

**April 1<sup>st</sup>, 2002**

**MINUTES OF THE 69th MEETING OF THE BANCO CENTRAL DO  
BRASIL MONETARY POLICY COMMITTEE (COPOM)**

**Summary**

Economic activity

External Environment

Prices

Money market and open market operations

Assessment of inflation trends

Monetary policy guidelines

**Date:** March 19<sup>th</sup> and 20<sup>th</sup>, 2002

**Place:** Central Bank's Headquarters 8th floor meeting room (on Mar 19<sup>th</sup>) and 20th floor (on Mar 20<sup>th</sup>) -Brasília - DF

**Called to Order:** 3:58 PM on Mar 19<sup>th</sup> and 4:51 PM on Mar 20<sup>th</sup>

**Adjourned:** 7:11 PM on Mar 19<sup>th</sup> and 7:43 PM on Mar 20<sup>th</sup>

**In attendance:**

**Members of the Board**

Arminio Fraga Neto - **President**

Beny Parnes

Carlos Eduardo de Freitas

Edison Bernardes dos Santos

Ilan Goldfajn

Luiz Fernando Figueiredo

Sérgio Darcy da Silva Alves

Tereza Cristina Grossi Togni

**Department Heads (all present on Mar 19<sup>th</sup>)**

Altamir Lopes – Economic Department (DEPEC)

Daso Maranhão Coimbra - International Reserve Operations Department (DEPIN)

Gustavo Bussinger - Research Department (DEPEP)

José Antônio Marciano - Department of Banking Operations and Payment System (DEBAN)

Sérgio Goldenstein - Open Market Operations Department (DEMAB)

**Other participants (all present on Mar 19<sup>th</sup>)**

Antônio Carlos Monteiro - Executive Secretary

José Pedro Ramos Fachada Martins da Silva – Advisor to the Board

Alexandre Pundek Rocha - Advisor to the Board

João Borges - Press Secretary (ASIMP)

André Barbosa Coutinho Marques - Investor Relations Group

The Board analyzed the recent performance and prospects for the Brazilian and international economies under the monetary policy framework, designed to comply with the inflation targets established by the government.

**Economic activity**

Recent results of the indicators of economic activity have confirmed the expectations of a gradual recovery, outlined at the end of 2001. Industrial production, which, last October, was very depressed reaching its lowest level since March 2000, has shown steady recovery since then. At the beginning of this year industrial production remains below the level registered in the same period of the last year. In the retail segment, the monthly results, in spite of showing a general trend of recovery, have fluctuated between periods of expansion and contraction. This recent difference in the pace of growth between industry and commerce suggests a movement of inventory re-composition, which should reflect favorably on the forecasts for the coming months, both from a consumer and business perspective, as recently surveyed.

For the recent behavior of retail commerce in the metropolitan regions, one should take into account that it is conditioned to the growth of the real wage mass, not perceptible in the last set of results,

and to the still modest improvement of credit conditions. Nevertheless, consumption outside the metropolitan regions tends to be stimulated by the income expansion generated from the agricultural sector, especially at this time of the year.

Preliminary figures released by the São Paulo State's Federation of Commerce (Fecomércio) regarding retail commerce in the metropolitan region of São Paulo showed a 1.5% decrease in real turnover in February, compared to a 1.4% increase in the previous month (seasonally adjusted data). Still in February, according to the São Paulo Trade Association (ACSP), there was a 2.1% rise in enquiries to the Credit Protection Service (SPC), a 1.9% decrease of enquiries to the Telecheque, and an increase in default levels, 8.2%, compared to 5.4% in January.

The Index of Consumer Intentions (IIC), also surveyed by the Fecomércio, registered an increase in March, showing that consumers are recovering their confidence in the economy, but are still cautious, as the level of 98.3 registered by the indicator in March, compared to 97.2 in February, is still below the line of optimism on the scale, that varies between 0 and 200. In March, there was a significant improvement in the component that measures the current intentions, a 3.9% increase, mainly as a result of less concern with the international scenario, while the component related to the future intentions declined by 0.44%.

