Inflation Report

ISSN 1517-7289
CGC 00.038.166/0001-05

Inflation Report	Brasília	v. 5	no. 1	Mar	2003	P. 1 - 158

Inflation Report

Quarterly publication of the Monetary Policy Committee, according to Decree 3,088, dated 6.21.1999.

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Number printed: 150 copies

Statistical Conventions:

...	data not available.
-	nil or non-existence of the event considered.
0 ou **0.0**	less than half the final digit shown on the right.
*	preliminary data.

Hiphen between years indicates the years covered, including the first and the last year.
A bar (/) between years (1970/1975) indicates the average of the years covered, including the first and the last year or even crop or agreement year, when mentioned in the text.

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Foreword

Inflation Report is a quarterly publication of the Banco Central do Brasil with the objective of evaluating the performance of the inflation targeting system and providing a prospective scenario for inflation. The national and international economic conditions underlying decisions taken by the Monetary Policy Committee (Copom) concerning the monetary policy management are presented.

The report is divided into six chapters: Activity level; Prices; Credit, monetary and fiscal policies; International economy; Foreign sector and Prospects for inflation. With regard to the activity level, growth in retail sales, inventories, output, labor market and investments are investigated. In the following chapter, price analysis focuses on the results obtained in the quarter as a consequence of monetary policy decisions and the real conditions of the economy outside the realm of government action. The chapter referring to the credit, monetary and fiscal policies, the analysis is centered on the behavior of credit, financial and budget operations. In the chapter dealing with the international economy, the report presents an analysis of the world's major economies and seeks to identify those conditions capable of impacting the Brazilian balance of payments. Insofar as the foreign sector chapter is concerned, analysis is targeted at economic-financial relations with the international community, with emphasis on trade results and foreign financing conditions. Finally, prospects on inflation growth are analyzed.

Executive Summary

Economic activity continued to rise in the last quarter of 2002, continuing the trend observed since the beginning of the year. A growing trade surplus was the main factor sustaining this behavior, particularly in the second half of the year.

Despite this positive performance, sectoral indicators show that economic activity dropped in December 2002 and early this year, in spite of favorable foreign trade results. These statistics suggest that the level of domestic demand, which had dropped in 2002 as a result of declines in both consumption and private investment, fell more sharply over this period. Among the factors contributing to this behavior, special mention should be made of a loss in the purchasing power of salaries, particularly as a result of the higher inflation registered in the last quarter of 2002, the rise in interest rates, particularly since October, and the persistence of uncertainties, particularly those derived from the international scenario of worsened tensions in the Middle East, which strongly affect the evolution of domestic expectations.

Although the impacts of these factors have major implications for the economy, it should be pointed out that there are two developments that, when added to the continued favorable results of the trade balance, will tend to attenuate these negative effects. These factors are the performance of the primary sector, which is forecast to post continued high growth in 2003, particularly the grain harvest, and the continued disbursements of FGTS (Warranty Fund for Severance Pay) funds in 2003, even though these funds are being released to higher income segments of the population, which are relatively less inclined to consume.

The volume of credit made available by the financial system grew moderately over the quarter that ended in February, consistent with the path suggested by the level of economic activity. In addition to reflecting the lower demand typically registered in this period, this performance was also determined by the greater caution exercised by corporations and families, given the uncertainties prevailing in the international scenario and the rise in lending interest rates, and by the selectivity of financial institutions in the process of granting new funds. The tighter restrictions imposed by banks and the continued release of FGTS funds contributed to the drop in default rates observed in the second half of 2002.

Regarding fiscal policy, special mention should be made of the confirmed commitment of the government to fiscal discipline, as shown by the 0.5 p.p. of GDP increase in the target set for this year's primary surplus. This increase helps to ensure the stability of the public debt stock. In addition, the government has pledged to carry out reforms that will ensure the structural adjustment of public accounts, prominent among which are the reforms of the social security and tax systems.

The performance of the world economy has not been sufficiently dynamic to project a recovery scenario. On the contrary, the pessimism suggested by confidence indicators in major developed economies indicates an unfavorable evolution of economic activity in the next few months, despite the recovery of industrial production in the first months of 2003. Resolving the tensions in the Middle East is a must not only to boost the world economy but also to restore the confidence of international investors and, consequently, reduce their risk aversion, thus facilitating access to international financial markets, particularly for emerging economies.

Regarding the country's external accounts, the balance of payments registered in the first quarter of 2003 indicates that Brazil is in a better position to finance its external accounts now than in the last quarter of 2002. The current account deficit continues to drop and to be fully financed by direct foreign investments, as in previous months. Because the trade balance has performed as expected and net direct foreign investments have been maintained, albeit at lower levels than in 2002, Brazil will be able to finance its balance in current transactions comfortably, as evidenced by the fact that no significant changes have been projected for the flow of services and income. In addition, loans and bonds are once again being issued and rollover rates have been improving progressively as a result of the resumption of flows of short-term credit lines.

In this context, the evolution of the exchange rate, which has been one of the determinants of the behavior of inflation rates in recent months, should stop pressuring prices.

The disinflation contribution of the agricultural harvest to the path of price indices in the first quarter was relatively modest. The increases registered in the prices of industrialized products, which were partly influenced by the exchange rate and recent inflation rates, have not dropped, and neither have those observed in the prices of perishable food products, for seasonal reasons. For the year as a whole, agricultural production will tend to contribute to a lower rate of inflation.

The central path expected for inflation accumulated in 12 months will remain in the range of 16-17% up to the third quarter of 2003. After that, it is expected to drop sharply for two consecutive quarters: to 10.8% in the last quarter of the year and to 6.7% in the first quarter of 2004. In the following quarters, inflation accumulated in 12 months will continue to drop, albeit less sharply, until it hits the mark of 4.1% in the last quarter of 2004. The high inflation accumulated in twelve months in the first three quarters of 2003 is attributed to the fact that the high inflation registered in the fourth quarter of 2002 (6.6%) will be maintained in the calculation.

Nonetheless, by focusing on future inflation, one may observe that the projections derived from the baseline scenario presented in this Report are below those published in the Open Letter to the Finance Minister on January 21. This means that in spite of the projected inflation for 2003 being above the 8.5% adjusted target, the difference results from the fact that inflation in the first quarter of 2003 was higher than previously projected. For the remaining months of 2003, there was no upward revision in forecasts.

An alternative scenario outlined by the Copom is also presented in which inflation projected by the market for 2003 drops to approximately 10% and the exchange rate appreciates to levels lower than the R$3.40 in the baseline scenario. This alternative scenario is one of many others analyzed by the Copom. The inflation that was projected on the basis of these underlying assumptions is 9.5% in 2003 and 3.8% in 2004.

The central projection for output growth in 2003 is approximately 2.2%, which represents a drop of 0.6% since the last Report. Higher interest rates and sharp drops in consumer confidence are two of the factors that help to explain this reduction.

1 – Activity level

Growth in the economic activity level over the course of 2002 cooled toward the end of the year and in early 2003. In this context, following positive results in the second half of 2002, the pace of industrial and commercial activities declined sharply in December and registered highly distinct performances in January 2003, when output of the industrial sector turned upward, mostly as a consequence of mineral extraction activities. The pace of GDP growth slowed in the fourth quarter of the year, compared to the results of previous quarters. The first signs of a loss of dynamism were evident in the decline in overall real wages and in the purchasing power of wages, as a result of the inflationary spike up to the end of 2002 coupled with deteriorating consumer financing conditions. These factors tend to dampen consumption notwithstanding continued extraordinary disbursements of Employment Compensation Fund (FGTS) resources, which have clearly aided in stimulating sales since August 2002. Parallel to these factors, the uncertainties of the international scenario and their impacts on interest and exchange rates have hampered new investments. Partially offsetting these factors, expanded exports and domestic production of goods similar to those previously imported have aided in stimulating output.

1.1 Retail sales

Retail activity indicators closed 2002, reversing the positive performance of the second half of the year.

The Monthly Survey of Commerce, carried out by the Brazilian Institute of Geography and Statistics Foundation (IBGE), including all of the states, indicated recovery in the pace of activity in the third quarter of the year, when the year's accumulated reduction came to 0.2% compared to the same period of 2002. In the final months of 2002, the Retail Sales Volume Index registered a sharp reduction and closed the year 0.7% below the result for the previous year. It should be stressed that, at the end of 2001, the performance of the retail sector was already somewhat sluggish as a consequence of the energy crisis.

A breakdown of the different segments of commerce indicates annual reductions in hyper and supermarket sales (1.8%), other personal and household articles (1.4%) and fabrics, apparel and footwear (1.3%). In the opposite sense, growth of 5.6% was registered in sales of fuels and lubricants, the only segment to turn in a positive result in 2002. With regard to the automotive sector, which is not included in the composition of the general index, the year closed with a sales reduction of 17% even considering the recovery registered in recent months.

Sales volume index in the retail sector - Brazil

Percentage change

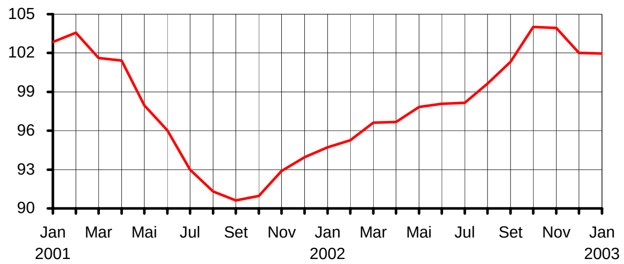
Itemization	2002				2003
	I Q	II Q	III Q	IV Q	Jan
Same period of the previous year					
Retail sector	-0.8	-0.9	0.9	-1.9	-4.8
Fuel and lubricants	5.3	1.5	9.6	6.1	-4.5
Supermarkets	0.0	-1.7	-1.5	-3.7	-6.2
Textiles, clothing and footwear	-2.5	-5.3	2.9	-0.3	0.2
Furniture and white goods	-1.4	4.0	0.1	-4.2	-10.4
Other domestic goods	-4.6	-0.6	0.9	-1.5	-0.9
Vehicles, motorcycles	-23.4	-19.8	-12.0	-11.5	-13.6
Accumulated in the year					
Retail sector	-0.8	-0.8	-0.2	-0.7	-4.8
Fuel and lubricants	5.3	3.3	5.5	5.6	-4.5
Supermarkets	0.0	-0.9	-1.1	-1.8	-6.2
Textiles, clothing and footwear	-2.5	-4.1	-1.7	-1.3	0.2
Furniture and white goods	-1.4	1.3	0.9	-0.6	-10.4
Other domestic goods	-4.6	-2.6	-1.4	-1.4	-0.9
Vehicles, motorcycles	-23.4	-21.6	-18.6	-17.0	-13.6

Source: IBGE

The indicator for the month of January further strengthens this trajectory, registering a decline of 4.8% in comparison to the January 2002 result. Among these segments, the only one to turn in positive growth was that of fabrics, apparel and footwear, with expansion of 0.2% in comparison to January 2002.

Data released by the Trade Federation of the State of São Paulo (Fecomercio SP) ratified the turnaround in the performance of the retail sector at the end of 2002. In this sense, though the annual result registered growth of 4.3% in real 2002 revenues, the quarterly movable average points to a downward trend based on data from which seasonal factors have been eliminated. Thus, after registering a high of 6% in October 2002, this indicator moved into a downward curve, registering a decline of 2% in January 2003. Using the same basis of comparison, the only subgroups that registered positive rates at the start of the current year were nondurable consumer goods and auto parts and accessories.

Real sales of the retail sector in São Paulo
Seasonally adjusted data
Moving quarterly average
2000=100



Source: Fecomercio SP

Real sales of the retail sector in São Paulo

Percentage change

Itemization	2002					2003
	Aug	Sep	Oct	Nov	Dec	Jan
In the month[1/]						
General	8.7	0.4	-0.7	0.1	-5.0	5.1
Consumer goods	9.3	0.8	0.1	-1.4	-1.9	3.1
Durable	5.1	-1.1	-1.4	-2.9	-1.3	1.1
Semidurable	7.0	-0.5	0.7	-7.2	-12.8	-6.4
Nondurable	12.2	2.2	1.1	0.6	0.1	3.0
Automotive trade	8.3	-1.5	-3.0	0.0	-3.3	0.9
Vehicle concessionaries	8.1	-1.4	-4.5	-2.8	-2.5	0.3
Autoparts and accessories	8.1	-1.4	-4.5	-2.8	-2.5	0.3
Building materials	3.3	6.8	-6.5	3.1	-2.9	-4.0
Quarter/previous quarter[1/]						
General	1.8	3.3	6.0	4.3	0.7	-2.0
Consumer goods	0.3	2.3	6.2	4.8	1.9	-1.4
Durable	-6.9	-7.7	-3.1	-2.8	-2.9	-4.6
Semidurable	4.3	9.0	9.5	3.5	-6.4	-16.6
Nondurable	7.1	11.4	13.1	10.4	6.9	3.2
Automotive trade	-1.0	1.9	5.8	1.3	-2.6	-4.4
Vehicle concessionaries	-1.1	1.7	5.5	-0.6	-5.5	-7.6
Autoparts and accessories	-0.2	3.9	5.4	11.7	12.5	14.9
Building materials	4.1	7.0	6.6	6.3	-0.2	-2.5
In the year						
General	1.5	2.8	3.8	4.4	4.3	9.6
Consumer goods	4.6	5.6	6.6	7.1	6.7	11.1
Durable	-1.0	-1.2	-1.7	-2.6	-4.1	-9.9
Semidurable	-18.0	-15.4	-12.8	-10.9	-11.5	-19.3
Nondurable	10.1	11.7	13.8	15.3	16.1	31.3
Automotive trade	-19.3	-17.3	-17.0	-17.1	-16.7	-7.9
Vehicle concessionaries	-22.8	-20.6	-20.3	-20.7	-20.4	-12.6
Autoparts and accessories	-3.0	-3.4	-3.3	-1.0	2.8	22.6
Building materials	-13.9	-10.9	-9.3	-7.5	-5.6	5.3

Source: Fecomercio SP

1/ Seasonally adjusted data.

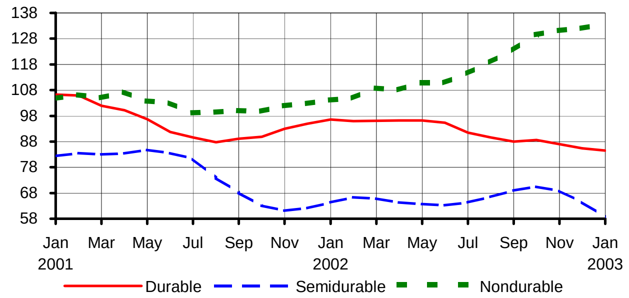
A segment-by-segment analysis shows that the general index was impacted mostly by the negative performance of operations in the automotive and building materials segments, both of which clearly mirrored the rise in interest rates and greater selectivity in granting consumer credit.

São Paulo Trade Association (ACSP) data confirmed the downturn in the activities of the retail trade sector. Notwithstanding discreet growth at the start of the year, consultations with the Credit Protection Service (SPC) and Usecheque have moved to a level below that of the second half of 2002. Viewed under the prism of the quarterly movable average, based on data from which seasonal factors have been removed, both Usecheque, which reflects sales of lower cost items with immediate payment, and SPC, which reflects installment purchases, turned in negative results as of November 2002. A comparison between daily averages in February 2003 and those of the previous year indicate a decline of 5.7% in consultations with the SPC and a rise of 0.5% in those with Usecheque, thus suggesting that consumer preferences seem to be shifting away from installment purchases to transactions involving lower unit cost items and payment in cash.

At the end of 2002 and early part of the current year, default indicators registered levels below those of the first six months of 2002.

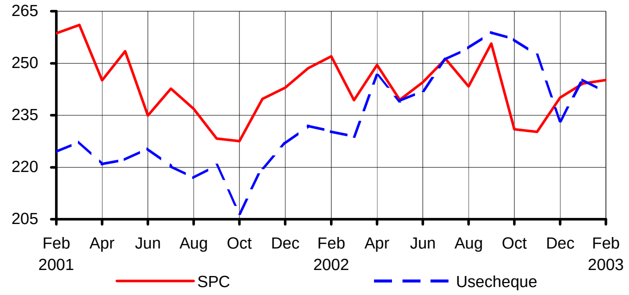
The ratio between checks returned due to insufficient backing and total checks cleared through the banking system came to 5.3% in January 2003, for an increase of 0.17 p.p. in relation to the result for the corresponding month of the previous year. A comparison with the median rates for 2001 and 2002 indicates a decline of 0.3 p.p.

Consumer goods - real sales
Seasonally adjusted data
Quarterly moving average 2000=100



Source: Fecomercio SP

Retail sales indicators
Seasonally adjusted data
1992=100



Source: ACSP

Default rate indicators

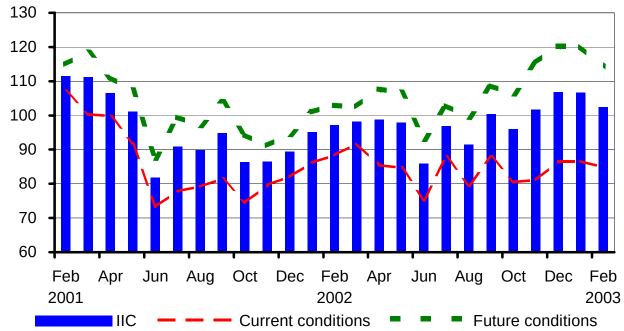
Rate

Itemization	2002					2003	
	Aug	Sep	Oct	Nov	Dec	Jan	Feb
SPC (SP)[1/]	4,7	6,7	4,4	5,7	1,9	6,2	6,8
Returned checks[2/]	4,3	4,2	4,6	4,6	4,1	5,3	...
Telecheque (RJ)[3/]	1,6	1,7	1,6	1,4	1,1	2,3	2,4
Telecheque (National)[3/ 4/]	1,7	1,7	1,9	1,5	1,2	2,5	2,3

Source: ACSP, Bacen and Teledata

1/ New registrations (-) registrations cancelled out/effected consultations (t-3).
2/ Cheques returned due to insufficient funds/cleared cheques.
3/ Returned cheques/cleared cheques.
4/ Average in the following cities: Belém, Fortaleza, Recife, Salvador, Belo Horizonte, São Paulo, Curitiba, Porto Alegre, Ribeirão Preto and Rio de Janeiro.

Consumer Intention Index (IIC)



Source: Fecomercio SP

The net rate of default in the case of the SPC, which is measured by the ACSP, registered a sharp drop in December. This movement was seasonal in nature and, in that year, was further reinforced by incorporation of FGTS disbursements effected for purposes of normalizing the system's liabilities. The average rate in 2002 came to 6.4%, compared to 7.5% in the previous year. This tendency continued into the first two months of the year, when the indicator slipped by 0.32 p.p. in relation to the average for the same period of 2002. In the same sense, using the identical basis of comparison, the national default indicator released by Teledata pointed to a drop of 0.3 p.p. to 2.4%, in average defaults in the first two months of the year.

Just as in the cases of other retail activity indicators, the Consumer Intention Index (IIC), which is released by Fecomercio SP, registered a reduction at the start of the year. In this sense, following growth of 1% in 2002, the general index turned downward in January and February by 0.1% and 3.9%, respectively. For the most part, the change in consumer optimism is a consequence of the risk of continued high inflation, according to Fecomercio SP. In February, consumer expectations tended to stabilize and this resulted in a drop of 4.9% in future intentions, which account for 60% of the composition of the general index. Current intentions dropped at a lesser pace in the first two months of 2003, with reductions of 0.1% in January and 1.9% in February.

1.2 Output and Gross Domestic Product

Industrial output

Industrial production

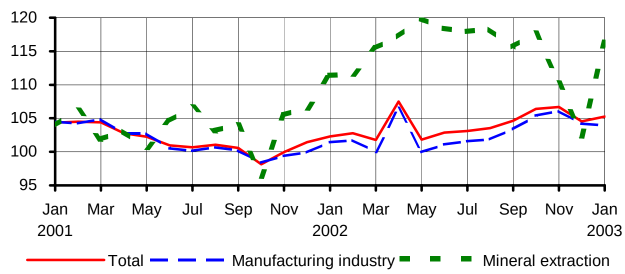
Percentage change

Itemization	2002				2003
	Sep	Oct	Nov	Dec	Jan
Industry (total)					
In the month[1/]	0.9	1.7	0.3	- 1.8	0.7
Quarter/previous quarter[1/]	- 0.3	2.2	2.6	2.0	0.6
Same month of the previous year	5.4	8.8	4.6	5.2	2.8
Accumulated in the year	1.0	1.9	2.1	2.3	2.8
Accumulated in 12 months	- 0.1	0.9	1.4	2.3	2.7
Manufacturing industry					
In the month[1/]	1.5	2.0	0.7	- 1.4	- 0.2
Quarter/previous quarter[1/]	- 0.2	2.6	3.4	2.9	1.1
Same month of the previous year	4.7	7.4	4.7	6.6	2.5
Accumulated in the year	- 0.2	0.6	0.9	1.4	2.5
Accumulated in 12 months	- 1.1	- 0.2	0.3	1.4	1.7
Mineral extraction					
In the month[1/]	- 2.7	0.8	- 6.4	- 7.0	13.7
Quarter/previous quarter[1/]	- 1.0	- 1.3	- 3.1	- 6.1	- 6.5
Same month of the previous year	11.4	22.3	4.4	- 4.0	4.2
Accumulated in the year	12.0	13.0	12.2	10.7	4.2
Accumulated in 12 months	7.6	10.3	10.9	10.7	10.4

Source: IBGE

1/ Seasonally adjusted data.

Industrial production
Seasonally adjusted data
2000=100



Source: IBGE

In 2002, IBGE's Monthly Industrial Survey (PIM) indicated 2.3% growth in the industrial sector. Output of the mining segment, which accounts for approximately 11% of the entire sector, expanded by 10.7% while expansion of manufacturing came to about 1.4%. The performance of industry was a consequence of steady output growth since June, mostly as a result of increased exports, substitution of previously imported goods and sales to the crop/ livestock sector. The segments that drew the greatest benefit were industries involved in the production of cellulose, vegetable oils, sugar, animal slaughters, fertilizers, animal feed and farm machines.

Despite expansion in 2002, industrial activity dropped by 1.8% in December – based on data purged of seasonal factors - and, consequently, interrupted the series of six consecutive positive monthly results. January 2003 growth of 0.7% suggests a loss of dynamism in the industrial sector, a trend that is ratified by analyses of sector-by-sector indicators. When one analyzes median production in the quarter ended in January, based on seasonally adjusted data, industry turned in expansion of 0.6%. This result reflects a downward trajectory, when compared to the 2% growth rate registered in the previous quarter, using the same basis of comparison.

Several aspects suggest that recent industrial results should not be interpreted as an adjustment in output levels, even though they are still quite high in terms of the historical statistical series, but rather as interruption of the expansionary trajectory

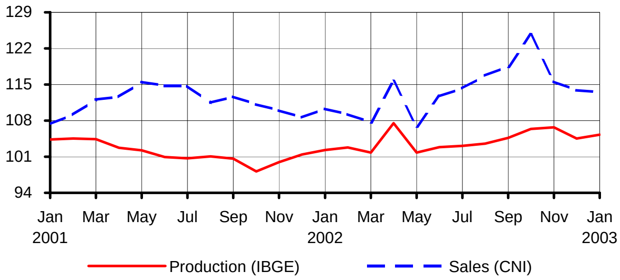
Industrial production - selected sectors

% growth in the year

Itemization	2001	2002
Farm machines	20,0	18,6
Fertilizers	-7,5	13,2
Gas and oil	4,6	0,2
Sugarcane industry	19,0	7,3
Animal feed	6,0	8,8
Celulose and pulp	0,0	10,5
Plant oils	3,9	8,3
Furniture	-1,1	0,5
Slaughtered poultry	8,2	6,8
Animal slaughtering	4,8	7,0

Source: IBGE

Industrial production and sales
Seasonally adjusted data
2000=100



Source: IBGE and CNI

Manufacturing industry stocks[1/]

Itemization	2001	2002			
	IV	I	II	III	IV
Manufacturing industry					
Final products	48.0	50.4	53.1	48.5	46.2
Raw materials and interm. goods	48.6	47.7	48.2	49.2	47.6
Large companies					
Final products	47.8	50.4	53.7	49.9	45.8
Raw materials and interm. goods	50.5	49.5	50.7	51.2	47.1
Small and medium companies					
Final products	48.2	50.3	52.8	47.7	46.4
Raw materials and interm. goods	47.5	46.7	46.9	48.1	47.9

Source: CNI

1/ Values over 50 indicate stocks above the planned level.

evident since June of last year. Among these aspects, emphasis should, in the first place, be given to the fact that negative performances were registered in practically all segments in recent months. In December, output declined in 19 of the 22 segments encompassed by the PIM. This homogeneous behavior among the various segments suggests that the factors that generated the trend shift originated in the macroeconomic scenario. Another aspect that indicates deterioration in the pace of manufacturing activities refers to the sector's sales. According to data released by the National Confederation of Industry (CNI) and purged of seasonal influences, real industrial sales dropped by 7% in November and 1.1% in December, thus interrupting the upward movement noted since the start of the second half of the year. The interest rate hike that started in October is viewed by CNI as the major determining factor underlying this movement, noting that real industrial sales in the year expanded by 1.9%.

Parallel to these factors, the recent behavior of industrial stocks points to a less favorable situation in the sector. The CNI survey indicates that, after accumulating unplanned inventories at the end of the second quarter of 2002, industries went through a period of downsizing their stock levels and, when the year came to a close, possessed the lowest inventory levels of the past three years. This adjustment movement was even more evident when viewed from the angle of final products. The behavior of stock levels reflects recent increases in inventory costs generated by higher interest rates and reveals a certain skepticism on the part of the business community with regard to short-term activity levels.

Industrial production by category of use

Percentage change

Itemization	2001	2002			2003
	Dec	Oct	Nov	Dec	Jan
In the month[1/]					
Industrial production	1.1	1.7	0.3	- 1.8	0.7
Capital goods	- 0.7	4.2	2.4	- 8.5	5.1
Intermediate goods	1.2	0.8	0.3	- 0.8	1.5
Consumer goods	0.7	2.3	- 0.1	- 1.4	- 1.8
Durable	5.5	5.4	0.5	- 1.5	- 0.4
Semi and nondurable	- 0.7	1.1	- 0.1	- 1.4	- 2.2
Quarter/previous quarter[1/]					
Industrial production	- 0.9	2.2	2.6	2.0	0.6
Capital goods	- 5.9	0.3	1.8	1.8	0.7
Intermediate goods	- 1.6	1.7	2.4	1.8	1.1
Consumer goods	1.6	3.1	2.5	1.8	- 0.4
Durable	7.2	6.1	8.2	7.3	3.6
Semi and nondurable	0.1	2.0	1.0	0.2	- 1.8
In the year					
Industrial production	1.6	1.9	2.1	2.3	2.8
Capital goods	13.5	- 1.8	- 1.2	- 1.1	2.6
Intermediate goods	- 0.1	2.4	2.7	3.0	4.9
Consumer goods	1.2	0.8	0.6	0.7	- 3.3
Durable	- 0.6	1.6	2.3	2.8	6.2
Semi and nondurable	1.6	0.6	0.2	0.2	- 5.7

Source: IBGE

1/ Seasonally adjusted data.

An analysis of industrial activity in 2002 according to use categories indicates that industrial growth was mostly powered by intermediate goods and consumer durables, with respective growth levels of 3% and 2.8% in the year. The performance of the first category is a consequence of expanded exports, since this heading encompasses goods of importance to foreign sales, such as cellulose, vegetable oils and sugar, without even mentioning petroleum. In the case of consumer durables, growth was partly a result of the depressed basis of comparison caused by the 2001 energy crisis, which had a powerful dampening impact on sales of electric-electronic goods. In the other categories, production of semi and nondurable consumer goods, which have historically fluctuated at a much more moderate pace, increased by 0.2% in the year. Output of capital goods, which are more sensitive to interest rates growth and expectations, dropped by 1.1% in 2002.

In recent months, industrial output registered an upward tendency through to November, before decelerating once again in December. This movement was even more evident in the production of capital goods, which declined by 8.5% in the month, dropping to the lowest output level of the year. In January, production of capital goods expanded by 5.1%, though this was clearly insufficient to maintain the upward curve registered since last October in terms of movable quarterly medians. Average production in the quarter ended in January increased by 0.7%, compared to the immediately previous period, and viewed against 1.8% growth in the quarter ended in December, using the same basis of comparison.

After remaining stable in November, production of semi and nondurable consumer goods declined by 1.4% in the final month of 2002 and was impacted mostly by negative performances under apparel and footwear, the food industry, pharmaceuticals and perfumes. In the month of January, this segment registered a decline of 2.2%, thus ratifying the downward trajectory. In the period extending from November 2002 to January 2003, output of semi and nondurable consumer goods dropped by 1.8% in relation to the previous quarter, based on data from which seasonal factors have been purged.

Output of intermediate goods, the heading most responsible for growth in manufacturing activity in recent months, continued expanding – albeit at a lesser pace – toward the end of 2002 and early 2003. Analysis based on deseasonalized data shows that average growth in production from last November to January, compared to the immediately previous quarter, came to 1.1%, as against 1.8% in the previous quarter, using the same basis of comparison. The reduction in the pace of activity was basically due to a December drop of 0.8%, as a consequence of negative results in the mineral extraction industry, as well as in the sectors of rubber, nonmetallic minerals and mechanics. The downturn in the mining industry was no more than a question of maintenance procedures that had to be carried out in several oil fields in the period. In January, production of intermediate goods expanded by 1.5%, based on data from which seasonal factors have been removed.

Vehicles - production and sales

Percentage change

Itemization	2002				2003
	Sep	Oct	Nov	Dec	Jan*
In the month[1/]					
Production	20.6	9.0	0.9	3.1	-1.4
Sales	11.7	12.8	-7.0	1.0	-1.0
Domestic sales	11.3	20.4	-15.5	3.6	-5.1
External sales	8.6	11.0	3.2	9.3	21.6
Quarter/previous quarter[1/]					
Production	-1.1	10.3	23.3	23.4	14.9
Sales	8.1	20.4	22.4	18.1	4.5
Domestic sales	7.7	23.8	23.7	19.5	-1.0
External sales	1.9	6.9	17.7	22.1	29.3
In the year					
Production	-9.1	-5.6	-3.9	-2.1	18.1
Sales	-6.7	-3.3	-2.6	-1.2	17.1
Domestic sales	-7.9	-3.7	-3.5	-2.9	5.3
External sales	-2.5	-1.7	0.3	5.2	87.0

Source: Anfavea

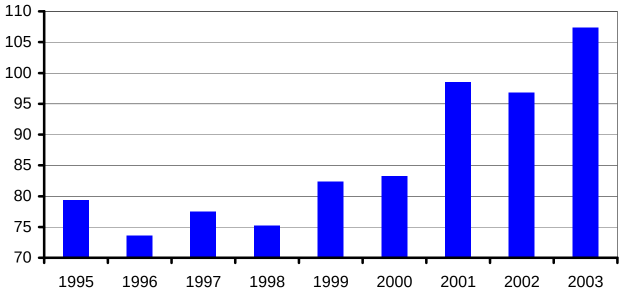
1/ Seasonally adjusted data.
* Preliminary.

The category of durable consumer goods accompanied the downturn that marked the end of 2002 and, based on deseasonalized statistical data, turned in November to January monthly growth figures that were sharply lower than in previous months. To a great extent, this behavior was due to the growth trajectory of the automobile sector and downturns in the production of furniture and electric and communications equipment.

As a matter of fact, output of the automotive industry has been impacted by the slowdown in internal vehicle sales. Viewed under the prism of data free of seasonal factors for the quarter ended in January 2003, internal sales diminished by 1%, compared to the quarter ended in October, when growth came to 19.5% on the same basis of comparison. The 1.4% cutback in production last January was a consequence of recent deterioration in financing conditions and real earnings. The outlook for 2003 is one of moderate production growth, mostly due to the upswing in sales to the external market.

Crop/livestock output

Grain production[1/]
In million of tons



Source: IBGE

Total Brazilian production of cereals, legumes and oil-bearing crops could reach as high as 107.4 million tons in 2003, 10.6% more than in 2002, according to IBGE's January 2003 Systematic Farm Production Survey (LSPA). It should be stressed that this estimate is based on simulations for winter crops – wheat, oats, rye and barley – and for the second and third harvests of peanuts, beans and corn. Since it is not yet possible to develop estimates for the output of these crops, the same production levels as achieved in the previous harvest have been attributed to them. It should be noted that, differently from previous harvests, the IBGE forecast for the year did not indicate significant alterations in relation to the Conab forecast of 107.8 million tons of grain, based on that organization's second Survey of Planting Intentions.

Harvest growth is forecast in all regions of the country, with 12% in the south; 7.1% in the central-west region; 1.7% in the southeast; 40% in the northeast; and 3.2% in the north. Output per region was estimated as follows: 48.2 million tons, 33.7 million tons, 14.4 million tons, 9 million tons and 2.7 million tons, in the same order as above. Climatic conditions in the country's major grain production centers were normal in the first two months of the year. In some areas, excess rains occurred and provoked some delays in the early soybean and corn harvests, though without any meaningful losses for producers.

With respect to the major crops, the LSPA indicates that soybean production will expand by 16,9% to 49 million tons, reflecting the positive marketing conditions that have resulted from the recent rise in the prices of this product brought about by exchange devaluation

Installed Capacity Utilization (ICU)

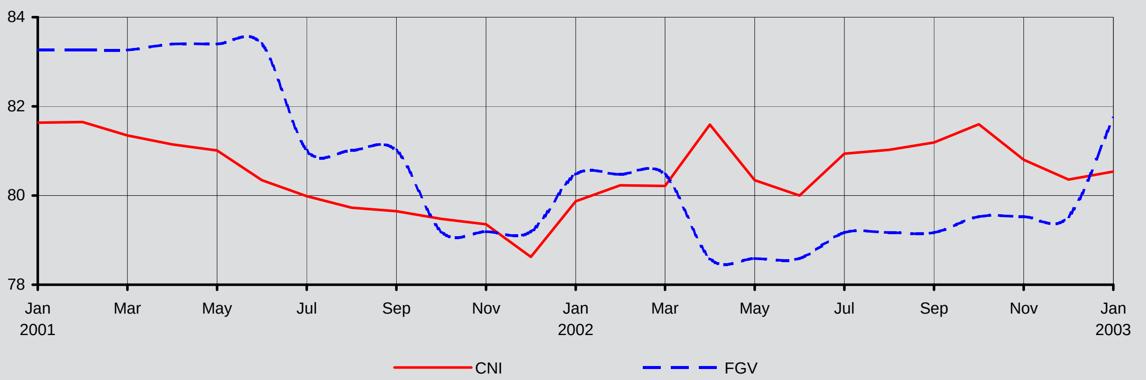
Growth in manufacturing output in 2002 and the consequent rise in the level of installed industrial capacity utilization led to some questioning as to whether this process could continue and what would be its impacts on future prices, were internal demand to gain momentum.

