

## Banking & Finance

### Current Forces of Debt Finance in Europe

#### Introduction

Last year's strong European Debt Finance market is expected to remain strong in 2025.

#### Advancing Transition Finance: LMA's New Draft Provisions for Green Loans

A survey by the World Economic Forum lists climate change-related risks as some of the most significant ones for the financial sector over the next decade. Consequently, Transition Finance continues to be a focal point for all market actors, with the corresponding raising of financial resources in the form of loans and bonds having significantly increased in 2024.

The Loan Market Association (LMA) has now published Draft Provisions for Green Loans in November 2024 and a corresponding Term Sheet in January 2025, marking yet another effort towards transitioning the financial sector into a sustainable economy. The relevant provisions are relevant for Green Loans which serve exclusively to finance or re-finance suitable green projects. This step comes at a time when banks are increasingly eager to engage in green transactions, but companies from emission-intensive industries face growing difficulty in securing bank financing unless they can present credible transition plans. We expect this trend to continue and will see more green loans and sustainability linked loans in the future.

#### Data Center Financing

The boom in data center financing is another aspect of the ongoing transition in the loan market. The data center industry has been one of the few sectors to navigate the high interest rate environment during the past few years with little to no disruption. The adoption of cloud computing has driven consistent demand for data infrastructure, which enables businesses to transition from traditional IT systems to cloud-based platforms. Simultaneously, the boom in artificial intelligence (AI) tools has increased the demand for advanced computing power to support AI-driven applications like machine learning and generative AI. These upward trends are expected to continue fueling a surge in construction which, in turn, generates strong demand from developers and infrastructure investors for project financing. As the range of financing options for data centers continues to expand, the outlook for available financing in the sector is bright.

## WHITE & CASE



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#### Geopolitical Uncertainties and Outlook on the German and European Loan Market

Chief economists across the financial market are preparing for a challenging fiscal year 2025. Uncertainty with regards to President Trump's "America First" strategy, which includes the implementation of tariffs of 10% to 20% on EU countries, is creating significant apprehension. Some market actors have decided to halt certain refinancing efforts or are rushing to close transactions before Trump's actions can start to affect the German and European loan markets. Others are more relaxed and are proceeding on a "business as usual" basis.

The new fiscal policies, such as tax cuts and the aforementioned tariffs on US trading partners, are also expected to drive bond yields higher. The 10-year US Treasury yield is anticipated to exceed the 5% threshold in Q1, amidst fixed-income volatility. Similar developments were observed in France in November 2024, where political turmoil caused the country's financing costs to rise to levels comparable to Greece for the first time.

Yet, so far notwithstanding Trump's inauguration, the German and European loan markets remain strong with significant activity and competitive pricing. Not surprisingly, strong credit financings are flying off the shelves. Loan experts expect the German and European loan markets to remain strong until at least the beginning of Q2 2025.



## Practice Area News

**Strong Private Credit Market in 2024.** After 469 transactions completed in the first three quarters, 2024 has potential to become a record year for the Private-Credit-Market, depending on the final results of Q4. Factors contributing to the increased activity are interest rate cuts and the pent-up demand from institutional investors to recycle capital.

**LMA Publishes New EURIBOR Fallbacks Documentation.** The LMA published documentation to assist with the implementation of €STR based fallbacks for EURIBOR, including a Single Currency Euro Exposure Drafts Note. Exposure drafts have been published for a single currency Euro facility with fallbacks to compounded €STR and term €STR. The LMA has also published proposed Drafting for ISDA Bloomberg EURIBOR €STR Spread Adjustment.

**EU ESG Ratings Regulation has Entered into Force.** On January 1, the ESG Rating Regulation has entered into force. Starting July 2, 2026, EU ESG rating providers will be authorised and supervised by ESMA and have to comply with transparency requirements regarding their methodology and information sources. Non-EU rating providers will need to secure endorsement, recognition, or inclusion in the EU registry to operate within the EU. The regulation addresses shortcomings in the ESG ratings market, enhance transparency and reliability, while avoiding interference with methodologies and promoting competition.

**Europe's NPL Markets Stall Despite Regulatory Push.** European regulators aim to boost the secondary market for non-performing loans (NPLs) via the NPL Directive, which standardizes reporting and harmonizes servicer regulations. NPL stocks rose 3.4% year-on-year in June 2024 but remain far below their 2016 peak. Lower deal volumes and high interest rates weaken recoveries and return expectations, forcing some traditional buyers to sell. However, the EU's Backstop Regulation has effectively driven banks to offload NPL exposures.

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