BANCO CENTRAL DO BRASIL

Minutes of the 92nd Meeting of the Monetary Policy Committee (Copom)

Date: January 20th, from 3:30PM to 6:15PM, and January 21st, from 4:00PM to 6:45PM
Place: BCB's Headquarters meeting room of the 8th floor (on January 20th) and 20th floor (on January 21st) – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Afonso Sant'Anna Bevilaqua
Alexandre Schwartsman
Antônio Gustavo Matos do Vale (only on January 21st)
Eduardo Henrique de Mello Motta Loyo
João Antônio Fleury Teixeira
Luiz Augusto de Oliveira Candiota
Paulo Sérgio Cavalheiro
Sérgio Darcy da Silva Alves

Department Heads (present on January 20th)
Altamir Lopes – Economic Department
Carlos Yoshitaka Urata – International Reserves Operations Department
Ivan Luis Gonçalves de Oliveira Lima – Open Market Operations Department
José Antonio Marciano – Department of Banking Operations and Payments System
José Pedro Ramos Fachada Martins da Silva – Investor Relations Group
Paulo Springer de Freitas – Research Department (also present on January 21st)

Other participants (present on January 20th)
Flávio Pinheiro de Melo - Advisor to the Board
Hélio José Ferreira – Executive Secretary
João Batista do Nascimento Magalhães – Special Advisor to the Governor
Jocimar Nastari – Press Secretary
Katherine Hennings – Advisor to the Board

The members of the Monetary Policy Committee analyzed the recent performance of and prospects for the Brazilian and international economies under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Evolution of Inflation

1. The Broad Consumer Price Index (IPCA) rose 0.52% in December against a 0.34% rise in November and a 0.29% increase in October. As a consequence, inflation accumulated 9.30% in the year, substantially lower than the projections made at the beginning of 2003, which pointed to consumer prices growth of around 12% for the year. The IGP-DI rose 0.60% in December, after a 0.48% increase in November, influenced by the 0.74% and the 0.43% variations of the IPA-DI and IPC-Br, respectively. Accumulated changes of the IGP-DI and the IPA-DI in 2003 totaled 7.67% and 6.26%, respectively, remarkably lower than the 2002 results of 26.41% and 35.41%, in the same order.

2. The more important individual contributions for the IPCA rise in December came from tobacco, clothing, rice and meat, and the readjustment of regulated prices such as urban bus tariffs, which altogether accounted for 0.23 p.p. of the total change of the index. Conversely, price falls of chicken, milk, beans and bottled gas contributed with -0.07 p.p. for the IPCA monthly variation. For

the 9.30% variation in 2003, regulated and market prices contributed with 3.76 p.p. and 5.54 p.p., respectively. Among the latter, price pressures were substantial in some oligopolized sectors, as in the cases of personal hygiene products (12.2%), cleansing products (13.9%), furniture (11.8%) and medicine (11.5%). Rice prices, under unfavorable supply conditions since the beginning of the year, rose by 25.2% in 2003.

3. Still regarding the IPCA behavior in December, market prices increased 0.54%, being responsible for 0.38 p.p. in the total change, while the 0.47% rise in regulated prices accounted for the remaining 0.14 p.p.. In the first group, the main pressures came from clothing, tobacco, meat and rice. Regarding regulated prices, the main pressures came from health insurance and urban bus tariffs, which rose by 7.1% in Fortaleza and in Rio de Janeiro (in both cities, the second readjustment in 2003) and by 15% in Belém.

4. Concerning wholesale prices, the 0.74% change of the IPA-DI in December (against 0.46% in November) reflected the elevation of both agricultural and industrial prices. The Agricultural-IPA rose 0.58% in the month, after a 0.26% increase in November. This upsurge was due to an increase in prices of fresh food products (a result of the rainy period) and to the inter-harvest period. Industrial prices rose 0.80%, above the 0.54% change in November, reflecting price readjustments in metals (mainly copper) and in the manufacturing sector (metallurgy, mechanics, electric equipment, wood and furniture, rubber, tobacco and food products). The monthly average price rise of textiles, clothing and shoes remained at a high level (2.08%), albeit lower than in November.

