BANCO CENTRAL DO BRASIL

Minutes of the 150th Meeting of the Monetary Policy Committee (Copom)

Summary

Date: April 27th, from 4:15PM to 6:15PM, and April 28th, from 5:05PM to 8:05PM
Place: BCB Headquarters meeting rooms - 8th floor on April 27th and 20th floor on April 28th – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Aldo Luiz Mendes
Alexandre Antonio Tombini
Alvir Alberto Hoffmann
Anthero de Moraes Meirelles
Antonio Gustavo Matos do Vale
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva

Department Heads (present on April 27th)
Adriana Soares Sales – Research Department (also present on April 28th)
Altamir Lopes – Economic Department
João Henrique de Paula Freitas Simão – Open Market Operations Department
José Antonio Marciano - Department of Banking Operations and Payments System
Leonardo Martins Nogueira – International Reserves Operations Department
Renato Jansson Rosek – Investor Relations Group

Other participants (present on April 27th)
Eduardo José Araújo Lima – Deputy-Head of the Research Department
Fabio Araujo – Advisor to the Research Department
Ricardo Franco Moura – Advisor to the Board

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

BANCO CENTRAL DO BRASIL

Recent Economic Developments

1. IPCA inflation, after moving from 0.75% in January to 0.78% in February, reduced to 0.52% in March. As a consequence, inflation accumulated in the first quarter of 2010 reached 2.06%, 0.8 p.p. above the level registered in the same period of the previous year. The rise in inflation in 2010 mirrors the behavior of both market prices, which increased by 2.47% in the year through March, and regulated prices. Focusing on market prices, both prices of tradable goods and non-tradable goods accelerated in the first quarter, reaching 1.48% and 3.36%, respectively, up from 0.05% and 2.39% year-over-year. On its turn, regulated prices increased by 1.11% in the first three months of the year, compared to 1.17% in the same period of 2009. The change in the prices of services, whose dynamics tends to show more persistence than that of the prices of goods, reached 3.17% until March and 6.92% in twelve months. Preliminary data for April point to consumer inflation above that observed in March. In short, information available suggests deterioration of inflation dynamics at the margin.

2. The three main underlying inflation measures calculated by the BCB showed divergent behavior between February and March. The smoothed trimmed means core inflation increased from 0.39% in February to 0.46% in March, while the core inflation by exclusion and double weight core inflation measures reduced (from 0.68% and 0.47% in February, to 0.42% and 0.40% in March, respectively). In the year through March, the core inflation by exclusion increased by 1.70%, while smoothed trimmed means and double weight core inflation measures increased 1.33% and 1.48%, respectively. These changes are, respectively, 0.32 p.p., 0.27 p.p. and 0.31 p.p. above the rates prevailing in the same period in 2009. The twelve-month trailing inflation measures changed from 4.73%, 4.36% and 4.74% in December 2009, for the core inflation by exclusion, smoothed trimmed means and double weight core inflation measures, to 5.06%, 4.64% and 5.06% in March, respectively. It is important highlighting that all core inflation measures continued to increase on a twelve-month basis, and are above the midpoint of inflation target. Moreover, it bears emphasizing that the behavior of the IPCA diffusion index increased from 61.7% in February to 66.4% in March (compared to 60.2% in March 2009). From another perspective, the diffusion indices suggest dissemination in the inflation acceleration process.

3. The General Price Index (IGP-DI) inflation decreased from 1.09% in February to 0.63% in March. In the year through March, the IGP-DI inflation reached 2.76% (-0.96% in the first quarter of 2009). Under this comparison basis, the acceleration of the IGP-DI reflected the behavior of its three components. The Wholesale Price Index (IPA-DI) increased 2.88% in the first quarter of 2010 (-2.09% in 2009Q1). On its turn, the Consumer Price Index-Brazil (IPC-Br) increased 2.86% in the same period (1.66% in 2009Q1). Still according to the same comparison basis, the Civil Construction National Index (INCC) increased 1.76% (0.35% in 2009Q1). The IPA-DI inflation acceleration, under this comparison basis, derived mainly from the behavior of agricultural prices. While the industrial IPA increased 2.69% (-2.59% in 2009Q1), the elevation of wholesale agricultural prices reached 3.50% (-0.71% in 2009Q1). As mentioned 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, as well as on 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 moved from 0.1% in January to 0.8% in February. Still considering the seasonally adjusted series, on a month-on-month basis, after expanding by 1.2% in January, industrial output increased by 1.5% in February. On a year-over-year basis, industrial output increased by 18.4% in February, up from 16.1% in January. On a twelve-month trailing basis, decline in industrial production is still observed (-2.6%), but it has been reduced (-7.4% in December and -5.0% in January). The behavior of IBGE industrial output series, and its components, shows that industrial production expands at a pace that continues to be influenced by the international outlook, by business and households expectations, as well as by domestic financial conditions. This process is supported not only by traditional sources of credit, but also by the recovery of capital markets and the performance of public financial institutions.