In relation to the industrial sector, there was a 1.3% increase in production, in January, as released by the Brazilian Institute of Geography and Statistics (IBGE). It was the third positive monthly result, what confirms the prospect of recovery evident in the last surveys regarding the expectations of business carried out by the National Confederation of Industry (CNI) and by the Getúlio Vargas Foundation (FGV).

Considering the analysis by categories of use and their performance after October, when the sector recovery began, one can identify a stronger increase in the production of durable goods, which has led the recovery of industrial activity. It should be highlighted, however, that in spite of the expansion of the production of durable goods in the last months, the result for January was negative, indicating that other factors related to the demand, such as the wage mass and the credit conditions, are also important to sustain the performance of this segment.

The indicators of activity in the primary sector were also favorable in the beginning of the year. According to a survey carried out by the IBGE, in February, national grain production should reach 97.5 million tons in 2002. According to the Institute, this volume tends to be higher in the next Systematic Survey of Agricultural Production, to be carried out in March, considering the initial results of the second corn harvest, that show a stronger than expected increase in production. It should be noted furthermore that the same survey forecasts an expansion in the production of items of great importance in the basic consumption basket, such as rice and beans, and in the exports, such as soybeans.

In the labor market, the formal employment index was 0.2% higher in January than in December, and 2.7% higher than in January 2001, according to the Ministry of Labor and Employment (seasonally adjusted data by Depec). The average open unemployment rate measured by the IBGE in the six main metropolitan regions reached 6.83% in January, compared to 5.6% in December and 5.7% in January 2001. This result was due to the 0.4% decline in the number of employed people in January and to an expansion by 23.2% in the number of people searching for jobs, which contributed to the 0.9% increase in the Economically Active Population (*PEA*). These results show that the perception of recovery of the economic activity is motivating the search for job places by unemployed people previously discouraged to do so.

In the financial system, the behavior of the balance of credit operations has been stable, revealing the existence of factors that restrict the recovery of its growth. Amongst the restricting factors, it is worth pointing out the relatively high level of lending rates and banking spreads, which to a large extent continue to be set by the default risk. In addition, the evolution of the income level and the real wage mass have contributed to the cooling off of the demand for new loans, observed since the second quarter of 2000 for both consumption and investment.

In February, the balance of credit operations contracted by the banking system remained stable in relation to the previous month, reaching R\$334.4 billion. The operations with freely allocated resources, represented 59% of the total and registered a moderate increase of 0.2%, due to the 0.6% growth in the credit volume assigned to private individuals, whilst the balance of transactions with corporations remained unchanged. The stability observed in the stock of banking credit in February resulted, partly, from seasonal movements. On the one hand, the demand from corporations declined in the first two months of the year, as a result of the inflow of resources from transactions

made at the end of the previous year, plus the lower level of activity. On the other hand, there was a moderate growth in the stock of credit contracted by households, resulting mainly from the higher demand for revolving credit, considering the usual concentration of commitments in the period, such as taxes and schooling expenses.

Regarding the external transactions of the Brazilian economy, the trade balance registered a US\$259 million surplus in February, totaling a US\$434 million positive balance in the first two months of the year, compared to a US\$401 million deficit in the same period of 2001. Considering daily average values, exports declined by 11.5% and imports by 19.8%, in the same period of comparison. Regarding imports, all categories of products showed decline, even in relation to the first two months of 2001, in spite of the recovery of domestic activity, indicating import substitution by domestic production. The decline in the imports of fuels and lubricants also reflects their price reduction.

Besides the 67.1% drop in sales to Argentina, exports to other important markets such as Germany, Belgium, Italy and Japan also declined significantly, reflecting the deceleration of the European economies and the recession in Japan. Sales to the United States remained stable in comparison to the first two months of 2001, in spite of the difference in the momentum of growth in those periods, showing that Brazilian products have potential to increase their share in that competitive market. In the case of Mexico, with the deceleration of its economy, the growth in Brazilian exports is reflecting new trade agreements, particularly related to the automotive sector.

Up to March 17<sup>th</sup>, the trade balance registered a US\$ 231 million surplus, as a consequence of the continued drop in imports and the beginning of the export recovery, mainly as a result of the expansion in the sale of basic products.

