BANCO CENTRAL DO BRASIL

Minutes of the 180th Meeting of the Monetary Policy Committee (Copom)

Summary

Date: January 14th, 2014, from 4:31PM to 7:36PM, and January 15th, from 4:48PM to 7:57PM

Place: BCB Headquarters meeting rooms – 8th floor on January 14th and 20th floor on January 15th – 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
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on January 14th)
Bruno Walter Coelho Saraiva - International Affairs Department
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
Eduardo José Araújo Lima - Research Department (also present on January 15th)
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on January 14th)
Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor 's Staff

The members of the Copom analyzed the recent performance 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. Monthly inflation measured by the Extended Consumer Price Index (IPCA) changed 0.92% in December, 0.13 percentage points (p.p.) above the one recorded in December 2012. As a consequence, inflation in 2013 reached 5.91% (5.84% in 2012). Market prices changed 7.29% in 2013 (6.56% in 2012), and regulated prices, 1.54% (3.65% in 2012). Among market prices, the prices of tradable goods increased 6.01% in 2013 (4.47% in the previous year), and the prices of non-tradable goods, 8.43% (8.46% in 2012). On its turn, the prices of food and beverages group increased 8.48% in 2013 (9.86% in 2012), and the prices of services rose 8.75%

(same value observed in 2012). In short, available information suggest some persistence of inflation, which partially reflects the fact that services inflation remains at high levels.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.54% in November to 0.76% in December. As a consequence, on a twelve-month trailing basis, inflation reached 6.28% (0.68 p.p. above the one registered in December 2012). Specifically, the smoothed trimmed means IPCA core inflation changed from 0.45% in November to 0.58% in December. The double weight core inflation, from 0.52% to 0.79%; the core inflation by exclusion of regulated prices and household food, from 0.60% to 0.96%; the non-smoothed trimmed means core inflation, from 0.55% to 0.72%; and the core by exclusion, which excludes ten household food items and fuels, from 0.57% to 0.74%. The diffusion index stood at 69.3% in December (compared to 70.7% in the same month of the previous year).

3. The General Price Index (IGP-DI) increased 0.69% in December, on a month-on-month basis, and 5.52% on a twelve- month trailing basis (8.10% in 2012). The main component of this indicator, the Wholesale Price Index (IPA), changed 5.07% in 2013 (against 9.13% in 2012), with retreat of 1.76% in the prices of agricultural products in 2013 and increase of 7.87% in the prices of industrial products. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, changed 5.63% in 2013 (5.74% in 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 8.09% (7.12% in 2012), partially driven by pressures stemming from the labor cost, which increased 9.77% in the period. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.62% in November month-on-month, expanding by 5.47% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.

4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimate for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of the economic activity. In October, the IBC-Br increased 0.8% month-on-month and 2.7% relative to October 2012. The composite Purchasing Managers' Index (PMI) regarding Brazil pointed to intensification of the economic activity for the fourth consecutive month in December. On its turn, the Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated in December and, consequently, reverted the increase observed in the previous month, according to the seasonally adjusted series. On the other hand, the industrial businessmen confidence, measured by the Industry Confidence Index (ICI), increased in December, similarly to the observed in November. The Service Confidence Index (ICS) also increased in December. Regarding agriculture, the Agricultural Production Systematic Assessment (LSPA), carried out by the IBGE, indicates that grains production should grow by 0.7% in 2014, relative to the 2013 harvest.

5. The Brazilian economy grew 2.2% in the third quarter of 2013, against the same quarter of 2012, after increasing 3.3% in the second quarter, according to the same comparison basis. According to data seasonally adjusted by the IBGE, after increasing by 1.8% in the second quarter, the Gross Domestic Product (GDP) decreased by 0.5% in the third quarter, quarter-over-quarter. As a consequence, the growth rate accumulated in four quarters changed from 2.0% to 2.3%. From the aggregate demand side, househould consumption continued in expansion, with growth of 1.0% in the third quarter, quarter-over-quarter, and of 2.3% relative to the same quarter of 2012 – fortieth consecutive increase according to this comparison basis. On its turn, the government consumption grew 1.2% quarter-over-quarter and 2.3% compared to the same quarter of 2012. Fixed Capital Gross Formation (FBCF) increased 7.3% relative to the same quarter of 2012, despite the retreat of 2.2% quarter-over-quarter.

6. After increasing by 0.6% in October, the industrial activity retreated by 0.2% in November, according to the seasonally adjusted series, released by the IBGE. Therefore, the industrial production in November stood 0.4% above the one registered in November 2012. Between January and November, industrial production increased 1.4% relative to the same period of last year, with highlight for the production of automotive vehicles, with expansion of 9.0%, as well as for other transportation equipment, and oil refining and ethanol production (with expansion of 7.8% and 7.7%, respectively). It bears highlighting that the production grew in 16 out of the 27 surveyed activities, according to the same comparison basis. The PMI of the industrial sector

indicates expansion in December. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry increased 4.6% between January and October 2013, compared to the same period of the previous year, while the number of hours worked grew 0.1%.