5. Core IPCA inflation, calculated excluding household food items and regulated prices, posted a 0.63% variation in December, after five consecutive months of variations in the range between 0.35% and 0.40%.

6. Core IPCA inflation calculated under the smoothed trimmed-mean method rose by 0.72% in December, from 0.56% in November. Accumulated variation in 12 months hit 11.11%, still reflecting the effects of price increases at the end of 2002. Inflation calculated without the smoothing procedure for pre-selected items reached 0.54% and 8.35%, respectively in the monthly and in the annual basis.

7. Core IPC-Br inflation calculated under the symmetric trimmed-mean method increased to 0.46% in December, from 0.36% in November, accumulating 9.68% in the year.

8. The surge in the core inflation measures reveals that the price increases in the last two months were not only due to seasonal factors, but affected most of the items included in the consumption basket. The ratio of goods with price rises in the IPCA increased to 64.8% in December, from 57.0% in November.

9. In January, both wholesale and consumer inflation are expected to accelerate further. At the wholesale level, more intense seasonal pressures are expected from food prices. A recent survey unveiled that industries plan to accelerate price readjustments in the first quarter of 2004. Consumer inflation should also reflect the effects of seasonal price increases in food and the seasonal pressure in education prices. Amongst regulated prices, the impact of the readjustment of electricity tariffs in Rio de Janeiro should stand out.

Assessment of Inflation Trends

10. The identified shocks and their impacts were reassessed according to newly available information. The scenario considered in the simulations assumes the following hypotheses:

a. the projection for gasoline price readjustment for 2004 was kept at 9.5%. For bottled gas, there has been a revision in the projected price change for 2004 to 10% instead of the 3.5% expected in the December Copom meeting. This revision was a consequence of higher international oil prices and the current gap between the price charged at the refinery and the international price denominated in reais;

b. for household electricity tariffs, the price readjustments projected for 2004 stand at 6.8%. Concerning fix telephone tariffs, the 6.6% readjustment projection was maintained. This projection assumes that the judicial decisions limiting tariffs readjustment in 2003 will not be reverted;

c. Regarding all regulated prices, with a total weight of 28.9% in the December IPCA, the Copom maintained the 7.8% price change projection for 2004;

d. the projection for the readjustment of regulated prices for 2005, of 5.4%, is based on the model of endogenous determination, which considers seasonal components, the exchange rate behavior, market prices inflation rate and the IGP-DI change;

e. the projection for the 6-month spread over the Selic rate, following the specification of the Vector Autoregressive model using the Selic and swap rates on the eve of the Copom meeting, rose from –120 b.p. in the first quarter of 2004 to 50 b.p. in the end of 2005.

11. Regarding fiscal policy, it is assumed that the primary surplus target of 4.25% of the GDP for this year and the following two years will be accomplished. The other related assumptions established in the previous meeting were maintained.

12. Considering the benchmark scenario hypotheses, including the maintenance of the Selic interest rate at 16.5% p.a. and the exchange rate at the level prevailing on the eve of the January Copom meeting (R$2.84), inflation is projected below the target of 5.5% for 2004 and below the target of 4.5% for 2005. According to the market scenario, which takes into account the consensus exchange rate and the Selic rate paths as surveyed by the BCB’s Investor Relations Group on the eve of the Copom meeting, inflation is projected slightly above the target for 2004 and above the target for 2005.

Monetary Policy Decision

13. Inflation accelerated between November and December. Consumer inflation measured by the IPCA rose to 0.52% in December, from 0.34% in November. This acceleration was verified in the three sub-groups of the IPCA: tradable, non-tradable and regulated prices. The increase in inflation in December was also captured by other consumer price indices, as the IPC-Fipe and the IPC-Br, as well as the wholesale price indices (IPA-M and IPA-DI) and the general price indices (IGP-M and IGP-DI). Preliminary results for January do not anticipate any change in this pattern in the very short run.

