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Staff memo

Private credit in Sweden

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S V E R I G E S R I K S B A N K

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Summary

Private credit globally has grown at an exponential rate over the past 15 years. This note provides a conceptual discussion of the benefits and risks arising from this trend, from a financial stability perspective. It also incorporates an overview of the Swedish private credit landscape, within the limits of the available data.

In contrast with some of the existing literature, this paper uses the term private credit to refer to any loan (not security) to the real sector (households and firms) that is held on or issued from an other financial intermediary (OFI) or investment fund's balance sheet. The inclusion of household lending in particular reflects the regulatory landscape in the EU, which treats investment funds that lend to households in a similar manner to those lending to firms.

Private credit offers several benefits to the financial system. These include liquidity matching for long term investors, flexibility and competition benefits to borrowers, and increased credit supply, especially to firms. These benefits need to be balanced against the potential for risks, especially as the sector increases in size. Monitoring and assessment of this sector – especially firm lending – is difficult due to data coverage, as well as the degree of cross border activity. This makes it difficult for authorities to assess and respond to developing vulnerabilities in a timely manner.

Despite the limited data, there are emerging indications that some private credit providers can face cyclical challenges to their funding arrangements, which may result in procyclical lending activity. Private credit – especially when offered through an investment fund structure – also has the potential for liquidity mismatch. While the vulnerability is ordinarily smaller than that for banks, it is also less strictly regulated, and private sector providers that encounter liquidity problems are typically not eligible for the same liquidity support as banks. Finally, growing interconnectedness with banks and non-banks increases the potential for contagion.

In Sweden, the private credit sector is still small and appears to be relatively conservative in its business models to date. Private credit providers – namely investment funds and other financial institutions – lend to both firms and households in Sweden, but these values represent only around 1-2 per cent of their total borrowing. Cross border firm lending remains difficult to assess, but appears limited.

Nonetheless, the rapid growth in size, together with legislative changes, makes it important to continue monitor this sector. Consequently, the most important outstanding issue for authorities globally is the lack of complete, high-quality data on this sector and its activities.

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1 Introduction

Private credit globally has grown exponentially over the past few years. At the same time, concern about the risks involved have been voiced by the Federal Reserve, the IMF, the ESRB and the BIS, among others.[2] An area of concern is whether private credit is appropriately regulated and – if not – what possible impact it could have on financial stability.

The purpose of this note is to consider some of the benefits and risks that may arise from this rapidly growing segment, through a financial stability lens. The note will focus on the Swedish case, but many of these issues may also need to be considered internationally. In many cases the assessment of the risks is complicated by the limited availability of data and information on this sector.

This note will be structured as follows. First, it will outline the definition of private credit for the purposes of this note. Second, it will discuss the benefits and growth drivers behind private credit. In addition, it will analyse some of the potential vulnerabilities inherent in private credit, and their potential impact on financial stability. The final section will summarise and conclude. Finally, it will present limited estimates of the Swedish private credit sector.

1.1 Private credit is not well defined

Private credit is not a clearly and consistently defined market segment, either statistically or practically. For instance, the IMF defines private credit as "Nonbank corporate credit provided through bilateral agreements or small "club deals" outside the realm of public securities or commercial banks. This definition excludes bank loans, broadly syndicated loans, and funding provided through publicly traded assets such as corporate bonds" (IMF, 2024). In practice, however, analysis typically focusses on lending from investment funds and entities specific to the US known as Business Development Companies (BDCs). The BIS adopts a narrower definition, namely "private credit generally refers to non-bank credit extended by specialised investment vehicles ("funds") to small or medium-sized non-financial firms" (Avalos, Doerr and Pinter, 2025).

Reflecting the European and Swedish context, I will adapt the definition somewhat. First, I exclude lending from insurance and pension corporations (ICPFs), which are a subset of non-banks but subject to different regulation and therefore likely a specific set of risks.[3] The definition will therefore be limited to lending from the other two categories of funds in Europe: specifically investment funds and other financial institutions (OFIs).

On the other hand, for the purpose of this note, I expand the definition to include lending to households (including mortgages) as well as firms. In Europe, mortgage

[2] See Chapter 2 of the IMF's April 2024 GFSR, the ESRB's 2024 NBFI Monitor, Cai and Haque (2024) and Avalos, Doerr and Pinter (2025).

