

AI and financial system interdependencies

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* Note: The views expressed in this presentation do not necessarily reflect those of the FSB

An age of significant disruption

Could large shocks bring about a coincident unravelling of vulnerabilities?

- ❑ Two current large “exogenous” shocks
 - ✓ Acceleration in AI = a shock at both the *micro* and *macro* level
 - ✓ Geopolitics | conflict in the Middle East = a shock to the global economy.

- ❑ ‘Whammy’ risk = increased likelihood that multiple vulnerabilities could crystallise at the same time
 - ✓ See [FSB Chair letter](#), 13 April 2026

Monitoring challenges to the resilience of the financial system

- ❑ New wine, old bottles?
 - ✓ Familiar **vulnerabilities** (*interlinkages | opacity | leverage | rollover risk | concentrations*), familiar **places** (*key markets that might propagate shocks*) ...
 - ✓ ... but also with less familiar **shocks** (*AI and wars*) alongside less familiar **players** (*role of nonbank financial institutions, private markets*)

An age of significant disruption

Artificial intelligence



Transformative technology



An associated investment boom

Private credit



Transforming credit intermediation



Altering competitive landscape

Government debt markets





Strains on public finances



Shifting investor base

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AI and financial institutions

AI bring both benefits and risks

- ❑ Financial institutions have long used AI tools, but recently more rapidly than foreseen evolution
- ❑ Use cases of AI technology – particularly LLMs, GenAI and agentic AI multifaceted:
 - credit risk assessment
 - trading
 - portfolio optimization
 - fraud prevention
 - transaction monitoring
 - customer service
 - coding assistance
 - document summaries and review
 - ...
- ❑ AI can present significant benefits for financial institutions, for example in enhancing operational efficiency and providing tailoring services for their customers
 - ... but may also introduce risks that need to be understood and managed appropriately.

AI and financial institutions

Key vulnerabilities associated with AI adoption*

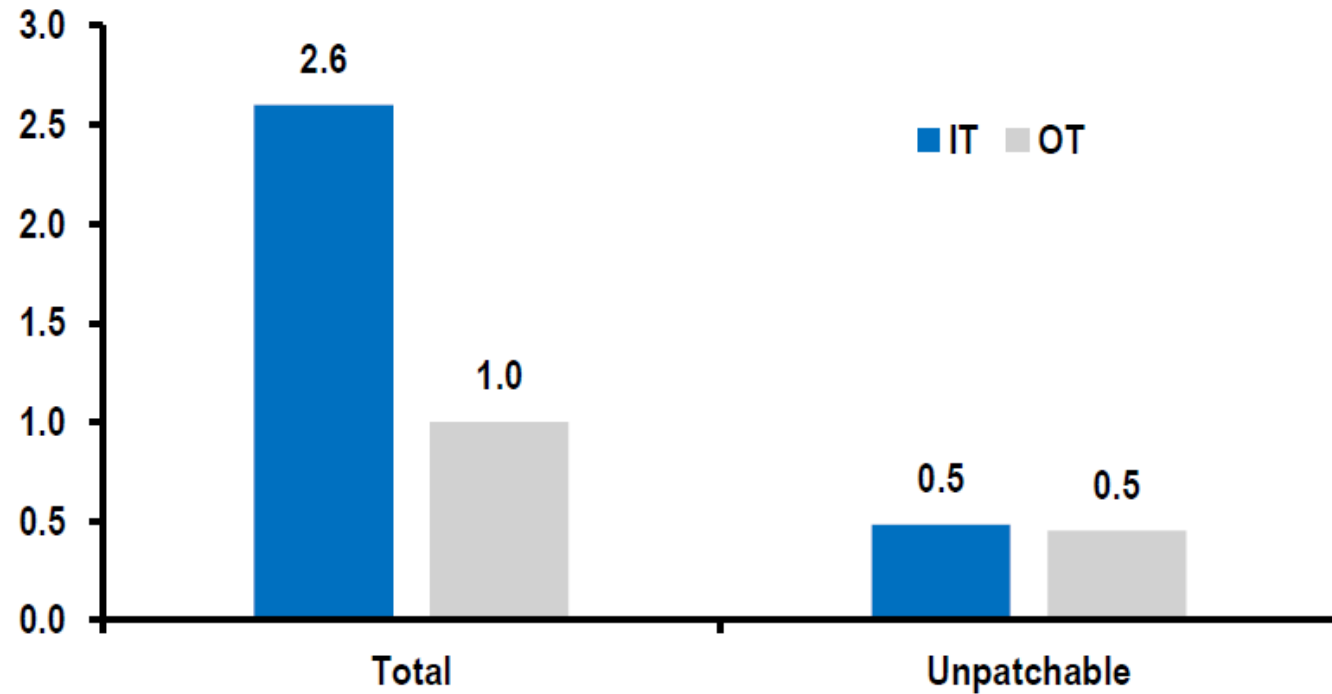
- i. third-party dependencies and service provider concentration
- ii. market correlations
- iii. cyber vulnerabilities
- iv. model risk, data quality and governance challenges
- v. emerging risks such as AI-driven disinformation and financial fraud

* see FSB (2024), [“The Financial Stability Implications of Artificial Intelligence”](#) and FSB (2025), [“Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector”](#)

Prospect of accelerating AI disruption

Figure 4: US IT and OT outstanding stock

US\$ trillion



Source: J.P. Morgan with data from Gartner and BEA

Financing the AI boom

YTD net issuance (\$B)

350

300

250

200

150

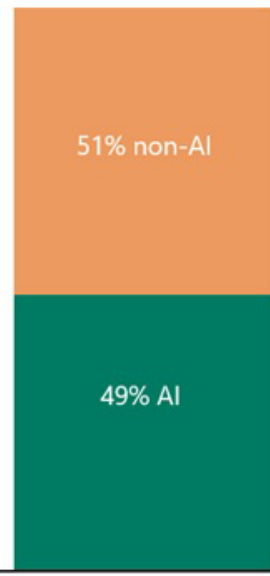
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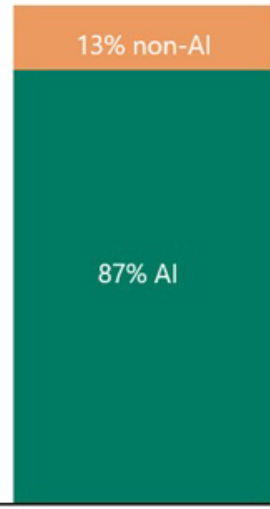
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YTD net issuance split: AI vs. Non-AI by channel

