DNB

MARKETS

Snapshot

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Lithuania taps the markets with a second international bond this year

Lithuania has offered investors 6 year Euro denominated bond with 4.34 per cent initial guidance yield (MS+265 bps). Book-runners are DNB and HSBC. This is an addition to the 2018 maturity Euro denominated bond previously issued at 4.85 per cent yield. Final details of the deal are expected late in today’s evening.

This is the second international bond issuance for the Baltic country this year. Lithuania raised USD1.5bn (c. EUR1.13bn) on January 25. The country issued a 10 year USD denominated bond with 6.625 per cent coupon back then. The bond was issued at the discount bringing the total annual cost of financing for the country to 6.75 per cent (MS+480 bps).

Hence Lithuania is borrowing at a cheaper rate today. This is due to a positive sentiment and ample liquidity in the bond markets created by two 3-year loan auctions performed by the ECB. Around EUR1000bn of additional liquidity was created in the markets after these auctions.

Lithuania needs to borrow c. EUR1.7bn in order to refinance bonds maturing this year. Additional EUR1bn is needed to finance this year’s budget deficit (expected to be at 3 per cent of GDP). Thus, the total refinancing need for this year is c. EUR2.7bn (c. 7 per cent of GDP).

Lithuania has already acquired 55 per cent of this year’s borrowing needs prior to this transaction. EUR1.13bn came from an international bond and EUR0.27bn – from local auctions. Should the size of the new issue exceed EUR1bn, Lithuania will only need c. EUR0.3bn of additional funding this year. This amount can be raised at local auctions.

Nevertheless, the Baltic country might still tap the markets for the third time in 2012. This is because of EUR1bn bond maturing on 5 March, 2013. Government might not wish to risk waiting until early 2013 in order to acquire necessary funds for refinancing of this bond. The issue might be organized after the general elections in autumn 2012.

Lithuania was the second fastest growing EU economy in 2011 with GDP growth rate reaching 5.9 per cent. GDP growth rate is expected to slow down to 3 per cent in 2012 due to negative economic sentiment abroad. Lithuania is an export intensive economy with its exports above 70 per cent of GDP.

As mentioned above, Lithuania’s budget deficit is expected to meet Maastricht criterion of 3 per cent of GDP in 2012.

Figure 1: Selected Lithuanian and Latvian bonds as of 2012.04.17

Country	Maturity	Issue size	Coupon	Yield to maturity
Lithuania	2013.03.05	EUR1bn	4.50%	1.45%
Lithuania	2014.06.22	EUR0.5bn	9.375%	2.50%
Lithuania	2021.03.09	USD1.5bn	6.13%	4.9%
Lithuania	2022.02.01	USD1.5bn	6.63%	5.05%
Latvia	2014.04.02	EUR0.4bn	4.25%	2.1%
Latvia	2021.06.16	USD0.5bn	5.25%	5.15%

Best regards,

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