BANCO CENTRAL DO BRASIL

Minutes of the 158th Meeting of the Monetary Policy Committee (Copom)

Summary

Date: April 19th, 2011, from 4:45PM to 7:10PM, and April 20th, from 4:55PM to 8:00PM

Place: BCB Headquarters meeting rooms – 8th floor on April 19th and 20th floor on April 20th – Brasília – DF

In attendance:
Members of the Committee
Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva (present only on April 20th)
Sidnei Corrêa Marques

Department Heads (present on April 19th)
Adriana Soares Sales – Research Department (also present on April 20th)
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira – International Reserves Operations Department
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on April 19th)
Alexandre Pundek Rocha – Advisor to the Board
Eduardo José Araújo Lima – Deputy Head of the Research Department
Emanuel Di Stefano Bezerra Freire – Executive Secretary of the Board
Gustavo Paul Kurrle – Press Officer
Katherine Hennings – Executive Secretary of the Board
Nelson Ferreira Souza Sobrinho – Consultant of the Research Department

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. After recording 0.80% in February, monthly inflation measured by IPCA reached 0.79% in March. As a consequence, twelve-month trailing inflation reached 6.30% in March (6.01% in February and 5.99% in January), 1.13 p.p. above inflation registered in the twelve months through March 2010. The inflation increase in this period reflected, basically, the behavior of market prices, which increased 7.04%, while regulated prices increased 4.53% (4.67% in the same period of 2010). Regarding market prices, it bears highlighting that tradable goods inflation reached 6.04% and non-tradable goods increased 7.93%. Services price inflation continues at high levels and, in the twelve-month period through March 2011, it reached 8.53%, the highest since August 1997. In short, the set of available information suggests that prices acceleration observed in 2010, process led by market prices, show some persistence, in part because services inflation remains at high levels.

2. In the first three months of 2011, the IPCA increased 2.44%, 0.38p.p. above inflation observed in the same period of 2010. The main contributors were education, transport and personal expenses, that increased 7.23%, 3.61% and 3.07%, respectively, compared to 5.37%, 1.70% and 1.96%, in the 1Q10. These items were responsible for 1.49 p.p. of the period headline inflation. Food and beverage inflation, 2.15%, was below that observed for the group in the 1Q10 (3.68%). The food price path, however, continues to play a relevant role in the headline inflation recent acceleration. Indeed, in the twelve months ended in March, food and beverage prices continue to record high changes, accumulating 8.76% (9.62% in February). The recent elevation in food prices has shown persistence and reflects, in part, supply shocks, domestic and external, heightened by the high liquidity environment in international financial markets and by global demand increase.

3. Each of the three main underlying inflation measures calculated by the BCB performed similarly to the headline inflation: while there was an increase in the twelve-month accumulated inflation until March, monthly rates retreated between January and March. The smoothed trimmed means core inflation reduced from 0.54% in January to 0.40% in February, and 0.49% in March. The double weight core inflation, after registering 0.80% in January, kept unchanged in 0.70% in February and March, while the core inflation by exclusion accelerated from 0.76% in January to 0.96% in February, and retreated to 0.70% in March. In the twelve-month period until March, the three core measures registered 5.73%, 6.39% and 6.22%, respectively, compared to 5.70, 6.07 and 5.92 in February, and 5.69%, 5.83% and 5.63% in January. The IPCA diffusion index, which had reached 69.30% in January, retreated to 61.72% in February, but increased in March (68.23%), and continues to show a spreading price acceleration.

4. The General Price Index (IGP-DI) inflation retreated, in the margin, in March, registering 0.61%, compared to 0.96% in February. In the twelve-month period through March it accumulated 11.09%, above the 2.26% registered in the same period through March 2010. Inflation measured by its main component, the Wholesale Price Index (IPA-DI), reached 13.78% in twelve months, reflecting an increase of 9.16% in the industrial IPA and 28.24% in the agricultural IPA. In the breakdown according to the production phase, raw material prices accumulated 38.93% change, intermediate goods 7.11% and final goods 4.27% in the same basis. Inflation measured by the Consumer Price Index (IPC-DI), another component of the IGP-DI, recorded 5.86% in the twelve months through March 2011, above the 5.17% recorded until March 2010. According to the same comparison basis, the Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, increased 7.10%. The new Producer Price Index/Manufacturing Industry, calculated by IBGE, that measures the industry price level excluding freights and taxes, registered 0.60% increase in February, compared to 0.40% in January. In twelve months, this index decreased to 6.21% in February, from 6.88% in January. As emphasized in previous Copom Minutes, the Copom evaluates that the effects of wholesale prices over consumer price inflation will depend, among other factors, on the current and prospective demand conditions, the exposure of each sector to external and domestic competition, as well as on the price setters’ expectations for the future inflation path.

5. Regarding the GDP of the 4Q10, it grew by 5.0% year over year and 0.7% quarter over quarter. The GDP growth in 2010, at market prices, was 7.5%, the highest since 1986, being impacted by the low comparison basis. From the aggregated demand perspective, household consumption expanded 7%, government consumption 3.3%, and gross fixed capital formation (GFKF) 21.8% in 2010. It is noteworthy that investment rate reached 18.4% in 2010, higher than in 2009 (16.9%). Still compared to 2009, domestic demand strongly contributed to the product

growth (10.3%), surpassing the negative contribution of the external sector (-2.8p.p.). From the aggregated supply perspective, industry grew 10.1% in the year, while agribusiness and services grew 6.5% and 5.4%, respectively.

6. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on production and, therefore, it constitutes an important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br grew 0.3% in February, after increasing 0.7% in January and being relatively stable in December (0.1%). Considering the growth of a three-month period over the previous three months, 1.0% was the increase in the period Dec 10-Feb 11. A moderate growth rate trend persists in the IBC-Br accumulated in twelve months, reducing from 7.6% in January to 7.3% in February, towards long-term sustainable levels. The Services Confidence Index (ICS), from FGV, reduced, in the margin, 1.9% in March, after increasing 4.5% in February and retreating 3% in January. The average index in the first quarter was 1.0% below the average index in 2010.

