BANCO CENTRAL DO BRASIL

Minutes of the 163rd Meeting of the Monetary Policy Committee (Copom)

Date: November 29th, 2011, from 4:23PM to 6:43PM, and November 30th, from 4:41PM to 7:39PM

Place: BCB Headquarters meeting rooms – 8th floor on November 29th and 20th floor on November 30th – Brasília – DF

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

Department Heads (present on November 29th)
Adriana Soares Sales – Research Department (also present on November 30th)
Bruno Walter Coelho Saraiva – International Affairs Department
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - International Reserves Operations Department
Renato Jansson Rosek – Investor Relations and Special Studies Department
Rodrigo Collares Arantes - Department of Banking Operations and Payments System
Tulio José Lenti Maciel – Economic Department

Other participants (present on November 29th)
Eduardo José Araújo Lima – Deputy Head to the Research Department
Emanuel Di Stefano Bezerra Freire – Executive Secretary of the Board
Gustavo Paul Kurrle – Press Officer
Nelson Ferreira Souza Sobrinho – Consultant to the Research Department
Wagner Thomaz de Aquino Guerra Júnior – Executive Secretary of the Board

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

Recent Economic Developments

1. After recording 0.53% in September, monthly inflation measured by the IPCA reached 0.43% in October. As a consequence, twelve-month inflation through October 2011 reduced to 6.97%, down from 7.31% in September, 1.77 p.p. above inflation registered in the same period of 2010. Market prices twelve-month inflation through

October 2011 retreated to 7.24%, down from 7.79% in September, and regulated prices reached 6.34%, up from 6.17%, according to the same comparison basis. Regarding market prices, it bears highlighting that tradable goods inflation reached 5.87%, while inflation related to non-tradable goods increased 8.41%. Services price monthly inflation decreased to 0.41% in October, after growing by 0.50% in August and 0.51% in September, decreasing, therefore, the twelve-month accumulated inflation to 8.94%, down from 9.03% in September. In short, the set of available information suggests a declining trend of inflation on a twelve-month accumulated basis.

2. The underlying inflation measures calculated by the BCB, in general, showed trend similar to the observed in headline inflation, with slight decrease in the average of monthly changes and in the average of twelve-month inflation through October 2011. The smoothed trimmed means core inflation increased from 0.55% in August to 0.58% in September and 0.59% in October, while the non-smoothed trimmed means core inflation increased from 0.33% in August to 0.55% in September and decreased to 0.44% in October. Similarly, the double weight core inflation, after registering 0.39% in August, increased to 0.51% in September and decreased to 0.50% in October. At the same time, core inflation by exclusion, which excludes ten items of food at home and fuel, totaled 0.47% in October, up from 0.45% in September and 0.32% in August, while core inflation by exclusion of regulated prices and of household food changed to 0.43% in October, from 0.44% in September and 0.45% in August. Therefore, the average change of these five core measures changed from 0.41% in August to 0.51% in September and 0.49% in October. In the twelve months through October, the average change of the five core measures registered 6.82%, compared to 6.87% in September and to 6.73% in August.

3. The General Price Index (IGP-DI) inflation registered 0.40% in October, down from 0.75% in September. In the twelve months through October, the change reached 6.78%, 2.33 p.p. below the registered in October 2010. Under this criterion, the index has been slowing down since December 2010, when it recorded 11.30%. Inflation measured by its main component, the Wholesale Price Index (IPA), reached 6.63% in twelve months through October, reflecting an increase of 5.79% in the industrial IPA and of 9.00% in the agricultural IPA. The breakdown according to the production phase shows that raw material prices accumulated 12.71% change, while the prices of intermediate goods and final goods increased 5.16% and 3.23%, respectively, according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), another component of the IGP-DI, recorded 6.78% in the twelve months through October 2011, above the 4.96% recorded in 2010. According to the same comparison basis, the Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, increased 7.72%. On its turn, the Producer/ Manufacturing Industry Price Index (IPP/IT), calculated by the IBGE, which measures the industry price level excluding freights and taxes, registered 1.23% in September, up from 0.16% in August. In twelve months, the index inflation increased to 4.90% in September, up from 4.24% in August.

4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes, therefore, an important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br remained unchanged in September, after decreasing 0.6% in August and increasing 0.3% in July. Thus, the quarterly growth rate between July and September stood at -0.3%. Compared to the third quarter of 2010, the indicator grew 1.9%. The growth rate accumulated in twelve months, which has been slowing down since December 2010, decreased from 4.0% in August to 3.6% in September. The Services Confidence Index (ICS), from FGV, repeated, in October, the September decline rate (0.4%), signaling deceleration in the sector. Thus, the level of the indicator was 1.9% below the October 2010 level, and 2.1% below the average level of 2010.

5. Indicators of Credit Conditions, built based on consultation carried out quarterly by the BCB with financial institutions representing every segment of the credit market, suggest mixed prospects. For large companies, combined analysis of the indicators of supply, demand and approval scenario suggests more restrictive scenario. In relation to credit for micro, small and medium enterprises, the indicators reveal a scenario moderately more restrictive in terms of supply, and moderately stronger in terms of demand. Regarding credit to consumption, in contrast to that observed in the quarter that began in July, participants expect the percentage of approval of new lines for the fourth quarter to be moderately higher than in the previous quarter, consistent with the seasonal pattern.