The recent trend of the economic indicators, as a whole, shows that the recovery of the activity level, which started at the end of 2001, has steadily and consistently continued in the first months of the year. The improvement in the expectations, the inventory re-composition and the additional demand resulting from the movement of import substitution are important factors in that process. It is worth highlighting once again, however, that the realization of this scenario is still conditioned, among other factors, to the recovery of earnings and the improvement of financing conditions, with the consequent expansion in the credit volume. In regard to the supply side, the idleness in the industrial plants allows the growth of the activity level currently observed without pressures on

prices. The overcoming of the energy crisis and the end of the rationing, will also contribute to normalize the productive activity, mainly in the electricity-intensive sectors.

## **External environment**

The U.S. economy has been presenting signs of recovery, although the uncertainty in relation to its intensity still persists. The first indicators of the year show that the retraction expected by the market did not materialize, as production has been stimulated mainly by domestic demand. Orders for manufactured goods increased by 1.6% in January, following the 0.7% increase in December. The retail sales increased by 0.2% in February, compared to January, and the wholesale sales rose by 1.2% in January, compared to December, considering seasonally adjusted series.

The U.S. GDP increased by 1.4% in the 4<sup>th</sup> quarter of 2001, compared to the previous quarter, while the industrial production rose by 0.4% in February, compared to the 0.2% revised growth in January. This growth trend has been followed by the decline in the unemployment rate, to 5.5% in February from 5.8% in December 2001, due mainly to the creation of 66 thousand new job positions, the first rise in occupation in the last seven months. The increase of 5.2% in the productivity of the non-agricultural sector in the 4<sup>th</sup> quarter should also be pointed out, followed by the reduction by 2.67% in the unit labor cost, that has been decreasing for four quarters.

The producer price index showed a -1.8% variation in 2001, while its core, which excludes variations in food and energy prices, increased by 0.7%. In February, the index rose by 0.2%, a seasonally adjusted monthly variation, while its core did not change. The consumer price index increased by 1.6% and its core increased by 2.7% in 2001.

The activity indicators surveyed by the Institute for Supply Management (ISM, ex NAPM) ratified that the country's economy is recovering. The national index of industrial activity, reached 54.7 in February, compared to 49.9 in the previous month, while the service index (BAI) rose to 58.7 from 49.6, both above 50, showing that the entrepreneurs believe in economic recovery. Showing a similar trend, the index of the Michigan University, which measures consumer confidence, rose to 95 in March, compared to 90.7 in February.

In Japan, the recession intensified in the last quarter of 2001. The GDP declined by 2.2% in the 4<sup>th</sup>

quarter, compared to the previous quarter. The annualized fall reached 4.5% - the GDP declined for three consecutive quarters for the first time in almost a decade. Industrial production continued to show a declining trend, while the trade balance, which had been in decline since July 2001, registered a slight improvement, reflecting the performance of the U.S. and some Eastern Asian countries.

In the Euro area, the consolidated data remains patchy. On the contrary of the United States, consumer expenditure has not contributed to growth recovery. The recovery of the retail sales, verified in November, did not repeat itself in December, with a decline of 0.6% (seasonally adjusted monthly variation). The GDP declined by 0.3% in the 4<sup>th</sup> quarter, compared to the previous quarter, though growing by 1.5% in the year, following the 3.3% growth in 2000. However, the main economies in the region – Germany, France and Italy – whose indicators have a smaller lag than the ones in the Euro area as a whole, presented signs of recovery in activity level, although at a slower pace and lower intensity than in the United States.

The signs of a possible recovery in the developed countries improve perspectives for the emerging economies. The financial crises seem to be solved, as in the case of Turkey, or with an even more limited potential of contagion, in the case of Argentina.

## **Prices**

The main price indices showed a decline in inflation in February. The Consumer Price Index – Extended (IPCA) decelerated for the fourth consecutive month, with a 0.36% variation in February, compared to 0.52% in the previous month. The deceleration of the index resulted from the smaller increase in food prices, 0.2%, compared to 0.85% in January, due to the beginning of the commercialization of the new harvest and favorable climatic conditions. The rise in prices of non-food products remained practically stable in February, with a 0.41% variation, compared to 0.42% in January.