14. Core inflation measures also increased in December, showing that December’s figures cannot be attributed to the behavior of specific items. The higher increase was observed on core IPCA inflation calculated by excluding household food prices and regulated prices, which rose to 0.63% in December, after remaining stable in the range between 0.35% and 0.40% from July to November. Albeit in lower intensity, core IPCA and core IPC-Br calculated under the trimmed-mean method also increased in December. Another evidence that price increases are spreading out is the higher ratio of goods in the IPCA basket with positive variation, which increased to 64.8% in December, from 57.0% in November, the highest rate since May 2003.

15. Assessing all available information, the inflation increase in December might be an isolate occurrence owing to seasonal or one-off factors, or it might signal a persistent trend. It is certain that seasonal and extraordinary factors contributed to the December results. If this hypothesis is true, inflation will return to the target path in the medium term, similar to what happened last September.

16. The Copom maintains the recovery scenario outlined in the last meetings. According to the IBGE, industrial output increased 0.8% in November, s.a., reaching the highest level ever. Between July and November, the quarterly moving average of industrial output increased 7.7%. Capital goods posted the highest increase (20.8%), while durable consumer goods grew 19.7%, as a result of increased credit supply. Only the segments of semi and non-durable consumer goods have not showed significant growth rates, as they depend more strongly on real earnings. Industrial output is likely to continue to expand as signaled by leading indicators such as electricity consumption, steel output and the flow of heavy vehicles in the highways. The low level of inventories in some sectors (e.g., automobiles) and the gradual recovery in real income and credit will contribute to higher industrial output. Capital goods absorption increased 27% between July and November, while production of inputs for civil construction increased 5% in the same period. This increase in investment is essential for a sustainable growth path, with no imbalances between supply and demand.

17. Retail sales growth in November surpassed industrial production growth for the first time since the beginning of the upturn. According to IBGE data seasonally adjusted by the BCB, the volume of sales in Brazil rose by 2.1% between October and November. If the quarterly moving average is taken, the result in November was the sixth increase in a row. The growth was sharper in the sectors more dependent on credit, such as automobiles, furniture and appliances. Several indicators anticipate a continuous recovery of consumption, including stronger consumer sentiment; lower default rates; real payroll growth; and lower unemployment rate, which fell to 12.2% in November from 12.9% in October.

18. The Copom restates that a stronger contribution of monetary policy to the recovery of less credit sensitive sectors in industry and retail should stem from its indirect impact, through higher employment and real earnings, both initially concentrated in the more sensitive sectors and gradually spreading over the whole economy. It should not be a result of additional monetary stimulus that could produce, in the short term, larger gaps between the recovery pace in the different activities and generate inflationary pressure in the leading ones.

19. As in previous months, the performance of the external sector has been extremely favorable. There were good results both in trade balance and in the current account balance, the latter closing 2003 with a surplus of approximately US$4 billion – the first positive result since 1992. Besides, private external borrowing surpassed US$2 billion in the beginning of this year, and country-risk measured by J.P. Morgan Chase's Embi+ remains in a downward trend, falling to 430b.p. from 480b.p. between the December and the January Copom meetings. Significant trade surpluses, an open international market for Brazilian companies and a more favorable scenario for the external accounts allowed the real to appreciate between the last Copom meetings. As a consequence, the dollar fell from R$2.94 to R$2.84, even after the BCB announced in the first week of January the start of an international reserves accumulation policy.

20. Even though consistent with seasonal patterns, the recent inflation acceleration made market participants revise upwards their first quarter inflation expectations, a revision led by the most accurate market analysts in the short-term inflation forecasts. Between the eves of the last two Copom meetings, the median of market inflation expectations for the first quarter increased to 1.61% from 1.51%. However, when only the five most accurate forecasters are considered (the Top 5 forecasters), expected inflation rose to 1.68% from 1.48%. For 2004 as a whole and for 2005, the median of market inflation expectations remained stable, at 6.0% and 5.0%, respectively.

