BANCO CENTRAL DO BRASIL

Minutes of the 133rd Meeting of the Monetary Policy Committee (Copom)

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Inflation
Economic Activity
Surveys and Expectations
Labor Market
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External Environment
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Money Market and Open Market Operations

Date: March 4th, from 4:35PM to 7:00PM, and March 5th, from 4:15PM to 7:45PM
Place: BCB Headquarters meeting rooms - 8th floor on March 4th and 20th floor on March 5th – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Alexandre Antonio Tombini
Alvir Alberto Hoffmann
Anthero de Moraes Meirelles
Antonio Gustavo Matos do Vale
Maria Celina Berardinelli Arraes
Mário Gomes Torós
Mário Magalhães Carvalho Mesquita

Department Heads (present on March 4th)
Altamir Lopes – Economic Department
Carlos Hamilton Vasconcelos Araújo – Research Department (also present on March 5th)
João Henrique de Paula Freitas Simão – Open Market Operations Department
Luiz Fernando Cardoso Maciel – Department of Banking Operations and Payments System
Márcio Barreira de Ayrosa Moreira – International Reserves Operations Department
Renato Jansson Rosek – Investor Relations Group

Other participants (present on March 4th)
Adriana Soares Sales – Deputy Head of the Research Department
Alexandre Pinheiro de Moraes Rego – Press Secretary
Alexandre Pundek Rocha – Advisor to the Board
Flávio Pinheiro de Melo – Advisor to the Board
Katherine Hennings – Advisor to the Board
Sergio Almeida de Souza Lima – Executive Secretary

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

Recent Economic Developments

1. IPCA inflation reached 0.54% in January, decelerating from 0.74% in December. However, twelve-month trailing inflation totaled 4.56%, accelerating relative to 4.46% observed in 2007 (2.99% in January 2007). Under this

comparison basis, the acceleration of consumer price inflation essentially mirrors the behavior of market prices, which increased more rapidly than regulated prices. In fact, market prices and regulated prices increased 5.90% and 1.59%, respectively, in the twelve months through January, compared to 2.49% and 3.95% in the twelve months through January 2007. Moreover, despite the BRL appreciation, the prices of tradable goods accelerated, reaching 4.87%, up from 1.19% in January 2007, according to the same comparison basis. However, regarding non-tradable goods, greatly pressured by the behavior in the prices of services and perishable food, twelve-month inflation was even higher (6.88%). In this context, although inflation remained in line with the targets path, it is worth mentioning that the recent behavior of IPCA inflation has been remarkably less benign than that observed in previous quarters.

2. Similarly to headline inflation, the three main core inflation measures calculated by the BCB reduced in January 2008, month-on-month. The core inflation by exclusion of household food items and regulated prices, smoothed and non-smoothed trimmed means core inflation measures reduced from 0.59%, 0.40% and 0.45% in December 2007 to 0.40%, 0.37% and 0.41% in January, respectively. On a twelve-month trailing basis, two of the three core inflation measures accelerated, following the behavior of headline inflation. Core inflation by exclusion of household food items and regulated prices increased significantly, to 4.10% in January 2008, up from 3.09% in the same month of last year. Non-smoothed trimmed means core inflation also showed sharp acceleration (3.68%, against 2.49% in January 2007), while the smoothed trimmed means core inflation, which tends to present more inertial behavior, contracted to 4.02% in January 2008, down from 4.40% in January 2007. Still on a twelve-month trailing basis, inflation core measures, which remain below the central target, showed relative stability in January, compared to December, standing at levels higher than the record lows reached in previous months.

3. The General Price Index (IGP-DI) inflation retreated to 0.99% in January, down from 1.47% in December, but accelerated to 8.49% in the last twelve months, up from 7.89% in 2007 and 3.49% in January 2007. In the twelve months through January, the IGP-DI increase reflected both the behavior of the Consumer Price Index-Brazil (IPC-Br), which totaled 4.90% (2.09% in January 2007), and also of the IPA-DI (Wholesale Price Index), whose variation totaled 10.27% in 2007 (3.79% in January 2007). According to the same comparison basis, the Civil Construction National Index (INCC) increased 6.08% (6.15% in January 2007). Regarding agricultural IPA, inflation reached 25.47% (7.37% and –5.13% in the twelve months through January 2007 and January 2006, respectively). On its turn, industrial prices, which showed less unfavorable behavior in the first half of 2007, also accelerated significantly in the last months, totaling 5.26% in the last twelve months through January 2008, up from 2.66% and 1.41% in the last twelve months through January 2007 and January 2006, respectively. As highlighted in previous Copom Minutes, the Copom evaluates that the effects of wholesale prices over consumer price inflation will depend on current and prospective demand conditions and price-setters' expectations for the future inflation path.

4. On a three-month moving average basis, according to data seasonally adjusted by the IBGE, industrial output contracted 0.3% in January, after eighteen consecutive months of expansion. Still considering the seasonally adjusted series, after the 0.8% month-on-month reduction observed in December 2007, industrial output grew 1.8% in January, despite relevant technical interruptions in the petrochemical sector. It bears emphasizing that industrial output grew 6% in 2007, up from 2.8% in 2006. Manufacturing industry production grew 6.0%, while mining industry production expanded by 5.9% (compared to 2.6% and 7.4%, respectively, in 2006). In January 2008, industrial output grew 8.5% year-over-year, evidencing important acceleration relative to the 6.3% expansion recorded in December 2007. The data already released for 2008 point to the continuity of the industrial production expansion cycle, which will continue to be favored by several incentive factors that influence economic activity, such as employment and credit expansion, the monetary easing already implemented, the fiscal impulse and, in some sectors, the recovery of reduced inventory levels.

