

Private Debt

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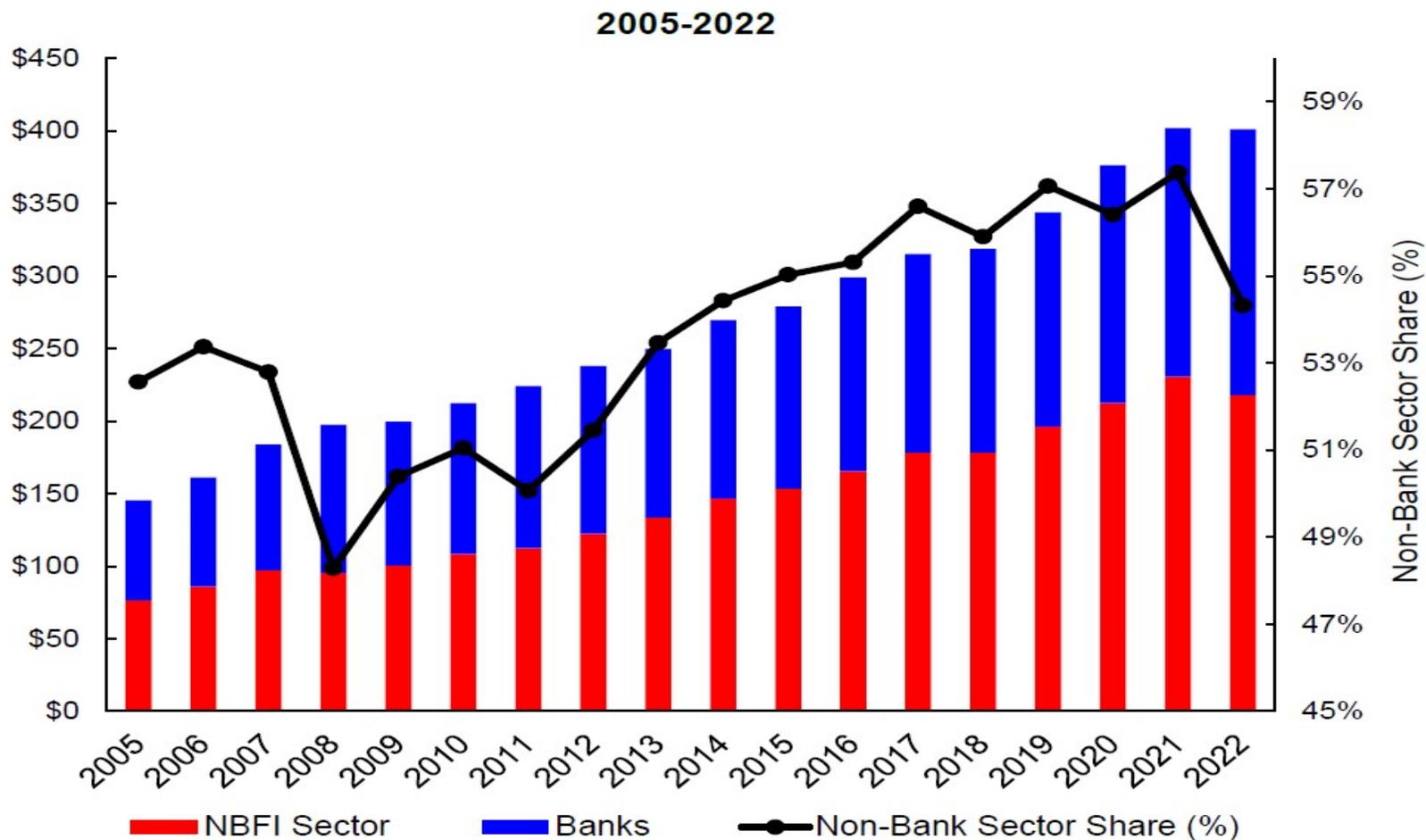
Norman R. Bobins Professor of Economics