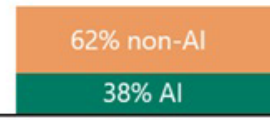
■ AI issuance ■ Non-AI issuance



IG



VC



HY

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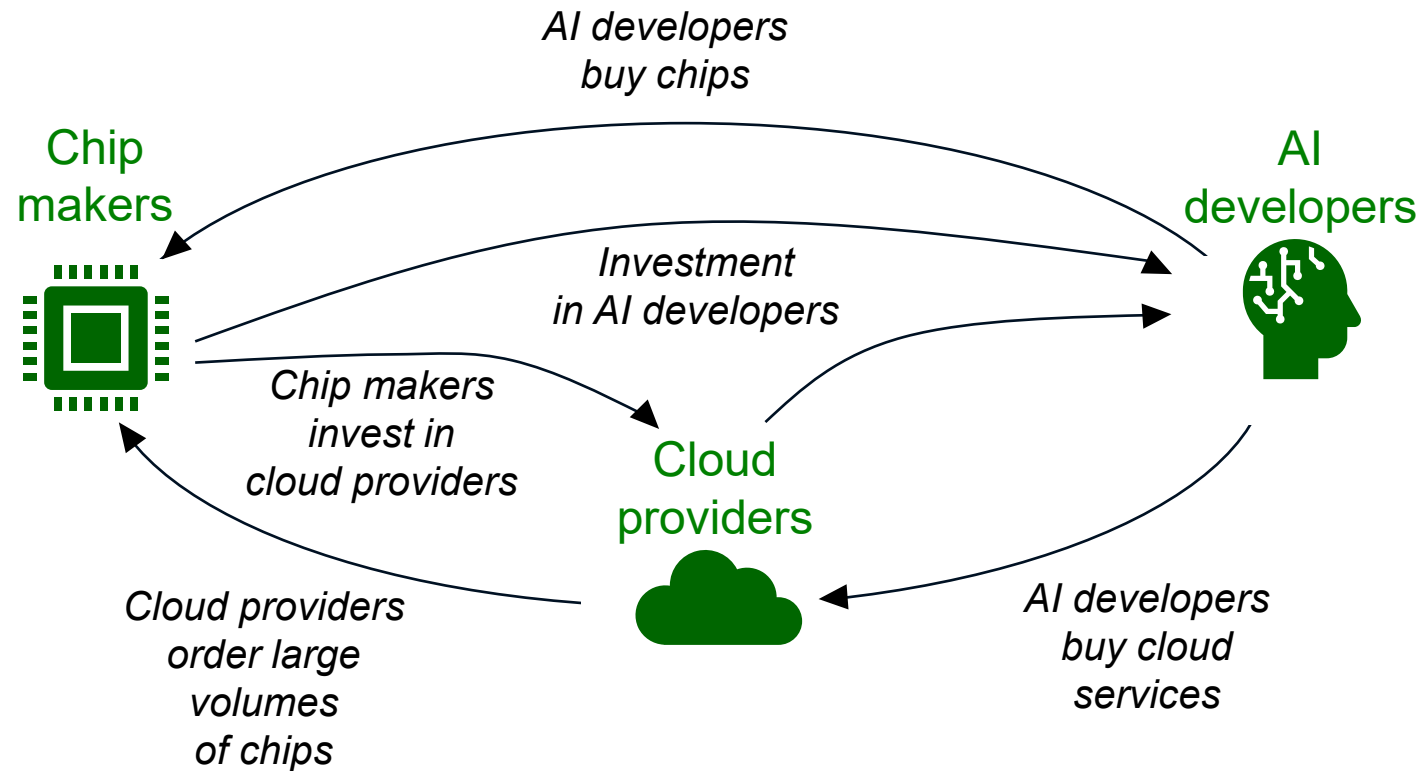
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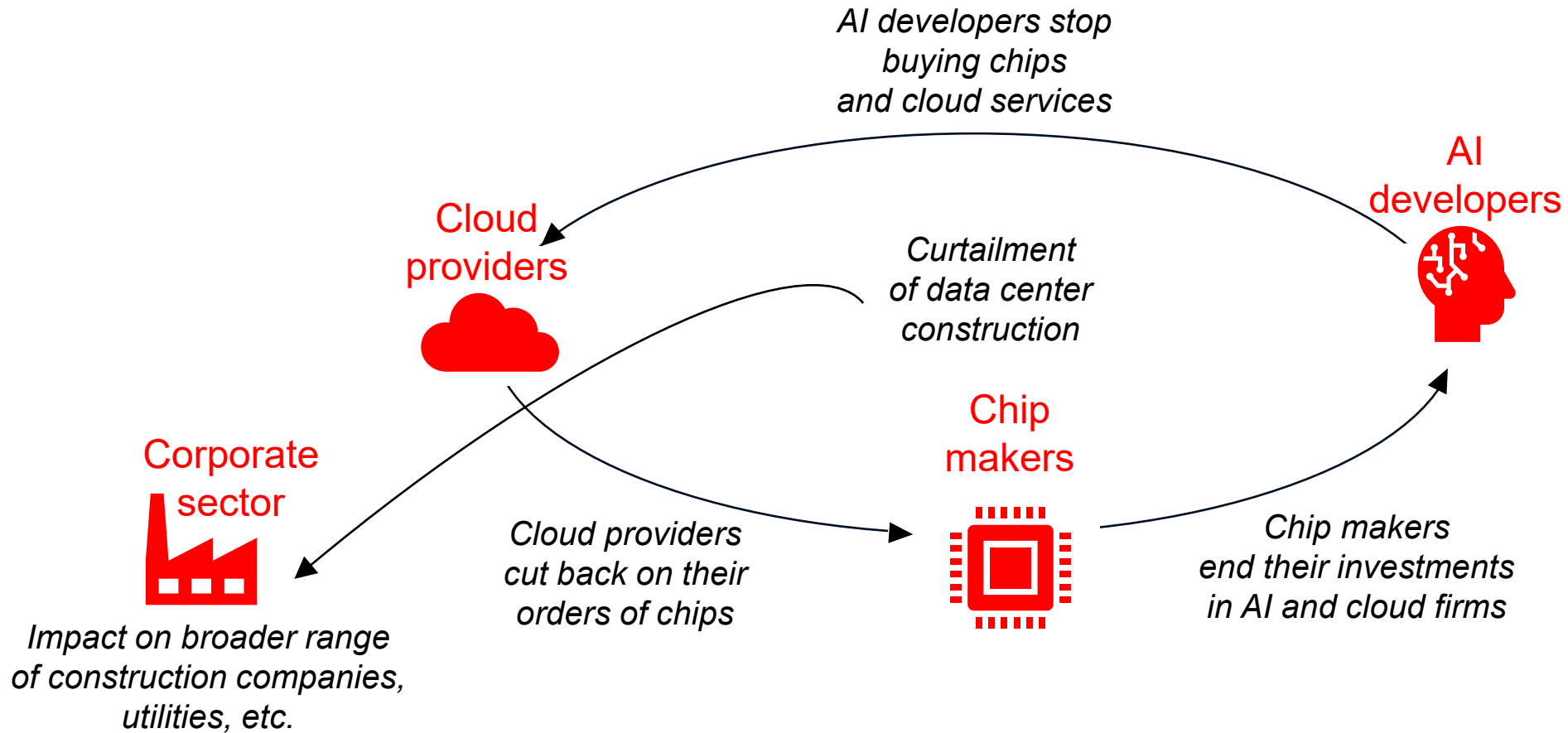
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Sources: Tal Barak Harif, Goldman Sachs, JP Morgan, Bloomberg, Crunchbase, Apollo Analysts, Apollo Chief Economist