5. Among the use categories, according to data seasonally adjusted by the IBGE, in February it bears highlighting the expansion of 1.6% in capital goods production, and especially, in non-durable and semi-durable consumer goods production, which increased 2.4%. Durable consumer goods production increased 0.7%. Intermediate goods production declined 0.4% after rising 0.9% and 2.0% in December and January, respectively. It bears highlighting that capital goods productions expanded by 6.4% in the quarter ended in February, the most remarkable expansion

among the use categories. The recovery in industrial production dynamism was initially led by the production of durable goods, but it has become even more widespread than before, reflecting tax exemption measures, in advanced process of reversion, as well as the easing in financial conditions and the income expansion. The future behavior of industrial production, which should not be uniform over time, will also depend on the evolution of consumer and businessmen confidence, which should continue to be sources of dynamism, to which will be added the recovery of external demand.

6. Labor market continues to show favorable behavior. The unemployment rate in the six metropolitan regions covered by the IBGE Monthly Labor Survey (PME) increased from 7.2% in January to 7.4% in February, 1.1 p.p. lower than that observed in the same month of last year. According to the seasonally adjusted series, the unemployment rate reached 7.2% in February, down from 7.5% in the previous month. Average real earnings increased 1.8% in February, month-on-month, after increasing by 2.2% in January. Employment, on its turn, increased by 2.1% in January and 3.5% in February, year-over-year. As a consequence, real payroll expanded by 4.4% in February, year-over-year, continuing to constitute a key driver for domestic demand growth. Still regarding the labor market, data from the Ministry of Labor and Employment (MTE) indicate that formal employment has continued to recover. In fact, 266 thousand jobs were created in March and, 657 thousand, in the first quarter of 2010, both record highs for the historical series. The manufacturing industry, services and civil construction recorded, for the third consecutive month, record highs for the month and, therefore, registered the best first quarter for the historical series (204 thousand, 250 thousand and 128 thousand, respectively). The most dynamic sector continues to be civil construction, where employment recorded a 12.3% increase in the first quarter of the year, year-over-year.

7. According to data seasonally adjusted by the IBGE, expanded retail sales increased by 2.1% in February, after increasing by 1.3% in January. On a year-over-year basis, the indicator increased 13.6% in February. The three-month moving average of expanded retail sales reached 1.4% in February, according to seasonally adjusted data, after reaching 0.8% in January. On a month-on-month basis, according to seasonally adjusted data, it bears emphasizing the expansion in the sales of pharmaceuticals and medical articles (3.9%) and fabric, clothing and shoes (3.4%). Expanded retail sales data have been evidencing growth, mainly influenced by the increase in the sales of durable goods, in response to the improvement in the access to credit supply, income expansion and temporary sector incentives granted by the government. The retail sector continues to register positive performance and indicates that the pace of domestic demand growth remains robust, showing no signs of cooling. For the next quarters, the retail sales trajectory will be benefited by fiscal transfers, by real payroll growth, by the recovery in the access to credit and by the evolution of consumer confidence.

8. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by FGV, without seasonal adjustment, reached 83.5% in March, 6.4 p.p. above the level registered in the same month of 2009. According to the CNI series seasonally adjusted by the BCB, the Nuci showed stability in February (80.7%). According to the seasonally adjusted monthly series calculated by FGV, the Nuci reached 84.3% in March (84.0% in the previous month), above the average observed in the last five years. Similarly, the Nuci in the consumer goods, construction material and capital goods industries in March stood, in the same order, 5.0 p.p., 7.7 p.p. and 5.3 p.p. above the respective averages for the historical series, started in 1995. On its turn, the intermediate goods industry (-1.1 p.p.) is slightly below the historical average. The reduction in the idle capacity is a result of economic activity expansion, not totally offset by the maturity of investment projects. Data regarding the absorption of capital goods showed recovery compared to the same periods of 2009 and increase in February month-on-month. The absorption of capital goods increased 5.4% in February, according to seasonally adjusted data, a 31.6% increase in year-over-year terms, but an 8.7% decrease in the last twelve months. On its turn, the production of construction inputs expanded by 1% at the margin in February, after recording stability in January. According to observed data, it increased 15.1% in February, year-over-year, accumulating a 2.7% fall in the last twelve months. In short, evidences suggest that the utilization rates have recorded upward trajectory in the last months, showing reduction in any remaining idle margin of the industry, despite the recovery of investments. 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 twelve-month cumulative trade balance retreated at the margin, reaching a US$23.2 billion surplus in March, US$ 2 billion lower than the one obtained in the same period last year. This total resulted from US$161

billion in exports and US$137.9 billion in imports, equivalent to -15.4% and -16.6% changes, respectively, year-over-year. In fact, the greater dynamism of domestic demand relative to the external demand contributes to the narrowing of the trade surplus. The increase in remittances of profits and dividends contributes to elevate the twelve-month trailing current account deficit, which reached US$31.5 billion in March, up from US$28 billion in February, equivalent to 1.8% of GDP. On its turn, foreign direct investment reached US$26.3 billion in the last twelve months through March, equivalent to 1.5% of GDP.

10. The period since the last Copom meeting was initially marked by the continuity in the process of normalization of activity in international financial markets and, more recently, by some increase in the volatility of asset prices, although the perception of systemic risk remains limited. These developments can be attributed to fiscal concerns in mature economies, notably in Europe. Under these conditions, there was some moderation in the demand for risky assets, as evidenced by the behavior of international financial markets. Moreover, given the fiscal concerns in the Euro Area, the emphasis in the currency market remained the depreciation of the euro.