Questions for Discussion

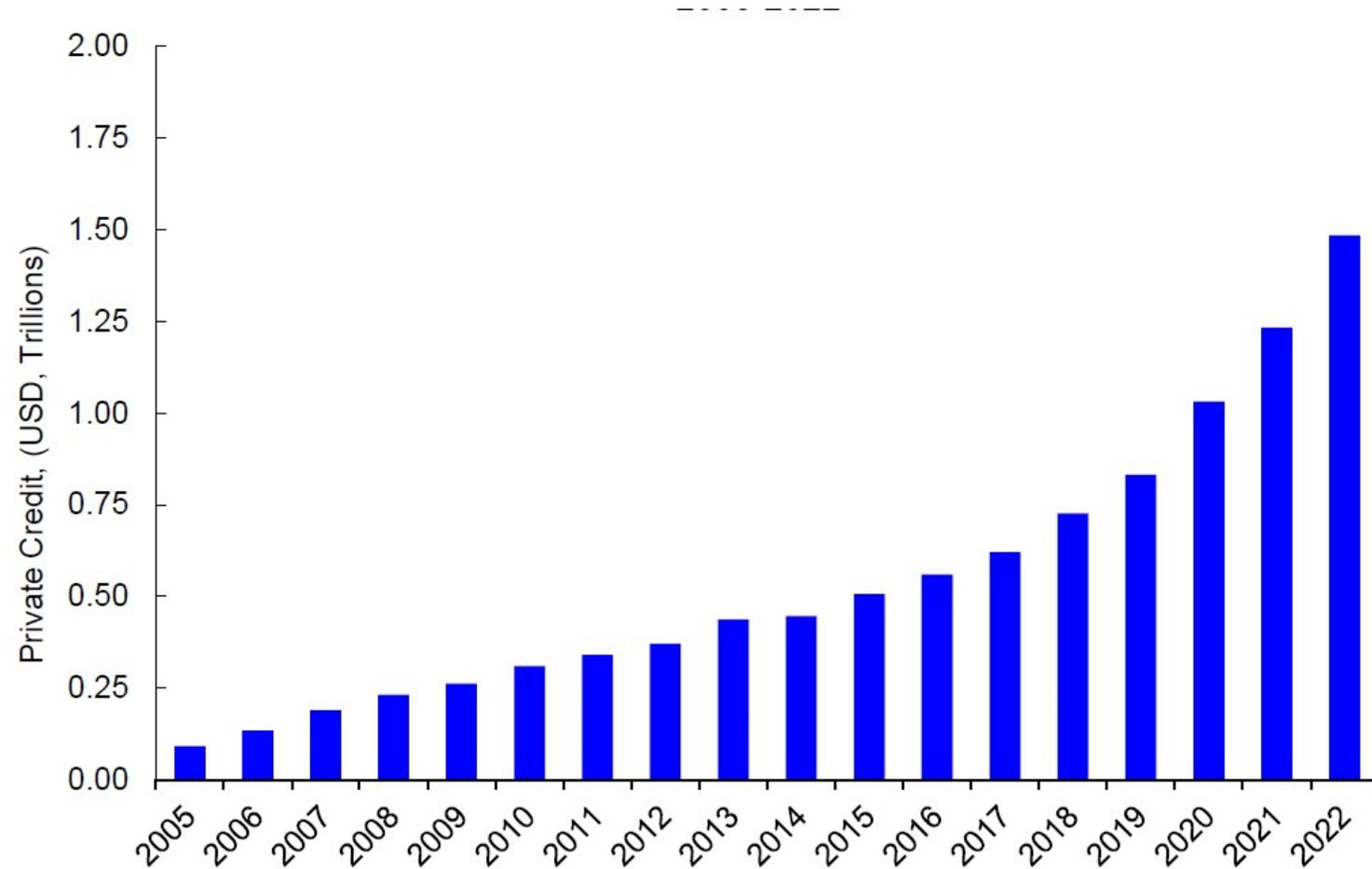
- What are the key potential vulnerabilities related to private debt?
- Are there potential fragile interconnections between private debt and the banking system as well as other parts of the non-bank financial system?
- How will private debt deal with downturns in loan performance? Is private debt likely to act as a shock absorber or shock propagator? How will this affect borrowers and investors? What is the approach to risk management?
- What would be the highest data priorities to provide a greater line of sight to assess potential risks and vulnerabilities, e.g., leverage, liquidity, interconnections, concentrations, and correlations?