A virtuous cycle helps AI profitability but creates interdependencies



Could the *virtuous cycle* become a *vicious circle*?



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Strains on public finances

Shifting investor base

Private credit



Transforming credit intermediation

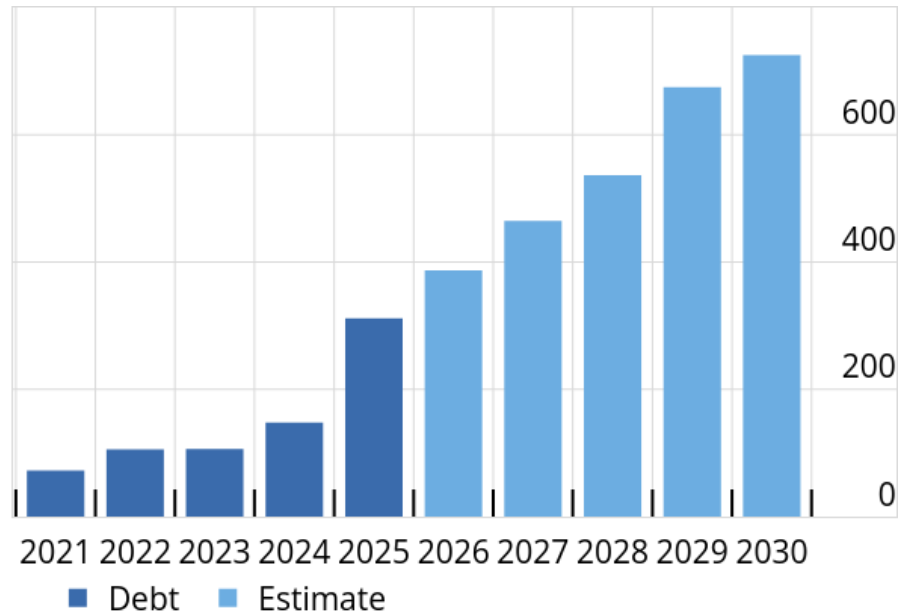


Altering competitive landscape

AI financing is shifting from equity to debt, especially private credit

Hyperscaler debt estimates

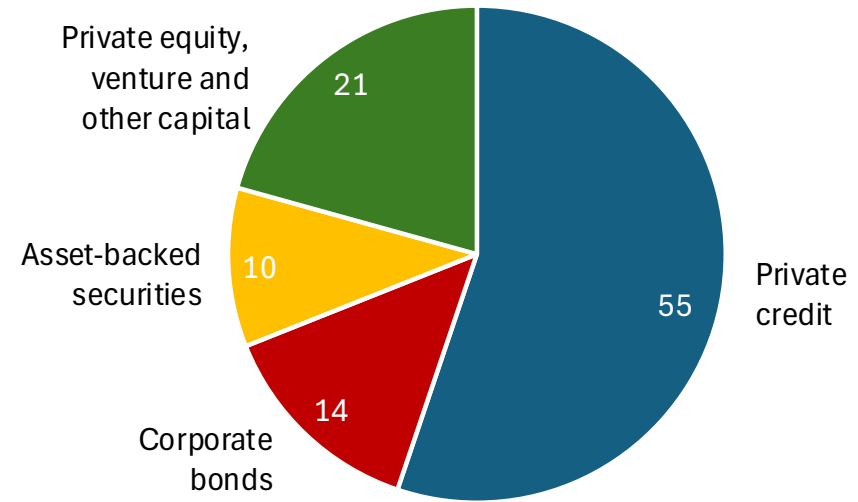
USD bn



Sources: Bank of England; BIS; Morgan Stanley; Oliver Wyman; Pitchbook; FSB calculations.

Planned hyperscaler financing, 2025-28

Percent of total external financing



Sources: Bank of England; Morgan Stanley.

FSB report on vulnerabilities in private credit

Web link: [Report on Vulnerabilities in Private Credit - Financial Stability Board](#)

The private credit market has grown significantly, and rapidly evolving

- ❑ In the past, private credit mostly focused on medium-sized businesses and was available only to institutional investors, such as pension funds and insurance companies.
- ❑ It is now increasingly being used by larger companies and is becoming more accessible to retail investors.