[3] Note that this exclusion only applies to the specific insurance company. If an insurance group includes other types of entities that fall within the definition, those will be included.

lending tends to be structured differently from the US. Recent revisions to EU Directives will soon mean there is little difference between the structure and rules for investment funds lending to households or to firms, and mixed funds are possible (these are termed 'loan origination funds').[4] Residential mortgages are typically less risky and more regulated than firm loans, and the structure used by Swedish mortgage funds currently differs from the structure used by most private credit funds lending to firms.[5] Further, the Act on mortgage lending activities 2016:1024 also applies to these entities, meaning they fall under supervision. However, several of the risks related to the loan origination fund structure are likely to be relevant for funds that lend to households looking forward and we therefore include them, but make every effort to differentiate where the analysis differs from firm lending.

We also do not explicitly exclude broadly syndicated loans, as these are practically difficult to separate from club deals, and in many cases pose similar risks to the system due to the structure of the underlying private credit entities. We also include loan books purchased (for example from banks) by investment funds and OFIs, which is not specified clearly in the IMF definition. We do however explicitly exclude OFIs acting as brokers and crowdfunding type platforms, to the degree possible in the data.

Reflecting these considerations, in this note, the term private credit refers to any loan (not security) to the real sector (households and firms) that is held on or issued from an OFI or investment fund's balance sheet. Providers therefore include (but are not limited to) mortgage credit companies, consumer credit companies and lease financing companies.

The downside of this definition is that the wide definition of OFIs means that a number of different types of actors are included, such as some small Fintech actors for example. At the same time, some of the more complex products – such as synthetic risk transfers – offered by private credit providers who also offer loans – are excluded. Consistent with the IMF's approach, the discussion will therefore focus most heavily on the risks related to private credit providers that operate as investment funds and make reference to their more complex products where relevant.

[4] See Directive 2024/927.

[5] Swedish mortgage funds currently raise a large share of their funding from debentures, rather than using the commitment structure common to private equity and private credit. They also operate on a pass-through or coupon basis without the relatively high performance fees common to other forms of private credit (see Andersson, Kärnä and Myers, 2025 for details on the latter).

2 Benefits and risks related to private credit

Private credit offers both potential benefits to the financial system and creates additional potential vulnerabilities. The balance between benefit and vulnerability depends on both the choices of the fund manager, and on the regulatory environment in which they operate.

2.1 Private credit offers benefits to the financial system

Private credit can offer significant benefits compared with both banks and markets, which may also have contributed to its growth. For one, private credit tends to be backed by a much larger share of equity than banks, who are mostly deposit- and debt-funded. Equity allows larger volumes of losses to be absorbed, with less risk to the stability of the loan issuer. Private credit may therefore be able to undertake more and higher-risk lending (IMF, 2024). Less credit constraints for firms can in turn help boost growth and productivity (Aghion et al., 2005).

There are also benefits that arise due to the current structure of the financial system. In the modern economy, increased saving through pensions and insurance has resulted in the creation of very large pools of capital, which need to be invested for a long period of time. Private credit matches these long-term investments to term loans. In part because these investors do not need regular access to their money in the same way as, for example, depositors, private credit faces less liquidity mismatch. They therefore do not have to hold as much liquidity reserves and can offer a higher return to investors (this is known as the illiquidity premium). It also offers these investors diversification, and – like private equity – low volatility (investment values do not rise and fall in line with the market, but change more slowly, see Andersson, Kärnä and Myers, 2025).

Banks may also benefit if private credit increases the secondary market for their loan assets. A more liquid secondary market can help reduce problems that arise from banks' maturity mismatch. For example, many banks in the EU sold loan portfolios on the secondary market in the mid-2010s to reduce their non-performing loan ratios. However, this strategy was affected by low liquidity in the market for those portfolios (ECB, 2016; ECB, 2018).

Firms may individually in some cases also receive benefits from private credit contracts relative to bank loans. A recent survey of private credit borrowers in the US indicated that the most common reasons that firms borrowed from private credit providers were certainty and speed of the loan, higher leverage, and flexible covenants (Ghamami et al., 2025). In terms of covenant flexibility, in both the US and Europe some private credit providers offer the opportunity for borrowers to remove covenants on loans in exchange for increased loan costs. For example, private credit providers sometimes offer payment-in-kind loans, which allows companies to defer making interest payments and instead increase their loan balances.

