BANCO CENTRAL DO BRASIL

Minutes of the 101st Meeting of the Monetary Policy Committee (Copom)

Date: October 19th, from 4:35PM to 7:15PM, and October 20th, from 4:00PM to 6:15PM
Place: BCB's Headquarters meeting room of the 8th floor (on October 19th) and 20th floor (on October 20th) – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Afonso Sant'Anna Bevilaqua
Alexandre Schwartsman
Antônio Gustavo Matos do Vale
Eduardo Henrique de Mello Motta Loyo
João Antônio Fleury Teixeira
Paulo Sérgio Cavalheiro
Sérgio Darcy da Silva Alves

Department Heads (present on October 19th)
Altamir Lopes – Economic Department
André Barbosa Coutinho Marques – Investor Relations Group
Ivan Luis Gonçalves de Oliveira Lima – Open Market Operations Department
José Antônio Marciano – Department of Banking Operations and Payments System
Marcelo Kfoury Muinhos – Research Department (also present on October 20th)
Renato Jansson Rosek – International Reserves Operations Department

Other participants (present on October 19th)
Flavio Pinheiro de Melo – Advisor to the Board
Hélio Mori – Advisor to the Board
João Batista do Nascimento Magalhães – Special Advisor to the Governor
Jocimar Nastari – Press Secretary

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

Recent Evolution of Inflation

1. Inflation decelerated in September due mainly to a positive behavior of fresh food prices. The lower pressure of regulated prices also contributed to the deceleration. Despite this favorable trend, it is important to stress that the inflation reduction in September was in part transitory.

2. The Broad National Consumer Price Index (IPCA) rose 0.33% in September, down from 0.69% in August, accumulating increases of 5.49% in the year and 6.71% in the last twelve months. The deceleration of the IPCA was due to the fall in food prices, mainly tubercles and vegetables, as well as the deceleration of fuel prices, particularly of moisturized fuel-alcohol.

3. Market prices increased 0.22% in September, compared to 0.60% in August, accounting for 0.16 p.p. of the IPCA change; regulated prices increased 0.59% (0.92% in August), accounting for the remaining 0.17 p.p. of the index. The readjustment of 3.13% in fixed telephone tariffs was the main individual contributor to the IPCA in September, with an impact of 0.10 p.p. Water and sewage tariffs contributed with 0.04 p.p., following the 6.78% readjustment in the greater São Paulo that took place in August 29. Non-tradable prices inflation remained stable in September, favored by the 4.4% average decrease in fresh food prices, which offset the pressures in other goods and

services. Tradable prices were up 0.40%, highlighting the increases of new and second-hand vehicles – reflecting, to some extent, the increase of steel prices – as well as the prices of sugar, meat and clothing.

4. In September, the General Price Index (IGP-DI) increased 0.48%, compared to a 1.31% increase in August, totaling a 10.06% change in the first three quarters of 2004. The IGP-DI deceleration was observed in all its three components. The Consumer Price Index – Brazil (IPC-Br) increased 0.01%, after a 0.79% rise in August. The National Index of Civil Construction (INCC) rose 0.58%, compared to 0.81% in August. Finally, the Wholesale Price Index (IPA-DI) decelerated to 0.65% from 1.59% in August, accumulating 12.31% in the first three quarters of 2004. In the last twelve months, the IGP-DI and the IPA-DI accumulated changes of 11.74% and 14.22%, respectively.

5. The reduction in wholesale inflation in September encompassed both agricultural and industrial prices. The agriculture-IPA registered a negative change of 0.64%, after a 0.53% increase in August. This result was due to the fall in prices of vegetables, fruit, eggs, potato, wheat and rice, which prevailed over the increases in the prices of pork, corn, coffee beans and sugar cane. The industrial IPA decreased to 1.13% from 1.98% in August. The most part of the industrial goods included in the IPA decelerated, except for chemical goods, which rose by 1.78% in September from 0.83% in August.

6. In spite of the recent deceleration, the industrial IPA (excluding fuels) accumulated a 4.8% increase in the third quarter. In the same period, the IPCA industrial prices (excluding fuels) rose 1.3%.