Amongst the main factors that influenced the IPCA result, one may highlight the decline in prices of rice and beans, 12.1% and 2.1%, respectively, and the decline in gasoline price, 5.12%. Gasoline price variation was responsible for the highest negative contribution in the month, 0.2-percentage point. Prices of clothing declined by 0.67%, due to sales, compared to the 0.55% rise in January.



Among the items that showed price increase, attention must be drawn to the school fees, which presented a 5.51% variation in the month, being responsible for the highest contribution to the IPCA in February, 0.22- percentage point. Pharmaceutical products rose by 2.09%, in consequence of the 5.83% average readjustment conceded at the end of January. The urban transport tariffs increased by 0.83%, mirroring rises in Porto Alegre and Curitiba. Electricity increased by 0.21%, reflecting the residue of the increase in January, when the contractual readjustment occurred in Rio de Janeiro.

The General Price Index – Domestic Supply (IGP-DI) varied 0.18% in February, compared to 0.19% in January. Despite the deceleration observed in the consumer prices component, 0.14% compared to 0.79% in January, basically for the same reasons already mentioned in the IPCA evolution, the general index remained practically stable, due to the rise registered by the Wholesale Price Index (IPA), 0.14%, compared to a decline of 0.13% in January. The National Index of Civil Construction (INCC) also held back the IPC deceleration, showing a 0.58% variation compared to 0.36% in January, due mainly to the effect of increase in cost of labor.

In the wholesale market, agricultural prices declined by 0.44% in the month, due mainly to the decline in cereals and grains (beans and rice) and Agriculture for export (soybean), in addition to the deceleration of the rise in prices of the group livestock and its products. Prices of industrial products increased by 0.36%, following consecutive drops of 0.32% in December and January, particularly pressured by the rise in prices of products of chemical, mechanical and mining industries, rubber, tobacco, pharmaceutical products and textiles, clothing and shoes.

It must be pointed out that the deceleration observed in the consumer price indices reflects favorable aspects prevailing in the current scenario – absence of pressures due to the exchange rate variations, increase of food supply, due both to the harvest season and to the adequate climatic conditions, and level of idleness of installed capacity in industry. In addition, it must be considered, over a larger time horizon, the prospect of productivity gains in all sectors of the economy, as a consequence of the increase in investment observed in 2000 and 2001.

Besides those aspects, it must be highlighted that, the fuel price readjustments occurred on March 2<sup>nd</sup> and 16<sup>th</sup>, will cause a temporary interruption of the inflation deceleration process. The impact of those increases, amongst other factors, will overlap the effects of the cooling off of agricultural



prices and of the exhaustion of the typical pressures of the beginning of the year, as the ones coming from the school fee readjustments and from the increase in prices of fresh food.

### **Money market and open market operations**

After the Copom decision in February, the yield curve, which already projected a reduction of the Over-Selic rate target, showed a downward shift for all maturities, maintaining the negative slope for the short run. In the following weeks the falling trend became stronger due to the improvement in the expectations related to the economic and political scenarios. On March 20<sup>th</sup>, the yield curve indicated a reduction for the Over-Selic rate target for this Copom meeting, with the spread between the 1-month interest rate and Over-Selic rate falling to –59 b.p., on March 20<sup>th</sup>, from –7 b.p., on February 21<sup>st</sup>. For 1-year term, the spread fell to –75 b.p. from 10 b.p.

For the rollover of NBCEs totaling R\$3.9 billion, maturing on March 14<sup>th</sup>, nine auctions were carried out with terms of 1, 2, 3 and 6 years. In regard to the rollover of the securities maturing on February 21<sup>st</sup>, the average tenure of the issuances increased to 27 from 14 months. The auctions also showed a reduction in the demanded premiums in relation to the CDI curve.