5. Among the use categories, according to data seasonally adjusted by the IBGE, capital goods production remained stable in January, after contracting by 0.2% in December. On the other hand, the other use categories expanded in January. It bears highlighting the production of durable consumer goods, which increased by 5.4% (-0.3% in December), intermediate goods, which expanded by 1.3% (1.3% in December), and semi- and non-durable consumer goods, which grew by 1.1% (-1.2% in December). In 2007, it bears noticing the expansion of capital goods production (19.5% in the year), followed by the growth of durable goods production (9.1% in the year). The solid expansion of capital goods production in 2007 was mainly driven by the consolidation of positive

prospects for the continuity of domestic demand growth, reflecting both the improvement of income and the expansion of credit, underpinned by the perception of macroeconomic stability consolidation, which should persist in 2008. On its turn, the dynamism of durable consumer goods production reflects, predominantly, the remarkable improvement in credit conditions, when compared to historical patterns. It should be highlighted that the appearance of signs pointing to consistent pressure over the availability of production factors, as suggested in some industrial surveys, indicates that possible reductions in industrial activity expansion could be associated to productive capacity restrictions.

6. Labor market continues to present quite favorable performance. The unemployment rate in the six metropolitan regions covered by the Monthly Labor Survey (PME) retreated to 7.4% in December (a record low for the series started in 2002), down from 8.2% in November and, following the seasonal pattern, increased in January to 8.0%, 1.3 p.p. below the rate observed in January 2007. The unemployment rate seasonally adjusted by the BCB decreased to 8.4% in January, a record low for the historical series, down from 8.6% in December and 8.5% in November. It is worth emphasizing that the average unemployment rate totaled 9.3% in 2007, down from 10.0% in 2006. After increasing for four months, the purchase power of workers remained stable in January month-on-month, but increased by 3.4% relative to January 2007. As a consequence, real payrolls expanded robustly by 7.1% in January 2008, in year-over-year terms, up from 5.3% in December 2007, constituting a key driver for sustained aggregate demand growth. According to the National Industry Confederation (CNI) data seasonally adjusted by the BCB, manufacturing employment grew 0.6% in December, after remaining stable in November, totaling 3.8% growth in 2007, while real payroll in the industrial sector expanded by 4.9%. Still regarding employment, data from the Ministry of Labor and Employment (MTE) indicate the continuity of strong expansion in formal employment at the start of the year, with the creation of 142.9 thousand jobs in January, a record high for the month. Formal employment grew by 0.5% in the month, seasonally adjusted. Observed data point to a 5.9% expansion in formal employment in January, year-over-year, the highest rate recorded since June 2005, an evidence of strong dynamism in the labor market. Manufacturing industry presented the highest hiring rate, with the creation of 59 thousand new jobs, followed by services sector (49 thousand), and civil construction (39 thousand). The retail sector, following a seasonal pattern, recorded 14 thousand dismissals, but grew 0.5% month-on-month, according to the seasonally adjusted series.

7. In line with the positive developments in labor market, and with credit expansion, retail sales continue to record positive performance, indicating that the pace of domestic demand growth remains robust, and signs of cooling cannot be perceived. According to data seasonally adjusted by the IBGE, retail sales remained stable in December, after a 1.7% expansion in November. Year-over-year, retail sales increased by 8.9% in November and 10.4% in December. In 2007, retail sales grew by 9.6%, the greatest expansion since 2000. The steady growth of retail sales in the year reflected the performance of both the sectors more sensitive to income and employment expansions and those more sensitive to credit conditions. In fact, in 2007, it should be highlighted the expansion in the sales of “furniture and domestic appliances” (15.4%), and “fabric, clothing and shoes” (10.7%). Amongst expanded retail sales, which include the sales of “vehicles, motorcycles, parts and pieces” and “construction material”, the strong growth of the first group should be noticed (22.6%). For the next quarters, the continuity of the current expanding cycle is expected, and will continue to be underpinned by employment and income growth, credit expansion and the maintenance of consumer confidence at high levels. Sector indicators, for example, relative to automobile sales in January and February this year, corroborate this assessment.

8. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 82.7% in December (83.1% in November), according to CNI data seasonally adjusted by the BCB, a figure close to the record high of the series. According to data seasonally adjusted by the CNI, the Nuci in the manufacturing industry reached 83%, close the 83.1% record high observed in November. Without the seasonal adjustment, the Nuci in December stood 1.5 p.p. above the level registered in the same month of 2006, while the average installed capacity utilization rate in the year stood 1.8 p.p., 1.7 p.p. and 1.0 p.p. above the observed in 2006, 2005 and 2004, respectively. The quarterly Nuci calculated by Fundação Getúlio Vargas (FGV) reached 85.3% in January, seasonally adjusted, 0.6 p.p. below the record registered in October 2007, but it still remains at a high level, 3.3 p.p. above the historical average. It is important to emphasize that the January Nuci results registered record highs for the series initiated in 1998 in three out of four categories surveyed by FGV: consumer goods, capital goods and civil construction material. The monthly Nuci calculated by FGV, without the seasonal adjustment, reached 84.7% in February, up from 83.9% observed in the same month 2007, and registered record highs for capital goods and civil construction