7. In September, the IPCA core inflation excluding household food items and regulated prices recorded 0.41%, compared to 0.56% in August, thus accumulating 7.50% in the last twelve months. The core under the smoothed trimmed-mean method reached 0.56% (0.55% in August), totaling 7.69% in the last twelve months. Without the smoothing procedure for pre-selected items, the core decreased to 0.38% from 0.53% in August, accumulating 5.71% in the last twelve months.

8. The IPC-Br core inflation, calculated by the Fundação Getúlio Vargas (FGV) under the symmetric trimmed-mean method, stood at 0.38% in September, compared to 0.42% in August, totaling an increase of 5.87% in the last twelve months.

9. As already stressed in previous Copom Minutes, the gap between wholesale and retail industrial inflation persists, representing a potential risk over consumer inflation, specially having in mind the seasonal demand rebound at the end of the year. At the same time, the increase in international oil prices magnifies the inflation risks.

Assessment of Inflation Trends

10. The identified shocks and their impacts were reassessed according to new available information. The scenario considered in the simulations assumes the following hypotheses:

    a. For 2004, the Copom's projection for the increase of gasoline prices was maintained at 9.5%, while the projection for the increase of bottled gas prices was reduced to 4.9% from 6.2%;

    b. The projection for the readjustment of household electricity prices was maintained at 11.5%, while the projection for the readjustment of fixed telephone tariffs was slightly increased to 14.0% from 13.9%;

c. In regard to all regulated prices, with a total weight of 29.0% in the September IPCA, the Copom projects an average price increase of 8.5% in 2004, the same projection assumed in September;

d. The projection for the readjustment of all regulated prices for 2005, following the model of endogenous determination, which takes into account seasonal components, the exchange rate, market prices inflation and the IGP-DI change, was maintained at 6.9%;

e. The projection for the 6-month spread over the Over-Selic rate, following the specification of a Vector Autoregressive model based on the Over-Selic and the swap rates on the eve of the Copom meeting, decreases from 81 basis points in the fourth quarter of 2004 to 59 basis points in the last quarter of 2005.

11. It is assumed that the consolidated public sector primary surplus target of 4.5% of the GDP for 2004 and 4.25% for the following two years will be achieved. The related assumptions considered in the previous Copom meeting were maintained.

12. Considering the benchmark scenario hypotheses, including the maintenance of the Over-Selic rate at 16.25% p.a. and of the exchange rate at the level prevailing on the eve of the Copom meeting (R$/US$2.85), the IPCA inflation rate was projected above the 5.5% central target for 2004 and above the 5.1% objective for 2005. Considering alternatively the market scenario, which takes into account the consensus Over-Selic rate and the exchange rate as surveyed by the BCB's Investor Relations Group – Gerin on the eve of the Copom meeting, inflation is also projected above the central target for 2004 and above the objective for 2005.

Monetary Policy Decision

13. The deceleration of the IPCA to 0.33% in September from 0.69% in August was mainly a result of the behavior of fresh food prices, which fell 4.37% in September after increasing 8.14% in August. Excluding food, the deceleration in market prices inflation in the period would be significantly less intense (from 0.48% to 0.42%). Volatile prices shocks, such as those of fresh food, have an impact over the current inflation rate; however, they cause very limited effect in the future inflation trajectory.

14. Wholesale inflation also fell, favored by food prices. However, industrial wholesale inflation remains in a high level (1.13% in September and 15.40% in the year). Comparing the current dynamics of industrial prices in the wholesale and in the retail segments, a potential pass-through from the wholesale to the retail prices is noticeable, causing an important source of pressure over consumer inflation in the incoming months. The intensity of the pass-through will depend on price-makers future inflation expectations.

15. The IPCA core excluding household food and regulated prices and the core under the non-smoothed trimmed mean also decelerated in September. On the other hand, the core under the smoothed trimmed mean – which aims at incorporating regulated prices to the underlying trend of the IPCA - stood practically stable, at an annual rate close to 7%. It is important to note that the core measures are calculated in order to eliminate part of the volatility of the headline index, but are not completely noise-free, so that marginal variations should not be interpreted as a change in the inflation trend. The behavior of the IPCA cores over the last few months still indicates an underlying inflation trend incompatible with the targets path.