11. Regarding the global macroeconomic scenario, the current predominant view points to the recovery in 2010 and acceleration in 2011, in a process where the US, Europe and Japan (G3) would recover some dynamism, but which would continue to be led by emerging economies. The US economy shows signs of gradual recovery, due to the improvement of conditions in labor market and industrial activity. On its turn, the economic activity in Japan continues to suggest a slow recovery, led by exports, especially to Asia. In the Euro Area, where fiscal concerns persist and where household consumption shows no signs of reaction, the economic recovery has been slower and uneven. In short, uncertainty regarding the sustainability of consumption expansion in mature economies still remains, mainly in Europe, in a scenario of withdrawal of economic policy stimuli and modest prospects for credit expansion, but the recovery shows some consolidation. On the other hand, in many emerging economies, economic activity seems to have embarked on a consistent path of expansion, showing, in some cases, evidence of heat in the markets of goods, services, production factors and assets. Therefore, inflation troughs in mature economies and major emerging economies have been exceeded. In this context, after a period of aggressive monetary policy easing, in several countries, monetary policy continues a phase of stability, whereas those economies that were less impacted by the international crisis and recover more quickly and intensely tend to adopt more restrictive monetary policy stance. Australia and India, for instance, recently raised the basic interest rate.

12. Oil prices increased, both for spot and future markets, despite with reduced volatility, since the last Copom meeting. Uncertainty concerning these quotations remains high, as the prospective scenario depends on the evolution of demand, in a context of global economic recovery, on the prospects for the evolution of global supply, subject to the pace of investment maturation in the sector, in addition to the geopolitical issues that affect the price of this commodity. Nonetheless, the main scenario adopted by the Copom assumes unchanged domestic gasoline prices in 2010. However, it bears highlighting that, regardless the behavior of domestic gasoline prices, the evolution of international oil prices can eventually affect domestic prices both through production chains, such as the petrochemical, and through the potential effect over inflation expectations. It bears emphasizing that agricultural commodity prices, which have particularly important impact on the evolution of food costs, have presented stability since the previous Copom meeting, while the industrial commodities prices have registered slight increase, except for nickel and iron ore, which have notably increased since the last Copom meeting.

Assessment of Inflation Trends

13. The identified shocks and their impacts were reassessed according to newly available information. The scenario considered in the simulations was based on the following assumptions:

a) the projected adjustments for gasoline and bottle gas prices for 2010 were kept unchanged at 0%;
b) the projected adjustments for fixed telephone was kept at 1.6% for 2010, while the projections for electricity prices adjustments was reduced to 0.7% for 2010, down from 3.3% considered in the March meeting;
c) the projection for regulated prices inflation for 2010, based on individual items, reduced to 3.6%, down from 4.0% considered in the March meeting, according to the benchmark scenario. This set of prices, according to data released by IBGE, accounted for 29.60% of the total March IPCA;

d) the projection for regulated prices inflation for 2011 was maintained at 4.4%, on the benchmark scenario. Such projection is based on the endogenous determination model for regulated prices, which computes, among other factors, seasonal components, foreign exchange rate changes, market prices inflation and the IGP (General Price Index) change; and
e) the projection for the spreads over the Selic rate, based on the 360-day swap rates, on the benchmark scenario, estimates 88 bps and 23 bps spreads in the fourth quarters of 2010 and 2011, respectively.

14. Regarding fiscal policy, projections assume the achievement of a public sector primary surplus target of 3.3% of GDP in 2010. This percentage can be reduced by up to 1.12 p.p., due to the implementation of the projects linked to the Growth Acceleration Program (PAC), of which 0.44 p.p. refer to amounts to be paid from 2009. Moreover, it is expected that the primary surplus in 2011 would return, without adjustments, to 3.3% of GDP. The additional assumptions considered in the previous meeting remained unchanged.

15. Since the last Copom meeting, the median of the expectations compiled by the BCB's Investor Relations Group (Gerin) for the 2010 IPCA increased from 5.03% to 5.41%. For 2011, the median of inflation expectations also increased, from 4.60% to 4.80%.

16. The benchmark scenario assumes the maintenance of the exchange rate at R$1.75/US$1.00 and the Selic rate at 8.75% p.a. during the forecast period. Under this scenario, the projection for the 2010 inflation increased relative to the figure considered in the March Copom meeting, and continues to be significantly above the 4.50% midpoint target established by the National Monetary Council (CMN). According to 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 2010 also increased, standing significantly above the inflation midpoint target. For 2011, under the benchmark scenario, the projection increased relative to the figure considered in the March Copom meeting, and is significantly above the inflation midpoint target. Under the market scenario, the projection also increased, however it stands around the midpoint target.

Monetary Policy Decision

17. The Copom evaluates that the monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In international markets, risk aversion has improved since the last Copom meeting, despite the intensification of volatility in these markets in recent weeks, largely due to concerns about the sovereign debt of European countries. Indeed, there is a context of abundant liquidity, so that the prospects for external funding for the Brazilian economy remain favorable. In line with these developments, both the prices of Brazilian assets and of some selected commodities have continued to rise. On the other hand, the trajectory of price indices evidences the resumption of inflationary pressures in relevant economies. Consequently, the benign impact of the international scenario over the domestic inflation path could come to an end, despite the persistence of uncertainty regarding the behavior of asset and commodities prices in the context of gradual normalization of international financial conditions. On the other hand, this scenario may be quickly reversed, depending on the dynamics that derives from the market distrust regarding the solvency of some European economies. Regardless of how these aspects of the international outlook evolve, the Copom reaffirms that the main challenge of monetary policy is to ensure that the favorable results obtained over the last years are preserved.

