Banking & Finance

Current Forces of Debt Finance in Europe

The European Debt Finance market faced a complex landscape in Q1 2025, influenced by global trade tensions, evolving fiscal policies, and shifting interest rates.

Impact of U.S. Tariffs

In March, the United States imposed a 25% tariff on all car, steel and aluminium imports and a 10% global tariff on most other imports with implementation delayed by 90 days. The steel and aluminium tariff increased to 50% on June 4 and the 10% tariff is set to increase to 20% for the European Union on July 9. The tariffs are likely to significantly affect Germany, the world's largest exporter of automobiles. Overall, roughly €380 billion worth of products made in the EU are expected to be affected. German banks, particularly those with exposure to export-driven sectors like automotive experienced increased pressure. Analysts warned that the tariffs could lead to higher loan losses and reduced profitability due to the anticipated economic slowdown and shifts in global trade flows. The banking sector's vulnerability was underscored by a significant sell-off in bank stocks, which fell nearly 16% following the tariff announcements.

Fiscal Policy Developments

Germany's fiscal policy has undergone a significant transformation. The new government has embarked on a €1 trillion stimulus plan, including a €500 billion infrastructure fund and increased defence spending, aimed at revitalising the economy and enhancing security. To facilitate this, the Bundestag approved a reform of the constitutional "debt brake," exempting defence spending over 1% of GDP and the infrastructure fund from debt limits. Increased discussions on potential Public-Private Partnership (PPP) opportunities, especially in the infrastructure sector, are expected.

Interest Rate Adjustments

In April, the ECB reduced interest rates to 2.25%, marking the seventh rate cut since June 2024. Despite this, ECB policymakers indicated that the central bank may be nearing the end of its rate-cutting cycle, with future decisions contingent on global trade developments. This cautious approach reflects the balancing act between stimulating economic growth and managing inflationary pressures. U.S. companies are also tapping into Europe's debt market at a record pace, attracted by lower borrowing costs. Google parent Alphabet and telecoms group T-Mobile US are among companies to have priced multibillion-dollar deals, borrowing €6.75 billion and €2.75 billion, respectively. Pfizer has also issued €3.3 billion of bonds across four tranches. This surge has been driven partly by the U.S. tariffs, as some companies have opted to borrow quickly before further economic shocks increase borrowing costs.

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Growth of Private Credit

The private credit market in Germany has experienced notable growth in 2025. With traditional banks facing increased scrutiny and regulatory pressures, investors turned to private credit as an alternative investment avenue. This shift was driven by the search for higher yields in a low-interest-rate environment and the desire for more flexible lending solutions. The expansion of private credit has implications for the banking sector, potentially altering traditional lending dynamics and increasing competition.

Data Center Financing

The boom in data center financing in Germany continues, with cities like Frankfurt and Berlin seeing increased investments in data centre infrastructure driven by demand from major cloud operators. Markets such as Munich and Düsseldorf are also attracting attention from data center operators and investors. Strong government support for the technology sector, including data centers, ensures a supportive regulatory environment. Microsoft has announced a €3.2 billion investment to double the capacity of its AI and data center infrastructure through 2025.

Practice Area News

Expansion of ESG Reporting Obligations. In 2025, requirements for annual corporate ESG reports will be expanded by the Corporate Sustainability Reporting Directive (CSRD). Companies not listed on the stock exchange will now be required to prepare sustainability reports if they meet certain criteria relating to turnover, total assets, and number of employees. Companies based outside the EU will also be subject to the CSRD for 2025 if they generate sufficient revenue and have a subsidiary or branch in the EU.

European Commission to Streamline ESG Directives. On February 26, 2025, the EU Commission adopted a package of proposals to simplify EU rules, boost competitiveness, and deliver over €6 billion in administrative relief. Among other aspects, the proposed changes would remove around 80% of companies from the scope of the CSRD, thereby focusing sustainability reporting obligations on the largest companies with the biggest impacts.

Regulators Expectations Regarding Transitional Risks. Transition risks relate to the risks associated with the transition to a lower-carbon economy, which is expected to involve extensive policy, legal, technology, and market changes. On January 9, 2025, EBA published its Final Guidelines on the management of ESG risks by institutions, which will take effect in January 2026, and specify ESG-related requirements introduced by the Capital Requirements Directive (CRD6). The Guidelines set out minimum standards and reference methodologies for the identification, measurement, management, and monitoring of ESG risks, including plans to ensure institutions' resilience.

DORA and ICT Risk Management. The EU Digital Operational Resilience Act (DORA) entered into application on January 17, 2025. DORA introduces a comprehensive framework containing information and communication technology (ICT) risk management and reporting obligations for the financial sector, including rules related to third-party outsourcing providers.

In the Firm

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Vanessa Schuermann – Leading Partner

Andreas Lischka – Next Generation Partner

25 YEARS IN GERMANY

- US Administration Tracker

- White & Case Debt Explorer

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