16. According to the Brazilian Institute of Geography and Statistics (IBGE), industrial output grew 1.1% in August in seasonally adjusted terms. Such an impressive figure was significantly higher than the market consensus on the eve of the publication of the data. Market expectations were in fact negatively influenced by the fall in packaging paper shipments in August; this fall followed a sharp

increase in July not fully reflected in the industrial output performance. As mentioned in the September Copom Minutes, monthly packaging paper shipments are imprecise as a coincident indicator of the industrial activity, if analyzed apart from the historical series. For September, the leading and coincident indicators anticipate a slight decrease in the seasonally adjusted monthly industrial performance. The volatility of industrial output neither allows the interpretation of a surprisingly positive monthly figure as a definitive evidence of acceleration in the growth trend, nor does it mean that the marginal accommodation is a clear sign that the expansion has lost momentum. In fact, August was the sixth consecutive month of growth in the seasonally adjusted industrial output series. Such a long monotonic growth had not been observed since 1994, as the presence of some cyclical fluctuations around the underlying trend is the most common behavior, even during periods of strong activity expansion.

17. The unemployment rate remained practically stable from July (11.2%) to August (11.4%), in a significant lower level than the one observed in August 2003 (13.0%). The number of employed workers increased 0.3% in August, sustaining the upward trend initiated at the beginning of the year. According to the Ministry of Labor and Employment, formal employment grew 0.8% in August and 4.4% in the year, which represents the addition of 1,466,446 workers to the formal labor market in the first 8 months of 2004. According to the Federation of Industries of the State of São Paulo (Fiesp) and to the National Industry Confederation (CNI) surveys, real wages continued to increase. The progressive recovery of employment and labor income will perform an increasingly important role in the sustainability of the current economic recovery process, and will also contribute to a more balanced expansion among the several economic activities.

18. The IBGE’s retail survey confirmed the expansion of personal consumption. August was the ninth consecutive month of retail sales increase (considering seasonally adjusted data by the BCB), despite the month's modest performance (0.1%). Since February 2003, sales registered only one monthly negative result (December 2003), growing 9.5% in the year to August. The most dynamic sectors at the beginning of the economic rebound, such as furniture and electrical appliances (up 29.8% in the year), and vehicles and motorcycles (up 19.2%), are still leading the retail activity. As to the super and hypermarket sales, which are less sensitive to credit conditions, growth reached 1.1% month-on-month and 5.9% in the year. October data from the Federação do Comércio do Estado de São Paulo (Fecomercio-SP) show a significant improvement in consumer confidence, with record high figures for both current economic conditions and future consumer expectations.

19. The concern expressed in past Copom Minutes about the pace of supply growth in order to accommodate the increasing demand without triggering inflation pressures is again emphazised. On the one hand, fixed capital investment is encouraging, with an increase of 15.7% in the domestic absorption of capital goods from January to August, over the same period of 2003. On the other hand, capacity utilization sustained the upward trend. The installed capacity utilization index measured by the CNI grew 0.1% in August (seasonally adjusted), reaching the historical high of 83.3%.

20. The external sector has sustained its dynamism, with exports expanding 33.1% in the year to September compared to the same period of 2003. On the same comparison basis, imports grew 29.1%, responding strongly to the rebound in domestic demand. In the 12-month period to September, the trade balance totaled US$32.1 billion, resulting in a current account surplus of US$9.8 billion (approximately 1.8% of the GDP).

21. International crude oil prices have resumed its upward trend since the September Copom meeting. Not only did the current prices increase, but also the perspectives that prices will remain in high levels for a longer period strengthened. The risks are enhanced by the likelihood that, in face of a sustained increase in oil prices, there is a reduction in the current unusual lag in international gasoline prices. As to the domestic scenario, it is still indefinite the realignment of oil by-products prices to international prices, which increases the probability that such a realignment – considering that it can be postponed, but not avoided – could contaminate with greater intensity the 2005

inflation rate. Besides, a mere postponement would reduce the monetary policy effectiveness, as it expands the time horizon in which private agents expect an imminent inflationary shock, of uncertain magnitude, requiring higher nominal interest rates in order to produce the same expected real interest rate.