21. The BCB inflation projections, according to the benchmark scenario (assuming unchanged Over-Selic rate at 16.5% p.a. and exchange rate at R$2.84/US$), are below the 5.5% target for 2004 and below the 4.5% target for 2005. Under the market scenario, which considers the exchange rate depreciation and the over-Selic rate decrease expected by market participants on the eve of the Copom meeting, BCB inflation estimates are slightly above the 5.5% target for 2004 and above the 4.5% target for 2005.

22. One of the members of the Committee considered that a 0.25 p.p. cut in the target for the Over-Selic rate would be adequate in the current environment, taking into account the pace of recovery in activity, the stability of market inflation expectations for 2004 and 2005, the favorable exchange rate behavior, and the BCB inflation projections under the benchmark and the market scenarios.

23. The other Committee members decided to keep the Over-Selic rate unchanged and to continue monetary easing only when there are more consistent signals that the risk of inflation deviating from its targets is low enough. Several considerations supported this decision.

24. Differently from what was seen last September, in the current inflation acceleration episode, even one-off factors may trigger inflationary pressures for a longer period, as the impacts associated to increases in fresh food prices, education prices and electricity tariffs are higher than initially expected. If one-off inflation pressures are higher and longer than originally expected, the maneuver room for bringing inflation back to the target will be reduced in the first months of the year.

25. Also differently from September, despite the fact that inflation pressures in December and in the first months of 2004 are partially seasonal and non-recurrent, they will hit the economy in a period of stronger demand. Therefore, there is more room for realignments in relative prices to develop into pressures on inflation.

26. Even though there is no sufficient information to a precise diagnosis about the factors that caused the surge in inflation in December and the increase in inflation expectations in the January-February period, some signals suggest that this trend may persist. Firstly, as already outlined, core inflation and partial inflation figures for January do not anticipate an inflation slowdown. Secondly, the increase in the industrial IPA to 0.80% in December may put a pressure on consumer inflation over the next months, especially in a higher demand environment. The increase in wholesale prices was triggered by several factors, including increases in world commodity prices; higher demand for intermediate goods; and the change in relative prices that has benefited sectors more directly favored by the growth in demand, thus enabling increases in profit margins.

27. The higher change of the industrial IPA differs from what happened last September, when the higher IPCA variation was accompanied by an increase in the agricultural IPA, while the industrial IPA remained well-behaved (0.40%). Stronger inflation pressures are also suggested by the FGV survey in January, which showed that 43% of the companies interviewed intended to increase prices in the first quarter of the year. Historical data show an important statistical correlation between those intentions and industrial wholesale prices.

28. The recent appreciation of the real against the dollar is, undoubtedly, an important factor to be considered. However, the Copom believes that in the current environment the effects of this exchange rate appreciation over inflation will not be so intense as it was when the exchange rate floating was the main determinant of changes in tradable goods prices in reais. The US dollar depreciation in relation to other relevant currency, such as the euro and the Japanese yen, has to be accounted. Also, the world economy growth and the US dollar depreciation pushed commodity prices up, which may pressure wholesale prices in Brazil, as has been occurring.

29. Stable inflation expectations for 2004 suggests that the market not only considers the first quarter inflation increase as temporary, but also believes that this increase will be compensated by

reductions in the following quarters. If no exogenous factors trigger those reductions, it is assumed that monetary policy will be responsible for producing the compensatory effect.

30. According to the forecasting exercises carried out by the BCB and described in the paragraph 21 above, when the inflation forecasts for the first quarter are substituted by the Top 5 inflation expectations (supposing unchanged Over-Selic rate and exchange rate), projected inflation come to the inflation target in 2004. This upward reevaluation is due to the new estimate of the first quarter inflation and its inertial impacts over the remaining quarters. When the exchange rate and the interest rate path expected by the market are taken, inflation is projected above the target of 5.5% in 2004 and above the target of 4.5% in 2005.

