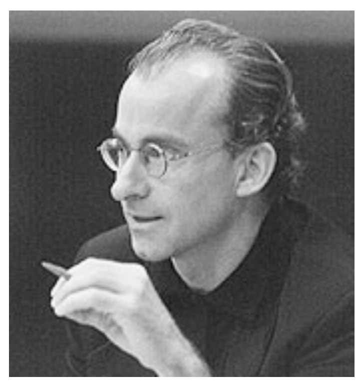
2002 FALL FORUM

Panelists at EMTA's Fall Forum Agree Outlook for Brazil Challenging…but not Unmanageable

Understandably, the outlook for Brazil again dominated the discussion at EMTA's first Fall Forum on October 5, 2002. In contrast, however, to the considerable pessimism expressed at EMTA's Summer Forum in London, speakers at the Fall Forum indicated that, while they remained seriously concerned, they were slightly more hopeful about Brazil's economic and political future. The event, which was hosted by UBS Warburg, attracted an audience of over 150 professionals from the Emerging Markets community.

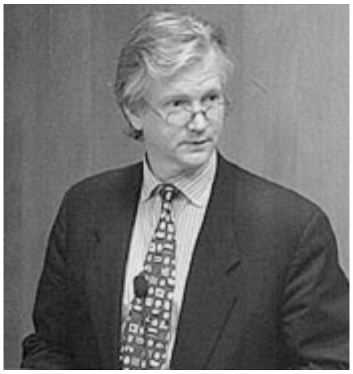


Moderator Michael Gavin (UBS Warburg) opened the session by inviting each panelist to offer an assessment on the current state of the world economy, and to discuss consequent effects on emerging countries. John Welch (West LB) compared the current economic rebound to the tepid recovery of 1991, observing that the current mild rebound mirrored the mild downturn preceding it. Renewed market access for Latin countries was "somewhere down the road," according to Welch, with current credit spreads indicating that Latin American markets would remain closed for "quite some time."

Ruggero de'Rossi (Oppenheimer Funds), notably more upbeat than during his appearance at EMTA's Spring Forum, argued that global risk aversion was now largely priced in. De'Rossi noted that, despite lower capital flows to the Emerging Markets, countries such as Brazil and Colombia continued to benefit from substantial IFI support, while oil exporters such as Russia were able to rely on high oil prices.

Though worried by the global economic outlook, Paulo Leme of Goldman Sachs commented that of even greater concern to him were a number of qualitative factors, such as "a very strong lack of leadership among policy makers," and "a tremendous lack of confidence in financial markets." Investment in Latin countries still has a lot of potential downside for the next six to twelve months, according to Leme, who stated that selective capital inflows and generally weak commodity pricing (other than oil) continued to put many Latin countries in a difficult situation.

Alliance's Jim Barrineau called the outlook for Emerging Markets "subdued," placing himself in between the opinions expressed by de'Rossi and Leme. A "real deal" by the G-7 to trim agricultural subsidies might result in upside for the Emerging Markets, declared Barrineau, who intimated that developing countries should be rewarded for pursuing the "right policies."



Official Sector's SDRM Proposal Criticized

Moderator Gavin then returned to a theme introduced by EMTA Executive Director Michael M. Chamberlin in his opening remarks. Chamberlin had welcomed attendees to the Forum with a brief description of EMTA's position against the IMF's Sovereign Debt Restructuring Mechanism (SDRM) proposal, asserting that "this is one of the rare occasions when almost everyone in the private sector seems to be on the same page in thinking that this is a genuinely bad idea." Gavin followed up by requesting panelist opinions on how much damage imposition of the sovereign bankruptcy proposal would cause the industry, and to what extent the speakers believed it had exacerbated the recent decline in Brazilian asset prices.

Barrineau acknowledged that it was probably impossible to determine how much of the market sell off was attributable to the official sector's SDRM stance, but added that Washington's actions were effectively discouraging capital flows to developing nations. Barrineau further criticized the US Treasury for not finding a more constructive policy to support emerging countries, challenging officials to "think outside of the box," and remarking that "if [SDRM] is all they have, then…it's discouraging."

Leme opined that the SDRM "fast-forwarded" a loss of confidence in Brazil that had already begun as a result of domestic factors. Implementation of the SDRM would prove to be a "nightmare," predicted Leme, who advocated that the G-7 should instead focus on improving agricultural and trade policies, which would alleviate the number of crises. De'Rossi concurred with other speakers that the timing of the SDRM announcement during a period of market turbulence was inopportune but reiterated that investors should focus on countries' ability to pay.

Risk of Brazilian Default Overstated

Fall Forum panelists agreed that the market was overstating the probability of Brazil defaulting in the next twelve to twenty-four months, while also recognizing that such an eventuality was not impossible. The initial conditions facing the incoming Lula administration, including the debt profile, are not unsustainable, argued Barrineau, who nevertheless admitted it would be "a tough climb up in the context of a constrained global environment."

De'Rossi, who estimated the likelihood of default as "maybe 20-30% at most," predicted that, even in case of default, recovery value would likely be greater than in the cases of the Russian and Ecuadorian defaults. Lula has options, according to de'Rossi, with large multilateral support, the ability to name a great economic team, the potential of taking prudent fiscal measures, etc., and a default could be avoided with the pursuit of appropriate policies.

"Brazil is solvent," pronounced Leme, "however, in order to get out of this problem…they are going to have to generate an enormous [positive] confidence shock…via an outstanding – not simply good (there is no room for error) – economic team." Welch concurred, and believes the IMF will give Lula sufficient opportunity to demonstrate prudent economic policies before any possible disruption in IMF aid. Instead, Welch pointed out risks that haven't been making headlines, including the fact that both second round presidential candidates were

running on platforms to re-regulate gasoline prices. He also described the "hidden risk" of Brazilian governors, who have previously voiced their opposition to the 1997 debt negotiation, demanding better terms.

Panel Divided on Venezuelan Risks

Gavin concluded his questioning by polling the panelists for their thoughts on Venezuela. Welch stressed "the only enemy of external debtholders is chaos," and that, while the heightened risk of chaos in Venezuela is something new to Venezuela's creditors, only significant violence would cause him to downgrade his view on Venezuelan debt. In contrast, Barrineau believed that Venezuela has outperformed its fundamentals, and that only a quick embrace of the IMF in a post-Chavez government would push him to buy Venezuelan debt. Leme noted that the economy continues to contract despite higher oil prices, a historic anomaly, and warned that the situation could spiral out of control as large demonstrations continue.

Immediately following the Forum, attendees enjoyed cocktails and hors d'oeuvres in UBS' reception area, which features original artwork by contemporary artists such as Cindy Sherman and David Hockney.

Click Here for a transcript of the Panel

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