The Growing Role of Private Credit

Introduction

Michael D. Bordo

Now we have some entertainment. Torsten Slok is going to give a talk. I just want to say a couple of words. I have known Torsten for a very long time, since he was a graduate student from Copenhagen visiting Princeton. He was my research assistant in a big project I did with Barry Eichengreen.

I spent that year at Princeton University on a fellowship from Peter Kenen. Torsten did a fantastic job, and it was great knowing him. And then from there he went to the IMF [International Monetary Fund], and then he went into the private sector. Over the last few years, he has become probably the most prescient economic commentator. He can tell us what is going on in the real world. We are extremely fortunate to have him here with us. We turn the floor over to Torsten.

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The Growing Role of Private Credit

Torsten Slok

Good morning, and thank you to the Hoover Institution for convening such a thoughtful conference. The title of this event, "Finishing the Job and New Challenges," captures something essential: the need to focus on the challenges ahead as we look beyond the immediate work of stabilizing inflation and returning to trend growth.

In recent years, global central banks have been focused on what might be considered their core job: bringing inflation back to target, restoring price stability, and doing so while maintaining full employment. But even as inflation moderates and real interest rates normalize, the financial system is undergoing significant structural changes.

One of the most important shifts is the shrinking role of the banking sector in credit creation. US banks now account for a dwindling share of total credit in the economy. In 2008, banks dominated the flow of credit. Today, alternative asset managers, private funds, and institutional investors play a growing role as providers of credit.

This is an important secular change. Regulatory pressure, tighter capital requirements, and changing business models have reduced the footprint of banks while opening the door to private credit—and thus private investors—to fill the void.

Sitting at the center of this evolution, private credit is no longer a niche strategy. It has become a core channel through which capital is allocated across the economy, funding corporate borrowers, financing real estate and infrastructure projects, and increasingly supporting the consumer sector as well.

This expansion is not accidental. It reflects a deeper shift in the architecture of modern finance, one in which private lenders are stepping in where public markets or traditional banks have pulled back, or where flexibility, speed, and structure matter more.

This change in the financial system is a positive development. Firms now have more available sources of finance, which is good for potential GDP growth.

Private credit investing is, by design, structured. Loans are often bilateral (so-called club deals), with extensive covenants, active monitoring, and tight alignment between lenders and borrowers. This type of lending is built on rigorous underwriting, tailored deal terms, and contractual protections that often exceed those found in the syndicated loan or high-yield bond markets. Perhaps most importantly, in periods of volatility, private credit funds have proven willing and able to step in and provide liquidity when other lenders are retreating.

This is not to say that private markets are without risk. No part of the financial system is. But I believe that incentives are often better aligned in the private space, and structures are more resilient.

The numbers speak for themselves. Private credit assets have grown to $1.7 trillion from $300 billion in 2010, and the trend shows no signs of reversing. What began as a solution for middle-market corporate borrowers has become a broader ecosystem spanning specialty finance, consumer credit, real estate, aviation financing, infrastructure, and beyond. Much of this is lending that has the highest investment-grade credit rating by rating agencies.

This growth is not simply a rotation out of public credit. It's the emergence of a more complete financial system—one that is institutionally funded, bespoke in structure, and increasingly central to how credit is created and managed in the real economy.

There is another dimension to this story, one that matters not only to economists and policymakers but also to asset owners, fiduciaries, and the broader investing public. Private credit is one of the few areas in modern finance where investors can still access alpha, i.e., an excess return compared with a passive benchmark. In a world where public markets are increasingly efficient and largely dominated by beta exposure (volatility or systematic risk relative to the market) private markets offer differentiated returns based on underwriting skill, deal access, and structuring expertise.

This is not just true for large institutions. It increasingly applies to a much wider group, including endowments, foundations, family offices, registered investment advisors, and individual investors accessing these markets through financial advisors and private credit Exchange Trade Funds (ETFs).

We are witnessing something important: a democratization of access. Private markets, once limited to a small group of insiders, are becoming more broadly available through new platforms and fund structures. This access can increase opportunity, improve long-term portfolio outcomes, and offer a more resilient source of income in a higher-for-longer interest rate environment. In that sense, private credit is not just stabilizing markets. It is helping expand access to financial opportunity in a way that is both inclusive and sustainable.

What does the rise of private credit mean for our economic models? Private credit poses a challenge to economic theory, particularly in the way financial intermediation is treated in many macroeconomic models. Mainstream academic models have included the financial sector as a neutral backdrop or, at best, a friction to be approximated. Banks are often modeled as black boxes, with credit as a homogeneous input and lending decisions as passive responses to policy rates.

In today's economy, the rise of private credit shows that *who* lends and *how* they lend matters enormously. Covenant structures, incentive alignment, liquidity terms, and origination models all influence how credit flows through the system. These details are central, but they can sometimes be difficult to model formally.

In the spirit of this institution, it's worth stepping back and considering the broader historical arc. We've seen financial innovations before, many of which have come with tremendous benefits. Private credit channels long-term capital toward productive uses, and it can reward prudence, alignment, and long-horizon thinking.

Private credit is not just a new asset class: It is a new mechanism of financial intermediation, one that can promote stability, generate alpha, and expand access to capital.

The financial system is changing, and new forms of credit creation are boosting the potential growth rate of the US economy. Just as past eras of financial innovation redefined our capital markets, private credit is reshaping how risk is shared and how opportunity is created.