The fact of the matter is that, despite the uncertainties of the electoral process, industrial output expanded by 2.3% in 2002, with steady growth in the period extending from May to November. However, performance was highly differentiated from one sector to another. Mining turned in strong 10.7% growth, basically due to an increase of 12.4% in petroleum and natural gas extraction, while manufacturing expanded by 1.4%, mostly as a result of increased exports of manufactured goods, substitution of imported products and sales to the crop/livestock sector.

When industry is viewed as a whole, growth in activity seems to have had little impact on ICU. CNI data covering thirteen industrial federations registered ICU growth of just 0.4% in 2002, about the same level as registered by the State of São Paulo manufacturing sector, according to a survey issued by the Federation of Industries of the State of São Paulo (Fiesp). At the end of 2002, the utilization level in São Paulo came to 78.2%, compared to 76.4% in December 2001.

National data released by the Getulio Vargas Foundation confirm the very discrete impact of growth in industrial output on the level of installed capacity utilization (ICU). For the manufacturing sector as a whole, the ICU level came to 80.8% in January 2003, compared to 79.5% in the same month of the previous year and 82.1% in January 2001, when the industrial sector registered record output levels.

Utilization of installed capacity
Seasonally adjusted data
Average percentage



In general, these data indicate that, given current circumstances, there is little probability of future pressures on internal prices caused by demand growth *vis-à-vis* current ICU.

A breakdown of this information into different industrial segments shows that there are few sectors in which the ICU level has the potential to hamper production growth. Among the 21 manufacturing industry segments included in the FGV survey, at the end of 2002 only five had attained levels close to the record set in 1990 – metallurgy, chemicals, paper and cardboard, food industry and textiles – and, among these, only three surpassed the mark of 90%. The other sectors have relatively high levels of idle capacity.

Utilization of installed capacity

Level

Itemization	Maximum level since 1990	2002 Apr	2002 Jul	2002 Oct	2003 Jan
Manufacturing industry	86.0	79.1	79.0	80.1	80.8
By segment					
Nonmetallic minerals	88.0	84.7	79.3	79.3	82.2
Metallurgy	93.0	84.8	89.3	90.1	90.6
Mechanics	85.5	78.2	82.1	81.3	82.7
Electric and communications eq.	84.0	65.9	60.2	60.0	63.8
Transportation equipment	92.0	72.9	69.8	74.9	76.8
Wood	93.0	84.1	79.8	84.8	82.8
Furniture	87.0	76.3	74.4	78.8	74.5
Paper and cardboard	95.0	93.5	91.6	93.4	94.3
Rubber	95.0	90.9	90.1	90.6	83.9
Leather and hides	89.5	79.2	79.6	79.3	79.8
Chemicals	91.0	81.9	84.3	85.3	84.9
Pharmaceuticals	87.0	67.6	71.3	66.8	57.0
Perfumes, soaps and candles	93.0	78.8	65.8	74.8	72.2
Plastics	88.0	82.4	81.8	82.6	83.6
Textiles	91.2	87.4	80.0	85.7	91.2
Clothing, footwear	88.4	81.5	84.4	86.6	85.3
Food products	84.0	77.9	83.4	79.3	76.2
Beverages	90.0	70.3	66.0	68.7	71.6
Tobacco	98.0	74.0	69.4	52.1	56.8
Editorial	91.0	74.8	74.4	73.9	79.4
Others	88.7	80.6	78.8	88.7	83.1

Source: FGV

1/ A complement of 100 represents the average level of idleness.

However, one should stress that the few sectors with high levels of installed capacity utilization turned in strong growth in exports last year, with the exception of the textile industry. At the same time, they accounted for an important share of the 1.4% growth registered by the manufacturing sector in 2002 – jointly accounting for 1.2 p.p. of this result.

Exports - by segment

Percentage change

Itemization	1999	2000	2001	2002
Nonmetallic minerals	21.4	24.0	-6.8	16.3
Metallurgy	10.3	3.9	-5.0	19.3
Non-ferrous metallurgy	16.1	3.0	-12.3	19.5
Other metallurgical products	-2.1	14.9	15.2	17.1
Pulp, paper and cardboard	10.5	-3.5	9.7	4.7
Chemical elements	12.6	0.0	-2.6	36.7
Oil and petrochemical refined products	3.1	18.9	19.3	4.1
Other chemicals	-8.9	12.1	8.2	9.1
Improvement of vegetable products	-13.8	7.2	8.8	1.4
Animal slaughter	36.6	18.1	50.8	29.5
Sugarcane	43.6	-46.4	72.5	21.2
Vegetable oils	3.7	-15.4	25.6	12.0
Other food products	27.9	46.1	19.2	2.0

Source: Funcex

The segment of metallurgy turned in growth of 3.3% in 2002 production, as ICU came to 90.6% in 2003, the highest level since April 2001 (91%). Median utilization of installed capacity in this segment in the 90s came to 84.5% and has remained above that level since then. The sector of paper and cardboard (growth of 2% in 2002) normally operates with a low level of idle capacity. The ICU came to 94.3% in January 2003, compared to average utilization of 88.5% in the 90s and 93.2% since the start of 2000. In the chemical sector, which registered growth of 1.4% in 2002, the utilization level closed at 84.9% in January 2003. As of January 2000, the average came to 84.7%, compared to 84.2% in the 90s. The food product industry expanded by 4.2% in 2002, as ICU closed at 76.2% in January 2003, or practically identical to the average for the 90s (76.3%) and below the average for the decade that began in 2000 (80.6%). Finally, growth in installed capacity utilization of the textile industry, which came to 91.2% at the end of 2002 despite downward movement of 0.8% in the production of this sector in 2002, suggests exhaustion of the productive capacity of the segment. In the 90s, this level closed at 82.6%, moving to 87.3% in the period initiated in 2000.

Output growth and reductions in idle capacity stimulate spending on investments aimed at expanding the nation’s production structure. According to the survey carried out regularly by the Banco Central do Brasil Economic Department (Depec), industrial companies scheduled to receive foreign direct investments intend to investment something in the range of US$5 billion in the period from 2003 to 2005. Of this total, 57% are targeted to the automotive sector, while more than 30% are to be channeled into sectors that have registered more accentuated ICU growth, 17.7% will go to basic metallurgy, 8.3% to chemical products and 6.1% to paper and cellulose.

Investments for the period 2003-2005

Sector	Amount US$ million	Participation %
Automotive industry	2 847	57.0
Metallurgy	884	17.7
Chemical products	417	8.3
Paper and pulp	307	6.1
Textiles	20	0.4
Others	523	10.5
Total	4 998	100.0

Based on the information analyzed, one can conclude that:

a) in general, future pressures on internal prices originating in demand growth *vis-à-vis* current ICU levels are quite improbable, since the vast majority of industrial sectors face no output restrictions caused by a lack of productive capacity;

b) future growth in industrial output, particularly for export purposes as occurred last year, will demand investments in the productive capacity of the sectors in question. Sector-by-sector information on investment intentions in coming years indicates that measures are already being taken to achieve this objective.

Agricultural production

In 1,000 tons

Itemization	Production 2002	Production 2003[1/]	Percentage change
Cotton (seed)	2 160	2 234	3.4
Rice (in husk)	10 472	10 538	0.6
Beans - 1st harvest	1 624	1 886	16.1
Corn - 1st harvest	29 298	32 050	9.4
Soybean	42 020	49 112	16.9
White potatoes - 1st harvest	1 424	2 367	66.2
Sugar cane	367 496	380 764	3.6
Onion	1 167	1 095	-6.2
Manioc roots	22 990	22 080	-4.0

Source: IBGE

in 2002. All of the states are expected to register increased output in 2003, with forecast growth of 39% in Bahia, 12% in Paraná, 38% in Rio Grande do Sul and 11% in Mato Grosso do Sul and 12% in Mato Grosso and Goiás. Forecasts for the three major soybean production states indicate output of 13 million tons in Mato Grosso, 10.6 million in Paraná and 7.7 million in Rio Grande do Sul.

Initial estimates of the first corn harvest indicate 32 million tons, or 9.4% more than last year. This growth will occur at a very opportune moment, since shortages of the product had been hampering internal supply and negatively impacting such segments as poultry and pig farming, since corn is an essential input for these activities. For the most part, the result is a consequence of a sharp 7.5% increase in productivity, since the area planted for the first harvest expanded by 1.74% and average national production increased to a level of 3,443 kg/ha.

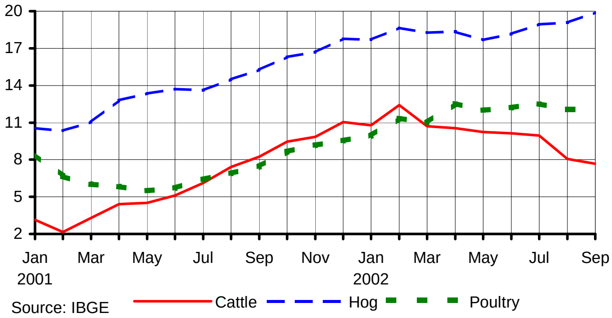
Rice production is expected to close the year with 10.5 million tons, for growth of 0.6%. In Rio Grande do Sul, which concentrates about half of national output, production is estimated at 5.4 million tons, while Mato Grosso and Maranhão, which are also important producer states, should contribute respective totals of 1.1 million tons, for a reduction of 12.2%, and 703 thousand tons, reflecting growth of 11.7%.

With regard to the first bean harvest, production estimates for 2003 point to an increase of 16.1% in relation to 2002, reflecting the relatively high price levels of recent months. In terms of the major producer states, production growth is expected to reach respective levels of 72%, 5.8%, 0.84% and 8.5%, in Bahia, Minas Gerais, Paraná and Santa Catarina.

Production of herbaceous cotton in seed is estimated at 2.2 million tons or 3.4% more than in 2002. For the most part, growth is due to significant increases in the area planted (8.6%) and in productivity (26%), in the State of Bahia.

Livestock

Livestock production
Total weight
Percentage change in 12 months



Source: IBGE

Livestock production turned in positive results in all of its various segments. Basically, this result was generated by increased foreign sales.

In the third quarter of 2002, total cattle slaughtered increased by 5% in relation to the same period of the previous year, closing at a level of 5 million animals and total carcass weight increased by 4.3%. Considering the result accumulated up to the third quarter of the year, 14.3 million head of cattle were slaughtered, for growth of 5.4% in relation to the number registered in the corresponding period of 2001.

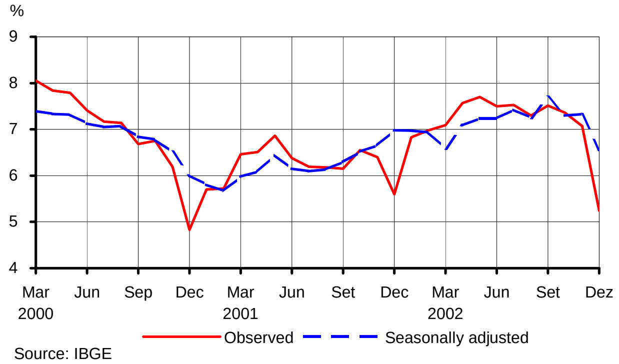
With regard to pig farming, growth in the number of slaughters came to 23.2% in the third quarter of the year, with a total of 4 million animals. The sharp increase in slaughters in the third quarter of 2002 was partly a consequence of growth in production costs, coupled with the corn supply squeeze. Up to September, the sector registered 14.9 million slaughters, for growth of 4.7% over the same period of 2001.

Insofar as poultry production is concerned, the number of units slaughtered and total carcass weight increased by 10.9% in the third quarter of 2002, when compared to the same quarter of the previous year. Just as in the case of pig farming, this segment of activity was impacted by high production costs, mostly due to the feed price high caused by the shortfall in the corn supply and exchange rate depreciation, which also had a direct impact on the cost of this input.

1.3 Labor market

Employment

Unemployment rate



Source: IBGE

According to IBGE and Ministry of Labor and Employment (MTE) figures, the employment level declined in the final two months of 2002. Based on a comparison with the 2001 results, the year was marked by job growth that was lower than the expansion of the overall labor force. The evident result of this was upward movement in the jobless rate. In the São Paulo industrial sector, layoffs were greater than hirings at the end of the year, thus continuing the behavior that characterized the labor market in 2002. In the opposite direction, however, CNI figures indicate that industrial employment increased in the states of the south, northeast and Minas Gerais.

Various methodological alterations were introduced into IBGE's Monthly Employment Survey (PME) in 2002. Data calculated according to the former methodology were released up to December 2002. In this concept, unemployment registered a rate of 5.2% in the final month of the year. This was the lowest rate for December since 1998 and followed October and November figures of 7.4% and 7.1%, respectively. It should be stressed however, that the sharp reduction that occurred in December was mostly due to cutbacks in the active labor force equivalent to 338 thousand people, at the same time in which the number of persons employed increased by 34 thousand. The average 2002 jobless rate came to 7.14%, compared to 6.23% in 2001 and 6.18%, based on the average for the last ten years.

On a sector-by-sector basis, manufacturing turned in a decline of 83 thousand job positions in the final quarter of 2002. Though the results have varied sharply, the sectors of services and construction also registered negative balances in the period, with losses of 15.5 thousand and 2 thousand. Only the sector of commerce turned in a positive performance, as witnessed by creation of 31 thousand new jobs. In comparison to 2001, employment in the service sector increased in every month and totaled 362 thousand openings in the year, while the construction industry lost jobs at a steady pace, closing with an overall total of 71 thousand in the year. In both the manufacturing industry and commerce, annual performance was positive, though it decreased in the final month of the year.

Occupied people by activity and by categories of employment

% accumulated growth in year

Itemization	2002				
	Aug	Sep	Oct	Nov	Dec
Total of occupied people	2.6	2.7	2.7	2.7	2.6
By activity					
Manufacturing industry	1.3	1.4	1.4	1.4	1.3
Building	-6.2	-6.3	-6.0	-6.4	-6.4
Commerce	3.6	3.5	3.5	3.3	2.9
Services	3.5	3.6	3.8	3.9	3.9
By categories of employment					
Registered	2.8	2.8	2.9	3.1	2.9
Nonregistered	5.1	5.1	5.1	4.8	4.5
Self-employed	-0.2	0.0	0.2	0.0	0.0
Employer	0.0	0.1	0.3	0.5	1.1

Source: IBGE

An analysis at the level of employment categories shows an across-the-board increase in employment levels. With respect to registered and unregistered workers, these two headings absorbed 105 thousand and 93 thousand positions, respectively, during the course of the year. In comparison to the corresponding periods of the previous year, these results were achieved as a consequence of steady month-to-month expansion. The other categories alternated periods of positive growth and declines in available job positions, resulting in creation of 49 thousand and 32 thousand new jobs for employers and the self-employed during the course of the year, respectively. In the final quarter of 2002, growth in the employment level followed a highly differentiated tendency, as both registered and unregistered workers turned in declines (0.2% and 2.3%, respectively) and employers and the self-employed managed to generate increases of 1.3% and 0.9%.

Growth in formal employment

New job openings (1,000 employees)

Itemization	2002				2003
	Oct	Nov	Dec	In the year	Jan
Total	36,4	-11,8	-249,5	762,4	35,5
Manufacturing industry	16,7	-11,2	-65,6	161,2	26,6
Commerce	37,5	58,3	5,7	283,3	-2,8
Services	21,0	9,7	-57,4	285,8	11,5
Building	-1,6	-11,2	-43,9	-29,4	-5,7
Public utilities	0,3	-0,4	-0,3	5,3	1,0
Others[1/]	-37,6	-57,0	-88,0	56,3	4,9

Source: Ministry of Labor and Employment

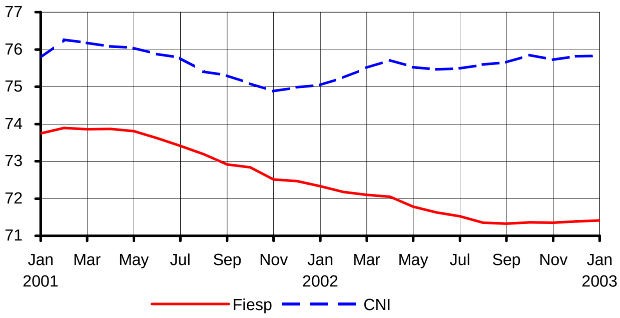
1/ Includes mineral extraction, public administration, crop and livestock and others.

The result announced by the MTE for formal employment in 2002 maintained the growth trend evident since mid-1999. The number of new employment positions, which had surpassed the mark of one million by October, dropped back to 762 thousand at the end of the year, mostly as a result of seasonal factors in the final two months of the year. Growth in formal employment in the year closed at 3.2%, registering the sharpest annual expansion since 1985. The sectors that opened the largest number of positions in 2002 were services and commerce, with 286 thousand and 283 thousand new vacancies, respectively. Manufacturing contributed 161 thousand, while the construction industry eliminated 29 thousand employment positions. At the start of the year, the pace of job creation cooled in comparison to the two previous years, as the number of jobs created in January totaled 36 thousand compared to 44 thousand and 49 thousand in the same month of 2002 and 2001.

Industrial employment

Seasonally adjusted data

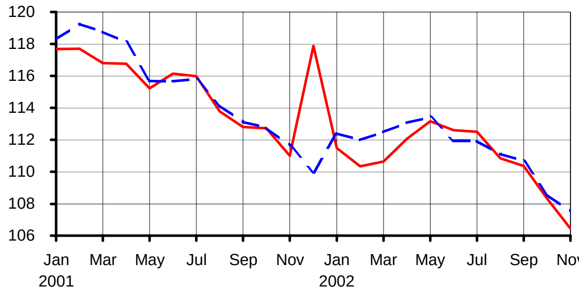
1992=100



With regard to surveys of industrial employment, the weekly Fiesp survey at the level of 47 employer associations in the State of São Paulo, points to the fact that layoffs surpassed hirings in practically all months of the year, as the number of job positions lost in 2002 surpassed the mark of 69 thousand. January 2003 was characterized by stability in São Paulo industrial employment when compared to December and a reduction of 4% over the course of the last twelve months. Performance in the São Paulo metropolitan region was quite similar to that described above.

The twelve state CNI survey pointed to a decline of 0.1% in the industrial employment level, caused by downward movement in the first half of the year and recovery in the second half. Among the states covered by the survey, one should note a reduction in São Paulo and Rio de Janeiro industrial employment, a result that was offset by net hirings in Minas Gerais and the states of the south of the country.

Real average earnings
1993=100



Source: IBGE

Earnings

Following slight recovery in the middle of the first half of the year, real average earnings registered a contractive trajectory up to the end of the year. Median earnings, deflated by the National Consumer Price Index (INPC) registered a 3.8% loss of buying power up to November 2002, thus maintaining the trend evident in the last four years. In 2002, the sharpest losses in real earnings were concentrated at the end of the year and coincided with the inflation spike that occurred in the same period. In the months of October and November alone, the loss came to 1.7%. A breakdown by employment categories indicates that the real earnings of employers dropped by 6.7% up to November, while those of registered and unregistered workers fell by respective levels of 4.2% and 0.5%, and the wages of the unemployed dropped by 4.4%. Among the various sectors of activity, the largest losses occurred in the earnings of workers in the sector of commerce, with 7.9%, and construction, with 6.4%, both of which are areas of activity that are less demanding in terms of skill levels. When these results are analyzed in terms of the metropolitan regions included in the survey, the most accentuated wage level reduction was registered in Porto Alegre, as median wages in that region dropped from the ranking of highest in the country to second position behind Rio de Janeiro.

Overall real wages and average real earnings

Percentage change

Itemization	2001	2002		
		Sep	Oct	Nov
In the period[1/]				
Average real earnings	-3.8	-0.4	-1.9	-1.0
By activity				
Manufacturing industry	-5.1	-1.0	-3.6	2.2
Building	-5.2	-0.6	-2.2	7.3
Commerce	-5.7	0.7	-6.2	11.9
Services	-3.4	0.1	-1.3	2.5
By categories of employment				
Registered	-4.8	-1.2	-2.2	-2.2
Nonregistered	-2.1	-1.5	-1.6	-2.1
Self-employed	-1.4	-1.2	-0.6	-0.9
Employer	-2.6	6.2	-2.9	2.4
Overall real wages	-3.2	-2.0	2.6	0.6
In the year				
Average real earnings	-3.8	-3.7	-3.7	-3.8
By activity				
Manufacturing industry	-5.1	-2.4	-2.7	-2.5
Building	-5.2	-8.0	-7.6	-6.4
Commerce	-5.7	-9.0	-9.1	-7.9
Services	-3.4	-4.1	-4.1	-3.7
By categories of employment				
Registered	-4.8	-3.9	-4.1	-4.2
Nonregistered	-2.1	0.1	-0.2	-0.5
Self-employed	-1.4	-4.4	-4.3	-4.4
Employer	-2.6	-7.9	-7.4	-6.7
Overall real wages	-3.2	-3.6	-2.0	-1.7

Source: IBGE

1/ Seasonally adjusted data (refers to the previous period).

Real wages in the manufacturing industry

% accumulated growth in year

Itemization	2001	2002			2003
		Out	Nov	Dez	Jan
CNI					
Overall real wages	3.2	-0.3	-0.3	-0.6	-4.7
Fiesp					
Overall real wages	6.4	3.4	3.4	3.2	-1.1
Average real wages	6.1	6.1	6.0	5.7	0.1

Source: CNI and Fiesp

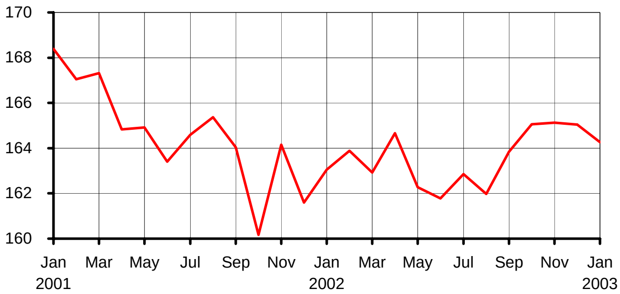
In the industrial sector, growth in earnings turned in a highly differentiated performance from one state to the next. In this sense, according to Fiesp, real wages in the São Paulo manufacturing sector, deflated by the IPC-Fipe, remained on an upward trajectory in the final months of the year, registering growth of 0.4% in the fourth quarter, compared to the previous quarter, and 5.7% in the year. January 2003 registered a reduction of 2% in this indicator, closing at the same level as January of the preceding year. The increase in earnings in 2002 produced a rise of 3.2% in overall real wages in the year, compared to 6.1% in 2001.

An analysis of salaries paid in the industrial segments of the twelve states covered by the CNI survey points to a drop of 0.6% in the buying power of industrial workers during the course of the year, using the INPC as deflator. The largest losses occurred in Rio de Janeiro (7.7%) and Pernambuco (3.9%). The States of Bahia and Goiás registered the strongest gains, with 9% and 6.8%, respectively.

Productivity

Seasonally adjusted data

1992=100

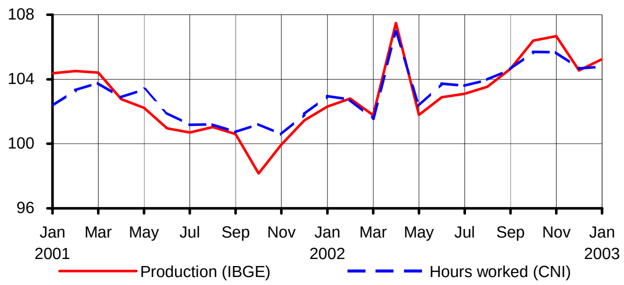


Source: IBGE, CNI and Banco Central do Brasil

Manufacturing industry - production and number of hours worked

Seasonally adjusted data

2000=100

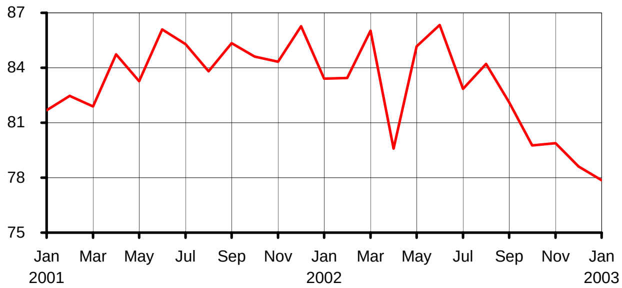


Unit Cost of Labor and Productivity

Calculated on the basis of the ratio between the physical production index, as announced by IBGE, and the indicator of hours paid in production, calculated by the CNI, productivity in the manufacturing industry declined by 0.7% in 2002. This result was quite similar to that of the previous year, when the decline closed at 0.5%. Once seasonal factors have been eliminated, analysis of the series points to steady growth as of August, with a productivity increase of 1.3% in the final quarter of the year when viewed against the immediately previous quarter. In the month of January, this movement was halted and the indicator dropped by 0.5%.

Looking at the ten states covered by the survey, one notes reductions in industrial productivity in seven, led by Ceará, with a drop of 15.6%, and Paraná, with 12.8%. São Paulo registered a situation of stability and Rio de Janeiro and Espírito Santo closed with respective growth levels of 10.6% and 9.6%.

Unit Labor Cost
Seasonally adjusted data
1992=100

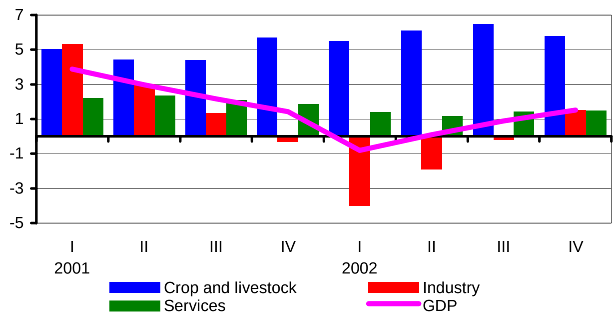


Source: IBGE, CNI and Banco Central do Brasil

In the nominal concept, the Unit Cost of Labor (UCL) in the industrial sector, calculated as the ratio between wages paid, as announced by CNI, and the nominal production of the sector, registered a reduction of 5.2% in 2002. To some extent, this result reflected the downturn that occurred in the final months of the year and, particularly, in December (2.7%). In the real concept, which is based on wages deflated by the INPC, and the physical production, the indicator for the year closed with a drop of 1.9%. When compared to December, the January indicator registered a downturn of 2.5% and 1% in the nominal and real concept, respectively.

1.4 GDP

Gross Domestic Product
% growth accumulated in the year



Source: IBGE

In 2002, GDP registered growth of 1.5%, basically as a result of the performance of the foreign trade sector, as exports expanded by 8.6% and imports slipped by 12.2%. The direct impact of foreign trade on GDP accounted for growth of 2.8%. In the opposite sense, the reduction in internal demand was characterized by declines of 4.1% in gross fixed capital formation and 0.7% in household consumption, with adverse impacts on the 2002 GDP result. Government consumption increased by 1%.

On a sector-by-sector basis, the crop/livestock sector turned in the strongest growth, with 5.8% in the year. On the demand side, this result is explained by the positive performance of foreign sales while, on the supply side, the productivity of both crops and livestock

Gross Domestic Product

Itemization	2001 IV	2002 I	II	III	IV
					Percentage change
Accumulated in the year	1.42	-0.80	0.10	0.90	1.52
Accumulated in four quarters	1.42	0.26	-0.01	0.49	1.52
Quarter/same quarter of the previous year	-0.76	-0.80	0.97	2.46	3.44
Quarter/previous quarter seasonally adjusted	-0.13	0.91	0.83	0.92	0.72

Source: IBGE

Gross Domestic Product

Percentage change in the year

Itemization	2000	2001	2002 I H	III Q	Year
Crop and livestock	2,1	5,7	6,11	6,46	5,79
Industry	4,8	-0,3	-1,90	-0,23	1,52
Mineral extraction	10,4	3,9	12,99	12,24	10,39
Manufacturing	5,5	1,0	-0,81	0,39	1,93
Construction	2,6	-2,6	-7,42	-5,25	-2,52
Public utilities	4,2	-5,6	-6,71	-1,74	1,53
Services	3,8	1,9	1,18	1,43	1,49
Commerce	4,5	1,5	-0,97	-0,05	0,16
Transportation	3,1	5,2	0,55	-0,14	-0,92
Communications	15,6	9,9	7,40	7,21	7,40
Financial institutions	4,1	0,3	0,30	1,59	2,19
Other services	5,6	1,3	0,68	0,65	1,03
Rents	2,6	2,1	1,76	1,89	1,67
Public administration	1,5	0,8	1,36	1,42	1,34
Financial dummy	4,2	1,3	-1,04	0,76	1,94
Value added at basic prices	4,0	1,4	0,56	1,27	1,84
Taxes on products	7,3	1,8	-3,57	-2,05	-0,98
GDP at market prices	4,4	1,4	0,10	0,90	1,52

Source: IBGE

Gross Domestic Product

Quarter/previous quarter seasonally adjusted

Itemization	2001 IV	2002 I	II	III	IV
GDP at maket prices	-0.13	0.91	0.83	0.92	0.72
Crop and livestock	4.35	2.12	0.40	0.64	0.33
Industry	-1.56	1.34	1.80	1.69	1.94
Services	0.42	0.61	0.16	0.71	0.20

Source: IBGE

increased sharply. Industry expanded by 1.5%, as a consequence of 10.4% growth in mineral extraction, due mostly to 12.2% expansion in petroleum production, according to figures released by the ANP. Construction was the only industrial subsector to register a negative result, with 2.5%. It should be stressed that the performance of the building industry has been lower than general industry since 1999, mostly as a result of downward movement in overall real wages and inadequate financing conditions. The sector of services increased by 1.5% in 2002, with a particularly strong performance under the subsector of communications, which registered growth of 7.4%. Commerce turned in relatively modest results, with growth of 0.2%, while transportation ended with a decline of 0.9%, due partly to lesser imports.

In the final quarter of the year, GDP expanded by 0.7% when compared to the previous period, based on deseasonalized data. This result was achieved notwithstanding the overall decline in the pace of activity in the final month of the year, as revealed by sectoral indicators. Growth occurred in all sectors, with a particularly strong performance under industry (1.9%). The rate for the final quarter of 2002 dropped slightly but still managed to preserve the upward trajectory evident in the other quarters of the year.

For 2003, it is estimated that GDP growth will close at 2.2%. This percentage is lower than stated in the most recent Inflation Report (2.8%), issued in December 2002, basically as a consequence of deterioration in the determinants of internal demand, particularly credit conditions and expectations. The latter item, obviously, has been powerfully impacted by uncertainties on the international scenario.

Gross Domestic Product

Percentage change in the year

Itemization	Weight	2002	2003 1/
Crop and livestock	8,4	5,79	6,0
Industry	37,6	1,52	2,1
Mineral extraction	2,9	10,39	9,5
Manufacturing	22,6	1,93	1,5
Construction	8,5	-2,52	0,8
Public utilities	3,6	1,53	2,7
Services	59,1	1,49	1,8
Commerce	7,5	0,16	2,0
Transportation	2,7	-0,92	2,1
Communications	3,0	7,40	3,5
Financial institutions	6,6	2,19	2,2
Other services	11,2	1,03	1,6
Rents	12,0	1,67	1,7
Public administration	16,3	1,34	1,4
Financial dummy	-5,1	1,94	2,2
Value added at basic prices	100,0	1,84	2,2
Taxes on products	12,7	-0,98	1,7
GDP at market prices	112,7	1,52	2,2

Source: IBGE

1/ Banco Central do Brasil estimates.

Gross Domestic Product

% growth accumulated in the year

Year	Value added at basic prices	Taxes on products	Imports
1997	2,9	6,0	17,8
1998	0,3	-1,3	-0,3
1999	1,1	-2,2	-15,5
2000	4,0	7,3	11,6
2001	1,4	1,8	1,2
2002	1,8	-1,0	-12,8

Source: IBGE

The segments most sensitive to these impacts are manufacturing, construction, commerce and transportation. On the other hand, crop/livestock output, mineral extraction and the subsectors of rental services and government are not overly affected by changes in internal demand.

In the case of manufacturing, growth in 2003 is estimated at 1.5%, despite the recent loss of dynamism in the sector. Evidently, this result will be driven mostly by export operations. Growth in the construction industry is projected at 0.8%.

Growth in commerce and transportation, as well as in the volume of taxes levied on products, are highly dependent on the behavior of imports. Thus, given the reversal of the trajectory of imports forecast for this year, these operations are expected to register considerable improvement in 2003.

The low level of influence of internal demand on crop/livestock and mineral production is a direct consequence of the inherent possibilities of these sectors, since they can either opt to export their production or substitute imports. With the favorable exchange rates that have marked recent months, the production of these sectors has been limited basically by technical factors. It should be stressed that the IBGE survey forecasts growth of more than 10% in grain production in 2003, while sectoral indicators point to steady growth in mineral extraction during the year, mostly involving petroleum.

In the sector of rentals, it should be clarified that national accounts consider that every property generates rent for its owner, including the property in which the person lives. Thus, growth in rental services depends on changes in the real estate stock, which has followed a positive and relatively stable trajectory over the course of the years.

1.5 Investments

According to Quarterly National Accounts, as announced by the IBGE, investments dropped by 4.1% in 2002 – excluding stock variations. This performance had already been highlighted by monthly indicators of gross fixed capital formation, which pointed to reductions over the course of the year in the activities of the building industry (2.8%), production of capital goods (1.05%) and imports of machines and equipment (18.1%).

