

April 29th, 2002

**MINUTES OF THE 70th 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: April 16th and 17th, 2002

Place: Central Bank's Headquarters 8th floor meeting room (on Apr 16th) and 20th floor (on Apr 17th) -Brasília - DF

Called to Order: 4:47 PM on Apr 16th and 5:15 PM on Apr 17th

Adjourned: 7:41 PM on Apr 16th and 7:49 PM on Apr 17th

In attendance:

Members of the Board

Luiz Fernando Figueiredo - **Deputy Governor**

Beny Parnes

Carlos Eduardo de Freitas

Edison Bernardes dos Santos

Ilan Goldfajn

Sérgio Darcy da Silva Alves

Tereza Cristina Grossi Togni

Department Heads (all present on Apr 16th)

Altamir Lopes – Economic Department (DEPEC)

Carlos Yoshitaka Urata - 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 Apr 16th)

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)

Fabia Aparecida de Carvalho - 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

The trend exhibited by the activity level indicators ratified the movement of gradual recovery which began in the last quarter of 2001. Regarding production, industrial performance registered the fourth positive result in February, while the projections for grain production in the current harvest turned out to be more favorable since the last survey. As regards demand, investment presents itself as the main component of the expansion, showing recovery of the indicators of civil construction and capital goods production, in the three-month period ending in February. Consumption indicators have evolved with relative stability in the first months of the year, yet with positive prospects due to the income generated by the agriculture and livestock sector, the decline in default levels, and the improvement in consumer expectations. As for the external sector, trade transactions have presented favorable balances, mainly as a result of the contraction in imports, which reflects, among others, the import substitution process.

The real turnover of retail commerce in the metropolitan region of São Paulo showed a 0.2% decrease in March (seasonally adjusted data), according to preliminary figures released by the São Paulo State's Federation of Commerce (Fecomércio). The result in the month reflected drops in the segments of durable and semi-durable consumer goods, partly offset by positive results in the remaining sectors, especially the sales of building materials. With that outcome, the retail commerce accumulated a 1.2% increase in the first quarter of 2002 compared to the previous one, in the seasonally adjusted data. However, in relation to the same period of past year, the retail sector registered a 6.2% decrease in the first three months, the major drops occurring in the segments of vehicle sales and building materials. On the same basis of comparison, the country-wide survey carried out by the Brazilian Institute of Geography and Statistics (IBGE) also registered a decline, although much slighter, of 1% in the first two months of the year. The IBGE also confirmed that the major decline occurred in the sector of vehicle sales.

In accordance to São Paulo Trade Association (ACSP), the activity in the retail commerce should not show signs of recovery in March. The enquiries to the Credit Protection Service (SPC) presented a decrease of 6.1% in March in relation to February (seasonally adjusted data), while the enquiries to the Usecheque registered a less intense decline, of 0.9%. However, another indicator of this same institution was favorable. The number of consumers with credit rights legally revalidated registered new growth, which contributed to the drop of defaults in the retail commerce to 6% in March, from 8.2% in February, compared to 9.3% registered in March 2001. The default rate (ratio of number of checks returned due to insufficient funds and those cleared) reached 5.2% in March, showing stability in relation to February 2002 and March 2001.

The Index of Consumer Intentions (IIC) released by Fecomércio, in spite the 6.9% drop registered in the current intentions, increased by 0.6% in April, thus reflecting an improvement in future consumption intentions, a component that represents 60% of the index and that showed a 5% increase. The National Index of Consumers Expectations (INEC) has also evolved favorably, reaching 96.3 in March from 94.54 in November. For the most part, the index components presented a favorable evolution, mainly the general and personal income expectations. On the other hand, the index related to the prospects for the year declined to 108.17 from 112.08.

Industrial production rose by 0.3% in February (seasonally adjusted data), according to the IBGE. This result reflected mainly the steep growth of capital goods production, 5.3%, followed by the

increase in the production of intermediate goods, 1.2%. In contrast, the production of consumer goods declined by 1.4%. Comparing February to the October index, when the industrial production resumed growth, a 4.8% growth was observed, with all categories of use in expansion.

The production of capital goods increased by 0.5% in the first two months of the year, basically reflecting the expressive expansion of 14.7% in the production of electric power generating equipment. Also worth mentioning is the growth rates observed in the production of agricultural machinery (12.4%) and industrial commissioned built goods (16.4%), which indicates the expansion of the production capacity in the respective sectors. Another favorable indicator of the investment behavior is the recent monthly increase in the production of inputs for civil construction, after the 2.5% drop in 2001, which has contributed to increase the participation of the Gross Capital Formation in the GDP.