22. In the benchmark scenario, the Copom maintains unchanged its projections for 2004 domestic gasoline prices; for 2005, the Copom assumes the projections generated by the endogenous determination model for regulated prices. The Committee has been carefully pondering that international oil prices face a more adverse environment than the current one, but still regard it as a potential risk, though increasingly higher, for the materialization of the benchmark scenario. The Copom will soon produce disaggregate projections for gasoline prices in 2005, as well as for the other regulated prices, when it will reassess the extent to which more adverse circumstances in the oil market should be incorporated into the assumptions of the benchmark scenario.

23. The international capital markets started to express greater concerns about the growth dynamics in the main economies. This uncertainty was triggered by the hike in oil prices, and resulted in greater market volatility, with immediate effects on the Brazilian foreign exchange market. The favorable scenario that enabled the *Real* appreciation since last June could be harmed in the case of a larger deterioration of oil prices and its uncertain impact over the world economy growth.

24. Since the last Copom meeting, the median of market expectations for the 2004 IPCA dropped to 7.16% from 7.37%. This reduction is a result of the below-than-expected September inflation rate, caused by the transitory factors already discussed. For 2005, on the other hand, market expectations for the IPCA increased to 5.82% from 5.70%. The deterioration of 2005 inflation expectations has not stopped yet, despite the current favorable trend of inflation, the exchange rate appreciation, the recent fall of important commodity prices and the signaling of a monetary tightening in the last few months.

25. Once more, the Copom emphasizes that the monetary policy adjustment is based on its own inflation scenarios, and are not conducted by inflation expectations of private agents. However, private sector expectations have an important impact on monetary policy effectiveness, as they affect the expected real interest rates corresponding to a certain nominal yield curve and, given demand conditions, they significantly influence price-makers decisions. Because of this relevance, inflation expectations are monitored by the Copom and by monetary authorities worldwide, whichever the degree of accuracy.

26. The Copom projections for the 2004 IPCA fell, mainly due to the favorable September result. In both the benchmark and the market scenarios, the Copom projections for the 2004 IPCA stand above the 5.5% target established for the year, but the likelihood that it will surpass the upper limit of the tolerance interval diminished. For 2005, the projections in both scenarios stand close to the values presented in the September issue of the Inflation Report. In the benchmark scenario, which assumes the maintenance of the Over-Selic rate at 16.25% p.a. and the exchange rate at R$2.85/US$ throughout the projection horizon, the *Real* appreciation almost counterbalanced the deterioration in inflation expectations, maintaining the projected IPCA above the 5.1% objective described in the September Minutes. The projections based on the market scenario, which incorporates the exchange rate and the Over-Selic rate expected by the market on the eve of the Copom meeting, stand above the projections for the benchmark scenario.

27. The Copom reiterates that it considers natural for the economic growth pace to spontaneously slow down, as the initial monetary impulse loses momentum and the economy becomes to be sustained on auto propagation mechanisms linked to income increases. Although some spontaneous slowdown may be in course, the available data do not suggest that it is intense enough to preserve the compatibility between the inflation targets and the productive capacity. Despite the difficulties in measuring the installed capacity of each industry, or, in aggregate terms, the potential output, it is undeniable that the idle capacity has quickly lessened in the last few months. Considering the

production levels recently achieved, the monetary stance has to carefully accommodate the marginal expansion of demand.

28. The monetary policy adjustment initiated in September aims at promoting the convergence of the inflation rate to the target path, which incorporates the 5.1% objective for 2005. By adjusting the output gap to the inflation target path, monetary policy will avoid deeper damages to the growth cycle that would take place if more drastic measures were necessary to disinflate the economy. Preventing the inflation increase is also essential to perverse labor income, thus maintaining a sound and balanced recovery process. The main objective of the adjustment in monetary policy is, therefore, to ensure sustainable growth conditions.