Investment indicators

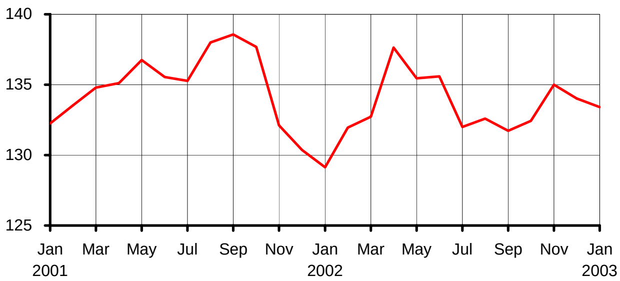
% accumulated growth in the year

Itemization	2001	2002				2003
		I Q	II Q	III Q	Year	Jan
Capital goods						
Absorption[1/]	18,7	-7,7	-5,7	-4,4	-7,1	-7,2
Production	13,5	-1,8	-0,9	-2,2	-1,1	2,6
Imports	16,0	-19,1	-19,0	-12,5	-18,1	-40,3
Exports	-13,7	-7,7	-15,5	-13,7	-5,9	-40,4
Inputs for the building industry	-2,3	-8,7	-7,3	-5,4	-2,8	3,0
BNDES financing	9,4	17,8	25,7	45,4	48,4	0,1

Source: IBGE, Funcex and BNDES

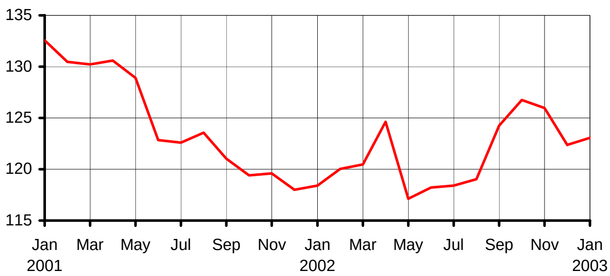
1/ Capital goods production + imports - exports.

Capital goods production
Seasonally adjusted data
Quarterly moving average



Source: IBGE

Production of construction inputs
Seasonally adjusted data
1992=100



Source: IBGE

According to IBGE, significant investment recovery was registered in the final quarter of 2002, with growth of 4.2% in gross fixed capital formation in relation to the fourth quarter of 2001 and 2.2% when calculated on the basis of deseasonalized figures, compared to the previous quarter. This movement was due to the positive performance of the construction industry which, still according to IBGE, registered growth of 6.2% in relation to the final quarter of 2001. Using figures purged of seasonal influences, IBGE data on production of construction inputs pointed to expansion of 3.9% in relation to the third quarter of 2001. Investments in machines and equipment did not register the same performance in the fourth quarter of the year. Imports fell by 34.9%, in relation to the same quarter of 2001, while exports expanded by 19.4% and output of capital goods grew by 2.8%, always using the same basis of comparison.

Despite the growth registered in the final quarter of 2002, it should be stressed that indicators of gross capital formation point to a strong downturn in investment outlays toward the end of 2002 and early part of the current year. Based on deseasonalized statistical data, production of construction industry inputs registered a falloff of 2.8% in December, thus interrupting a series of five consecutive months of positive results. In January 2003, the indicator expanded by 0.6%, compared to December 2002. Imports of machines and equipment showed a downward trajectory over the course of 2002, dropping by 23.4% in December, before recovering in the following month, with expansion of 16.7% based, once again, on data free of seasonal factors. In the opposite sense, exports of these goods expanded by 18.2% in December and dropped by 27.7% in January. Finally, in contrast to the growth registered in the two previous months, output of capital goods in December turned sharply downward (8.5%), a movement that was partially neutralized by growth of 5.1% in January based on figures purged of seasonal impacts. In this context, absorption of machines and equipment dropped by 7.1% in 2002 and 7.2% in 2003, up to January.

Production of capital goods

Percentage change

Itemization	2001	2002			2003
	Dec	Oct	Nov	Dec	Jan
Quarter/previous quarter[1/]					
Capital goods	-5.9	0.3	1.8	1.8	0.7
Industrial	-12.2	5.0	10.0	11.6	11.5
Serial	-15.3	5.9	12.9	14.8	15.8
Nonserial	3.0	-0.1	0.0	1.5	-3.4
Agricultural	12.6	24.7	16.9	2.9	-13.4
Farm parts	-5.8	4.5	7.1	2.1	0.5
Building	-9.2	-11.8	-11.4	-8.7	-4.5
Electric energy	-15.5	-27.0	-18.5	-3.9	9.0
Transportation	2.2	1.8	3.1	6.5	11.8
Mixed	-7.8	-1.4	-1.0	-1.8	-5.1
In the year					
Capital goods	13.5	-1.8	-1.2	-1.1	2.6
Industrial	4.1	1.8	3.2	5.1	18.5
Serial	3.5	-2.3	-0.4	1.9	26.7
Nonserial	6.6	20.8	20.1	19.5	-6.7
Agricultural	20.0	20.1	20.2	18.6	3.8
Farm parts	3.4	-0.2	0.0	0.3	3.5
Building	18.3	0.3	0.2	0.0	-18.2
Electric energy	42.6	-25.7	-26.8	-27.0	-25.2
Transportation	12.2	6.6	7.1	8.1	17.4
Mixed	2.8	-2.5	-1.0	-0.9	-2.3

Source: IBGE

1/ Seasonally adjusted data.

A breakdown of capital goods production figures in 2002 indicates growth in the output of farm machines and equipment, with 18.6% in the year, transportation equipment, with 8.1%, and industrial machines and equipment, with 5.1%. The increase in the production of farm machines and equipment has followed the pattern of recent years and accompanied the production trend in the crop/livestock sector. Insofar as production of equipment for electricity output is concerned, there has been a drop of 27% in the period. This is explained evidently by a falloff in the investment cycle provoked by the energy supply crisis that encouraged companies to invest heavily in the development of their own sources of electricity generation in 2001.

Disbursements made by the BNDES System – National Bank of Economic and Social Development, Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – came to a total of R$37.4 billion in 2002, reflecting a nominal increase of 48.4% and real growth of 30.7% in relation to 2001, deflated by the General Price Index – Internal

BNDES disbursement[1/]

Itemization	2001	2002			2003
		Oct	Nov	Dec	Jan
Total	25 217	29 004	32 305	37 419	1 804
Manufacturing industry	12 760	13 962	15 418	17 178	1 236
Commerce and services	9 298	11 358	13 106	15 482	400
Crop and livestock	2 762	3 475	3 561	4 509	154
Extraction industry	396	208	219	250	14

Accumulated in the year (in R$ million)

Source: IBGE

1/ Includes BNDES, Finame and BNDESpar.

Supply (IGP-DI). In January 2003, disbursements came to R$1.8 billion or 0.1% more than in January 2002.

A breakdown by sectors of activity indicates that financing granted to the manufacturing sector registered real growth of 18.6% and that channeled to commerce and service and the crop/livestock sector turned in respective growth figures of 46.7% and 43.8%. Insofar as the mineral extraction industry is concerned, financing dropped by 44.4%, mostly as a result of the high reference base used in the comparison, since financing targeted to this sector in 2001 had increased by a full 228%.

The Long-Term Interest Rate (TJLP), which is the basic cost measurement of BNDES System financing, remained practically stable over all of 2002, moving from 10% per year in the first quarter of 2002 to 9.5% per year in the second quarter, returning to the 10% per year level in the third and fourth quarters of 2002.

1.6 Conclusion

The activity level remained on a growth trajectory in the final quarter of 2002, following the tendency evident since the start of the year, as demonstrated by quarterly national accounts results. The main support of this behavior has been the growing trade balance surpluses, particularly in the final six months of the year.

Despite this performance, sectoral indicators for December 2002 and early part of the current year showed a decline in the pace of economic activity, while the foreign trade sector continued producing positive results. These data suggest that the level of internal demand, which had dropped in 2002 as a result of negative growth under both consumption and private investment, took an even steeper plunge in the period under consideration. Among the factors that contributed to this behavior, one should highlight the loss of purchasing power, mostly as a result of the inflation spike registered in the final quarter of last year, the upswing in interest rates, principally as of October, and persistent uncertainties on the international scenario, as tensions have worsened in the Middle East with very intense impacts on internal expectations.

Even though these have been the factors of greatest importance to the overall economic scenario, two aspects should be underlined that, aside from the positive trade balance results, have tended to attenuate the overall impact. Analysis of the primary sector outlook for 2003, particularly as regards the grain harvest, indicates maintenance of a high level growth trajectory and, at the same time, upward movement in the employment level and continued FGTS disbursements in 2003, even though the latter factors tend to be concentrated in the segments with higher earnings levels and, therefore, relatively lesser propensity to consume.

2 – Prices

Inflation tended downward toward the end of 2002 and in early 2003, though growth in the major price indices remains relatively high. The underlying reason for this has been a continued passthrough of the effects of exchange depreciation in the second half of the year and, to a lesser extent, a component of inertial inflation.

Consumer prices and exchange rate

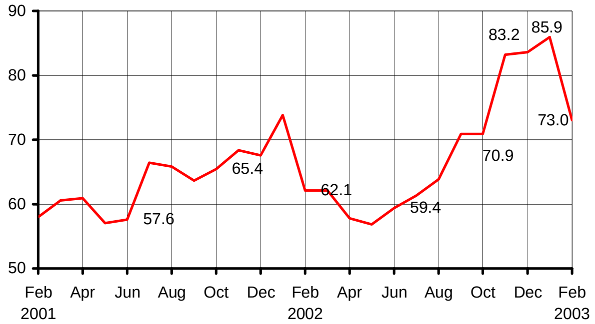
Percentage growth

Itemization	Weight	2002					2003		
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	In 12 months
IPCA	100.0	0.7	0.7	1.3	3.0	2.1	2.3	1.6	15.9
Exchange group	14.6	2.7	2.3	3.0	4.1	3.1	1.4	0.7	20.6
Selected items									
Medicine	4.2	0.2	-0.4	-0.1	0.5	5.9	2.3	0.1	10.7
Bread	1.7	9.7	2.7	6.4	7.2	1.3	-0.2	0.7	38.6
Soy bean oil	0.5	7.5	14.2	10.5	8.5	5.4	2.7	-0.8	77.6
Tv set	0.7	1.0	3.2	3.0	4.6	3.8	2.2	1.0	21.6
Freezer	0.1	0.2	0.7	3.2	2.3	2.4	1.8	1.8	9.1

Source: IBGE and Bacen

IPCA items

% of items with an increase



Source: IBGE

In this sense, though on a downward course, inflation in the month of December reflected relatively high growth under those subitems most heavily impacted by the rate of exchange, such as electric-electronic home appliances, wheat and soybean derivatives and pharmaceutical products[1]. In that and the following month, the inertial movement was evident in the expanded number of items that registered upward price movement in the period. Aside from these pressures, emphasis should be given to sharp growth under outlays on food, principally as a result of higher prices for semimanufactured and industrialized goods, both of which exerted considerable pressure in the final month of the year.

In early 2003, three factors should be highlighted in analyzing inflation indices. The first two are seasonal and involve outlays on education and higher prices for *in natura* foodstuffs. Aside from

1/ Change in the group of products affected by the exchange rate. The weight of the exchange rate in the Broad Consumer Price Index (IPCA) closed at 14.6% reached a level of 20.6% in the last 12 months ending in February and 18.4% in the last 6 months.

this, mention should be made of the impact of increases in monitored prices on the results of the first two months, principally as regards fuels, electricity and urban bus fares.

2.1 General price indices

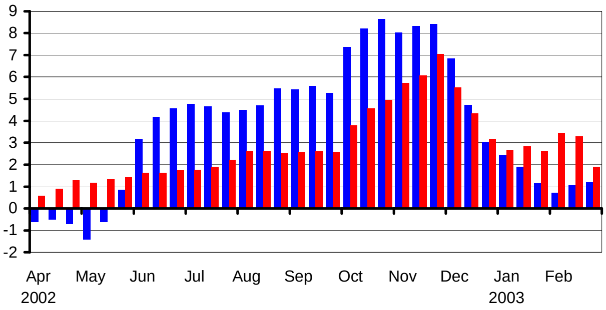
General indices

monthly % change

Itemization	2002									2003	
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
IGP - DI	0.7	1.1	1.7	2.1	2.4	2.2	4.2	5.8	2.7	2.2	1.6
IPA	0.8	1.3	2.5	2.8	3.3	3.3	6.0	7.5	3.1	2.2	1.7
IPC	0.7	0.3	0.6	1.0	0.8	0.6	1.1	3.1	1.9	2.3	1.4
INCC	0.3	2.5	0.6	0.3	1.0	0.6	1.1	2.5	1.7	1.5	1.4

Source: FGV

Evolution of IPA (10, M and DI) - agriculture and industrial



Source: FGV

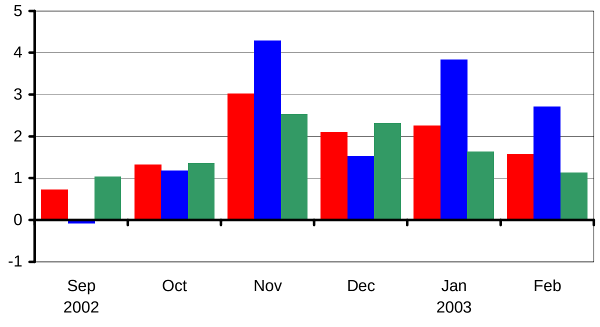
Growth in the general price indices calculated by the Getulio Vargas Foundation in the December-February quarter declined. This has been due mostly to the behavior of wholesale prices, which have slipped sharply in the period as a consequence of both industrial and, particularly, farm prices. Monthly expansion in wholesale crop/livestock prices, which had reached 8.7% in October 2002, turned downward once again and hit 1.2% in February 2003. This movement reflected the start of the harvest period, as forecasts point to significant output growth and favorable meteorological conditions.

Industrial prices turned in a similar performance, with downward movement from 7.1% per month in November to 3.2% in December, 2.6% in January 2003 and 1.9% in February. This deceleration reflected growth in the rate of exchange and the influence of the downward slide in the prices of primary sector products. It should be noted that the drop in the rates of wholesale industrial prices in the early part of the year would have been even more intense were it not for the increases in fuel prices that occurred at the end of December.

2.2 Consumer price indices

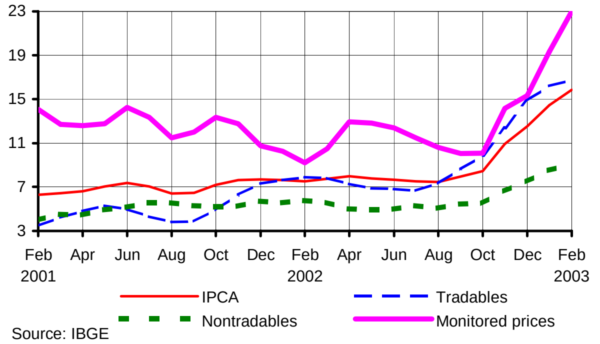
Broad National Consumer Price Index (IPCA)

Evolution of the IPCA
Monthly % change



Source: IBGE

IPCA - itemized groups
12 month % change



Source: IBGE

Monthly growth in the IPCA had pointed to downward movement since November 2002, despite a spike in January caused by increases in government monitored prices in the month. When one analyzes market prices, this movement continued throughout the period. The drop in inflation as measured by the IBGE index moved from 3% in November to 1.6% in February of this year, basically as a result of decreases from 5.9% to 1.2% in food prices, the grouping that had the greatest participation in the composition of the index in the period. The passthrough impact of upward movement in exchange rates together with the start of the farm harvest period avoided greater increases in the prices of industrialized food products (sugar and derivatives, bakery products and oils and fats) and semimanufactured goods (grains and meats).

Despite the recent downturn in inflation, one should underscore the fact that rates are still quite high. Even when one analyzes market prices, this behavior has basically reflected those segments that are more sensitive to exchange and, therefore, more resistant to reductions.

With the December result, the IPCA turned in growth of 12.5% in the year, mostly reflecting 52.3% exchange depreciation and a 15.3% rise in the prices of monitored goods and services, which were also impacted by government monitored prices. The following product groupings have registered price growth above the index median: food (19.5%), particularly common table bread (37.2%), rice (36.7%), “carioca” beans (61.7%), refined sugar (66.3%) and soybean oil (73.1%); housing (13%), which encompasses electricity (19.9%) and bottled gas (48.3%); and household articles (13%), particularly electric-electronic apparatuses (13.6%) and furniture and utensils (12.9%). It should be noted that, aside from the supply shocks generated by the farm sector, it should be noted that prices have reflected exchange rate evolution, particularly in the third and fourth quarters.

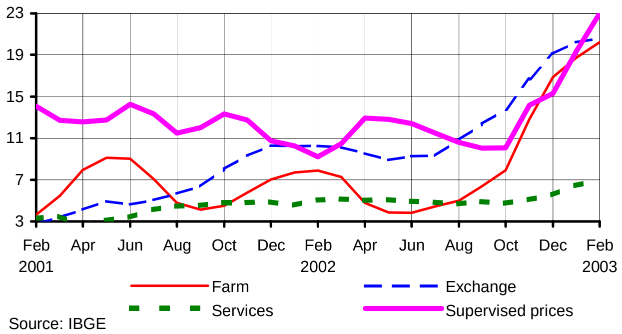
In the month of January, the behavior of monitored prices has been the major determinant of the IPCA rate. The prices of gasoline, diesel oil and bottled gas and electric power were adjusted in Rio de Janeiro at the end of December, and urban bus fares were increased in six of the eleven regions surveyed by the index in early January. Parallel to monitored prices, the increases of 7.4% and 2.3% in the prices of *in natura* and medicine products brought significant pressure to bear on the IPCA in the month of January.

The February reduction in the rate of inflation was caused by lesser highs under both monitored prices (2.7% compared to 3.8% in January) and outlays on foodstuffs (1.2% as against 2.2% in January). Above all else, the grouping of food products was impacted by lesser increases under the prices of cereals and legumes, oils and fats and beef and chicken meat. The contributions of these factors were more significant than the increase of 6.5% in monthly school payments, as perceived by the IPCA in the month under analysis.

2.3 Government monitored prices

IPCA - itemized groups

12 month % change



Source: IBGE

In 2002, government monitored prices accounted for approximately 32% of the change in the IPCA, which was equivalent to about 3.98 p.p. in the 12.5% growth registered by the index in the year. The items that exerted the greatest pressures on inflation in the period were gasoline (12.1%), fixed telephone rates (11.9%), urban bus fares (12%), electricity (19.9%), alcohol (31.5%), bottled gas (48.3%) and airline travel tickets (54.7%).

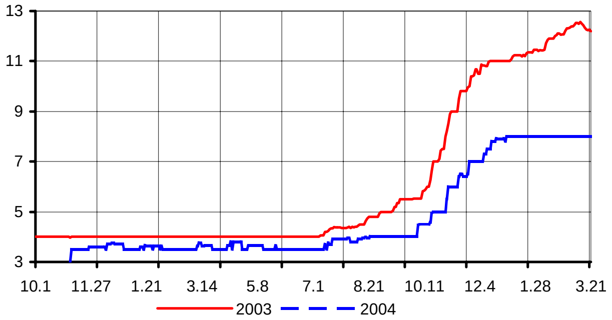
In the quarter extending from December to February, market and government monitored prices included in the IPCA turned in growth of 5.2% and 8.3%, respectively. The change in government monitored prices accounted for 2.3 p.p. of the IPCA for the quarter (6%), registering sharp growth in the prices of several items that have relatively high weight in the composition of the index.

In this context, the price of bottled gas, which had risen by 22.8% on November 5 and impacted IPCA rates in the following two months, increased once again by 7.7% on December 29, while the prices of gasoline and diesel oil grew by 12.8% and 11.3%, respectively, all at the refinery level. It should be stated that, in the period between these two increases, international prices for gasoline and bottled gas also rose, by respective rates of 15.6% and 19%.

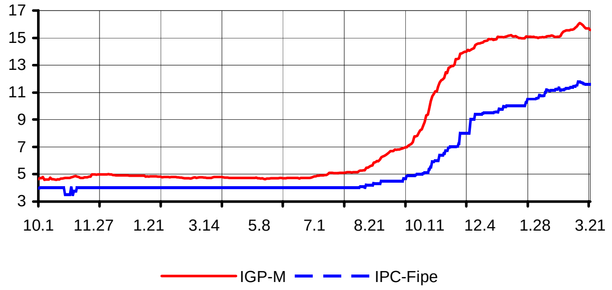
Electric power rates in Rio de Janeiro shot upward by 28.6% in the quarter. Urban bus fares increased in Porto Alegre (16%); Recife (16.7%); Belo Horizonte (13%); São Paulo (21.4%); Fortaleza (16.7%); Salvador (18.2%); and Brasília (31.6%), raising accumulated growth in the index to 14.2% in the quarter. Parallel to this, other increases of importance in the quarter were registered under alcohol and intercity bus fares, with 22% and 12.5%, respectively.

2.4 Market expectations

Daily evolution of market expectations for inflation (IPCA) (median)



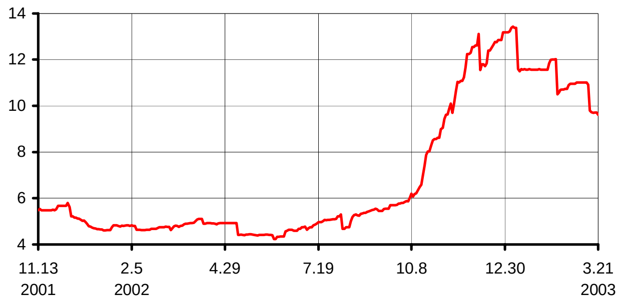
Daily evolution of market expectations for inflation for 2003 (median)



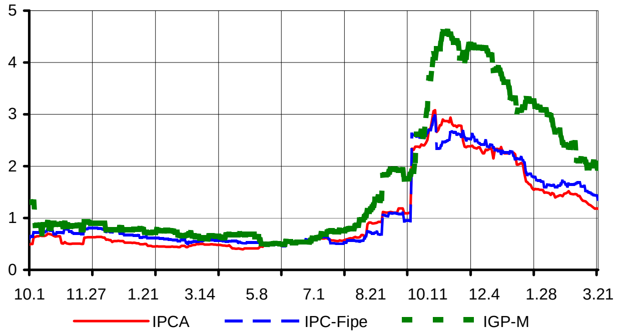
The Banco Central do Brasil Investor Relations Executive Management Staff (Gerin) carries out daily surveys of approximately seventy consulting companies and financial institutions with the objective of getting a read on market expectations of the major economic variables.

As measured by the IPCA, median inflation expectations for 2003 increased from 11% on December 20, 2002, to 12.19% on March 21, 2003. For 2004, expectations moved from 7.9% to 8% between the two dates cited. With respect to the median short-term expectations of the top five forecasting entities, projections moved from 11.1% to 11.65% for 2003 and from 8.5% to 8.8% for 2004.

Daily evolution of the market expectations for the IPCA accumulated over the next 12 months (median)



Standard deviation of market expectations for inflation for 2003



Insofar as the General Price Index – Market (IGP-M) is concerned, median expectations for 2003 moved from 14.9% on December 20, 2002 to 15.85% on March 21, 2003. For 2004, the survey pointed to an increase from 8.46% to 8.7%. Expectations for the IPC-Fipe for 2003 increased from 9.54% on December 20, 2002, to 11.61% on March 21, 2003. For 2004, expectations point to an increase from 6% to 7%, for the same time span.

Analysis of the median of expectations of the accumulated inflation rate for the next twelve months, according to IPCA growth, indicated an increase of 12.74% in December 20, compared to 9.62% in March 21.

The median short-term expectations of the top five increased from 14.23% to 14.93% for the IGP-M in 2003, and diminished from 9% to 6.5% for 2004.

The standard deviations of the price indices expected for 2003, which stood at 2.27% for the IPCA, 3.67% for the IGP-M and 2.28% for the IPC-Fipe on December 20, 2002, dropped to respective levels of 1.18%, 1.87% and 1.35% on March 21, 2003. The standard deviations for 2004 also dropped on the same dates, as follows: IPCA, from 2.56% to 1.62%; IGP-M, from 3.84% to 2.4% and IPC-Fipe, from 2.5% to 1.56%.

2.5 Conclusion

Among the factors underlying the behavior of inflation in recent months, mention should be made of exchange pressures, the impact of government monitored prices, the effect of the farm harvest and inertial movement.

With respect to the positive contribution of the farm harvest, the real effects of this factor have not yet been greatly significant.

Influenced to some extent by exchange and recent rates of inflation, the prices of industrialized products have not slowed. For seasonal reasons, the prices of *in natura* products have performed in about the same manner. Thus, farm production has tended to act as a factor that dampens inflation instead of stimulating it.

The impact of government monitored prices is expected to decline in March. For coming months, the behavior of this group will mostly be determined by fuel prices, reflecting the pressures generated by movement in the international prices of petroleum and derivatives.

Currently, the inertial component of prices has tended to lose momentum, as demonstrated in the result of February price indices – reduction of the participation of the number of items with positive growth – due basically to deceleration in the level of inflation and, above all, the recent loss of dynamism in the pace of economic activity as a whole.

3 – Credit, monetary and fiscal policies

3.1 Credit

Growth in credit operations

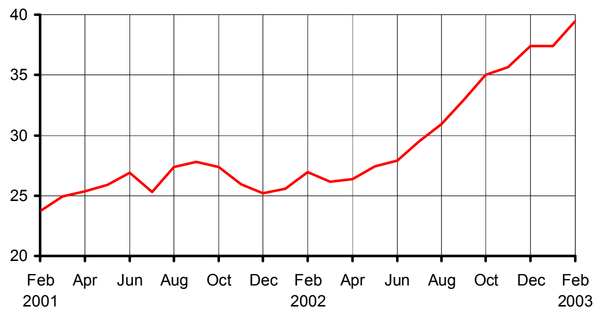
R$ billion

Itemization	2002 Nov	2002 Dec	2003 Jan	2003 Feb	Growth 3 months	Growth 12 months
Total	375.9	378.3	378.0	380.3	1.2	13.7
Nonearmarked	213.9	213.1	213.7	215.3	0.7	8.9
Legal entities	136.7	136.7	135.7	136.4	-0.3	9.0
Ref. to exchange	59.6	57.5	57.1	57.1	-4.2	2.2
Individuals	77.2	76.3	78.0	78.9	2.3	8.7
Earmarked	139.4	142.4	141.7	142.2	2.0	21.9
Housing	21.5	21.6	21.7	21.8	1.4	2.2
Rural	32.8	34.7	34.8	35.3	7.8	29.1
BNDES	83.3	84.7	85.0	84.7	1.7	26.6
Others	1.7	1.4	0.2	0.3	-84.3	-70.7
Leasing	9.8	9.5	9.2	8.9	-8.8	-15.5
Public sector	12.8	13.4	13.4	13.9	9.2	46.4
% participation:						
Total/ GDP	24.4	24.0	23.8	23.9		
Nonearm./GDP	13.9	13.5	13.4	13.6		
Earmarked/GDP	9.0	9.0	8.9	8.9		

BNDES disbursements

Accumulated in 12 months

R$ billion



The balance of financial system credit operations registered moderate growth in the December-February quarter and was consistent with the pace of economic activity and the exchange rate and inflationary repercussions generated principally by the uncertainties of the international scenario. In this framework, financial institutions have adopted a more selective approach in granting credits and companies and households have shifted into a rather cautious stance in assuming new debts.

Basically, growth in credit has been generated mostly by public financial institutions, particularly the BNDES, as is evident in the fact that stocks of private sector credit operations have remained at the same level as the previous quarter. Thus, the balance of financial system credit operations, including leasing, added up to R$380.3 billion in February, with growth of 1.2% in the quarter and 13.7% in twelve months. As a result, the participation of loans in GDP closed at 23.9%, as against 24.4% in November.

The volume of credit operations based on earmarked resources totaled R$142.2 billion, with growth of 2% in the quarter. Basically, this behavior reflected increased contracting of financing for farm sector current expenditures and investments. Part of this demand – it should be emphasized – was met through the use of BNDES resources.

The credit portfolio of this development agency totaled R$84.7 billion, for expansion of 1.7% in the period, while disbursements came to R$8.6 billion from December to February, compared to R$5.2 billion in the same period of the previous year. Particular mention should be made of releases to projects in the areas of energy and farming and allocation of R$2.4 billion to the export sector, particularly involving manufactured goods.

In sectoral terms, the flow of BNDES resources to the manufacturing sector accounted for 48.1% of total releases in the quarter. In terms of priorities, these resources were focused on the automotive and aviation industries. Financing channeled to services, including commerce, corresponded to 43.4% of the total and was targeted principally into activities related to energy distribution and transportation.

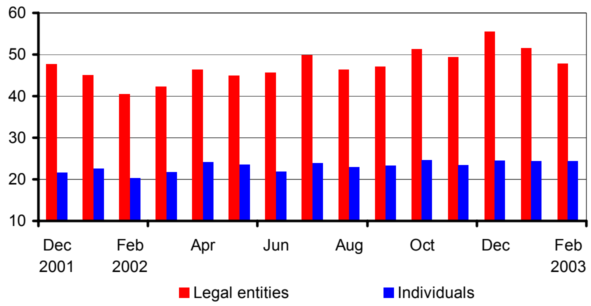
Consultations with BNDES, which reflect medium and long-term investment intentions, totaled R$7.9 billion in the quarter extending from December 2002 to February 2003 and were concentrated mostly in the sectors of electricity, rural activities and food. In the corresponding period of the previous year, the flow of consultations added up to R$13 billion, principally as a result of investment demand in the electricity generation sector.

Credits granted to the rural sector by the financial system came to R$35.3 billion in February. It should be noted that the 7.8% quarterly growth registered under this heading was a consequence of releases of resources for acquisitions of machines and equipment and to cover current expenditures of the 2002/2003 harvest. In the same time frame, credits targeted to the housing sector expanded by 1.4% and closed at R$21.8 billion.

In February, the balance of leasing operations totaled R$8.9 billion, for a drop of 8.8% in the quarter. This result reflected a loss of competitiveness when compared to the financing available for purchasing goods and the credit lines available through Finame/

BNDES. With this, the number of contracts moved from 470.6 thousand in November 2002 to 434.8 thousand in February 2003. The public sector banking debt closed at R$13.9 billion, for growth of 9.2% in the period.

Credits with nonearmarked resources - total grantings in the month
R$ billion



The volume of credits granted with nonearmarked resources totaled R$215.3 billion in February, with growth of 0.7% in the quarter. The participation of these operations in the total financial system stock declined slightly and came to 56.6%, as against 56.8% in the previous period.

The balance of operations with legal entities diminished by 0.3% in the quarter and closed at R$136.4 billion. To some extent, performance reflected the evolution of portfolios referenced to foreign exchange, which declined by 4.2% in the period, and closed at R$57.1 billion. This reduction can be attributed to continued settlements of external onlending operations and the accounting effect of exchange valuation in the period.

In median quarterly terms, operations tied to exchange turned in growth of 9.9%, mostly as a result of Advances on Exchange Contracts (ACC) operations. Median contracting of these operations increased by 6.7%, mainly as a result of greater financial system access to external credit lines, as well as to the good performance of the export sector in the period.

With regard to the modalities tied to internal resources, the volume came to R$79.2 billion, for growth of 2.8% in the quarter. Growth in the stock of these operations, however, was by no means uniform over the course of the quarter. It should be noted that growth was most expressive in December as businesses decided to postpone their credit operations to that month in order to meet the needs of end-of-year sales. Normally, this spike in credit demand is concentrated in the period extending from September to November.

In the quarter in question, disbursements with internal resources expanded by 3.9%, compared to the previous quarter's volume. The trajectory of credits granted monthly was quite similar to that of the volume of these portfolios, as December closed with a level higher than in any other month of the year. Emphasis should be given to the result of working capital operations, with growth of 5.7% in the balance and 6.7% in the average value of credits granted. Aside from the evident seasonal factors, this line of credit also stands as an alternative capable of substituting external credits.

The stock of credits targeted to individual persons came to R$78.9 billion, for quarterly growth of 2.3%, compared to 3.4% in the same quarter of the previous year. These operations certainly reflect a sense of wariness at the household level with respect to indebtedness, in a context of declining real income and rising interest. The falloff in credits granted to individuals was also a consequence of releases of R$1.9 billion in FGTS resources in December and January since these funds have been mostly used to reduce the debt levels.

One should also add that seasonal factors have impacted loans, particularly payment of the Christmas bonus and the fact that financial commitments involving taxes and education expenditures are concentrated for the most part in the early months of the year. As a result of these factors, the balance of operations with individual persons declined over the course of the year, before turning upward in the early months of 2003. Credits granted in the quarter increased by 2.6%, compared to the result of the previous period. Credits released through credit card operations expanded by 19%.

Sectoral distribution and credit quality

Credit operations with the private sector totaled R$366.4 billion in February and remained stable through the quarter. To a great extent, this performance can be explained in seasonal terms by rural sector operations and, at the same time, by the seasonal drop in demand on the part of commerce and industry in the early months of the year.

Loans granted by the public financial system evolved by 4.3%. In this case, the most important were those based on earmarked resources, contracted at lesser cost. In the opposite sense, operations carried out by private financial institutions declined by 0.7%, despite increases in the loans contracted by the farm sector and by individual persons as a result of the seasonal characteristics of the period.

Insofar as credits granted to the rural sector – including agribusiness – are concerned, the total came to R$35.3 billion for growth of 7.8% in the quarter. Releases of resources under the terms of the Program of Modernization of the Tractor Fleet and Associated Implements and Harvesters (Moderfrota) deserve mention in the period, as do disbursements to cover livestock current expenditures and the 2002/2003 summer harvest.

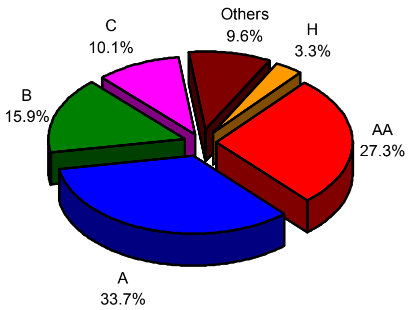
With respect to allocation of rural credits, 38.4% of total financing was targeted to current expenditure operations and 53.5% to investments. In the latter case, these funds referred to BNDES disbursements and came to a total of R$1.1 billion in the quarter. Marketing credits dropped to 8.1%, compared to 10.2% in November 2002, considering that demand intensified in the second quarter of the year.

The stock of loans granted to the industrial sector came to R$116.8 billion, for growth of 0.4% in the same quarter. Disbursements were concentrated in investments in the sector of paper and pulp and the export sector.

Credits contracted by the sector of commerce came to R$39.2 billion, for a reduction of 2.5% in the period. This result can be ascribed to settlement of contracts formalized to meet end-of-year demand, particularly in the segments of supermarkets and automobile retailers and notions shops, as well as the segment of chemical product wholesalers. The volume of loans contracted by the service sector closed the quarter with a reduction of 0.2% and a total of R$68.1 billion.

The volume of housing financing operations granted to individuals and housing cooperatives added up to R$24.2 billion, approximately the same level as registered in the previous period. The housing portfolios of public banks registered a balance of R$15.8 billion and growth of 1.6%, mostly as a result of the availability of credit lines through the Worker Support Fund (FAT) and the FGTS. In the case of private banks, their investments in this activity declined by 2% and originate mostly in savings account funds.