6. Industrial activity fell 2.0% in September, according to data seasonally adjusted by the IBGE, after a decline of 0.1% in August and an increase of 0.3% in July. The fall in production in September was driven by the decrease of 11.0% in the production of automotive vehicles. According to the quarterly moving average, there was a decline of 0.6% between July and September, after falling 0.3% between June and August. Year-over-year, production decreased 1.6% in September, while in the last twelve months, it expanded by 1.6%, compared to 2.3% registered in August, continuing the process of moderation in the growth pace. Overall, 53% of products surveyed decreased in production in September, year-over-year. Compared to December 2008, month with the lowest output level during the 2008/09 crisis, the accumulated growth until September 2011 reached 22.3%. According to data from the National Industry Confederation (CNI), earnings in the manufacturing industry recorded 4.1% real growth in September year-over-year, while the number of worked hours worked decreased 0.4%.

7. Among the industry use categories, according to data seasonally adjusted by the IBGE, in September there were declines of 5.5% in the production of capital goods, 9.0% in the production of durable consumer goods and 1.3% in the production of non-durable and semi-durable consumer goods, while the production of intermediate goods remained at the same level as the previous month. In the twelve months through September, intermediate goods output increased 1.4%, durable consumer goods output grew 0.8% and non-durable and semi-durable consumer goods output increased 0.6%. According to the same comparison basis, capital goods industry recorded the highest growth activity level among use categories, expanding by 5.5%.

8. The unemployment rate in the six metropolitan regions covered by the IBGE Monthly Labor Survey (PME), according to observed data, reached 5.8% in October, compared to the 6.1% level registered in October 2010, after reaching 6.0% in September. After recording 9.0% in March 2009, the observed data reduced significantly and reached a record low for October, since the start of the series in March 2002. The unemployment rate seasonally adjusted by the BCB remained virtually unchanged at 6.0% in October (6.1% in September). Employment, measured by the number of employed workers in the six main metropolitan regions, year-over-year, increased 1.5% in October, year-over-year, after expanding by 1.7% in September. Data from the Ministry of Labor and Employment (MTE) indicate that in October 126.1 thousand jobs were created (204.8 thousand in October 2010), with expansion of formal jobs in seven out of the eight sectors of economic activity. Services and trade were the sectors that mostly contributed for the formal employment increase in the month. According to PME, real average earnings remained stable in October month-on-month, and accumulated -0.3% growth in twelve months. As a consequence, real payroll, considering real average earnings in the six metropolitan regions, expanded 0.9% in October, year-over-year. In short, evidences indicate that although the labor market remains robust, there are signs of moderation at the margin.

9. According to the retail monthly survey (PMC) from IBGE, expanded retail sales increased 4.8% in September, year-over-year, after recording 5.4% growth in August and 7.2% in July, according to the same comparison basis. According to the seasonally adjusted series, expanded retail sales increased by 0.9% in September, month-on-month, after decreases of 1.7% in August and 0.1% in July. The twelve-month accumulated growth rate reached 9.6% in September, down from 9.7% in August and 10.5% in July. According to this comparison basis, all ten sectors surveyed showed expansion in the volume of sales, with highlights for furniture and appliances (17.9%), equipment and supplies for office, computer and communication (16.6%), vehicles, motorcycles, parts and pieces (12.9%) and construction inputs (11.1%). In the coming months, the retail trajectory will continue to be positively influenced by governmental transfers, by the growth pace of real payroll, by the consumer confidence level and by moderate credit expansion.

10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, registered 84.5% in November, down from 84.7% in October. Thus, capacity utilization stood 1.6 p.p. and 1.7 p.p. lower than the levels observed in November and October 2010, respectively. According to the seasonally adjusted monthly series calculated by the FGV, the Nuci decreased from 83.5% in October to 83.3% in November, the lowest level since November 2009. Capacity utilization is higher in the sectors of construction inputs (90.5%) and intermediate goods (85.4%). In the sector of capital goods, the Nuci stood at 83.3%, while in the sector of consumer goods it stood at 82.7%. According to the Confederation of National Industry (CNI) data, seasonally adjusted by the BCB, the Nuci decreased from 82.2% in August to 81.7% in September. The rates of capacity utilization have been retreating, reflecting, in part, the reduction in

the pace of production growth and the maturity of investments. In fact, the absorption of capital goods grew 8.1% in the last twelve months through September (11.4% until August), while the production of construction inputs increased 4.5% (4.9 % until August).

11. The trade balance surplus in the last twelve months increased from US$ 30.5 billion in September to US$ 31.0 billion in October. This result stemmed from US$250.7 billion in exports and US$219.7 billion in imports, equivalent to 31.7% and 26.9% changes, respectively, in the last twelve months through October. The current account deficit accumulated in twelve months decreased from US$48.0 billion in September to US$ 47.3 billion in October, equivalent to 2.0% of GDP. On its turn, foreign direct investment reached US$75.1 billion in the twelve months through October, equivalent to 3.17% of GDP, exceeding largely the needs for external funding.

12. Global economy faces a period of uncertainty above the usual, with deterioration in activity prospects. Risks to global financial stability are high, among other factors, due to the exposure of international banks to sovereign debts of countries with fiscal imbalances, especially in the Euro Zone. It should be noted that the levels of risk aversion remain high - for example, those measured by credit default swaps (CDS) of banks in the Euro Zone - are higher than those observed during the 2008/2009 crisis. From another perspective, high persistent unemployment rates, coupled with the need for fiscal adjustments, as well as limited scope for monetary policy actions and political uncertainty, have contributed for the reduction of growth projections in advanced countries or even of their potential growth, indicating wider and more volatile economic cycle. In fact, the composite leading indicator released by the Organization for Economic Cooperation and Development (OECD), for September, reinforced the signs of inflection in all main economies, with less favorable prospects for this and the upcoming semesters. In specific cases, the probability of recession increased. Disaggregated indicators of the Purchasing Managers Index (PMI) for October, related to activity in industry and in the services sector, are, in general, consistent with this scenario. There has also been continued reduction in growth projections for important emerging economies. Regarding monetary policy, mature economies have continued to adopt accommodative monetary stances and, in specific cases, with new non-conventional initiatives in the field of monetary policy. Regarding inflation, the core measures have persisted at moderate levels in the G3 (US, Euro Zone and Japan), with some marginal deterioration. In emerging economies, in general, the bias of monetary policy is expansionary.