7. Industrial activity is relatively stable, at high level, in spite of the 1.9% increase in the industrial output in February – month with more working days in 2011 - according to data seasonally adjusted by the IBGE, after increasing 0.2% in January and reducing 0.7% in December, month-on-month. The three-month moving average growth rate reached 0.5% in the period Dec 10 - Feb 11, after reducing 0.2% in three-month period through Jan 11. Month-on-month, output increased 6.9% in February. In the last twelve months, output increased 8.6% in February, down from 9.4% in January, continuing the process of growth cooling. Compared to December 2008, month with the lowest output level during the 2008/09 crisis, the growth until February was 25.7%. The recovery dynamics was partially supported by the growth of industrial activity financing by public financial institutions.

8. Among the industry use categories, according to data seasonally adjusted by the IBGE, durable consumer goods production reduced 2.3% in February, month-on-month, while non-durable and semi-durable consumer goods retreated 0.2%. In the same period, capital goods production increased 0.9%, while intermediate goods production increased 1.3%. In twelve months through February 2011, durable consumer goods production grew 17.4%, non-durable and semi-durable consumer goods, 3.6%, and intermediate goods, 4.1%. Capital goods industry activity growth is the highest among use categories, with a 17.9% increase in the twelve months period through February, evidencing the investment robustness, a relevant factor for economic recovery in the post-crisis period.

9. The unemployment rate in the six metropolitan regions covered by the IBGE Monthly Labor Survey (PME), according to observed data, increased from 6.4% in February to 6.5% in March 2011, below the 7.6% level registered in March 2010. After reaching 9.0% in March 2009, the observed data not only significantly reduced until March 2011, but reached a record low for the month since the start of the series in March 2002. The seasonally adjusted rate registered 6.1% in March, a 0.1 p.p. decrease compared to February. Employment, measured by the number of employed workers in the metropolitan regions, year-over-year, increased 2.4% in February and in March 2011. Data from the Ministry of Labor and Employment (MTE) indicate growth in formal employment in eleven out of the twelve last months. In March, 92.7 thousand jobs were created (266.4 thousand in March 2010), while in February 280.8 thousand jobs were created (209.4 thousand in February 2010). Services was the sector that mostly contributed for the formal employment increase in March. According to PME, real average earnings observed in March increased 0.5% month-on-month and 3.8% year-over-year. As a consequence, real payroll, considering real average earnings in the six metropolitan regions, expanded 6.4% in March, year-over-year, continuing to constitute a key driver for the maintenance of domestic demand growth.

10. According to the retail monthly survey (PMC) from the IBGE, expanded retail sales have been increasing since May 2009, year-over-year. Growth was 14.5% in February, 11.2% in January and 15% in December. According to the seasonally adjusted series, expanded retail sales showed stability in February, after reducing 0.3% in January and increasing 0.3% in December. Therefore, average sales in the quarter ended in February reduced to 1.9%, quarter-over-quarter. It also bears noticing that 12-month accumulated growth rate reached 12.4% in February, and all ten sectors surveyed performed positively in February, with highlights, by importance, for vehicles and motorcycles, parts and pieces (15.3%) and furniture and appliances (18.4%). In the next months, the retail trajectory will continue to be benefited by governmental transfers, real payroll growth, consumer confidence and an even more moderate credit expansion.

11. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by FGV, without seasonal adjustment, changed from 83.7% in February to 83.5% in March. These values are close to the observed in the same period of 2010. According to the seasonally adjusted monthly series calculated by FGV, the Nuci reduced from 84.5% in February to 84.3% in March. At the margin, consumer goods and construction inputs categories showed the same reduction in Nuci (0.3p.p.), while capital and intermediate goods categories were stable. According to the Confederation of National Industry (CNI) data seasonally adjusted by the BCB, the Nuci in December reached 83.7% in February, up from 83% in January. In fact, installed capacity utilization rates have shown relative stability, at high levels. The high occupation level reflects the recent expansion in economic activity, whose effects have not been totally offset by the maturity of investment projects. In this sense, the absorption of capital goods grew 25.5% in February, year-over-year while construction inputs production increased 11.3%. 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.

12. The trade balance result in the last twelve months increased from US$21.6 billion in February to US$22.5 billion in March. This result stemmed from US$213.9 billion in exports and US$191.4 billion in imports, equivalent to 32.8% and 38.8% changes, respectively, compared to the twelve-month period ended in March 2010. Current account deficit accumulated in twelve months changed from US$49.1 billion in January to US$49.2 billion in February, equivalent to 2.31% of GDP. On its turn, foreign direct investment reached US$55.7 billion in the twelve months through February, equivalent to 2.62% of GDP, exceeding the need for external funding.

13. The global economy recovery follows different speeds and asymmetrical inflation pressures. There are evidences, however, of activity moderation at the margin, due to the developments in Japan, to the labor market uncertainties in the US, and to oil international price pressures. In fact, the indicator released by the Organization for Economic Co-Operation and Development (OECD), for example, signaled world recovery continuity in February, but with a certain moderation in emerging markets. The Purchasing Managers Index (PMI) for the global economy, that shows the industry and service sector activity level, reduced in March (54.7) to the lowest level in the last six months, after reaching, in February, the highest level since 2006 (59.2). In fact, the disaggregated PMI indicators evidence lower dynamism in the US, without affecting the positive trend; moderate growth in the main emerging markets; and negative effect of the recent geological events on the Japanese economy. The macroeconomic prospects for the Euro Zone continue to be asymmetrical. Doubts about solvency of some peripheral economies persist, at the same time that the Germany expansion continues at a strong pace. It bears highlighting that important decisions regarding permanent mechanisms to support troubled economies in the Euro Zone were postponed to June this year. Regarding monetary policy, the European Central Bank increased the basic rate, while the other central countries, in particular the US, kept theirs unchanged. Inflation rate cores are still at moderate levels in the G3 group (US, Euro Zone and Japan). In the emerging countries, there are inflationary pressures in Asia and in Eastern Europe, with highlights to India, Russia and China. In this sense, since the last Copom meeting monetary conditions were tightened in several emerging markets. In particular, the People’s Bank of China announced the fourth increase, since December 2010, in the referential interest rates for deposits and lending, as well as the seventh increase in reserve requirements.