The indicators of activity in the primary sector surveyed by the IBGE through its Systematic Survey of Agricultural Production were more favorable in February than the indicators released in the previous month. Total grain production will reach 99.1 million tons in 2002 (97.5 million tons in the previous survey), exceeding by 0.6% the total 2001 harvest. Production of beans will increase by 27.5%, a forecast that caused a 16.3% reduction in its prices in the first quarter of 2002, as measured by the IPCA. The Survey also registered an expansion of 10.5% in the production of soybeans and of 3.8% for rice. For the corn, a 10.4% drop is expected.

The index of formal employment, based on data from the Ministry of Labor and Employment, grew in February, presenting a 0.4% variation considering the series adjusted for seasonal effects. On the other hand, the open unemployment rate assessed by the IBGE, based on a survey carried out in the six main metropolitan regions, reached 6.98% in February, from 6.83% in January. This result was due to the 0.33% growth in the Economically Active Population (PEA), surpassing the 0.12% rise of job offers. In addition, based on IBGE data, real average wage increased by 2.02% and real wage mass grew by 3.02% (seasonally adjusted data). The real wage mass of industry also evolved favorably in February, increasing by 0.6% in the processing industry in São Paulo, as informed by Fiesp, and by 0.33% according to the CNI survey.

The credit operations continued to present a slight evolution in March. The stock of credit granted by the financial system reached R\$335.5 billion, increasing by 0.4 % as compared to the previous

month. Out of this total, R\$197.2 billion referred to operations with free resources, which expanded by 0.6 % in the period, as a result of the 1.6% growth in the total balance of loans to households, while the stock of the operations with companies remained stable.

Regarding concessions, the monthly expansion in the flow of operations by 5.7% and 7.3%, respectively with households and companies, was basically due to the higher number of working days in the period. The average borrowing from the banking system in the first quarter of this year, when compared with the same period of 2001, increased by 4.4% and 4.7% for households and companies, respectively, thus below the accumulated variation of price indices in the period.

This performance is compatible with the modest growth observed in the economic activity level in the period, and indicates the cooling off in the demand for new resources by the industrial sector, while financial institutions have become more selective in their credit concessions, especially the ones granted to households. This restriction is expressed in the interest rates, whose composition is related to the increase in default levels in the credit operations, as a result of the fall in household's disposable income in the period.

Regarding the external transactions of the Brazilian economy, a significant improvement was observed in the first quarter of 2002, with a drop in the current account deficit, which registered US\$3.2 billion, more than entirely financed by the net inflow of foreign direct investments, of US\$4.7 billion.

The reduction in the current account deficit was due to an identical movement in the net expenses with services and revenues, to a deficit of US\$4.6 billion in the first quarter of 2002, as compared to a US\$6.4 billion deficit in the first quarter of 2001. Another reason was the reversion in the trade balance result, which showed a surplus of US\$1.028 billion compared to a US\$681 million deficit in the same period of the previous year. The trade balance result partially reflects the process of imports substitution, more evident since the last quarter of 2001, when the domestic economic activity resumed its recovery. The comparison of data from industry with imports illustrates this fact. Considering seasonally adjusted data, from October 2001 to February this year, the monthly industrial production grew by 3.1%, while imports of intermediate goods decreased by 2%.

In summary, the recovery of economic activity initiated at the end of 2001 continues. In general, both demand and supply indicators show an upward trend, albeit gradual. The improvement in the expectations favors the recovery of inventories and investment flows. These factors, allied to the imports substitution process, tend to boost domestic production. The idle capacity in the industrial plants and the end of electricity rationing have allowed production to respond to these stimuli without further pressure on prices. Finally, in the labor market, employment and income indicators more clearly reflect the movement of recovery, albeit incipient.

External environment

The world economy has performed better than expected by the market, combining increasing recovery in activity levels with low inflation rates. The United States seem to be leading this rebound, as occurred in the deceleration observed last year. Amongst the developed countries, the exception is Japan, whose economy remains in recession. In spite of the growth resumption, risks still remain in the external scenario, the main one being the volatility of oil prices, due to the political instabilities in the Middle East and Venezuela.