The National Treasury has also promoted the lengthening of the tenure of fixed-rate securities. Between February 21<sup>st</sup> and March 19<sup>th</sup>, LTNs were offered on five occasions: in the usual auctions on Tuesdays, securities of 8- and 13-month tenures were offered; on March 15<sup>th</sup>, a firm offer auction was carried out with 22-month tenure securities. The average rates of 8-month securities fell to 18.29% from 19.01%, and of 13-month securities, to 18.65% from 19.87%. The 22-month tenure securities were totally placed at an average rate of 20.07%. The overall financial volume of the placements reached R\$9.1 billion, of which 73% referred to the 8-month tenure securities.

Considering the financial settlements that occurred between February 20<sup>th</sup> and March 19<sup>th</sup>, there was a monetary expansionist impact of R\$4.0 billion, resulting from net redemptions of LFT (R\$11.7 billion) and intermediate interest payment on exchange rate indexed securities (R\$1.0 billion), partially offset by the net placement of LTN (R\$8.7 billion).

During a period of 19 working days, the Central Bank intervened thirteen times in the open market, aiming at administering the very short-term interest rate. During all the interventions, the Central

Bank provided liquidity to the market at a hurdle yield of 18.80%, with an average volume of R\$6.7 billion.

As in January, the overall daily average traded volume in the secondary market dropped, in February, to R\$6.0 billion, from R\$7.0 billion. This drop was due mainly to the 29% reduction in the daily average turnover of LTN, to R\$2.4 billion from R\$3.4 billion.

The appreciation of the Real in February was the main factor responsible for the R\$3.5 billion decrease in the domestic federal securitized debt and for the reduction to 28.7%, from 29.4%, in the relative share of the exchange rate linked debt.

### **Assessment of inflation trends**

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

1. February inflation variation, measured by the IPCA, fell to 0.36% compared to 0.52% in January;
2. Regarding the liberalization of the prices of petroleum and their by-products, the forecast for their prices adopted the following parameters: the behavior of the exchange rate; the spot price of the gasoline in the United States (Energy Information Administration) and the price behavior of Brent type petroleum in the futures market of the International Petroleum Exchange (IPE), for the readjustments of the gasoline and diesel oil; the spot price of propane gas in the United States (Energy Information Administration) and the price behavior of propane gas in the futures market of the New York Mercantile Exchange (NYMEX), for the readjustments of bottled gas. Considering the average price of the barrel of crude oil around US\$23.3 until the end of this year and the maintenance of the Real on the current level, gasoline prices for the consumer should increase 8.2% until the end of this year. This increase already encompasses the pass-through of the last readjustments of 2.2% and 9.4% at refinery, defined by Petrobrás. For 2002, the forecast for gasoline prices for consumer presents a 7.5% decline, due to the fall occurred in January and February. The elimination of the subsidies for the bottled gas and the

increase in the future curve of propane gas will result in an increase in bottled gas prices of over 20% in 2002, of which 16.3% has already occurred in the first two months of 2002;

3. Regarding the set of prices administered by contracts and monitored prices, weighting 30.5% in the IPCA of February, the expected readjustments are 6.8% for 2002 and 4.5% for 2003, with direct contribution of 2.1 p.p. and 1.4 p.p. for the IPCA. In the February meeting, the expected readjustments were 5.7% and 3.8%, respectively. This 1.1 p.p. increase in the inflation forecast for 2002 reflects the increases already announced for gasoline prices. In March, the forecast for the readjustment of electricity tariffs for 2002 declined to 16.6% from 19.3% forecast in February. Regarding 2003, the forecast for the readjustment of electricity declined to 13.0% from 14.0% in February. These increases are concentrated between April and July;
4. The projection for the slope of the domestic yield curve for the next eight quarters, measured as the difference between the 180-day term DI rate and the 1-day Selic rate, is now based on a regression model that has as explicative variables: i) the Selic rate and ii) the projection of 180-days forward implied in the slope of the term interest rate, lagged by two quarters. This model indicates a trajectory beginning from the current plateau (around -0.18 p.p.), decreasing to a minimum of -0.7 p.p. until the third quarter, gradually increasing until becoming null at the end of 2003.
5. The trajectory of US Fed Funds rate, based on the maturity of futures contracts, was changed to reflect an average rate of 1.75% in the first quarter of 2002, increasing to 3.2% in the last quarter of 2002, stabilizing thereafter;
6. Regarding the sovereign risk premium, using Brazil's Global 04, a decline is forecasted for the second quarter of 2002 to the level observed in the end of March 2002 (550 b.p.), from the average 630 b.p. in the first quarter of 2002, stabilizing thereafter.