Finally, an increased number of providers has the potential to increase price competition. The Riksbank has previously noted this benefit for the household mortgage sector (Riksbank, 2018) and these downward pressures on interest rates have been documented for the Netherlands (De Nederlandsche Bank, 2016). However, for households, lower interest rates often lead to higher house prices over time, which in turn results in larger mortgage loans. This can reduce the long-term net gain for households. By contrast, the benefit is likely to be stronger for firms. Firms benefit more directly from lower interest costs, as these are less likely to be offset by increases in the cost of other inputs. Benefits to increased competition also include lower lender concentration, and increased potential to absorb additional lending if a bank exits the market (Peia et al., 2023).

2.2 Private credit has vulnerabilities that could create financial stability risks

As with all financial sector innovations, the benefits must also be considered in light of any potential contribution to financial stability risks. These risks have been increasingly highlighted in international discussions, including by the IMF, Federal Reserve, ECB, and BIS (Avalos, Doerr, and Pinter, 2025; Cai and Haque, 2023; Cera et. al., 2025; IMF, 2024). In the case of private credit, the small size of the market in Sweden means that any risks are likely to be limited at present. However, the rapid growth in the sector over the past decade – together with the increased focus from the private sector and regulators – means that it may in future become large enough that any disruption could have wider effects.

This section will analyse five vulnerabilities in private credit that may warrant further monitoring as the sector grows. These are: opacity, maturity and liquidity mismatch, potential for procyclical behaviour, interlinkages with banks, and potential impacts if they fail.

Private credit still operates in the shadows

Private credit is, by its nature, private. In practice, this means that there is little regulatory oversight regarding its activities, especially outside of consumer lending.

Private credit therefore tends not to be subject to the same degree of scrutiny as banks. Data collections are not currently in place to allow regulators to monitor private credit providers' loan books, lending standards, loan impairments or funding arrangements. It is therefore more difficult to identify vulnerabilities early, such as declining lending standards that could lead to credit bubbles. While private credit firms lending to households are typically subject to consumer regulation (e.g. for mortgages), which limits the amount of risk and allows supervisors to request information from individual entities, lending to firms is less regulated, and may be difficult for authorities to identify at all.

The picture is further complicated by the prevalence of cross border lending, especially for firms. For example, some regulatory information is collected regularly on investment funds. However, that information is collected by the jurisdiction where the fund's manager is domiciled and is not necessarily available to regulators in the country where the lending is taking place, which may not be the same. It is therefore difficult to assess how sustainable the funding structure is, or the amount of leverage they are using.

Finally, unlisted credit providers – including investment funds – are also often not subject to the same market discipline as applies to public banks. This includes the fact that loans – unlike securities – are not subject to mark to market requirements. This has the potential to delay investors' realisation of risks and losses.

Maturity and liquidity mismatch: not gone but forgotten

Banks often encounter maturity and liquidity mismatch. This is because their loans are long-term and typically have only a limited, illiquid secondary market, while their deposits are short-term and can be withdrawn quickly. Private credit providers are less likely to experience these problems, as they can use longer term funding.

However, the fact that private credit providers *can* use longer term funding, does not mean that they are required or always incentivised to do so – this depends on their own choices and business model, as well as the broader regulatory environment in which they operate. While they cannot legally offer deposits, they can use short-term loans or debt to support their lending books. For private credit investment funds, a new EU directive allows for debt financing to be up to two times the equity for many funds, with no limits on the borrowing terms.[6] This substantially exceeds the current debt financing of Swedish private credit funds, under their existing business models. For OFIs there are no such limits to the use of debt. Since short-term funding is usually cheaper than long term funding, there can be an incentive for private credit providers to reduce the length of their funding, especially if they encounter other pressures on their profitability.

In the case of private credit investment funds, there can also be liquidity mismatch arising from their withdrawal structure. While nearly all Swedish funds with loan assets have no withdrawal rights for investors, and there is therefore no evidence of sector-level liquidity mismatch, it is unknown whether this would be the case for new entrants. For instance, under the new EU directive, there is no clear requirement that a private credit fund has a lifespan that is as long as the loans that it is issuing, in which case at some point any loans that are not refinanced must be either moved to a new fund or sold.[7] The directive also allows for open-ended funds (subject to certain

[6] Funds can have leverage of up to 300% if they are closed-ended, or 175% if they are open-ended, calculated using the commitment method. That is the equivalent of a 2:1 debt-to-equity ratio for closed-ended funds or a 0.75:1 ratio for open-ended funds.

