Indian Economy · GS - III

Examine the growing importance of private credit as an alternative source of business financing. Discuss its benefits and associated risks for the financial system.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 22/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Private Credit, Alternative Financing, Non-Bank Lending, Mid-Market Enterprises, MSME Financing, Credit Diversification, Financial Inclusion, Credit Risk, Liquidity Risk, Regulatory Oversight, Financial Stability.

Model Answer

Introduction

Private credit refers to loans provided by private investment funds and other non-bank lenders, usually through privately negotiated agreements. Its growth reflects increasing demand for alternative sources of business finance.

Main Body

Benefits: Private credit provides businesses with an alternative to traditional bank loans and public debt markets. It can offer flexible repayment terms, customised financing and faster access to capital. Mid-sized enterprises may benefit from this funding, supporting investment, expansion and employment.

Challenges: Private credit may involve high borrowing costs, limited transparency and difficulties in assessing borrowers' creditworthiness. Limited liquidity can make it difficult for investors to exit their investments. Excessive leverage and weak risk management may also create financial vulnerabilities.

The successful fund-raising by firms such as Ascertis Credit illustrates investor interest in private debt markets across Asia-Pacific.

Way Forward: Strong due diligence, transparent disclosures, prudent lending standards and effective regulatory oversight are necessary to manage risks.

Conclusion

Private credit can diversify business financing and support economic growth. However, its expansion must be accompanied by sound risk management to ensure financial stability and sustainable investment.

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