The growth of this sector brings both benefits and potential vulnerabilities

- ❑ Unique role in providing tailored financing solutions for borrowers and diversification opportunities for investors.
- ❑ However, as the sector expands, it also introduces a range of vulnerabilities.
 - interconnections
 - opacity
 - ... in addition to concerns around concentration, liquidity mismatch, and “layered” leverage

Private Credit - vulnerabilities

1 - Interlinkages

- No longer just bank loans to companies
- ... also multiple connections within private finance, and between private and traditional finance

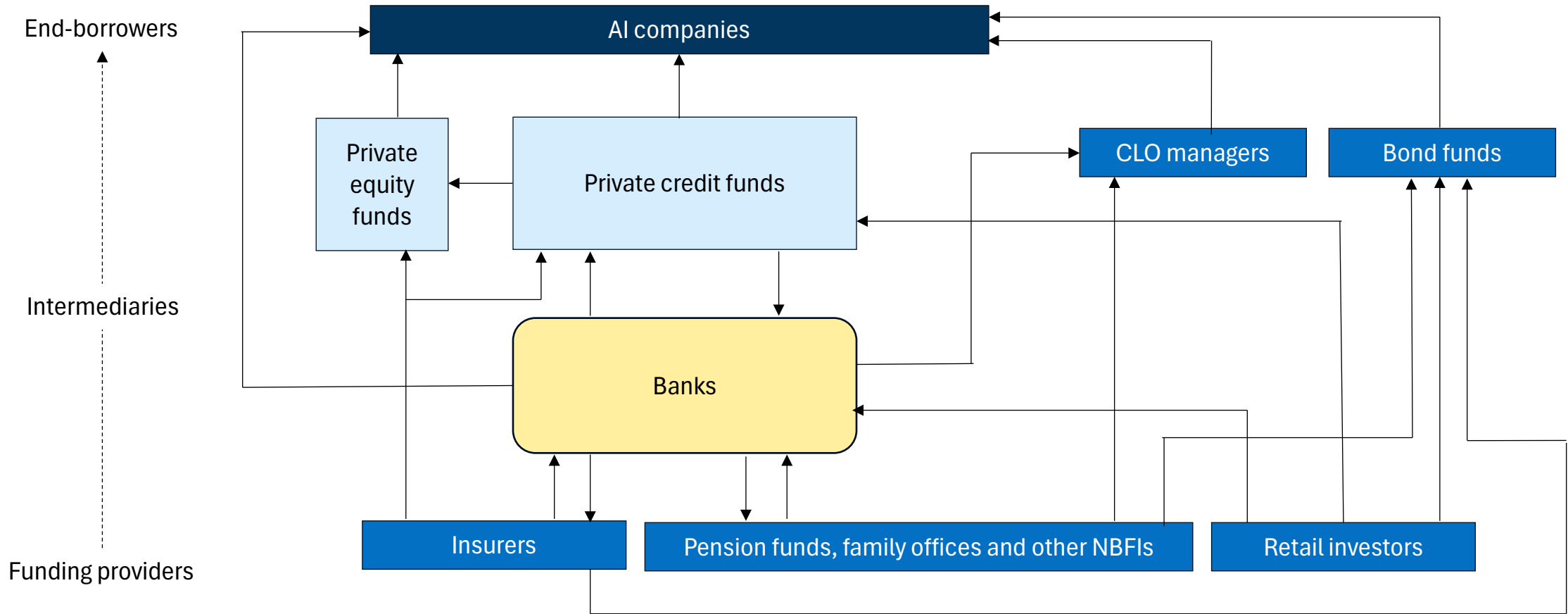
2 – Opacity

- Frequency, timeliness and granularity of info varies greatly, and only partial information hampers understanding of risks
- Questions about credit quality through the cycle

Other issues

- *Concentration is specific industries*
- *Potential for liquidity mismatch*
- *Leverage that may be hidden by complexity*

A complex interlinked private credit ecosystem



Source: FSB (adapted from a forthcoming report on private credit).

Could the real private credit stand up?

Narrow definition

Nonbank direct lending to medium-sized companies negotiated on a bilateral basis

Legacy definition

Legacy sub-asset classes such as distressed debt, venture debt or mezzanine debt.

Origination-centric definition

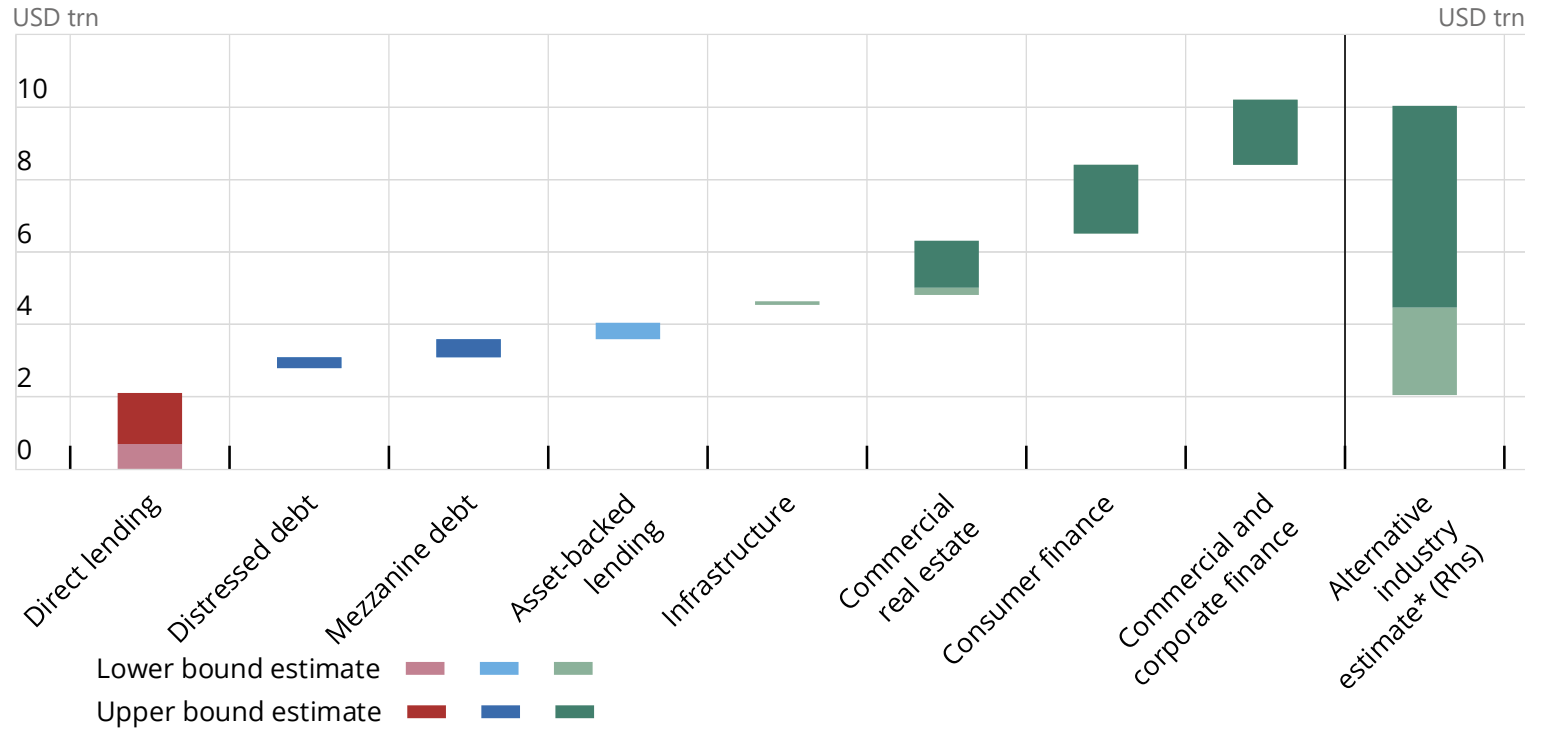
Defined by its origination infrastructure, where asset managers play a central role in originating loans.