[7] See Directive 2024/927, s(4i). Funds are required to hold loans for at least 8 years if they do not mature sooner, and hold consumer loans until maturity. However, they are entitled to sell these loans upon commencing liquidation of the fund. No minimum lifespan of the fund is specified in any part of the Directive.

restrictions), which offer equity investors regular opportunities to withdraw their investments.[8] Open-ended funds are vulnerable to situations where larger than expected withdrawals compromise their liquidity. A similar situation occurred with one open-ended Swedish private credit fund, which closed as a result in 2023 (Scandinavian Credit Fund 1 AB, 2023).

Mitigating liquidity mismatch increases in importance once retail investors are involved. While institutional investors may have long time horizons, retail investment is typically associated with more opportunity for redemptions and may be prone to informational issues that can trigger panic-based runs. New ELTIF regulation since January 2024 has created more options for retail investment in private credit funds.[9] Over 40 private debt or private credit ELTIF funds with some retail marketing have been set up since the new regulation came into force, compared with fewer than 15 prior to 2024.[10] No ELTIFs are domiciled in Sweden as of December 2025.

Uneven growth suggests procyclicality

There are emerging indications that some parts of the private credit sector could be prone to procyclicality. That means it tends to become more active during good times and decrease its activity during periods of stress.

In addition to reducing the positive impacts of competition when it is most needed, procyclicality can affect financial stability in several ways. Higher flows of funds into debt issuers during upswings has the potential to compress lending margins, lower lending standards, and increase overall indebtedness. This can spread across the system – including to banks – via the effects of competition. At the same time, if the available pool of funds shrinks during a downturn, failure rates can increase, credit availability can diminish and risk margins can rise, at the point where the most flexibility is needed to prevent contagion and wider macroeconomic impacts.

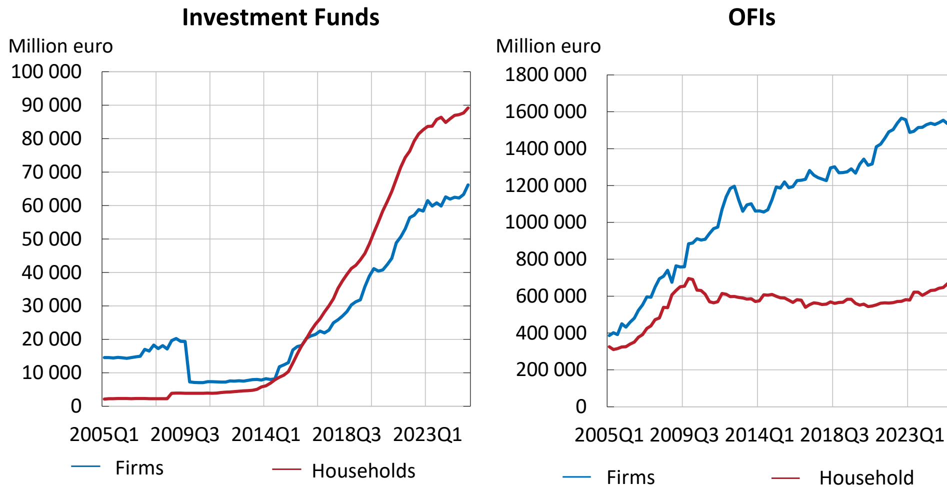
In the EU, lending by investment funds to households and firms seems to have been affected by the period of higher interest rates. In the Euro area, lending from investment funds to both firms and households slowed significantly between 2022 and 2024 (see Figure 1) and has since started to regain its growth trajectory in 2025 as interest rates have again fallen. Lending by OFIs to firms has also slowed since the beginning of 2023.

[8] In the case that these funds also qualify as European Long Term Investment Funds (ELTIFs), these restrictions are fewer.

[9] See EU Regulation 2023/606

[10] ESMA Eltif Register, accessed 15 December 2025. Classifications based on data publicly available on Pitchbook.com (accessed 15 December 2025) and author calculations.