18. The Copom believes that the indicators released since the last meeting reinforce the perception about the existence of pressures over the market of factors, increasing the probability that initially localized inflationary episodes pose risks to the inflation trajectory. In this context, the risk of pass-through of upward costs pressures to wholesale price inflation, and from the last to consumer price inflation, increases as well. The Committee states that the materialization of this pass-through, as well as the spread of initially localized pressures over consumer prices, continues to depend critically on the economic agents' expectations for inflation and on the idleness degree of the economy, among other factors. Therefore, these and other variables are part of the information set that is taken into account in the generation of inflation forecasts of the BCB, which constitute a key element in the Committee's assessment on the prospective inflation scenario. Additionally, it should be noted that the behavior of domestic demand has exerted some pressure over the prices of non-tradable items, such as services, which, considering the perspective for the evolution of the main factors sustaining aggregate demand, tends to be observed again in this

and in the upcoming quarters. In any event, the Committee reaffirms the commitment that it will continue to conduct its actions in order to ensure that the gains obtained in inflation control in recent years become permanent.

19. The Copom considers important to emphasize, once more, that there are important time lags between the implementation of monetary policy and its effects on both economic activity and inflation. Therefore, the assessment of alternative options for monetary policy should necessarily focus on the forward-looking inflationary scenario and its risks, instead of current inflation figures. The prospective scenario, indeed, suffered some deterioration at the start of 2010, a dynamic that has become even more evident since the last meeting. This occurred despite specific moves of some domestic assets, which are only relevant for monetary policy if they impact the forward-looking inflationary path.

20. Prospects for the evolution of domestic economic activity remain favorable, as evidenced by data on trade, manufacturing capacity utilization and the labor market. This assessment is also supported by signs of continued expansion of credit supply, both for individuals and corporate; by the fact that consumers and businessmen confidence stands at historically high levels; and by income growth. The continuity and intensification of this outlook depends significantly upon the effects of fiscal stimulus measures and the additional governmental transfers that will occur in the upcoming months and, to a lesser extent, upon the pace of recovery in global activity. The dynamism of domestic activity should also be benefited by the easing of financial conditions, favored, among other factors, by the policies of official banks. Considering the Brazilian economy's new cycle of expansion, these considerations become even more relevant when one takes into account that there are lags between the implementation of monetary policy and its effects over the activity level and inflation.

21. The Copom believes that the main risks to the consolidation of a benign inflationary scenario stem, regarding the external environment, from additional rises in commodities prices and, regarding the domestic scenario, from the fiscal and credit impulse over the evolution of domestic demand, in the context of virtual exhaustion of the idleness margin in the use of production factors. Indeed, these developments may exacerbate an outlook that already evidences the presence of mismatch between the growth of domestic absorption and capacity of supply expansion.

22. International evidence, ratified by the Brazilian experience, indicates that high inflation rates lead to the increase of risk premium, both for private and public funding, and to the shortening of planning horizons, both for households and corporate. Consequently, high inflation rates reduce investment and the economic growth potential, in addition to presenting regressive effects on income distribution. Otherwise, high inflation rates do not result in any lasting results for economic growth and employment level; on the contrary, they create permanent damage to these variables in the medium and long term. Therefore, the Copom strategy aims to ensure the convergence of inflation towards the targets path in 2010 and in the next years, which requires that possible deviations from the target path be promptly corrected. Such strategy takes into account the time lags in the transmission mechanism and is the most adequate to deal with the uncertainty inherent to the process of monetary policy formulation and implementation.

23. The Committee believes that the economy is in a new expansion cycle, and this assessment is corroborated by data released since its last meeting, although uncertainty about the pace of this process - which should be resolved over time - still persists. Signs of overheat in the economy are evidenced, for example, in core inflation trajectories, in the rise of inflation expectations, in the evidence of workers shortage for some sectors and in the rising inputs costs. In particular, during this period, the inflation projections considered by the Committee showed some deterioration in the prospective scenario. The Copom believes that this deterioration should be contained and, therefore, the signs of persistent mismatch between the pace of aggregate demand expansion and aggregate supply, which, ultimately, tend to increase the risk for inflation dynamics, must be reversed. In such circumstances, the monetary policy stance should be adjusted, on the one hand, because it contributes to the convergence between the pace of demand expansion and supply and, on the other hand, because it prevents that originally localized price pressures determine a persistent deterioration of the inflation prospective scenario.

24. In short, despite the withdrawal of substantial share of the stimuli introduced during the recent international financial crisis, since the last meeting, the risks for the achievement of a benign inflationary scenario, in which inflation would remain consistent with the inflation targets, have increased. In light of this outlook, the prevailing

opinion among the Committee members was that monetary policy must act incisively in order to avoid that the greater uncertainty detected in shorter horizons spread to longer horizons.

25. Under these considerations, continuing the adjustment process of monetary conditions to the prospective scenario of the economy, in order to ensure the convergence of inflation to the targets path, the Copom unanimously decided to increase the Selic rate to 9.50% p.a., without bias.