7. Among the use categories, according to data seasonally adjusted by the IBGE, the production of capital goods retreated 2.6% in November; on the other hand, the production of intermediate goods, durable consumer goods and semidurable and non-durable consumer goods increased 1.2%, 0.3% and 0.3%, respectively. Regarding growth accumulated in the last twelve months through November, there were expansions in the production of capital goods (11.6%) and durable consumer goods (0.8%), retreat in the production of semidurable and non-durable consumer goods (-0.4%) and stability in the production of intermediate goods.

8. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, retreated to 4.6% in November, repeating, therefore, the record low of the historical series observed in December 2012. The unemployment rate also reached the record low of the historical series started in 2002, according to the BCB seasonally adjusted series (5.1%), which partially reflects reduction in the economically active population (PEA). Still according to the PME, the average real income increased 3.0% in November, year-over-year; while real payroll increased 2.3%, according to the same comparison basis. Data released by the Ministry of Labor and Employment (MTE) show that 47.5 thousand formal jobs were created in November (compared to 46.1 thousand in November 2012). In short, the available data indicate narrow idleness margin in the labor market, although there are some signs of moderation at the margin.

9. According to the retail monthly survey (PMC), released by the IBGE, broad retail sales volume, which includes vehicles and construction inputs, increased by 2.2% in October 2013, year-over-year, and retail sales volume grew by 5.3%. According to the seasonally adjusted series, the month-on-month broad retail sales changed by 1.8%, and retail sales, by 0.2%. In the last twelve months, the broad retail sales growth rate reached 3.9%, with expansion in all ten sectors surveyed. The Trade Confidence Index (ICOM), measured by the FGV, recorded the fifth consecutive high in December, due to improvements in the perception of the current situation. The Copom evaluates that the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by the moderate credit expansion.

10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, reached 84.9% in December (84.8% in December 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci in December reached 84.2%. Capacity utilization in the capital goods sector stood at 81.8%. In the sector of consumer goods, intermediate goods and construction inputs, the utilization capacity stood at 84.6%, 85.1% and 90.1%, respectively. On its turn, the absorption of capital goods grew 11.3% in the last twelve months ended in November.

11. The twelve-month trailing trade balance result reached US$2.6 billion in 2013 (US$19.4 billion in 2012). This result stemmed from US$242.2 billion in exports and US$239.6 billion in imports, which diminished 0.2% and increased 7.4%, respectively, compared to the previous year. On its turn, the current account deficit accumulated in twelve months reached US$81.1 billion in November, equivalent to 3.7% of the GDP. Foreign direct investment totaled US$62.8 billion in the twelve months through November, equivalent to 2.8% of the GDP.

12. In the global economy, prospects point to more intense activity pace in important advanced economies. In Europe, despite recent improvements, high unemployment rates, coupled with the fiscal consolidation and political uncertainties, constitute elements constraining investments and growth. It bears highlighting that composite leading indicators, released by the Organization for Economic Cooperation and Development (OECD), referring to November, and the PMI coincident indicators, relative to December, signal improvements at the margin in several advanced and emerging economies, especially in the manufacturing sector, with prospects of growth in line with the trend or above it. Regarding monetary policy, the Federal Reserve has initiated process of gradual reduction of the assets purchase program; however, in general, accommodative stances prevail in the advanced economies. Likewise, in the emerging economies, the monetary policy is

predominantly expansionist. Inflation remains at moderate or low levels in the US, in the Euro Zone and in Japan.

13. The price of the Brent oil barrel slightly retreated since the previous Copom meeting. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which also reflects the low predictability of some global demand components and the dependency of supply growth on long term risky investment projects. Since the last Copom meeting, the international prices of agricultural commodities have retreated 3.3%, while the ones relative to metals have increased 4.9%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), have retreated 3.5% in the twelve months through December 2013.

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) for the whole year of 2014, gasoline and bottled gas prices are projected to remain stable;
b) the projected adjustment for household electricity price points to an increase of 7.5% for the whole year of 2014;
c) the fixed telephone tariff is projected to remain stable for the whole year of 2014;
d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated for the whole year of 2014, was maintained at 4.5%, the same value considered at the November Copom meeting; and
e) the projected cumulative adjustment for the set of regulated prices in 2015 corresponds to 4.5%. These projections are based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).

15. The estimated path for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, projects 0 basis point (bp) and 42 bps for the fourth quarters of 2014 and 2015, respectively.

16. The structural primary surplus that derives from the primary surplus trajectories both for 2014 and 2015 is considered as the fiscal indicator, according to the parameters set out in the Budget Guidelines Law (LDO)/2014. Therefore, in a given period, the fiscal impulse corresponds to the variation of the structural surplus in comparison to the observed in the previous period.

17. Since the last Copom meeting, the median of the projections compiled by the Investor Relations and Special Studies Department (Gerin) for the 2014 IPCA increased to 6% from 5.92%. For 2015, the median of the inflation projections stands at 5.5%.

18. The baseline scenario assumes the maintenance of the exchange rate at R$2.40/US$1.00 and the Selic rate at 10% p.a. during the forecast period. Under this scenario, the projection for the 2014 inflation increased relative to the value considered at the previous Copom meeting, and remains above the 4.5% 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 with market analysts, in the period immediately prior to the Copom meeting, the 2014 IPCA inflation forecast also increased relative to the value considered at the November meeting, and also stands above the inflation target. For 2015, the inflation forecast stands above the target in both scenarios.