Credit operations in the financial system by levels of risk - Feb 2003



Total credits targeted to the public sector came to R$13.9 billion. The 9.2% growth registered in the quarter was a consequence of expansion of 13.1% in state and municipal government debts, which came to a February total of R$9.7 billion, mostly as a result of operations earmarked to receivables from state energy companies, under the terms of Law 10,438, dated 4.26.2002. Credits contracted at the federal level totaled R$4.2 billion and increased by 1.2% in the quarter.

With respect to the financial system credit portfolio profile, operations classified as normal risk (from AA to C) totaled R$331.2 billion in February, accounting for 87.1% of the total. Loans registered under risk level 1 (from D to G) added up to R$36.4 billion, while those included in risk level 2 (H) came to a level of R$12.7 billion, corresponding to respective shares of 9.6% and 3.3%. In November, the corresponding figures were 87.5%, 9% and 3.5%, in the same order.

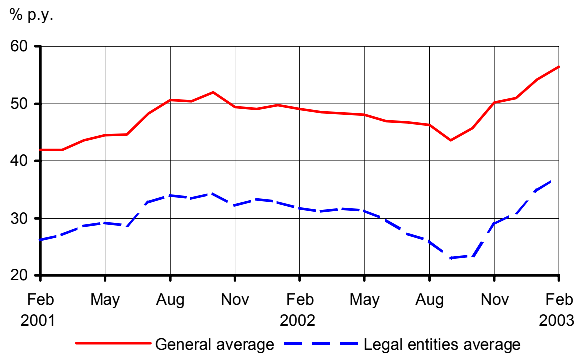
With respect to the private financial system credit portfolio, total operations came to R$232.7 billion in February, for a reduction of 0.7% in the quarter. The classification by risk level indicated that 66.3% of the credit assets of this segment were concentrated under AA and A and 3% under level H, compared to 66.4% and 3.1%, respectively, in November of the previous year.

The asset portfolio of the public financial system totaled R$147.6 billion, for growth of 4.3% in the quarter. In the classification according to risk levels, 52.6% of the segment's credits were registered under levels AA and A and 3.9% under level H, compared to 48.6% and 4% in November, respectively. It should be noted that the reduction in the amount classified under risk level H, which requires total provisioning, was mostly a consequence of write-offs of individual and housing credit operations.

The value of the provisions set aside by the financial system came to R$27.6 billion in February, reflecting an increase of 5.7% in the quarter, clearly reflecting the more conservative approach adopted by these institutions. Participation of these provisions in relation to total credits moved to 7.3%, with 8.6% in the public financial system and 6.4% in the private system.

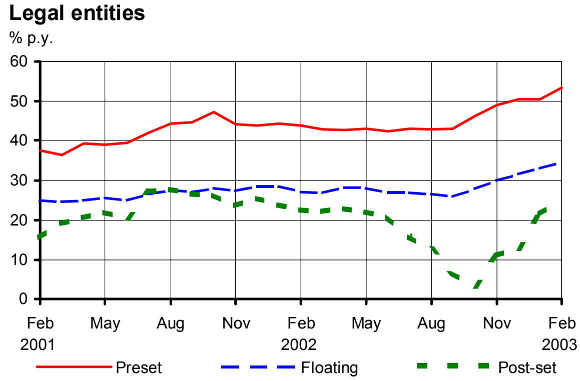
Interest rates on credit operations involving nonearmarked resources

Interest rates of credit operations with nonearmarked resources



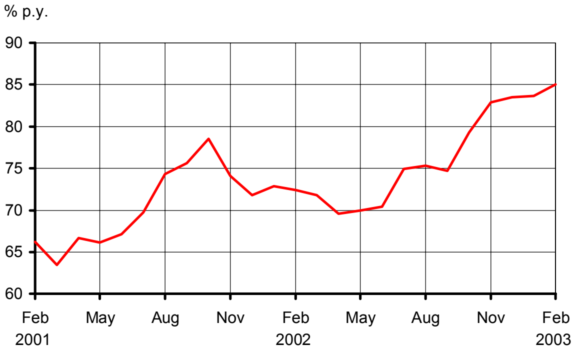
The median rate of interest on credit operations with nonearmarked resources registered growth of 6.3 p.p. in the last three months, closing at a level of 56.5% per year in February. The increases of 4.5 p.p. in the Selic rate target and 15 p.p. in the compulsory reserve and reserve requirement rates on demand deposits, and the reversal in expectations of exchange appreciation in the coming months, were the factors mostly responsible for growth in the period. When one considers only preset operations, the average rate increased by 3.1 p.p., reaching a level of 72.7% per year, the highest since September 1999 when it closed at 73% per year.

Interest rates of credit operations - Legal entities



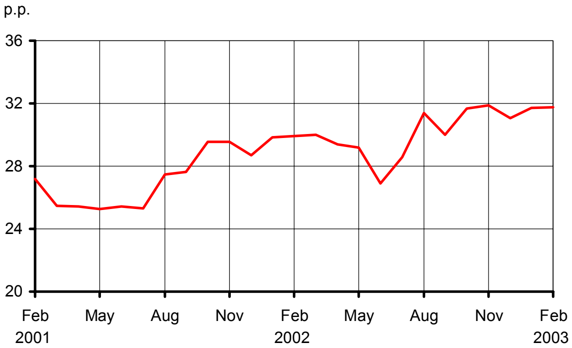
In the segment of legal entities, the median rate of interest came to 37.4% per year, 8.4 p.p. above the November level. The increase to a level above the general average was due to the participation of preset operations referenced to exchange, the projected rate of which increased by 14 p.p. in the period. The outlook for exchange valuation in November was reversed, principally in the month of January, as a result of a possible decline in the flow of investments to emerging markets should war break out in the Middle East. Preset rates were impacted by the cost of internal funding operations, which registered growth of 4.3 p.p. in the period, while floating rates referenced to Interbank Certificates of Deposit (CDI) increased by 4.5 p.p.

Interest rates of credit operations at preset rates - Individuals



The average rate of loans to individuals contracted mostly at preset interest came to 85% per year in February, 2.1 p.p. above the November rate. Among the different modalities of operations in this segment, rates on special overdraft checks registered the sharpest increase (12.2 p.p.), followed by personal credit (5.6 p.p.). These operations are especially sensitive to situational factors since they do not have real guaranties. As a result, the risk of default is considered higher.

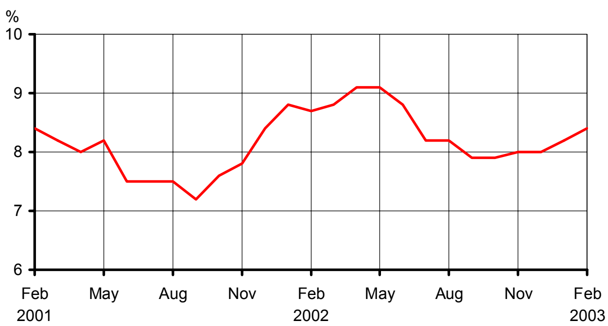
Spread of credit operations with nonearmarked funds - Market average



In February, the banking spread on credit operations with nonearmarked resources came to 31.8 p.p., or 0.1 p.p. below the November level. Despite the rise in lending rates in the period, the costs of short-term funding operations, which are based on the Selic rate, increased while the rates negotiated on postset operations referenced to exchange declined, as a reflection of the reduction in exchange volatility.

The average term of the credit portfolio based on nonearmarked resources diminished by six days in the quarter, closing February at 222 days. In the segment of legal entities, the average term dropped by two days to 175, with reductions in operations involving acquisitions of goods and working capital and increases in import financing and external onlending operations. The average term of operations targeted to individual persons dropped by 14 days to 303 days, as the sharpest decline occurred under personal credits.

Default rate of credit[1/]



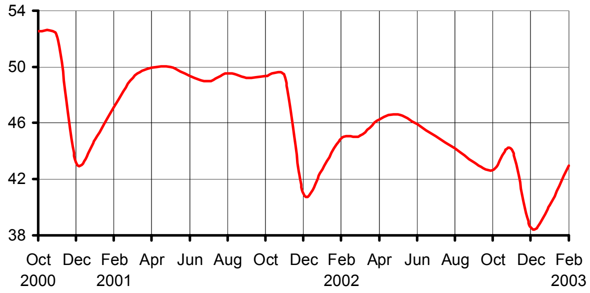
1/ Portfolio's percentage share of nonearmarked funds in arrears of more than 15 days.

The default rate on loans with nonearmarked resources increased by 0.4 p.p. in the quarter and closed at 8.4%. It should be emphasized that the seasonal increase in defaults consequent upon concentration of outlays in the early part of the year was below the level for the same period of 2002 (0.8 p.p.), indicating lesser demand for credit, greater selectivity in the granting of new credits and utilization of FGTS resources to settle debts. This performance indicates continuity of the downward trajectory in the default level as of the second half of the year. In operations with legal entities, defaults increased by 0.2 p.p., closing at 4.5%, while the rate increased by 0.4 p.p. in the segment of individual persons to a February level of 15.1%.

3.2 Monetary policy

Monetary aggregates

Currency outside banks - income-velocity[1/]

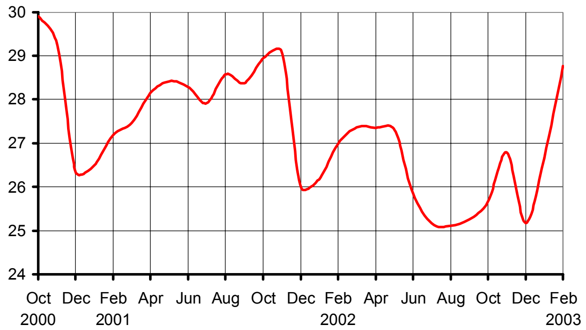


1/ Defined as the ratio between 12 month accumulated GDP (valuated by IGP-DI) and the monthly average balance of the monetary aggregate.

In the restricted M1 concept, the average money supply balance totaled R$91.9 billion at the end of February, reflecting a reduction of 10.2% in the year, corresponding to declines of 9.5% in the balance of currency held by the public and 10.6% under demand deposits. The income velocity of the M1 components registered an upward trend in the two month period, consequent upon moderate growth in the pace of economic activity and lesser seasonal demand for currency.

Analysis of deseasonalized data demonstrates the transitory nature of the impact of these situational factors – particularly the migration of resources away from financial investment funds, releases of resources generated by FGTS indexing and the targeting of resources to cover the costs of the electoral process – on the atypical expansion of the restricted money supply registered as of the second quarter of 2002 and the consequent reduction of demand for currency at the start of the year.

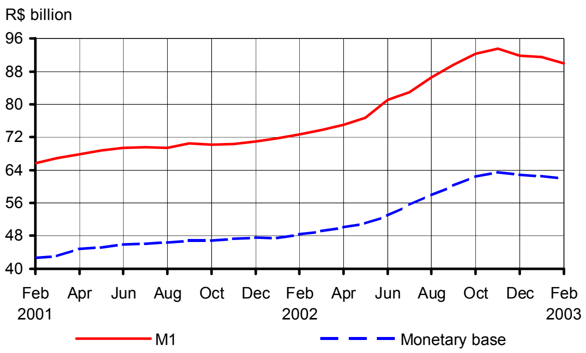
Demand deposits - income-velocity[1/]



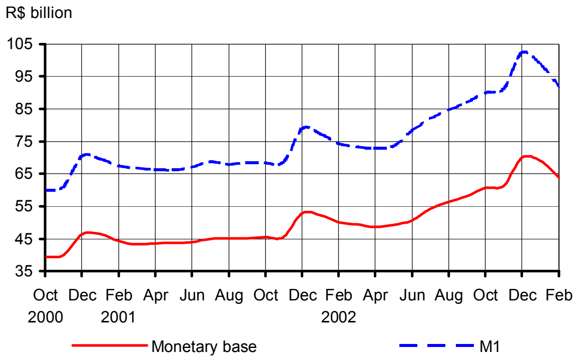
1/ Defined as the ratio between 12 month accumulated GDP (valuated by IGP-DI)

Average daily monetary base balances declined by 8.3% in the year to a level of R$64.1 billion in February. This trajectory was fully consistent with the downward movement in demand deposits that is characteristic of the period. Among its components, the average balance of currency issued declined by 9.8% and that of banking reserves came to 5.1%.

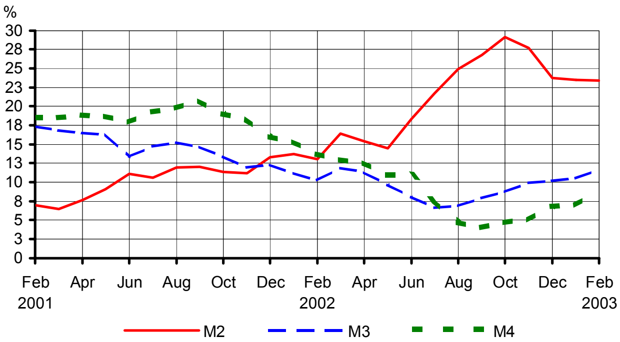
M1 and Monetary base - seasonally adjusted



Monetary base and M1 - average daily balances



Broad money supply - 12 month percentage growth



In applying its monetary policy, at the same time in which it raised the Selic rate to 26.5% per year, Banco Central altered compulsory deposits and reserve requirements on demand resources. Thus, Circular 3,177 was issued on 2.19.2003, raising the rate on the arithmetic average of the amounts subject to reserve (VSR) from 45% to 60%. This measure will produce a contractive monetary impact estimated at R$8.1 billion. At its meeting ended on March 19, Copom maintained the Selic rate target unaltered, but with an upward bias.

The B1 concept of the monetary base, which encompasses the restricted base plus the additional compulsory interest-bearing reserve on demand deposits, came to R$67.5 billion, of which R$4.2 billion refer to the additional amount.

The broad money supply turned in moderate growth in the December-February quarter, reflecting primary contraction of financial system credit operations and cutbacks in external credits targeted to the nonfinancial sector. The M2 concept, which is equivalent to M1 plus savings deposits and securities issued by financial institutions, turned in growth of 1.2% in the quarter due, mostly, to migration of resources out of its components and into investment funds. M3, which encompasses M2 plus the quotas of fixed income funds and federal public securities that provide backing to the net financing position in repo operations carried out between the nonfinancial sector and the financial system, increased by 3.9% in the quarter, a result that was impacted by 8.4% growth in investment funds. In the M4 concept, which aggregates public securities held by nonfinancial entities to M3, the balance came to R$824 billion at the end of February, with growth of 3.5% in relation to November 2002.

The effects of recent changes in compulsory reserve rates on the credit market

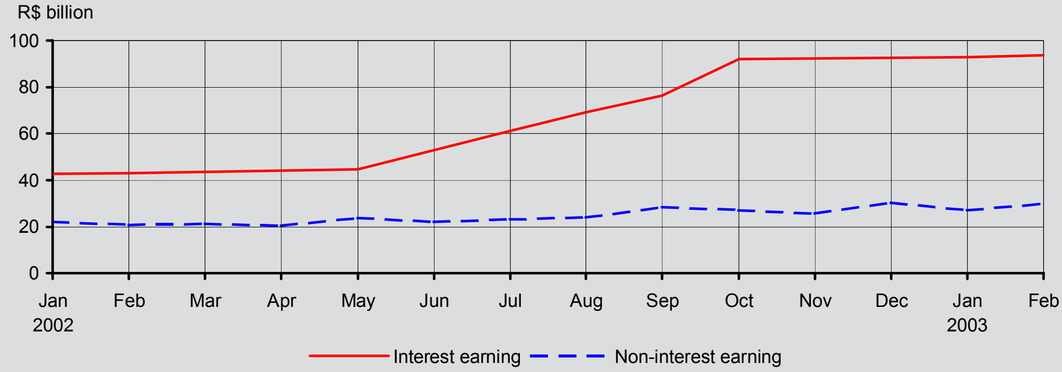
In order to adjust the future trajectory of price indices to defined inflation targets, Banco Central raised the Selic rate target on five different occasions, moving from 18% per year to 21% in October, 22% in November, 25% at the end of 2002, 25.5% in January 2003 and, finally, 26.5% in the month of February.

As part of the process of strengthening monetary policy, Banco Central altered compulsory reserve and reserve requirement rates. In June 2002, the compulsory reserve rate on time deposits was raised from 10% to 15%, resulting in a reduction in the free federal securities portfolio of financial institutions, since compliance with these rates is to be achieved by earmarking these papers in Selic. In the same sense, it altered the reserve requirement rate on savings deposits from 15% to 20%. Both measures generated a contractive impact of approximately R$12.9 billion.

In the month of August, additional reserves were levied on deposits, encompassing the sum total of the amounts resulting from application of the rates of 3% on demand resources and time deposits and of 5% on savings deposits. Compliance with the additional reserve requirement must be in cash and these reserves are entitled to earnings calculated on the basis of the Selic rate. Later, these rates were raised from 3% to 8% and from 5% to 10%, respectively. In overall terms, R$25.6 billion were deposited at Banco Central.

In February 2003, Banco Central decided once again to raise the rate on demand deposits from 45% to 60%, resulting in withdrawal of approximately R$8.1 billion from circulation. These resources are deposited in cash at Banco Central and are not entitled to any type of earnings.

Mandatory deposits



Indirectly, non-interest bearing compulsory reserves have the effect of a "fiscal wedge" since they tend to make the resources obtained through interest-bearing instruments more expensive. Increases in the rates of compulsory reserves reduce the multiplier effect of the monetary base and, consequently, the liquidity of the economy. Increases in reserves tend to reflect the credit supply made available by the banking system.

However, current banking liquidity conditions have not followed this pattern. Over the course of the second half of 2002, net federal public security redemptions and the rolling of the exchange debt through exchange swaps not earmarked to public securities resulted in consolidation of the excess liquidity position. Consequently, the volume sterilized daily in informal Banco Central auctions came to something in the range of R$90 billion in February 2003.

In this context of excess liquidity, the increase in the compulsory reserve rate partially withdraws excess banking system resources. In the case of those banks active in the credit market (retail banks), the opportunity cost increased with a tendency to pass these costs on to the interest rates charged to final borrowers.

Rate of deposit on mandatory reserves

Period		Demand deposits	Time deposits	Savings
1999	Mar	75%	30%	15%
	May	"	"	"
	Jul	"	"	"
	Aug	"	"	"
	Sep	"	"	"
	Oct	65%	0%	"
2000	Mar	55%	"	"
	Jun	45%	"	"
2001	Sep	"	"	"
2002	Jun	"	"	"
	Jul	"	"	"
	Aug*	45%+3%	15%+3%	20%+5%
	Oct	45%+8%	15%+8%	20%+10%
2003	Feb	60%+8%	"	"

* The additional percentage rate refers to additional requirements on demand deposits, time deposits and savings deposits.

Federal public securities

In the quarter under analysis, the restrictions that had conditioned National Treasury policy in the previous quarter were somewhat attenuated, particularly as regards the decline in demand for public securities. In this context, priority was given to offers of postset papers, with placements of Treasury Financing Bills (LFT), which bear interest at the Selic rate, accounting for 96% of the financial result of the papers issued in public offers in February 2003, compared to 81% in November 2002.

The average term of the papers placed in January and February came close to 360 days, with a sharp decline in the discount demanded by the market, as is evident in the average rate of 0.63% per year in placements in February, compared to 1.62% per year in November.

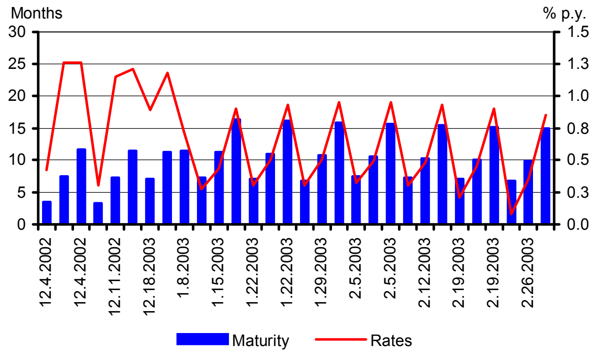
The increase in demand for these papers can be explained by the performance of investment funds, which registered net inflows of R$10.8 billion in January and February. With the increased placements of LFT, the participation of papers entitled to earnings at the Selic rate in the total federal securities debt held by the public increased from 43.6% in November 2002 to 46.5% in February 2003.

One should also highlight the Treasury purchase of LFT on February 10, in an amount equivalent to R$1.6 billion in papers scheduled to mature in April 2003. The purpose of this operation was to reduce the concentration of maturities in that month.

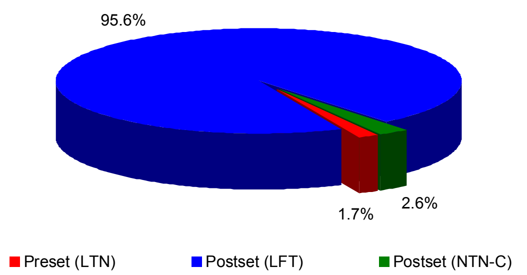
Auctions of National Treasury Notes – Series C (NTN-C), which are papers indexed to the IGP-M, were maintained in the period. The volume of placements of these papers came to R$2.3 billion in the quarter, at rates between 8.95% per year and 10.59% per year. Parallel to these operations, the maturity terms of these papers were also extended, as the securities placed in February had terms between 5 and 18 years, while the majority of November placements had maturities of three years.

Auctions of preset papers, which had not been held since October 2002, were recommenced by the National Treasury. In the February 25 offer made with the objective of measuring acceptability of these papers, 500 thousand

LFT placements on primary market - maturity x rates



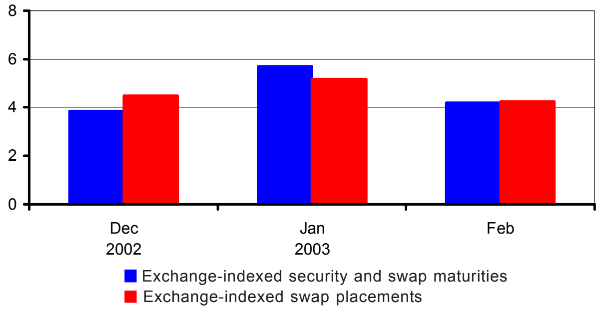
Competitive issues of federal public securities - primary market
2.3.2002 to 2.28.2002



National Treasury Bills (LTN) were placed on the market, with terms of 217 days and a financial volume of R$430 million, at the rate of 28.8%. On March 6, 750 thousand papers with maturities of 208 days were fully placed at an average rate of 28% per year, generating a financial volume of R$651 million.

Exchange-indexed securities and exchange-indexed swaps

US$ billion



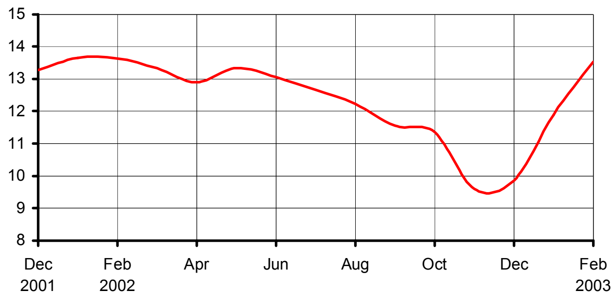
Rolling of the maturities of the debt indexed to growth in the rate of exchange was done through contracting of exchange swaps. Improvement occurred in demand conditions at the end of February, when US$1.3 billion with maturity on the fifth of March were rolled in a single auction. In a General Communiqué dated January 20, Banco Central announced its intention of adopting the criterion of rolling only the principal at maturity of swap operations, a strategy already adopted in relation to exchange papers.

With respect to liquidity conditions, as of January 24, Banco Central defined a new strategy for open market operations and began carrying out repo operations with longer terms, which came to as much as 30 days in the quarter under consideration.

Real interest rates and market expectations

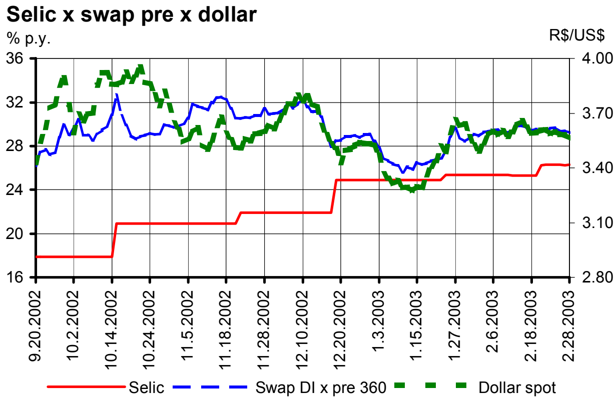
Ex-ante real interest rate deflated by IPCA

% accumulated in 12 months



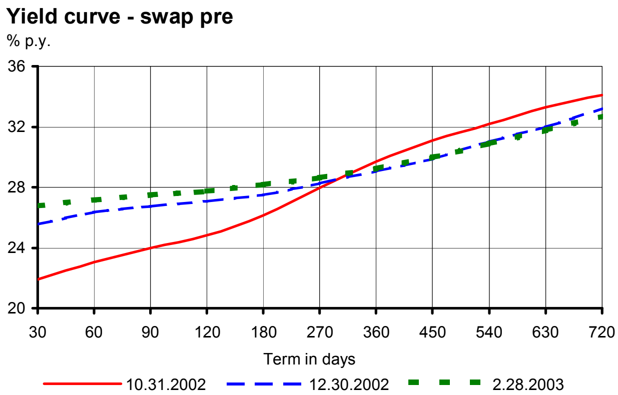
Having maintained the Selic rate target at 26.5% per year, market projections for the real rate of interest accumulated in the next twelve months came to 13.5% per year in February, returning to the level of the early months of 2002.

The Selic rate accumulated in twelve months and deflated by the IPCA came to 3.9% per year in February, 3.1 p.p. below the November level, reflecting increased inflation in the final quarter of 2002. The real accumulated rate in 2002 closed at 5.9%, the lowest since 1991.



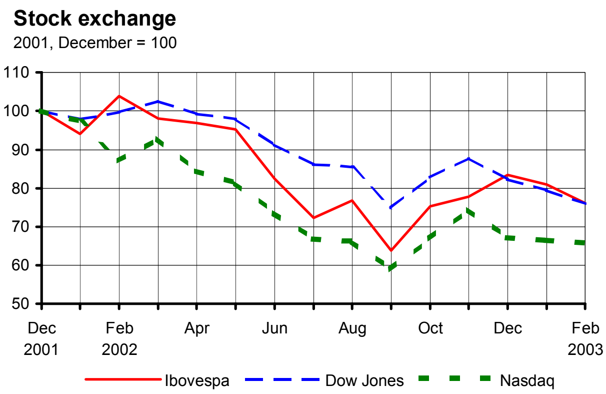
The definition of the presidential election and consequent market perceptions regarding maintenance of the commitment to currency stability and fiscal responsibility contributed sharply to reductions in the level of uncertainty and this was translated into lesser volatility in interest and exchange markets. In this sense, in the first week of January the dollar rate dropped to R$3.28/US$ and the swap DI x pre reference rate for one year came to 25.6% per year.

The positive aspects of the internal scenario were neutralized, however, by the possible repercussions of increased tensions in the Middle East, particularly with regard to petroleum prices and their impact on inflation, as well as to increased aversion to risk on the part of international investors. In February, the dollar rate returned to the level of R$3.60/US$.



The inclination of the interest curve, which is defined by the reference rates of DI x pre swap contracts, the indicator that reflects the level of uncertainty perceived by the market, registered a reduction in recent months, as the difference between the rates on contracts with maturities of one year and those with maturities of thirty days dropped from 7.8 p.p. in October to 2.5 p.p. in February.

Capital market



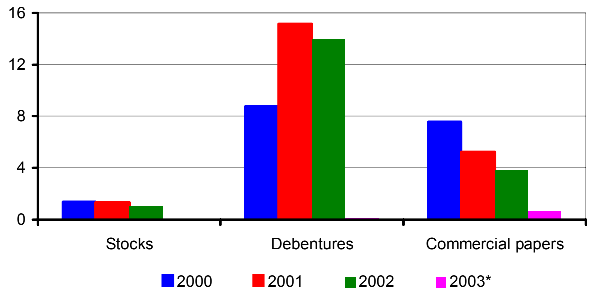
For the third consecutive year, stock exchanges ended with negative results. In 2002, the negative performance was caused by international investor aversion to risk, accounting frauds in the balance sheets of major American and European corporations and by the electoral process in Brazil, all of which increased domestic market uncertainties. In the last year, the São Paulo Stock

Exchange Index (Ibovespa) registered a decline of 16.9%, while the Dow Jones Industrial Average (DJIA) and the National Association of Securities Dealers Automated Quotations (Nasdaq), declined by 17.7% and 32.8%, respectively.

Between the second half of October and the first half of January, the Ibovespa turned in profitability of 46.3%, benefiting from the depreciated value of stocks and positive expectations generated by the first signals issued by the newly elected government.

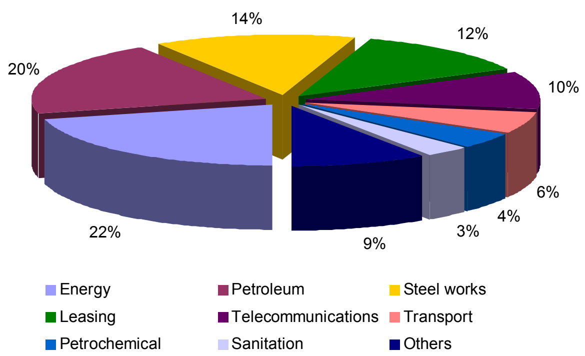
However, the war scenario that came to the fore in the second half of January reversed the market upturn which then shifted into a downward curve, as occurred with the major international stock markets. Between January 10 and the end of February, Ibovespa lost 16%, the DJIA lost 12.3% and Nasdaq slipped by 9.6%.

Primary issues in capital market
R$ billion - accumulated in the year



Source: CVM

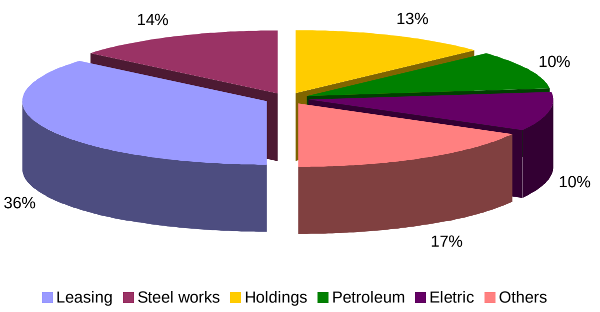
Debentures issues - 2001



In 2002, requests for funding operations totaling R$19.6 billion in stocks, debentures and promissory notes were registered at the Securities and Exchange Commission in 2002, representing a volume that is 10.2% below that of the previous year. The drop in capital market financing was more accentuated in operations based on stocks and promissory notes, which registered volumes that were 22.4% and 26.4% below the 2001 levels, respectively.

The volume requested for debenture issues declined by 3.5% in the year, despite the adverse conditions registered over the course of the period, making these instruments the major instrument used by companies to gain access to capital markets. In 2002, funding through the use of debentures was concentrated in the final two months and registered R$7.1 billion, equivalent to 45% of the volume registered in the year, compared to R$5.9 billion or 39% of the total in the same period of 2001. This movement is explained by the shortage of external financing which had the effect of targeting corporate

Debentures issues - 2002



Source: SND

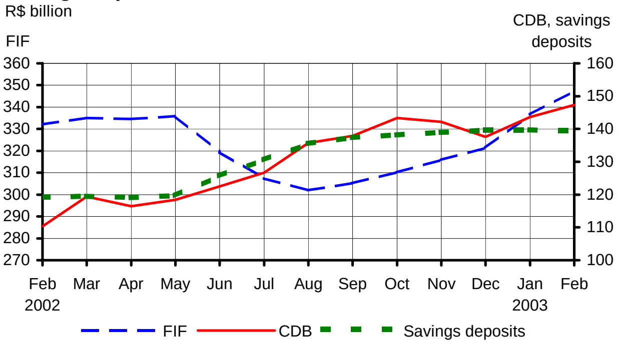
demand to internal sources and by improvements in the overall situation in the period as a result of more favorable financing conditions.

Among the companies that sought financing based on debentures, the most important were leasing companies, with 36% of the registered volume, followed by steel (14%), participation and administration (13%), petroleum (10%), and electricity (10%).

Financial investments

Portfolio evolution of time deposits, FIF and savings deposits

R$ billion



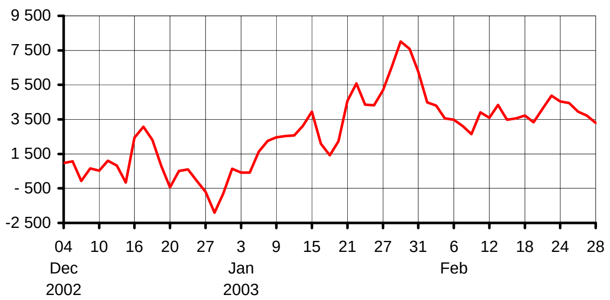
Total financial investments, including the sum total of the balances of savings accounts, time deposits and investment funds, came to R$651.5 billion in February, registering growth of 5.8% in relation to November 2002.

Note should be taken of 9.9% growth in the equity of financial investment funds (FIF), raising the total to R$347.4 billion, partly as a result of a significant net accumulated inflow of approximately R$10.8 billion, as of January.

FIF - Daily net inflow

In accumulated terms during 21 working days

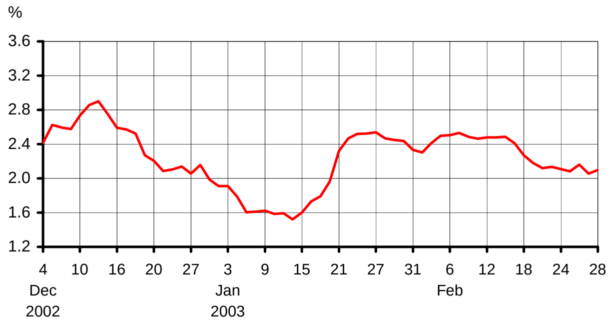
R$ million



Expectations of profitability generated by this type of financial investment were favorable to these funds. As a matter of fact, investment funds turned in the highest level of profitability in the quarter among all financial investments, with a rate of 6.7% on average. For the most part, this result reflected earnings on public securities indexed to price indices.

Nonetheless, it should be stressed that, between mid-December and mid-January, average accumulated profitability in 21 business days moved along a downward curve, closing at 1.6%, the lowest of the quarter. To a great extent, this was caused by exchange appreciation.