26. Under the inflation-targeting regime, the Copom guides its decisions according to projected inflation, the analysis of several alternative scenarios for the evolution of the main variables that determine the forward-looking dynamics for prices, and the balance of risks associated to the projections. After a brief contraction, domestic demand recovered, largely due to the effects of stimulus factors, such as income growth and credit resumption. On its turn, important fiscal and credit incentives have been provided to the economy in recent quarters, and should contribute for the consolidation of activity expansion and, hence, for the reduction of any residual idleness margin of productive factors. The effects of these stimuli, as well the reversal of substantial share of the initiatives taken during the recent international financial crisis, and a possible deepening of the fiscal crisis that several European countries face, are an important part of the context in which future monetary policy decisions will be taken, aiming to ensure a timely convergence of inflation to the targets path.

27. In addition, it bears noticing that there was consensus among the Committee members about the need to adapt the pace of adjustment of the basic interest rate to the developments in the prospective inflation scenario, as well as to the corresponding balance of risks, in order to limit the impacts caused by the behavior of current inflation over the underlying prices dynamics.

28. At the end of the meeting it was announced that the Committee will reconvene on June 8th, 2010 for technical presentations and, on the following day, to discuss the monetary policy decision, as established in Communiqué 18,927 of October 9th, 2009.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

29. The IPCA increased 0.52% in March, down from 0.78% in February, accumulating a 2.06% increase in the year through March. In the last twelve months, the index increased 5.17% in March, up from 4.83% in February. The behavior of food and beverages prices constituted the key driver of inflation in March, contributing 0.35 p.p. to the result, in particular due to the change in tubers, roots and vegetables, pasteurized milk, refined sugar and fruit, which jointly contributed 0.23 p.p. to the March IPCA result. Despite the pressure stemming from food and beverages, the IPCA cooled in March, mainly favored by the depletion of the impacts caused by school fees readjustment, which had pressured the index in February.

30. The deceleration in market price inflation, from 0.93% in February to 0.80% in March, reflected the slowdown in non-tradable goods inflation, which reached 1.03% in March, down from 1.54% in February, while the prices of tradable goods rose 0.53% in March, up from 0.26% in the previous month. Regulated prices fell 0.14% in the month, after rising 0.42% in February, reflecting mainly the 1.95% decrease in the price of gasoline. In the last twelve months through March, market prices rose 5.37%, the highest change since May 2009, up from 4.77% through February, while regulated prices increased 4.67%, against 4.97% for the same periods, respectively. The diffusion index stood at 66.4% in March, up from 61.7% the previous month, confirming the dissemination process of price adjustments.

31. The IPCAEX core, which excludes all fuel items and ten items of household food, decelerated in March to 0.42%, down from 0.68% in February. In twelve months, it accelerated, reaching 5.06% in March, up from 4.86% in February. The smoothed trimmed-means core measure accelerated, both for the monthly rate, increasing 0.46% in March up from 0.39% in February, and for a twelve-month trailing basis, reaching 4.64%, compared to 4.52% in the previous month. The double weight core increased by 0.40% in the month, down from 0.47% in February, increasing 5.06% on a twelve-month trailing basis, up from 4.93% in February.

32. The IGP-DI decelerated in March, increasing by 0.63%, down from 1.09% in February, favored by the cooling in wholesale price inflation, whose impact overweighed the resurgence of highs in consumer price inflation and construction prices. The IGP-DI expanded by 2.76% in the year through March and 2.26% in the last twelve months. The IPA-DI increased 0.52% in March, down from 1.38% in February, registering increase for agricultural prices (2.33%) and decrease for industrial prices (-0.05%). In the year through March, the IPA-DI increased 2.88% and in the last twelve months, it rose 0.79%. The IPC-Br grew 0.86% in March, up from 0.68% in February, accumulating 2.86% in the year and 5.17% in twelve months. In the month, three of the seven groups that compose the IPC-Br accelerated, with emphasis on food expenses, accounting for 0.74 p.p. in the composition of the monthly change, especially fruit and vegetables, which contributed 0.44 p.p.. The INCC-DI increased 0.75% in March, up from 0.36% in the previous month, with highlights to the greatest change in the prices of the labor force, which increased 1.05%, up from 0.21% in February. In the year through March and in the last twelve months, the index expanded by 1.76% and 4.71%, respectively.

33. Partial results of price indices indicated continuity in the process of inflation deceleration in April, reflecting, among other factors, the depletion of seasonal impacts responsible, in part, for the increase in inflation at the start of the year. The IPCA-15 increased 0.48%, up from 0.55% in the previous month, mainly reflecting the behavior in the prices of alcohol, which decreased 13.64% in the period, also influencing the 2.12% decline in the price of gasoline. The food and beverages group continued to be the key driver for inflationary pressure, contributing 0.39 p.p. to the monthly IPCA-15. Considering wholesale price indices, there are also less intense highs, due to the cooling in the prices of final and intermediate goods, followed by fall in the prices of raw materials.

Economic Activity

34. Expanded retail sales increased 2.1% in February, month-on-month, after rising 1.3% in January and 0.9% in December, according to seasonally adjusted data by the IBGE’s monthly survey (PMC). The average sales for the quarter ended in February rose 1.3%, compared to the quarter ended in November. Year-over-year, growth reached 13.6%, accumulating increases of 11.9% in the first two months of 2010 and 8.3% in the last twelve months through February. The month-on-month result recorded rise in sales in eight of the ten sectors surveyed, with emphasis on pharmaceuticals and medical articles (3.9%), and fabric, clothing and shoes (3.4%).