13. The price of Brent oil barrel has shown volatility, but remained above US$100. This price level is consistent with a framework of global demand moderation, coupled with high political instability in some producer countries and with lags in the process of production resumption. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. Regarding the other commodities, it is noteworthy the continuity of the decline in the international prices of the ones related to agriculture and metals. The food price index, calculated by the Food and Agriculture Organization of the United Nations (FAO), which considers 55 items, accumulates a decrease of 9.1% since the peak observed in February 2011. In the recent past, the high volatility observed in commodities prices was strongly impacted by the abundant global liquidity, in a context where financial markets adjust to new expectations of growth and to volatility in FX markets.

Assessment of Inflation Trends

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

a) the projected adjustment for gasoline price remained at 6.7%, the same value considered in the October meeting. For 2012, the projected adjustment in the gasoline price is null;

b) the projected adjustment for bottled gas price remained at 2.2%, the same value considered in the October meeting. For 2012, the projected adjustment in the price of bottled gas is null;

c) the projected adjustments for fixed telephone and electricity accumulated in 2011 were changed to 0.0% and 4.5% respectively, from 0.9% and 4.1% considered in the October meeting. For 2012, the projected adjustments in the prices of fixed telephone and electricity are 1.5% and 2.3% respectively;

d) the projection for regulated prices inflation accumulated in 2011, based on individual items, according to the benchmark scenario, increased to 6.1%, up from 5.5% considered in the October meeting. For 2012, the projected adjustments changed to 4.0%, down from 4.5% considered in the October meeting. This set of prices, according to data released by the IBGE, accounted for 28.96% of the total October IPCA;
e) the projection for regulated prices inflation accumulated in 2013, according to the benchmark scenario, is 4.5%. Such projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, foreign exchange rate changes, market prices inflation and the IGP (General Price Index) change; and
f) the projection for the spreads over the Selic rate, based on the 360-day swap rates, on the benchmark scenario, estimates -85 bps and -17 bps spreads in the fourth quarters of 2011 and 2012, respectively. The spread for the third quarter of 2013 is 54 bps.

15. Regarding fiscal policy, projections assume the achievement of the public sector primary surplus target (R$127.9 billion), around 3.15% of GDP, without adjustments, in 2011. Moreover, a primary surplus of around 3.10% of GDP is considered for 2012 and 2013, without adjustments.

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

17. The set of projections incorporated the estimated effects of the change in the IPCA weighting structure, which will take place in January 2012.

18. Since the last Copom meeting, the median of the expectations compiled by the BCB's Investor Relations and Special Studies Department (Gerin) for the 2011 IPCA decreased from 6.52% to 6.49%. For 2012, the median of inflation expectations decreased from 5.61% to 5.56%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the medians of expectations for the 2011 IPCA changed from 6.51%, 6.54% and 6.50% to 6.50%, 6.51% and 6.48%, respectively. For 2012, the medians changed from 5.63%, 5.63% and 5.51% to 5.58%, 5.57% and 5.53%, in the same order.

19. The benchmark scenario assumes the maintenance of the exchange rate at R$1.85/US$1.00 and the Selic rate at 11.50% p.a. during the forecast period. Under this scenario, the projection for the 2011 inflation increased relative to the figure considered at the October Copom meeting, and it stands above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin in the period immediately prior to the Copom meeting, IPCA inflation forecast for 2011 also increased and stands above the inflation midpoint target. For 2012, the inflation projections decreased in both the benchmark and the market scenarios, and stand around the midpoint of the target in both scenarios. For 2013 Q3, projected inflation also decreased and stands around the midpoint of the target in the benchmark scenario and above, in the market scenario.

20. In the main scenario considered by the Copom, projected inflation stands around the midpoint of the target in 2012.

21. This scenario was developed and analyzed from the perspective of models that identify in a broader manner the transmission mechanisms of external developments to the Brazilian economy – among others, the trade, imports prices and the external volatility channels. As a working hypothesis, it considers that the current deterioration in the international scenario will have an impact on the Brazilian economy equivalent to one fourth of the impact observed during the 2008/2009 international crisis. Moreover, it assumes that the current deterioration of the international scenario is more persistent than the one verified in 2008/2009, but less acute, without observance of extreme events. According to this mains scenario, domestic economic activity moderates and commodities prices in international markets and the exchange rate show some stability, among other effects. Even with a moderate adjustment in the basic interest rate level, the inflation rate in the relevant horizon stands around the target in 2012, at a level below the one that would be observed if the above mentioned effect of the international crisis were not considered.

Monetary Policy Decision

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

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

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

25. The Copom considers that, since the last meeting, the risks to global financial stability have increased and thus contributed to the continuous process of deterioration of the international scenario which, already at that time, faced generalized and significant growth projections reductions for the main economic blocks. The Committee understands that the chances that the restrictions to which several mature economies are now exposed extend for a period longer than previously anticipated remain high. It also notes that, in these economies, there seems to be limited scope for using monetary policy, and a scenario of fiscal restraint also prevails. In addition, for the main emerging economies, despite the resilience of domestic demand, the pace of activity has moderated, in part, a consequence of policy actions and the weakening of external demand, through the trade channel. Therefore, the Committee considers that the international scenario shows disinflationary bias for the relevant horizon.