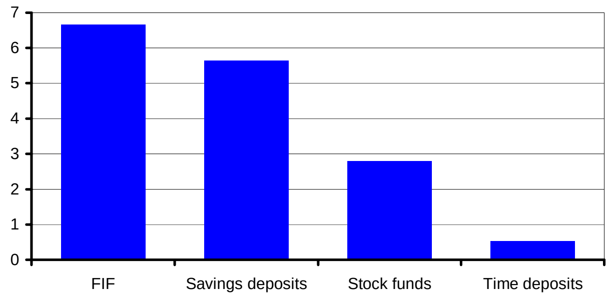
FIF daily earnings
In accumulated terms during 21 working days



At the end of February, the participation of papers indexed to the rate of exchange and the IGP-M in the FIF portfolio closed in the range of 15%, while the participation of those indexed to the Selic rate ended at 75%.

The balances of savings accounts and time deposits totaled R$139.4 billion and R$147.3 billion, respectively, with growth of 0.3% and 3.6% in the period. These two instruments registered funding outflows in the quarter, with net negative results of R$2.4 billion and R$2.6 billion, respectively. Basically, this result is a consequence of less attractive profitability in the period, with 2.8% and 5.3%, in the same order.

Financial investment earnings
% accumulated until November



Stock funds, which include investment funds in stocks and securities (FITVM) and mutual privatization funds (FMP), registered net worth of R$30.6 billion at the end of February 2003. Accompanying the stock market, these funds registered highly volatile profitability, with an expressive high of 4.2% in December 2002, followed by consecutive declines of 1.8% in January and 1.7% in February 2003.

Extramarket funds, which exclusively receive resources from entities of the federal indirect administration and funds controlled by the federal government, turned in a reduction of R$1.8 billion in the period, closing with net worth of R$11.2 billion.

3.3 Fiscal policy

Public sector borrowing requirements

In 2002, the nonfinancial public sector tuned in a primary surplus of R$52.4 billion, corresponding to 3.92% of GDP, compared to R$43.7 billion or 3.64% of GDP in the previous year.

The central government, which includes the Federal Government, National Institute of Social Security (INSS) and Banco Central, turned in a primary surplus of R$31.9 billion, 2.39% of GDP, compared to R$22 billion or 1.83% of GDP in 2001. One factor that contributed to this improvement was nominal growth of 19.8% in National Treasury revenues, surpassing the increase of 16.6% in its total outlays, including constitutional transfers to the states and municipalities.

Insofar as regional governments are concerned, the primary surplus came to R$10.7 billion or 0.79% of GDP, maintaining the level of the previous year, despite the electoral process in the period which normally would have provoked greater pressures on expenditures.

State companies registered a primary surplus of R$9.8 billion, or 0.74% of GDP in 2002, compared to R$11.2 billion or 0.93% of GDP in 2001. This result was mostly a consequence of the larger volume of investments made in 2002.

For 2003, the major fiscal policy guidelines were maintained, particularly regarding the commitment to the sustainability of the debt/GDP ratio. In this sense, the government committed itself to an annual nonfinancial public sector primary surplus target of 4.25% of GDP. Adjustments have already been made in the federal budget for the purpose of adapting to the new parameters.

Aside from these factors, the priority to be given to the social security and tax reforms was confirmed. This process will involve a broad process of negotiation with the major segments involved, all with the objective of formulating the proposals to be submitted to deliberation at the National Congress.

In the first month of 2003, the nonfinancial public sector primary surplus came to R$8.5 billion, as against R$5.4 billion in the corresponding month of the previous year. This was the best result for the month of January since the series was first published in 1991.

The central government accounted for R$6.7 billion of that surplus, while regional governments have been responsible for R$2.3 billion and state companies for a deficit of R$597 million.

An analysis of the federal government result indicates that net revenues in the month came to a total of R$32.4 billion, or R$3.2 billion higher than the figure for January 2002. However, as a proportion of GDP, there was a decline of 1.9 p.p. to 26.9%. One should note that the January 2002 inflow was positively impacted by reception of R$1.8 billion in tax debts in arrears paid by pension funds and by deposits of R$1.1 billion in taxes by state governments levied on the profits resulting from transfers of public securities.

Spending moved from R$23.2 billion in January 2002 to R$25.5 billion in January 2003, for nominal growth of 8.8%, though this heading did decline as a ratio of GDP from 22.8% to 21.1%. Constitutional transfers to the states and municipalities came to a total of R$5.7 billion, for nominal growth of 18.6%, partly reflecting transfers of additional resources in January 2003, in a total amount of R$336 million.

Furthermore, it should be emphasized that spending under the heading of “other current and capital spending” declined by 5%, compared to January 2002. This result is a consequence of the restrictions imposed on spending in 2003, until such time as financial programming for the fiscal year is published.

Viewed in terms of the consolidated public sector, total nominal interest appropriated in January came to R$17.6 billion, compared to R$8.3 billion in January 2002. The result of exchange swap operations accounted for growth of R$3.7 billion. Here, mention should also be made of the impact of the increase in the Selic rate from 1.53% per month in January 2002 to 1.97% per month in the same month of the current year, applied to a larger debt stock.

In the nominal concept, public sector borrowing requirements (NFSP), which are equivalent to the sum total of the primary result and nominal interest appropriated, came to R$9.1 billion in January 2003, compared to R$2.7 billion in the corresponding month of the previous year, thus indicating a larger volume of nominal interest appropriated in the period.

With regard to the major sources of financing, the securities debt registered growth of R$28 billion, principally as a result of improved perceptions of country risk, which made it possible to place a larger volume of papers on the primary market. The monetary base, external financing and the banking debt turned in reductions of R$8.9 billion, R$2.3 billion and R$7.2 billion, respectively.

When one considers the flows accumulated in the last twelve months, public sector borrowing requirements came to R$68.2 billion or 5.03% of GDP in the month of January, compared to R$61.6 billion, or 4.61% of GDP, in the twelve month period ended in December 2002.

Federal securities debt

Evaluated according to the portfolio position, the federal securities debt increased from R$631.5 billion, or 40.9% of GDP, in November 2002, to R$636.9 billion, or 40.1% of GDP, in January 2003. The major determinants of this result were net redemptions of R$14.3 billion on the primary market, upward movement of 3% in the value of the real and incorporation of interest.

The share of the federal securities debt indexed to exchange declined from R$149.3 billion in November to R$134.9 billion in January due mostly to net exchange redemptions totaling R$13.1 billion. In the period under consideration, the participation of exchange securities in the total federal securities debt dropped from 23.6% to 21.2%, while the participation of the preset debt moved from 4.4% to 1.9% and that referenced to the Selic rate moved from 57.7% to 62.4%.

The amortization schedule of the securities debt on the market – excluding the securitized debt, financing operations and papers registered in Cetip closed January with the following composition: R$243.9 billion, 41.1% of the total, with maturity in 2003; R$98.6 billion, 16.6% of the total, with maturity in 2004; and, R$251.5 billion, or 42.3% of the total, as of January 2005.

In January, exchange swap operations came to R$96.7 billion, compared to R$88.6 billion in November. The result of these operations, defined as the difference between DI profitability and exchange variation plus coupon, had a negative impact of R$5 billion on Banco Central when viewed on an accrual basis. Of this total, R$1 billion refers to provisions for future adjustment of exchange swap contracts that are not adjusted daily (SC2). Settlement of these contracts occurs only at maturity of each contract. Viewed under the cash concept, the negative result came to R$3.9 billion.

Public sector net debt

Net debt growth
Conditioning factors

Itemization	2001 December R$ million	2001 December % GDP	2002 December R$ million	2002 December % GDP	2003 January R$ million	2003 January % GDP
Total net debt - balance	660 867	52.57	881 108	55.93	888 895	55.92
Flows	**Accumulated in the year**					
Net debt - growth accumulated in the year	97 703	3.79	220 241	3.36	7 787	-0.01
Conditioning factors	97 703	7.77	220 241	13.98	7 787	0.49
PSBR	42 788	3.40	61 614	3.91	9 169	0.58
Primary	-43 655	-3.47	-52 390	-3.33	-8 463	-0.53
Nominal interest	86 443	6.88	114 004	7.24	17 632	1.11
Exchange adjustment	37 814	3.01	147 225	9.35	- 969	-0.06
Internal debt[1/]	19 182	1.53	76 662	4.87	- 402	-0.03
External debt	18 633	1.48	70 564	4.48	- 568	-0.04
Others[2/]	- 383	-0.03	753	0.05	-1 084	-0.07
Acknowledgement of debt	18 465	1.47	14 286	0.91	671	0.04
Privatizations	- 980	-0.08	-3 637	-0.23	0	0.00
GDP growth effect - debt		-3.98		-10.62		-0.50

1/ Indexed to exchange rate.
2/ Parity of the currency basket which make up the net external debt.

In January 2003, the net public sector debt came to R$888.9 billion or 55.92% of GDP, compared to R$881.1 billion or 55.93% of GDP, in December 2002, and R$660.9 billion, or 52.57% of GDP in December 2001.

Analyzing the net debt as a ratio of GDP, growth in 2002 came to 3.36 p.p. Public sector borrowing requirements, encompassing the primary result and nominal interest, accounted for 3.91 p.p.; the impact of exchange depreciation on the internal securities debt indexed to the dollar and on the external debt, for 9.35 p.p.; variation in the parity of the currency basket underlying the net external debt, for 0.05 p.p.; and acknowledgement of debts, for 0.91 p.p. In the opposite sense, privatizations and growth in nominal product based on the centered IGP-DI contributed with respective reductions of 0.23 p.p. and 10.62 p.p.

In January, the debt/GDP ratio dropped by 0.01 p.p., with borrowing requirements and debt acknowledgements accounting for increases corresponding to 0.58 p.p. and 0.04 p.p., respectively. The impact of exchange depreciation accounted for -0.06 p.p. and that generated by changes in the parity of the currency basket underlying the net external debt and the effect of nominal product growth for -0.07 p.p. and -0.5 p.p., in that order.

The gross general government debt, which includes the federal government, state governments and municipal governments, came to R$1,163.2 billion, 73.2% of GDP, compared to R$1,132.9 billion, 71.9% of GDP, in December 2002. One factor that contributed to this expansion was issue of R$12 billion in LTN, reserved to the Banco Central portfolio.

3.4 Conclusion

The volume of credit operations contracted with the financial system increased slightly over the course of the quarter, maintaining the trajectory evident in the previous year. Aside from mirroring the lesser demand characteristic of the period, this performance was a consequence of the more cautious stance adopted by companies and families in the context of the uncertainties of the external scenario and the increase in interest rates on lending operations, together with the more selective approach taken by institutions in granting new credits. This enhanced selectivity coupled with continued disbursements of FGTS resources contributed to downward movement in default levels in the second half of the year.

Parallel to this, the decreased pace of credit market operations aided in reversing the temporary impact on the evolution of the monetary aggregates caused by atypical migration of financial assets, particularly away from investment funds, particulary those originating in investment funds. This movement opposes the hypothesis according to which pressures on prices would have been caused by increased demand on currency.

With respect to fiscal policy implementation, the government's commitment to fiscal discipline is evident in the increase of 0.5 p.p. of GDP in the primary surplus target for the coming years. This increase contributes to the reduction of the public debt stock. At the same time, the government has committed itself to implementation of reforms that will ensure structural adjustment of public accounts, particularly the social security and tax reforms.

4 – International economy

In the early months of 2003, the international macroeconomic scenario was characterized by considerable instability, generated mostly by political tensions in the Middle East. Recovery in aggregate demand became more difficult as a result of the compression of available income caused by oil price highs and rising uncertainties among businesspeople and consumers.

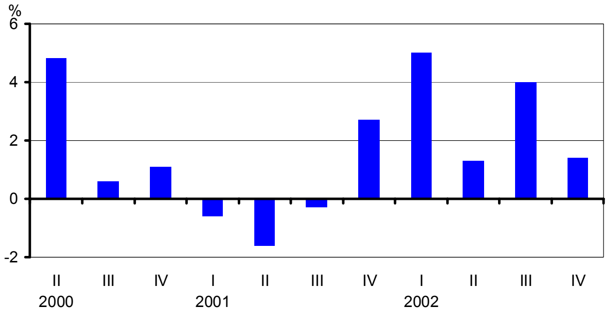
However, international markets expect a rapid solution to the crisis, with evidently positive impacts on the world petroleum supply and prices. According to expectations, these realities should aid in stimulating the global economy by the middle of the year. Should these expectations not be fulfilled, there is a strong possibility of new deterioration in the level of confidence and of additional aversion to risk, with undesirable impacts on capital flows, consumption, investment, output and employment.

Renewed economic growth on a global scale also depends on the performance of the United States economy, particularly since internal demand has been clearly insufficient to support the economies of the Euro zone countries and Japan. In this context, it should be noted that both monetary policy and fiscal incentives have limited effectiveness in fostering growth in the activity level of major economies.

4.1 Growth and employment

Based on the early results of the United States economy, world economic recovery would seem to be less imminent than initially

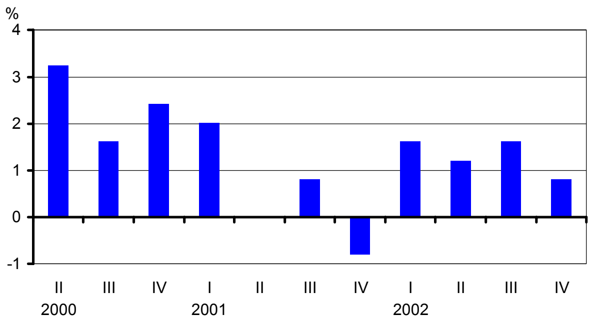
GDP - USA [1/]



Source: Bureau of Labor Statistics
1/ Quarterly change seasonally adjusted annualized rate.

suggested by the early results for 2002. United States GDP expansion slowed significantly in the fourth quarter, as annualized quarterly growth dropped to 1.4% after reaching a level of 4% in the previous quarter. Growth in 2002 GDP came to 2.4%, compared to 0.3% in 2001. The slowdown in the pace of GDP growth in the final quarter of 2002 resulted from declining private consumption and inventory investments, coupled with sharp downward movement in foreign sales. These movements were partially offset by growth in public spending and household investments. The February issue of the Beige Book, which is a survey compiled by the Federal Reserve on the basis of reports produced by its twelve districts, confirmed the trend toward moderate consumer spending in the first two months of 2003.

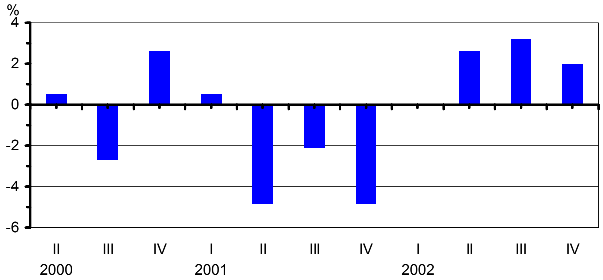
GDP - Euro Zone [1/]



Source: Eurostat
1/ Quarterly change seasonally adjusted annualized rate.

In the Euro zone, there is little probability that the growth trajectory of the economy will achieve the results forecast just a few months ago for the end of 2003. Following growth of 0.8% in 2002, GDP expansion in the region is expected to close between -0.1% and 0.3% in the first quarter, and between 0.2% and 0.5% in the second quarter of 2003, according to data released by the European Commission. In the final quarter of 2002, private consumption remained sluggish as a result of the pessimism that has characterized consumer attitudes in the face of continued high unemployment and rising petroleum prices. Exports – the component that contributed most intensely to 2002 GDP – declined in November and December, reflecting the limited pace of world economic activity and strong upward movement in the value of the euro. The trajectory of the European currency against the dollar is expected to continue in 2003, as a result of the high and growing current account deficits registered in the United States. Consequently, the contribution of trade balances to sustaining GDP growth will tend to be less important in the current year, when compared to last year.

GDP - Japan[1/]



Source: Economic Planning Agency
1/ Quarterly change seasonally adjusted annualized rate.

In Japan, the recovery in private consumption that seemed to be on the horizon up to mid-2002 has not materialized, as demonstrated by data on household spending and housing starts in the final months of the year. Purged of seasonal factors, GDP registered annualized growth of 2% in the fourth quarter of 2002, following growth of 2.6% and 3.2% in the second and third quarters of the year. At the same time, the structural problems at the root of Japanese economic stagnation have persisted: deflation, which tends to inhibit aggregate demand by discouraging consumption and investment; and a high level of banking system commitment to poor quality loan operations that, combined with high levels of business debt, tends to dampen the potential role of credit in reactivating the economy.

While the United States can expect an important economic stimulus as a result of government programmed tax cuts, the possibility of other regions of the world resorting to this type of macroeconomic stimuli is quite limited. In the Euro zone countries, the demand that these nations adjust to the Stability and Growth Pact, which imposes ceilings on public debt levels, will require very significant fiscal adjustments over the coming years in the region's three major economies: German, France and Italy. In Japan, the fiscal situation has made it particularly difficult to resort to expansionary policies, while there is little space for adoption of monetary incentives.

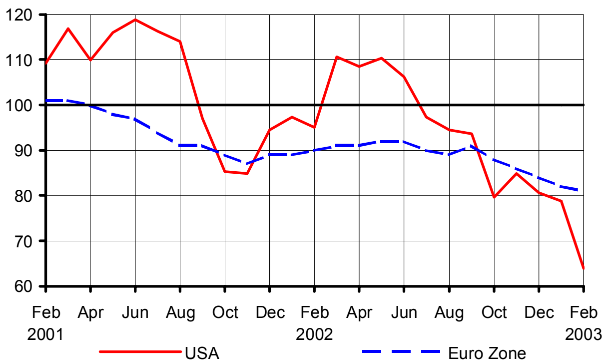
Among the emerging nations, strong positive growth has been registered in the countries of Asia and, particularly, in China and, to a lesser extent, in the nations of Eastern Europe. In 2003, the economies of China and other emerging Asian nations are expected to continue moving solidly forward, based on growing internal demand which has offset fluctuations in external demand. The Chinese economy expanded by 8% in 2002, compared to 7.3% in 2001. In 2003, growth is expected to close in the range of 8%.

In the opposite sense, the economies of Latin America and the Caribbean have tended to shrink by about 0.5% mostly as a result of the severe loss of dynamics registered in Argentina, Uruguay and

Venezuela. However, it is important to note that the other countries of the region were also unable to achieve significant growth figures in the period. Economic performance in the region was conditioned to a series of external factors, including difficulties in obtaining access to international capital flows, above all in the case of Mercosul countries, and the downturn in the pace of the United States economy, which had a particularly strong impact on the Mexican economy, as well as deteriorating terms of trade that has had a powerful impact in recent years on the economies of Peru, Chile and Brazil. The Economic Commission for Latin America and the Caribbean (Cepal) estimates that average growth in 2003 in the economies of the region will come to about 2.1%, should the signs of recovery noted since the end of 2002 be confirmed.

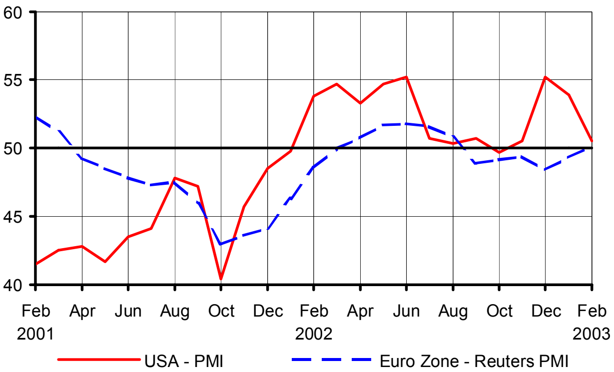
In the midst of the uncertainties that have characterized the current economic scenario, it should be noted that positive and synchronized industrial production growth has been registered in the final months of 2002 and early 2003 in several regions, including the United States, Japan and the emerging Asian nations. In countries like China, South Korea, Thailand and Turkey, growth in industrial production has remained close to or even above 10%. Positive performances have also been registered in such Latin American economies as Brazil, Chile and Peru, as well as in the economies of Eastern Europe.

Consumer confidence



Source: Conference Board, European Comission

Nonetheless, analysis of recent business and consumer confidence indicators in the industrialized nations does not suggest that a sustained and consistent process of recovery may be on the horizon. Quite to the contrary, expectations would seem to point toward growing pessimism as tensions in the Middle East worsen and unemployment levels creep upward in the major developed economies. This feeling is even more palpable among consumers, as witnessed by plunging confidence indicators since mid-2002. In the first two months of 2003, growth was particularly unfavorable in the United States and France.



Source: Institute for Supply Management (ISM), Reuters

Indicators used to reveal business expectations in the manufacturing sector point to less uniform but still generally downward expectations in the near future. In the United States, the Institute for Supply Management (ISM) issued its index, revealing a steady drop in the first two months in 2003. In the Euro zone, these indicators dropped to their lowest level in the year since December 2002 before turning slightly upward in the following two months. In Japan, the Tankan index has been on the rise since the first quarter of 2002, though it is still negative and clearly reveals a sense of general malaise among the businesspersons consulted.

Over the course of 2002, jobless levels remained high in the major economies, with growth in the final months of the year and in early 2003. In the United States, the rate of unemployment dropped to 5.7% in January, compared to 6% in the previous month as a consequence of hirings in the retail sector. In Japan, unemployment closed January at 5.5%, the same level registered in December 2002. Despite this stability, however, one must acknowledge that the rate is still extremely high by Japanese standards. Aside from the downturn in the world economy, the process of restructuring that has occurred in Japanese corporations and the credit restrictions imposed as a result of the difficulties faced by the banking sector have also contributed to the high jobless rate. In the Euro zone countries, unemployment hit 8.6% in January, registering a slight rise over the 8.5% December 2002 level. Among the countries of Latin America and the Caribbean, the average rate of unemployment came to 9.1% in 2002, compared to 8.4% in 2001. The situation is particularly grave in Argentina, where the rate has risen to 21%.

4.2 Monetary policy and inflation

The central banks of the major economies cut interest rates toward the end of 2002 and in early 2003. The United States Federal Reserve cut rates from 1.75% per year to 1.25% per year in November, while the European Central Bank (ECB) cut its basic rate from 3.25% per year to 2.75% per year in December and 2.50% per year in March, and the Bank of England diminished rates from 4% per year to 3.75% per year in February. As a result, interest rates in both the United States and England have currently dipped to their lowest levels in the past forty years, while Japanese rates are, for all practical purposes, nil.

In the United States and Euro zone countries, recent cutbacks in interest rates were generated by a clearer perception of the general loss of economic dynamism. The Federal Reserve had held its rate firm since November, convinced that future risks were equally distributed between lesser economic activity and increased inflationary pressures. Parallel to this conclusion, the Fed came to the conclusion that monetary policy passthrough mechanisms have not completely exhausted the effects of the aggressive interest rate cutbacks of the last two years. Coupled with productivity gains, this stance could generate a positive impact on the American economic scenario. However, recent indicators suggest that the United States process of recovery is still quite fragile.

In the Euro zone member countries, inflation has remained persistently above the 2% per year limit, despite the weak performance of the region as mirrored in the outlook for continued recession in Germany, the largest economy of the region. This fact alone has tended to fire criticisms of the ECB monetary policy framework and the European Union Stability and Growth Pact. Both of these are considered to be instruments devoid of the flexibility required to implement the monetary and fiscal stimuli required by the region. The recent trend toward appreciation of the euro should prepare the way for possible new interest rate cutbacks in coming months.

In contrast to the cautious stance adopted by the ECB, the Bank of England opted to reduce interest in February despite a recent spike in prices. Thus, December inflation was just slightly above the central target of 2.5% per year. However, in the opinion of most members of the monetary policy committee, this rise was due mostly to temporary factors. In the absence of underlying pressures, the reduction in interest rates had the objective of offsetting the deflationary impacts of the recent rise in the value of the pound sterling.

In Japan, the so-called liquidity trap has continued draining monetary policy of what clout it may once have had. Since February 1999, when the Central Bank adopted its zero interest policy, the uncollateralized call rate, considered the basic interest rate of the economy, declined from its then current level of 0.25% per year to today's level of 0.001% per year. In this context, the Central Bank decided that the rate would be maintained in the range of zero and that significant alterations would be introduced only when consumer inflation began showing signs of upward movement.

In Latin America, the decreased dynamics of the United States economy, coupled with greater international financial market instability have led the different countries to adopt highly differentiated monetary policy postures. In those cases in which financial volatility is most severely felt, such as in the Mercosul member countries, monetary policy has followed a contractive trend and sought to offset exchange market pressures. In the opposite sense, monetary policy in the Andean countries and Mexico has tended to be somewhat more expansionary, since these nations have been impacted more intensely by sluggish growth in the United States economy.

Interest rates in Asia have been very low, with the sole exception of Indonesia, which adopted an inflation control policy based on higher interest. Growth in prices in the region has varied from one country to another, as evident in situations of deflation in China and Hong Kong, moderate inflation in South Korea and high inflation in Indonesia.

4.3 International financial markets

Projections for 2003 indicate moderate recovery in private capital flows to the emerging countries. According to estimates issued by the Institute of International Finance (IIF), net capital inflows to these countries are expected to expand into the range of US$137.1 billion, compared to US$112.5 billion in 2002, though even this figure is seen to be rather small when compared to the second half of the 90s.

Net capital flows to emerging economies

US$ billion

Itemization	2000	2001	2002 1/	2003 2/
Private flows	185.6	125.7	112.5	137.1
Latin America	62.6	47.8	25.2	35.5
Direct Investment, net	135.6	134.3	106.6	107.7
Latin America	60.6	54.0	35.6	33.7
Private portfolio investment, net	14.3	10.2	-4.7	8.9
Latin America	-6.2	0.7	-1.8	0.4
Commercial banks, net	-4.4	-26.3	-4.8	-2.6
Latin America	1.0	-10.1	-7.5	-4.7
Others private flows	40.1	7.5	15.3	23.1
Latin America	7.3	3.2	-1.2	6.2
Official flows	-3.0	14.7	12.2	10.4
Latin America	-6.7	22.4	14.0	17.7

Source: IIF - January 2003

1/ Estimated.
2/ Forecast.

Growth in net capital flows to the emerging countries is based on recovery in funding channeled to portfolio investments, particularly in the Asian markets, while direct investments are expected to remain stable. In the latter case, the underlying reasons for this performance are the global trend toward sharp cutbacks in transnational mergers and takeovers and a sharp slowdown in the structural reforms and privatizations that leveraged investments in several important emerging economies in the last decade. Simultaneously, bank and nonbank loans are expected to register relatively limited expansion, as a result of uncertainties surrounding the performance of the Latin American economies and the outlook for a reduction in profit levels on Asian financial markets.

With regard to private capital flows targeted to the Latin American countries, IIF estimates indicate growth from US$25.2 billion in 2002 to US$35.5 billion in 2003, suggesting a process of gradual recovery in the confidence levels of Latin American markets, following the rather somber period of intense uncertainty that had marked the Argentine crisis and the 2002 falloff in confidence in the Brazilian economy.

In general, the international banking system has managed to maintain healthy profit and capitalization levels, though several countries have undergone domestic and foreign market losses that have jeopardized profitability levels at the national level. In the United States, the uncertainties surrounding both the overall economic situation and corporate gains reduced the profitability of banks focused on the segments of investments and insurance, while working to the benefit of retail institutions. In Europe, the foundations of the banking sector are healthy in terms of both capitalization and solidity. However, German banks have suffered the effects of low rates of profitability and only discreet economic growth, thus inhibiting expansion in the country’s credit sector. In Japan, the banking system has been a constant source of uncertainties, in the absence of more effective measures aimed at resolving the problem of unpaid and matured loans. In this scenario, in the month of January, the largest Japanese banks have been making stock offers aimed at increasing their levels of capital. However, these measures have been insufficient to eliminate the risks of a new banking crisis.

Banks´ foreign claims[1/]
Distribution per regions

US$ billion

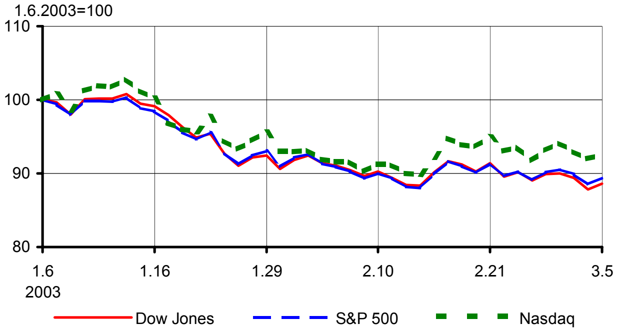
Period		All countries	Developing countries	Lat. Am. & Caribbean	Asia[1/]	Europe[1/]	Brazil
2001	I	11 315.5	1 289.9	518.1	388.2	239.3	136.2
	II	11 190.9	1 285.6	521.9	375.0	245.9	139.9
	III	11 577.2	1 332.4	558.4	375.1	256.0	138.5
	IV	11 497.5	1 357.4	562.3	376.6	275.8	142.4
2002	I	11 464.6	1 327.6	528.1	387.7	270.6	134.9
	II	12 419.3	1 333.3	491.9	395.3	293.4	123.9
	III	12 519.7	1 292.0	449.2	397.8	293.7	105.1

Source: BIS. Consolidated Banking Statistics

1/ Developing countries.

In 2002, international bank loans to the developed countries increased, following the trend that has been common to other modalities of capital flows. At the same time, however, flows of these operations to developing countries have declined. In this context, according to the Bank for International Settlements (BIS), total international assets from institutions that report to the BIS came to US$12.5 trillion in the third quarter of 2002, registering growth of 0.7% and 8.8% in relation to the immediately previous period and the same quarter of the previous year. The participation of banking lines extended to the developed countries increased to 81.5% of the total, while operations targeted to the developing countries came to 10.3%. Stress must be given to the fact that the participation of Latin America and the Caribbean in assets held in the developing countries has dropped from 41.9% in 2001 to 34.8% in the subsequent year.

Stock exchanges - USA

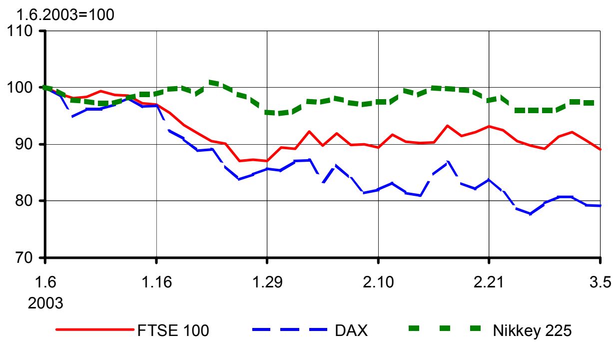


Source: Bloomberg

Global stock markets have faced fluctuations caused by uncertainties regarding the outlook for accelerated economic growth and its effects on corporate results. With regard to the performance of American exchanges, the situation is a reflection of tensions in the Middle East and the slower than expected process of economic recovery. In this context, the Dow Jones Industrial Average and the Standard and Poor's (S&P) 500, which operate at the New York Stock Exchange (NYSE), and the Nasdaq registered monthly contraction of 1% to 5% in February.

With respect to the European exchanges, expectations of recovery in stock prices have not materialized, as indices have continued along a downward curve to the extent that the threat of war has led corporations to revise their gains. In England, the Financial Times Securities Exchange Index (FTSE 100) used in the London exchange dropped by 9.4% in February while, in Germany, the Deutscher Aktienindex (DAX), used at the Frankfurt exchange, fell by 13.1%.

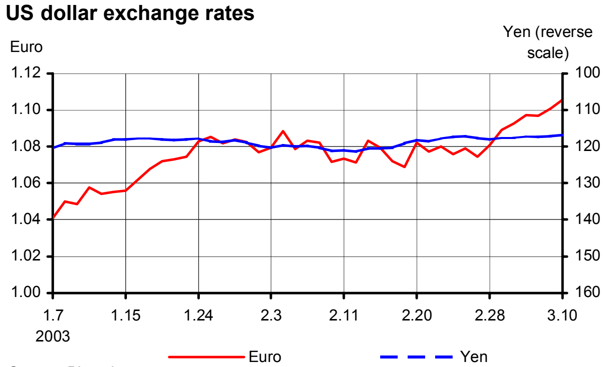
Stock exchanges - Europe and Japan



Source: Bloomberg

In Japan, the negative outlook regarding local economic recovery has impacted financial markets. In this sense, the Nikkei index, used at the Tokyo exchange, turned in negative growth of 3% in the first two months of 2003, following a 21% decline in 2002.

US dollar exchange rates



Source: Bloomberg

In the exchange market, the trend toward depreciation of the dollar against the euro and the yen that began at the start of 2002 deepened in the first quarter of 2003. In this sense, the American currency registered depreciation of 5.3% from January to early March, in relation to the euro, closing at a level of US$1.105/€ on March 10, while the Japanese currency registered 1.4% appreciation in relation to the dollar in the same period. The downward movement of the dollar in international markets reflects concerns regarding economic recovery and growth in the United States current account deficit, as well as low rates of return in American fixed and variable income markets.

4.4 World trade

In general terms, foreign trade results for the fourth quarter of 2002 were not particularly positive for the Nafta member countries. In the United States, foreign sales declined, particularly in the month of December, reflecting the weakening of world demand. On the other hand, imports have expanded over the course of the period and have been sustained by increased purchases of consumer goods and automotive vehicles, at a rate higher than the falloff in petroleum purchases.

In Canada, after having made a significant contribution in the previous quarter, foreign trade was neutral in relation to GDP growth. The balance of trade registered some degree of decline in the third quarter, with growth in imports and reductions in exports. In Mexico, the trade deficit increased, indicating seasonal growth in imports. Exports reached the highest level of the year, despite only moderate growth, and mirrored the slow recovery of the United States economy which is the destination of 90% of the country's foreign sales.

In Latin America, improvement in the balance of trade result in 2002 was a consequence of an accentuated reduction in imports, particularly in light of the difficulties faced by several economies, particularly, Argentina and Venezuela. In Argentina, the fourth quarter result confirmed the trend toward more robust trade balance surpluses, thus guarantying maintenance of the flow of dollars to the exchange market. In Chile, the balance of trade remained relatively stable, generating an average monthly surplus of US$250 million in the October/December quarter. The general strike in Venezuela in early December affected oil production, which declined by about 25% in the final quarter of 2002 compared to the same period of 2001. Considering that, on average, sales of petroleum correspond to 85% of the nation's exports, foreign sales declined by 29% in the quarter, while imports fell by 16.5% in comparison to the preceding quarter.