29. As a consequence, the Copom understands that the current circumstances recommend the continuity of the process initiated in September, of a moderate adjustment in the Over-Selic rate. Although an increase of 0.25 p.p. had been considered adequate to begin this adjustment, as to smooth the inflexion of the monetary stance and minimize its initial turbulence risks, the Committee evaluates that, at this moment, a 0.5 p.p. rise is more adequate with the magnitude and the speed required to promote the convergence of the inflation rate to the targets path.

30. Considering the reasons stated above, the Copom decided, unanimously, to increase the Over-Selic rate target to 16.75% p.a., without bias.

31. Even though the Copom assumes that the monetary adjustment will be carried out in the magnitude and the pace originally set up, the current scenario holds two potential new risks. First, the increase in oil prices, in terms of magnitude and in terms of extent. Second, the marginal deterioration of market inflation expectations for 2005, even after the adjustment in the monetary stance, is an alert of its possible downward rigidity.

32. At the closing of the meeting, it was announced that the Copom would meet again on November 16, for technical presentations and on the following day, to discuss the monetary policy decision, as established in Communiqué 11,516, of October 15, 2003.

SUMMARY OF DATA ANALYZED BY THE COPOM

Economic Activity

33. According to the IBGE's retail survey, which encompasses all the states of the country, retail sales increased 0.1% month-on-month in August, seasonally adjusted by the BCB. Fabric, clothing, shoes, furniture, electrical appliances, vehicles, motorcycles and parts, which had been showing expressive growth rates in the year, presented a decrease in the month, while super and hypermarkets sales remained high, considering the seasonally adjusted series.

34. Still according to the IBGE's retail survey, the retail activity expanded 9.5% in the period January – August, compared to the same period of 2003; compared to the same month of 2003, the retail activity expanded 7.5% in August, after five consecutive monthly increases above 10%. The year-on-year growth in retail sales encompassed 26 out of 27 states of the country. All activities posted year-on-year positive growth rates in August, more markedly in the segments of furniture and electrical appliances, which grew 29.8%, well above the retail average.

35. In September, the São Paulo Trade Association (ACSP) registered a 2% decrease in the number of consultations of credit sales, while the Usecheque system consultations fell 3.1%, both compared to the previous month, seasonally adjusted. In the year to September, the same indicators rose by 7.4% and by 1.1%, respectively.

36. The Fecomercio-SP consumer sentiment survey indicated that the Consumer Confidence Index increased by 10.7% in October to 142.5 points (range 0 to 200). This increase was due to an improvement of 18.1% in the current economic conditions and a 7.5% increase in future consumer expectations. The growth resulted in the highest consumer confidence since the beginning of the survey, in 1994.

37. Regarding fixed capital investment, indicators showed the continuity of the recovery in August. Domestic absorption of capital goods increased by 4.6% in the month, compared to the previous month, seasonally adjusted. This increase was a result of the 2.3% rise in capital goods output and the 1.5% expansion in capital goods imports, as well as the decrease of 12.7% in capital goods exports. The domestic absorption of capital goods accumulated a 15.7% growth in the year to August.

38. Civil construction indicators ratify the investment expansion trend. Construction inputs grew 0.5% month-on-month in August, seasonally adjusted, posting the sixth consecutive month of growth, accumulating an increase of 5.8% in the year to August.

39. The IBGE's monthly industrial survey registered a 1.1% increase in industrial output in August, seasonally adjusted, a historical high. A sequence of six consecutive positive monthly results had not been seen since 1994, after the *Real* Plan.

40. In the year to August, industrial output increased by 8.8%, compared to the same period of 2003, with output expansion in 24 out of the 27 activities and in all use categories. The most important growth rates in use categories refer to the increases of 26.2% in capital goods production and 26.0% in durable goods production. Intermediate goods output grew 7.3%. Semi and non-durable goods output grew 3.1% in the same period, as a result of the gradual recovery of the labor market.

41. In August, the CNI recorded a 0.1% decrease in real industrial sales and a 0.8% increase in industrial worked hours, in comparison to July, seasonally adjusted. Compared to the same month of 2003, real sales and worked hours increased by 20.2% and by 10.7%, respectively. The average level of industrial capacity utilization reached 83.3% in August, the highest ever, with a

0.1% monthly increase. In the first eight months of the year, capacity utilization expanded by 2.8%, compared to the same period of 2003.