26. For the Copom, there are cumulative evidences supporting the view that the transmission of external developments to the Brazilian economy can be materialized through many channels, among others, the reduction of total trade flows, the moderation in investment inflows, tighter credit conditions and the worsening

in consumer and businessmen confidence. The Committee understands that the effects of the complexity surrounding the international environment add up to the those stemming from the moderation of domestic activity observed this semester, which is already mirrored, for instance, in the retreat of growth projections for the Brazilian economy this year and in the upcoming year. In other words, the ongoing moderation process of the economy - a result of the policy actions implemented since the end of last year - tends to be boosted by the weakness of the global economy.

27. The Copom evaluates that, although ongoing moderation of domestic demand growth is observed, prospects for economic activity are still favorable. This assessment is supported by signs that, despite showing some cooling, point to the fact that the expansion of credit supply tends to persist, both for individuals and corporate, and by the fact that consumers' confidence, notwithstanding the accommodation at the margin, stands at historically high levels. The Copom considers, additionally, that the domestic activity will continue to be benefited by the public transfers, as well as by the labor market vigor, mirrored in historically low unemployment rates and in wages growth, despite some accommodation at the margin.

28. The Copom reaffirms its view that inflation accumulated in twelve months peaked in the last quarter, and it begins to retreat in the current quarter, therefore, moving towards the targets path. The Committee evaluates that, by itself, this reversion of trend will contribute to improve the expectations of economic agents, especially those of the price setters, about the dynamics of inflation in the upcoming quarters. Additionally, the Committee believes that this improved perception will be boosted by the ongoing process of reassessment of the economic activity pace, both domestic and external, in this and in the upcoming semesters.

29. The Copom notes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It bears highlighting that the generation of primary surpluses in line with the hypotheses considered for inflation projections, in addition to contributing to reduce the mismatches between supply and demand growth rates, will strengthen the trend of the public debt-to-GDP ratio reduction. It bears highlighting that, since the beginning of this year, important decisions have been taken and implemented, which reinforce the view that a fiscal consolidation process is underway.

30. The Copom highlights that its main scenario also considers moderation in credit market expansion. Still about the credit market, the Committee considers opportune the adoption of initiatives with the aim of moderating the concession of subsidies through credit operations.

31. The Copom evaluates that, at the start of the year, inflation was strongly and negatively impacted by domestic and external supply shocks, as well as by the atypical concentration of regulated prices adjustments. In decreasing intensity, these developments should also indirectly impact the dynamics of consumer prices, through inertia, among other mechanisms. The Copom evaluates as relevant, despite decreasing, the risks stemming from the persistence of the mismatch between supply and demand growth rates. Moreover, it highlights the narrow idleness margin in the labor market. Despite signs of moderation in this market, it considers that, under such circumstances, an important risk stems from the possibility of concession of wages increases incompatible with productivity growth and from its negative impacts over inflation dynamics. On the other hand, the Copom notes that the level of installed capacity utilization has retreated and is below the long-term trend, that is, it is contributing to the opening of the output gap and to contain price pressures. The Committee also observes that, at the end of last year and at the start of this year, the risks associated to commodities prices trajectory were key to the prospective scenario. However, since April these prices have retreated in international markets.

32. In short, the Copom recognizes an economic environment in which a much above-than-usual uncertainty level prevails, and evaluates that since the last meeting, the inflation prospective scenario has shown favorable signs. The Copom notes that, according to the main scenario, the inflation rate stands around the target in 2012 and identifies decreasing risks to the confirmation of a scenario in which inflation timely converges to the midpoint target.

33. In this context, continuing the process of monetary conditions adjustment, the Copom unanimously decided to decrease the Selic target to 11.00%, without bias.

34. Domestic demand is still robust, especially household consumption, largely due to the effects of stimulus factors, such as income growth and credit expansion. This scenario tends to prevail in the upcoming quarters, when the domestic demand will be impacted by the effects of the monetary policy actions recently implemented which, in short, are lagged and cumulative**.** On the other hand, recent initiatives reinforce a scenario for restrained public sector expenditures. Another important factor to curb aggregate demand is the substantial deterioration in the international scenario. These elements and the quasi fiscal developments are an important part of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

35. The Copom believes that by promptly mitigating the effects stemming from a more restrictive global environment, moderate adjustments in the level of the basic rate are consistent with the scenario of inflation convergence to the target in 2012.

36. At the end of the meeting, it was announced that the Committee will reconvene on January 17th, 2012, for technical presentations and, on the following day, to discuss the monetary policy decision, as established in Communiqué 21,213 of June 29th, 2011.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

37. The IPCA rose 0.43% in October, down from 0.53% in September, according to IBGE data. In the year, the IPCA increased 5.43%, compared to 4.38% in the same period last year. In the last twelve months through October, the index increased 6.97%, down from 7.31% in September. The monthly result for IPCA reflected the deceleration of market and regulated prices. Market prices increased 0.42% in October compared to 0.49% in September, reflecting deceleration in the prices of tradable goods, to 0.39% from 0.52%, whereas the prices of non-tradable goods decelerated to 0.44% from 0.47%. Among the prices of non-tradable goods, it bears highlighting the deceleration in services, increasing 0.41%, down from 0.51% in the previous month. Regulated prices rose 0.46% in October, down from 0.62% in September, with emphasis on the lower pressure resulting from the rise in the prices of flying tickets, which grew 14.26% in October, down from 23.40% in the previous month. The IPCA monthly change reflected, in particular, the contributions of the groups food and beverage (0.13 p.p.), transportation (0.09 p.p.) and housing (0.08p.p.). The diffusion index stood at 62.76% in October, compared to 61.46% in September.