Figure 1. Lending from Euro area investment funds and OFIs to euro area residents



Note Last observation 2025Q2

Source: Eurostat

In the case of mortgages, a potentially important factor appears to be that private credit providers of different types may have more difficulty raising funds when interest rates are high. In the Netherlands, where investment funds have increased their market share of mortgages since 2010, the upward trend slowed after 2022.[11] At the same time, investment in Dutch mortgage funds slowed through 2024 (De Nederlandsche Bank, 2024). In Ireland, where non-bank mortgage lenders are typically OFIs, the pattern has been somewhat similar. After rapid growth in market share up to 2021 (Gaffney, Hennessy and McCann, 2022), their activity declined through the period of higher ECB rates (Brennan, 2024).

One possible explanation for the trend may be that deposit rates tend to adjust more slowly in response to policy rate changes than market-based financing costs. Banks may therefore have a funding cost – and therefore pricing – advantage when policy rates are increasing. Another contributing factor may be that recent higher interest rates could have increased liquidity and/or risk premia on market financing. When premia rise, investors tend to demand higher returns on their investments, which in turn raises funding costs for private credit providers.

It is unclear whether this dynamic underpins the measured slowdown of private credit to firms within the euro area, but this measurement is also potentially complicated by cross border lending.[12] It is also unclear how other types of macrofinancial shocks may affect private credit. For example, while they were resilient to the shocks resulting from COVID, it is not yet known how they will react if defaults increase substantially, for example as the result of recent market turmoil or geo-economic fragmentation.

[11]Data is available at De Nederlandsche Bank 'Size and Breakdown of the Mortgage Market'.

[12]Changes in cross border private credit to firms from beyond the euro area are not identifiable from the data.

Interlinkages extend vulnerabilities to banks and others

There is some evidence that private credit is closely interconnected with banks in the US (Acharya, 2024). The IMF and others have expressed concerns that these interconnections could pose financial stability risks (IMF, 2024). In particular, shocks to private credit could pass through to the banking sector, and there are also concerns that banks may seek to use private credit to circumvent regulatory requirements. Interlinkages are also increasing with respect to other actors, especially life insurance companies (Carlino et al., 2025).

Interlinkages with banks can result from several sources. Banks can create their own private credit subsidiaries, for example. However, in the case of Sweden, it should be noted the potential for regulatory arbitrage through this channel is more limited, as banks are required to consolidate private credit providers that they own or manage into their own structure for capital adequacy purposes (Finansinspektionen, 2023).

Alternatively, banks can partner with existing private credit providers to expand their customers' access to different loan products. While this would not necessarily create a balance sheet connection, the banks would then have 'common exposure' – their clients would be impacted by a withdrawal from the private credit provider, which would in turn increase the banks' risks.

Banks can also be connected to private credit through leverage. For example, banks may lend outright to private credit providers, sell loan portfolios to them while financing the purchase, or provide repo financing to private credit-issued collateralised loan obligations. They can also shift risks to private debt providers via synthetic risk transfers for example.[13] As the products used become more complex, it becomes more difficult to trace the interconnections and assess the risks involved.

Separation from banking sector supports may increase likelihood or impact of failure

There are a number of mechanisms in place to protect the financial system from bank failure. If banks encounter liquidity shocks, central banks act as lenders of last resort. If they fail, resolution mechanisms are in place to limit the wider impacts.

These mechanisms do not typically apply to private credit providers in many jurisdictions. If private credit funds or OFIs encounter liquidity issues they will likely need to seek liquidity via banks (increasing their interconnectedness), fail, or withdraw from the market (increasing their procyclicality).

At their present size, the withdrawal or failure of one or more private credit providers is unlikely to have a systemic effect. However, if their market share grows it may become more difficult for the system to absorb their loans without cutting credit to

[13] As the loans are retained by the bank, the purchase falls under the broader category of private debt, rather than private credit. However there is likely to be significant overlap in the providers involved.

other sectors. Further, in the US private credit has shown a tendency toward high concentration (Cai and Haque, 2024). One or more entities could become “too big to fail”, while remaining outside the support system that applies to banks.

3 The private credit landscape in Sweden

Globally, the corporate segment of private credit has grown at an accelerating pace since the global financial crisis. This growth has predominately occurred in the US. In Europe (including the UK), the sector has displayed less rapid – albeit significant – growth, and from a smaller base (IMF, 2024).

In Sweden, the picture is less clear. There are two complications. The first is that limited data make estimating the size of the sector difficult. Second, the cross-border nature of much of the lending makes it difficult to track. For example, there are reports that Swedish firms have increased their borrowing from foreign private credit providers – particularly UK- and US-based lenders – over recent years, in part reflecting tighter conditions in the Swedish corporate bond market. Private credit borrowers include – among others – private equity firms (Andersson, Kärnä and Myers, 2025) and real estate companies.