Monetary Policy Decision

19. The Copom evaluates that the 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 prices 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 macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly 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.

20. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from changes in the yield curve slope of major advanced economies. Despite identifying low probability of occurrence of extreme events in the international financial markets, the Committee considers that the external environment remains complex. For the Committee, supported on positive data recently released, the prospects for more intense global activity throughout the relevant horizon for the monetary policy have remained. Indeed, there are improvements in advanced economies, including countries from the Euro Area, although, in general, the space to use monetary policy remains limited and the fiscal restraint scenario prevails in this and in the upcoming years. In important emerging economies, however, the activity pace has not matched the expectations, despite the resilience of the domestic demand. The Committee also highlights evidences of accommodation of commodities prices in the international markets, as well as of some tension and volatility episodes in the currencies' markets.

21. The Copom evaluates that the main scenario encompasses relatively stable domestic activity expansion pace in this year, compared to 2013, and that recent information indicate, in the relevant horizon for the monetary policy, changes in the composition of aggregate supply an demand. The domestic absorption has expanded at rates higher than those observed for the GDP growth and, according to the Committee, it tends to be benefited by the effects of fiscal policy actions, of the moderate expansion of credit supply (especially, of credit to consumption), of the program of public services concession and of the program of permission of oil exploration, among other factors. For the Committee, however, the outlook that has been taking shape is that consumption would tend to keep growing, but at a more moderate pace than the observed over the recent years, and investments would gain momentum. Regarding the external component of aggregate demand, the scenario of greater global growth, combined with the depreciation of the real, contributes to make this component more favorable to the growth of the Brazilian economy. Focusing on the supply side, the Committee evaluates that more favorable prospects for the competitiveness of industry and agriculture are emerging and, considering the relevant horizon for monetary policy, the services sector tends to grow at rates lower than those recorded over the recent years. It is plausible to claim that these developments - coupled with advances in terms of qualification of the labor force - will be reflected in a more efficient allocation of the production factors of the economy and in productivity gains. The Committee also notes that the speed of materialization of the aforementioned changes and of their expected gains depends on the strengthening of companies and households' confidence.

22. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables and the creation of conditions so that, in the relevant horizon for monetary policy, the balance of the public sector shifts to the neutral zone. The Committee also notes that the generation of primary surpluses in line with the working hypotheses considered for the inflation projections, on the one hand, would contribute to reduce the mismatch between supply and demand growth rates; on the other hand, it would contribute to create a positive perception regarding the macroeconomic environment in the medium and long terms. It should also be emphasized that the generation of primary surpluses at levels close to the average generated over the recent years would help to reduce the public debt financing cost, with favorable impact on the cost of capital in general, which would stimulate private investment in the medium and long term.

23. The Copom highlights that its main scenario also considers moderate credit expansion. Still regarding the credit market, the Committee considers opportune initiatives with the aim of moderating concessions of subsidies through credit operations.

24. Regarding the factors market, the Copom highlights the narrow idleness margin in the labor market and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation. Although the projected adjustment for the minimum wage this year is not as significant as in the previous years, and considering the occurrence over the recent quarters of real wage changes more consistent with the gains estimated for the labor productivity, the Committee evaluates that the wages dynamics remains originating inflationary cost pressures.

25. The Committee considers that the exchange rate depreciation and volatility observed in the recent quarters enable a natural and expected correction in relative prices. For the Committee, these movements in the local currency market, to some extent, reflect prospects for the transition of international financial markets towards normality, among other dimensions, in terms of liquidity and interest rates. It is also important to highlight that, for the Committee, the aforementioned exchange rate depreciation is a source of inflationary pressure in shorter periods. However, the secondary effects stemming from it, and that would tend to materialize over longer periods, can and should be limited by appropriate monetary policy handling.

26. The Copom evaluates that the high consumer inflation level in the last twelve months contributes for inflation to still show resistance, which, by the way, has been slightly above the level which was previously anticipated. In this context, the formal and informal indexation mechanisms and the economic agents' perception regarding the inflation dynamics are also included. Considering the damage that the persistence of this process would cause to the decision-making process on consumption and investment, in the Committee's view, it is necessary that, with the due promptness, it is reverted. In this context, the Copom considers that it is appropriate to continue the ongoing adjustment pace of the monetary conditions.

27. Therefore, continuing the adjustment process of the basic interest rate, initiated at the April 2013 meeting, the Copom unanimously, at this time, decided to increase the Selic rate by 0.50 p.p., to 10.50% p.a., without bias.

28. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.

29. The Copom evaluates that the domestic demand tends to be relatively robust. On the one hand, household consumption tends to continue expanding, due to the effects of stimulus factors, such as income growth and moderate credit expansion; on the other hand, favorable financial conditions, concession of public services, expansion of oil exploration areas, among others, create good prospects for investments. These elements and the developments in the quasi fiscal framework and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

30. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, indicates that high inflation rates generate distortions that lead to higher risks and depress investments. These distortions are manifested, for example, in the shortening of the planning horizons of households, companies and governments, as well as in the deterioration of the businessmen confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over household's confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.

