced notable redemption pressures over the past months.

exposed funds to liquidity mismatches between illiquid assets and investors' redemption claims. These vulnerabilities became evident during the market turmoil in the USA in February and March 2026 (ECB, 2026). After investors became concerned about the high exposure of private credit funds to "SaaS" (software-as-a-service), other software companies and prominent corporate failures (e.g. Tricolor and First Brands in late 2025), redemption pressures increased in semi-liquid private credit fund structures. To mitigate liquidity risks, redemptions in these vehicles are typically capped at 5% of net asset value (NAV) per quarter. This is known as "gating". Redemption requests exceeded these quarterly limits in the first quarter of 2026. Against this backdrop, shares of several asset managers faced significant selling pressure.

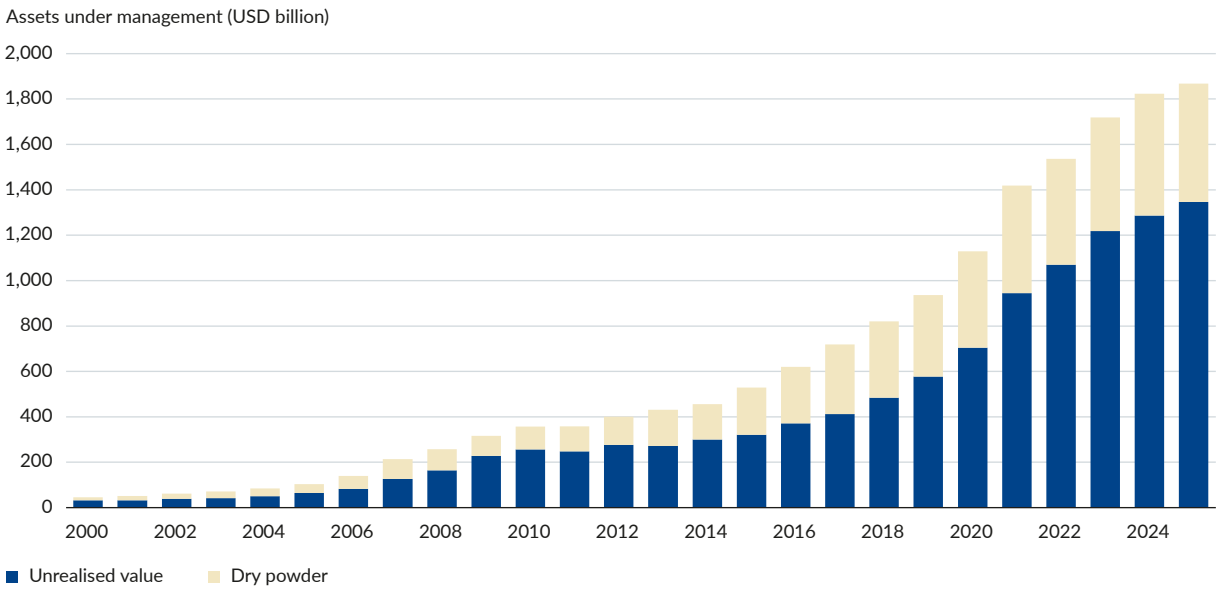
The private credit market is dominated by large US funds. According to data provided by Preqin[3], 9 of the 10 largest private credit fund managers are in the USA. As of August 2026, the largest fund manager is Ares Management, with USD 144 billion total funds raised, followed by Oaktree Capital Management (USD 143 billion) and Goldman Sachs (USD 112 billion). Asset managers are the most important private credit investor type, followed by public pension funds and insurance companies. Of the world's 100 largest private credit investors, around 30% are based in the USA, followed by Canada and France.

Banks often act as lenders and liquidity providers to private credit funds rather than as equity investors. Their exposures often take the form of senior secured credit facilities, including facilities backed by the fund's loan assets or portfolio and subscription credit lines, which are secured by investors' uncalled capital commitments (Haque et al., 2025). Banks also act as counterparties in derivative transactions. Another important link to the banking sector is the market for synthetic risk transfers (SRTs). In recent years, private credit funds have become important investors in SRT transactions originated by banks (Financial Stability Board, 2026).