31. The Copom understood that the recent inflation acceleration and the increase in inflation projections might not only be a one-off event, as occurred last September, but a possible accommodation of inflation at higher levels. Even taking for granted that this acceleration is really temporary, the increase in inflation projections is enough to suggest caution in monetary management. As already mentioned before, it is not possible to establish accurately the impacts of the 10 p.p. reduction of the Over-Selic rate between June and December 2003 over the output gap and inflation. Considering that there is a strong possibility that inflation deviates from the targets, monetary policy should act preemptively. A more prudent monetary management will not risk the upturn trend in course since the third quarter of 2003.

32. Thus, the Copom weighted the risk of following with monetary easing and, in case inflation deviates from the targets, the need to change its policy in the medium term, with larger changes in interest rates and significant impacts over economic activity, against the risk, considered very low, of disrupting the recovery process due to the interruption of the monetary easing. Balancing the risks, the Copom understood to be more adequate to interrupt temporarily the monetary easing. This is the only way to retain the disinflation gains obtained during 2003, not endorsing price increases in the sectors that benefited from the rebound in demand to contaminate overall inflation.

33. Thus, the Copom decided, for eight votes to one, to maintain the target for the Over-Selic rate in 16.5% p.a., without bias.

34. At the end of the meeting, it was announced that the Copom would meet again on February 17th, 2004, for technical presentations, and on the following day in order to discuss the monetary policy decision, as set by the Communiqué 11,516, of October 15th, 2003.

SUMMARY OF DATA ANALYZED BY THE COPOM

Economic Activity

35. According to IBGE, retail sales increased 2.1% in November compared to the previous month, considering seasonally adjusted data. Compared to the same periods of the previous year, retail sales decreased 0.3% in November and 4.5% between January and November. Despite representing the 12th consecutive fall compared to the same month of the previous year, the 0.3% change in November was the lowest, confirming the sales recovery. Only two activities out of the five in retail decreased in November, compared to the same period of 2002. Furniture and appliances posted the higher growth rate (9.1%). Vehicles and motorcycles sales, which are not included in the retail general index, increased 6%.

36. According to preliminary data from Fecomercio-SP, retail sales in the greater São Paulo increased 2.7% s.a. in November, compared to October. Except for construction materials, there was generalized expansion in sales. Car sales increased 10.2% and semi-durable and durable goods sales increased 7.5% and 4.4%, respectively.

37. The monthly Fecomercio-SP survey on consumer confidence showed an increase of 7.1% in January, reaching 118.5 in a scale ranging from 0 to 200, the highest level since the beginning of the survey, in 1999.

38. Regarding investment data, capital goods output increased 3.9% in November compared to October. However, construction industry inputs fell 0.6% seasonally adjusted. BNDES' medium and long term financing amounted to R$12.6 billion in the last quarter of 2003, nearly 38% of the total accumulated in 2003.

39. After remaining flat in October, Brazilian industrial output resumed in November the growth trend initiated in the beginning of the second half of the year. According to the IBGE, industrial output increased 0.8% in November, accumulating a 7.6% expansion since July. The November output increase was driven by durable consumer goods and capital goods, which rose by 2.2% and 3.9%, respectively. Intermediate goods output grew 0.4% while semi and non-durable goods production fell 1.6%. Eight out of the twenty sectors surveyed presented growth, led by mechanical, metallurgical, transportation, electrical and communications materials industries. Up to November, industrial output grew 0.1% compared to the same period of 2002, and 0.4% in the last twelve months.

40. Data on manufacturing activity released by the CNI in November confirmed the cyclical recovery. Industrial sales increased 3.2% (s.a.) compared to October, accumulating five consecutive rises and totaling a growth of 13.6% in the period July-November. In comparison with the same period of 2002, real sales registered the first positive change since March 2003, of 4.3%. Worked hours increased 0.4% in November, growing by the fifth consecutive month. The level of capacity utilization fell to 79.6% in November from 80.0% in October.

41. In the automotive sector, vehicles production and external sales fell 2.3% and 5.0% in December (s.a.), respectively, while domestic sales increased 7.7%. In 2003, output and exports increased 2.0% and 29.1% respectively, while domestic sales fell 2.4%.