31. The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation rates, such as the one observed in the last twelve months, persist in the relevant horizon for the monetary policy. At the same time, the Committee considers that the transmission of the effects of monetary policy actions over inflation occurs with lags.

32. At the end of the meeting, it was announced that the Committee will reconvene on February 25th, 2014, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 24,064, of June 12th, 2013.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

33. The IPCA changed 0.92% in December, compared to 0.54% in November, an increase of 5.91% in 2013, compared to 5.77% in the twelve-month period ended in November and 5.84% in 2012, according to the IBGE. The monthly acceleration reflected the increases of 0.36 p.p., to 0.92%, in market prices, and of 0.43 p.p., to 0.91%, in regulated prices. The evolution of market prices reflected the acceleration in the prices of non-tradable goods, from 0.61% to 1.13%, with highlights for the prices of services, from 0.65% to 1.16%, and in the prices of tradable goods, from 0.50% to 0.68%. The IPCA monthly acceleration was favored, mainly, by the increases in the prices of transportation (from 0.36% to 1.85%), with contribution of 0.35 p.p. for the index, compared to 0.07 p.p. in October, and in the prices of food and beverages (from 0.56% to 0.89%), with contribution of 0.22 p.p. for the index, compared to 0.14 p.p. in November. The diffusion index reached 69.32% in December, compared to 68.22% in November.

34. Considering twelve-month periods, market prices decelerated from 7.31%, in November, to 7.29% in December, mirroring the decrease in the prices of tradable goods, from 6.20% to 6.01%, while the prices of non-tradable goods accelerated from 8.29% to 8.43%. Regulated prices change reached 1.54%, compared to 0.95% in the twelve-month period ended in November. The prices of services increased 8.75%, compared to 8.55% and 8.74% in the twelve-month periods ended in November and October, respectively.

35. The IGP-10 changed 0.58% in January, after an increase of 0.44% in December, according to the FGV, as a result of accelerations in its three components. The indicator accumulates increases of 5.55% in twelve months, compared to 5.39% up to December.

36. The IPA-10 increased 0.55% in January, compared to 0.38% in December, accumulating increase of 5.19% in twelve months. Industrial products prices increased 0.81% in the month, compared to 0.35% in December, accumulating an increase of 8.00% in twelve months. Agricultural products prices decreased 0.14% in January, compared to 0.45% in December, accumulating a decrease of 1.68% in twelve months. The monthly performance of industrial products prices evidenced the increase in the prices of oil and alcohol byproducts, 3.58%, which contributed 0.29 p.p. to the index. Regarding agricultural products, it bears noticing the changes in the items coffee, 13.37%, and bovines, 2.62%, with contributions of 0.11 p.p. and 0.10 p.p., respectively.

37. The IPC-10 changed 0.76% in January, compared to 0.68% in December, increasing by 5.48% in twelve months. The monthly acceleration of the IPC-10 in January reflected, mainly, the increases in the prices of some groups, such as transportation, to 1.17%, up from 0.41% in December; and education, reading and entertainment, to 1.72%, up from 0.48%, with respective contributions of 0.20 p.p. and 0.13 p.p.. The INCC-10 changed 0.36% in January, compared to 0.26% in December, with acceleration in the prices of materials, equipment and services, from 0.20% to 0.26%, and increase of 0.45% in the costs of labor force, compared to 0.32% in the previous month. The INCC-10 increased 8.18% in twelve months.

38. The IPP/IT increased 0.62% in November, compared to -0.45% in October, accumulating a change of 5.04% in the year, compared to 6.84% in the same period of 2012. The monthly result of the IPP/IT reflected, mainly, the respective increases of 1.22%, 1.20% and 0.72% in the prices of food, metallurgy and automotive vehicles, trailers and bodies, contributing respectively 0.25 p.p., 0.09 p.p. and 0.08 p.p. to the index. In twelve months, the IPP/IT changed 5.47% in November, compared to 5.09% in October, with highlights to the contributions of food, 1.42 p.p.; metallurgy, 0.61 p.p.; and coke, oil byproducts and biofuels, 0.47 p.p..

39. The Commodities Index Brazil (IC-Br) increased 2.49% in December, after increasing 2.73% in November, with respective increases of 1.53%, 3.31% and 6.10% in the segments of agriculture, metals and energy

commodities, respectively. The IC-Br accumulated an increase of 3.12% in 2013, a result of valuations of 0.23%, 4.88% and 14.70% in the segments of agriculture, metal and energy commodities, respectively.

Economic Activity

40. The GDP decreased 0.5% in the third quarter of 2013, compared to the previous quarter, when it had increased 1.8% (revised), considering seasonally adjusted data from the IBGE. Year-over-year, the GDP increased 2.2% in the third quarter. On the supply side, considering seasonally adjusted series, the result reflected changes of -3.5% in agriculture, 0.1% in industry and 0.1% in services. The domestic demand component recorded increases of 1.0% in household consumption, and 1.2% in the government consumption, in contrast to the 2.2% fall in gross fixed capital formation (GFCF), while in the external sector, exports and imports decreased 1.4% and 0.1%, respectively. The GDP increased 2.4% in the year, with growth of 8.1% in agriculture, 2.1% in services and 1.2% in the industry. According to the same comparison basis, the demand analysis reveals the contribution of 3.6 p.p. in the domestic component, with highlights for the changes of gross fixed capital formation (6.5%), household consumption (2.4%), government consumption (1.8%) and of -1.2 p.p. for the external sector, reflecting increases of 1.4% in exports and 9.6% in imports.