38. Market prices increased 7.24% in the last twelve months through October, down from 7.79% in September, and regulated prices accelerated in the same period, with an accumulated change of 6.34%, up from 6.17% in September. Among market prices, tradable goods prices recorded slowdown to 5.87%, down from 6.52%, and non-tradable goods prices decelerated to 8.41%, down from 8.88%.The prices of the services sector increased 8.94% in the last twelve months through October, compared to 9.03%, 8.92% and 8.82% in the same periods ended, respectively, in September, August and July.

39. The IGP-M totaled 0.50% in November, after recording 0.53% in October, according to FGV, reflecting the deceleration in the IPA and the acceleration in the IPC and INCC. The index accumulated 5.22% in the year and 5.95% in the last twelve months through November, compared to 6.95% in the same period ended in October, 7.46% in September and 8.00% in August.

40. The IPA-M totaled 0.52% in November, down from 0.68% in October, totaling 4.85% in the year and 5.51% in twelve months. The prices of agricultural and livestock products increased 0.60% in November, after recording 0.04% in the previous month, totaling 4.00% in the year and 5.19% in twelve months. The prices of industrial products increased 0.49% in the month, down from 0.91% in October, totaling 5.16% in the year and 5.63% in

twelve months. Regarding agricultural and livestock products, the monthly growth was more strongly influenced by the increase in the prices of meat, 3.72%, and poultry, 2.00%, which contributed 0.14 p.p. and 0.04 p.p., respectively. The main contributions to the change of industrial prices came from metallic minerals and petroleum and alcohol byproducts, each one contributing 0.11 p.p..

41. The IPC-M changed 0.43% in November, after increasing 0.26% in October, accumulating an increase of 5.41% in the year and 6.38% in twelve months. The acceleration in the month was driven by the increase of 0.52% in the food group, compared with the reduction of 0.09% in the previous month. The INCC changed 0.50% in the month, compared to 0.20% in October, due to the acceleration in the prices of materials, equipment and services (from 0.25% to 0.27%) and in the price of labor force (from 0.16% to 0.73%). The INCC accumulated changes of 7.21% in the year and of 7.84% in twelve months.

42. Four out of the five IPCA core inflation measures calculated by the BCB showed relative stability in October, compared to the previous month. Three measures decelerated in the twelve months through October, compared to the twelve months through September. Month-on-month, the core inflation by exclusion, which excludes ten items of household food and fuels, increased 0.47% in the month, up from 0.45% in September, accumulating 6.94% in twelve months through October, up from 6.91% in twelve months through September. The core inflation by exclusion, which excludes household food and regulated prices, increased 0.43% in October, down from 0.44% in September, totaling 7.32% in twelve months through October, compared to 7.45% in the last twelve months through September. The smoothed trimmed means core inflation increased 0.59% in October, up from 0.58% in September, accumulating 6.61% in twelve months through October, compared to 6.57% in twelve months through September. The non-smoothed trimmed means core inflation increased 0.44% in October, down from 0.55% in September, accumulating 5.98% in twelve months through October, compared to 6.08% in twelve months through September. The double weight core inflation increased 0.50% in October, down from 0.51% in September, accumulating 7.27% increase in twelve months through October, down from 7.36% in the twelve months through September.

43. The IPCA-15 increased 0.46% in November, up from 0.42% in the previous month, accumulating changes of 5.96% in the year and of 6.69% in twelve months up to November, down from 7.12% in twelve months up to October. This acceleration reflected increases in the groups food and beverages, personal expenses and apparel, with respective contributions of 0.18 p.p., 0.09 p.p. and 0.06 p.p..

44. The IPP/IT increased 1.23% in September, compared to 0.16% in August, increasing 1.99% in the year and 4.90% in the twelve-month period ended in September (4.24% in the previous month). The monthly result was mainly driven by the respective contributions of 0.53 p.p. and 0.28 p.p. stemming from the price of food products and other chemical products. In the year, the index change reflected, in particular, the changes in the prices of other chemical product segments, with a contribution of 0.77 p.p. to the final result, food products, which contributed 0.55 p.p. and coke, oil byproducts and bio-fuels, contributing 0.41 p.p..

45. The Commodities Index Brazil (IC-Br) resumed the downward trend interrupted in September, retreating 3.29% in October and reflecting decreases of 2.78%, 6.47% and 0.91% related to the segments agriculture and livestock, metal and energy, respectively. The IC-Br increased 2.07% in the year through October and 15.49% in the twelve months through October.

Economic Activity

46. The IBC-Br remained stable in September, totaling a decrease of 0.3% in the quarter ended in September compared to the quarter ended in June, when it had grown 0.5%, according to the same comparison basis, considering seasonally adjusted data. The IBC-Br increased 1.2% compared to September 2010, compared to increases of 2.9% in August, 1.7% in July and 2.9% in June according to the same comparison basis. The index accumulated increases of 3.1% in the year and 3.6% in twelve months.

47. Expanded retail sales, which include vehicles and construction inputs, increased 0.9% in September, month-on-month, according to data seasonally adjusted from IBGE's monthly survey (PMC), after decreases of 1.7%

in August and of 0.1% in July. In the month, seven out of the ten surveyed segments presented increases, with highlights for the expansions of 2.2% in pharmaceutical and medical articles and 1.7% in vehicles and motorcycles, parts and pieces. Among the segments that showed retraction in the period, it bears highlighting the reduction of 5% in the sales of office, computing and communication equipment and material. Expanded retail sales decreased 0.7% in the quarter ended in September, compared to the previous quarter, ended in June, accumulating growth of 8% in the year. Retail sales volume increased 0.6% in September, after totaling -0.4% in August and 1.2% in July, resulting in 1.6% accumulated increase in the quarter ended in September, compared to the previous quarter, ended in June, 6.9% in the year and 7.7% in twelve months.