material. The reduction of idle capacity, in relation to the margins usually observed, occurs in several sectors, despite the significant increase of investment. Indeed, in 2007, the absorption of capital goods increased firmly (20.3%), due to the vigorous growth of capital goods imports (32.1% in volume), as well as of capital goods production (19.5%). Furthermore, the production of civil construction inputs increased 5.1% in the same period, showing robust performance. In January, the absorption of capital goods continued to expand (25%, year-over-year), as a result of the 52.7% increase in imports volume and 14.6% in capital goods production, at the same time that the production of civil construction inputs increased 10.7%. Recent data indicate that, although investment has been contributing to soften the trend of increasing capacity utilization rates, it has not been sufficient to contain this process. In this context, the timely maturation of investment projects will be crucial to limit relevant mismatches regarding the evolution of aggregate supply and domestic demand in the relevant forecast period for monetary policy. As stressed in previous Copom Minutes, the inflation trajectory is closely linked to current and prospective developments related to the expansion of supply of goods and services, to adequately meet demand conditions.

9. The trade balance continues to present robust performance, despite the expected deceleration at the margin, in line with assessments present in Inflation Reports and previous Copom Minutes about important structural changes in the Brazilian foreign trade. The trade surplus reached US$36.4 billion in the last twelve months through February (a 21.2% decrease year-over-year). Exports and imports totaled US$165.6 billion and US$129.2 billion, equivalent to 17.6% and 36.5% growth, respectively, compared to the same period of 2007. As highlighted in previous Copom Minutes, imports have been growing faster than exports, both due to the strengthening of the BRL and to the robust economic activity in the country, despite the high prices of several commodities included in the Brazilian export basket. The decrease in the trade surplus contributed to the US$1.2 billion current account deficit registered in the twelve months through January 2008, equivalent to 0.1% of GDP.

10. Regarding the external scenario, the process of economic deceleration in the US has consolidated, as evidenced by the economic activity data in the last quarter of 2007, but uncertainties regarding its magnitude and duration still remain. More recent data about the housing market and consumer goods demand, as well as confidence indices and other leading indicators, point to a significant slowdown. Uncertainties still remain about the length and amplitude of the effects of the US subprime mortgages market crisis over US and European financial institutions and, consequently, over credit conditions for households and corporate. Despite the dominant opinion still seems to point out to a transitory, but possibly intense deceleration, the negative assessments have become more disseminated. This assessment reflects, to some extent, uncertainties about the capacity of the monetary policy stance implemented by the central bank in the US, to which fiscal incentives will be added, to smooth in a timely manner the US economic weakening, in light of persistent difficulties in the financial system. Such difficulties, on their turn, could be worsened by a cyclic deterioration in credit quality, which would reinforce the trend to financial contraction, increasing the risk of intensifying the slowdown. Prospects for economic activity in Europe, despite some favorable indicators in Germany and Japan, have also deteriorated, despite not provoking the same degree of concerns that surround the US economic activity. On the other hand, strong economic growth in main Asian emerging economies, which so far have been apparently little affected by the US mortgage crisis, have offset the effects of economic deceleration in mature economies. In fact, pressures over production factors availability have triggered inflationary pressures in many emerging economies, many of which are in the midst of monetary tightening cycles. For mature economies, prospects for monetary policy are more diverse. Economies presenting more moderate inflationary pressures and more evident credit contraction tend to present additional monetary policy easing. On the other hand, in economies where inflation rates are above their respective targets, the scope for reaction to the contraction caused by the credit crisis seems more limited. In this context, volatility and risk aversion indicators in international financial markets remained at quite high levels since the last Copom meeting, affecting the behavior of Brazilian assets prices. However, until this moment, Brazilian economic activity does not seem to have been significantly impacted by the persistent deterioration on global financial markets confidence, and, despite not decoupled from external economic developments, Brazilian economy should sustain its growth trajectory, essentially driven by domestic demand.

11. Oil prices, a systematic source of international uncertainty, increased substantially since the last Copom meeting, and also continued highly volatile. This behavior reflects, in addition to structural changes in global energy markets, recurrent geopolitical tensions. Despite significant uncertainties inherent to oil prices, the main scenario considered by the Copom forecasts unchanged domestic gasoline prices in 2008. However, apart from the trajectory of domestic gasoline prices, one should recognize that the elevation of international oil prices impacts

domestic economy both through productive chains, such as the petrochemical, as well as through the deterioration of inflation expectations. The prices of other commodities, especially grains, have also increased significantly since the last Copom meeting, despite more pessimism about the prospects for global economic growth and the turmoil on global financial markets. Furthermore, there are some evidences that international investors are assuming positions in commodities to hedge against the risk of inflation acceleration.

Assessment of Inflation Trends

12. The identified shocks and their impacts were reassessed according to newly available information. The scenario considered in the simulations utilized the following assumptions:

a) Compared to the assumptions considered in the January Copom meeting, projected adjustments for gasoline and bottled gas prices were both maintained at 0% for 2008;

b) Compared to the assumptions considered in the January Copom meeting, the projections for electricity price adjustments in 2008 were set at 1.1% down from 3.4%, while projections for fixed telephone prices were maintained at 3.5%;

c) The projection for regulated prices inflation, based on individual items, totaled 4.0% in 2008, down from 4.2% in the last Copom meeting. This set of prices, according to data released by the IBGE, corresponded to 30.31% of the total January IPCA;

d) The projection for regulated prices inflation in 2009 was set at 4.5%, up from 4.2% considered in the last Copom meeting. This projection is based on the endogenous determination model for regulated prices, which computes seasonal components, exchange rate changes, market prices inflation and the IGP (General Price Index) variation;

e) The projection for the spreads over the Selic rate, using a Vector Autoregressive model based on the Selic and 180-day swap rates, estimates a 46bps spread in the fourth quarter of 2008, under the benchmark scenario. The swap rate trajectory points to a 50bps spread in the last quarter of 2009. The identified shocks and their impacts were reassessed according to newly available information.