Private credit has been one of the fastest growing segments in alternative credit markets over the past decade. Once a niche market, it expanded rapidly after the global financial crisis, as banks became

Chart 1

Global growth in private credit from 2000 to 2025



Source: Preqin.

[3] Preqin is a leading data and analytics platform for private markets and alternative investments.

more reluctant to lend to riskier companies in response to stricter global banking rules under the Basel framework. Growth was further driven by high loan demand and investors' search for yield during the low interest environment until 2022. According to Preqin data, total assets under management (AuM) grew from USD 32 billion in 2000 to USD 1.8 trillion as of year-end 2025. Around 30% of total AuM is capital that investors have committed to private credit funds but that has not yet been deployed "dry powder". The following chart shows the growth of global private credit AuM between 2000 and 2025.

Despite the rapid growth of the private credit market, its overall size remains relatively modest compared with other markets, such as the corporate bond and bank lending markets. In comparison to the USD 1.8 trillion in assets under management, the broader private capital market amounted to around USD 14.6 trillion, while the global corporate bond market reached USD 36 trillion, global bank balance sheets USD 106 trillion, and global equity market capitalisation USD 127 trillion.[4]

3 What supervisory data reveal

Private credit funds were in the news almost daily in 2026 due to the sharp rise in redemption requests. At the same time, concern grew among international bodies about the financial stability implications of these private lenders (ECB, 2026; Financial Stability Board, 2026). But how significant is the direct exposure link to banks? Do we need to be concerned about broader financial stability if private credit funds are faced with redemptions and defaults among their debtors? In this section, we utilise two datasets containing individual creditor-debtor relationships to gauge the exposure of banks to private credit funds: the Granular Credit Data (GCD) for Austrian banks and AnaCredit for the international perspective.

The key challenge in analysing private credit is the lack of a standard definition. One perspective focuses on the underlying investment strategies, while another takes a broader view of the private credit ecosystem. This broader view encompasses a wide range of private credit vehicles, as well as collateralised loan obligations (CLOs) and synthetic risk transfer (SRT) transactions as financing and distribution mechanisms (see figure below).

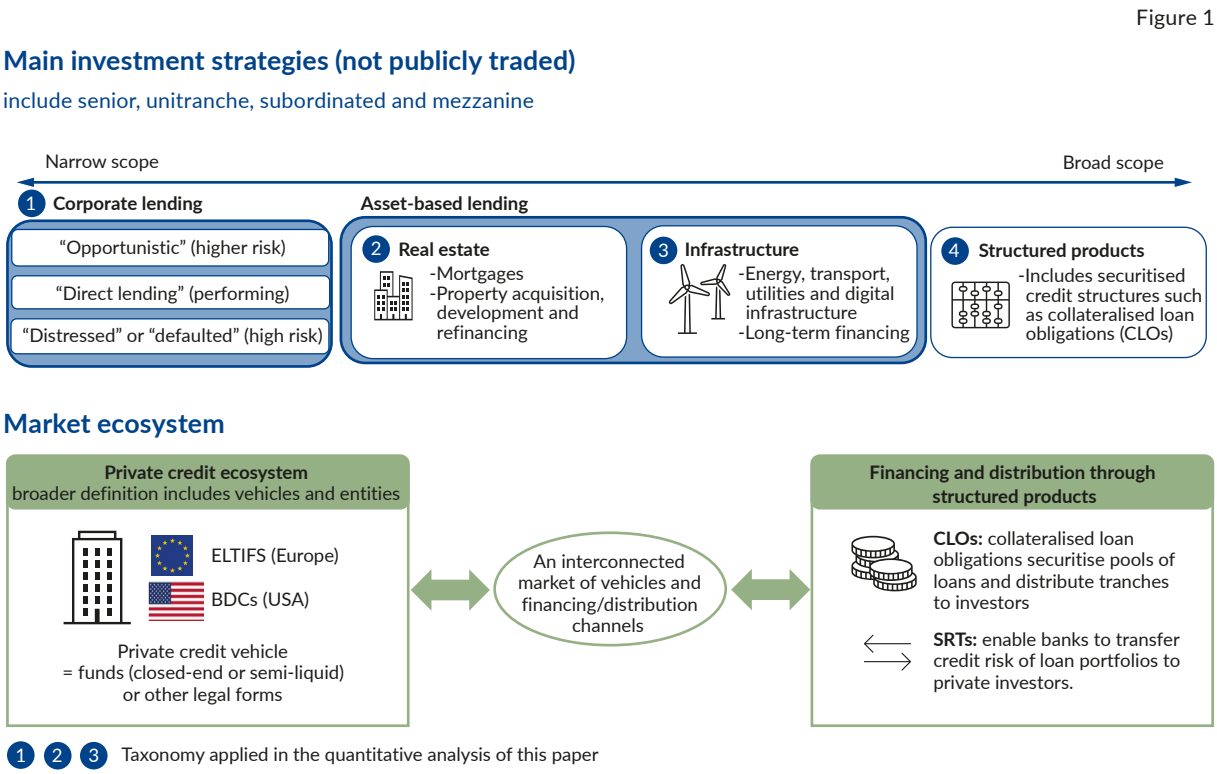
In our study, we focus on the main underlying investment strategies, from corporate lending (including direct lending, opportunistic and distressed strategies) to asset-based lending in real estate and infrastructure, while excluding structured products and high-yield bonds. In terms of the private credit ecosystem, we include closed-end and semi-liquid funds, as well as other legal forms, while excluding CLOs and SRTs.