Ecosystem definition

An interconnected ecosystem of financing vehicles, instruments, and intermediation channels.

Illustration of the range of private credit market size estimates

Graph 1.1



Estimates of assets under management (AUM) in USD trillions across a variety of sources (see below) with underlying data between 2023-2025. Where a range of estimates exist, the lower bound is in a lighter shade while the higher bound estimate is darker. The left y-axis displays the size of all activity types except "other" while the right y-axis corresponds only to the "other" activity type. The ranges in the figure illustrate the differences in estimates across sources. The different colours in the chart represent expanding different definitions of private credit. Colours in the chart reflect expanding definitions of private credit: red (direct lending) represents the narrowest scope, with blue and green activity types progressively broadening the definition.

* The alternative industry estimate builds on the categories displayed to the left and also adds additional types of private credit such as agricultural lending, residential mortgage lending, and supply chain financing.

Sources: Pitchbook, McKinsey, AIMA, Goldman Sachs, S&P Global, Apollo, OeNB and FSB calculations.

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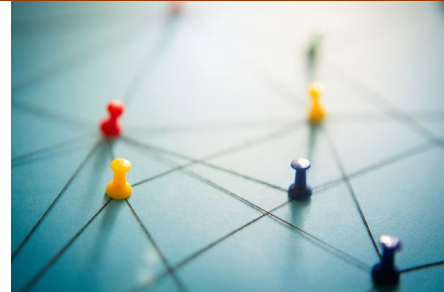
Transforming credit
intermediation

Altering competitive
landscape

Government debt markets



Strains on public
finances

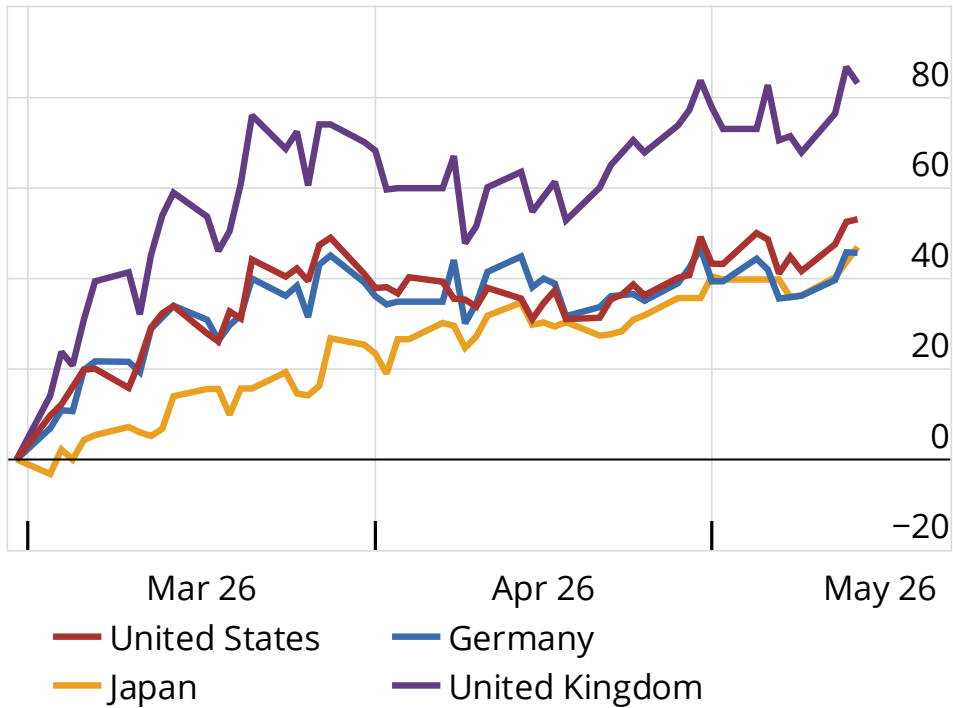


Shifting investor
base

Changing government bond dynamics

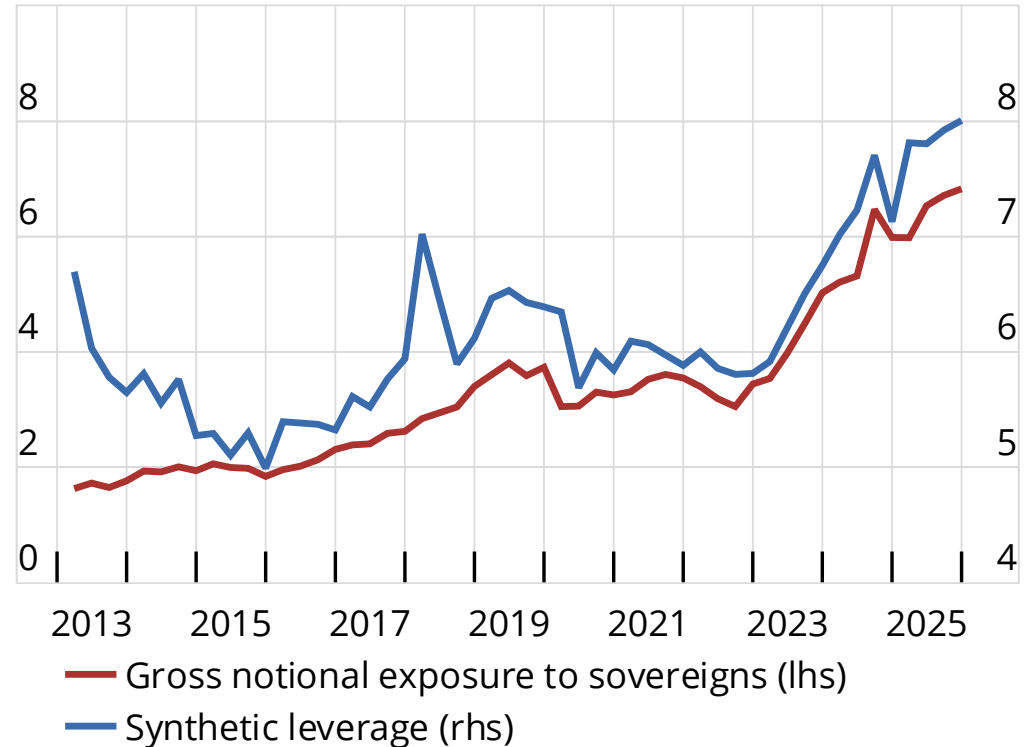
Cumulative change in 10-year government bond yields

Basis points (since 27 February 2026)



Sources: Bloomberg; FSB calculations.