14. Brent oil prices have increased since the last Copom meeting, surpassing the US$120 level, although it shows some accommodation at the margin. This price acceleration is consistent with a framework of apparent strengthening in the global demand – empiric evidence suggests that international oil prices, in the last two decades, have been more intensely influenced by global demand conditions than by the supply side – as well as of political instability in some countries of the Middle East and, especially, in North Africa. It bears highlighting that geopolitical complexity that involves the oil sector tends to heighten price volatility, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. The main scenario adopted by the Copom assumes 2.2% increase in gasoline prices in 2011. Regarding the other commodities, it is noteworthy the moderation of agricultural and metallic commodities prices, after months of expressive increases. In particular, the uncertainties that emerged from the tragic events occurred in Japan determined reassessments of the global demand for iron ore and of the risk of production discontinuity in important supply chains. The food price index, calculated by the Food and Agriculture Organization of the United Nations (FAO), which considers 55 items, reduced in March 2011, after increasing for eight consecutive months. This movement was leveraged by, among other factors, the reduction in international prices of sugar, cereals and vegetable oils that are still in high levels when compared to the previous year. In recent past, the high volatility

observed in commodities prices was strongly impacted by the abundant global liquidity, in a context where financial markets adjust to new expectations of demand growth and to FX markets volatility. The volatility and risk aversion indicators in the international financial markets increased considerably as a consequence of the events in Japan, but reduced since then. In this context, it highlights the improvement of the Brazilian sovereign risk by credit rating agency, as well as the worsening of the US sovereign rating perspective.

Assessment of Inflation Trends

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

a) the projected adjustments for gasoline, accumulated for 2011, grew to 2.2%, due to the increases occurred this year, in opposition to 0% considered in the March Copom meeting, and the adjustments for bottled gas prices, for the same period, were kept unchanged at 0%;
b) the projected adjustments for fixed telephone and electricity rates in 2011 were kept at 2.9% and 2.8%, respectively;
c) the projection for regulated prices inflation in 2011, based on individual items, according to the benchmark scenario, was increased to 4.3%, against 4.0% considered in the March meeting. This set of prices, according to data released by the IBGE, accounted for 28.83% of the total March IPCA;
d) the projection for regulated prices inflation in 2012, according to the benchmark scenario, was increased to 4.4%, up from 4.3% considered in the March meeting. Such projection is based on endogenous determination models for regulated prices, which compute, 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 19 bps and -42 bps spreads in the fourth quarters of 2011 and 2012, respectively.

16. Regarding fiscal policy, projections assume the achievement of the public sector primary surplus target of R$117.9 billion (around 2.9% of GDP), without adjustments, in 2011 (according to parameters contained in the Budget Guidelines Law - 2011). Moreover, a primary surplus of 3.1% is considered for 2012, according to Budget Guidelines Law project - 2012 parameters, including the effect of the minimum wage increase projected for 2012.

17. The set of projections incorporated the estimated effects of the reserve requirements changes announced in December 2010.

18. Since the last Copom meeting, the median of the expectations compiled by the BCB’s Investor Relations and Special Studies Department (Gerin) for the 2011 IPCA increased from 5.80% to 6.29%. For 2012, the median of inflation expectations moved from 4.78% to 5.00%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the medians for the 2011 IPCA reached 6.26%, 6.48% and 6.19%, while for 2012 they reached 4.80%, 5.19% and 4.86%, respectively.

19. The benchmark scenario assumes the maintenance of the exchange rate at R$1.60/US$1.00 and the Selic rate at 11.75% p.a. during the forecast period. Under this scenario, the projection for the 2011 inflation increased relatively to the figure considered at the March Copom meeting, and it stands 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 at the period immediately prior to the Copom meeting - IPCA inflation forecast for 2011 also increased and stands above the inflation midpoint target. For 2012, the projection increased in both scenarios, and stands above the midpoint target. In an alternative scenario, that considers the maintenance of the exchange rate, during the forecast period, at the recent past levels, and the interest trend collect by Gerin, the projected inflation is above the target in 2011 and around this value in 2012.

Monetary Policy Decision

20. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation-targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, mainly price setters'. It is additionally noteworthy that low risks for the underlying inflation in the short run tend to reinforce the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other actions of macroeconomic policy may influence the price trajectory, it reaffirms its view that it is the responsibility of the monetary policy to remain especially vigilant to guarantee that pressures detected in shorter horizons do not spread to longer horizons.

21. International evidence, ratified by the Brazilian experience, indicates that high inflation rates lead to the increase in risk premium, both for private and public funding, and to the shortening of planning horizons, both for households and companies. Consequently, high inflation rates reduce investment and economic growth potential, in addition to presenting regressive effects on income distribution. Moreover, high inflation rates do not originate any lasting results for economic and employment growth; on the contrary, they create permanent damage to these variables in the medium and long terms. Therefore, the strategy adopted by the Copom aims to ensure the convergence of inflation towards the targets path, which requires that 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.