The final GDP growth estimate for the United States in the last quarter of 2001, according to seasonally adjusted and annualized data, was 1.7%, 1.5 p.p. above January's first estimate. Contributing to this result was the expansion in consumer and government expenditures, of 6.1% and 10.2%, respectively. Gross private investments accentuated their contraction to -23.5% from -10.5% in the preceding quarter, accumulating six quarters of negative variation.

Amongst demand indicators of the U.S. economy, retail sales increased by 1.8%, accumulated in the twelve months ending in March, from 1.3% in the previous month. Wholesale sales increased by 0.8% in February, after a 1.2% increase in January, with the quarterly moving average reached 0.2% and -1.1%, respectively. Factory orders continued with a negative accumulated variation over twelve months, 8.7% in February, although with positive results in the quarterly moving average, of 0.7%, indicating activity recovery. The beginning of new home construction varied by 8.6% in March, as measured by accumulated figures in the quarter, less volatile than the monthly indicator. Credit to consumers, on the seasonally adjusted series, registered a monthly increase of 5.2% in February, similar to the rate measured in the previous month.

In the United States, the industrial production in March presented the highest monthly expansion since May 2000, 0.7%, resulting in a 0.5pp increase in utilized capacity, to reach 75.4%. Inventory slowly declined by 0.1% in January and February. On the other hand, the unemployment rate resumed growth (5.7% in March from 5.5% in February), whilst the quarterly variation of the employment volume declined by 53 thousand positions in the non-farming sector.

In spite of these indicators of recovery in the U.S. growth, stimulated by the fiscal expansion and by monetary easing, mainly via interest rates, the inflation indices remain on a favorable trajectory. In March, consumer prices increased by 0.3%, with the core inflation rising by 0.1%, resulting in yearly variations of 1.5% and 2.4%, respectively. As for producer prices, the core index increased by 0.1%, accumulating a 0.4% inflation in 12 months, and, although the inflation in the head index was 1%, the annual variation in March was negative by 1.4%.

In relation to the expectations for the United States economy, the Institute for Supply Management (former-NAPM) indicators in March point to prospects for expansion (results above 50), both for the services sector and for the manufacturing sector (55.6 and 57.3, respectively). As regards consumers, the confidence survey of the Conference Board registered an increase of 15.2 points between February and March, to reach 110.2.

In the Euro Area, recovery still seems more uncertain, although the statistics are released with a longer time lag. Retail sales grew by 0.7% in January, compared to the same month of 2001, after a 0.5% expansion in the previous month. The trade balance continued to present growing surpluses, reaching an equivalent of US\$46.6 billion in the past 12 months, US\$40 billion above the 12 months ending in January 2001. The industrial production remained stable in January, after varying by 0.4% in December last year, but its annual result was still negative (3.2%). The unemployment rate remained stable at 8.4% between November 2001 and February 2002. In February, both the harmonized consumer price and the producer's price indices increased by 0.1%, accumulating annual variations of 2.4% and -1.1%, respectively.

The most positive issue in the economic scenario is the entrepreneurial expectations indicators of the main economies of the Euro Area. In Germany, the Overall Index of Business Expectations, measured by the Institute of Economic Research (IFO), increased by 3.3 points in March to reach

91.8, its highest level since April 2001. In France, the Industrial Trends Survey of the National Institute of Statistics and Economic Research (Insee) reached 94 points in March, compared to 93 in the previous month. In Italy, the index of the Institute of Economic Analysis and Research (Isae) accumulated a 5 points increase in 2002, reaching 94 points in March.

Prices

The Consumer Price Index – Extended (IPCA) increased by 0.6% in March, interrupting the trend of declining rates observed in the last months. The index accumulated a 1.49% rise in the year and a 7.75% rise in the last twelve months. Among the factors which were responsible for the increase of the index variation in the month, the administered prices should be highlighted, due, mainly, to the readjustments in gasoline prices. Gasoline was the item that showed the highest individual contribution to the index in the period (0.15 percentage point). In addition to gasoline, the variations in the prices of electricity (0.09 percentage point), urban transport (0.03 percentage point), among others, led to a contribution of 0.29 of a percentage point from the prices administered by contracts in March.

Considering the free prices, the readjustments in the price of medicine should be pointed out and the faster increases in prices in the food segment, which mainly reflected the increases in the prices of milk and milk-by-products, ready made meals and fresh food – despite the continuity of the decline in the prices of meat, rice and beans.

