



Financing by Private Credit in the Czech Republic

The rise of private credit finance in the post-financial crisis market is indisputable and, to some extent, a natural development. Given that this source of funding is neither that common nor understood as well as traditional bank lending and bond issuance, not only by Czech sponsors, a number of fundamental questions remains: What exactly is private credit? How does it differ from traditional bank lending? What is the position of private credit in the market?

Having recently completed what is recognised as basically the first large-scale private credit backed M&A transaction in the Czech Republic, we offer our perspective on these questions. While private credit may appear to be an instrument tailored to more refined capital markets, our experience confirms that it can be effectively used in the Czech market and may represent a compelling alternative for borrowers seeking to secure sources of funding.

Key points

- 1 Direct Private Debt:** Tailored, non-bank financing provided through privately negotiated instruments held to maturity.
- 2 Speed and Execution:** Faster approvals and tailored documentation compared to the rigid regulatory processes of traditional banks.
- 3 Growing Market Scope:** Increasing competition in investment-grade, infrastructure, and large-scale M&A financing.
- 4 Strategic Alternative in Czechia:** A vital funding source for local borrowers, especially in sectors restricted by bank regulations or ESG policies.

Understanding Private Credit

Private credit is generally understood as a form of debt financing provided outside the traditional banking and bond sector, or in other words a non-bank debt capital provided directly to a borrower through privately negotiated, bespoke instruments that are not publicly traded. The instruments are typically held by the lenders to maturity (making it illiquid), in exchange for a yield premium reflecting that illiquidity and (usually) credit risk assumed. Unlike in the traditional banking model — where loans are originated and subsequently sold to third-party investors through syndication or securitisation and in which the banks receive underwriting and syndication fees for such arrangement (common in markets such as the United States and the United Kingdom, where syndicated (TLB) lending and securitisation are well established) — private credit lenders retain the exposure on their books for the life of the debt. In the Czech market, lending is however more straightforward — here banks typically retain loans on their balance sheets until maturity, much as private creditors do.

The earliest and most prevalent sources of private credit capital have traditionally been pension funds, endowments (including prominent university endowments such as those of Harvard and Yale, as well as charitable foundations) and family offices (i.e., private wealth management advisory firms established to manage the investments and assets of high-net-worth families). As private credit has grown in scale and significance, the market has given rise to dedicated private credit funds managed by firms such as Ares, Blackstone, BlackRock, Apollo or Carlyle. Recently, introduction of insurance companies and ultra-high-net-worth individuals into private credit markets provided for significant increase in available proceeds.

The most significant expansion of private credit activity occurred in the aftermath of the global financial crisis. As banks reduced their exposure to leveraged finance — driven by stricter regulatory (capital) requirements — private creditors stepped in to fill the resulting gap. Borrowers, in turn, increasingly turned to private credit markets to secure financing that was no longer readily available from traditional banks, either due to their high-risk profile or because they were too small to efficiently access public debt markets.

Private Credit – an Alternative to Bank Financing

The primary appeal for borrowers lies in the speed, flexibility and certainty of execution, allowing for transaction terms tailored to specific needs without the rigid internal policies or regulatory constraints of traditional banks.

Private credit offers several advantages over traditional bank lending – one of them usually being swiftness of approval of the transaction and its execution. Obtaining financing from a traditional lender can prove to be a lengthy and administratively burdensome process caused by external/internal regulatory requirements (such as KYC/AML compliance procedure), internal risk-weighted asset calculations, multilayer approval processes, the syndication process etc. By contrast, private credit providers, typically private credit funds, generally operate with a single investment committee and do not need to undertake syndication (in most cases the funds are provided by one lender or smaller group of different lenders). In addition, the regulation applicable to such funds (in Czech environment those would be qualified investors funds) is limited, and the time required for the evaluation of credit risk is considerably shorter, as the capital is provided by professional investors who are used to work with a higher degree of risk.

Documentation-wise, private credit offers considerably greater flexibility. Although generally based on the same underlying documents as bank lending, private credit terms can be tailored to the specific requirements of

the transaction and to the parties involved without the need to insist on provisions driven solely by lender's internal policies or regulatory obligations.

Private credit is generally associated with higher margins for borrowers and potential higher yield for lenders, with the margin premium reflecting the operational advantages that private credit offers over traditional bank lending. However, as private credit continues to evolve, the higher margins may no longer be a defining feature. In segments where private credit providers will directly compete with traditional bank lenders, the pricing differential will have to be increasingly compressed, with private credit providers increasingly compelled to offer margins comparable to those available in the traditional bank lending market.