22. As a consequence of the stabilization and correction of unbalances, which determined important structural changes, the process of maturing of the inflation targets regime stands at an advanced stage, and it reflects favorably in the dynamics of neutral interest rate and in the power of monetary policy. Evidences under this respect can be observed, among other factors, through the accomplishment of inflation targets in the last seven years, at the same time that real interest rates have reduced. Progress in the financial markets structure, the FX and the inflationary risk premiums reduction, among other factors, seem to have determined significant reduction in the neutral rate. The generation of primary surpluses consistent with the maintenance of the decreasing trend for the public debt/GDP ratio also contributed for it. From another point-of-view, some of these developments, combined to others, such as the extension of contract tenures, also suggest that the power of monetary policy in Brazil has been increasing in the last years, despite the substantial uncertainty that surrounds the calculation of non-observable variables. The Committee also considers that there are evidences that the traction of monetary policy increased in the recent past and, compared to what was observed some years ago, currently inflationary pressures are contained with more efficiency by monetary policy actions.

23. In international markets, volatility and risk aversion have increased since the last Copom meeting, mostly fueled by the extraordinary levels of global liquidity and adverse geopolitical development. In this period, remained high concerns about European countries` sovereign and banking debts and the possible deceleration in China. Prices of important commodities retreated, mainly agricultural and, at the same time, the US currency depreciated. In general, the perspectives for Brazilian economy external financing remain favorable. In other side, the price indexes path shows clear dissemination of inflation pressures in the main economies.

24. The Copom evaluates that, although moderation of domestic demand growth is observed, yet in uncertain pace, prospects for economic activity are relatively favorable. This assessment is supported by signs that, despite showing some cooling, point to the fact that the expansion of credit supply tends to persist, both for individuals and corporate, and by the fact that consumers and businessmen confidences stand at historically high levels, notwithstanding some accommodation in the margin, among other factors. The Copom considers, additionally, that the dynamism of domestic activity will continue to be benefited by the vigor of labor market, mirrored in historically low unemployment rates and substantial growth of real wages.

25. The Copom evaluates that the inflation prospective scenario has not developed favorably since the last meeting. In the last quarter of 2010 and in the first quarter of 2011, inflation was strongly and negatively impacted

by domestic and external supply shocks. Evidences suggest that consumer prices have already incorporated substantial part of these shocks' effects. Also relevant were the localized effects of the atypical concentration of regulated prices adjustments in the first quarter of the year, although, for the year as a whole, the behavior of these items tends to be relatively benign. The Committee considers that these effects should still impact consumer prices dynamics, among other mechanisms, through inertia. At the same time, it evaluates, as relevant, risks derived from the persistence of the mismatch between supply and demand growth rates, despite the signs that this mismatch tends to retreat. Moreover, it highlights the narrow idleness margin of the production factors, especially labor force, and analyzes that, in such circumstances, an important risk stems from the possibility of concession of nominal wages increases incompatible with productivity gains and its negative impact on the inflation dynamics. It is also noteworthy to mention the risks associated to commodities prices trajectory in international markets, which, despite recent signs of moderation, have been presenting surrounded by great uncertainty.

26. The Copom considers two distinct moments for inflation trajectory, according to the 2011 main scenario. In this quarter and in the following, inflation accumulated in twelve months tends to remain at levels similar or even above the observed in the first quarter. This, in great part, is explained by the high inertia that stemmed from 2010, by the shocks duration that hit the economy at the end of last year, that extended to the first quarter of this year, and by the fact that the projections, in contrast with what was observed in 2010, point to inflation rates close to the historical standard in the quarter June/August 2011. However, from the fourth quarter on, the main scenario indicates a downward trend for the inflation accumulated in twelve months, moving to the target direction.

27. The Copom reaffirms that the inflation main scenario considers the materialization of its trajectories regarding fiscal variables. It bears highlighting that the generation of primary surpluses in line with the hypotheses considered for inflation projections, besides contributing to reduce the mismatches between supply and demand growth rates, will strengthen the reduction trend in the public debt/GDP ratio. It bears highlighting that since the beginning of this year, important decisions have been taken and implemented, which support the vision that a fiscal consolidation process is in place.

28. The Copom highlights that its main scenario for inflation also considers moderation in credit expansion, for which macroprudential and traditional monetary policy actions recently adopted contribute. Still about this market, the Committee considers opportune the introduction of initiatives in the direction of moderating subsidies concession through credit operations channel.

29. In short, the Copom recognizes an economic environment in which an above-than-usual uncertainty level prevails, and identifies risks to the materialization of a scenario where inflation promptly converges to the midpoint target. Since the last Copom meeting, at the external outlook, stimuli factors and their assets prices spillovers have pointed to lower probability of reversion in the recovery process experienced by the G3 economies. From another point-of-view, they still reveal the ambiguous influence of the international outlook over domestic inflation behavior. Regarding the domestic outlook, macroprudential actions and, mainly, conventional monetary policy actions recently implemented will still have their effects incorporated to price dynamics. Although uncertainties that surround the global outlook and, at a minor magnitude, the domestic one, do not allow the clear identification of the degree of persistence of recent inflationary pressures, the Committee evaluates that the inflation prospective scenario has not evolved favorably.

30. The Copom understands unanimously that, due to uncertainties regarding the high persistency of recent inflation pressures, and to the complexity that currently involves the international environment, the interest rate total adjustment should be, from this meeting on, sufficiently long.

31. In spite of this consensus, two visions emerge. In one hand, part of Committee understands that the risks balance in the main scenario suggests the maintenance of the Selic adjustment pace implemented in the first quarter of this year to mitigate risks that recent inflation pressures be transmitted to the prospective scenario. On the other hand, the majority of the Committee understands that a substantial anti-inflationary effort was already introduced in the economy in the last four months and that there is a time gap in the transmission mechanism of this effort to the activity and to prices, what, associated to the decision to extend the adjustment cycle, would recommend a strategic reassessment of the monetary policy.