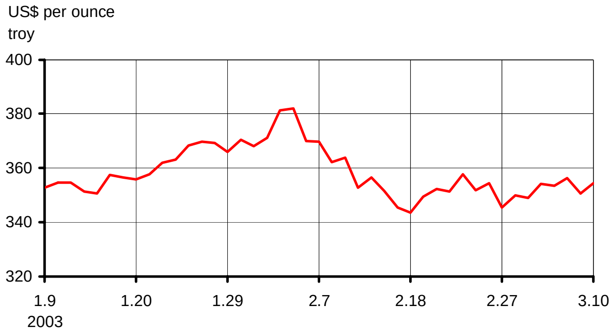
The growth curve followed by foreign trade in the Euro zone countries was interrupted in the final two months of 2002, as exports dropped more sharply than imports, resulting in a fourth quarter trade surplus reduction of 17%, when compared to the previous period. In Germany, foreign sales expanded, albeit at a much more moderate pace than in the previous quarter, and resulted in a lesser trade surplus. In France, both imports and exports turned downward.

Recovery in external demand as of the third quarter of 2002 had a positive impact on Japanese foreign trade, generating particularly strong export growth in November. Simultaneously, imports dwindled and, consequently, had the effect of raising the trade surplus to US$22.5 billion in the fourth quarter of the year.

In China, exports accelerated over the course of the final quarter of 2002, with intense expansion in the month of December. Chinese participation in the United States electric-electronic goods market has been expanding, threatening the leadership position of products made in Japan and Southeast Asia.

4.5 Commodities

Gold



Source: Bloomberg

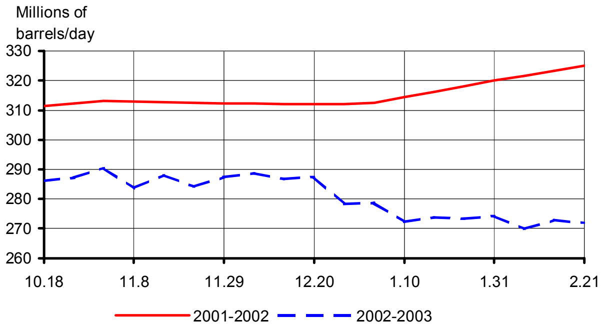
In early February, gold prices moved into the range of US$382 per troy-ounce and fell to a level of US$330 per troy-ounce in the final week of March, following rather intense fluctuation in the period. In early 2002, the price of gold fluctuated in the range of US$300 per troy-ounce. The increase in the price of this metal was due mostly to uncertainties on the world political scene, plus the downward slide in United States stock market and depreciation of the dollar.

In February, the announcement made by the Bank of Portugal that it would sell 30 tons of its gold reserves was not sufficient to push prices downward. Expectations are that prices will remain volatile as long as the uncertainties of the international scenario persist. Other precious metals, such as silver and palladium, and base metals, like copper, aluminum, nickel and zinc, have also registered sharp improvement in international market prices.

4.6 Petroleum

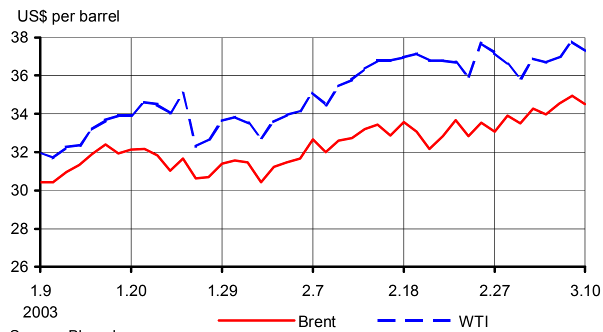
At its January 12 meeting, the Organization of Petroleum Exporting Countries (Opec) analyzed the situation of supply and demand for the first quarter of 2003 and decided to increase the production target from 23 million barrels per day, defined in December 2002, to 24.5 million barrels per day, as of February first. Product prices rose by more than 40% from December to March as a consequence of the strike by Venezuelan oil workers that jeopardized exports of the product to the United States. Going beyond this, the petroleum

USA - Commercial stocks



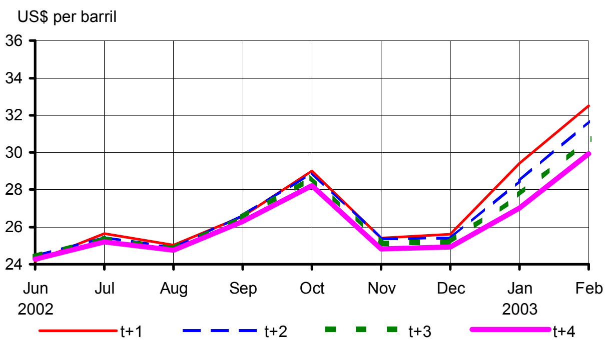
Source: US Department of Energy

Oil market



Source: Bloomberg

Oil- Future market



Source: Bloomberg

market was further pressured by the imminence of the war on Iraq, coupled with increased demand for fuel for purposes of heating during the upcoming winter in the northern hemisphere. Taken together, Venezuela and Iraq are responsible for 7% of overall petroleum output.

In early March, crude prices reached their highest level since the Gulf War in response to a declaration released by the United States Department of Energy with regard to reductions in American stocks of petroleum, refined oils and gasoline. American reserves diminished by one million barrels to a level of 271.9 million barrels in the week of February 21, which was 14% less than on the same date of the previous year. In the wake of military operations in Irak, oil prices declined even further, dropping more than 20%.

At the end of December, Brent type petroleum was negotiated at US$29.99, rising to US$31.45 at the end of January and approximately US$35 in early March and dropping to US$26.60 in March 26. In New York, WTI type petroleum was negotiated at US$31.37 per barrel at the end of December, US$33.51 at the end of January and US$37 at the beginning of March, decreasing to US$26.60 in March 24. On the futures market, Brent type petroleum prices moved downward for subsequent delivery periods.

4.7 Farm commodities

On average, farm commodity prices registered upward movement in early 2003. Despite the fact that current estimates indicate additional price increases for cotton, corn, citrus fruits and other commodities, an overall analysis for the year does not indicate any sustained rise in international prices. Should the world geopolitical scenario stabilize, there may even be a price decline before the year is out.

In the case of the sugar market, prices are expected to remain high over the medium term, partly due to the outlook for increased production of alcohol in detriment to sugar in the next Brazilian harvest. In the case of wheat, world production in the 2003/2004 period is expected to come to 595 million tons or 30 million more than in 2002/2003.

4.8 Conclusion

World economic performance has yet to regain the dynamism that would indicate the start of a process of solid recovery. Quite to the contrary, the pessimism implicit in the confidence indicators of the major developed economies would seem to suggest a worsening of the activity level in coming months, despite positive recovery in industrial output in the early months of 2003. It should be emphasized that the signs of shrinking private consumption in the United States not only call into question the recovery of that country's economy, but also raise concerns regarding the recovery of the world economy as a whole.

Low levels of inflation in the major economies represent a favorable scenario for additional monetary policy incentives aimed at stimulating growth. Thus, since recovery over the medium term does not seem likely, one can expect further interest rate cuts in the United States and the Euro zone countries. The United States economy can also count on further fiscal incentives already programmed by the government. The emerging economies, such as those of Latin America, will continue suffering restrictions on utilization of fiscal policies, given the need for more sustainable public debt structures, and on application of expansionary monetary policies, as a result of their dependence on international capital flows. On the other hand, once the problems of the Middle East are behind us, one can expect some degree of renewed confidence on the part of international investors, coupled with additional reductions in the level of aversion to risk. The coming together of these elements should facilitate access to international financial markets, particularly among the emerging economies.

Should expectations of a rapid solution to the Middle East crisis be confirmed, this fact alone will act as a shot in the arm to the world economy, accompanied as it surely will be by declining uncertainties and lesser oil prices. If all of this were to result in an abrupt about-face in the United States economy, the results would bring a rapid ripple effect for economic recovery on a global scale.

5 – Foreign sector

The balance of payments has achieved a position that ensures financing of the nation's external accounts. Balance of trade performance has reflected exchange rate depreciation, while stability in flows of services and income has resulted in a progressive downturn in the current account deficit. At the same time, the continued net inflow of direct foreign investment – albeit at a lesser pace than in 2002 – has been sufficient to finance the current account deficit with considerable leeway. Inflows of other external resources expanded when compared to 2002, as the ratio of securities successfully rolled improved sharply and net short-term capital inflows were registered once again.

5.1 Trade in goods

Trade balance - FOB

US$ million

Period		Exports	Imports	Balance	Trade flow
Jan-Feb	2003	9 806	7 523	2 283	17 329
Jan-Feb	2002	7 630	7 198	432	14 828
% change		28.5	4.5		16.9

Source: MDIC/Secex

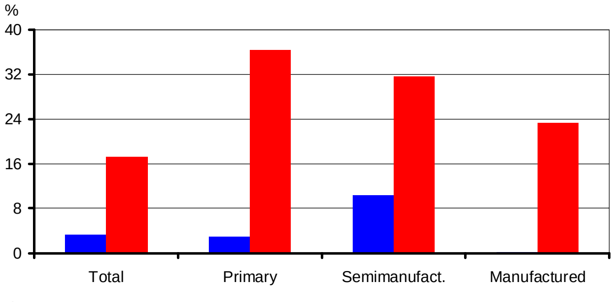
Note: In 2002, 40 working days; in 2003, 42.

In the first two months of 2003, foreign sales followed an upward curve, reaching a total of US$9.8 billion for growth of 28.5% over the same period of 2002.

Imports have registered less accentuated growth. Thus, total foreign purchases in the two month period came to US$7.5 billion, or 4.5% more than in the first two-month period of 2000. The trade balance surplus came to US$2.3 billion in the first two months of the year, an amount significantly higher (US$432 million) than in the corresponding period of the previous year.

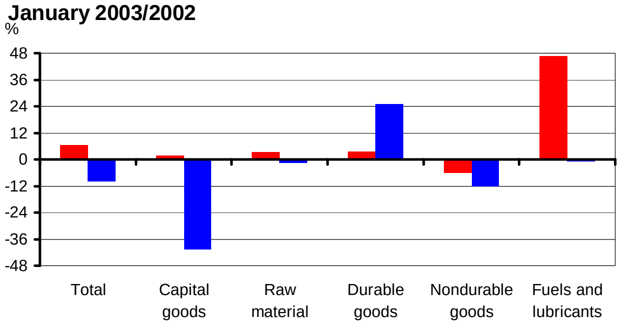
Compared to the same month of the previous year, Fundação Centro de Estudos do Comércio Exterior (Funcex) data indicate that, in

Exports - price and quantum index
January 2003/2002



Source: Funcex

Imports - price and quantum index -
January 2003/2002



Source: Funcex

January 2003, export prices rose by 3.3%, while volume expanded by 17.2%. Volume growth was significant for the three aggregate factor categories and principally for basic products, while price evolution was basically a consequence of 10.4% expansion in the prices of semimanufactured goods, above all as a result of highs under iron or steel goods and unrefined soybean oil.

Insofar as imports are concerned, price growth came to 6.5%, mostly as a result of upward movement in international oil prices, evident in the 46.6% increase in the prices of imported fuels and lubricants. The total quantity imported dropped by 9.9% in relation to the January 2002 level. This trend was due principally to cutbacks in the volume of capital goods, which are more dependent on external fianncing lines, and to a lesser pace of economic growth. At the same time, it is important to note that stocks of these goods are below the levels of the previous year.

In the first two months of 2003, median daily exports came to a level of US$233.5 million, for growth of 22.4% when compared to the corresponding period of the previous year. In should be noted that, in the two month period indicated, the results were the highest since 1987. Foreign sales of basic products increased by 40.2%, while those of semimanufactured products rose by 37.9% and those of manufactured goods increased by 20.2%.

Exports by aggregate factor - FOB
Daily average - January-February

US$ million

Itemization	Accumulated		
	2002	2003	% change
Total	190.8	233.5	22.4
Primary products	42.1	59.1	40.2
Industrial products	136.7	169.7	24.1
Semimanufactured goods	30.3	41.7	37.9
Manufactured goods	106.5	128.0	20.2
Special operations	11.9	4.7	- 60.5

Source: MDIC/Secex

Note: In 2002, 40 working days; in 2003, 42.

Expansion in foreign sales of basic products was driven principally by exports of crude oil, coupled with price recovery under such goods as soybeans, soy meal and coffee beans, while other specific goods, including chicken meat, beef and pork, have been carving out positions for themselves on a variety of markets.

Among foreign sales of semimanufactured goods, significant growth has also been registered under such products as cellulose, raw sugar and mineral raw materials, like unrefined aluminum, cast iron and semimanufactured iron or steel goods, all of which benefited from growth in prices.

Exports to Argentina and other countries - FOB
January-February 2003

	% change[1/]		
Itemization	Argentina	Other	Total
Total	78.8	26.7	28.5
Manufactured products[2/]	81.4	23.1	26.2

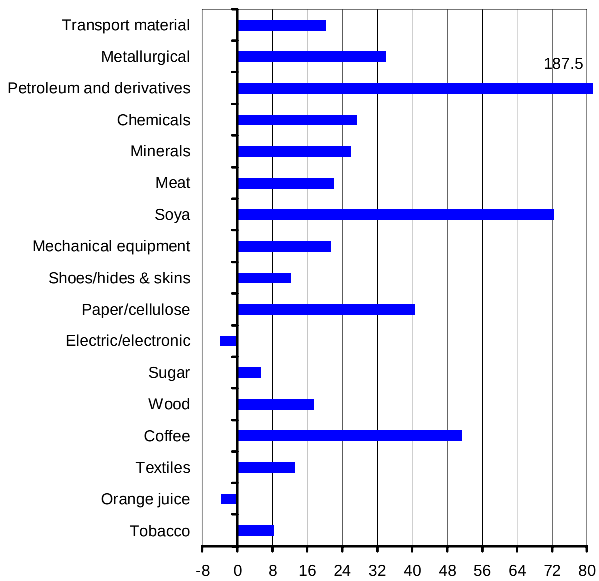
Source: MDIC/Secex

1/ Over the same period of last year.
2/ Includes manufactured product reexports.

In the case of manufactured products, sales to Argentina picked up and lead the way under this heading. In this context, while total Brazilian foreign sales increased by 28.5%, those channeled to our neighboring country expanded by 78.8%. When sales of manufactured goods are viewed in an isolated manner, these percentages change to 26.2% and 81.4%, respectively. The increase in exports to Argentina occurred most intensely under production in the automotive sector, particularly automobiles, auto parts and vehicle engines.

Aside from this, exports of fuel oils were particularly important, especially as a consequence of higher international price levels. Growth in sales of flat rolled steel and semimanufactured raw materials, resulting from growth in both prices and quantity, suggests upward movement in the economic activity level of some of our trading partners, principally in Asia.

Exports by sectors - FOB - January-February/2003
Percentual change from the same period of the last year



Source: MDIC/Secex

On a sector-by-sector basis, the only export headings to decline were those involving electric-electronic goods and orange juice which registered downward movement in the first two months of the current year, compared to the same period of the previous year. In the opposite sense, emphasis should be given to the strong foreign sales performance of the sectors of petroleum and petroleum derivatives, soybean products, coffee and paper and pulp.

Daily average imports totaled US$179.1 million in the two month period, reflecting a drop of 0.5% in the period under comparison. On the one hand, this stability reflected growth of 36.4% in imports

Imports by end-use category - FOB
Daily average - January-February

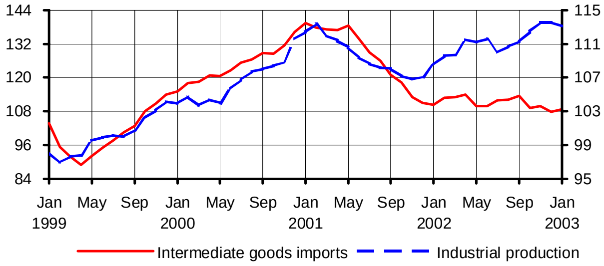
US$ million

Itemization	2002	2003	% change
Total	180.0	179.1	- 0.5
Capital goods	48.0	41.2	- 14.0
Raw materials	91.7	92.4	0.8
Naphtha	2.0	3.5	71.8
Consumer goods	21.9	20.4	- 6.9
Durable	8.8	9.8	10.7
Passenger vehicles	2.6	3.3	24.3
Nondurable	13.1	10.6	- 18.9
Fuels	18.4	25.1	36.4
Crude petroleum oil	8.6	14.8	73.5

Source: MDIC/Secex

Note: In 2002, 40 working days; in 2003, 42.

Intermediate goods imports x industrial production
Seasonally adjusted indices - 3 month moving average
Imports 1999 = 100



Source: IBGE and Funcex

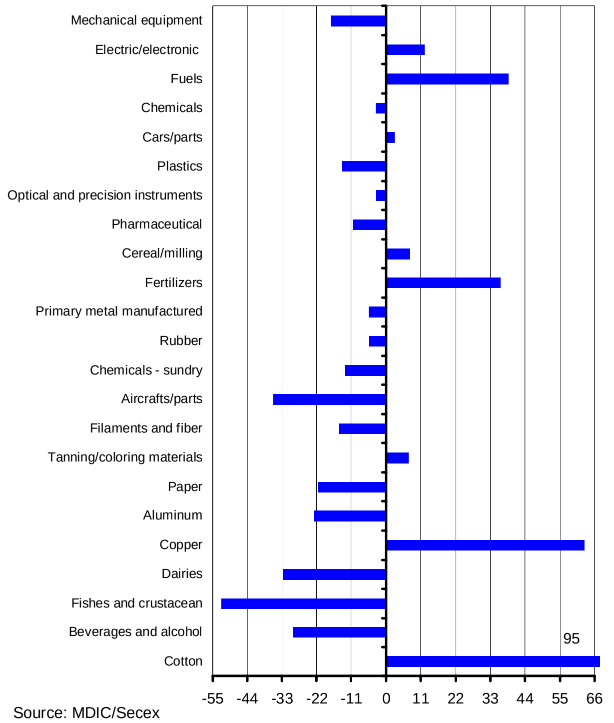
of fuels and lubricants, mostly as a result of increases of 73.5% in outlays on imports of crude oil; 10.7% for consumer durables; and 0.8% for raw materials and intermediate goods, among which those involving naphthas have expanded by 71.8%. In the opposite sense, imports on nondurable consumer goods fell by 18.9% and those of capital goods dropped by 14%.

The volume of imports of raw materials and intermediate goods remained relatively stable in the month of January, just as occurred in 2002. This performance, allied to the recovery that has occurred under industrial production, suggests an ongoing process of import substitution in this area.

An evaluation of imports on a sector-by-sector basis in the two month period under consideration, compared to the same period of the previous year, indicates growth in purchases of electric-electronic goods, fuels and lubricants, fertilizers, in this case mostly as a result of higher oil prices. Parallel to this, imports in the areas of automotive vehicles and parts have also expanded, though at a lesser pace, with most of the increase concentrated under purchases from Germany and Japan.

Brazilian trade operations registered across-the-board bilateral improvement in the two month period. The strongest absolute growth occurred under trade with the United States, with expansion of US$594 million in the trade surplus, to a level of US$1.1 billion. This was a consequence of 18.4% growth under foreign sales, particularly operations involving aircraft, footwear, cellulose and fuel oils, coupled with a 10.4% downward slide under imports, mostly concentrated among engines and aircraft turbines, measuring instruments and apparatuses, verification equipment and integrated circuits and microelectronic equipment.

Imports by sectors - January-February/2003
Percentual change from the same period of the last year



Source: MDIC/Secex

Exports and imports by geographic area - FOB
January-February

US$ million

Itemization	Exports			Imports			Balance	
	2002	2003	% change	2002	2003	% change	2002	2003
Total	7 630	9 806	28.5	7 198	7 523	4.5	432	2 283
Laia	1 296	1 573	21.3	1 331	1 357	1.9	- 35	216
Mercosur	444	616	38.8	922	994	7.8	- 479	- 378
Argentina	273	489	78.8	787	847	7.6	- 513	- 358
Other	170	127	-25.4	136	148	8.7	35	- 21
Mexico	253	343	35.5	87	76	-12.3	167	267
Other	599	614	2.4	322	287	-11.1	277	327
USA 1/	2 253	2 668	18.4	1 725	1 546	-10.4	528	1 122
EU	1 835	2 390	30.2	2 005	2 039	1.7	- 170	351
E. Europe 2/	202	344	69.7	88	135	54.3	115	208
Asia	905	1 326	46.5	1 197	1 277	6.7	- 292	49
Japan	275	313	13.7	454	372	-18.1	- 179	- 58
South Korea	118	135	13.8	147	163	10.7	- 29	- 29
China	185	397	114.8	190	263	38.3	- 5	135
Other	326	481	47.3	406	479	18.2	- 79	1
Sundry	1 139	1 507	32.3	853	1 170	37.2	286	337

Source: MDIC/Secex

Note: Forty working days in both periods.
1/ Includes Puerto Rico.
2/ Albania, Bulgaria, Hungary, Poland, Slovak Republic, Czech Republic, Romania and countries of the former Soviet Union.

Trade with European Union member countries registered a surplus of 351 million in the two month period, compared to a deficit of US$170 million in the corresponding period of 2002. Exports increased by 30.2%, a figure that would surpass the mark of 40% if operations with Germany and the Netherlands were to be included, since they are the major country's of destination for the nation's products. The countries belonging to the bloc are the principal destinations for basic products, particularly soybean goods, meats, coffee and iron ore. Imports grew by 1.7%, principally involving auto parts, engines for automotive vehicles, measurement instruments and apparatuses, verification equipment and medicines.

The trade surplus with the countries of Asia totaled US$49 million, compared to a deficit of US$292 million in the first two months of the year. This result reflected growth of 46.5% in exports and 6.7% under imports. The sharpest growth was registered in trade with China. The underlying reasons for this expansion were that country's admission to the WTO and the effects of the Brazilian mission to that country in 2002. In this framework, Brazilian foreign sales to China expanded by 114.8%, led by sales of raw materials, such as iron ore, pulp, flat rolled steel, iron or steel semimanufactured products and goods related to the automotive industry. Imports from China increased by 38.3%, mostly including parts for transmission and reception equipment, engines, generators and electric transformers and fabrics, and raw materials, such as coke and semicoke, heterocyclic compounds and pit-coal.

Insofar as trade with Japan is concerned, the deficit dropped from a level of US$121 million in the first two months of 2002 to US$58 million. This improvement reflected a reduction of 18.1% in imports, parallel to growth of 13.7% under foreign sales. Brazilian sales were composed mainly of raw materials, such as iron ore, unrefined aluminum, cellulose and iron alloys, as well as chicken meat, orange juice and unprocessed coffee beans.

An analysis of trade relations with the Laia member countries indicates that the deficit registered in the first two months of 2002 has been reversed and transformed into a surplus of US$216 million, mostly as a result of the bilateral results achieved in operations with Argentina and Mexico. In the first case, the Brazilian deficit declined by about US$155 million, a fact that takes on greater importance when one recalls that the trade flow between the two countries expanded by about 30% between the two periods under consideration. Among Brazilian exports to Argentina, particular mention should be made of iron ore, ethylene polymers, propylene and styrene, organic-inorganic compounds and products related to the automotive sector. Alongside wheat and petroleum, the latter of these was also one of the major products purchased from our neighbors.

With regard to Mexico, the trade surplus expanded by US$100 million as a result of 35.5% growth in exports and a 12.3% drop in imports. The performance of the foreign sales sector was, to a great extent, a consequence of sales of products from the automotive industry, thus reflecting the bilateral agreement signed between the two nations, and flat rolled steel.

Parallel to these results, one should underline 65% growth in the trade flow with Eastern European countries, with 69.7% expansion under exports and 54.3% under imports. For the most part, this figure is a result of trade with Russia, mostly as a consequence of the large scale Brazilian trade mission to that country in 2002, as one element of the government's trade promotion program. The major Brazilian products purchased by Russia were meats and unrefined sugar.

5.2 Services and income

Current account

Itemization	2002			2003	
	Jan-Feb	IV Q	Year	Jan-Feb	Year[1/]
					US$ billion
Current account	-2.2	-0.3	-7.8	0.0	-4.2
Trade balance	0.4	5.3	13.1	2.3	16.0
Exports	7.6	16.8	60.4	9.8	64.0
Imports	7.2	11.6	47.2	7.5	48.0
Services	-0.6	-1.2	-5.1	-0.5	-4.9
Transportation	-0.3	-0.5	-2.1	-0.3	-2.3
International travel	-0.1	0.2	-0.4	0.1	-0.3
Computer and information	-0.2	-0.3	-1.1	-0.2	-1.2
Operational leasing	-0.3	-0.5	-1.7	-0.2	-1.6
Other	0.3	-0.1	0.2	0.1	0.4
Income	-2.3	-5.2	-18.2	-2.3	-17.8
Interest	-2.1	-3.8	-13.1	-1.9	-13.3
Profits and dividends	-0.2	-1.4	-5.2	-0.4	-4.5
Compensation of employees	0.0	0.0	0.1	0.0	0.0
Current transfers	0.2	0.8	2.4	0.4	2.5

1/ Forecast.

The current account balance registered significant improvement in the first two months of 2003, compared to the same period of the previous year. Basically, this performance was a consequence of growth in the trade balance surplus, since outflows related to services and income remained relatively stable.

Net outlays on services dropped by 20.4% in the period, partly as a result of a 19.2% decrease in net outlays on transportation. International travel generated net revenues of US$101 million, compared to net spending of US$126 million in the first two months of 2002. This result reinforces the tendency that began in the second half of 2002, making it possible to forecast a surplus under this heading. Net spending on computer and information services came to US$174 million, for a reduction of 16.8%, while outlays on equipment rentals closed at US$225 million, for a decline of 16.6%.

In the first two months of 2003, net remittances of income abroad added up to US$2.3 billion, representing a reduction of 1.4% in relation to the corresponding period of the previous year. Interest remittances dropped by 8.3% and closed with a total of US$1.9 billion. This result was offset by 71.7% growth in remittances of profits and dividends, which came to US$382 million in the period.

For 2003, the trade surplus is expected to expand to US$16 billion, with exports of US$64 billion and imports of US$48 billion. Net outlays on services and net remittances of income should remain in the same range as in 2002. In this context, the forecast points to a drop of US$3.6 billion in the current account deficit to US$4.2 billion in 2003.

5.3 Financial account

Financial account

US$ billion

Itemization	2002 Jan-Feb	2002 IV Q	2002 Year	2003 Jan-Feb	2003 Year[1/]
Financial account	2.9	0.6	11.6	-0.1	-4.4
Direct investments	2.0	3.7	14.1	1.2	11.5
Abroad	-0.4	-0.2	-2.5	-0.5	-1.5
In Brazil	2.3	3.9	16.6	1.7	13.0
Equity capital	2.1	3.3	17.1	1.1	12.4
Intercompany loans	0.2	0.6	-0.5	0.6	0.6
Portfolio investments	0.8	-2.2	-5.1	1.0	-1.6
Assets	-0.1	0.1	-0.3	-0.1	0.0
Liabilities	0.8	-2.3	-4.8	1.1	-1.6
Derivatives	-0.2	0.0	-0.4	0.0	0.0
Other investments	0.3	-0.8	3.0	-2.3	-14.3
Assets	1.2	0.2	-2.0	-1.6	-5.2
Liabilities	-0.9	-1.0	5.0	-0.7	-9.2

1/ Forecast.

In January and February, the financial account registered net outflows of US$59 million. The rate of rolling long-term notes and commercial papers closed at 46%, well above the level achieved in the final quarter of 2002. One of the factors responsible for outflows was the increase in the assets of residents abroad in the form of deposits, principally in the banking system. Net direct foreign investments, which came to US$1.7 billion, and net inflows of short-term resources in the form of both loans and securities, partially offset funding outflows.

Foreign portfolio investments added up to net inflows of US$1.1 billion in the two month period, registering a reversal in the net flow of resources to the country when one considers net amortizations of US$2.3 billion in the final quarter of 2002. Net inflows were concentrated under short-term papers (US$1.2 billion). Parallel to these operations, stock investments turned in net inflows of US$215 million, and long-term fixed income investments indicated that external long-term credit operations had once again picked up momentum. The rate of rolling notes and commercial papers improved considerably and reached a level of 46%, compared to just 11% in the fourth quarter of 2002. In the opposite sense, the rate referring to direct loans declined by 26 p.p. to 33%. For the remainder of 2003, the rolling of operations involving notes and commercial papers is expected to consolidate at its present level, while that of direct loans should turn more positive. Aside from this, one must consider new placements of sovereign bonds on the external market in amounts sufficient to cover rolling of 84% of maturities.

BP medium and long-term financing sources
Selected items

US$ billion

Itemization	2002 Jan-Feb	2002 IV Q	2002 Year	2003 Jan-Feb	2003 Year[1/]
Medium and long-term funds	2.1	0.9	8.5	0.4	9.3
Bonds	1.3	0.0	4.1	0.0	3.0
Notes and commercial papers	0.7	0.2	2.1	0.2	2.6
Direct loans	0.1	0.7	2.3	0.2	3.7
Short-term loans[2/]	0.9	-2.9	-5.6	0.4	1.0
Short-term securities	-0.2	-0.2	-0.8	1.2	0.5
Roll-over rates[3/]					
Bonds	n.a.	n.a.	n.a.	0%	84%
Notes and commercial papers	55%	11%	31%	46%	56%
Direct loans	16%	69%	64%	33%	89%

1/ Forecast.
2/ Includes direct loans and trade credits transferred by banks.
3/ Roll-over rate equals the ratio of disbursements to amortizations, excluding amortizations of securities and loans converted into direct investment.

Uses and sources

US$ billion

Itemization	2002 Jan-Feb	2002 IV Q	2002 Year	2003 Jan-Feb	2003 Year[1/]
Uses	-6.2	-9.1	-38.2	-3.1	-31.0
Current account	-2.2	-0.3	-7.8	0.0	-4.2
Amortizations ML-term[2/]	-3.9	-8.7	-30.4	-3.1	-26.8
Securities	-1.3	-3.1	-11.9	-0.5	-9.5
Paid	-1.3	-2.5	-9.2	-0.5	-9.5
Nationalization debt	0.0	0.0	-0.3	0.0	0.0
Refinanced	0.0	0.0	0.0	0.0	0.0
FDI conversions	0.0	-0.6	-2.8	0.0	0.0
Suppliers' credits	-0.4	-0.7	-2.3	-0.3	-2.5
Direct loans[3/]	-2.3	-5.0	-16.2	-2.3	-14.7
Sources	6.2	9.1	38.2	3.1	31.0
Capital account	0.1	0.1	0.4	0.1	0.0
FDI	2.3	3.9	16.6	1.7	13.0
Domestic securities[4/]	0.4	0.8	1.8	0.2	1.8
ML-term disbursements[5/]	3.3	3.5	18.7	1.8	20.8
Securities	1.9	0.2	6.2	0.2	5.6
Supliers' credits	0.2	0.2	1.3	0.2	2.3
Direct loans	1.1	3.1	11.2	1.4	12.9
Brazilian assets abroad	1.0	0.3	-3.9	-2.1	-6.1
Loans to Bacen	0.0	3.0	11.5	0.0	-8.1
Other[6/]	-0.7	-4.3	-6.6	1.7	1.3
Reserve assets	-0.1	1.8	-0.3	-0.3	8.3

1/ Forecast.
2/ Registers amortization of medium and long term supliers' credit, loans and securities placed abroad minus refinancing and discounts. Excludes amortizations referring to loans to Banco Central and intercompany loans.
3/ Registers amortizations loans borrowed from foreign banks, buyers, agencies and multilateral organizations.
4/ Includes foreign investment in equity and debt securities traded in the domestic market.
5/ Excludes intercompany loans disbursements.
6/ Registers net values of bond swaps, short-term securities, short-term trade credit, financial derivatives, nonresident deposits, other liabilites and errors & omissions.

The progressive reductions in the current account deficit and maintenance of net direct foreign investment inflows have been the major factor responsible for the lower level of funding needed for balance of payments financing, even though these inflows have still been less than in recent years. At the same time, this is a significant contribution to improving the rate of rolling the long-term debt and the volume of net inflows of short-term debt.

In the first two months of 2003, gross reserves came to US$38.5 billion, compared to US$37.8 billion, in December of the previous year, while net reserves moved from US$14.2 billion to US$14.3 billion. Emphasis should be given to Banco Central interventions in the exchange market, principally as a result of maturity of repurchase lines contracted in the previous year and totaling US$901 million, while interventions on the demand market reflected outlays of US$185 million.

At the end of 2003, it is estimated that gross reserves had declined to US$30 billion, principally as a result of amortizations of US$12.2 billion and disbursements of US$4.1 billion referring to the IMF Program of Financial Assistance to the Country (PAF). In contrast to payment of US$7.5 billion in external debt service, mention should be made of scheduled disbursements of US$2.8 billion from international organizations and US$3 billion in bond issues, aside from revenues of US$1.6 billion related to repurchases of exchange market lines. Since operations involving the PAF do not affect net reserves, these are expected to remain relatively stable in 2003, totaling US$14.5 billion, compared to US$14.2 billion in 2002.

Statement of international reserves

US$ billion

Itemization	2002 Jan-Feb	2002 IV Q	2002 Year	2003 Jan-Feb	2003 Year[1/]
Reserves position in previous period	35.9	38.4	35.9	37.8	37.8
Net Banco Central interventions	-	-3.3	-9.1	0.7	1.6
Spot and export lines	-	-2.6	-7.3	-0.2	-0.2
Repurchase lines	-	-0.6	-1.8	0.9	1.8
Debt servicing (net)	-1.0	-1.8	-7.1	-0.5	-7.5
Interest	-0.7	-0.9	-3.5	-0.4	-2.6
Credit	0.3	0.4	1.6	0.4	1.4
Debit	-1.0	-1.3	-5.1	-0.8	-4.0
Amortization	-0.3	-0.9	-3.6	-0.1	-4.9
Disbursements	1.3	0.2	5.3	-	5.8
Multilateral organizations	-	0.2	1.3	-	2.8
Sovereign bonds	1.3	-	3.9	-	3.0
Exceptional financing (IMF)	-	3.0	11.5	-	-8.0
Disbursement	-	3.1	16.0	-	4.1
Amortization	-	-0.1	-4.6	-	-12.2
Others[2/]	-0.2	1.3	1.4	0.5	0.4
Change in assets	0.0	-0.6	2.0	0.7	-7.8
Gross reserves position	35.9	37.8	37.8	38.5	30.0
Net reserves position - Agreement with IMF[3/]	28.0	14.2	14.2	14.3	14.5

1/ Forecast.

