DNB

MARKETS

Snapshot

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Lithuania and Latvia are ready for the market frost after Greece default

Today is the last day for private lenders to express their willingness to participate in the Greek bond exchange offer. This exchange will result in a haircut of almost 70% in terms of net present value. Greek government aims for at least 75% acceptance rate for the swap deal to be considered voluntary. Otherwise, government has an option to implement collective action clause (CAC) forcing all investors to participate. According to the latest data, 60% of creditors have already agreed with the offer. In our opinion, CAC will be implemented and ISDA (International Swaps and Derivatives Association) will treat this action as a credit event hence triggering the CDSs.

Implementation of CAC would lead to higher yields of medium and high risk government bonds in the short-run. The primary bond market for these countries would become temporarily closed. Lithuania and Latvia have both already borrowed in the international markets this year. Hence they are better prepared for the frozen primary market. Lithuania has sufficient funds to redeem its eurobonds this May and can wait for a better moment to issue its second eurobond tranche later this year.

Interesting facts: This is the sixth Greek debt restructuring in a modern history. The most recent Greek default took place just eighty years ago. Another interesting fact is that Greece was announced bankrupt by the then-Prime-Minister Eleftherios Venizelos in 1932 who shares his surname with the current finance minister Evangelos Venizelos. Despite this fact the two are not blood-related. The country has been insolvent nearly 50% of the time since 1829 when Greece regained its independence.

Best regards,

Rokas Bancevičius, Senior Analyst