Hedge fund sovereign exposure and leverage



Sources: OFR; SEC; FSB calculations.

FSB report on repo markets

Web link: [Report on Vulnerabilities in Government Bond-backed Repo Markets - Financial Stability Board](#)

Repo market at core of financial system

- ❑ Repo markets play an important role in facilitating the flow of cash and securities throughout the financial system.
 - They allow some market participants to source required short-term funding or collateral
 - And others to undertake short-term, low-risk investment of cash

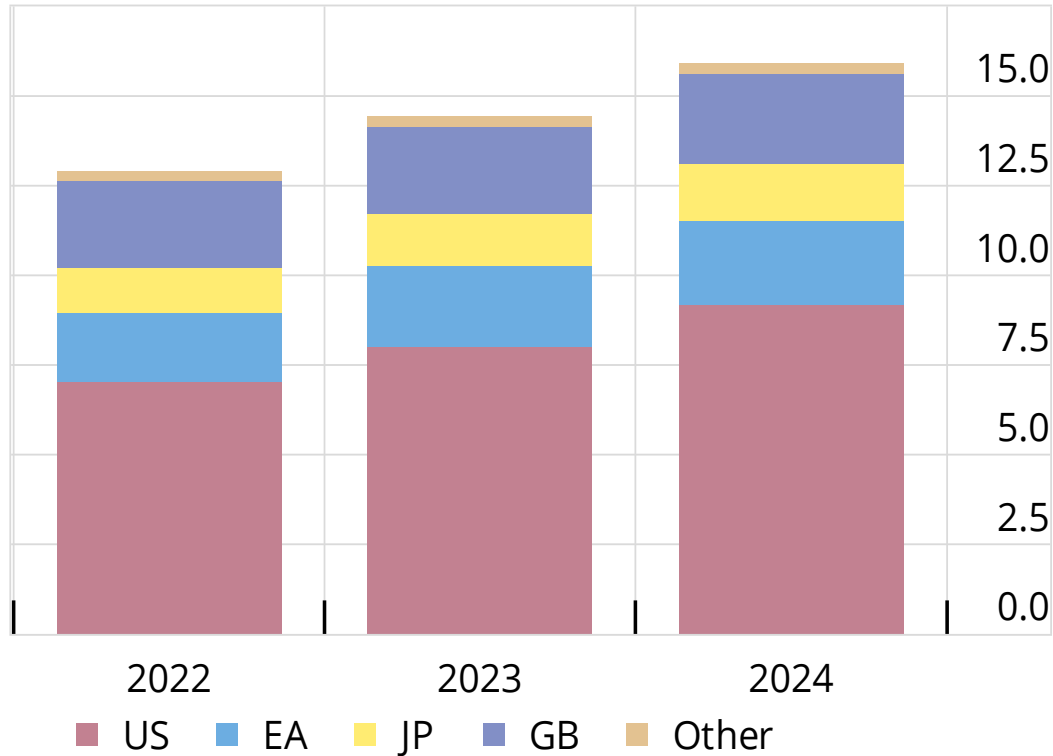
Structure and use of repo markets gives rise to vulnerabilities

- ❑ Borrowing through repo markets:
 - enables leverage
 - can lead to over reliance on short-term funding
 - facilitates greater liquidity and maturity transformation
 - serves as a key channel through which the financial system is interconnected

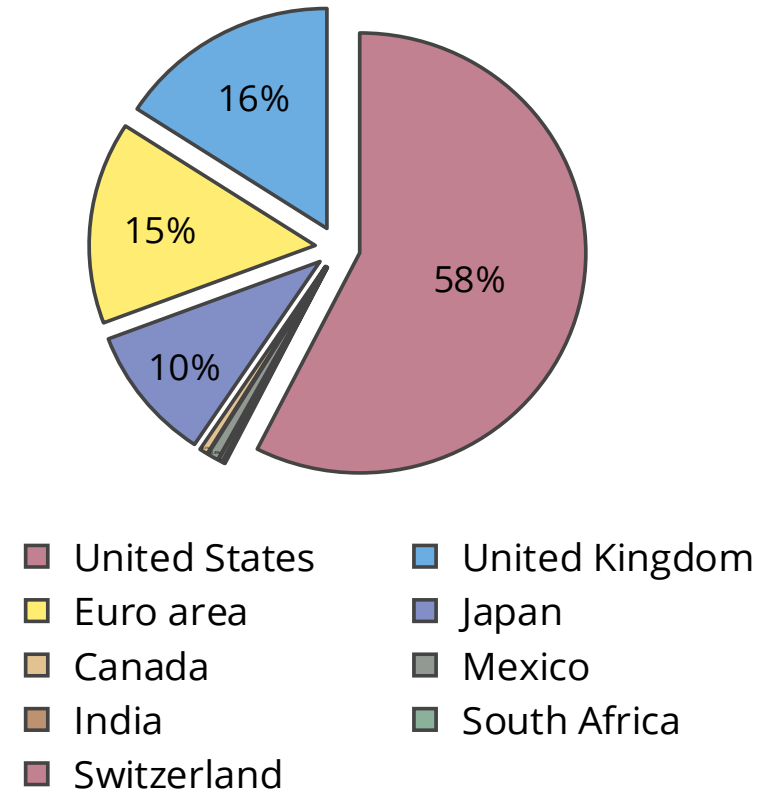
Repo markets – approx. \$16 trillion in repo backed by government bonds