48. Considering observed data, expanded retail sales increased 4.7% in September, year-over-year, mainly influenced by increases of 16.5% in the sales of furniture and household appliances, 10.6% in pharmaceutical and medical articles, 7.6% in office, computing and communication equipment and material; and 6.5% in construction inputs. In the twelve months through September, expanded retail sales increased 9.6%, mainly driven by the sales increase in segments such as furniture and household appliances (17.9%); office, computing and communication equipment and material (16.6%); vehicles, motorcycles, parts and pieces (12.9%); and construction inputs (11.1%).

49. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, decreased 2.9% in October, month-on-month, compared to the increase of 0.7% in September, according to Fenabrave (Brazilian Federation of Automobile Vehicles Distribution) data, seasonally adjusted by the BCB, accumulating a decrease of 3.4% in the quarter ended in October, quarter-over-quarter ended in July. Automobile sales increased 5.6% in the year, influenced by increases in the sales of buses (22.1%), light commercial vehicles (15.9%), trucks (14.5%), and cars (2.3%).

50. Capital goods imports quantum index, released by Funcex and seasonally adjusted by the BCB, increased 18% in October, compared to September. Observed data showed increases of 14% in October, 13.1% in the year through October and 16.7% in twelve months, compared to the same periods of 2010.

51. Capital goods production decreased 5.5% in September, accumulating an increase of 0.6% in the quarter, compared to the previous one ended in June, according to data seasonally adjusted from the Monthly Industrial Survey (PIM) by the IBGE. The monthly result was influenced by the retraction in the production of construction equipment (-21.1%); agricultural equipment (-12.1%); equipment for transport (-4.8%); equipments for serial industrial use (-1.4%) and mixed use capital goods (-0.2%). Conversely, increases were observed in the production of equipment for non-serial industrial use (6.5%), pieces for agricultural production (4.3%) and capital goods for the electric energy sector (0.8%).

52. Construction inputs production increased 2.4% in September compared to August, totaling 0.8% in the quarter ended in September, compared to the one ended in June, considering seasonally adjusted data. The segment production increased 3.9% compared to September 2010, accumulating increases of 3.8% in the year and 4.5% in the twelve months up through September.

53. Disbursements granted by the Brazilian Development Bank (BNDES) reached R$132 billion in the last twelve months through September, decreasing 21.7% compared to the same period of 2010, with highlights for the retraction of 48.5% in the resources headed to manufacturing industry, while the agriculture and livestock sector increased 11.1%. In the year through September, disbursements decreased 28.4%, compared to the same period of 2010, mainly influenced by the 58.9% retraction of the resources headed to the manufacturing industry. In the period, the infrastructure sector responded for 41% of the total, followed by industry, which accounted for 31%, commerce and services, 20%, and agriculture and livestock, 8%.

54. Industrial production decreased 2% in September, month-on-month, according to seasonally adjusted data from IBGE, with emphasis in the contraction of 2% in manufacturing and expansion of 0.3% in mining. By use categories, durable goods production decreased 9% in the month, followed by changes in the production of capital goods (-5.5%) and semi-durable and non-durable consumer goods (-1.3%), while the production of intermediate goods remained stable. Nine out of the 26 manufacturing industry activities surveyed increased in the month. Industrial production decreased 0.8% in the quarter ended in September, compared to the one

ended in June, when it had reached -0.6%, reflecting a retreat of 1% in the manufacturing industry, while mining expanded by 0.2%, according to the same comparison basis. Regarding the manufacturing industry, the quarterly results reflected retreats in pharmaceutical activities (-15.9%); apparel (-8.5%); metal products (-6.7%) and electronic material and computing equipments (-5.1%), partially offset by the increases in the production of tobacco (21.2%), publishing, printing and reproduction (10.7%), and beverage (6.2%). Considering observed data, industrial production decreased 1.6% in the month, year-over-year, and increased 1.1% in the year and 1.6% in the last twelve months through September.

55. The Nuci in the manufacturing industry, calculated by FGV, reached 83.5% in October, retreating 0.1 p.p. compared to the previous month, considering seasonally adjusted data. The result reflected the retractions of 0.5 p.p. in the production of consumer goods and of 0.4 p.p. in the production of capital goods, stability in intermediate goods and increase of 1.3 p.p. in the production of construction inputs. Considering observed data, the Nuci decreased 1.7 p.p., compared to October 2010, influenced by the decreases in the indicators related to consumer goods (-3.9 p.p.), intermediate goods (-1.4 p.p.) and construction inputs (-0.7 p.p.). On the other hand, the Nuci for capital goods increased 0.1 p.p..

56. Vehicles output reached 265.6 thousand units in October, according to data released by Anfavea, representing a retraction of 1.1% compared to September, considering data seasonally adjusted by the BCB. It also decreased 9.5% compared to October 2010 and increased 1.9% in the year through October.

57. Still according to data released by Anfavea, national vehicle licensing decreased 14.1% compared to October 2010 and 0.5% in the year through October. According to data seasonally adjusted by the BCB, there were decreases of 1.8% month-on-month, and 5.7% in the quarter ended in October, compared to the one ended in July. Automobile exports totaled 52.2 thousand units in October, increasing 2.2% year-over-year and 4.2% in the year through October, compared to the same period of the previous year. According to data seasonally adjusted by the BCB, these exports increased 3.8% in October, month-on-month, and 6.8% in the quarter ended in October, compared to the one ended in July.