42. According to a FGV survey, industrial growth should strengthen in the next few months. Business confidence remained positive, favoring the increase in output. However, there are evidences of profit margins increases in industry, with a growing share of companies intending to increase prices in the next three months.

Labor Market

43. The index of employment increased 0.4% month-on-month in November compared to October (s.a.), and 3% year-on-year, according to the Ministry of Labor. According to the IBGE's survey, the unemployment rate in the six main metropolitan areas reached 12.2% in November, compared to 12.9% in October. This fall was mainly a result of a 1.1% expansion in the number of employed workers, above the 0.3% increase of the economic population. The same survey also registered that the average wage reached R$850.3. In real terms (deflated by the INPC), the average wage increased 0.6% compared to the previous month and posted a 14.9% fall compared to the same month of 2002.

44. In the industrial sector, according to the CNI, there was a 0.1% increase (s.a.) in employment in November, compared to the previous month. In the accumulated up to November, there was a 0.8% increase. Industry real payroll increased 2.9% in November, sustaining the trend outlines since June. Compared to the same month of 2002, real payroll recorded a 1.6% growth in November, the first positive rate in 2003 considering the same basis.

Credit and Delinquency Rates

45. Total credit increased 1.6% in December, reflecting a 1.4% increase in non-earmarked credit, and 2.1% in earmarked credit. Regarding non-earmarked credit, there was a 0.8% increase in credit to households and a 1.9% increase in credit to companies, due to the increase in domestically funded operations, mainly working capital credit and overdraft accounts. The lower increase in household loans was caused by a fall in overdraft accounts as a consequence of the end-of-year bonus (13^{th} wage). With respect to earmarked credits, there was an increase of 2.6% in rural lending and of 2.4% in BNDES lending.

46. New loans roared in December. Daily new loans to companies increased 9.4%, as a consequence of payment to employees of the 13^{th} wage, the rebuild of inventories and debt rollovers. Concerning household borrowing, new loans increased 7% in December, driven mainly by increases in auto financing and personnel credit.

47. The average interest rate on non-earmarked credit fell 2.2 p.p. in December to 45.8% p.a., as a result of the continuous reduction of the Over-Selic rate and the larger volume of credit to companies. The decline in rates was more significant for companies, which fell to 30.2% in December from 32.3% in November. For household loans, the average rate diminished to 66.6% from 68.2%. The delinquency rate on non-earmarked credit fell in December to 7.9% compared to 8.4% in November.

48. Regarding the retail sector, net default rates declined to 1.9% in December from 4.2% in November. The average default rate stood at 5.2% in 2003 as against 6.4% in 2002.

External Environment

49. Global economic activity strengthened in the fourth quarter of 2003, mainly due to demand recovery in the US and Japan. The outlook for 2004 suggest an acceleration of the world economic growth without significant inflationary pressures, but with growing risks that the fiscal and external imbalances in the US and fiscal deficits in some European countries could lead to larger protectionist barriers and to an interruption in capital flows to emerging markets.

50. In the US, industrial production in December increased (0.1%) for the sixth consecutive month. Sales increased for the sixth consecutive month in November, although industrial orders have

declined 1.4%. The unemployment rate decreased in December to 5.7% and the same occurred with the unemployed benefit. The budget deficit totaled US$16.2 billion in December, the first deficit for December in five years.

51. Business sentiment in the US, Japan and Europe continued improving, despite the possible negative effects of the Parmalat's affair in Europe. Consumer confidence remained weak because of the labor market conditions.

52. The fixed-income market in the US has not reacted to the upturn of the economy, in part due to the Federal Reserve signaling of a steady interest rate in the near future. In the foreign exchange markets, the US dollar depreciation is expected to persist, even after accumulating a nominal fall of 24% in relation to the euro and 12.7% in relation to the Japanese yen during 2003.

53. Huge liquidity in the financial markets is facilitating emerging markets external financing. As a consequence, many sovereign issues took place in the beginning of the year. FDI to emerging markets should also increase in 2004, unless there are changes in the Federal Reserve monetary stance or in expectations regarding advanced economies growth. Stronger demand worldwide has benefited commodity prices, and oil prices continued to oscillate the OPEC price band.