The General Price Index – Domestic Supply (IGP-DI) varied by 0.11% in March, compared to 0.18% in February, accumulating a 0.48% increase in the year and a 9.14% increase in the last twelve months. The Wholesale Price Index (IPA-DI) has been relatively stable since the beginning of the year, mirroring the exchange rate evolution and the favorable agricultural harvest, amongst others. In March, the IPA declined by 0.11%, after the 0.14% increase in February. Despite the decline in wholesale prices, the Consumer Price Index (IPC-Br) increased by 0.42%, compared to 0.14% in the previous month due, basically, to the rise in costs with transport. The variation of the National Index of Civil Construction (INCC-DI) declined to 0.55% from 0.58%, with an increase in labor costs (to 0.75% from 0.69%) and a fall in materials and services (to 0.35% from 0.47%).

For April the main impacts on price indices should come once again from prices administered by contracts, due to the readjustments of gasoline on March 16th and April 6th (9.39% and 10.08%, respectively, at the refinery), bottled gas, after April 1st (15% at the refinery), and electricity, as a consequence tariff increases in Belo Horizonte, Recife, Salvador, Porto Alegre and Fortaleza.

It should be pointed out from the evolution of prices in February and March that the upward pressures resulted basically from supply shocks, related to the international market, as in the case of fuel, from seasonal factors, as in the case of the costs with education, or from climatic factors, as in the case of the several types of fresh food. Those shocks have not caused spill over to other prices in economy. Nevertheless, the major impact is still to be observed. The results of the price indices in April, as mentioned above, will incorporate, at a higher intensity, the effects of the fuel and electricity readjustments.

Money market and open market operations

After the last Copom decision to reduce the Over-Selic rate target by 25 b.p., the yield curve, which had indicated a reduction of approximately 50 b.p., shifted upwards for all maturities, maintaining a negative slope for the short run, however with a lower declivity. During the following weeks, the curve remained steady, showing a gradual reduction for the short run rates. On April 17th, the yield curve incorporated a reduction in the Over-Selic rate target by 25 b.p. The spread between the 1-month interest rate and Over-Selic rate fell to -24 b.p, on April 17th, from -3 b.p., on March 21st. For 1-year term, it increased to 2 b.p. from -28 b.p.

In the period between March 21st and April 17th, the National Treasury and Banco Central do Brasil carried out nine auctions to rollover two redemptions of NBCEs, totaling R\$ 8.7 billion. For the first rollover, two NTN-D auctions were carried out - at two and three year tenures - together with four auctions of exchange rate swaps conjugated to LFT primary offers - at a two year term. For the second rollover, only exchange rate swaps conjugated to LFT auctions were carried out, also at a two year term. As a result of applying the new mechanism (swaps), the demanded

premiums over the CDI reduced. It should be stressed that Banco Central do Brasil decided not to rollover the final interest payments on the April 18th redemption, keeping with the integral rollover of the principal.

The National Treasury offered 8 and 12 month-tenure LTNs on four occasions, totaling a financial volume of R\$ 9.2 billion. As a result, the average tenure of the placements increased. The issuance of over 12-month tenure securities represented 41% of the overall financial volume, compared to 18% in the previous period.

Considering the financial settlements which took place between March 20th and April 16th, there was a monetary expansionist impact of R\$ 14.5 billion, resulting from high net redemptions of LFT.

During a 19 working day period, Banco Central do Brasil intervened 16 times in the open market, aiming at administering the very short-term interest rate. In 3 interventions, Banco Central provided liquidity to the market at a hurdle yield of 18.55% p.a., with an average volume of R\$ 2.9 billion. In 13 interventions, Banco Central withdrew liquidity at a yield of 18.40% p.a., (except once, on 4/17/2002, when the rate was of 18.38%), with a R\$ 3.8 billion average volume.

In March, the domestic federal securitized debt fell by R\$5.3 billion, basically due to the net redemption of R\$ 10.1 billion in securities. The securities indexed to the Over-Selic rate presented a R\$ 16.8 billion net redemption, while the placements of fixed-rate securities reached R\$ 8.7 billion, without any redemption in the period. The debt indexed to the exchange rate variation declined by R\$ 1.7 billion, as a result of the 1.1% appreciation of the Real.