41. The IBC-Br increased 0.77% in October, month-on-month, when it had remained unchanged, considering seasonally adjusted data. The index changed 0.43% in the quarter ended in October, compared to the quarter ended in July, when it had increased 0.16% according to the same comparison basis. Considering observed data, the IBC-Br increased 2.74%, year-over-year, compared to 3.33% in September, according to the same comparison basis, and accumulated increases of 2.81% in the year and of 2.44% in the twelve-month period through October.

42. Broad retail sales, which include vehicle and construction inputs, increased 1.8% in October, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after decrease of 0.7% in September and increase of 0.3% in August. Sales increased 1.2% in the quarter ended in October, quarter-over-quarter, when they had grown 0.5%, according to the same comparison basis. By segment, seven out of the ten surveyed segments increased, with highlights for vehicles and motorcycles, parts and pieces, 6.2%; office, computer and communication equipment and materials, 3%; and books, newspapers, magazines and stationery, 1.5%. In contrast, it is worth mentioning the downturn of 0.4% in the sales of hypermarkets, supermarkets and food products, and in fabric, clothing and shoes. Retail sales increased 0.2% in October, month-on-month, after increases of 0.5% in September and 0.9% in August, accumulating an expansion of 2.8% in the quarter ended in October, compared to the previous quarter.

43. Considering observed data, broad retail sales increased 2.2% in October, year-over-year, with emphasis in the expansion of other articles of domestic and personal use (11.9%); pharmaceutical, medical, orthopedic, perfumery and cosmetic articles (11.4%); and office, computer and communication equipment and materials (10.5%). In contrast, it is worth mentioning the downturn of 4.2% in the sales of vehicles and motorcycles, parts and pieces, according to the same comparison basis. Broad retail sales increased 3.9% in the twelve-month period ended in October, with highlights for the increase of other articles of domestic and personal use (10.9%); pharmaceutical, medical, orthopedic, perfumery and cosmetic articles (9.2%); and construction inputs (7%). The retail sales increased 5.3% year-over-year and 4.5% in the twelve-month period through October.

44. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 353.9 thousand units in December, increasing 5.2% month-on-month, according to data from the Automotive Vehicles Distribution National Federation (Fenabrave), seasonally adjusted by the BCB. These sales decreased 0.9% in the quarter ended in December, compared to the one ended in September, when they had decreased 4.3%, according to the same comparison basis. Automobile vehicles sales decreased 1.6% in 2013, year-over-year, mainly reflecting the decrease of 4% in the sales of automobiles. In contrast, the sales of buses, trucks and light commercial vehicles increased 20.6%, 13% and 3.6%, respectively.

45. Capital goods imports quantum, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 0.8% in November, month-on-month. The observed data analysis

showed changes of -5.1% compared to November 2012, of 2.7% in the year, and of 2.8% in the twelve-month period ended in November.

46. Capital goods production decreased 2.6% in November, accumulating an expansion of 2.9% in the quarter ended in November, compared to the previous quarter, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The monthly result reflected, especially, the decreases in the production of capital goods for industrial equipment, 6.5%; and of equipment for mixed use, 2.9%. In contrast, it bears highlighting the growth of 11.9% in the industry of agricultural pieces. Considering the observed data, the expansion of 9.6%, year-over-year, reflected, mainly, the increases of 55.7% in the production of capital goods for construction; 18.3% in agricultural equipment; and of 9% in transportation equipment.

47. The production of typical construction inputs decreased 1.9% in November, accumulating an increase of 0.2% in the quarter ended in November, compared to that ended in August, according to seasonally adjusted data. Considering the last twelve months through November, the segment production increased 1.7%.

48. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R$194.4 billion in the twelve months through October, 35.1% above the same period of 2012. The resources destined to all segments grew: agriculture and the livestock sector (71%); commerce and services (66%), infrastructure (30%) and industry (11%). In the period, the infrastructure sector absorbed 33% of the total resources, followed by commerce and services (30%), industry (28%) and agriculture and the livestock sector (9%).