58. The LSPA survey carried out by the IBGE for September projected 159.7 million tons for the 2011 national harvest of grains, an increase of 0.2 p.p. relative to the September projection and of 6.8% compared to the 2010 result. Respective increases for crops of rice, beans, soy and corn are projected at 19%, 11.7%, 9.2% and 0.6% and a decrease of 14.1% for wheat crop is expected. Still according to the IBGE, which prepared the first forecast for the 2012 harvest, grain production is estimated to reach 157.5 million tons, 1.4% lower than the projection for 2011, considering declines of 8.8%, 4.4%, 3.1% and 2.9% for crops of rice, beans, wheat and soybeans, respectively, and an increase of 3.2% for corn crop.

Surveys and Expectations

59. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), increased 3.3% in November, month-to-month, to 119 points, driven by increases of 5.2% in the Current Situation Index (ISA) and 2% in the Expectations Index (IE). The ICC decreased 4.1% year-over-year, influenced by the contractions of 4.9% and 3.6% in the ISA and IE, respectively.

60. The Services Confidence Index (ICS), from FGV, retreated 0.4% in October, year-over-year, reaching 129.7 points, driven by the decrease of 1.5% in the IE, while the ISA rose 0.9%, according to seasonally adjusted data. The ICS retreated 1.9% year-over-year, due to the 5.8% decrease in the ISA and the 1.7% increase in the IE.

61. The Commerce Confidence Index (ICOM) measured by the Commerce Survey, from FGV, reached 127.4 points in October, decreasing 8.1% year-over-year. The result reflected retreats of 9.1% in the Current Situation Index (ISA-COM) and 7.4% in the Expectations Index (IE-COM). In the quarter ended in October, the ICOM decreased 3.3% year-over-year, due to the retreats of 4.5% in the ISA-COM and 2.5% in the IE-COM.

62. The Industry Confidence Index (ICI), considering seasonally adjusted data from the Survey of Manufacturing Industry (SCIT-FGV) showed stability in November, month-to-month, standing at 100.7 points. The result was driven by the decrease of 1.5% in the ISA and an increase of equal magnitude in the IE. The ICI fell 11.4% in November, year-over-year, due to decreases of 12.9% in the ISA and 9.7% in the IE.

Labor Market

63. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 126.1 thousand formal jobs were created in October, representing a 0.2% expansion compared to September. Out of this total, there was the creation of 77.2 thousand jobs in the services sector, 60.9 thousand in commerce, 10.3 thousand in civil construction and 5.2 thousand in manufacturing industry, while in the agricultural sector 29.9 thousand jobs were eliminated. In the year, 1.9 million jobs were created, compared to 2.4 million in the same period of 2010.

64. According to the IBGE employment survey (PME), carried out in the six main metropolitan regions of the country, the unemployment rate reached 5.8% in October, a record low for the month, decreasing 0.2 p.p. month-on-month and 0.3 p.p. year-over-year. The monthly result stemmed from the increase of 0.1% in occupation and the decrease of 0.1% in the Economically Active Population (PEA). Considering seasonally adjusted data, the unemployment rate reached 6% in October, compared to 6.1% in the previous month. According to the same survey, average real earnings usually earned by workers remained stable month-on-month, fell 0.3% year-over-year and grew 2.9% in the year. Real payroll, defined as the number of persons employed times real average earnings, changed 0.1% in the month, 1.2% year-over-year, and 5.1% in the year.

Credit and Delinquency Rates

65. Outstanding credit in the financial system reached R$1,946 billion in October, equivalent to 48.5% of GDP, increasing by 0.8% in the month, 14.1% in the year and 18.4% in twelve months. Non-earmarked credit operations increased by 0.8%, 12.6% and 16.4%, respectively, according to the same comparison bases, reflecting the respective increases of 1.1%, 12.4% and 17.3% for credit operations to individuals and 0.5%, 12.8% and 15.6% for credit operations to corporate, in the same order. Earmarked credit operations increased 0.7% in the month, 16.9% in the year and 22% in twelve months, with highlights for the respective rises of 2.7%, 34.8% and 44.6% recorded in housing credit, according to the same comparison bases.

66. The average interest rate on reference credit operations increased 0.5 p.p. in October, reaching 39.5%. The average annual rate on credit for corporate decreased 0.2 p.p. month-on-month, reaching 29.8%, while the one relative to individuals increased by 1.3 p.p., reaching 47%.

67. The average tenure on reference credit operations increased to 491 days in October, representing an increase of one day month-on-month. The tenure related to corporate segments decreased two days, while the one related to individuals increased three days, reaching 399 days and 590 days, respectively.

68. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) increased 0.2 p.p., reaching 5.5% in October. The delinquency rate for credit operations with corporate and to individuals increased 0.2 p.p and 0.1 p.p., respectively, reaching 4% and 7.1%, respectively. The percentage of loans in arrears between 15 and 90 days increased 0.5 p.p. for the credit to individuals and 0.2 p.p. for credit to corporate, reaching 6.9% and 2.2%, respectively.

External Environment

69. In the third quarter, economic activity accelerated in the US and Japan, but decelerated in the Euro Zone and in China. In the US, the 2% annualized growth rate in the third quarter was stimulated by household consumption, which was also influenced by the reduction in the savings rate. However, in the labor and housing markets, credit conditions and consumer confidence remain depressed. Additionally, the need for

fiscal consolidation and the volatility in financial markets continue as downward drivers for the economic growth in the country. In Japan, part of the growth reflected the reversion of the effects stemming from the natural disasters occurred in March. In the Euro Zone, where the worsening of the sovereign debt crisis spreads towards the most important countries in the region, economic activity decelerated to 0.6% in the third quarter. Confidence indicators in the region are at low levels, and the preliminary purchasing managers index (PMI) built for the region reached 47.2 in November, suggesting, for the third consecutive month, contraction in the private sector activity. China, despite decelerating, continues with significant pace of economic activity. The year-over-year GDP growth reduced to 9.1% in the third quarter, down from 9.5% the previous quarter. Retail sales and industrial production recorded, in October, monthly real growth rates of 1.3% and 0.9%, respectively, and 11.3% and 13.2% year-over-year.