13. Regarding fiscal policy, the projections assume the achievement of the 3.8% target for the consolidated public sector primary surplus in 2008 and 2009, adjusted by the possibility of a 0.45 p.p. reduction in this percentage, due to the implementation of the PPI (Investment Pilot Program). The related assumptions considered in the previous meeting were maintained.

14. Since the January Copom meeting, median IPCA inflation expectations for 2008, compiled by the BCB's Investor Relations Group (Gerin), increased to 4.41%, up from 4.37%. Notwithstanding, twelve-month ahead inflation expectations decreased to 4.30%, down from 4.38%, considering the composition of monthly inflation market expectations. For 2009, inflation expectations increased to 4.30% up from 4.15%.

15. Considering the hypotheses under the benchmark scenario – which assumes the maintenance of the Selic rate at 11.25% and the exchange rate at R$1.70/US$ during the forecast period – the projection for the 2008 IPCA decreased compared to the value considered at the January Copom meeting, but is still close to the 4.5% target established by the CMN for the year. According to the forecast based on the market scenario – which incorporates the consensus exchange and Selic rates trajectories collected by Gerin on the eve of the Copom meeting – IPCA inflation forecast for 2008 also decreased compared to the value considered at the January Copom meeting, but is still above the central target for the year. The projection for 2009 based on both scenarios increased relative to the January Copom meeting, and remained below the 4.5% target for the benchmark scenario and above the 4.5% target for the market scenario.

Monetary Policy Decision

16. The Copom evaluates that monetary policy should contribute for the consolidation of a favorable long-term macroeconomic environment. Economic activity data indicate that the intensity of demand expansion continues quite robust, and may even have accelerated since the beginning of 2008, and is responsible, at least partially, for the inflationary pressures observed in the short-run, despite strong imports growth and the benign investment behavior. Even in the context of moderate deceleration of global growth this year and the higher volatility observed in global markets since mid-2007, the Committee believes, according to newly available information, that the balance of payments should not represent imminent risk to the inflation scenario. On the other hand, there are signs that relevant inflationary pressures are intensifying both in mature and emerging economies, evidencing the existence of inflationary risks on the global outlook. The Copom reaffirms the vision that, for the Brazilian inflation, an alternative scenario of more intense and generalized global deceleration represents an ambiguous risk factor. On the one hand, reducing net exports would act as a factor to restrain aggregate demand. Moreover, the potential decrease of some important commodities prices could contribute to a lower domestic inflation. On the other hand, the above-mentioned alternative scenario could unfavorably impact inflation prospects through two mechanisms. In the case of deceleration in the mature economies that comprise the global financial markets center, risk aversion could increase, resulting in decreased demand for Brazilian assets and depreciation of their prices. In addition, in the medium run, a possible reduction of net exports could similarly affect the price sustainability of certain Brazilian assets. Therefore, although inflation prospects remain in line with the targets trajectory, additional uncertainties surround the inflation path, and the risk of materialization of a less benign inflationary scenario increased. The Copom emphasizes that the main challenge of monetary policy in this context is to guarantee the maintenance of positive results reached in the last years.

17. The Copom considers that the probability that emerging local inflationary pressures will represent risks to the domestic inflation trajectory is relevant, because the heated demand and market of factors, in addition to the possibility of existence of supply restrictions in some sectors, can increase the pass-through of wholesale prices over consumer price inflation. The Committee understands that the prospects for this pass-through, as well as for the generalization of the local pressures initially focused on consumer price inflation, depend mostly on inflation expectations, which remain carefully monitored. Additionally, it is worth noticing that although the external sector can restrain the inflationary pressures in the tradable sector, heated domestic demand can trigger inflationary pressures in the non-tradable sector, for instance, such as in the services sector. In this context, the Copom will continue to manage the monetary policy stance so that the gains obtained in inflation control in recent years become permanent. In this respect, the Copom will continue to carefully monitor the evolution of inflation and the several core inflation measures, as well as inflation expectations within the forecast period, discriminating between one-off and persistent or generalized price increases, and promptly adjusting the monetary policy stance to the circumstances.

18. The preservation of inflation rates in line with the targets path and the consequent consolidation of a long-lasting stable macroeconomic scenario will contribute to the continuity of the progressive reduction of macroeconomic risk perception that has occurred in the last years. The Copom evaluates that the persistence of a cautious and timely monetary policy stance has been critical to increase the probability that inflation will continue to evolve according to the targets path. For this to materialize, however, it is important that forward-looking inflation indicators, in particular the expected dynamic of aggregate supply and demand, do not point to persistent imbalances.

19. The Committee emphasizes, once again, that there are important time lags in the transmission of monetary policy stance to economic activity and inflation. Activity level has not completely mirrored the remaining effects of the interest rates cuts implemented in 2007, as well as the effects of the economic activity on inflation have not completely materialized. Therefore, the evaluation of alternative monetary policy stances should necessarily focus on the forward-looking inflation scenario and its risks, instead of current inflation indicators.