49. Industrial production fell 0.2% in November, month-on-month, according to IBGE seasonally adjusted data, after increasing by 0.6% in October. The mining and the manufacturing industries changed -3.1% and 0.1%, respectively, in the month. According to the use categories, it bears highlighting the production of capital goods, which declined 2.6% in November, in contrast with the increases in intermediate goods, 1.2%; and in consumer goods, 0.5%. Thirteen out of the 26 manufacturing industry activities surveyed increased in the month, with highlights for the segments of pharmaceuticals (9.6%), tobacco (5.4%), and oil refining and alcohol (4%). In contrast, the production decreased in the segments of equipment for medical and hospital instrumentation, opticals and others (-16%), publishing, printing and reproduction (-5.3%), perfumery, soaps, detergents and other cleaning products (-4.6%), clothing (-3.5%), textiles (-3.5%), metal products (-3.4%), and automotive vehicles (-3.2%). The industrial production increased 0.3% in the quarter ended in November, compared to the quarter ended in August, when it had decreased by 0.2%, reflecting increases of 1.9% in the mining industry and 0.2% in the manufacturing industry. It bears highlighting the increases in the industries of miscellaneous (12.6%), tobacco (9.5%), perfumery, soaps, detergents and other cleaning products (7.5%), and wood (5%); and the retractions in the industries of equipment for medical and hospital instrumentation, opticals and others (-8%), publishing, printing and reproduction (-5.2%), beverages (-5.2%), and clothing (-5.1%). Considering observed data, industrial production increased by 0.4% in November, year-over-year, reflecting increases of 0.1% in the mining industry and of 0.4% in the manufacturing industry, with highlights for the expansion of 9.6% in capital goods production, followed by the growth of 1.3% in the intermediate goods industry, in contrast to the decrease of 4.1% in the durable consumer goods production and 1.6% in the semi and non-durable consumer goods production. The respective expansions of 1.1% and 1% reached in the quarter ended in November and in the twelve-month period ended in November, compared to the same periods of the previous year, were mainly influenced by the respective increases of 17% and 11.5%, of the capital goods industry.

50. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.2% in December, a decrease of 0.1 p.p. relative to November, according to data seasonally adjusted by the FGV. Among the use categories, there were decreases in the production of capital goods, (-1.5 p.p.), non-durable consumer goods (-0.8 p.p.) and construction inputs (-0.4 p.p.); increase in the production of durable consumer goods (0.1 p.p.); and stability in the production of intermediate goods. Considering the observed series, the Nuci increased 0.1 p.p. year-over-year, reaching 84.9%, as a result of the increases in the production of construction inputs (1.7 p.p.), and intermediate goods (0.2 p.p.), and of the respective decreases of 3.1 p.p., 1.6 p.p. and 0.2 p.p. in the production of durable consumer goods, non-durable consumer goods and capital goods.

51. Vehicles output reached 235.9 thousand units in December, representing a decrease of 5.7% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the fourth quarter, the production decreased by 9.5%, compared to the previous quarter, when it had decreased 8.7%, according to the same comparison basis. Considering observed data, vehicles output changed -12.1% relative to December 2012 and 9.9% in the year.

52. Still according to data released by Anfavea, national vehicle licensing increased 7.5% in December, month-on-month, and decreased 0.1% in the quarter ended in December, considering data seasonally adjusted by the BCB. Regarding observed data, there were changes of 0.1% year-over-year and 1.5% in 2013. Automobile exports totaled 40.3 thousand units in December, changing -2.2% year-over-year and 26.5% in the year. According to the series seasonally adjusted by the BCB, exports decreased 8.9% in December, month-on-month, accumulating a decrease of 25% in the fourth quarter, compared to the previous quarter.

53. The LSPA survey carried out by the IBGE, regarding December, projected 188.2 million tons for the 2013 national harvest of grains, representing changes of 16.2% year-over-year and 0.7% over the November crop estimate. Compared to 2012, the estimated expansion is due, in particular, to the expected growth in the production of soybeans (24.3%), followed by the growth estimates for wheat (30.4%), corn (13.0%), beans (4.1%) and rice (3.2%). Moreover, a 10.0% increase is estimated for the harvest of sugar cane, and respective decreases of 14.8% and 4.7% are expected for the harvest of orange and coffee, according to the same comparison basis. Also according to the IBGE, which compiled the third forecast for the 2014 harvest, it is estimated that the harvest of grains will reach 189.6 million tons, 0.7% higher than the one projected for 2013, mainly influenced by the expected expansion of 10.5% in soybeans production, partially offset by the estimated decline of 9.2% projected for the corn crop.

54. According to the Monthly Service Survey (PMS), carried out by the IBGE, the nominal revenue from the services sector increased 8.8% in October, year-over-year, compared to 9.7% in September and 6.6% in August. The result mainly reflected the increase in all analyzed segments: services rendered to families (12.6%), transportation, support activities for transportation and mailing activities (9.9%), information and communication services (7.9%) and professional, administrative and complementary services (7.2%). In the year through October, the nominal revenue in the services sector increased 8.5%, with highlights for the segment of transportation, support activities for transportation and mailing activities (10.8%).

Surveys and Expectations

55. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), reached 111.5 points in December. The decrease of 1.2% month-on-month reflected decreases of 1.3% in the Current Situation Index (ISA) and 0.4% in the Expectations Index (IE). The ICC decreased 6.3% relative to December 2012, due to the decreases of 10.6% in the ISA and of 3.5% in the IE.

56. The ICS, carried out by the FGV, considering seasonally adjusted data, reached 118.9 points in December. The increase of 2.6% month-on-month reflected increases of 4.1% in the Expectations Index (IE) and 0.6% in the Current Situation Index (ISA). The ICS decreased 3.6%, year-over-year, due to the decreases of 3.4% in the IE and 3.8% in the ISA.

57. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 126.9 points in December. The monthly increase of 1.2% year-over-year was due to the changes of 2.9% in the Current Situation Index (ISA-COM) and -0.3% in the Expectations Index (IE-COM). In the fourth quarter, the ICOM decreased 3%, year-over-year, due to the retractions of 6.4% in the ISA-COM and 0.4% in the IE-COM.

58. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), reached 100.1 points in December, an increase of 1.1% month-on-month, driven by the increases of 2.2% in the Expectations Index (IE) and 0.1% in the Current Situation Index (ISA). The ICI decreased 5.8% year-over-year, as a result of the decreases of 5.5% in the IE and 5.9% in the ISA.

59. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 115.6 points in December, decreasing 5% year-over-year. The result reflected retreats of 5% in the Current Situation Index (ISA-ICST) and 4.9% in the Expectations Index (IE-ICST). In the fourth quarter of 2013, the ICST also decreased 3.9%, year-over-year, influenced by the decreases of 6.2% in the ISA-ICST and 1.6% in the IE-ICST.

Labor Market

60. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 47.5 thousand formal jobs were created in November, up from 46.1 thousand in the same month of 2012, of which 103.3 thousand in commerce and 44.8 thousand in the services sector, partially offset by the retractions of 34.3 thousand in manufacturing industry, 33.2 thousand in agriculture and livestock sector and 31.8 thousand in the construction sector. In the year, 1.2 million jobs were created and, in the twelve months through November, 683.2 thousand, compared to 1.4 million and 957 thousand, respectively, in the same periods of 2012. Month-on-month, formal job creation expanded by 0.1% in November, considering data seasonally adjusted by the BCB.
61. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 4.6% in November, representing retractions of 0.6 p.p. month-on-month and of 0.3 p.p. year-over-year. The monthly result reflected increase of 0.1% in the employed population and decrease of 0.5% in the Economically Active Population (PEA). Year-over-year, the employed population decreased 0.7%, compared to 0.4% in October, according to the same comparison basis. Considering seasonally adjusted data, the unemployment rate decreased from 5.3% in October to 5.1% in November. According to the same survey, the average real income usually earned by workers increased 2% month-on-month and 3% year-over-year. Real payroll, defined as the product of the number of persons employed by the usual real average income of the main work, changed 2% and 2.2%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

62. The total credit in the financial system, including the non-earmarked and earmarked credit operations, totaled R$2,647 billion in November, with expansions of 1.5% in the month and 14.5% in twelve months. The credit-to-GDP ratio reached 55.6%, increasing 0.5 p.p. month-on-month and 2.7 p.p. year-over-year. The balance of non-earmarked credit operations, equivalent to 55.9% of the total credit outstanding in the financial system, rose 1% in the month and 7.8% in twelve months, reflecting changes of 0.3% and 7.7%, respectively, for credit operations with individuals and of 1.7% and 8% for credit operations with corporate. The earmarked credit operations increased, respectively, 2.1% and 24.4%, according to the same comparison bases, with highlights for the increases of 2.6% and 28.3%, respectively, in rural credit, and of 2.3% and 34.2%, respectively, in mortgages, for the segment of individuals, and of 2.5% and 31.1%, respectively, in the rural credit considering the credit destined to corporate.

63. The overall average interest rate of loans in the financial system reached 20% p.a. in November, representing expansions of 0.2 p.p. month-on-month and 1.1 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 26.1% and 15.1%, corresponding to changes of -0.1 p.p. and 0.3 p.p., respectively, month-on-month, and of 1 p.p. and 0.9 p.p., year-over-year.

64. The overall average tenure on credit operations reached 94.8 months in November, representing a decrease of 0.8 months, month-on-month, and an increase of 8.1 months, year-over-year. The average tenure related to individuals reached 137.8 months, increasing 1.6 month, month-on-month, and 17 months, year-over-year. In the corporate segment, the average tenure reached 61 months, decreasing 2.7 months, month-on-month, and increasing 0.3 month, year-over-year.

65. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, reached 3.1% in November, retreating 0.1 p.p. month-on-month and 0.7 p.p. year-over-year. The indicators related to the operations with individuals and corporate reached 4.5% and 1.9%, respectively, in November,

both decreasing 0.1 p.p., month-on-month, and with reductions of 1.2 p.p. and 0.4 p.p., in the same order, in twelve months.

External Environment

66. The US annualized GDP change for the third quarter was revised upwardly, compared to the previous two estimates of 2.8% and 3.6%. The unemployment rate decreased to 6.7%, while the generation of non-farm jobs decelerated from 241 thousand in November to 74 thousand in December. The residential properties' prices continue increasing, which, combined with the high prices of the stocks, has resulted in an increase in household wealth. In December, the consumer confidence, measured by Thomson Reuters/Michigan University index, reached the highest level in five months. In the Euro Zone, the unemployment rate has been maintained at 12.1% for eight months. The economic sentiment index increased for the eighth consecutive month, and the composite PMI increased to 52.1 in December, averaging 51.9 in the last quarter of 2013, up from 51.4 in the previous quarter. Regarding Japan, exports continue to grow, benefited by the growth of global economic activity and by the yen devaluation, which has favored corporative profits and businessmen investments' expansion. The October/November average industrial production increased 1.7% compared to the average of the third quarter. In December, the manufacturing PMI grew to 55.2, the highest value since July 2006, when it had recorded 55.4. In China, economic activity remains sound, with exports growing in a steady way, boosted by the high in the sales destined the to Euro Zone. Despite the composite PMI retreat at the margin (51.2 in December), in the quarter ended in December, the index recorded an average of 51.8, up from 50.8 in the previous quarter.