2/ Includes pre-payment to Poland in November 2001. Includes payments/receipts in the framework of the Reciprocal Credit Agreement (CCR), fluctuations in prices of securities, exchange parities and price of gold, discounts and premiums, duty fees and release of collaterals.

3/ In order to comply with the performance criterion, in the framework of the International Monetary Fund Agreement, the calculation parameters for the net adjusted reserves - as defined in the Technical Memorandum of Understanding (TMU) of the third review of the Stand-By Arrangement - should be observed. In this case, the net adjusted reserves denominated in USD take into account the parities set on dates established by the TMU to figure out the assets denominated in currencies unlike the USD, including the Special Drawing Rights (SDR). The same methodology is applied in the case of the gold price. Also, pursuant the TMU, the outstanding debt with the IMF should be excluded from the reserve assets (international liquidity concept), as well as the deposits in banks domiciled abroad, though headquartered in the country, and the securities issued by residents that surpass altogether US$1,023 million.The exceeding value as of February 2003 was US$3,261 million.

5.4 Conclusion

The balance of payments for the first two months of 2003 indicated external account financing conditions that were better than in the final quarter of the previous year. The current account deficit remained on a declining trajectory and was fully financed by direct foreign investments, as has happened in recent months. Achievement of the expected trade balance performance and the continued inflow of net direct foreign investments – albeit at a level below 2002 – will ensure that there will be satisfactory conditions for financing the current account balance, since no significant alterations are expected in the flows of services and income. Aside from this, it is important to acknowledge that flows of medium and long-term loans are being reestablished at the same time in which the rates of rolling liabilities have been improving considerably, as short-term credit lines have gradually been recovered.

6 - Inflation outlook

This chapter of the *Inflation Report* presents the Monetary Policy Committee's (Copom) assessment of the recent behavior of inflation and the prospects for inflation through 2004. The projections presented herein are based on the assumption that the basic interest rate will remain unchanged during the period under analysis at 26.5% a year, which is the rate set by the Copom at its last meeting, held on March 18-19, and that the exchange rate will remain unchanged at a level similar to the one registered on the eve of that meeting (R$3.40). The report will also present inflation paths consistent with an alternative scenario, based on the assumption that expectations will improve more rapidly and that the exchange rate will appreciate. It is important to note that these procedures are strictly technical. Hence, these assumptions should not be taken as forecasts of the future interest rate or exchange rate path.

The inflation and GDP growth forecasts presented in this Report are not meant to be restricted to point estimates. Rather, they are projected within probability intervals, reflecting the degree of uncertainty when setting the basic interest rate. Inflation forecasts are based not only on the interest rate assumption, but also on assumptions concerning the behavior of relevant exogenous variables, namely, those that cannot be controlled by the Central Bank. The baseline scenario, which the Copom uses to make its decisions regarding interest rates, utilizes the set of assumptions considered most likely by the Copom. The Copom's forecasts that are presented in this Report are intended to enhance monetary policy transparency and its effectiveness in controlling inflation, which is its main objective.

6.1 Determinants of inflation

The higher inflation registered late last year and early this year was caused by the lower availability of foreign funds in recent years.

In the late 1990s, the inflow of foreign funds to Brazil decreased sharply as a result of a deterioration in the economic scenario in important industrialized countries and of the higher risk aversion of international investors in emerging markets following the Asian, Russian, and Brazilian crises. Brazil saw a reduction in the availability of foreign savings, which were used to finance the deficit in the current account of the balance of payments, which in 1998 amounted to 4.24% of GDP.

In 1999 and 2000, the drop in foreign savings was gradual. Thus, Brazil reduced its current account deficit by 0.70 p.p. of GDP in 2000, when its economy grew by 4% and the inflation rate was 5.97%. However, subsequently the gradual nature of the adjustment was adversely affected by several domestic and external shocks.

In 2001, the most important shocks were the impact of contagion from the Argentine crisis on Brazil risk, the electricity-rationing program, and higher risk aversion in international markets, particularly after the events of September 11. In 2002, the inflow of capital dropped more sharply as a result of a deterioration in the foreign scenario, caused by the announcement of accounting problems of large US corporations and of low prospects of global growth, as well as in the domestic scenario, caused by a confidence crisis in relation to the future behavior of the Brazilian economy.

In 2002, the adjustment in the current account of the balance of payments – last year's current account deficit fell by about 2.9% of GDP – was mainly due to the exchange rate depreciation and had a relatively minor impact on economic activity, as GDP grew by 1.52%. The result observed in Brazil contrasts strongly with the one seen in other emerging countries that experienced adjustments in the current account of their balance of payments. Usually, sharp reductions in the inflow of foreign capital lead to exchange rate depreciations and marked adjustments in economic activity. This behavior was observed in South Korea and Thailand right after the Asian crisis and in Latin America in 2002. More specifically, the exchange rate depreciation in Argentina, Uruguay, and Venezuela last year was accompanied by strong economic recessions, with GDP declines in these countries in the double digits.

In Brazil, the depreciation of the nominal exchange rate in 2002 was accompanied by a marked depreciation of the real exchange rate. While the inflation rate for consumers measured by the IPCA amounted to 12.5% for the year, the nominal exchange rate depreciated by 44% if one compares the average rates registered in the last quarters of 2002 and 2001. The evolution of the exchange rate was not uniform throughout the year, as the exchange rate depreciation was more pronounced in the second half. Consequently, inflation rose more rapidly over that period and hit the mark of 6.6% in the last quarter of 2002.

The inertia associated with the high inflation registered in the last quarter of 2002 led to high inflation in the first quarter of 2003, projected to amount to 4.8%. Inflation in market prices will be 3.7% and inflation in managed prices will be 7.5%. Comparing the present situation with the one observed in the fourth quarter of 2002, the inflation of managed prices will increase slightly, from 7.1% to 7.5%. The inflation of market prices, although still high, will have fallen substantially, from 6.3% to 3.7%.

The challenge for monetary policy is to keep inflation at low levels in an environment marked by a strong adjustment in foreign savings that has caused a change in relative prices. At this moment, when the inertia in the economy transfers the effect of last year's shock to this year's inflation, the Copom believes that monetary policy should be tight. Applied firmly, monetary policy will bring inflation back to its target path, preserving the change in relative prices observed in 2002 and eliminating the risk of a change in the level of inflation.

In the last *Report*, economic activity was seen as recovering, with industrial production growing in the six consecutive months up to November. In the months that followed, industrial production began to drop. In January, a seasonally adjusted drop of 0.2% was registered in the transformation industry. Production in the mineral extraction industry, however, grew by 13.7% once the normal activities of the sector were resumed after scheduled down periods for maintenance purposes in oil and gas fields. Real sales of the transformation industry dropped for the second time after growing gradually for five months, with a drop of 1.45% between November and January, according to seasonally adjusted data from the National Industrial Confederation (CNI). In 2002, GDP grew by 1.52%. In 2003, it is estimated that GDP will grow by 2.2%, positively impacted by the statistical carryover from growth in the second half of 2002.

Exports will be the main factor sustaining aggregate demand with the deepening of the adjustment in the current account. In January, the current account deficit dropped to 1.4% of GDP against 1.7% of GDP in December 2002 and 4.6% of GDP in December 2001. The trade balance surplus totaled US$2.8 billion in the year up to mid-March. The trade balance surplus estimated for 2003 was raised to US$16 billion, representing an increase of US$3 billion in relation to 2002. As a result, the foreign sector will contribute to economic growth in 2003, although not as much as last year, when the trade balance improved by US$10.5 billion.

Consumption is not expected to be a key factor sustaining economic growth in 2003. According to the IBGE, the retail sales index dropped by 4.8% in January. Fecomércio's Consumer Intentions Index that had accumulated remarkable growth since November (11.2%) dropped for the third time in March (4.5%), with a sharper drop in present intentions (7.6%). The reduced optimism of consumers, the modest growth of real wages and employment, higher interest rates, and the modest growth of credit are factors that suggest stable or lower consumption in the medium run.

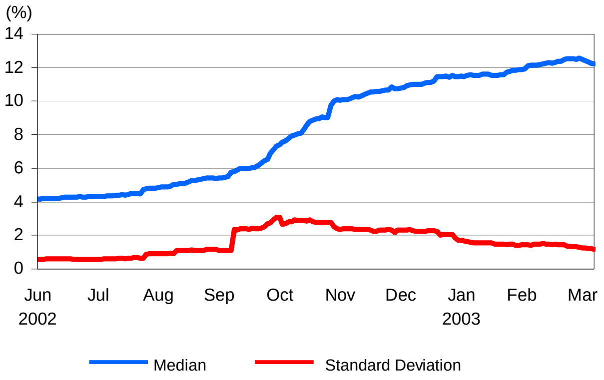
According to the IBGE, aggregate investment dropped through the first three quarters of 2002 in relation to 2001. Despite the growth observed in the production of construction inputs and the recovery in investment toward the end of 2002, this scenario is not expected to have changed in the last quarter of the year. In 2003, investment spending will continue to play a limited role in sustaining economic growth.

Government spending will continue to be restricted by the determination to keep the net debt on a sustainable path. The 7.01% of GDP consolidated public sector primary surplus registered in the January illustrates the fiscal effort being made by the Brazilian government, which will enable it to reach the target of 4.25% of GDP in 2003.

Regarding aggregate supply, the labor market will play an important role in relation to corporate costs and inflation. According to the Dieese, only 55% of all professional categories managed to secure salary raises equal to or above past inflation measured by the INPC in 2002. For 2003, the Copom recognizes that salary pressures may be felt in the next few months as a result of collective bargaining in important professional categories that are expected to demand salary increases based on inflation accumulated over the previous twelve-month period. However, except for export-related sectors, which benefited from the exchange rate depreciation, there is not much room for meeting labor demands, given the contraction of aggregate demand in the country.

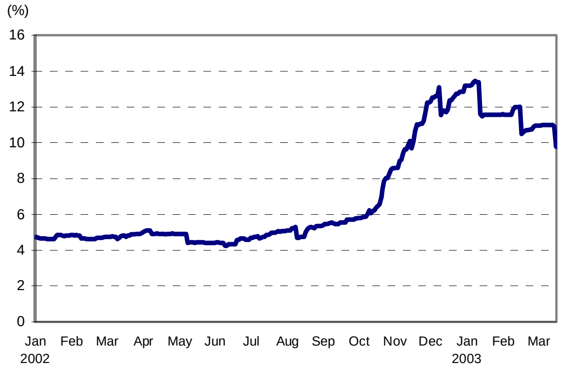
Installed capacity utilization has been asymmetrical. According to data from the FGV (Getúlio Vargas Foundation), of the 21 categories of items produced by the transformation industry, only 5 have reached utilization levels close to the records registered after 1990, namely, metallurgical, chemical, paper and cardboard, and food items, which are more export-oriented, and textile items. However, capacity utilization in most of these sectors did not exceed the mark of 90%. For export-oriented industries, the main determinant of prices is the international price converted into reais. As a result of lower global demand and a stable exchange rate, there isn't much room for price adjustments in these sectors. In the remaining sectors of the economy, installed capacity utilization is low and, consequently, prices are not under pressure.

IPCA Inflation expectation for 2003



After rising for three months, expected inflation (IPCA) for 2003, as surveyed by the BCB's Gerin (Investors Relations Group), which surveys economic analysts, has now started to drop. Between the Copom meeting in December and March 12, the median of expectations rose from 11% to 12.6%. Since then, however, it has begun to decline, and in the days of the Copom meeting the median of expectations for inflation in 2003 was 12.2%. However, because the projections for 2003 already take into account the results registered in the first two months of the year, which were high and strongly impacted by hikes in managed prices, and considering that monetary policy should concern itself with the future path of inflation (as opposed to actual inflation), the Copom assesses the path and expectations for inflation 12 months ahead. These expectations have been declining steadily, with the median falling from 13.2% in December to 11.2% in February and to 9.7% in March.

IPCA Inflation expectation for 12-months ahead [1]



1 - GERIN 03/14/2003

In sum, lower aggregate demand, the existence of idle capacity, and the reversion of expectations are factors pointing to lower inflation. The high inflation observed in the first quarter was due to the inertial effects of the inflationary peak in the last quarter of 2002 and to the hike in managed prices. However, a firm monetary policy will prevent the propagation of the price hikes seen in recent months and a change in the level of inflation.

6.2 Baseline scenario: assumptions and associated risks

The Copom's forecasts are based on a set of underlying assumptions about the behavior of key economic variables. This set of assumptions and respective associated risks are part of the baseline scenario under which the Copom makes monetary policy decisions.

The main risk factors for inflation up to 2004 are the effects of the war in Iraq, inflation of prices managed by contract and monitored – regulated prices, for short – and the degree of inflation inertia after the peak observed in the last quarter of 2002.

The effects of the war in Iraq are directly reflected in the international price of oil and indirectly reflected in the risk perception of emerging countries, with possible impacts on the exchange rate.

Regarding the exchange rate, the Copom continues to assume that the exchange rate will remain constant over the forecast horizon at a level close to the one observed on the eve of the meeting (R$3.40). This figure takes into account the risks of depreciation associated with the possibility that the war may last longer than expected, generating negative impacts on international capital flows, as well as the risks of appreciation associated with the rapid adjustment of the balance of payments.

In relation to oil, the futures markets suggest that the international oil price will drop, indicating that the hikes observed through the first quarter of 2003 already reflected the effects of the war. This behavior is similar to that observed during the Gulf War, in January-February 1991. On that occasion, the international oil price reached its highest level, around U$38 per barrel, four months before the conflict and in July of that year it had already fallen to U$15 per barrel.

In the baseline scenario, the projected adjustment in the price of oil and oil by-products is based on the gap between the domestic prices charged at the refinery gate and the international prices converted into reais, as well as on the path anticipated by the futures markets. The current gap can be virtually eliminated as the international oil price drops in the future and the exchange rate remains at R$3.40. Taking these factors into consideration, an increase of 12.4% in the price of gasoline is projected for 2003. The total amount of this increase already took place in January and February. In the case of liquefied petroleum gas, an increase in the price of cooking gas for consumers on the order of 4.2% is anticipated for 2003, out of which 0.7% occurred in the first two months of the year.

For the set of regulated prices, which had a weight of 28.3% in the February IPCA, hikes of 16.8% in 2003 and 9% in 2004 have been projected. The higher inflation projected for managed items in 2003 since the last *Inflation Report* was mainly determined by the inflation already observed in the first months of the year, which was much higher than previously expected. For the remaining quarters of 2003, an increase of 8.6% has been projected. The higher projections of the Copom for 2004 were determined by a reassessment of market projections for the inflation measured by the IGP–M, since the Copom bases its assessments on the underlying assumption that all of the managed prices will follow IGP–M inflation for that year.

Residential electricity rates, which had a weight of 4.14% in the February IPCA, should rise by 27.5% in 2003, of which only 3.4% has already been registered in the first two months of the year. In relation to the last *Report*, the projection for the increase in electricity rates in 2003 dropped by 2.8 p.p. because it incorporates the revision of rates suggested by Aneel (the Brazilian electricity regulatory agency). For fixed telephone lines, which had a weight of 2.9% in the February IPCA, a price adjustment of 22% was assumed for 2003, which is the same figure used in the December *Report*. This figure incorporates, on the one hand, the higher projections for the IGP-M since the last *Report* and, on other hand, the revision of rates.

The projection for the spread between the six-month interest rate and the Selic rate, provided that the Selic rate remains constant at 26.5% a year, begins at figures close to the ones observed on the days before the Copom meeting, around 70 b.p., and hits the mark of 100 b.p. late in 2003.

As in the December *Report*, no factors that could restrict the growth of aggregate supply have been identified. For agriculture/livestock products, the underlying assumption made in the last *Reports* that their prices will evolve according to the inflation of market prices up to the end of 2003 was maintained.

Regarding fiscal policy, it is assumed that the target of 4.25% of GDP set for the primary surplus of the consolidated public sector in 2003 will be achieved.

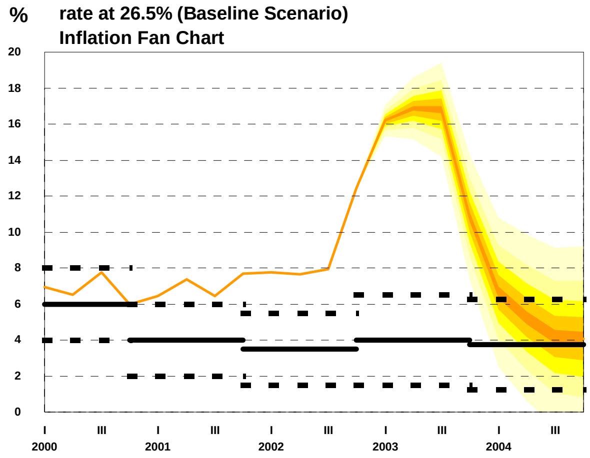
The Copom built an alternative scenario that incorporates a faster revision of inflation expectations by the market. These would drop to approximately 10% in 2003 from the 12.2% surveyed by Gerin. In addition, it is assumed the exchange rate appreciates further, to values below R$3.40, especially after the second half of the year. This scenario is one of many other alternative scenarios analyzed by the Copom. The other underlying assumptions of the baseline scenario were maintained in this alternative scenario.

6.3 Inflation forecast

Based on the assumptions and associated risks considered by the Copom and on all the information available, the 12-month change in the IPCA was projected maintaining a constant basic interest rate at 26.50% p.a., as defined at the meeting held on 18-19 March 2003, and the exchange rate close to the one observed on the eve of the Copom meeting (R$3.40). Inflation forecasts based on an alternative scenario outlined by the Copom are also presented.

The central path expected for inflation accumulated in 12 months will remain in the range of 16-17% up to the third quarter of 2003. After that, it is

Forecasted 12-months IPCA inflation with Selic interest rate at 26.5% (Baseline Scenario)
Inflation Fan Chart



Accumulated inflation in 12-months (% p.a.)

12-months IPCA-Inflation with 26,5% p.a. fixed interest rate (Baseline Scenario)

Year	Q	Confidence Intervals						Central Projection
		50%						
			30%					
				10%				
2003	1	15.8	16.0	16.1	16.3	16.4	16.5	16.2
2003	2	16.2	16.5	16.7	17.0	17.3	17.6	16.9
2003	3	15.7	16.2	16.6	17.0	17.4	17.9	16.8
2003	4	9.4	10.0	10.6	11.1	11.7	12.3	10.8
2004	1	5.0	5.7	6.3	7.0	7.6	8.4	6.7
2004	2	3.4	4.2	4.9	5.6	6.3	7.2	5.3
2004	3	2.2	3.0	3.8	4.6	5.3	6.2	4.2
2004	4	1.9	2.9	3.7	4.5	5.3	6.2	4.1

Accumulated inflation in 12-months (% p.a.) The values correspond to the ones shown in inflation fan chart.

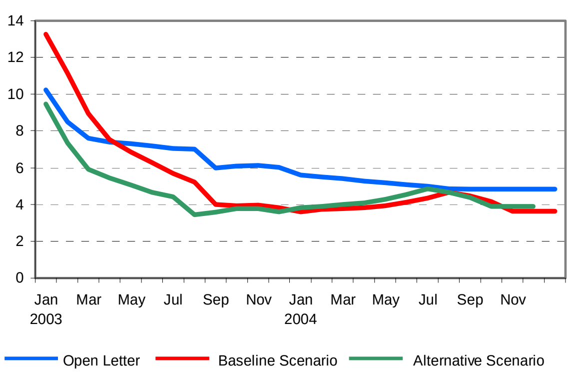
expected to drop sharply for two consecutive quarters: to 10.8% in the last quarter of the year and to 6.7% in the first quarter of 2004. In the following quarters, the inflation accumulated in 12 months will continue to fall, albeit less sharply, until it hits the mark of 4.1% in the last quarter of 2004. The high inflation accumulated in twelve months in the first three quarters of 2003 is attributed to the maintenance of the high inflation registered in the fourth quarter of 2002 (6.6%) in the calculation. It should be noted that deviation probabilities are symmetrically distributed around the median, reflecting the Copom's judgment of the balance of risks associated to the projection.

In the *Report* of December 2002, inflation rates of 9.5% in 2003 and 4.5% in 2004 had been anticipated. The reduction of 0.4 p.p. in the projection for 2004 since the last *Report* is due to the effects of the higher interest rate embedded in the baseline scenario. The projection for the six-month interest rates at the end of the forecast horizon increased from 23% to 27.5% since the last *Report*, with a strong impact on market prices next year. The projection for the inflation of market prices in 2004 dropped from 3.3% to 2.2% since the last *Report*, while the projection for managed prices rose from 7.6% to 9% over the period.

Regarding inflation in 2003, the higher projection is essentially due to the results observed in the first quarter. The December *Report* projected inflation of 2.9% in the first quarter of 2003 and of 6.5% in the remainder of the year. The current projection incorporates inflation of 4.8% registered in the first quarter (assuming an inflation of 0.9% in March) and a 5.8% inflation in the remainder of the year. The inflation in the first quarter was higher than the one projected in the last *Report* particularly because of the behavior of regulated prices, which increased 7.5% over the period, as opposed to the anticipated rate of 2.3%. The error in the forecast of the inflation of market prices was substantially lower, namely, 0.6 p.p. For the remainder of the year, the lower inflation projected in this *Report* is attributed both to the behavior of managed prices and of market prices. For the period from the second to the fourth quarter, the forecast for managed prices dropped from 10.5% to 8.6%, reflecting the recent exchange rate appreciation and the downward review of fixed telephone and electricity rates. For market prices, the projection up to the end of the year dropped from 5.8% to 4.7% as a result of a higher interest rate and of the exchange rate appreciation.

Although inflation projected for 2003 is above the adjusted target, the Copom assigns a positive outlook for lower inflation rates as of the second quarter for two reasons. First, the inflation projections shown above imply that, already in the second quarter, monetary policy will be able to bring inflation to a path consistent with the trajectory presented in the BCB Governor's Open Letter of 01.21.2003 to the Minister of Finance. Second, it is still early to have a full assessment of the consequences of the monetary policy decisions taken in recent months. In this sense, alternative scenarios, like the one described in this *Report*, imply projections where inflation is closer to the adjusted target. Nonetheless, the Copom understands there are considerable risks, including the ones associated with the war in Iraq, which could jeopardize the materialization of more favorable inflation paths. There are uncertainties regarding the speed of inflation deceleration and the extent of inflation inertia. A very slow inflation deceleration path could even interrupt the convergence of inflation to the target, as adjustments of prices and wages are based on past (accumulated) inflation, instead of current and expected inflation.

Accumulated IPCA inflation in the 12-months ahead



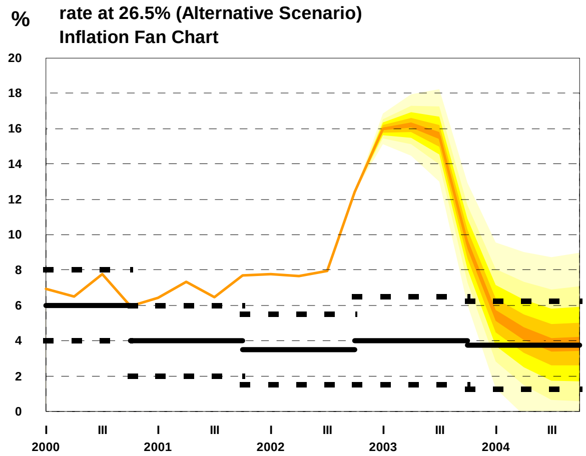
The graph shows the evolution of inflation accumulated in the 12 months ahead[1] indicated in the Open Letter dated 01.21.2003 and of the baseline and of the alternative scenarios presented in this *Report*. As shown in the graph, from March on, the projections associated with the baseline and with the alternative scenarios presented in this *Report* are systematically below those published in the Open Letter. It should

1/ For 2004, a decision was made to present the inflation at annual rates accumulated up to the end of the year instead of using the inflation forecasts for 2005. This procedure is justified by the high degree of uncertainty involved in projecting the inflation for 2005, particularly in what regards the evolution of managed prices.

also be observed that the trajectories associated with the baseline and alternative scenarios converge after the third quarter of 2003.

As explained in the Open Letter, the path shown in that document was not an inflation projection, but rather a path consistent with the adjusted target, which assumed inflation of 14% for regulated prices in 2003. Given the current 16.8% projection for the evolution of regulated prices in 2003, and the behavior of the exchange rate, the primary effect of the shock of managed prices and monitored prices was reviewed, so that the adjusted target would increase by 1 p.p. in 2003, according to the methodology presented in the Open Letter. However, the Copom believes that changing the adjusted target is premature, given the high volatility of the international price of oil and the advantage of waiting for more information on the review of telephone and energy rates.

Forecasted 12-months IPCA inflation with Selic interest rate at 26.5% (Alternative Scenario)
Inflation Fan Chart



Accumulated inflation in 12-months (% p.a.)

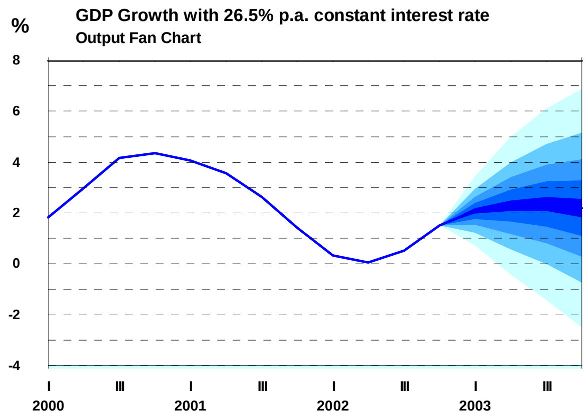
12-months IPCA-inflation with 26.5% fixed interest rate. (Alternative Scenario)

Year	Q	Confidence Intervals 50%	30%	10%	10%	30%	50%	Central Projection
2003	1	15.6	15.8	15.9	16.1	16.2	16.3	16.0
2003	2	15.5	15.8	16.1	16.3	16.6	16.9	16.2
2003	3	14.5	15.0	15.4	15.8	16.2	16.7	15.6
2003	4	8.1	8.7	9.2	9.7	10.3	10.9	9.5
2004	1	3.7	4.5	5.1	5.8	6.4	7.1	5.4
2004	2	2.5	3.3	4.1	4.8	5.5	6.3	4.4
2004	3	1.7	2.6	3.4	4.2	4.9	5.8	3.8
2004	4	1.7	2.6	3.4	4.2	5.0	5.9	3.8

Accumulated inflation in 12-months (% p.a.) The values correspond to the ones shown in inflation fan chart.

An inflation fan chart is also shown taking into account an alternative scenario outlined by the Copom, where inflation expectations for 2003 drop to around 10% and the exchange rate appreciates and reaches values below the R$3.40 used in the baseline scenario. The remaining assumptions are the same as those spelled out in the baseline scenario. This alternative scenario is one of many others analyzed by the Copom. The inflation that was projected on the basis of these underlying assumptions is 9.5% in 2003 and 3.8% in 2004.

As in previous *Reports*, this issue also presents the fan chart for output growth that was built based on the same underlying assumptions used in the baseline scenario. It should be stressed that the forecasting errors associated with GDP growth projections are considerably larger than in the case of inflation projections, both because they involve the path of two non-observable components, namely, potential output and the output gap, and because calculating output is, by definition, more complex and less precise than calculating inflation. The central projection for output growth in 2003 is



approximately 2.2%, which represents a drop of 0.6% since the last *Report*. The higher interest rate and the drops observed in consumer confidence are two of the factors that help explain this reduction.

Evaluation of the Central Bank of Brazil's Inflation Forecasts

Introduction

The Research Department of the Central Bank of Brazil developed a macroeconomic model framework as a supporting tool for the monetary policy decision process, intended to capture the main relationships among key variables of the Brazilian economy, as described in Bogdanski et alli (2000)[1] . In this decision process, both the models forecasts and the knowledge and experience regarded to the monetary policy decision authorities, the Brazilian Monetary Policy Committee (Copom) members, are used in order to obtain future scenarios for inflation.

As the monetary policy decision process is conducted in a forward-looking way, it is expected a good middle and long-run predictive power for inflation rate, measured by the Broad Consumer Price Index (IPCA). This need is justified because empirical evidence indicates that it takes several quarters before the effect in the inflation rate caused by changes in monetary policy instrument reaches its peak.

Therefore, an evaluation of the Central Bank of Brazil (CBB) performance for inflation rate forecasts is necessary. In such evaluation it is relevant to distinguish, in each forecast mismatch, the components resulted from economic shocks. In this context, one decided to contrast the CBB forecasts to those made by the market, collected daily by the Investor Relations Group (Gerin)[2] of Central Bank of Brazil. It's expected a CBB forecasting performance as good as, or better than, the market one.

Mechanism of Forecast Performance Evaluation

Three statistics were used to comparatively evaluate the forecast performance: mean residual, mean absolute residual and mean square residual. The first measures the forecasting bias and the two others measure the forecasting dispersion. The CBB simulations consider quarterly variables and therefore its inflation rates forecasts display the same frequency. It is important to stress the fact that CBB forecasts are made considering a fixed interest rates rule.

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1 Bodganski, Joel, Alexandre A. Tombini and Sergio R. C. Werlang (2000) – Implementing Inflation Target in Brazil – Central Bank of Brazil, Working Paper 1.

2 Since June 1999, the Gerin makes daily surveys of monthly market forecasts regarding the main macroeconomic indices. Among them, the following price indices are included in this survey: IGP-DI, IMP-M, IPC-Fipe, INPC, and IPCA.

In order to obtain such statistics, one considered inflation rate from the third quarter of 1999 (1999:3)[3] to the fourth quarter of 2002 (2002:4), the last quarter whose inflation rate had been released by IBGE. Residuals were calculated as differences between forecasts and actual rates of the IPCA inflation in each quarter.

IBGE releases the IPCA inflation rates on a monthly basis. Therefore, it is possible to revaluate the forecasts made for subsequent quarters during the same quarter, due, for instance to: release of IPCA by IBGE, around the 10th day of each month; release, in the course of each month, of other conjunctural indicators, as exchange rate and interest rates, by several institutions; economic shocks and improvement of forecasting models.

Therefore, three sets of forecasts are defined: no information forecasts, one-month information forecasts and two-month information forecasts. Two-month information forecasts are the same released in the quarterly Inflation Reports. It is worth mentioning that the quarterly CBB forecasts are also revaluated on a monthly basis according to the gathering of new information.

In Alves (2001)[4] , whose results were actualized in this text, it is described the adopted procedures to select the forecasts series used in the comparative evaluation of the CBB performance. In order to this evaluation to be coherent, it was necessary that each period forecast could be obtained considering the same level of information.

Analysis of the Results and Conclusions

The conclusions reached in this paper are rather descriptive than inferential. This is due to the small number of observations, which did not permit a more rigorous analysis. Nevertheless, hypothesis tests were implemented in order to compare the forecasts dispersions of CBB and market. Tables 1 to 3, show the estimation results, depending on the time horizon and on the three forecast sets, according to the number of information months in each quarter.

The results show that CBB and market IPCA inflation forecasts are negatively biased, as indicated by mean residual statistics. Indeed, one can verify that both CBB and market forecasts have systematically underestimated the occurred inflation since 2001:1. The statistics suggest that the Brazilian economy has been subject to continuing shocks, not anticipated by market nor by Central Bank of Brazil.

3 As the models of Central Bank of Brazil were developed in the context of the Brazilian Inflation Target Program, implemented in July 1999 as the system of monetary policy conducted by the Central Bank of Brazil, one considered that the forecasts evaluation should start with the second quarter of 1999 as its initial forecast. For two quarters ahead forecasts, the initial period was the last quarter of 1999 (1999:4).

4 Alves, Sergio A. Lago (2001) – Evaluation of the Central Bank of Brazil Structural Model's Inflation Forecasts in an Inflation Targeting Framework – Central Bank of Brazil, Working Paper 16.

Regarding to the forecasts dispersion statistics, the CBB ones were the lowest in 5 of all the 6 cases in which mean absolute residual statistics were calculated and in 4 of all the 6 cases in which mean square residual statistics were calculated. Regarding to the 2-month information forecasts, whose CBB ones are released in Inflation Reports, CBB dispersion statistics were the lowest.

For a more precise comparison between the dispersion statistics, evaluated by mean square residuals, hypothesis tests were implemented. We might stress the fact that the few number of observations may weak the tests power. An F test was chosen, regarding to the market to CBB mean square residuals ratio, for each case. The null hypothesis is that the dispersion measures are the same, so that the test statistic should equal one. Due to the number of observations, the degrees of freedom considered in the numerator and denominator are 13 (14 observations – 1). One could not reject the null hypothesis in 5 of all the 6 cases, maybe due to the reduced power of the test, meaning that the CBB and market forecasts dispersion level do not statistically differ, despite the fact that the qualitative analysis described before had led to a CBB advantage. Nevertheless, considering the one quarter ahead forecasts, with 2-month information, whose CBB forecasts are released in Inflation Reports, one could reject the null hypothesis with a 88% confidence level, regarded to a 12% p-value (reasonable, since considering the reduced number of observations), and accept that the Central Bank of Brazil forecasts dispersion level are lower in this case.