Foreign Trade and Balance of Payments

54. The Brazilian trade balance posted a US$2.8 billion surplus in December, a new record for this month. Exports and imports increased 22.9% and 10.6%, respectively, compared to the December 2002 daily averages. In the first 11 working days of January, the trade surplus totaled US$657 million.

55. In December, Brazilian exports totaled US$6.7 billion. Imports stood at US$4 billion, expanding for the fourth consecutive month. Raw material and intermediate goods (26.8%) and capital goods (15.5%) led the increase in imports.

56. The external trade registered a US$24.8 billion surplus in 2003, with exports reaching US$73.1 billion and imports summing up US$48.3 billion. Both the trade surplus and exports reached the highest levels ever. Exports grew 21.1%, equivalent to US$12.7 billion. Manufactured goods accounted for 54.3% of total exports.

57. The current account registered a US$349 million surplus in December and a US$4.1 billion surplus in 2003, reversing the US$7.7 billion deficit obtained in 2002. Net FDI totaled US$1.4 billion in December, thus accumulating US$10.1 billion for the year. International reserves closed the year at US$49.3 billion, and net adjusted international reserves (IMF agreement concept) stood at US$17.4 billion.

Money Market and Open Market Operations

58. After December's Copom meeting, the yield curve moved downwards until January 13th. This movement was caused by capital inflows and the subsequent exchange rate appreciation, and the fall of the sovereign risk. As a result, the 3-month, 1-year and 2-year interest rates recorded in the period a decrease of 0.42 p.p., 0.74 p.p. and 1.01 p.p., respectively. After the disclosure of the IPCA readings for December, the yield curve shifted upwards. The ex-ante real interest rate fell to 8.7% on the eve of the January Copom meeting from 9.3% in December.

59. The BCB decided not to rollover the FX debt and swaps maturing in January and in the beginning of February. Consequently, the net redemption of FX securities and swaps in the year to February 2nd reached US$6.3 billion.

60. The National Treasury carried out three LTN auctions, totaling R$10.8 billion. The yield curve reduction and strong demand for fixed rate securities contributed to diminish the auction rates. In regard to LFT, three auctions were carried out, with securities maturing in 2008 and 2009. Total sales reached R$2.8 billion. Auctions of inflation-indexed securities were restricted to NTN-B (indexed to the IPCA), reaching R$1.3 billion.

61. The National Treasury also carried out for the first time a public offering of NTN-F, a fixed rate 4-year security with a 6-month coupon.

62. The BCB maintained in its open market operations the 3-month fixed and the 2-week indexed repurchase operations, as well as the daily liquidity management operations. The BCB also carried out in this period 9 fixed rate repos falling due between 1 and 4 working days. The excess liquidity drained from the market averaged R$51.9 billion.

63. In December, the net securitized domestic public debt increased R$3.1 billion. The fixed rate share increased to 12.5%, while the dollar-linked share decreased for the seventh consecutive month, to 22.1%.

BANCO CENTRAL DO BRASIL

Acronyms

ACSP	São Paulo Trade Association
BCB	Banco Central do Brasil
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
b.p.	basis points
CNI	National Confederation of Industry
Fecomércio-SP	São Paulo State's Federation of Commerce
FGV	Getúlio Vargas Foundation
IBGE	Brazilian Institute of Geography and Statistics
IGP–DI	General Price Index – Domestic Supply
INPC	National Consumer Price Index
IPA-DI	Wholesale Price Index
IPCA	Broad Consumer Price Index - Brazil
IPC–BR	Consumer Price Index – Brazil
LFT	National Treasury Bills (floating)
LTN	National Treasury Bills (fixed rate)
NTN-B	National Treasury Notes – Series B
NTN-C	National Treasury Notes – Series C
NTN-F	National Treasury Notes – Series F
OPEC	Organization of the Petroleum Exporting Countries
p.a.	per annum
p.p.	percentage point
s.a.	seasonally adjusted