20. During the coming months, credit growth and real payroll expansion should continue to bolster economic activity. As mentioned in recent Copom Minutes, the effects of governmental transfers and other fiscal impulses expected for this and the next quarters should also add up to the mentioned factors that will sustain demand. Consequently, the lagged remaining effects of interest rates cuts on an increasingly robust aggregate demand will add up to other factors that will continue to contribute on a significant way to this expansion. These issues become

even more relevant considering the clear signs of heated aggregate demand, and the fact that the monetary policy decisions will have concentrated effects in the second half of 2008 and later.

21. The Copom recognizes the important contribution of investment to expand productive capacity. This factor, together with the external sector, has helped to mitigate inflationary pressures. However, the Copom evaluates that the pace of domestic demand expansion, which should continue to be sustained, among other factors, by fiscal transfers and the remaining impulse stemming from the monetary policy easing implemented until September 2007, continues to present risks to inflationary dynamics. In this context, the consistent reduction of the mismatch between the rhythm of expansion of supply of goods and services and the increase of demand is even more relevant to the assessment of different possibilities of monetary policy stance.

22. Aiming at consolidating a stable and predictable environment, the Copom adopts a strategy to avoid a volatile inflationary trajectory. This strategy takes into consideration the lags in the transmission mechanisms and has been the most adequate to deal with the uncertainty inherent to the process of monetary policy formulation and implementation. That is the reason why variables such as inflation projections, the balance of risks associated to the forward-looking scenario and especially the preventive stance in the decision-making process of the Copom are so important. At the current moment, characterized by the deterioration in the balance of inflationary risks, prudence assumes an even more important role in this process.

23. The Copom evaluates that, in light of signals of economy heating and inflation expectations increase, despite short-term favorable developments, the risks for the concretization of a benign inflationary scenario, in which inflation would remain consistent with the targets path, as reflected in the projections, are relevant. Even considering that, at the moment, the maintenance of the basic interest rate is the most adequate decision, the Committee affirms that is ready to adopt a different monetary policy stance, in the case of consolidation of a divergent scenario between projected inflation and the targets path. The Copom also considers that the persistence of the mismatch between the paces of expansion of aggregate supply and demand tends to increase the probability of such scenario to materialize.

24. In this context, the Copom analyzed the option of adjusting the Selic target rate at this moment. Such adjustment would contribute to reinforce the anchoring of expectations not only for 2008, but also in the medium-term, and to reduce the mismatch between aggregate demand and supply trajectories. However, the prevailed understanding considered that, at this moment, the balance of risks to the central prospective inflation path would justify the maintenance of the basic rate at its current level. Therefore, the Committee unanimously decided to maintain the Selic target rate at 11.25% p.a., without bias. The Committee will carefully monitor the evolution of the macroeconomic scenario until the next meeting, when it will define the next steps in its monetary policy strategy.

25. Under the inflation-targeting regime, the Copom decides according to inflation prospects, the analysis of several alternative scenarios for the evolution of the main variables that determine prospective price dynamics and the balance of risks associated to its projections. Domestic demand continues to expand vigorously, backing-up economic activity dynamism, including sectors little exposed to external competition, at a time when the effects of important incentive factors, such as the monetary easing already implemented, are still not fully perceived. On its turn, the contribution of the external sector to a benign inflationary scenario, in light of robust domestic demand growth, seems to become less effective, at a moment when the effects of investment over productive capacity of the economy still need to consolidate. In such environment, the monetary authority must remain vigilant to avoid that short-term uncertainties contaminate longer time horizons. If the risk profile deteriorates in a matter that implies shifts in the basic inflation prospective scenario, the Committee will promptly adjust monetary policy stance to the circumstances.

26. At the conclusion of the meeting, it was announced that the Copom would reconvene on April 15th 2008, for technical presentations, and on the following day, to discuss the monetary policy decision, as established in Communiqué 16,051 of September 3rd, 2007.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

27. IPCA-15 inflation increased 0.64% in February, compared to 0.70% in January and 0.46% in February 2007. Education and food and beverages groups, which increased 3.61% and 1.13%, respectively, contributed both 0.25 p.p. to the IPCA-15 result in the month. Market prices increased 0.87%, the same change recorded in January, with increases of 0.13% in the prices of tradable goods and 1.54% in the prices of non-tradable goods. Regulated prices increased 0.10%, down from 0.31% in the previous month. On a twelve-month trailing basis, the IPCA-15 expanded by 4.74% in February, up from 4.55% in January, as a consequence of the increases of 6.12% in market prices and 1.67% in regulated prices.

28. The seasonal influence of education in the IPCA-15 change in February accelerated the monthly change of the core inflation excluding household food and regulated prices. The trimmed means cores changes remained stable in the month and accelerated in twelve months. The core excluding household food and regulated prices increased 0.75% in February, up from 0.47% in January, accumulating 4.22% in twelve months, the highest rate since May 2006, up from 4.05% in the previous month. The smoothed trimmed means core increased 0.34% in February, the same change recorded in January, totaling 3.97% in twelve months. The non-smoothed trimmed means core increased 0.46% in February, compared to 0.45% in January, accumulating 3.74% in twelve months, also the highest rate since May 2006.