Private Credit Market Developments and Outlook

The accumulation of capital in private credit funds in recent years has enabled private credit lenders to pursue investment opportunities beyond the high-risk and small to middle market segments that have traditionally defined private credit. This growth in available capital has facilitated the expansion of private credit beyond sponsor-backed direct lending into asset-based finance — including infrastructure and project finance — and, more importantly, into the investment grade market.

Increase in participation of major asset managers and insurance companies in particular has been a notable driver of this trend, as these investors seek exposure to highly rated, investment grade instruments. This expansion of private credit means that a significantly broader range of borrowers — including those with strong credit profiles that would traditionally have relied exclusively on bank lending or public debt markets — now have access to an additional, deep pool of capital.

Notwithstanding the significant growth of private credit lending in recent years, it continues to represent a relatively small share of the global lending market. As at the end of 2025, BlackRock estimated the size of the private credit market — comprising lending to companies through privately negotiated transactions conducted outside of traditional bank or public debt markets — at between USD 1.8 trillion and USD 2.1 trillion. When measured against aggregate global private debt, which the International Monetary Fund estimated at approximately USD 151.8 trillion as at the same date, private credit remains a comparatively small segment. Nevertheless, the potential for further expansion is considerable – Apollo estimates that the total addressable market for private credit stands at approximately USD 40 trillion in the upcoming years, the majority of which falls within the investment grade category, suggesting that the current scale of private credit activity represents only a fraction of its longer-term growth potential.

Private credit is expected to continue to serve as primary source of financing in the higher-risk segments of the market and, in certain cases, may serve as a viable substitute for bank financing altogether. The principal attraction of private credit for borrowers will remain the speed, flexibility and certainty of execution for long-term financing solutions. In other cases, borrowers may prefer the confidentiality inherent in a privately negotiated transaction over the disclosure requirements associated with public debt markets. The relationship between private credit and traditional bank lending is, however, not mutually exclusive. A number of high-grade issuers access both public and private markets concurrently, selecting the most appropriate source of capital on a transaction-by-

Beyond high-risk segments, private credit is expanding into investment grade market and asset-based finance, with a total addressable market estimated at approximately USD 40 trillion.

transaction basis. Moreover, banks and private credit providers are increasingly pursuing collaborative arrangements – in a co-lending/club structure, the bank may provide the senior secured, lower-risk tranche of a financing, while the private credit provider assumes the higher-risk tranche under a separate facility, which is most likely unsecured (at least not as thoroughly as the senior facility).

Private Credit in the Czech Republic

Private credit remains an uncharted territory for majority of Czech borrowers, who traditionally rely on conventional bank lending – due to its readiness, historically low costs and stability of the system – or bond issuances as their primary sources of debt financing. That being said, private credit is not entirely absent from the Czech market. It is present predominantly in the form of bilateral and smaller-scale leveraged financings, as well as opportunistic and distressed financing transactions. The providers of such capital are typically qualified investors funds or family offices that extend venture debt to small and middle-market businesses, including start-ups, which lack access to traditional bank financing and require debt capital to support their growth and expansion. The return profile of such lenders would then be derived from a combination of credit risk premium associated with the underlying (to some extent risky) assets and equity warrants, which enable them to participate in the increase of the borrowers' enterprises values over time.

The scale of such financings is, however, still relatively modest — typically structured as short-term facilities of one to two years, with principal amounts in the lower (tens of) millions of euros. Beside the private credit-backed acquisition of a Czech headquartered global IT player by one of the largest global funds – which was one of, if not the, largest acquisition in the Czech market in 2025 – basically no other transaction in the Czech market funded by private credit lender(s) has been announced.

Nevertheless, the potential for the growth of large-scale debt financing backed by private credit lenders in the near future is considerable. Private credit providers should be well-positioned to serve those parts of the market that remain underserved by traditional banks — not only on account of increased credit risk, but also as a result of regulatory constraints. In particular, the persistent scope of ESG-related lending restrictions – under which banks remain limited to freely finance sectors such as coal, oil, defence or gambling – shall create significant opportunities for private credit providers to step in as an alternative source of capital. The Czech market is well placed to benefit from the structural growth of this asset class.

Private credit is emerging as a vital alternative in the Czech market, particularly for sectors such as coal, oil, defense, or gambling that face increasing ESG-related bank lending restrictions.



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