Unfortunately, aggregate foreign liabilities of Swedish companies appear to be frequently underestimated, and data on non-banks' loans to firms is not collected by regulators. Altogether, this makes the total value of these loans impossible to assess.

Private estimates of this foreign borrowing tend not to be volume weighted, and instead typically focus on 'deals'. This may also exclude lending that is unrelated to private equity transactions. Deloitte's private debt tracker indicates 223 private debt deals were done in Sweden over the last 50 quarters, including both domestic and foreign lenders. While this is an average of only around 12 per year, the bulk of these deals have occurred in more recent years, with 18 deals in the most recent quarter – greater than the annual average.

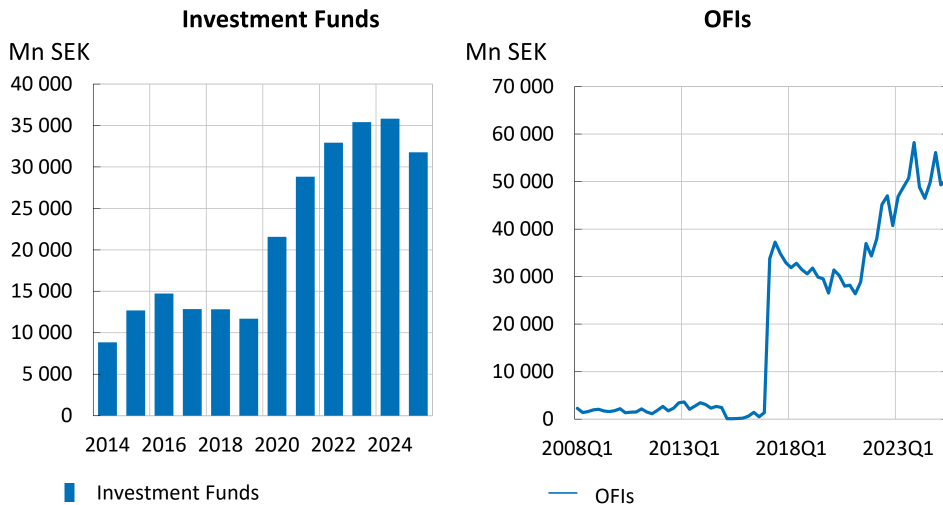
At the same time, ION analytics identifies 40 private credit ('direct lender') deals across the Nordic region in 2024, and a further 20 in Q1 2025, suggesting significant growth, but again from a relatively low base. The number of lenders was fairly stable – 15 in 2024 and 13 in Q1 2025 – and in both years only 2 of those providers have their primary base in Sweden.[14] The majority of private credit providers involved in these deals have their primary headquarters in either the US or the UK, but some may be operating out of EU subsidiaries subject to EU regulation.

The limited available data on Swedish private credit providers suggests a similar picture. Figure 2 presents estimates of total lending to Swedish firms by investment funds and OFIs respectively. Based on this data, around 1.2 per cent of Swedish firms' third-party borrowing is from Swedish OFIs, and less than an additional 1 per cent is currently on the balance sheet of investment funds (note that these data are collected on different bases, and cannot be added or compared).[15] Overall, available data suggest that this sector is growing, albeit from a very low base.

[14] Even where the primary base is Sweden, funds may be domiciled abroad and may therefore not be included in aggregate statistics. Alternatively, foreign managers may have funds based in Sweden.

[15] These two cannot be directly compared for three reasons. First, the estimate for OFIs likely contains some of the lending from investment funds. Second, the estimate of lending by investment funds includes

Figure 2. Swedish firms estimated outstanding private credit loans by lender



Note Investment fund estimate is based on the total volume of loan assets and 'other' assets by firms that either list loan assets in their portfolios or otherwise have been identified as private credit providers. This should therefore be considered an upper estimate. Estimates are not comparable. Changes in loan balances may not represent new lending but rather transfers from other lenders. Last observation Q2/H1 2025 (left hand side) and 2025Q2 (right hand side).