The core inflation of the IPCA, calculated under the symmetric trimmed-mean method, increased to 0.54% in February from 0.52% in January. In the last 12 months, this core recorded a 7.58% variation. The core inflation of the IPC-BR, calculated under the symmetric trimmed-mean method,

recorded a high fall to 0.44% in February from 0.73% in January. This core accumulated a 7.49% variation in the last 12 months. The core inflation calculated by excluding the prices administered by contracts (considering the wide set of these items weighting 30.5% of the IPCA in January) and of household food prices registered a 0.85% variation in February, accumulating 5.86% in 12 months.

The IPCA variation accumulated in 12 months reached 7.51%, a figure lower than that observed in January (7.62%) and in December of 2001 (7.67%). The free prices and the prices administered by contracts and monitored prices contributed with 4.75 p.p. and 2.76 p.p. to inflation, respectively. The inflation expectations as surveyed by the Investor Relations Group (GCI) of the Central Bank recorded a slight increase to 4.99% in 2002 and remaining stable at 4.00% in 2003.

Regarding fiscal policy, the hypothesis of achieving the primary surplus targets for the consolidated public sector, as stated in the Economic Program of the Government, was maintained, as well as the remaining assumptions established in the previous meeting.

The simulation exercises with several specifications of the structural model permitted a conclusion that the maintenance of the basic interest rate at 18.75% p.a. and the exchange rate at the same plateau as on the eve of the Copom meeting, point to an inflation below 4.5% in 2002 and below 3.0% in 2003.

### **Monetary Policy Guidelines**

The external scenario has improved since the February Copom meeting. There are clear signs of US economic recovery from the GDP growth in the fourth quarter of 2001, the drop in the unemployment rate in January and in February and the rise in the orders to the industry. Moreover, in the last months, since the Argentinean peso depreciation, Argentine crisis contagion on the Brazilian economy has been limited.

An improved international scenario has led to a reduction in the risk premium. Risk premium measured by EMBI-Brazil fell by 80 bp between February and March meetings. Compared to the average in the last quarter of 2001, this drop exceeded 300 bp. This shift favors balance of payment financing. The trade balance keeps presenting increasing surpluses, accumulating US\$3.5 billion in

the 12 months ended in February. Current account deficit, accumulated over 12 months, has been declining continuously since August 2001, reaching US\$22.1 billion in January 2002. This improvement is mirrored by the 3.3% *real* appreciation since the last Copom meeting and by the capital flows stability.

The evolution of the economic activity level shows that economy has been growing, although at a moderate rate. Industrial production has been growing since October 2001, reaching in January 2002 its highest level for the last nine months. The use of installed capacity in industry grew by 2.3% as compared to December (CNI seasonally adjusted data). The end of the energy rationing may give room to an expansion in the aggregate supply, contributing to economic recovery. On the other hand, aggregate demand reacts to better consumer and entrepreneur confidence indices and to market interest rates reduction. Since October 2001 interest rate fall implicit in the 1-year DI-Pre swaps, dropped by 7 p.p.

However, evolution of credit operations and real wage mass may limit the speed of economic recovery and inhibit inflationary pressure that could arise from the demand increase or the profit margins re-composition. Economic uncertainties and a high level of payments in arrears have refrained credit expansion in the last months. The credit operations outstanding to the private sector have been relatively stable in the last months. As compared to January 2001, total loans to the private sector grew by 5.7% in nominal terms, lower than inflation in the period. Real wage mass declined for the first three quarters of 2001 and remained practically stable between November and December (seasonally adjusted data).