42. Leading and coincident industrial indicators signal that the seasonally adjusted industrial activity may slowdown in September. Packaging paper shipments and steel output decreased by 3.3% and by 0.5%, accumulating in the year to September expansions of 13.3% and 5.6%, respectively. The car industry produced 203.000 vehicles, down 1.2% compared to August, and up 25.3% over September 2003.

Labor Market

43. Formal employment increased by 0.8% month-on-month in August, seasonally adjusted, and by 6.1% compared to August 2003, according to the Ministry of Labor and Employment. In the first eight months of the year, there was a 4.4% expansion in formal employment, more markedly in industry. The data have also indicated that employment has increased at a higher pace outside large metropolitan areas.

44. The unemployment rate, measured by the IBGE in the six main metropolitan areas of the country, rose to 11.4% in August, from 11.2% in the previous month. The 0.3% increase in the total employment was not enough to offset the 0.5% growth of the working force in the month. It is important to stress that the economic expansion has its effects over the labor market by both increasing total employed workers and the working force, as people start searching for jobs as a result of the better economic outlook.

45. Still regarding the employment survey, average real earnings totaled R$894.81 in August, a 1.4% fall compared to the previous month. Average real earnings grew by 5.3% in nominal terms and fell by 0.9% in real terms, compared to August 2003, when deflated by the National Consumer Price Index (INPC).

46. In industry, according to seasonally adjusted data from CNI, employed workers and real wages increased by 1.0% and by 1.6%, respectively, in August, compared to July. In the first eight months of the year, real wages and employed workers increased by 8.1% and by 2.0%, respectively, compared to the same period of 2003.

Credit and Delinquency Rates

47. Non-earmarked credit operations increased by 1.9% in September. Corporate credit with domestic funding expanded by 4.1%, while corporate credit with external funding fell by 3.3%, as a result of the *Real* appreciation. Household credit operations increased by 2.4%, accumulating 25.7% in twelve months.

48. The average interest rate on non-earmarked credit increased by 1.2 p.p. in September, reaching 45.1% p.a. This increase was a result of the 1.6 p.p. rise in the average corporate rate, while the average rate for individuals remained almost stable.

49. Still regarding the non-earmarked credit, the delinquency rate grew to 7.5% in September, compared to 7.2% from June to August. In corporate operations, the delinquency rate remained unchanged at 3.6%, while in operations with individuals, the delinquency rate increased by 0.5 p.p., to 13.3%.

50. The default rate measured by the ACSP grew to 4.4% in September from 3.9% in August. In the year to September, the average default rate recorded a 9.3% decrease compared to the same period of 2003. The number of returned checks, compared to the total number of checks, increased to 5.3% in September from 5.0% in August.

External Environment

51. The continuous rises in oil prices have brought uncertainties about the sustainability of the world economic growth. The price of the barrel has already increased by more than 65% this year, causing volatility to the financial markets, specially the stock markets worldwide. In the bonds markets, securities prices have been adjusting to the gradual rise in the US interest rates, benefiting emerging markets bonds. The Emerging Market Bond Index Plus (Embi+) has recorded declining spreads over the American treasury, benefiting new sovereign and corporate issues.

52. Despite the continuous rises in the prices of oil and some commodities, consumer and producer price indices have remained stable in the main economies. Considering a scenario of controlled inflation, the Bank of England and the European Central Bank decided to keep interest rates unchanged in October. In the U.S., the Federal Reserve increased the fed funds rates by 25 b.p. in September, to 1.75% p.a.

53. In the U.S., the last indicators have reinforced the perception of a moderate economic growth. The labor market has reacted slowly. Business and consumer expectations decreased in September. The trade deficit reached US$54 billion in August, and the fiscal deficit totaled US$412.5 billion in the fiscal year of 2004.

54. In Europe, the recovery remains slow. The last indicators have shown deceleration in industrial growth in France and Germany. Low consumer confidence, a weak recovery of employment and the oil price rises have impacted the recovery of domestic demand. External demand also begins to shrink, after leading the economic recovery in the area.