Source: Statistics Sweden, AIFMD

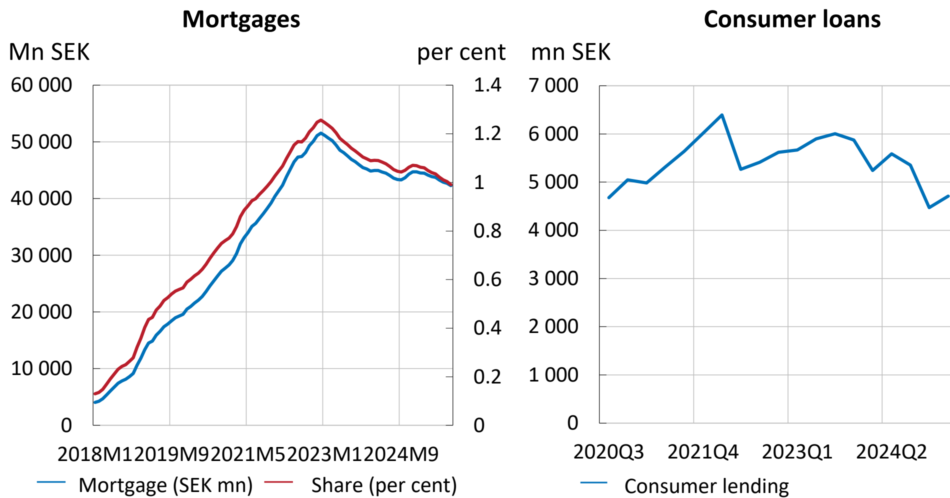
On the household side, in contrast, the growth trajectory appears to have paused since the rise in interest rates, and has not recovered with their subsequent fall. As banks have larger shares of their funding from deposits – which tend to adjust more slowly in response to higher policy rates than market financing does – they are likely to have had a competitive advantage relative to non-bank lenders over this part of the cycle. Against this backdrop, outstanding lending from mortgage credit companies and AIFs (for example Stabelo and Hypoteket) was actually slightly lower in October 2025 than in April 2022, suggesting repayments have exceeded new lending over this period (in contrast MFIs grew their household loan books by 6 per cent over the same period). This may have in part reflected the compression in their mortgage margins relative to banks that occurred due to the period of higher rates.[16]

Figure 3 shows the volume and share of borrowing by Swedish households from investment funds and OFIs. This represents around 1 per cent of mortgage loans in 2025. Going forward, the consumer credit portion will shrink, as changes to Swedish legislation will soon require OFI consumer credit providers to have a banking license unless subject to an exemption (mortgage funds will not be subject to the same requirement).

funds domiciled outside of Sweden, but which have Swedish fund managers. Third, changes in AIF loan balances may represent loans to non-Swedish residents.

[16] Banks' deposit costs typically do not rise as quickly as market financing costs when central bank interest rates rise. In contrast, liquidity premia tend to increase, which can increase financing costs for private credit providers. Private credit providers' margins are therefore likely to fall relative to banks' margins if they set the same loan rates.

Figure 3. Swedish households' estimated outstanding private credit loans by type

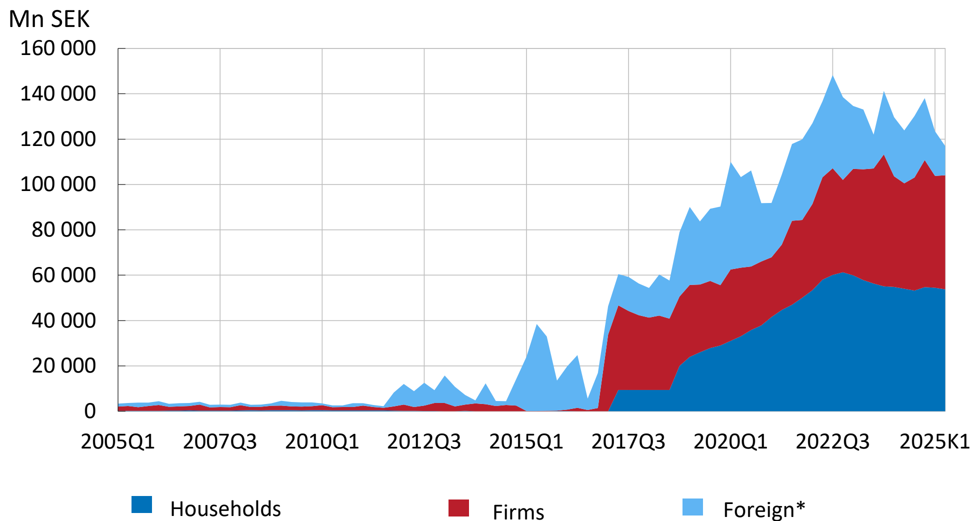


Note Last observations 2025M10 (Left hand side) and 2025Q1 (right hand side)

Source: Statistics Sweden, Riksbank's financial market statistics, Finansinspektionen's data on consumer credit institutions.