Assessment of inflation trends

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

1. March inflation rate, measure by the IPCA, increased to 0.60% from 0.36% in February;
2. With the liberalization of the prices of petroleum and its by-products, the forecasts for their prices assumed the following parameters: the behavior of the exchange rate for all its by-products;

the spot and futures prices of gasoline in the United States for the gasoline readjustments; and the spot price of the propane gas in the United States as well as the futures prices negotiated in the New York Mercantile Exchange (NYMEX) for the readjustment of bottled gas. There was a change in the methodology that had been applied up to the last Copom meeting, which considered the future price of the Brent crude oil barrel as a parameter for the forecast of the price readjustments of oil by-products. According to the new source of data, the consumer price of gasoline should increase by 4.9% by the end of the year, already taking into account the 10.2% pass through in the refinery, implemented by Petrobrás on April 3rd. For 2002 as a whole, and due to the fall occurred in January and February, a 6.6% decline in consumer gasoline prices is forecasted. For the bottled gas, the elimination of the subsidies and the increase in the slope of future prices of propane gas should result in an increase close to 30% in 2002, of which 16% has already occurred in the first quarter.

3. Regarding the set of prices administered by contracts and monitored, weighting 30.3% in the IPCA of March, the expected readjustments are of 7.2% for 2002 and 4.3% for 2003, with a direct contribution of 2.2 p.p. and 1.3 p.p. in the IPCA. At the March meeting, the expected readjustments for these prices were of 6.8% and a 4.5%, respectively. This 0.4 p.p. increase in the forecast for the 2002 inflation of these prices reflects the already announced increase in gasoline. The average increase in electricity tariffs is projected to be 15% for 2002, compared to the 16.6% estimated in March. It should be highlighted that these increases are concentrated in the period between April and July. For 2003, the forecast for the readjustment of these tariffs has declined to 12.7% from 13.0% in March.

4. The inflation forecasts were based on the new specification of the structural model that has as its explanatory variable the 180-days swap DI-pre, which replaces both the Selic rate and the slope of the term structure of the interest rate. The projection for the nominal swap for the next quarters, keeping the Selic rate constant, starts in the current plateau of 18.6% to reach 19.5% at the end of 2002;

5. The trajectory of U.S Fed Funds rate, based on the futures contracts maturity, was changed to reflect a 1.8% average rate in the second quarter of 2002, increasing to 3.0% in the fourth quarter of 2002, remaining constant thereafter;

6. The sovereign risk premium measured by spread over treasury of Brazil's Global 04 Bond is

forecasted to remain at around 550 b.p.;

The core inflation of the IPCA, calculated under the symmetric trimmed-mean method, increased to 0.58% in March from 0.54% in February. In the last 12 months, this core registered a 7.58% increase. In turn, the IPC-BR core inflation, calculated under the symmetric trimmed-mean method, increased to 0.50% in March from 0.44% in February. In the accumulated over 12 months, this core registered a 7.46% variation. The core inflation calculated by excluding the prices administered by contracts (considering the wide set of these items weighting 30.3% of the IPCA in March) and household food prices increased by 0.53% in March, accumulating 6.10% in 12 months.

The accumulated variation of the IPCA in 12 months was 7.75%, a rate above the observed in February (7.51%) and January (7.62%). The free prices contributed to inflation with 4.68 p.p. and the prices administered by contracts and monitored, with 3.07 p.p.. The inflation expectations surveyed by the Banco Central do Brasil's Investor Relations Group (GCI) registered a 5.4% increase for 2002 and stability for 2003 at 4.0%.

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.

From the simulation exercises with several specifications of the structural model, the conclusion was that the maintenance of the interest rate at 18.5% p.a. and the exchange rate at the same plateau as on the eve of the Copom meeting indicate an inflation above 4.5% in 2002 and below 3.25% in 2003.

Monetary Policy Guidelines

The Brazilian economy continues to recover, albeit at a slow pace. Industrial production increased for the fourth consecutive month, reaching its highest level in February since May 2001 (seasonally adjusted figures). However, these positive variations have been showing decline: 0.2% in February compared to 1.7% in November, in the monthly comparisons.

The consumption level has stabilized in the past months. The rebound in investment in this period has helped maintain the positive growth rate of the economy. In the monthly comparison, the 6.4% growth in the production of capital goods more than offset the almost 2% fall in the production of consumer goods. The retail turnover of the commerce in the metropolitan region of São Paulo remained practically unaltered between February and March.

In the medium term, there are prospects of consumption growth, as indicated in the 5% increase in the consumer future intentions index, according to Fecomércio. This improvement of future intentions is consistent with the perspective of real wage mass growth, which should encourage the production of non-durable and semi-durable consumer goods. A recovery of the credit to the private sector would foster the production of durable consumer goods.