32. In this context, continuing the process of monetary conditions adjustment, the Copom decided to increase the Selic rate to 12.00%, without bias, by five votes in favor, against two for the increase of the Selic rate by 0.50p.p. Considering the risks balance for the inflation, the rhythm yet uncertain of the domestic activity moderation, as well as the complexity that currently affects the international environment, the Committee considers that, in this moment, the implementation of adjustment in monetary conditions by a sufficiently long period is the most adequate strategy to guarantee the inflation convergence to the target in 2012.

33. Domestic demand is robust, largely due to the effects of stimulus factors, such as income growth and credit expansion. Moreover, although recent initiatives point to some constraint in public sector expenditures, fiscal and credit incentives provided to the economy in the last quarters should still contribute for the activity expansion and, hence, for the maintenance of the idleness level of factors at low levels. The effects of these stimuli, however, are counterbalanced by the effects of the reversal of initiatives taken during the recent 2008/09 financial crisis, by the recent macroprudential actions and, especially, by conventional monetary policy actions taken this year. These elements and the fiscal and quasi fiscal developments are an important part of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

34. At the end of the meeting it was announced that the Committee will reconvene on June 7th, 2011, for technical presentations and, on the following day, to discuss the monetary policy decision, as established in Communiqué 20,223 of October 15th, 2010.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

35. The IPCA rose 0.79% in March, from 0.80% in February and 0.83% in January, according to IBGE data. In the first quarter of this year, the index grew 2.44% and, in the last twelve months through March, 6.30%, advancing relatively from the 6.01% registered in February. Market prices inflation decreased from 0.93% in February to 0.68% in March, reflecting the decrease from 1.78% to 1.05% in the prices of non-tradable products, influenced, mainly, by the lower increase in the prices of services, from 2.28% to 0.85%. The prices of tradable goods increased 0.27% in March compared to -0.02% in the previous month. Regulated prices, driven by air tickets and gasoline, increased 1.05%, up from 0.47% in February. The groups transports and food and beverage registered the higher contributions for the index in the month, 0.29 p.p. and 0.18 p.p., respectively. The diffusion index reached 68.23% in the month, up from 61.72% in February.

36. Market prices increased 7.04% in the last twelve months through March, down from 7.17% in February, while regulated prices increased 4.53% and 3.29%, respectively. Market prices slight deceleration reflected the retreat of tradable products prices increases, from 6.31% to 6.04%, while non-tradable products prices changed from 7.91% to 7.93%, with services prices growing 8.53%, the highest rate since August 1997.

37. All core inflation measures presented higher rates in the last twelve months through March. Month-on-month, however, just the smoothed trimmed-means inflation core increased, reaching 0.49% in March, compared to 0.40 in February, accumulating 5.73% in twelve months through March, compared to 5.70% in the previous month. Core inflation by exclusion, which excludes ten items of household food and fuels, grew 0.70% in March, compared to 0.96% in February, reaching 6.22% in twelve months through March, up from 5.92% in February. The double weight core inflation rose 0.70% in March, as in the previous month, reaching 6.39% in the last twelve months, up from 6.07% in twelve months through February.

38. According to FGV, the IGP-DI, increased 0.61% in March, down from 0.96% in February, accumulating 2.57% in 2011 and 11.09% in the last twelve months. In March, the IPA rate reduced and IPC an INCC accelerated.

39. The IPA increased 0.60% month-on-month, up from 1.23% in February, accumulating 2.82% in the first quarter of the year and 13.78% in twelve months. Agricultural prices increased 1.08% in March, down from 2.60% in February, accumulating 5.68% in the year and 28.25% in twelve months. Industrial products prices increased 0.42% in March, down from 0.73% in February, accumulating 1.79% in the year and 9.16% in twelve months.

Regarding agricultural prices, the reduction was influenced by the sharp fall of soybean prices, 4.86%, compared to 2.23% in February, and by reduction in the rate of cotton prices, whose increase in March reached 3.82%, compared to 14.21% in February. Among industrial products, the main contributor for the relief was vegetal oil and fat, that decreased 4.48% in March, compared to 0.11% in February.

40. IPC increased 0.71% in March, compared to 0.49% in February, accumulating 2.49% in the year and 5.86% in the last twelve months, with emphasis on the increase of the food group, that reached 0.98% in the month, compared to 0.12% in February, contributing 0.29 p.p. for the month index. The INCC increased 0.43%, up from 0.28% in February, reflecting the retreat from 0.53% to 0.49% in prices of material, equipment and services and the increase from 0.02% to 0.37% in labor force cost. The INCC increased 1.13% in the year and 7.10% in the last twelve months.

41. The release of a partial index about inflation evolution in April pointed to a still high plateau for consumer prices and slowdown in wholesale prices, in relation to March. The IPCA-15 increased 0.77% in April, up from 0.60% in the previous month, reflecting higher increases in clothing, transportation and food and beverages. In the year, the indicator grew 3.14% and, in the last twelve months, 6.44%.

42. The IGP-10 increased 0.56% in April, down from 0,84% in March, resulting in 2.95% increase in the year and 11.06% in the last twelve months. The IPA grew 0.49% in April, down from 0.99% in March, reflecting the reduction from 2.31% to 0.66% in agricultural prices and from 0.51% to 0.42% in industrial prices. Considering twelve months periods, IPA augmented 13.64% in April, due to the 27.81% and 9.09% increases in agricultural and industrial prices, respectively. The IPC increased 0.77% in April, up from 0.59% in March, resulting in 5.81% increase in the last twelve months. The INCC increased 0.52% in April, up from 0.33% in March, resulting in 6.90% increase in the last twelve months.

