

## Cry for Greece to restructure its debt

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**Abstract (Abstract):** We've had convergence in Europe," says one portfolio manager, "and it's with EM!" The distress emerging market community believes that even if a eurogroup-International Monetary Fund financing programme for Greece is approved in the...

**Full text:** "I will defend the peso like a dog!" Jose Lopez de Portillo, President of Mexico, 1981.

"There is no question about restructuring of the debt". Herman Van Rompuy, President of the European Union, 2010.

Yes, well . . . The emerging market distressed bond players, who have spent the past few years scrounging around North Korea and the less attractive parts of Africa, or dispiritedly calculating pay-off charts on the latest Argentine deal, feel important again. They agree with Mr Van Rompuy, but not in the way he meant. They believe there is no question that Greece will restructure its official debt , and are now drawing up legal briefs and deal outlines on how it will be done.

"We've had convergence in Europe," says one portfolio manager, "and it's with EM!" The distress emerging market community believes that even if a eurogroup-International Monetary Fund financing programme for Greece is approved in the next few days or weeks, a restructuring of Greek debt is necessary . And soon. The EM bond people, and sovereign debt lawyers, are already working on the details. They see the Greek government and financial sector as having finally arrived at a realistic appraisal of the prospects, and a readiness to deal. The problem, they say, is with the European authorities.

Europe has the right experts, but Euro-officialdom appears to believe the EM debt work-out people should be kept on the other side of a bullet proof barrier. So the lawyers and investors in "distress" have, for now, shrugged and continued to work with their Greek contacts.

The framework for a Greek exchange offer, in the EM debt people's view, is that of the Brady Plan. This was first outlined by US Treasury secretary Nicholas Brady in March of 1989, and was the template for a series of exchanges of new bonds for old loan and bond debt by countries such as Mexico, the Philippines, Poland, Venezuela, and Russia.

The idea was to provide countries that had un-serviceable international debt with reductions in net present value on the order of 30-50 per cent, and lending banks and bondholders with collectable, tradable, and, in some cases, secured bonds.

Various classes were devised to meet the needs of holders. For example, a Japanese bank that could not accept a write-off of loan principal could, after an exchange, put a "par" Brady bond on its held-to-maturity books at 100 cents on the dollar, though with a low interest rate and a 30-year maturity.

For the exchanging country, the reduction in debt service was nearly equal to what the taker of a "discount" bond would get in net present value, even though the discount bond paid a market rate of current yield. Most of the Brady issues were prepaid, or bought back, by recovered countries. For the most part, they were considered a great success.

Euro-officialdom hasn't wanted to hear about the Brady precedent, as Mr Van Rompuy said last week. As one sovereign debt expert, with considerable understanding of the European state of play, says, though, "I don't think the differences [of Greece with the Brady exchangers] would be that great, because there are a limited number of options".

A veteran investor says: "A tolerable haircut on the [value of] existing stock of [Greek] debt would be around 20 per cent to 25 per cent of the principal. It looks as if you could do that without triggering [required payment on] the credit default swaps [on Greek risk], if you do a voluntary extension of the maturity dates.

"There may be latitude under the [swaps contracts] to do that, because [if there is a close call on whether there is an event of default] it goes to a committee. That would leave a lot of speculators high and dry, and you could see a short covering rally in Spain and Portugal."

Others think the write-offs would need to be much larger. In any case, the required fast reaction time may not be on offer. If Europe and Greece have to wait for German state elections, or more reports, it could be, as our expert says, "grisly".

The timing of news on Greece might have some effect on the outcome of the big New York sales at the two art auction houses. A lot of good pieces are on offer in May, in part because the success of the London sales in February motivated collectors and executors to consign their best property.

In the post war and contemporary markets, I think you could say that Sotheby's came out ahead last year. This spring, Christie's put together an impressive group of lots, anchored by two big estates. Such close, tough, competition among the auctioneers is better for everyone, particularly the sellers.

As long as Greece doesn't demoralise everyone.

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