35. Year-over-year, all commerce segments expanded in February 2010, with highlights to the increases in the sales of furniture and appliances (22.2%), office material and equipment (18.8%), and vehicles and motorcycles, parts and pieces (16%). In the last twelve months, there were increases in eight of the ten sectors surveyed, with emphasis on the growth in vehicles and motorcycles, parts and pieces (13.1%), office material and equipment (12.3%) and pharmaceutical and medical articles (12.1%). Among the segments that presented negative performance, according to the same comparison basis, it bears noticing construction materials (-3.2%), and fabric, clothing and shoes (-1.2%).

36. Signs of continued expansion in retail activity were released by the São Paulo Trade Association (ACSP), covering the state capital, showing increases of 2.4% in the number of consultations to the Central Credit Protection Service (SCPC) and 0.6% to the Usecheque system, in March, according to the month-on-month seasonally adjusted series. In 2010Q1, these indicators increased 6.6% and 6.4%, respectively, relative to the same period last year.

37. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, rose 15.6% in March, month-on-month, according to Fenabrave (Brazilian Federation of Automotive Vehicles Distribution) data, seasonally adjusted by the BCB. The increase in the month reflected the significant growth in sales of trucks and buses, both recording 27.2% in the period, in addition to the expansion of car sales (13.3%) and light commercial vehicles (6.9%). It should be noticed that the end in the reduction of industrialized products tax (IPI), to which flex-fuel vehicles were subject in March, favorably impacted the performance of vehicles sales in the month. Total sales increased 30.3% in March year-over-year and 14.8% in the last twelve months through March.

38. Capital goods imports decreased 1% in March, month-on-month, according to the Funcex quantum index, seasonally adjusted by the BCB. The March indicator increased 17.1% year-over-year and 16% in the year through March, but it declined 9.8% in the last twelve months through March, compared to the same period last year.

39. Capital goods production increased 1.6% in February, month-on-month seasonally adjusted, and expanded 26.2% and 19.1% compared to February and the first two months of 2009, respectively, according to the IBGE. Considering the result by destination of products, there was monthly decline only for serial industrial use (3.3%), while there were expansions in production of agricultural pieces (20.9%), capital goods for construction (14.4%), and for mixed use (7.1%). Compared to February 2009, it bears noticing the production of capital goods for construction, which increased 196.9%, followed by agricultural parts and capital goods for agricultural production, with increases of 76.3% and 51.7%, respectively. The production of construction inputs expanded 1% month-on-month, according seasonally adjusted data, and 15.1% year-over-year.

40. Disbursements from granted by the BNDES reached R$ 144.3 billion in the last twelve months through March, with a 53% increase over the same previous period. The industrial sector was the largest recipient of disbursements, with participation of 44% of the total released in the period, followed by the infrastructure sector, with 36%. In the first quarter of 2010, disbursements expanded by 42%, compared to same period in 2009, with emphasis on the infrastructure sector, which recorded a 40% share in the total released, followed by industry (30%), trade and services (20%) and agriculture (10%). The March result reported slowdown in disbursements by the institution, and a 12.5% increase compared to March 2009.

41. Industrial production increased 1.5% in February, month-on-month, when it registered 1.1% expansion, seasonally adjusted, according to IBGE's Monthly Industrial Survey – Physical Production (PIM-PF). Year-over-year, industrial output grew by 18.4% in February and 17.2% in the first two months, still recording negative result in the last twelve months (-2.6%), over the same previous period. Month-on-month, the category of semi- and non-durable consumer goods outperformed in February (2.4% growth), followed by capital goods (1.7%) and durable consumer goods (0.7%), while intermediate goods production decreased 0.4%. Year-over-year, all use categories expanded, with emphasis on the increases of 26.2% in capital goods and of 25.2% in durable consumer goods. On a twelve-month trailing basis, the production of capital goods and intermediate goods decreased 12.7% and 3.1%, respectively, while the production of durable consumer goods and semi and non-durable consumer goods increased 1.5% and 0.5%, respectively.

42. Real earnings in the manufacturing industry increased 1.5% in February month-on-month, while in January it declined by 1.5%, according to data released by the CNI, seasonally adjusted. Hours worked and employment rose by 1.3% and 1%, respectively, in the same period. Year-over-year, these indicators increased by 11.4%, 5.3% and 2.8%, respectively. On a twelve-month trailing basis, the three indicators reduced by 1.3%, 5.8% and 2.9%, respectively.

43. According to CNI, the Nuci remained unchanged at 78.6% in February, relative to January, 2.1 p.p. higher than the level observed in the same month of 2009. Considering the seasonally adjusted series, the Nuci stood at 80.7% in February, compared to 80.6% in January, and accumulated a decline of 0.2% in the quarter ended in February. In eleven out of the nineteen segments of the manufacturing industry, the Nuci presented positive performance month-on-month. According to data from FGV, the Nuci reached 84.3% in March, seasonally adjusted, with increases of 0.3 p.p. in the month and 0.5 p.p. over the last three months.

44. According to Anfavea, vehicles production reached 331 thousand units in March, increasing by 20.3% year-over-year. According to data seasonally adjusted, vehicles production increased 5.3% in March, month-on-month. In the year and in the last twelve months through March, the production of vehicles increased 24.4% and 8.3%, respectively. The monthly increase in vehicles sales was exclusively due to the performance of domestic market, with a 14.5% increase in March, month-on-month, while exports fell 0.2%. In the year and twelve months through March, domestic sales increased 14.7% and 13.9%, respectively, while exports expanded by 82.7% in the year and decreased by 14.7% in the last twelve months.