43. The IPP/IT, new IBGE price indicator released since April, augmented 0.60% in February, up from 0.40% in January, resulting in 6.21% in the last twelve months until February, down from 6.88% until January. The index change was especially influenced by the price behavior in other chemical products, which contributed 0.36p.p. to the IPP/IT change.

44. The commodities index Brazil (IC-Br) grew in March, for the ninth consecutive month, increasing 0.64% in the month, driven by changes of 6.35%, 0.19% and -3.08% in energy, agricultural and metal segments. It bears emphasizing that the March growth represented significant slowdown compared to the upward pace observed in the previous eight months. The index augmented 9.67% and 40.5% respectively in the year and in twelve months.

Economic Activity

45. The IBC-Br increased 0.3% in February, month-on-month, according to seasonally adjusted data. For the quarter ended in February, the IBC-Br increased by 1%, quarter-over-quarter. According to the observed series, the IBC-Br increased 7% in February, year-over-year, accumulating 6.1% in the year and 7.3% in the last twelve months.

46. Expanded retail sales remained stable in February, relative to January, according to data seasonally adjusted by the IBGE's monthly survey (PMC), while in the quarter ended in February, expanded sales expanded by 1.9%, quarter-over-quarter. After nine consecutive increases, retail sales retreated 0.4% in the month, but increased 1.2% in the quarter ended in February. Sales increased in three out of the ten sectors surveyed, with highlights for fabric, clothing and shoes and other articles of personal and domestic use, both sectors recording 1.4%, in contrast to the retreats of 4.7% in books, newspapers, magazines and stationery, and 3.1% in office equipment and material.

47. Expanded retail sales grew 14.5% in February, year-over-year, accumulating increases of 12.8% in the year and 12.4% in the last twelve months. Interannual evolution was driven by the expansion of sales in all segments surveyed, with highlights for vehicles and motorcycles, parts and pieces (26%), furniture and house appliances (20.5%), and construction material (16.2%). The performance of sales in the last twelve months reflected the increase in all considered activities, especially in those related to office equipment and material (22%), furniture

and house appliances (18.4%), construction material (16.3%) and vehicles and motorcycles, parts and pieces (15.3%).

48. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, expanded by 2.2% in March, month-on-month, according to Fenabrave (Brazilian Federation of Automotive Vehicles Distribution) data, seasonally adjusted by the BCB, retreating by 1.2% in the first quarter of the year, quarter-over-quarter. Automobile sales increased 4.7% in the year through March, with emphasis on the growth of sales related to trucks (26.7%) and buses (25.9%), and increased 8.9% in the twelve months through March, with highlights for trucks (39.5%).

49. Capital goods imports decreased 11.1% in March, month-on-month, according to the Funcex quantum index, seasonally adjusted by the BCB. The indicator rose 27% in the first quarter of the year, and 43.8%, on a twelve-month trailing basis, compared to the same periods of the previous year.

50. Capital goods production increased 0.9% in February and 2.6% in the quarter ended in the month, compared to the quarter ended in November, according to data seasonally adjusted from the Monthly Industrial Survey (PIM) by IBGE. The monthly increase mainly reflected rises in the production of agricultural pieces (17.7%), and construction (15.4%), in contrast to the falls in the production of capital goods for serial industrial purposes (-14.2%) and for non-serial industrial purposes (-3.8%). Capital goods production increased 17.9% year-over-year, accumulating 13.1% in the year and 19.8% in the last twelve months through February.

51. Construction inputs production increased by 1.3% in February, month-on-month, and also 1.3% in the quarter ended in February, quarter-on-quarter, according to seasonally adjusted data. The industry grew 12.2% year-over-year, increasing by 9.1% in the year and by 11.3% in the last 12 months.

52. Disbursements granted by the Brazilian Development Bank (BNDES) reached R$169.6 billion in the last twelve months through February, increasing by 18.7% year-over-year, with emphasis in the expansions of 26.7% in the agriculture and livestock sector and 25.9% in the industrial sector. In the first two months of the year, disbursements increased 7.3%, year-over-year, mainly driven by the increases in the shares to infrastructure, which totaled 41%, followed by industry, which accounted for 32%, commerce and services, 18%, and agriculture and livestock sectors, 9%.

53. Industrial production increased 1.9% in February, month-on-month, according to seasonally adjusted data from the PIM-PF (IBGE), with expansion of 1.3% in intermediate goods. Year-over-year, industrial production grew 6.9%, with emphasis in the production of capital goods (17.9%) and durable consumer goods (17.4%). In the year and on a twelve-month trailing basis through February, industrial production increased by 4.6% and 8.6%, respectively, compared to the same previous periods, with highlights for production of capital goods.

54. The Nuci in the manufacturing industry, calculated by FGV, reached 84.3% in March, compared to 84.5% in February and 84.7% in January, according to seasonally adjusted data. The monthly reduction was driven by the retreat in the production of consumer goods and construction inputs (-0.3p.p.), while intermediate goods and capital goods production remained stable month-on-month. Considering observed data, the Nuci remained unchanged at the same March 2010 level, 83.5%, and reflected increases in the industries of capital goods (1.9 p.p.), intermediate goods (0.8 p.p.), and construction inputs (0.2 p.), as well as the 1.5 p.p. retreat in the consumer goods industry.

55. Vehicles production reached 319.4 thousand units in March, decreasing 3.5% month-on-month, according to data released by the Anfavea and seasonally adjusted by the BCB. In the quarter ended in March, vehicles production expanded by 1.2%, quarter-over-quarter. Production retreated by 6% year-over-year, with increases of 7.9% in the year and 10.7% in the last twelve months, compared to the same previous periods.