70. The difficulties of policy coordination and the lack of consistent rescue mechanisms for the Euro Zone countries favored the intensification of the movement of risk aversion in financial markets since the end of October, leading to increased cost of debt financing in the countries of the region. In this scenario of flight to quality, the dollar appreciated against the euro; there was a reduction of the US 10-year bond yields, and the risk premium measured by sovereign credit default swaps (CDS) of Greece, Italy, Spain and France reached record highs. In stock markets, the stock exchanges resumed trajectory of decline, and the Chicago Board Options Exchange Volatility (VIX), which measures the implied volatility of S&P 500, remained signaling strong perception of risk.

71. Commodities international prices continued to show strong volatility since the last Monetary Policy Committee meeting, but with a declining trend, reflecting, mainly, a further increase in risk aversion, as a result of the worsening of the fiscal crisis in Europe. Regarding agricultural commodities, satisfactory results of the harvest in important production regions of the Northern Hemisphere and positive outlook for the grain crop in South America also contributed to the decline in prices.

72. The international inflation scenario was more benign since the last Monetary Policy Committee meeting, particularly in major developed economies and China. The consumer price index (CPI) reported in October a decrease in their annual variations in the US, UK and Japan, to 3.5%, 5% and -0.2%, respectively, compared to 3.9 %, 5.2% and 0% in September, while remained at 3% in the Euro Zone. Among emerging economies, the annual change in CPI showed a downward trend in China, Korea, Indonesia and Russia, but maintained upward trend in South Africa, Hungary, Turkey and India. In the last meetings of their monetary policy committees, central banks in the US, Japan and England maintained their basic interest rates. On the other hand, in the Euro Zone, the refinancing rate was reduced by 0.25 basis points to 1.25% on November 3rd. Besides the European Central Bank (ECB), the Reserve Bank of Australia and the Bank of Indonesia reduced, in November, their official rates, by 25 basis points to 4.5%, and by 50 basis points to 6.0%, respectively. In contrast, the Reserve Bank of India, concerned about the escalation of inflation to 9.8% in September, raised the repo rate by 25 basis points to 8.5% in October.

Foreign Trade and International Reserves

73. The Brazilian trade surplus reached US$2.4 billion in October. Exports reached US$22.1 billion and imports, US$19.8 billion. In the year, the trade surplus totaled US$25.4 billion, 74% above the registered in 2010, according to the daily average criterion, reflecting expansions of 29.3% in exports and 24.9% in imports. In the year, total trade grew 27.2%, totaling US$398.9 billion, compared to US$312.1 billion in the same period of 2010.

74. International reserves reached US$352.9 billion in October, increasing US$3.2 billion compared to September, due, especially, to external operations that increased the total outstanding by US$2.8 billion. Compared to December 2010, the reserves increased US$64.3 billion. In October, there were no monetary authority's interventions in the domestic spot market.

Money Market and Open Market Operations

75. Since the last Copom meeting, in October, the domestic interest rate yield curve decreased in all its length. This movement was driven mainly by the substantial deterioration of the external environment, due to the worsening of the sovereign debts of countries in the Euro Zone and the potential consequences for the global economy. Regarding the domestic outlook, the release of data that indicate deceleration in economic growth and less intense growth of formal employment, the improvement of the prospective scenario for inflation and the expectation of extending the monetary easing cycle also contributed to the fall in interest rates. Between October 17th and November 28th, the one-, three- and six-month interest rates fell by 0.52 p.p., 0.47 p.p. and 0.69 p.p., respectively. The rates for maturities of one, two and three years declined 0.87 p.p., 0.91 p.p. and 0.87 p.p., respectively. The real interest rate, as measured by the ratio between the nominal rate of one year and expected inflation (smoothed) for the next twelve months, decreased from 4.65% on October 17th, to 3.89% on November 28th, following, mainly, the fall in nominal rates.

76. On October 28th, the Central Bank carried out traditional exchange rate swap auction directed to the rollover of the contracts due on November 1st. This operation totaled the equivalent to US$800 million in notional value.

77. In its open market operations, the BCB carried out weekly, between October 18th and November 28th, repo operations borrowing R$38.5 billion for a six-month period. As a consequence, the average daily balance of the long operations decreased to R$173 billion. In the same period, the BCB also borrowed money through repo operations with tenures between twelve and twenty-eight working days, increasing the average daily balance of short-term borrowing operations to R$166.7 billion. The BCB also borrowed money through 27 very short-term operations. The average daily balance of these operations was R$28.3 billion in the period. The average daily balance of the total outstanding of repurchase agreements of the Central Bank decreased from R$392.9 billion, between August 30th and October 17th, to R$368 billion, between October 18th and November 28th. Considering the operations for the most recent period, the total outstanding of repurchase agreements decreased from R$398.7 billion, on October 17th, to R$348.9 billion, on November 28th. The main factors that contributed to the contraction of liquidity in the period were the net revenues of the Union and the net issuance of Treasury bonds.

78. Between October 18th and November 28th, the National Treasury issuance regarding the traditional auctions raised a total of R$38.8 billion. The sale of fixed-rate securities reached R$30.9 billion, with R$29.7 billion via issuance of LTNs maturing in 2012, 2014 and 2015, and R$1.2 billion via NTN-Fs maturing in 2017 and 2021. Issuance of LFTs totaled R$0.8 billion, for securities maturing in 2018. Issuance of inflation-linked NTN-Bs reached R$7.1 billion, for securities maturing in 2016, 2018, 2022, 2030, 2040 and 2050.