45. The LSPA survey carried out by the IBGE in March estimated the production of 145.2 million tons in 2010, up from 133.8 million tons in 2009. The new estimate represents an 8.5% increase relative to 2009, remaining virtually

unchanged relative to the forecast in February. The projected expansions for the production of soybeans and corn were changed to 18.1% and 3%, respectively. For products directly related to the basic basket, such as rice, beans and wheat, the new survey projected changes of -9.6%, 2.3% and 9.4%, respectively.

Surveys and Expectations

46. According to the Fecomercio-SP survey, the Consumer Confidence Index (ICC) decreased in April for the second consecutive month. The ICC fell 2.9% in April, compared to March, when it had fallen 1.5% compared to February, the month when it reached a record high for the series. This result reflected the fall of 8.5% in the Current Economic Conditions Index (Icea), considering that the Consumer Expectations Index (IEC) increased 0.8% in the period. Year-over-year, the ICC increased 21.8%.

47. According to the Consumer Expectations Survey carried out by the FGV nationwide, the ICC increased 0.6% in March, month-on-month seasonally adjusted, reaching 110.9 points. In the month, the Current Situation Index (ISA) decreased for the second consecutive month, from 123.4 to 121.5 points, while the Expectations Index (IE) increased from 103.2 to 105.4 points, after three consecutive months of decline. Year-over-year, the ICC increased 13.2%, reflecting increases of 21.4% in the ISA and of 8.7% in the IE.

48. The Industry Confidence Index (ICI) from FGV reached 116.5 points in March, standing 0.6% above the level observed in February, according to seasonally adjusted data and 49% higher than the level observed in March 2009. Considering the components, the ISA increased 3.4%, and the IE decreased 2.2%, seasonally adjusted. Year-over-year, the same indicators expanded by 47.2% and 50.8%, respectively.

49. According to the CNI survey, the industrial businessmen confidence remained virtually unchanged in March, compared to the previous month, as evidenced by the Industrial Businessmen Confidence Index (Icei), which stood at 67.7 points, compared to 67.8 points registered in February. The component relative to current conditions fell by 0.3 point compared to the previous month, while that relative to expectations increased by 0.1 point.

Labor Market

50. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 266.4 thousand formal jobs were created in March, the best result for the month, surpassing by 19% the previous record in March 2008. In the last twelve months through March, 1,710.1 thousand hires were created, nearly two-fold the number recorded in the same period of 2009. Considering seasonally adjusted data, employment level expanded by 0.6% month-on-month. The manufacturing industry recorded 72.4 thousand new jobs, recording increases of 0.9% in employment in the month, considering seasonally adjusted data, and 3.5% year-over-year. The service sector created 106.4 thousand jobs in March, with increases of 0.6% month-on-month in the employment level and 4.6% in the year. The construction sector was responsible for the supply of 38.6 thousand jobs during the month, representing a 1.2% growth in the level of employment month-on-month and a 12.3% increase in the year, performing as the sector with the highest growth rate according to both comparison bases.

51. According to the IBGE employment survey (PME), carried out in the six main metropolitan regions of the country, the unemployment rate reached 7.4% in February, increasing 0.2 p.p. month-on-month and declining 1.1 p.p. year-over-year. The increase in unemployment in the month resulted from an increase of 63 thousand jobs, lower than the increase of 98 thousand people in the Economically Active Population (PEA). In seasonally adjusted terms, the unemployment rate fell by 0.3 p.p. in the month and reached 7.2%. According to the survey, average real earnings usually earned by workers increased 1.2% month-on-month, after increasing 1.1% in January. Payroll grew 1.5% month-on-month and 4.4% year-over-year.

Credit and Delinquency Rates

52. Outstanding credit in the financial system reached R$1,452 billion in March, equivalent to 45% of GDP, with increases of 1.1% in the month and of 16.8% in the last twelve months. Non-earmarked credit operations increased 1.1% in the month and 11.2% in the last twelve months. Among the non-earmarked operations, credit operations to individuals increased 2% in the month and 18.6% in twelve months, while non-earmarked credit operations to corporate increased 0.2% and 4.6%, according to the same comparison bases. Earmarked credit operations increased 1.1% in March and 30.2% in twelve months.

53. The average interest rate on non-earmarked credit operations, used as reference for interest rates, decreased 0.1 p.p. in March, month-on-month, reaching 34.2%. The average annual rate on credit for individuals reached 41% in the month, 0.9 p.p. below that recorded in February, and the average rate on corporate credit reached 26.3%, 0.4 p.p. above the level registered in the previous month.

54. The average tenure on non-earmarked credit operations, used as reference for interest rates, increased in March, reaching 396 days, up from 388 days in February. The average tenure of corporate credit operations reached 287 days, up from 280 days in February, while the average tenure for credit operations to individuals totaled 526 days, eight more than the previous month.

55. Delinquency rates in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) reduced from 5.3% in February to 5.2% in March. Delinquency rates for credit operations with corporate declined 0.1 p.p., reaching 3.6%, and with individuals, declined 0.3 p.p., reaching 7%.