The lack of a standard definition also poses a practical challenge when attempting to measure private credit exposures. There is no single NACE code or other identifier with which we can cleanly label a counterparty or investment as private credit. This makes it difficult not only to compare studies but also for supervisors to estimate private credit exposure based on surveys among banks. Different definitions lead to incomparable figures. For insurers (as lenders) we can rely on EIOPA's security-level regulatory reporting by asset class (CIC codes), which enables the identification of private assets and exposure comparisons across European countries. To identify the lending of insurers to the private credit market, we follow EIOPA (2026) in its broader definition, which includes direct lending via mortgages, corporate loans and non-listed or non-exchange tradable corporate bonds.[5]

[4] Preqin, Bloomberg.

[5] The broader definition for insurers also reflects the new regulatory requirements on liquidity risks in the Solvency II Review (see also Art. 144b in Directive (EU) 2025/2). See EIOPA (2026) p. 88f for the definition by asset classes.

Figure 1



Source: Authors' compilation.

For banks' exposure we take a novel approach: first we extract all counterparties in the relevant NACE sectors[6] and then we classify each counterparty according to a dedicated web search. For each of the 68,205 counterparties we task an LLM to perform online research and thus classify the counterparty according to the taxonomies defined in the figure above. Since such a task would be prohibitively expensive using external LLMs, we use the OeNB's on-premise model "minimax-m².7". This approach allows us to have the same standardised procedure for each counterparty. However, it is not flawless and although manual checks found a low rate of misclassifications, it is statistically certain that some firms will be misclassified.