The performance of the external sector remains positive. The outcome of February represented the seventh consecutive fall in the current account deficit, which reached US\$21.4 billion in the past twelve months. In March, this deficit should be below US\$20 billion. Brazil's risk, as measured by the spread over treasury of the Global Bond Br04, retreated by 30b.p. between March and April Copom meetings. The flow of foreign capital remains satisfactory in terms of the financing of the Balance of Payments. In this period, the Real appreciated by around 5 cents of a Dollar. Structural factors already mentioned in the previous Copom Minutes have contributed to this improvement. Within these factors, special notice should be given to the recovery of the U.S. economy, the limited contagion of the Argentine crisis in Brazil, and the macroeconomic fundamentals. Also reflecting this improvement, and evidencing confidence in the favorable performance of the external sector are the sovereign bond issuance, the well succeeded selling of Vale do Rio Doce's shares in the foreign market, and the decision to anticipate the payments of the Supplemental Reserve Facility (SRF) loan with the IMF, amounting to US\$4.2 billion..

The macroeconomic picture points to a future reduction in the variation of the free prices in the basic scenario analyzed by Copom. The existence of high idle capacity, the still slow pace of the economic activity, and the absence of pressures from the labor market; as well as the appreciation of the exchange rate, the fall in wholesale price indices, and the recent behavior of food prices should contribute to a downward pressure in the inflation of free prices. It is expected that these prices will increase, on average, by around 0.20-0.30% p.m. throughout the remainder of the year.

Nonetheless, inflation has remained at a high level in these first months of the year. The IPCA increase to 0.60% in March from 0.36% in February was not only due to the increase in prices administered by contracts and monitored, but also in response to a slower deceleration in the inflation of free prices in February and March of respectively 0.64% and 0.45%.

The prices administered by contracts and monitored increased by 0.95% in March, due to the readjustments of prices of oil derivatives and electricity tariffs. The rises of 10.4% in the price of gasoline, and of 10.25% in bottled gas, will increase the inflation index in April. The pressure from prices administered by contracts and monitored should be concentrated between April and July this year, as a result of the recent readjustments of prices of oil derivatives and the concentration of price readjustments by the electricity distributing and telecommunications companies in the period. However, the curves of future prices of petroleum, gasoline and propane gas indicate a decrease of their prices in the remainder of the year.

The increase in the projection of the prices administered by contracts and monitored raised the estimate for the primary effect of the shock of these prices to a value around 1 p.p.. The shock of the prices administered by contracts and monitored is defined as the value that exceeds the inflation target, once deducted the impact of the exchange rate pass-through and of the inertia over these prices. It is important to emphasize that the increase in prices administered by contracts and monitored have further effects on the freely set prices through its secondary effects.

The slower fall in the freely set prices and the higher inflation of the prices administered by contracts and monitored have led to an increase in the inflation expectations surveyed by the Investor Relations Group (GCI) of Banco Central do Brasil, to 5.4% in 2002. Similarly, the simulations carried out by the Banco Central also point to a rise in the projected inflation for 2002. The baseline scenario projects a variation between 4.5% and 5.0% for this year. The higher projection was due to the 0.60% inflation in March, reflecting the slower decrease of the freely set prices, and to the revision of the projections for the administered prices, which increased to 7.2% from 6.8% between March and April Copom meetings. For 2003, the projected inflation is below the 3.25% target.

In principle the monetary policy should be guided towards coping with the spill-over of the shocks of prices administered by contracts and monitored, but not their primary effect. Besides, part of the inflationary inertia inherited from 2001 may be neutralized in 2003. As a result, and also considering the new estimate for the primary effect of the shock from administered prices, the Copom aims at an inflation rate between 4.5% and 5.0% for 2002. However, as the projection for the inflation this year rises, the risk of inflation reaching the upper limit of the tolerance interval also increases. This risk assumes a relevant role in the current context of the monetary policy, which seeks to guarantee the convergence of the inflation to the trend of its targets after the shocks that hit the economy in 2001, under a regime that is still maturing.

In summary, the slower convergence of inflation to its targets, together with the secondary effect of the shocks in prices administered by contracts and monitored and the proximity to the ceiling of the tolerance interval, recommends caution in conducting the monetary policy. In the face of these facts, Copom decided, unanimously, to maintain the target for the Selic interest rate at 18.5% a.a..

At the close of the meeting, it was announced that the Committee would meet again on May 21st, at 3:30pm, 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 Banco Central do Brasil 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

Fecomércio 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

IPA Wholesale Price Index

IPC Consumer Price Index

IPCA Consumer Price Index – Extended

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 variation)

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