Global Bank and Non-Bank Assets



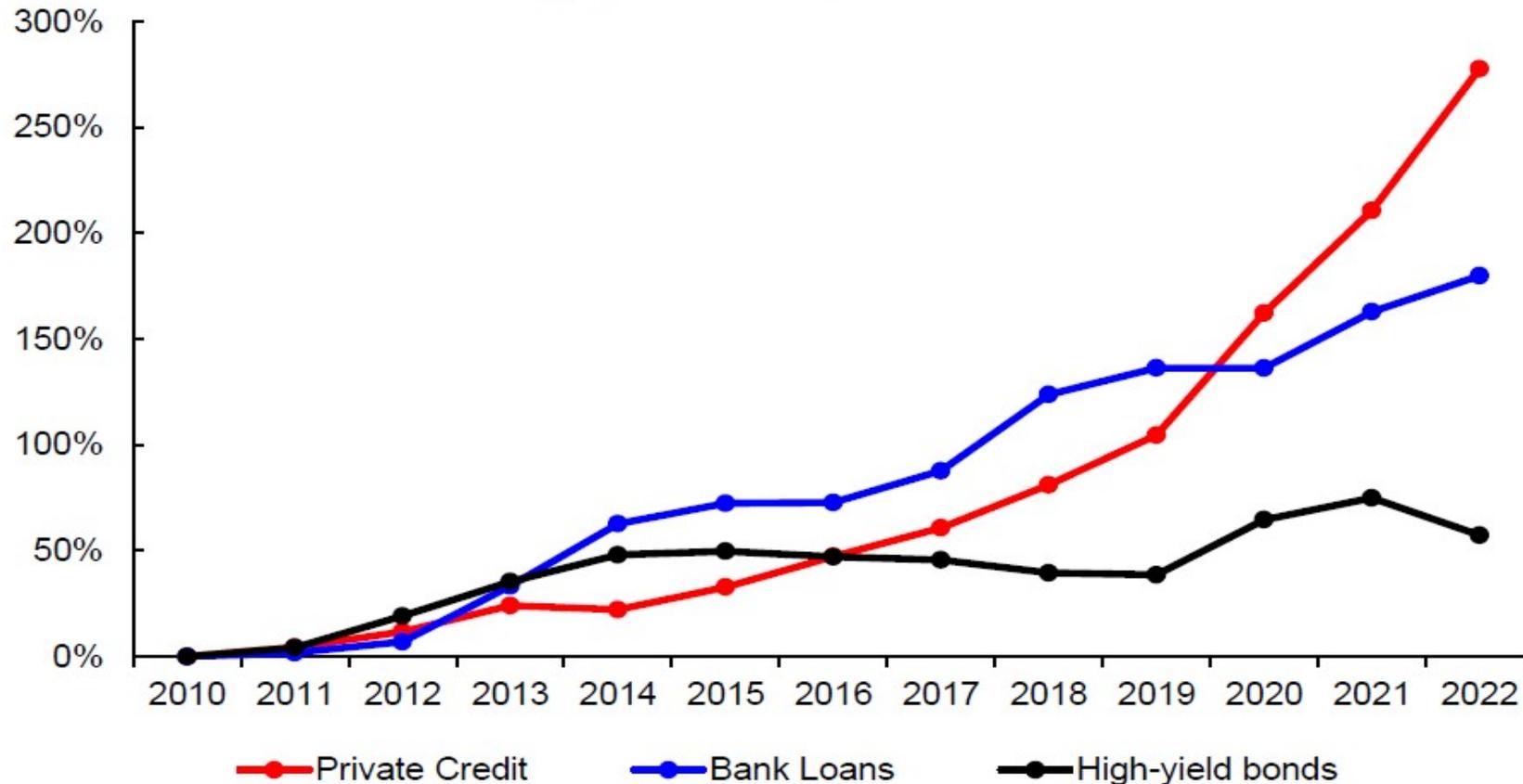
Source: Financial Stability Board, Global Monitoring Report on Non-Bank Financial Intermediation 2023 (<https://www.fsb.org/2023/12/global-monitoring-report-on-non-bank-financial-intermediation-2023/>). The FSB defines the Non-Bank Sector as “a broad measure of all non-bank financial entities, composed of all financial institutions that are not central banks, banks or public financial institutions.” See “Global Monitoring Report on Non-Bank Financial Intermediation,” Financial Stability Board, December 20, 2022, p. 3.