Repo market size

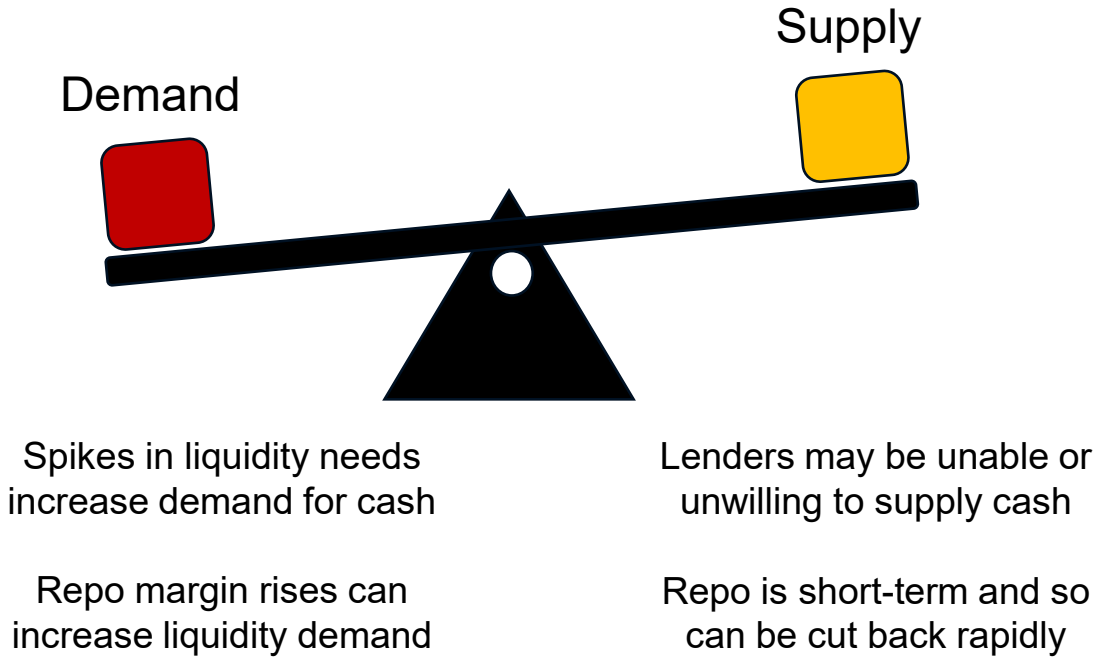
USD trillion



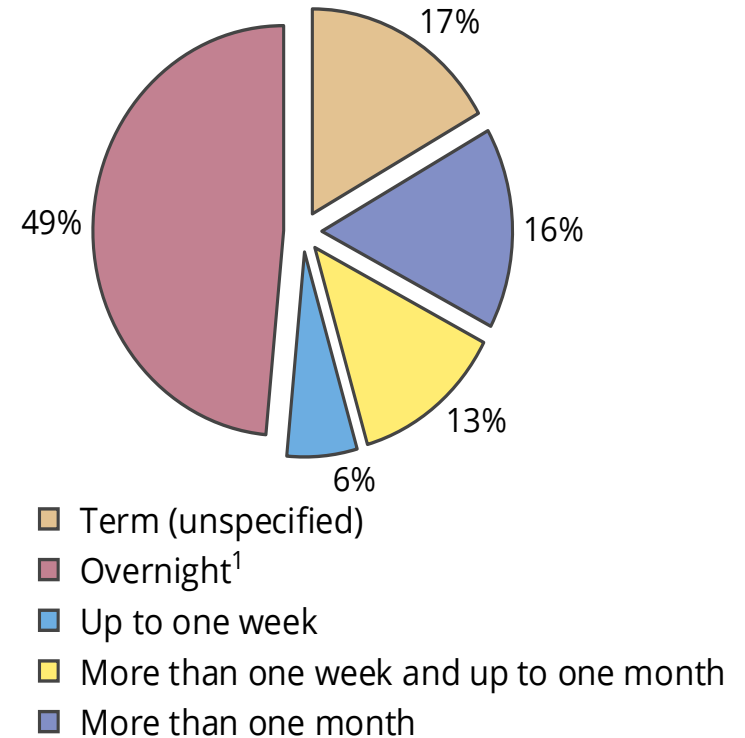
Repo markets by jurisdiction (2024)



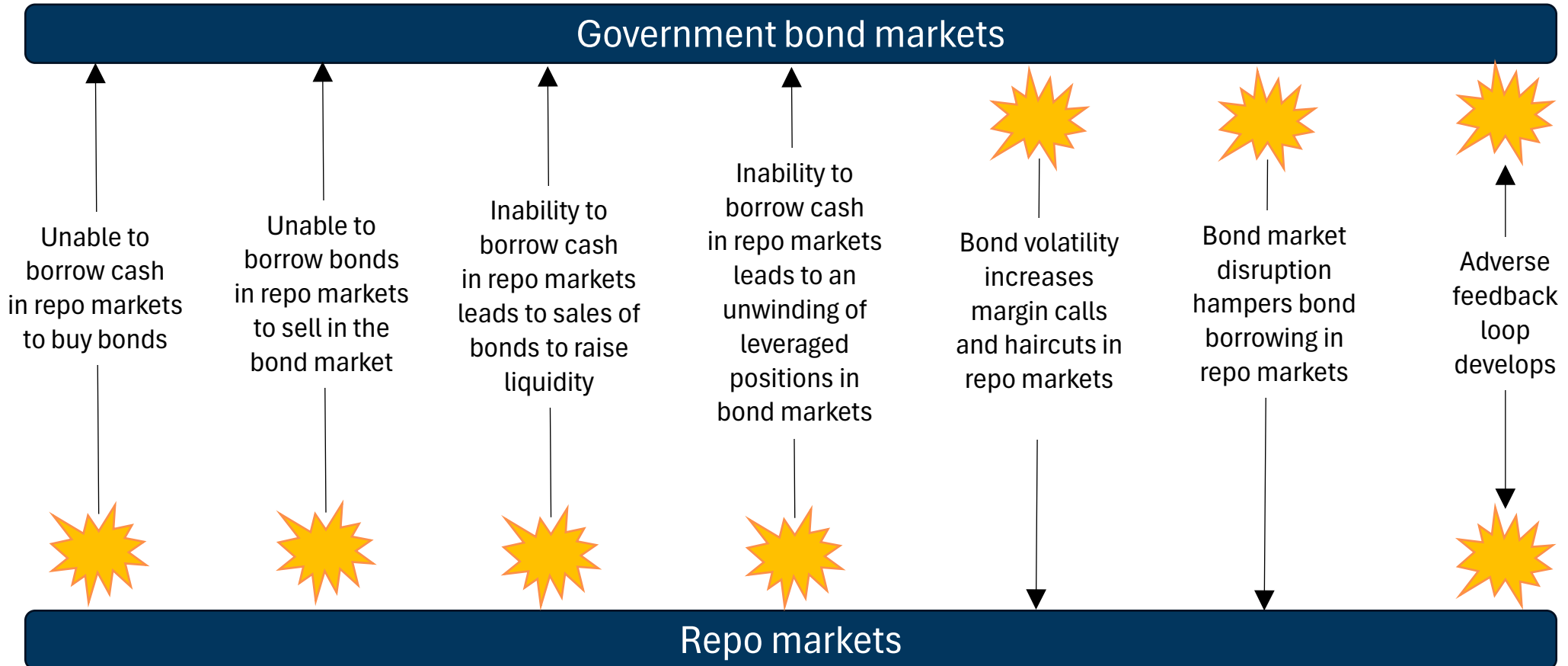
Demand and supply imbalances can arise in stress periods