29. IGP-M inflation increased 0.53% in February, down from 1.09% in January, accumulating 8.67% in the last twelve months. Among the index components, wholesale and consumer prices decelerated month-on-month. IPA-M inflation increased 0.64%, down from 1.24% in January, totaling 10.58% in twelve months. IPC-Br inflation increased 0.26% in February, down from 0.96% in January, accumulating 4.62% in twelve months. INCC inflation increased 0.43% in February, up from 0.41% in January, reaching 6.18% in the last twelve months.

30. The lower IPC-M change in February reflected inflation deceleration in several groups, especially food, which increased 0.21%, down from 2.25% in the previous month. It also bears emphasizing, due to seasonal effects, the decrease in the items education, reading and recreation inflation (1.06% in February, down from 1.61% in January).

31. The reduction in the IPA-M inflation rate in February reflected the behavior of agricultural prices, and the industrial prices inflation was almost unchanged relative to the previous month. The industrial IPA increased 0.80%, compared to 0.82% in January, accumulating 5.68% in twelve months. Agricultural prices increased 0.23% in February, down from 2.31% in January, totaling 25.26% in the last twelve months. According to processing stages, the deceleration of the IPA-M inflation in February reflected, mainly, the trend in the prices of gross raw materials, which increased 0.12%, down from 2.38% in January. The prices of intermediate goods increased 1.01% in February, down from 1.24% in January, while the prices of final goods increased 0.63%, down from 0.27%, in the same period.

Economic Activity

32. According to IBGE’s monthly survey (PMC), retail sales increased 9.6% in 2007, registering generalized growth sales in all segments, with highlights to office, computing, and communication material and equipment (29.4%); other items for domestic and personal use (22.2%); furniture and home appliances (15.4%); and fabric, clothing and shoes (10.7%). Expanded retail sales, which include the activities vehicles and motorcycles, parts and pieces, and construction material, increased 13.5%, influenced by the 22.6% expansion in the automotive sector. The positive results of retail sales evidenced the payroll increase, favorable credit conditions, the impacts of assistance programs and the agricultural sector recovery.

33. Retail sales were stable in December, month-on-month seasonally adjusted, recording growth of 0.2% in the sales of hyper- and supermarkets, and food products, beverages and tobacco, and retraction in the sales of furniture and home appliances (6.2%), fuel and lubricants (2.3%), and fabric, clothing and shoes (2.2%). The sales of vehicles and motorcycles, parts and pieces, which are part of expanded retail sales, decreased 2.1% in the month.

34. According to São Paulo Trade Association (ACSP) data, related to the city of São Paulo and seasonally adjusted by the BCB, the consultations to the Usecheque system and database consultations for credit sales decreased 3.2% and 0.3%, respectively, in January, month-on-month. Compared to January 2007, there were respective increases of 8.0% and 7.2%.

35. Regarding investment indicators, the production of construction inputs increased 1.9%, while domestic production of capital goods remained stable in January, month-on-month seasonally adjusted. Compared to January 2007, these indicators increased 10.7% and 14.6%, respectively. Still according to this comparison basis, the positive evolution of capital goods production reflects mainly the good performances in the following sectors: agricultural equipment (76.8%), transportation equipment (36.1%) and energy (19.8%).

36. Capital goods imports increased month-on-month 10.6% in January, according to Fundação Centro de Estudos do Comércio Exterior (Funcex) data, seasonally adjusted by the BCB. Confirming the expansionist trajectory of investments in Brazilian economy, capital goods imports increased 52.7% year-over-year.

37. BNDES funding for mid and long-term investment reached R$64.9 billion in 2007, exceeding by 36.6% the 2006 funding.

38. CNI indicators, seasonally adjusted by the BCB, showed relative stability, at a high level, of industrial activity in December, month-on-month, with a 0.1% increase in industrial real sales and a 0.8% decrease in hours worked in production. In 2007, these indicators increased 5.1% and 4.0%, respectively. Installed capacity utilization (Nuci) reached 83% in December, decreasing 0.1 p.p. month-on-month seasonally adjusted, and increasing 1.5 p.p. relative to December 2006, according to the observed series.

39. According to IBGE's Monthly Industrial Survey (PIM), industrial production increased 1.8% in January, month-on-month, and the 3-month moving average decreased 0.3% in the month, after eighteen consecutive months of growth. This decrease should be considered as punctual, and does not implicate in inflexion of industrial activity growth. Compared to January 2007, industrial activity increased 9.2%, accumulating a 6.4% increase in the last twelve months, year-over-year.

40. Vehicles production reached 254.9 thousand units in January, according to Anfavea, increasing 24.2% year-over-year. Considering seasonally adjusted data, the production increased 9.2% month-on-month, with remarkable increases in the production of buses (28.2%), automobiles and light commercial vehicles (8.8%) and trucks (8.0%). The production of agricultural machines expanded by 19.0%, according to the same comparison basis. Total sales of vehicles increased 14.7%, with a 12.8% expansion both in domestic and external sales.

41. According to the survey carried out by the IBGE in January, the grains harvest should reach 136.5 million tons in 2008, increasing 2.7% year-over-year. This result encompasses increases in the production of rice (8.5%) and corn (4.3%). Soy production should increase 0.1%, a result that is associated to the prospects of reduction in the average earning of the production, as a consequence of the expectation of La Niña phenomenon. The survey still estimated a 6.7% increase in sugar-cane production, with 6.3% expansion in planted area, and a 15.3% increase in coffee production, an effect of the biennial cyclic recovery of productivity.

