

# Risk migration from banks to private credit and implications for financial stability

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# Conclusions

## Core risk

Private credit growth has shifted leverage and credit risk into less transparent, less supervised channels.

## Main message

Post-crisis bank regulation has helped move leveraged credit away from bank balance sheets, but not out of the financial system.

Risk is reallocated,  
but it has not  
disappeared.

## Why banks still matter

Banks remain exposed indirectly through funding, guarantees, derivatives, warehousing and co-investment arrangements.

## European relevance

European banks face particular challenges from Basel-driven incentives, cross-border opacity, back leverage and tight links with private equity and asset managers.

# Implications for banks

## Basel III/IV reinforces the shift

European banks reduce direct exposure to highly leveraged borrowers and channel more credit through non-bank intermediaries.

## Bank leverage creates pro-cyclical exposure

Banks provide revolving facilities, portfolio financing and derivatives to private credit funds. These exposures attract favourable risk weights, yet can turn pro-cyclical.

Risk shifts beyond bank balance sheets

## Opacity is harder in a cross-border market

Cross-jurisdiction activity reduces visibility into borrower leverage, covenant quality and valuation practices. It weakens the effectiveness of macroprudential policy.

## Too-connected-to-fail risk may re-emerge

Closer ties among banks, asset managers and private equity sponsors may make disengagement harder in a downturn, triggering too-connected-to-fail dynamics.

## Why SRTs matter?

*Synthetic risk transfers let banks move part of potential credit losses to external investors and gain regulatory capital relief. The memo frames SRTs as the latest form of credit risk transfer and capital relief trades. Europe leads the market, typically backed by corporate and SME loan pools. As private credit funds enter, the concern are hidden feedback loops, overstated resilience through capital optics, and another channel for leverage and systemic fragility.*

# FSB findings and supervisory implications

Financial Stability Board (2026). "Vulnerabilities in Private Credit". Report to the G20, Financial Stability Board, Basel, 6 May 2026.

## FSB findings

Tighter post-Global Financial Crisis bank regulation contributed to a structural shift of leveraged lending from banks to private credit funds.

Leverage, maturity transformation and credit risk are pushed into a less regulatory environment.

Limited transparency, weaker disclosure standards and complex cross-border fund structures impede assessment of borrower-level leverage and risk concentrations.

Interconnectedness between banks and private credit funds is growing through credit lines, fund financing, derivatives and co-investment arrangements.

Stress could trigger simultaneous fund deleveraging and drawdowns on bank facilities.

Risks have migrated rather than disappeared.

## Supervisory implications

Supervision should assess financial stability on a system-wide basis, not only within the regulated banking perimeter.

Supervision should increase the prudential perimeter.

Authorities need more consistent, granular and timely data on exposures, leverage, liquidity mismatches and valuation risk.

Monitoring should include indirect bank exposures and transmission channels, not just direct credit losses.

Supervisors should incorporate liquidity, funding and spillover scenarios into stress analysis.

Policy responses should focus on where risk sits economically, not only where it sits legally or on balance sheet.

As an alternative to ambitious implications, incentives for the shift could be reconsidered.