Global Private Credit Assets Under Management



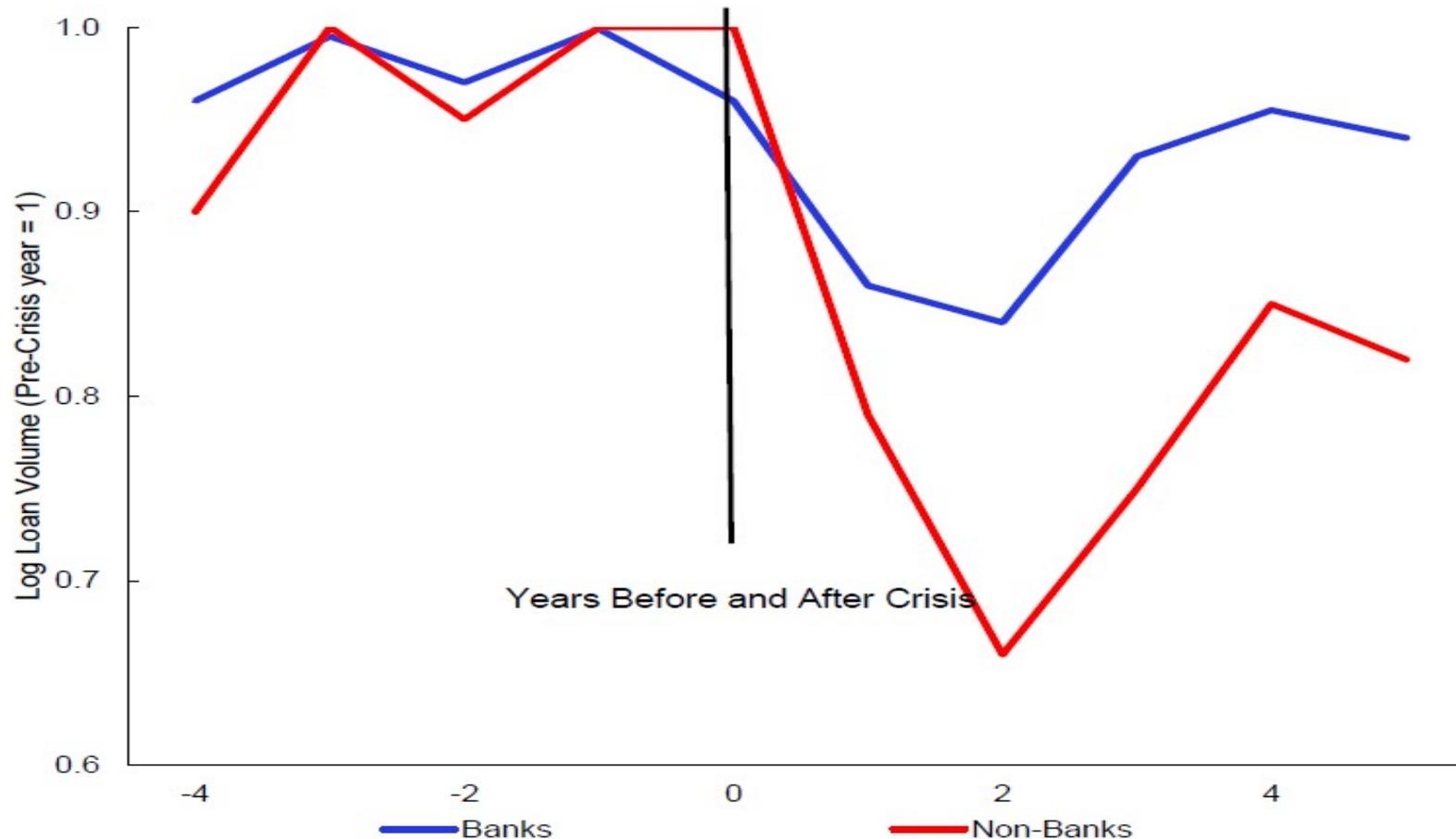
Source: Financial Stability Oversight Council, Annual Report 2023 (<https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/studies-and-reports/annual-reports>).

Growth of Private Credit relative to Bank Loans and High-yield Bonds in the US, 2010-22



Sources: Barclays, as sourced in The Wall Street Journal, "The New Kings of Wall Street Aren't Banks. Private Funds Fuel Corporate America," October 8, 2023 (<https://www.wsj.com/finance/fed-rate-hikes-lending-banks-hedge-funds-896cb20b>).

Bank and Non-bank Lending around a Crisis



Note: “This figure plots the evolution of average new credit in logs in the years prior to, during, and after a financial crisis. Series are normalized to a value of one in the year of the crisis. A value of 0 on the x-axis denotes the year of the banking crisis in the borrower country... Both lender types see a decline in loan origination during the crisis and the following years, but non-banks see a stronger fall. There are no differential pre-trends.”

Source: Reproduction of Figure 1 in Iñaki Aldasoro, Sebastian Doerr and Haonan Zhou, “[Non-bank lending during crises](#),” *BIS Working Papers* No 1074, February 2023.

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