Surveys and Expectations

42. The Fecomercio-SP survey showed a 3.2% month-on-month elevation in the Consumer Confidence Index (ICC) in February, reflecting the increases of 5.4% and 0.1% in the Consumer Expectations Index (IEC) and the Current Economic Conditions Index (Icea), respectively. The ICC grew by 9.5% year-over-year, due to expansions of 8.2% and 11.3% in the IEC and Icea, respectively.

43. According to the FGV survey, the ICC declined 0.4% in February, month-on-month. This result reflected the 3.0% fall in the Current Situations Index (ISA) and the 1.1% elevation in the Expectations Index (IE), which computes 6-month ahead expectations. The survey registered increases of 5.2%, 14.0% and 1.0% in the ICC, ISA and IE respectively, year-on-year.

44. Still according to the FGV, the Industry Confidence Index (ICI) increased 1.2% in February, month-on-month. The ISA fell 0.1% and the IE grew 2.6%. Among the IE components, there were elevations of 11.9% in the expected output and 1.8% in the expected employment level, while the six-month ahead business conditions, despite remaining at a high level, declined 3.9%. These indicators show the continuation of favorable expectations of businessmen for the near future.

45. According to the FGV Manufacturing Industry Survey, installed capacity utilization (Nuci) reached 84.7% in February, 0.8 p.p. above the February 2007 level. The Nuci reached 88.8% in capital goods industry and 87.8% in construction inputs industry, with 3.6 p.p. and 3.4 p.p. growth year-on-year, respectively, reaching record highs in both cases. According to the same comparison basis, the Nuci declined 0.9 p.p. in intermediate goods industry, reaching at 87.3%, and elevated 2.2% in the consumer goods industry, totaling 82.0%.

Labor Market

46. According to the Ministry of Labor and Employment, 142.9 thousand new formal jobs were created in January 2008, a record high for the month. Employment level increased by 0.5% in seasonally adjusted terms, expanding in all sectors, with highlights to the 1.8% expansion in construction and the 59 thousand new jobs in manufacturing industry.

47. According to the IBGE employment survey (PME) in the six main metropolitan areas of the country, the unemployment rate reached 8.0% of economically active population (PEA) in January, up from 7.4% in the previous month. The elevation reflected a seasonal pattern, as the number of employed workers usually declines in January, due to the dismissal of workers temporarily employed at the end of the year, mainly in commerce. Additionally, due to the favorable economic conditions, the number of unemployed workers seeking for jobs in January increased, expanding the PEA. Year-on-year, unemployment rate reduced 1.3 p.p., reflecting a 3.6% increase in the number of employed workers and a 2.2% expansion in the PEA. The number of formal workers in the private sector expanded by 0.8 %, month-on-month in January, corresponding to 78 thousand jobs, while the numbers of informal and self-employed workers declined 3.4% and 1.0% respectively, corresponding to 102 thousand and 40 thousand jobs, in the same order. Year-over-year, formal workers in the private sector led the growth in labor occupation, with an 8.7% increase, while the number of self-employed workers grew by 2.4% and the total of self-employed workers declined 2.7%.

48. The same survey showed that average real earnings stood at R$1,172.50 in January, remaining stable in relation to December and growing 3.4% year-over-year. Real payroll declined 0.6% in January, month-on-month, and expanded by 7.1% year-over-year.

49. According to CNI data seasonally adjusted by the BCB, employment in manufacturing industry rose 0.6% in December, month-on-month. Employment and real payroll in manufacturing industry increased 3.8% and 4.9%, respectively, in 2007.

Credit and Delinquency Rates

50. Credit operations in the financial system expanded by 0.9% in January, accumulating a 27.9% increase on a twelve-month trailing basis. According to the same comparison bases, non-earmarked credit operations increased 0.9% and 33.2% respectively, while earmarked credit operations elevated 0.8% and 16.5%, respectively. Among the non-earmarked operations, leasing operations remained strong, with expansions of 113.1% and 74.7% for credit to individuals and to corporate, respectively, in the last twelve months. Regarding earmarked credit, it bears highlighting the 24.4% and 17.4% increases in operations related to housing and the agricultural sector, respectively, according to the same comparison basis. Considering other sectors, loans to industry increased 0.7% month-on-month and 30.1% in twelve months, in January, while credit to commerce expanded 29.1% in twelve months, despite the 0.7% decline month-on-month.

51. The average interest rate on credit operations reached 37.3% p.a. in January, increasing 3.5 p.p. relative to December. The average rates reached 48.8% p.a. and 24.7% p.a. in credit to individuals and corporate, respectively, up from 43.9% and 22.9%, respectively, in the previous month.

52. The average tenure of credit operations reached 369 days, exceeding a year for the first time. The average tenure of corporate credit operations increased 29 days in January, reaching 304 days, while it totaled 444 days for credit operations to individuals, up from 439 days in December and 374 days in January 2007.

53. Delinquency rate in the financial system (non-earmarked loans in arrears for more than ninety days) stood at 4.4% in January, 0.6 p.p. below the January 2007 rate. Delinquency rates for credit operations with corporate and individuals reached 2.0% and 7.1%, respectively, declining 0.8 p.p. and 0.4 p.p., respectively, in the period.

54. Net delinquency rate for retail credit, measured by the ACSP, reached 5.4% in January, down from 5.6% in the same month of 2007, and remained at the same 2007 average level.

External Environment

55. The deceleration in the US economy, the financial and capital markets swings and the effects of commodities prices rises increased the risk of deceleration in global economy.