56. Vehicles sales expanded 2.5% in March, month-on-month, and decreased by 13.3% year-over-year. The monthly change reflected the 1.1% increase in domestic sales and the -18.7% retreat in exports, while the interannual result recorded respective changes of -15.8% and -2.7%. In the year through March, sales fell by 1.5%, as a result of the changes of -5.3% in domestic sales and of 13.7% in exports. In twelve months, sales increased by 9.1%, resulting from growth of 2.7% and 41.4% in domestic sales and exports, respectively.

57. The projection for the 2011 national harvest of cereals, legumes and oilseed, carried out by the IBGE in March, estimated the production of 155.6 million tons, a 4% increase relative to the 2010 record harvest. Estimates point to the increases in the production of rice (18%), beans (13.5%), soybeans (4.5%), and corn (0.3%), in contrast to the 19.3% retreat in the production of wheat.

Surveys and Expectations

58. The Consumer Confidence Index (ICC) decreased by 2% in March, reaching 120.1 points, a record low since June 2010, considering nationwide seasonally adjusted data from the Consumer Expectations Survey (FGV). The result was driven by the retreat in the Expectations Index (IE), by 3.8%, while the Current Situation Index (ISA) increased by 0.2%. The ICC increased 7.6% year-over- year, due to the increases of 18.6% in the ISA and 0.8% in the IE.

59. The Industry Confidence Index (ICI) reduced by 0.1% in March, reaching 112.4 points, considering seasonally adjusted data from the Survey of Manufacturing Industry (SCIT-FGV). The result was driven by the drop of 1% in the IE, in opposition to the 0.8% elevation in the ISA. The ICI performed unfavorably for the third consecutive month, falling by 3% year-over- year, due to the decreases of 2.7% in the ISA and 3.2% in the IE.

60. The Services Confidence Index (ICS) from FGV reduced 1.9% in March, month-on-month, after expanding by 4.5% in February, due to the reductions of 4% in the ISA and 0.3% in the IE. The greater volatility in the recent period reflected mainly the strong swing recorded in the index related to the current conditions. The ICS retreated 3.1% year-over-year, driven by decreases of 2.2% in the ISA and 3.8% in the IE.

Labor Market

61. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 92.7 thousand formal jobs were created in March, a 0.1% increase month-on-month, considering seasonally adjusted data, the lowest growth rate recorded since May 2009. In the year through March, the balance increased to 525.6 thousand, below the 657.3 thousand jobs created in the same period of 2009. In February, it bears emphasizing the hiring in the services sector, 60.3 thousand, in the manufacturing industry, 14.4 thousand, and in the agriculture and livestock sectors, 11.4 thousand. In the last twelve months through March, 2 million formal jobs were created, compared to 2.2 million created in the year through February.

62. According to the IBGE employment survey (PME), carried out in the six main metropolitan regions of the country, the unemployment rate increased by 0.1 p.p. in March, reaching 6.5%, a historical record low for the month, with a 1.2 p.p. fall year-over-year. Considering seasonally adjusted data, the unemployment rate reached 6.1% in March, 0.1 p.p. below the one recorded in February, as a result of increases of 0.3% in occupation and 0.1% in the Economically Active Population (PEA). According to the same survey, average real earnings usually earned by workers grew by 0.5% month-on-month and 4.3% in the year, favoring expansions of payroll, calculated by the multiplication between real earnings and occupied population, of 1% and 6.7%, respectively, in the same periods.

Credit and Delinquency Rates

63. Outstanding credit in the financial system reached R$1,738.1 billion in February, equivalent to 46.5% of GDP, increasing by 1.3% in the month, 1.9% in the year and 21% in twelve months. Non-earmarked credit operations increased by 1.4%, 1.7% and 17,8%, respectively, according to the same comparison bases, reflecting the respective increases of 1.3%, 2.3% and 19.8% for credit operations to individuals and 1.5%, 1.2% and 15.9% for credit operations to corporate, according to the same comparison bases. Earmarked credit operations increased 1.2% in the month, 2.2% in the year and 27.5% in twelve months, with highlights for the respective rises of 2.5%, 5.1% and 49.6% recorded in housing credit and of 0.9%, 2% and 40.5% recorded in BNDES disbursements, according to the same comparison bases.

64. The average interest rate on reference credit operations increased 0.7 p.p. in February, reaching 38.1%. The average annual rates on credit for individuals remained stable at 43.8% reaching 30.7% for corporate, representing an increase of 1.4 p.p. relative to January.

65. The average tenure on reference credit operations decreased from 474 days in January to 472 days in February, representing a decrease of seven days for tenures related to corporate segments and an increase of four days for tenures related to individuals, reaching 388 days and 563 days, respectively.

66. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) increased 0.1 p.p., reaching 4.7% in February. The delinquency rate for credit operations with corporate was stable at 3.6% and the one relative to individuals increased by 0.1 p.p., to 5.8%.

External Environment

67. Global economic activity has continued its recovery trend. However, the negative risks stemming from this scenario have increased since the last Copom meeting due to the increase in the price of oil, the monetary and fiscal restrictions adopted or expected by several countries, and the earthquake, followed by tsunami and nuclear accident, occurred in Japan. Regarding this issue, estimated losses that resulted from the tragedy and prospects of recovery for the Japanese economy are still quite heterogeneous, including the impact of the nuclear leak in Fukushima. In China, the annual GDP recorded 9.7% in the first quarter of 2011, down from 9.8% in the last quarter of 2010. The Chinese government has adopted measures to reduce the activity rhythm. In the US, the Beige Book reported moderate economic recovery in the majority of the districts. The private sector in the US created, on average, 188 thousand jobs per month in the first quarter of the year. In the Euro Zone, consumption remains restrict, due to the high unemployment rate and the fiscal austerity in course, with aggregate growth in the region being led by Germany.