At this stage, total volumes appear to be very small relative to bank lending and bond markets. Figure 4 outlines the total lending by OFIs (investment funds domiciled in Sweden are currently calculated to have zero loan assets).[17] The overall picture is one of a relatively small sector that is yet to experience the sustained exponential growth that has been seen in other jurisdictions.

Figure 4. Private credit provided by Swedish-domiciled OFIs, by borrower



Note Foreign lending is lending to foreign, unrelated entities. This may also include financial (rather than real economy) entities, such as foreign OFIs or banks. This should therefore be considered an upper estimate of private credit issued abroad. Last observation 2025Q2.

Source: Statistics Sweden Financial Accounts, Riksbank estimates.

[17] As noted, other data sources suggest this may not be accurate. It is likely that lending by both foreign and domestic investment funds is in many cases categorised as being issued by Swedish OFIs.

Nor do Swedish banks appear to have significant exposure to private credit at present, although common exposures cannot be assessed. As at end-2025, market intelligence indicates that two existing private credit providers or funds were owned or managed by banks. In addition, another two have established partnerships with banks.

Debt exposure also appears to be limited. Analysis of major banks' reporting indicates that on 31 October 2025, around 1 billion kronor is currently loaned to investment funds that themselves make loans.[18] In addition, using AI technology to filter for entities that grant loans, a further 32.4 billion is estimated as being outstanding to OFIs that are likely engaged in direct lending using their own balance sheets. Not all of this lending may be linked directly to the provision of loans, and not all lending to foreign private credit entities may be included. While this amount is not insignificant, it is very small compared with the total loan books of the banks and amounts to less than 0.5 per cent of their business loan books in the same time period.

[18] Designation is based on a combination of funds that report holding loans in their AIFMD reporting and funds that indicate that their purpose is primarily lending, for example mortgage funds.

4 Conclusions

Globally, private credit has increased exponentially over the past several years, particularly in the US. This trend has raised questions from regulators, central banks and international bodies about the potential risks and benefits for this sector.

This paper has provided a conceptual analysis of some of the benefits and risks from a financial stability perspective. It notes that there are many benefits to private credit, including increased competition, more capacity for lending to firms and better liquidity matching of assets and liabilities.

In Sweden, the sector is currently small and tends to use less risky business models. While there are indications that lending to firms is growing, the base is small and the total amount of domestic and foreign borrowing is difficult to estimate. For households, better data improves the estimates, but the totals are also small (around 1 per cent of total mortgages) and growth has stalled since 2022.

The future, however, remains uncertain. Private credit has inherent potential vulnerabilities that could increase if the sector grows, and especially if cross-border participation increases. In particular, the sector is opaque, and there is relatively little regulatory oversight or data compared with similar lending by traditional financial institutions, especially for providers that lend to firms. In addition, while maturity and liquidity mismatch are likely lower than for the banking sector, the mismatch that remains is less regulated, and there is potential for this problem to expand as the sector grows. Further, there is some evidence of procyclicality, particularly as relates to household lending, and the resilience of the overall business model to many types of shocks remains untested.

In addition to the structural vulnerabilities, the sector internationally has begun to establish deep interlinkages both with banks and other non-banks, which raises the potential for contagion (although in Sweden these links still appear to be very small). At the same time, providers – some of which internationally are now very large – tend to remain outside of the support systems typically provided to banks in order to protect against systemic risk, including both liquidity support and resolution.

Given the demonstrated potential for rapid growth in this sector, it is important to continue to monitor its development. The most important outstanding issue for regulators of this sector globally is therefore the lack of complete, high-quality data in order to ensure ongoing monitoring provides an accurate picture of the landscape and risks. Regulatory data collections generally do not capture private credit activity, and even aggregate sectoral data is not always available. It is therefore difficult to monitor credit standards or identify instances of liquidity and maturity mismatch. This issue is increased due to the degree of cross border activity, and barriers to data sharing between authorities.

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