3.1 Exposure of Austrian financial institutions to private credit (PC)

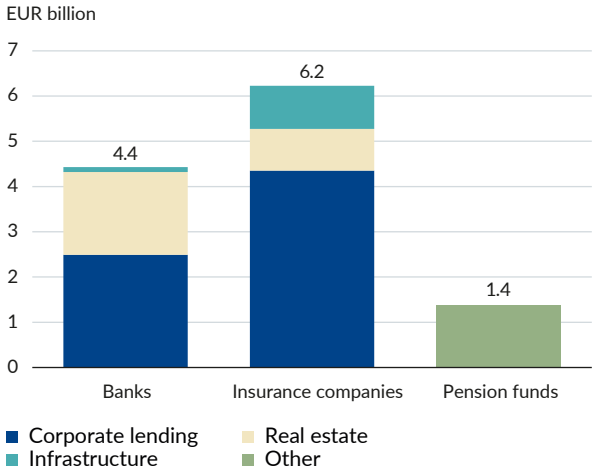
Combining GCD for banks with FMA security-level reporting for insurers and pension funds, we can gauge Austrian financial sector exposure to private credit comprising PC corporates, PC real estate and PC infrastructure, excluding structured products.[7] Banks and insurers engage with the private credit market in distinct ways: while banks provide financing to private credit vehicles, insurers gain exposure by investing directly in private credit assets. We estimate this exposure at approximately EUR 12.0 billion as of year-end 2025: EUR 4.4 billion for banks (<0.5% of total assets), EUR 6.2 billion for insurers (<5%) and EUR 1.4 billion for pension funds (<5%).

[6] Our initial NACE sectors were "Trusts, funds and similar financial entities", "Other financial service activities, except insurance and pension funding", "Other credit granting" (codes '64_3', '64_31', '64_9', '64_92', '64_99'), yielding around 13,000 firms which we classified using the LLM approach. We also examined "Activities of holding companies" (NACE code '64_2'), which in rare cases also contain private credit firms. This addition increased the number of firms by 117,000, with a total exposure value of EUR 2.6 trillion, of which we classified the counterparts with the largest exposure values totalling an exposure of EUR 2.5 trillion.

[7] As illustrated in the ECB's Financial Stability Review (ECB, 2026), a substantial share of banks' broader exposures to the private credit ecosystem is related to structured products. These exposures are excluded from the present analysis.

Chart 2

Private credit exposures in Austria



Source: GCD for banks, FMA for insurers and pension funds.

The breakdown of banks' EUR 4.4 billion in private credit exposures shows that corporate private credit vehicles account for the largest share at EUR 2.4 billion, followed by real estate at EUR 1.8 billion, including EUR 1.0 billion in mortgages.[8] Infrastructure exposures are comparatively small at EUR 108 million. Direct exposures are geographically concentrated, with the USA accounting for EUR 2.7 billion (over 60%), followed by Ireland and Luxembourg at around EUR 1.5 billion combined. This largely reflects the location of funds and financing vehicles rather than ultimate borrowers, although random sampling indicates that a substantial share of financing ultimately flows abroad.

Insurers hold even larger private credit exposures than banks. Based on FMA security-level reporting, total Austrian insurers' on-balance sheet exposures to private credit as of year-end 2025 amount to approximately EUR 6.2 billion. These estimates include investments within funds and intra-group transactions.[9] Corporate private credit accounts for the largest share, with exposures of approximately EUR 4.4 billion,[10] followed by private investments in infrastructure funds of approximately EUR 1.0 billion and real estate private credit of less than EUR 1.0 billion in mortgages. The geographical distribution of direct exposures is highly concentrated and explained by intra-group transactions. Austria is by far the most important debtor country, accounting for roughly EUR 2.0 billion, or roughly 30% of the total identified exposure, followed by Italy and Luxembourg, which together account for around EUR 1.7 billion. For Austrian pension funds, data are not available at the same level of granularity, as their investments are fully wrapped into (funds of) investment funds. Approximately EUR 1.4 billion are estimated to be exposed to private credit risks, with a negligible share of corporate lending and mortgage activities.

While the analysis above illustrates the broader involvement of institutional investors in private credit markets, GCD allows for a more granular assessment of the credit risk characteristics of banks' exposures. Data reveal that credit risk characteristics of banks' private credit exposures differ markedly from those of other sectors. Exposure-weighted probabilities of default (PDs) for private credit funds are comparatively low, at around 0.2% in 2026, broadly in line with banks and well below those observed for other non-bank financial institutions (NBFIs) and non-financial corporations (NFCs). At the same time, private credit has historically had a high share of exposures without internal PDs, reaching almost 60% in some years. While this share has declined substantially, around 12% of private credit exposures still lack an internal PD in 2026. Where internal ratings are available, banks tend to assign relatively low average PDs. This might be caused by a lack of proper, sufficiently large loss data for these counterparties. **Against this background, the comparatively high share of exposures without internal ratings points to the inherent**