68. Energetic commodity prices have registered significant increase since the last Copom meeting, reflecting the worsening of the geopolitical tension in the Middle East and North of Africa, in addition to the prospect of increase in the demand for alternative sources of energy in Japan. In the same period, metallic and agricultural commodities have performed ambiguously. Initially, the combination of lower-than-expected commodity imports by China, improvements in the prospects for the harvest in South America and uncertainties regarding the impacts of the earthquake in Japan over the global economy provoked strong reductions in the prices of these products. As of mid-March, however, the prices of metallic and agricultural commodities resumed growth, reflecting the depreciation of the dollar and the still tight equilibrium between supply and demand in the markets of several of these products. In the FX markets, the dollar maintained its depreciation trend. This trend was reinforced by the start of the normalization of the monetary policy in the Euro Zone and by the continuity of the quantitative easing policy adopted by the Federal Reserve (Fed).

69. The upward pressures stemming from the prices of energy and food continued to reflect in global inflation rates. In March, annual CPI increased 2.7% both in the US and in the Euro Zone, and 4.1% in UK. Core inflation rates, however, have remained relatively contained in the US and in the Euro Zone, having reached, in March, annual changes of 1.2% and 1.3%, respectively. In China, the annual IPC change increased 5.4% in March, up from 4.9% in February, with food prices reaching 11.7% in the last twelve months. The annual CPI change in March increased in the Euro Zone, US, Chile, Colombia, Korea, Philippines, Peru, Poland and Thailand, compared to the previous month.

70. In response to the continuous growth of inflationary pressures, the European Central Bank increased its refinance rate to 1.25% in the April meeting, the first change after having fixed it on 1.0% in May 2009. The central banks of the US, Japan and UK, on their turn, maintained unchanged their respective basic interest rates. In the emerging markets, the movement of normalization of the respective monetary policy rates prevailed. Therefore, since the last Copom meeting, the basic interest rates have increased in the central banks of Chile, Colombia, Peru, China, Korea, India, Philippines, Thailand, Taiwan, Poland and Israel. In opposite direction, the central bank of New Zealand, due to the deflationary economic impact of the earthquake that hit the country in March, reduced the basic rate by 50 basis points.

Foreign Trade and International Reserves

71. The Brazilian trade surplus reached US$1.6 billion in March. Exports reached US$19.3 billion and imports, US$17.7 billion. In the year, the trade surplus totaled US$3.2 billion, 253.9% above the registered in 2010, according to the daily average criterion, reflecting expansions of 28.5% in exports and 23.3% in imports. In the quarter, total trade grew 25.9%, totaling US$99.3 billion in 2011, compared to US$77.6 billion in the same period of 2010.

72. International reserves reached US$317.1 billion in March, increasing US$9.6 billion compared to February. The monetary authority's interventions accounted for net purchases of US$4.1 billion in the domestic spot market until April 14th.

Money Market and Open Market Operations

73. Since the last Copom meeting, in March, the domestic interest rate yield curve slightly reduced its slope, with elevation in the overnight rates and retreat in the rates between three months and one year. The elevation of the short part of the curve reflected, mainly, the Copom decision in March, the release of still high current inflation indexes and price collected data and the worsening of inflation expectations. In the tenures from three months to one year, the main contributors for the retreat in the rates were market interpretations about the Copom minutes and the March Inflation Report, market expectations about new macroprudential measures to be adopted by the BCB and the release of February retail sales. Between February 28th and April 18th, one- and three-month interest rates increased 0.32 p.p. and 0.18 p.p., respectively, while six-month and one-year rates fell, respectively, 0.12 p.p. and 0.17 p.p.. Two-year interest rate presented stability, while three-year rate slightly increased 0.07 p.p. Real interest rates, measured by the rate between the one-year forward nominal interest rate and the smoothed twelve-month-ahead inflation expectations, decreased to 6.70% on April 18th from 6.90% on February 28th.

74. Between March 1st and April 18th, the Central Bank carried out five reverse exchange rate swap auctions. The March 28th auction aimed at rolling over the contracts maturing on April 1st. These operations totaled the equivalent to US$2.6 billion in notional value.

75. In its open market operations, the BCB carried out, between March 1st and April 18th, repo operations borrowing R$52.6 billion for a six-month period. As a consequence, the average daily balance of the long operations reached R$161.1 billion. In the same period, the BCB also borrowed money through repo operations with tenures between eight and thirty-three working days, increasing the average daily balance of short-term borrowing operations to R$164.8 billion. The BCB also borrowed money through 33 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$59.7 billion in the period, borrowing. The average daily balance of the total stock of repurchase agreements of the Central Bank decreased from R$387.1 billion between January 18th and February 28th to R$385.6 billion, between March 1st and April 18th. Considering the daily balance of operations for the most recent period, there was an increase in the daily balance of repurchase agreements totaling R$19.6 billion, elevating the total stock from R$359.5 billion on February 28th to R$379.1 billion on April 18th. The main drivers of liquidity expansion in the period were the BCB interventions in the FX spot market.

76. Between March 1st and April 28th, the National Treasury issuance regarding the traditional auctions raised a total of R$66.4 billion. The sale of fixed-rate securities reached R$35.2 billion, with R$31.9 billion via issuance of LTNs maturing in 2011, 2012, 2013 and 2015, and R$3.3 billion via NTN-Fs maturing in 2017 and 2021. Issuance of LFTs totaled R$16.3 billion, for securities maturing in 2015 and 2017. Issuance of inflation-linked NTN-Bs reached R$14.9 billion, for securities maturing in 2014, 2016, 2020, 2030, 2040 and 2050.

77. In the same period, the National Treasury carried out sale auctions of NTN-Bs settled upon the delivery of other securities, which totaled R$4.1 billion and involved securities maturing in 2014, 2016, 2020, 2030, 2040 and 2050. The National Treasury also carried out exchange auctions of LTNs maturing in October 2011, with the delivery of LTNs maturing in April and in July 2011, equivalent to R$5.0 billion.