55. In Japan, the economy has been growing consistently, lead by exports expansion. However, in the last two months, industrial output and exports have decelerated. Domestic consumption has been moderate, following the gradual improvement in the labor market, but consumer confidence has recently deteriorated. In China, despite the restrictive economic measures, the outlook remains rather positive. The trade balance registered the fifth consecutive surplus in September, due to increasing exports.

Foreign Trade and Balance of Payments

56. In September, the Brazilian trade balance posted a US$3.2 billion surplus, accumulating US$25.1 billion in the year and US$32.1 billion in 12 months. Exports and imports increased by 28.4% and by 30.5%, respectively, compared to the September 2003 daily averages. Total external trade reached US$14.7 billion, accumulating US$115.4 billion in the year and US$ 149 billion in twelve months. In the first 10 working days of October, the Brazilian trade surplus reached US$1.7 billion, with exports and imports growing by 41.4% and 34.7%, respectively, compared to October 2003 daily averages.

57. Brazilian exports totaled US$8.9 billion in September. Manufactured, primary and semi-manufactured goods exports totaled US$4.8 billion, US$2.7 billion and US$1.3 billion, respectively.

58. In September, the current account registered a US$1.7 billion surplus, accumulating a US$9.6 billion surplus in the year. In the same period, the trade balance posted a US$25.1 billion surplus, while the services and income account posted a US$17.9 billion deficit. Net foreign direct investment reached US$646 million in September, accumulating US$12.4 billion in the year. The rollover rate of loans and private bonds reached 99% and 48% in the year, respectively. At the end of September, international reserves stood at US$49.5 billion, while adjusted net reserves stood at US$23 billion (IMF concept).

BANCO CENTRAL DO BRASIL

Money Market and Open Market Operations

59. After the September Copom's meeting, the domestic yield curve moved upwards for maturities up to ten months, and downwards for longer tenures. The determinant factors underlying the downward move of the long-term yield curve were the reduction of the sovereign risk, the *Real* appreciation, the increase of the public sector primary surplus target and the sound external accounts. From September 15 to October 20, the 1-month, 3-month and 6-month interest rates increased by 0.35 p.p., 0.25 p.p. and 0.06 p.p., respectively, while the 1-year, 2-year and the 3-year rates decreased by 0.23 p.p., 0.39 p.p. and 0.41 p.p., respectively. In the same period, the real interest rate measured by the ratio between the one-year nominal interest rate and the 12-month-ahead inflation expectations decreased to 10.7% from 10.9%.

60. As occurred in September, the BCB did not carry out auctions to rollover US$2.3 billion in securities and Fx swaps maturing in October. As a consequence, the net redemption of Fx-linked securities and swaps in the year to October totals US$27.3 billion, including paid interests.

61. The National Treasury carried out five selling auctions of LTNs maturing in July/2005 and January/2006, totaling a net placement of R$20.5 billion. After 6 months without carryng out NTN-F auctions, the National Treasury resumed, in October, these auctions, maturing in January/2008, totaling R$275 million. Five selling auctions of LFTs were also carried out, placing R$11.8 billion maturing in 2005, 2006 and 2007. In the same period, there were one buying auction and one selling auction for National Treasury Notes – Series B and C (NTN-Bs and NTN-Cs), which amounted to R$1 billion in net terms, R$385 million of which settled in currency and the rest settled in exchange for other National Treasury's securities.

62. The BCB maintained, in its open market operations, the weekly post-fixed repo operations (tenure extended to 4-week from 2-week) and the fixed repo operations (3-month), as well as its daily liquidity management operations (2-working-day tenure). The BCB also carried out in the period 21 fixed rate overnight repos, nineteen of which with a one-day tenure. In the period, the excess liquidity drained from the market with operations shorter than 30 days averaged R$37.8 billion, and with 3-month-tenure operations averaged R$41.5 billion.

63. In September, the net securitized domestic public debt grew 1.2%. The fixed share increased to 17.5% from 16.7% in September, due to the net placement in the month. On the other hand, the dollar-linked share decreased to 12.3% in September from 13.2% in August, due to the net redemption of Fx instruments and to the *Real* appreciation.