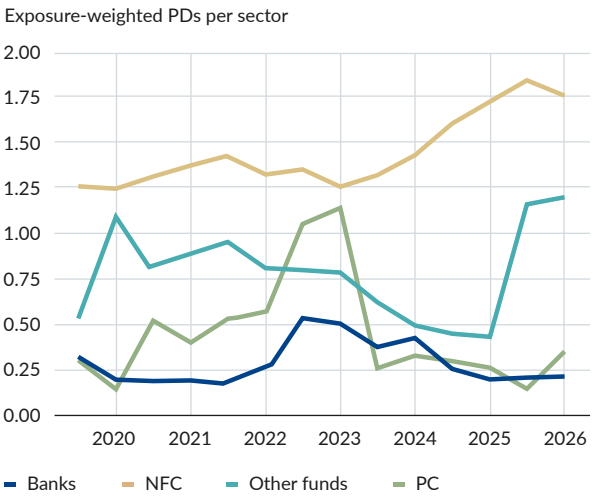
[8] The real estate category comprises exposures to real estate funds and excludes SPVs and project financing structures.

[9] Intra-group transactions (IGT) are financial activities between undertakings within the scope of an insurance group, including insurance companies, other financial institutions and other non-financial undertakings. Transactions with private credit characteristics mostly comprise loans from insurance companies to affiliate non-financial entities, for instance real estate companies, within the respective insurance group and are subject to Solvency II insurance group supervision.

[10] Thereof, group internal lending activities account for approximately EUR 2.8 billion.

Chart 3

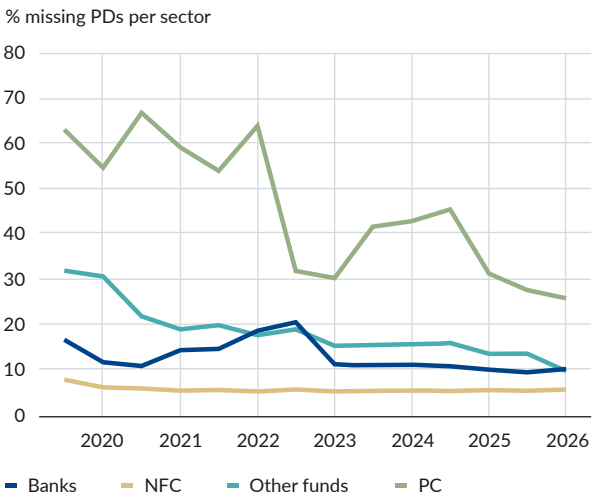
Low internal PDs



Source: GCD.

Chart 4

Historically high number of unrated PC funds



Source: GCD.

opacity of private credit markets, where limited transparency constrains a comprehensive assessment of underlying credit risk.

3.2 Exposure of euro area banks to PC

The classification exercise reveals that only a small fraction of the total exposure is vis-à-vis private credit funds. Of the total of EUR 2.6 trillion reported by SSM banks in the relevant economic sectors[11], only EUR 62 billion is attributable to lending to private credit funds. This figure is astonishingly low compared to survey data from the ECB (2026), which coincidentally also come to an estimate of EUR 62 billion, but only for private credit corporates and only for the 12 banks in the sample. After careful manual inspection of the data and comparison with other sources on a bank-by-bank basis where available, the explanation for our low figure is that lending by large SSM banking groups to private credit funds is conducted to a significant degree by their foreign subsidiaries or branches. Our dataset contains only lending by SSM banks; thus, lending e.g. via subsidiaries or branches in non-SSM countries is not included unless the loan is also serviced by the parent. Among the largest SSM banking groups we find some where the parent services many loans of the US subsidiary and others where this is not the case. Nonetheless, the following observations can be made:

1) Direct lending by SSM banks to private credit funds is low. We attribute only EUR 38.3 billion to private credit funds engaged in corporate lending, EUR 11.6 billion to private credit real estate or mortgages, and EUR 7.5 billion to private credit funds infrastructure.
2) We explain higher reported values in surveys (ECB, 2026) with the fact that our dataset does not include lending by foreign subsidiaries.[12] We infer that much of the lending, especially to US private credit funds, by large SSM banking groups happens via their non-SSM subsidiaries or branches in the USA or other non-SSM countries.