Inflation measured by IPCA declined continuously to 0.36% in February from 0.83% in October. Forecasts prepared through the various specifications of the structural model point to inflation slightly below 4.5% in 2002 and 3.0% in 2003. Since last Copom meeting, the forecast for IPCA in 2002 increased 0.4 p.p. due to the revision of gasoline prices, bottled gas (due to the rise in propane prices in the future markets), urban transport (by 15.8% in Porto Alegre and by 8% in Curitiba) and water and sewage tariff, in this order. Forecast for monitored prices and prices administered by contracts grew to 6.8% from 5.7%. These high readjustments in monitored prices and prices administered by contracts represent new primary shocks in the economy, and put pressure on free prices (secondary effect), causing inflation convergence to its target to be slower and costly.

The increase in the forecasts for the prices administered by contracts increased the estimate for the

primary effect of the shock coming from these prices – which is the value that exceeds inflation target, after deducting the impacts of the exchange rate pass-through and the inertia from these prices – from up to 0.5 p.p. to up to 0.9 p.p. Since most of this rise is due to gasoline prices increase, naturally volatile, it is premature to consider the exact impact of this shock on the inflation range Copom will target.

The prospects for free prices are favorable and point to an inflation fall. The following factors acting favorably: i) exchange rate appreciated as compared to the average of the last quarter, and is stable; ii) energy rationing ended; iii) labor market and idle capacity do not put pressure on prices; iv) inflationary inertia inherited from 2001 tend to vanish; and v) an expected record harvest in 2002 has the effect of reducing food prices. Notwithstanding free inflation has reached 1.2% in the first two months of 2002, due to the mentioned factors, Copom maintains the projection of rises for free prices at 3.4% for 2002 and 2.1% for 2003.

Summarizing, positive external scenario, the trend of decline in the inflation and the projections for the IPCA in 2002 and 2003 justify a trajectory of declining interest rates. However, the secondary effect of the rises in monitored prices and prices administered by contracts on the inflation and the uncertainty prevailing on the speed of the fall of free prices recommend caution in the conduct of monetary policy.

After discussions, Copom decided, unanimously, to reduce the target for the Selic interest rate by 0.25 p.p. to 18.50% p.a.

At the close of the meeting, it was announced that the Committee would meet again on April 16th, 2002, at 3:00pm, for technical presentations and, on the following day, at 4:30pm, in order to discuss monetary policy guidelines, as set in the Calendar of Copom's Ordinary Meetings, published in the Central Bank Communiqué nº 8911, of Oct.3.2001.

## Acronyms

**ac** 12m accumulated in 12 months

**ACC** Anticipated Exchange Rate Contracts

**BM&F** Mercantile and Futures Exchange

**bp** Base Points

**CDI** Interbank Futures Contract

**CETIP** Center for Financial Custody and Settlement of Private Securities

**CNI** National Confederation of Industries

**CPMF** Provisory Contribution on Financial Transactions

**CSLL** Social Contribution on Net Profit

**DI** Interbank Deposit

**FCESP** Federation of Commerce of the State of São Paulo

**FED** Federal Reserve System

**FOMC** Federal Open Market Committee

**FRA** Forward Rate Agreement

**GDP** Gross Domestic Product

**IBGE** Brazilian Institute of Geography and Statistics

**IF** Financial Institution

**IGP-DI** General Price Index – Domestic Supply

**IIC** Consumer Intentions Index

**INCC** Civil Construction National Index

**IPA** Wholesale Price Index

**IPC** Consumer Price Index

**IPCA** Consumer Price Index – Extended

**IPC-BR** Consumer Price Index - BR

**IPCH** Consumer Price Index – Harmonized

**IPP** Producer Price Index

**IR** Income Tax

**IRF-M** Market Fixed Income Index

**IRRF** Withholding Income Tax

**LFT** National Treasury Letters (floating)

**LTN** National Treasury Notes (fixed rate)

**NAPM** National Association of Purchasing Managers

**NBC-E** Central Bank Note - E Series (indexed to the exchange rate)

**NTN-C** National Treasury Note - C Series (indexed to the wholesale price index)

**NTN-D** National Treasury Note – D Series (indexed to the exchange rate)



**p.a.** per annum

**p.m.** per month

**PEA** Economically Active Population

**pp** percentage point

**Selic** Central Bank's Custody and Settlement Center

**STN** National Treasury Secretariat

**ytd** year-to-date