External Environment

56. Economic indicators released since the last Copom meeting have highlighted the continuing process of global economic expansion, driven primarily by emerging economies, especially in Southeast Asia. Recent projections by the IMF revised 2010 global growth to 4.2% and maintained their expectation for the performance of 2011, at 4.3%. Growth estimates for 2010 related to the US and Japan increased, respectively, to 3.1% and 1.9%, while for the Euro Area, UK and China projections remained unchanged at 1%, 1.3% and 10%, respectively. For world trade, the IMF raised its forecast for expansion this year to 7%, 1.2 p.p. above the last forecast, released in January.

57. In the US, expectations indicators showed continued rise in consumer confidence, while labor market indicators showed positive development, reflecting the net creation of jobs in the first quarter of the year. The disposable income, in contraction, suggests that consumption growth in the period had as counterpart a reduction in the savings rate. In the Euro Area, where the resumption of activity continues contained, the most recent data evidenced that consumer spending has not shown significant recovery yet and economic activity in the region continues to be driven mainly by the external sector.

58. In larger advanced economies, although the costs to producers respond to the rise in commodities prices, the relatively low installed capacity utilization (UCI) and the high unemployment rates result in the maintenance of reduced consumer price indices (IPC), which, in the last twelve months through March, reached 2.3% in the US, 1.4% in the Euro Area and 3.4% in the UK. Among emerging economies, the CPI annual changes recorded in March 9.6% in Turkey, 5.0% in Mexico, and 2.4% in China. In light of this outlook, the central banks of major mature economies kept the basic interest rates unchanged and were involved in the management of liquidity. Moreover, among emerging economies, signs of reduction of accommodative stance for monetary policy prevail, with recent high in the interest rate in India and restrictions to credit in China.

59. As highlighted in the last Copom meeting, in face of the fiscal deterioration, especially in the European Union, tensions in the international economy remained high. The five-year CDS spreads in Greece and Portugal have recently increased, despite the statement of financial support to Greece signed in mid-April by the countries that comprise the Euro Area. The Greek long-term debt was downgraded by a rating agency, and the Greek government formalized, with the countries that comprise the Euro Area and the IMF, the request for activation of the loan scheme. However, lack of details regarding its implementation maintained the CDS in Greece at record highs.

Foreign Trade and International Reserves

60. The Brazilian trade surplus reached US$668 million in March, accumulating US$892 million in the first quarter of the year, compared to US$3 billion in the same period of 2009. In twelve months, the surplus reached US$23.2 billion, decreasing 7.5% year-over-year. In the month, exports totaled US$15.7 billion, and imports, US$15.1 billion, both record highs for the month of March, growing by 27.4% and 43.3%, respectively, year-over-year, on a daily average basis. External trade reached US$77.6 billion in the first quarter, growing by 30.7% relative to the same period of 2009.

61. Based on the liquidity concept, which encompasses the balance of borrowing operations in foreign currencies, international reserves reached US$244 billion in March, recording a US$2.6 billion growth month-on-month. Under the cash concept, international reserves totaled US$243.8 billion, recording a US$2.7 billion increase, according to the same comparison basis. The monetary authority's interventions accounted for net purchases of US$3 billion in the domestic market, in March.

Money Market and Open Market Operations

62. Since the March Copom meeting, the slope of the yield curve has increased throughout its length. The persistent rise in inflationary expectations, the slow deceleration of current inflation indices and the disclosure of activity and employment data suggesting consistent recovery of economic activity were key drivers of this movement. Between March 15th and April 26th, one- three- and six-month rates increased by 0.35 p.p., 0.52 p.p. and 0.58 p.p., respectively. The one- two- and three-year rates increased by 0.55 p.p., 0.62 p.p. and 0.69 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, increased from 6.05% on March 15th to 6.36% on April 26th.

63. In its open market operations, the BCB carried out, between March 16th and April 26th, repo operations borrowing R$ 24.1 billion for a six-month period. As a consequence, the average daily balance of the long operations reached R$ 87.8 billion. In the same period, the BCB also borrowed money through repo operations with tenures between 12 and 28 working days, increasing the average daily balance of short-term borrowing operations to US$262.8 billion. The BCB also borrowed money through 28 overnight repo operations and conducted daily, at the end of day, two-working-day tenure liquidity management operations. The very short-term operations, including the two-working-day tenure liquidity management operations, averaged a daily balance of R$ 56.1 billion in the period, borrowing. The average daily balance of the total stock of repurchase agreement of the Central Bank decreased from $ 487.9 billion between January 26th and March 15th to $ 406.7 billion, between March 16th and April 26th. Considering the daily balance of operations for the most recent period, there was a fall in the repurchase agreements totaling R$ 139.2 billion, with a decrease in total stock from R$ 473.3 billion on March 15th to R$ 334.1 billion on April 26th. The main driver of liquidity contraction in the period was the adjustment promoted by reserve requirements.

64. Between March 16th and April 26th, the National Treasury issuance regarding the traditional auctions raised a total of R$37.4 billion. The issuance of fixed-rate securities reached R$20.1 billion, with R$13.4 billion via issuance of LTNs maturing in 2010, 2011 and 2012, and R$6.7 billion via NTN-Fs maturing in 2014 and 2021. Issuance of LFTs totaled R$10.7 billion, for securities maturing in 2013, 2014, 2015 and 2016. Issuance of inflation-linked NTN-Bs reached R$6.6 billion, for securities maturing in 2013, 2015, 2020, 2030, 2040 and 2050.