Repo by tenor (2024)



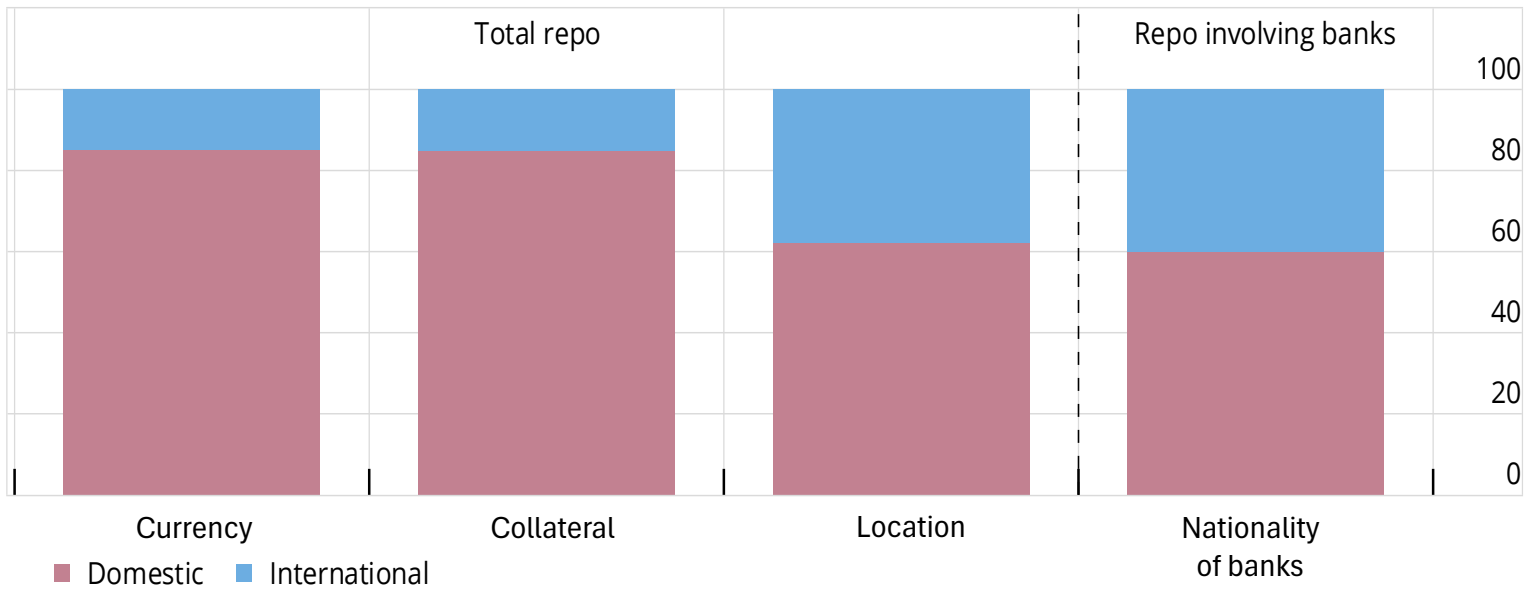
Potential spillovers between repo and government bond markets



Potential cross-border spillovers

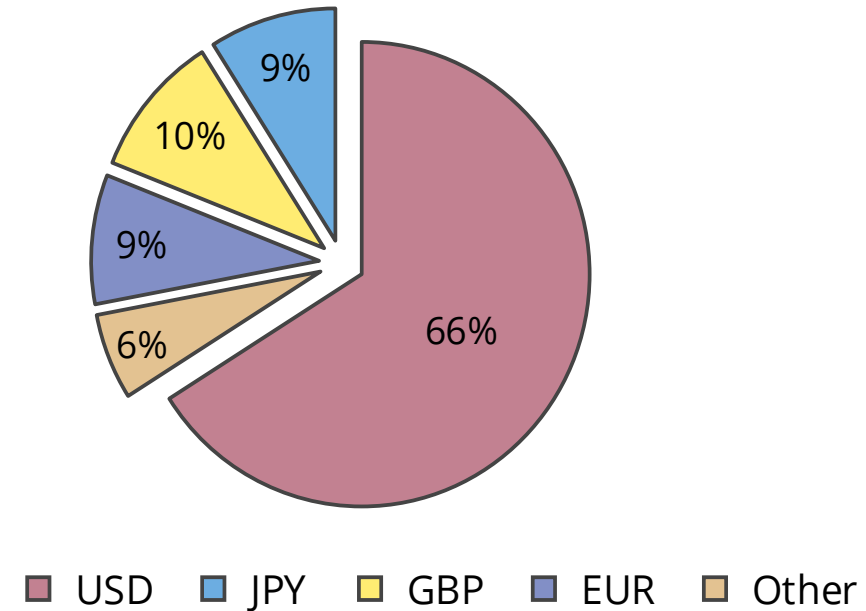
International repo activity

Percent of total



Activity by currency

Percent of total



Disruption in several key areas ...

Artificial intelligence

- AI promises to bring further productivity improvements
- ... *but AI also presents risks for both financial institutions and financial markets*

Private credit

- Private credit offers tailored financing and diversification
- ... *but private credit also presents risks, e.g. interconnectedness and opacity*

Government debt markets

- Leveraged players now marginal buyer in multiple core government bond markets
- ... *and may bring risks of rollover, leverage, concentration and interconnections (incl. cross border aspects) in core funding markets*

... mind the interactions!