56. The US economic conditions, which indicated economic activity deceleration until the end of 2007, started to suggest the possibility of output contraction in the first quarter of 2008, driven by economic forecasts contaminated with risks stemming from the real estate sector, the labor and credit markets. The Fed recognized that, although the interbank market functioning has improved, there are relevant difficulties in other markets, and credit conditions became more restrictive, in general. One cannot discard that the current US economic situation can generate new rises in delinquency in US financial institutions, increasing the restrictions to credit concessions and additionally weakening economic activity.

57. GDP data for the fourth quarter of 2007 recorded deceleration in the Euro Area and growth in Japan, although recent indicators signaled economic cooling in the latter. Even if activity decelerates to some extent, the emerging economies continued to grow in the last quarter of last year, with prospects of expansion in 2008.

58. At the start of the year, increases in the prices of commodities, especially oil, have been key drivers of inflationary pressures and a delicate economic outlook. Inflation indicators did not show any cooling, which would provide central banks scope for the monetary easing necessary to combat the worsening of the financial crises and its spillovers effects on real economy.

59. The Fed, for the first time since the 2001 attempts, reduced the fed funds target by 75 b.p. in an extraordinary meeting (January 22) and, on the following week, cut again the basic interest rate, standing at 3% since then. In the same way, maintaining the assessment that the risks of growth deceleration were sharper, the Monetary Policy Committee of the Bank of England cut again, in February, the repo rate to 5.25% p.a. The Bank of Japan and the European Central Bank, although recognize the economic outlook deterioration, kept the basic interest rates unchanged at 0.5% p.a. and 4.0% p.a., respectively.

60. The Chinese economy continues to follow a robust growth trajectory. In such environment, in which twelve-month trailing inflation reached 7.1% in January, the highest level since September 1996, the Chinese central bank maintained a tightening monetary policy stance.

Foreign Trade and International Reserves

61. In February 2008, Brazilian external trade reached US$882 million, amounting US$ 1.8 billion surplus in the year, reducing 71.2% and 67.1%, respectively, year-over-year. In the first two months of the year, exports reached US$26.1 billion, and imports, US$24.3 billion, growing by 20.5% and 50.7%, according to the same comparison bases.

62. In February, exports totaled US$12.8 billion, reaching US$673.7 million daily average, a 19.7% growth year-over-year. These results, both in value and in daily average reached record highs for the month.

63. Imports totaled US$11.9 billion in February, with US$627.3 million daily average, a 56.2% increase year-over-year and a record high for the series.

64. International reserves totaled US$192.9 billion in February, with increases of US$5.4 billion in the month and US$12.6 billion, compared to the end of 2007.

Money Market and Open Market Operations

65. In the period between the January and the March Copom meetings, the future interest rates decreased, especially in longer terms. This movement was driven by the release of below-than-expected data for inflation; the expectation of improvement of the Brazilian sovereign rating; the appreciation of BRL against the dollar; as well as the decision of the Federal Open Market Committee (FOMC) to reduce the US basic interest rate by 125 b.p. between January 22nd and January 30th. Between January 21st and March 3rd, one- and three-month rates remained unchanged, while the one-, two- and three-year rates decreased 0.25 p.p., 0.60 p.p. and 0.80 p.p., respectively. Real interest rates, measured by the differential between the one-year forward nominal interest rate and the smoothed twelve-month ahead inflation expectations, decreased to 7.31% on March 3rd, down from 7.43% on January 21st.

66. On January 30th and February 27th, the BCB carried out reverse FX swap auctions amounting US$3.5 billion, with the total rollover of the February 1st and March 3rd redemptions.

67. In its open market operations, the BCB carried out, from January 22nd to March 3rd, weekly five- and seven-month fixed rate repo operations, borrowing. The average daily balance of these operations reached R$84.8 billion, of which R$62.8 billion were seven-month operations. In the same period, the BCB conducted 29 borrowing overnight repo operations. The BCB also conducted daily liquidity management operations with tenures of two working days. Operations with tenors less than thirty days, including daily liquidity management operations, averaged R$20.3 billion, borrowing. In addition, on January 24th and on February 1st and 15th, the BCB conducted borrowing operations with tenure of 28, 8 and 14 working days, respectively, amounting R$89.0 billion, R$20.8 billion and R$21.2 billion. These operations totaled R$105.7 billion on a daily average basis.

68. Between January 22nd and March 3rd, the National Treasury raised a total of R$35.7 billion, of which R$21.9 billion in fixed-rate securities: R$17.2 billion via issuance of LTNs maturing in 2008, 2009 and 2010, and R$4.7 billion in NTN-Fs maturing in 2012, 2014 and 2017. Issuance of LFTs totaled R$7.0 billion, for securities maturing in 2014. Issuance of inflation-linked NTN-Bs reached R$6.8 billion, for securities maturing in 2011, 2013, 2017, 2024, 2035 and 2045.

69. In the same period, the Treasury conducted auctions to sell LTNs maturing in October 2008, and April 2009 and bought LTNs maturing in April 2008, totaling R$9.5 billion. Issuance of inflation-linked NTN-Bs for securities maturing in 2011, 2013, 2017, 2024, 2035 and 2045, settled in other National Treasury securities, totaled R$3.7 billion. The Treasury also conducted sales auctions of LFTs maturing in 2012 and 2014, which totaled R$10.1 billion, receiving LFTs maturing in 2008 as payment, and purchase auctions to buy LTNs and NTN-Bs, totaling R$2.0 billion and R$0.2 billion, respectively.