67. Since the last Copom meeting, the stock markets have appreciated in most advanced economies, meanwhile, in the emerging economies, the behavior was more volatile, with increases in South Africa, India and Indonesia, and retreats in the indices for Brazil, China, Thailand and Turkey. The annual 10-year yield for US Treasuries increased in the period between Copom meetings, having recorded an upward trajectory through the end of 2013, and a downward one since then. US dollar valued against the currencies of South Africa, Canada, Japan, Thailand and Turkey, but fell against the euro and New Zealand dollar.

68. In the international commodities market, the agricultural ones presented distinct trajectory, with highlights for the increases in the prices of coffee, cotton, corn and beef, and retreats in the prices of wheat and sugar. Metal commodities prices grew, except for iron ore and tin. Among the energetic commodities, it bears highlighting the decrease in the price of Brent oil barrel, reflecting the Libya resumption in production.

69. According to the International Financial Statistics, from the International Monetary Fund (IMF), the annual change in the global CPI decreased to 3.1% in October, from 3.2% in September and 3.6% in July, reflecting the slowdown in the price increases in the advanced economies, from 1.6% to 1.2% and 1.0% respectively, while in the developing countries the rates changed from 6.6% to 6.2% and 6.4%. Since the last Copom meeting, central banks in the US, in the Euro Zone, Japan and UK maintained their respective official interest rates at historical low levels. In the US, in a meeting on December 18th, the Fed reduced the magnitude of its monthly assets purchases by US$10 billion, to US$75 billion. Monetary authorities of Thailand, Hungary, Sweden and Romania increased the expansionary stance of their policies, reducing their respective basic rates.

Foreign Trade and International Reserves

70. The Brazilian trade balance showed a superavit of US$2.7 billion in December, as a result of US$20.8 billion in exports and US$18.2 billion in imports. The superavit totaled US$2.6 billion in 2013, compared to a surplus of US$19.4 billion in 2012, reflecting a decrease of 1% in exports and an increase of 6.5% in imports, according to the daily averages. The total external trade stood at US$481.8 billion in 2013, an expansion of 2.6% compared to 2012, considering the daily average criterion.

71. The international reserves according to the liquidity concept, which includes repurchase lines, totaled US$375.8 billion in December, decreasing US$302 million month-on-month and US$2.8 billion year-over-year. According to the cash concept, the outstanding totaled US$358.8 billion, a decrease of US$3.6 billion month-

on-month and of US$14.3 billion year-over-year. In January, the net sales of repurchase agreements lines amounted US$3.3 billion, while the outstanding totaled US$17 billion.

Money Market and Open Market Operations

72. In the period that followed the November Copom meeting, the domestic interest rate curve showed significant swing, ending the period at a high level in the short-term part and with relative stability in the medium and long-term. The main factors driving the increase in the rates were the release of inflation indices above the expected, the dollar appreciation movement, the concerns with the fiscal policy conduction and, in the external outlook, the decision of the Fed of begging in January the reduction of the monetary stimulus. Between November 25th, 2013 and January 13th, 2014, the one-, three- and six-month rates increased by 0.42 p.p., 0.35 p.p. and 0.14 p.p., respectively. The rates for the maturities of one and two years decreased by 0.09 p.p. and 0.08 p.p. respectively, while the rate for the maturity of three years increased 0.08 p.p. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, increased from 4.42%, on November 25th, to 4.46%, on January 13th, mainly due to to the decrease in inflation expectations.

73. From November 26th 2013 to January 13th 2014, the BCB carried out traditional FX swap auctions maturing between March and September 2014. These operations totaled the equivalent to US$22.6 billion, of which US$12 billion relative to the rollover of the contracts maturing on December 2nd 2013 and January 2nd 2014. On January 13th, the FX short net result of the BCB regarding this instrument totaled the equivalent to US$77 billion in notional value.

74. In the management of the liquidity of the banking reserves' market, the BCB daily conducted, from November 26th 2013 to January 13th 2014, repurchase agreements with maturity of 3 months, borrowing R$48.3 billion and, weekly, repurchase agreements with maturity of six months, borrowing the total of R$19.7 billion. The average daily balance of the outstanding long-term operations decreased from R$267.4 billion, between October 8th and November 25th, to R$194.3 billion, between November 26th and January 13th. In the same period, the BCB conducted repo operations with maturity of 33 working days, totaling R$296.6 billion. The BCB also carried out leveling operations, at the end of the day, on 33 occasions, as a borrower. The overall daily average of such overnight operations was R$116.4 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB decreased from R$666.7 billion, between October 8th and November 25th, to R$610.0 billion, between November 26th and January 13th. Considering the period between November 25th and January 13th, the outstanding of repurchase agreements increased from R$631.9 billion to R$705.7 billion. The main factor driving the liquidity expansion in the period was the net redemption of securities by the National Treasury.