[11] See footnote 6 for the NACE sectors taken into consideration.

[12] According to the EIOPA (2026) insurance corporations and pension funds have a combined exposure of approximately EUR 523 billion.

3) The geographical distribution is noteworthy. Although the distribution of creditors roughly corresponds to the economic size of the respective countries, the debtor market is heavily dominated by investment funds in Luxembourg, which attract cash from all over Europe. After Luxembourg, the second-most prevalent destination of banks' private credit exposure is Ireland, followed by the Cayman Islands. The geographical distribution is broadly in line with reports from KPMG and ALFI (2025) and Preqin. It reflects the attractive environment for funds found in countries like Luxembourg and Ireland but also raises concerns with regard to the opacity of many lending relationships to private credit funds (e.g. in case of the Cayman Islands).

Taken together, our findings reinforce concerns about the financial stability risks associated with private credit:

1) Not only is public transparency low, but supervisors do not have clear oversight if lending is carried out by foreign subsidiaries.
2) Cross-border complexity is heightened already on the creditor side and again on the debtor side, with around two thirds of private credit exposure being cross-border.
3) The opacity of lending is confirmed with a view to some of the main destination countries, but also the relatively high share of off-balance sheet exposure (around 20% compared to 10% for all NACE sectors).

4 Financial stability considerations

We use an AI-based approach to assess whether banks' debtors belong to the private credit sector. Based on this analysis and additional information from Austrian pension funds and insurers, we do not find evidence of a material financial stability risk at present. For banks, exposures are low and, in the event of financial difficulties, bank claims are senior to the investment positions of fund investors (see also Matvos et al., 2026). While insurers and pension funds have higher and less senior exposure, it is still not of systemic concern.

Over the longer term, however, structural concerns related to private credit could change this assessment. First, private credit remains characterised by a high degree of opacity. Transactions are based on private contracts, transparency is limited and covenant quality is difficult to compare across funds, borrowers and vintages. As shown above, a large share of exposures is cross-border, which adds to the overall complexity.

Second, private credit may create distorted incentives that, over time, could increase exposures and heighten financial stability concerns. Most significantly, private credit can facilitate regulatory arbitrage or the circumvention of macroprudential measures, for example when private credit funds provide credit protection to banks through synthetic risk transfer (SRT) transactions, allowing banks to reduce regulatory capital requirements while keeping the underlying credit exposures on their balance sheets. Another concern is the potential weakening of institutions' internal risk control mechanisms. Risk management may be impaired if parts of the credit assessment are effectively outsourced to a fund and historical data on private credit are scarce, biased or insufficiently tested across the cycle. Stale and infrequent valuations based on model values may lead to a seemingly low correlation with other asset classes. This could create incentives in favour of lending to private credit funds, to the detriment of financial stability.

Capital requirements and risk management practices must also take account of the specific characteristics of lending to private credit vehicles. First, they need to adequately capture potential wrong-way correlations between collateral values and probabilities of default. Second, exposures to low- to medium-tier software companies, which are frequently debtors of private credit funds, may be particularly vulnerable to the combined effects of AI-driven transformation and higher interest rates. Clearly, the most significant risk to financial stability arising from private credit stems not from direct exposures of

Austrian financial institutions to private credit vehicles, but from second-round effects, when losses in the USA or other countries spread globally through direct and indirect contagion.

Overall, current exposure levels in Austria remain low enough to conclude that private credit, narrowly defined, does not pose a material threat to financial stability at present. However, the sector's opacity, cross-border nature and potential incentive distortions warrant continued monitoring, particularly if exposures continue to grow.

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