Table 1 – No Information Forecasts

Period	Ocurred	1 Quarter Ahead		2 Quarters Ahead	
		SSSM	Market	SSSM	Market
1999:III	1.97	2.99	1.78		
1999:IV	2.76	1.42	1.46	1.34	1.47
2000: I	0.97	1.42	1.82	1.68	1.52
2000: II	0.66	1.69	1.67	1.20	1.71
2000:III	3.18	2.04	2.15	2.06	1.83
2000:IV	1.05	1.93	1.23	1.45	1.68
2001: I	1.42	1.05	0.95	1.44	1.15
2001: II	1.52	1.14	1.00	0.78	0.98
2001:III	2.33	2.82	1.93	1.68	1.34
2001:IV	2.21	1.22	1.15	1.72	0.97
2002: I	1.49	0.86	0.89	1.29	1.22
2002: II	1.44	1.49	1.49	1.04	1.15
2002:III	2.58	2.52	1.76	1.17	1.50
2002::IV	6.56	3.00	1.70	0.77	0.96
MEAN RESIDUAL		-0.32	-0.65	-0.81	-0.82
MEAN ABSOLUTE RESIDUAL		0.88	0.95	1.07	1.16
MEAN QUADRATIC RESIDUAL		1.48	2.21	3.17	3.14
F Test (P-Value)		1.49 (24%)		0.99 (51%)	

Table 2 – 1-Month Information Forecasts

Period	Ocurred	1 Quarter Ahead		2 Quarters Ahead	
		SSSM	Market	SSSM	Market
1999:III	1.97	2.69	2.21		
1999:IV	2.76	1.80	2.25	1.23	1.46
2000: I	0.97	1.38	1.61	1.69	1.88
2000: II	0.66	1.45	1.40	1.43	1.79
2000:III	3.18	3.02	3.05	2.29	1.82
2000:IV	1.05	1.20	1.03	1.33	1.38
2001: I	1.42	1.12	0.97	1.59	0.90
2001: II	1.52	1.30	1.37	1.07	1.19
2001:III	2.33	2.34	2.44	1.99	1.34
2001:IV	2.21	1.57	1.68	1.14	1.01
2002: I	1.49	0.84	1.11	1.34	1.22
2002: II	1.44	1.50	1.57	1.23	1.09
2002:III	2.58	2.47	2.12	1.50	1.42
2002::IV	6.56	3.66	3.60	0.95	1.09
MEAN RESIDUAL		-0.27	-0.27	-0.72	-0.81
MEAN ABSOLUTE RESIDUAL		0.58	0.53	1.02	1.18
MEAN QUADRATIC RESIDUAL		0.83	0.78	2.96	3.08
F Test (P-Value)		0.94 (55%)		1.04 (47%)	

Table 3 – 2-Month Information Forecasts

Period	Ocurred	1 Quarter Ahead		2 Quarters Ahead	
		SSSM	Market	SSSM	Market
1999:III	1.97	2.23	2.08		
1999:IV	2.76	2.73	2.76	1.02	1.43
2000: I	0.97	1.04	1.19	1.61	1.91
2000: II	0.66	0.73	0.99	1.43	1.77
2000:III	3.18	3.35	3.42	2.09	1.93
2000:IV	1.05	1.13	1.06	1.55	1.23
2001: I	1.42	1.28	1.27	1.02	0.80
2001: II	1.52	1.47	1.56	1.04	0.91
2001:III	2.33	2.36	2.45	1.83	1.57
2001:IV	2.21	1.95	1.90	1.05	0.99
2002: I	1.49	1.25	1.24	0.85	1.14
2002: II	1.44	1.47	1.43	1.52	1.06
2002:III	2.58	2.36	2.32	1.75	1.49
2002::IV	6.56	6.44	6.20	1.26	1.22
MEAN RESIDUAL		-0.02	-0.02	-0.78	-0.82
MEAN ABSOLUTE RESIDUAL		0.13	0.17	1.08	1.17
MEAN QUADRATIC RESIDUAL		0.02	0.04	2.82	2.94
F Test (P-Value)		1.93 (12%)		1.04 (47%)	

Annex

Minutes of the 79th Meeting of Banco Central do Brasil Monetary Policy Committee (Copom)

Date: December 17 and 18, 2002
Place: Central Bank's Headquarters meeting room of the 8th floor (on December 17) and 20th floor (on December 18) – Brasília – DF
Called to Order: 3:30 PM on December 17 and 11:30 AM on December 18
Adjourned: 7:00 PM on December 17 and 1:00 PM on December 18

In attendance:
Members of the Board
Arminio Fraga Neto – Governor
Beny Parnes
Carlos Eduardo de Freitas
Edison Bernardes dos Santos
Ilan Goldfajn
Luiz Fernando Figueiredo
Sergio Darcy da Silva Alves
Tereza Cristina Grossi Togni

Department Heads (all present on December 17)
Altamir Lopes – Economic Department (DEPEC)
Daso Maranhão Coimbra – International Reserve Operations Department (DEPIN)
José Antonio Marciano – Department of Banking Operations and Payment System (DEBAN)
Marcelo Kfoury Muinhos – Research Department (DEPEP)
Sérgio Goldenstein – Open Market Operations Department (DEMAB)

Other participants (all present on December 17)
Antônio Carlos Monteiro – Executive Secretary
Alexandre Pundek Rocha – Advisor to the Board
José Pedro Ramos Fachada Martins da Silva – Advisor to the Board

João dos Reis Borges Muniz – Press Secretary (ASIMP)
Fabia Aparecida de Carvalho – Manager of the Investor Relations Group

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

Economic Activity

In the beginning of the fourth quarter, the evolution of the level of activity followed the trend of gradual growth that has been outlined in the last months. The increase in exports, the favorable results in retail commerce, mainly boosted by the disbursements from the FGTS, and the demand for inputs associated with the expansion of agricultural production are factors that continue to give more dynamism to the economy in the second half of this year.

According to seasonally adjusted data from Fecomércio, the retail sector's real revenues in September and October were essentially stable in relation to August, when there was a significant increase in sales in the metropolitan region of São Paulo. Year to date figures point to a 3.8% growth relative to the same period of 2001, with a notable expansion in sales of consumption goods, particularly non-durable goods. The national survey carried out by the IBGE showed a 0.14% fall in the volume of retail sales in the year to October figures, confirming the gradual recovery of the retail sector over the year.

After posting a sharp increase in October, car sales fell in November, according to seasonally adjusted data from the Fenabrave. The increase in sales in October was driven by a high number of promotions in that month and the prospect of price increases in the following months (since confirmed), and therefore was not repeated. The auto sector was negatively affected this year by the evolution of expectations and credit conditions, and declined by 7.7% in the year to November. The recent recovery observed in consumer expectations is one of the factors that tend to favor sales in the medium term.

In December, the IIC increased by 5% to reach 106.8 points on a scale ranging from 0 to 200, according to the survey by Fecomércio. The increase in the IIC resulted from an improvement in consumers' intentions, current and future, and it should be highlighted that the future intentions index reached 120.3, the highest level since the beginning of the series in March 1999. The perception of improvement in the political scenario was the factor that most influenced this result, together with a decline in concerns over a higher unemployment rate.

Regarding defaults, data from the ACSP show that the number of new default registrations was stable in November as compared to October. The number of cancelled default registrations fell by 7.4% in the same period, but it should be highlighted that this number had been growing significantly between July and October, reflecting liquidation of debts using extraordinary disbursements from the FGTS.

The default rate on financial institutions' credit portfolio of freely allocated resources remained steady in November at 8%. The percentage of arrears on credits to individuals fell by 0.2 p.p., repeating the performance of the previous month. With respect to credits to corporations, the 0.2 p.p. increase in the percentage of arrears resulted from a few new occurrences with high volumes, and to the fall in the relative participation of on-lending of external resources, with smaller default rates.

Outstanding credit operations with freely established rates declined by 0.2% in November, the same behavior of the segment of credit lines to corporations. The volume of credit to private individuals remained stable, indicating households' caution because of the adverse conditions for indebtedness, which have stimulated borrowers to repay liabilities with resources from the FGTS, income tax refunds and the 13th wage. The fall in credit operations to corporations was due to the 4.9% reduction in operations with external funding, since the end-of-month balances of operations funded domestically expanded by 3.7%.

Investment indicators remain on a downward trend, reflecting the effects of the political transition on business decisions. However, there was an improvement in the production of inputs for civil construction for the third consecutive month, reflecting the recent increase in the demand for construction materials for small renovations and residential enlargements. It should be noted that the recent improvement in the real estate market, reflected in the expansion of the number of new residential and commercial units, will have a positive effect on the production of inputs and on the labor market in the coming months.

Regarding industrial activity, production registered a 1.7% expansion in October as compared to the previous month on a seasonally adjusted basis. With this latest result, data from the PIM carried out by the IBGE showed industrial growth for the fifth consecutive month on a seasonally adjusted basis. In October, 16 of the 20 groups surveyed posted an expansion, with the highest growth in transportation material, which increased by 19.8% in the last two months on a seasonally adjusted basis. By categories of use, the increase of 4.9% in the production of durable consumption goods and of 4.3% in capital goods should be highlighted. The production of intermediate goods, which has a heavy weighting in the composition of industrial output, maintained the recent trend of gradual growth in the month, registering an increase of 0.8%. With these results, industrial production in the year to October expanded by 1.9%.

The increased dynamism in industrial activity has been reflected in indicators of installed capacity utilization. Data from the Conjunctural Survey carried out by the Getulio Vargas Foundation show that utilization reached 80.4% in October, as compared to 79% in July and 79.8% in the same month of 2001. This reading, however, is relatively far from the peak of the series, 86%, registered in April 1995.

In the labor market, the average open unemployment rate measured by the IBGE remained stable in October, at 7.4%, as compared to 7.5% in September. This result was due to a 0.2% fall in the PEA, while the number of employed workers remained stable. According to the Ministry of Labor, in October legally registered employment grew by 0.2% from the previous month on a seasonally adjusted basis, and by 3.6% over the past 12 months.

With respect to the external accounts, the trade balance continued to show good performance in December, registering a US$662 million surplus up to the second week of the month. Average daily exports reached US$251 million, in comparison to US$238 million for the year. Average daily imports reached US$185 million, 1.9% lower than the figure observed from January to December 15. As a result, the accumulated trade surplus in the year-to-date reached US$11.9 billion, in comparison to the US$1.9 billion in the same period of 2001. Exports reached US$57.6 billion, 2.8% higher than in the same period of 2001, while imports reached US$45.7 billion, 15.6% below the corresponding figure last year.

The current account of the BoP adjusted strongly in 2002, more sharply in the second half, not only due to the performance of the trade balance, but also because of a reduction in net expenditures on services and income.

In summary, the observed growth in the level of activity has been a result of the relatively strong performance of retail activity and the significant expansion of the trade balance. Reflecting these factors, industrial activity has been gradually expanding over the second half of this year. For the upcoming months, it is possible to outline a favorable scenario for the continuity of this expansion. The inventory adjustment observed in the industrial sector, the relatively low level of defaults, the prospect for lower commitments of the 13th wage as a result of the disbursements from the FGTS, and the recovery of expectations are contributing factors in this process.

External Environment

The international scenario continues to point to a fragile recovery of the world economy, with investment expenditures too low to foster an increase in production. The prospect of moderate growth for the world economy remains in place for 2003, supported by consumption, low inflation and loose monetary and fiscal policies. The confirmation of this view is still subject to potential risks in the short run, including the possibility of an armed conflict between the United States and Iraq, which would destabilize the petroleum market, already affected by the political crisis in Venezuela. The financial markets also remain unstable, with the possibility of further declines due to increased risk perceptions or to the frustration of expectations for corporate profits.

In the United States of America, the 4% annualized GDP growth in the third quarter was confirmed, supported mainly by private consumption, which increased by 4.2%. Retail sales increased by 0.4% in November, in comparison to October, and excluding automobiles rose by 0.6%. Industrial and commercial inventories and industrial orders increased in October. The labor market remained depressed, with the unemployment rate reaching 6% in November. On the other hand, the productivity of the non-agricultural sector grew 5.1% in the third quarter, keeping unit labor costs unchanged. As of now, inflation remains under control and the Federal Reserve kept the target for the Fed Funds rate at 1.25% p.a.. Confidence indicators show improved business and consumer expectations in November.

In Japan, revised data show a 3.2% annualized GDP growth in the third quarter, sustained mainly by domestic consumption. Even so, the Bank of Japan recently revised downward the evaluation of the economy for the first time in eleven months, due to external uncertainties and the global deceleration. Export growth has been slowing due to insufficient external demand, mainly on items related to information technology. In October the unemployment rate once again reached 5.5%, repeating the level of December 2001, the highest since the start of the survey in 1953. Annual inflation measured by the IPC was –0.9% in October, while the wholesale price index registered an increase of 0.3%. The Tankan industrial confidence index increased for the third consecutive quarter.

In the countries of the euro area, the economic stagnation continues, unchanged by the announcement of the 0.8% growth of GDP in the third quarter, in comparison to the same period of the previous year. The recessionary scenario is particularly intense in Germany, the most important economy of the region. The 0.5 p.p. reduction of the basic interest rate by the ECB revealed its concern with this scenario, although the annual rate of inflation increased to 2.3% in October, above the ECB's target of 2% since August. Confidence indicators remained without a discernible trend in November. Regarding the business sector, confidence indicators in the euro area and of the main economies of the region registered increases, except in Germany. As for indices of consumer expectations, there were positive results in France and Italy, and drops in Germany and in the other regions' indicators.

Prices

Price indices showed large increases in November, mainly reflecting the effects of the supply shocks – exchange rate depreciation and restriction in the supply of agricultural products – occurring in the second half of 2002. The IPCA increased by 3.02% in November, accumulating a 10.22% increase in the year and a 10.93% increase in 12 months. In the IGP-DI, the effects of these shocks were stronger in wholesale prices, both agricultural and industrial. The monthly increase in the IGP-DI reached 5.84% in November, compared to the 4.21% increase in October, accumulating a 23.09% increase in the year and a 23.31% increase in 12 months.

Products with monitored prices contributed 1.19 percentage points (a 4.29% increase), while products with free prices contributed 1.83 percentage points (a 2.53% increase) to the 3.02% monthly increase of the IPCA. Among the products with monitored prices, increases in airline tickets and fuel prices should be highlighted. The latter encompasses a pass-through of more than 70% of the refinery price adjustment to consumer prices. Among the products with free prices, tradable goods contributed 1.42 percentage points and non-tradable goods contributed 0.42 percentage points.

In the IGP-DI, the IPA-DI rose by 7.45% in November mainly due to the acceleration of the increase in industrial prices, which reached 7.05% in the month compared to 4.96% in October. The increase in agricultural prices, although still high at 8.42%, compared to 8.65% in October, showed signs of deceleration and provided prospects for a reversion in the next months' results. The IPC-BR, the retail price segment of the IGP-DI, rose by 3.14% in the month, compared to 1.14% in October, mainly as a consequence of increases in the prices of food, transport and housing items. The INCC rose by 2.45% in November, compared to a 1.13% rise in October, due mainly to the increase in the prices of construction materials.

In December, inflation may slow down as a result of smaller pressures due to the evolution of the exchange rate and the exhaustion of the process of food price increases. However, the indices may still show relatively high rates of increase. The rise of monitored prices, although on a decelerating trend, may significantly impact the IPCA in the last month of the year, as a consequence of the residue of the readjustments allowed in November, of the increase of urban bus tariffs (in Curitiba, Brasilia, Goiania and Belem) and of the last correction in fuel prices.

Monetary Market and Open Market Operations

On the eve of the Copom meeting in November, the spread between the Over-Selic target and the 1-month interest rate was 192 b.p., in line with the expectation of an increase in the target.

On the same date, the spread of the 1-year interest rate was 1045 b.p. After the release of the high inflation indices in November, short-term interest rates increased again, while the 1-year interest rate declined as a consequence of the perception of a lower country risk. At the end of the period, on December 17, the short-term and the1-year spreads stood at 253 b.p. and 717 b.p., respectively.

A total of US$5.9 billion in securities and exchange rate swaps matured from November 20 to December 18. The rollover rate reached 76%, through swap contracts with terms ranging from 2 months to 2 years. The slope of the exchange rate coupon curve declined significantly in the period, although it remains negative. In addition, the curve shifted down across all maturities. This movement was due to increased external funding by financial institutions and to the reduction of uncertainties, allowing significantly lower interest rates in the rollover of exchange rate indexed debt.

In the same period, the National Treasury carried out four auctions that resulted in the sale of R$25.1 billion in LFTs with an average tenure of 210 days. Both the continuous reduction in these securities' discount rates and the high liquidity in the market for bank reserves explain the increasing demand for LFTs observed since October.

Due to the lower demand for IGP-M indexed securities, since the last Copom meeting there was just one 3-year NTN-C auction totaling R$0.7 billion, compared to the total of R$3.8 billion in two auctions in the previous period. In the traditional monthly auction, a total of R$0.9 billion in 5- and 15-year securities was placed.

Banco Central do Brasil intervened in the open market from November 21 and December 17 on a daily basis, in order to withdraw and provide liquidity. The rates were 22.00% and 21.90% respectively, and the average daily volumes were R$60.6 billion and R$3.4 billion, respectively.

Considering the financial settlements from November 21 to December 17, there was an expansionary monetary impact of R$8.0 billion, basically due to net redemptions of R$14.5 billion of LTNs, of R$7.8 billion in FX-indexed securities and of R$3.1 billion in NTN-Cs, partially offset by net placements of R$17.9 billion in LFTs.

In November, the domestic federal securitized debt remained practically stable at R$631.5 billion, compared to R$632.1 billion in October, due to the net redemption of securities totaling R$10.4 billion.

Assessment of Inflation Trends

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

1. The projections for the prices of petroleum by-products assumed the hypothesis that the rise in international petroleum prices and the exchange rate change observed since the last readjustment would be passed through to domestic prices.. In the case of bottled gas, an increase of 2.0% for the final impact on consumer prices was forecast. For gasoline, a 3.8% decrease is projected for the coming year. It is worth emphasizing that these projections were based on the current values of Cide. In December, the House of Representatives approved an authorization for a maximum readjustment of the Cide charged on gasoline to R$0.86 per liter, from R$0.50, and to R$250.00 per ton, from R$136.70, for bottled gas. The basic scenario does not compute these readjustments, whose direct impact on the IPCA would be around 1 p.p..

2. The projections for household electricity tariffs include a 30.3% elevation in 2003. This projection increased by 3.3 p.p. since the last Copom meeting, as a consequence of the revision of the expectations for the IGP-M, an important component in the readjustment criterion for electricity tariffs. For 2002, there was no alteration in relation to the projection released in the Minutes of the Copom meeting of November.

3. For the set of prices administered by contracts and monitored, which has a 27.7% weight in the November IPCA, increases of 15.4% and 13.04% were projected for 2002 and 2003, respectively. In relation to November projections, there was an increase of 2.0 p.p. for 2002 and of 0.9 p.p. for 2003. For 2004, a 7.6% inflation of prices administered by contracts and monitored was projected, assuming that all these items would follow the variation of the IGP-M in that year.

4. The projection for the 6-month spread over the Selic rate, which utilizes an error correction based-model specification, starts at 320 b.p. in the first quarter of 2003, and reaches -120 b.p. at the end of that year.

Core inflation calculated with the exclusion of household food items and administered prices – considering the broadened set of these items and their new definition, which had a 27.7% weight in the November IPCA – registered a 1.17% increase in the month, a significant elevation in comparison to the variations of 0.74% and of 0.61% observed in October and September, respectively. The 12-month accumulated increase in November was 7.35%. Core inflation of the

IPC-BR, calculated under the symmetric trimmed-mean method, reached 1.46% in November. In twelve months, this core registered an 8.04% increase.

The 12-month accumulated increase of the IPCA, which showed a declining trend from May to August, registered increases in September (7.93%), October (8.44%) and November (10.93%). In these last twelve months, free market prices contributed 6.70 p.p. to inflation, while prices administered by contracts and monitored contributed 4.23 p.p..

Regarding fiscal policy, it is assumed that the consolidated public sector will achieve the target of a primary surplus of 3.88% of the GDP this year, and of 3.75% for the coming years. The other related assumptions established in the previous meeting were maintained.

From the simulation exercises with several specifications of the structural model, it has been concluded that the maintenance of the interest rate at 22.0% p.a. and of the exchange rate at a level close to the level on the eve of the Copom meeting (R$3.55) indicates an inflation rate significantly above the upper limit of the tolerance interval in 2003.

Monetary Policy Guidelines

Economic activity shows signs of recovery, with industrial activity showing moderate growth and the retail sector stabilizing at a higher level than usual at the beginning of the year. The maintenance of consumption is mainly due to several conjunctural factors, such as disbursements from the FGTS, the payment of the 13th wage and the improvement of expectations for the future. Industrial production, which increased for the fifth consecutive month in October, is being supported by exports and the mineral extraction industry.

The remaining disbursements from the FGTS in 2003 will support consumption growth next year. It is worth noting that the disbursements from the FGTS impact aggregate demand. These disbursements produce a reallocation of expenditure to the population with lower purchasing power and, consequently, greater willingness to consume, especially on lower value items.

The exchange rate remained more stable in the period between the Copom meetings of November and December, but at a depreciated level, which has been helping the rapid adjustment in the balance of payments. Also, there was an improvement in the capital account, with growth in net foreign investment, external funding and commercial financing lines. There was also an improvement in risk perceptions, as suggested by the decline in the domestic interest rate (e.g. FX Coupon) and in the EMBI+ spread.

However, inflation rates increased significantly in November. The monthly inflation rate measured by the IPCA reached 3.02% in November, higher than in October (1.31%), September (0.72%), and the forecast at the November Copom. Core IPCA inflation, calculated with the symmetric trimmed-mean method, increased to 1.32% in November from 0.78% in September and October. In 12 months to November, this measure of core inflation registered an increase of 8.21%.

Inflation expectations for 2003 surveyed by the Banco Central do Brasil's Investor Relations Group (Gerin) increased in the period between the last two Copom meetings, to 11.0% in December from 9.8% in November. Since September, the median of inflation expectations doubled. In the Copom's view, the factors that could have driven the market to significantly increase inflation expectations for 2003 include: i) the view that there are some economic sectors with repressed exchange rate pass-through, which could lead to pressure on free price inflation in 2003; ii) uncertainties regarding the future conduct of monetary policy; iii) inflation inertia associated with the high inflation registered in the last quarter of 2002.

The Copom's inflation forecast for 2003 was also adjusted upward, as a consequence of the inertial effects of the high inflation in the last quarter of 2002, the deterioration of inflation expectations, and the impacts of exchange rate depreciation on administered prices in 2002.

The Copom considered an alternative scenario in which inflation expectations for 2003 and the exchange rate decline faster. This scenario is based on the recovery of confidence in the Brazilian economy and also on the fact that inflation in the last quarter of 2002 had a strong temporary component. The agricultural off-season, higher prices for some international commodities and preventive price increases are temporary factors that are unlikely to pressure inflation again in the coming months. There are signs, albeit still incipient, such as the Fipe four-week index and the survey of food prices, which show a decline in the speed of price readjustments in the first weeks of December. Moreover, based on the historical average of exchange rate pass-through in Brazil, and the level of inflation in October and November, there is no evidence of restrained exchange rate pass-through still to be realized.

Nevertheless, in a scenario of deteriorating expectations, rising inflation, and a recovery of economic activity, the probability of price readjustments increases, making the convergence of expectations to a level more consistent with the inflation targets more difficult.

With this in mind, the Copom believes that an increase in interest rates may inhibit price readjustments, help to coordinate expectations and hinder the deterioration of self-fulfilling inflation expectations. This decision to increase the interest rate will allow the reduction of inflation expectations for 2003.

As a result, the Copom decided, unanimously, to increase the target for the Selic rate to 25% p.a.

At the close of the meeting, it was announced that the Committee would meet again on January 21, 2003, for technical presentations and, on the following day, in order to discuss the monetary policy guidelines, as set in Communiqué 10187, of October 2, 2002.

Minutes of the 80th Meeting of Banco Central do Brasil Monetary Policy Committee (Copom)

Date: January 21st and 22nd
Place: Central Bank's Headquarters meeting room of the 8th floor (on Jan. 21st) and 20th floor (on Jan. 22nd) – Brasília – DF

Called to Order: 4:00 PM on Jan. 21st and 12:23 AM on Jan. 22nd
Adjourned: 7:57 PM on Jan. 21st and 2:40 PM on Jan. 22nd

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Beny Parnes
Carlos Eduardo de Freitas
Edison Bernardes dos Santos
Ilan Goldfajn
Luiz Fernando Figueiredo
Sérgio Darcy da Silva Alves
Tereza Cristina Grossi Togni

Department Heads (all present on January 21st)
Altamir Lopes – Economic Department
Carlos Yoshitaka Urata – International Reserve Operations Department
Fábia Aparecida de Carvalho – Investor Relations Group
José Antonio Marciano – Department of Banking Operations and Payment System
Marcelo Kfoury Muinhos – Research Department (also present on January 22nd)
Sérgio Goldenstein – Open Market Operations Department

Other participants (all present on January 21st)
Antônio Carlos Monteiro – Executive Secretary
Alexandre Pundek Rocha – Advisor to the Board
João dos Reis Borges Muniz – Press Secretary
José Pedro Ramos Fachada Martins da Silva – Advisor to the Board

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

Economic Activity

The moderate upward trend in the level of economic activity that had been outlined over the second half of the year was sustained at the end of 2002. Key factors supporting the expansion were the increase in exports and import substitution. Domestic consumption was stable in the last two months of the year, although at a relatively high level due to continued support from the extraordinary disbursements from the FGTS.

According to seasonally adjusted data from Fecomércio, real retail sales in greater São Paulo were roughly stable in December as compared to the previous month, a trend that has been maintained since August, when sales registered remarkable growth. For the year, sales grew 5.1%, with significant expansion in sales of consumption goods, particularly non-durables, reflecting the effects of disbursements from the FGTS on the demand for lower value goods.
The IIC was stable in January as compared to December, according to the survey by Fecomércio. The index stood at 106.7 points, on a scale ranging from 0 to 200, and consumers' current and future intentions both remained steady. The relatively high level of the index in December and January can be attributed to the improved political scenario and to reduced concerns over unemployment.

Regarding default rates, data from the ACSP revealed a significant fall at the end of 2002, repeating this indicator's seasonal pattern. The number of cancelled default registrations grew by 30% in December, confirming that debtors usually take part of the 13th wage to pay for debts in arrears. Assessing the seasonally adjusted data, the level of default reached 4.2% in December, below the annual average in the last five years. This is partially due to the regularization of debtors' status, reflecting settlements of debts using disbursements from the FGTS.

Outstanding credit operations with freely established interest rates declined by 0.4% in December, as a result of a 1.2% reduction in credit to individuals, and no change in credit lines to corporations. The volume of new concessions grew by 9.8% in the month. This fact is associated with the high volume of renewals in short-term operations to meet the typical demand in this period.

The fall in outstanding operations to individuals is explained, in addition to the FGTS, by the seasonal payment of debts, mainly those with higher costs, using the 13th wage. In December, balances of overdraft accounts and credits for individuals decreased by 5.5% and 2.5% respectively, while acquisition of goods and of vehicles increased by 5.7% and 0.2% respectively.

Although the level of credit operations with corporations has been stable, internally funded operations grew by 2.8% or R$2.2 billion, the same amount by which externally funded operations decreased. This reduction was due to the payment of obligations and the foreign exchange appreciation observed in December.

Investment indicators improved slightly in recent months, though not enough to reverse the accumulated negative results for the year, which were associated with the uncertain macroeconomic environment. Capital goods output grew by 2.7% in November, reducing the accumulated decrease in the year to 1.3%. On the other hand, after consecutive increases between August and October, the production of inputs for civil construction decreased by 0.1% in November, leading to accumulated growth of 3.4% in the year.

In November, industrial production expanded for the sixth consecutive month, increasing by 0.5% as compared to the previous month, according to seasonally adjusted data from IBGE. In the year to November, industrial production grew by 2.1% as compared to the same period of 2001. By categories of use, the monthly increases were 0.6% in the production of durable consumption goods, and 0.3% in intermediate goods, in addition to the already-mentioned expansion of 2.7% in capital goods. The November result was negatively affected by the 7.6% decrease in oil and natural gas output, basically because an oil platform was taken off-line.

In the labor market, the average unemployment rate measured by IBGE dropped from 7.4% in October to 7.1% in November. This result was essentially due to a 1% fall in the labor force, since the number of employed workers declined by 0.7% in the month. According to the Ministry of Labor, legally registered employment grew by 0.2% in November, on a seasonally adjusted basis, and by 3.2% over the past 12 months.

With respect to the external accounts, after the US$1.8 billion surplus in December, the trade balance accumulated a US$13.1 billion surplus in 2002. Exports grew 3.7%, totaling US$60.4 billion, while imports fell 15%. In the first three weeks of January (12 working days), the trade surplus continued on its upward trend, with exports growing and imports falling as compared to the same period of 2002. For the period, the trade surplus reached US$508 million.

In brief, the level of activity continued to be positively influenced by the adjustment in the external sector while domestic demand was stable at a higher level, supported by the disbursements from the FGTS. Prospects for sustaining the current level of consumption are supported by the continuity of the disbursements of the FGTS, which will increase in 2003, the reduction in default rates, the payment of debts in the second half of 2002, and the improvement in consumers' expectations.

External Environment

The external scenario remained critical in recent weeks, reflecting the growing tension between the US and Iraq. The increase in oil prices, also influenced by the political crisis in Venezuela, may hinder the effort to control inflation and create new obstacles to expansionist fiscal and monetary policies aimed at boosting the global economy. Stock markets have been reflecting this tension. With weak corporate results, markets have failed to rebound. In the currency market, the US dollar has depreciated notably against the Euro and Yen recently.

In the US, there are doubts about the real impact of the new fiscal measures on the economy, which has performed modestly in the last quarter. Unemployment remained in a high level, 6%, and new job creation was very low. Industrial production decreased by 0.2% in December, as a result of weak demand for industrial products, and the level of installed capacity utilization remained at 75.4%. Retail sales increased by 1.3% in December, as compared to November, but decreased by 0.1% when automobiles are not considered. Industrial and retail inventories expanded by 0.2% in November, in the seasonally adjusted figures. Consumer and producer prices were stable in December, showing that inflation is unlikely to be a risk to the economy. Confidence indicators generally point to an improvement of business sentiment in the manufacturing sector.

In the Euro area, economic stagnation continues. Low GDP growth is expected in 2003, mainly due to the economic scenario in Germany, the biggest economy in the region. With inflation subdued, the 0.5 pp reduction in the main refinancing rate in December revealed that the ECB is concerned with this scenario. However, the high interest differential between the US dollar and the Euro, in addition to the fragility of the US economy, led to a significant appreciation of the Euro in the recent weeks. The currency movement may sharpen the worsening of the Euro area's trade balance that has been seen recently. Confidence indicators reflect the pessimism of both businesses and consumers.

In Japan, the most recent data have not helped to reduce the pessimism regarding economic recovery. In November, an unexpected improvement in exports compensated for the weak performance in other sectors. Relative to October, equipment orders decreased by 7.4% and industrial production fell by 2.2%. The consumer price index decreased for the 38th consecutive month.

In Argentina, the provisional agreement with the IMF, which will last until the end of August 2003, provides refinancing for overdue and upcoming debt maturities to the IMF, the IDB and the World Bank but does not provide new disbursements of funds to the country.

Prices

In December, inflation rates fell somewhat, although the increases in both wholesale and consumer prices were still high. The IPCA increased 2.10% compared to 3.02% in November, accumulating 12.53% for the year. The IGP-DI reached 2.70% in December compared to 5.84% in the previous month, accumulating a 26.41% increase in 2002.

The lower increase of the IPCA resulted from reduced pressure from monitored prices, which posted a 1.53% increase in December compared to 4.29% in November, and contributed 0.43 p.p. to December inflation. With respect to free prices, tradable goods produced the strongest pressure, although the increase in tradable prices fell from 3.58% in November to 3.28% in December (contributing 1.31 p.p. to the overall December IPCA). Price increases were particularly notable in: beans, cigarettes, chicken, rice, medicines, milk and dairy products, beef and electronics. Non-tradable goods prices increased 1.14% in December (contributing 0.36 p.p. to overall inflation), compared to 1.27% in the previous month, reflecting lower pressure from fresh food prices.

With respect to the IGP-DI, the wholesale price component of the index posted a sharp deceleration in December, rising by 3.14%, in comparison to 7.45% in November. The increase in the consumer price component also decelerated, averaging 1.94% compared to 3.14% in November. This was the result of smaller increases in food prices, transportation and housing. The INCC increased 1.7% compared to 2.45% in November, reflecting the lower rise in the prices of construction inputs.

In the beginning of 2003, inflation is expected to fall further. However, inflation rates will remain at relatively high levels. In January, price indices will still be impacted by the adjustment of monitored prices in December, particularly for oil byproducts. Additionally, inflation will also be pushed up through March by the seasonal adjustment of education expenses.

Money Market and Open Market Operations

On the eve of the Copom meeting in December, the spreads between the Over-Selic target and the 1-month and the 1-year interest rates were 253 b.p. and 717 b.p., respectively. The 300 b.p. target increase exceeded market expectations, causing the reduction of the spreads to 9 b.p. and 296 b.p, respectively. Subsequently, the announcement of private external borrowings at the beginning of the year and improved risk perceptions reduced the spread of the 1-year interest rate to 176 b.p. on January 21.

A total of US$5.7 billion in securities and foreign exchange rate swap contracts matured from December 19 to January 22. The rollover of the three maturities, through swap contracts with terms ranging from one month and two years, totaled US$5.2 billion. A significant reduction in the slope of the exchange rate coupon curve across all maturities allowed lower rates in the auctions when compared to rates attained during the period of the previous meeting.

The Treasury carried out three LFT auctions, which totaled R$13.1 billion, with an average maturity of 363 days. The increasing demand for LFTs seen since October declined after the last Copom meeting, though there is evidence of growing appetite for fixed income securities.

The BCB intervened in the open market 21 times from December 19 to January 21, in order to withdraw and provide liquidity. The rates were 24.90% and 25.00%, respectively, and the average daily volumes were R$59.1 billion and R$3.2 billion, respectively. The BCB carried out eight longer-tenure repo operations, with average tenure of 15 business days and average amount of R$3.1 billion.

The financial settlements from December 19 to January 21 caused a contractionary monetary impact of R$1.2 billion, basically due to net placements of R$9.2 billion of LFTs, partially offset by net redemptions of FX-indexed securities (R$5.1 billion), of LTNs (R$1.7 billion) and of NTN-Cs (R$0.9 billion).

Assessment of Inflation Trends

The identified shocks and their impact were reassessed according to newly available information. The scenario considered in the simulations assumes the following hypothesis:

As mentioned in previous Copom minutes, the projections for the prices of oil by-products are still based on the changes in international oil prices and the exchange rate since the last price adjustment. Already taking into consideration the effects of the last adjustments in the January IPCA, an increase of 0.2% in the consumer price of gasoline is expected for 2003. For bottled gas, the price is expected to decline by 1.6% in 2003.

The projection for an increase in household electricity tariffs of 30.3% in 2003 was unchanged.

For the set of prices administered by contracts and monitored, which had a weight of 28.0% in the December IPCA, increases of 14% and 8% are expected for 2003 and 2004, respectively.

In relation to the projections at the last meeting, there was a rise of 1 p.p. for 2003, due mainly to the revision of the estimated adjustments in the prices of gasoline, urban transport and alcohol. For 2004, the increase of 0.4 p.p. was a consequence of the revision of the expectations for the IGP-M, since the Copom assumes that all the prices administered by contracts and monitored follow the change of the IGP-M for the specified year.

The projection for the 6-month spread over the Selic rate, which utilizes an error correction-based model specification, was 150 b.p. for the first quarter of 2003 and through the end of this year.

Core inflation calculated with the exclusion of household food items and of administered prices – considering the broadened set of these items which had a weight of 28.0% in the December IPCA – registered a 1.66% increase in December, a significant rise in comparison to the observed changes of 1.17% in November, 0.74% in October and 0.61% in September. The 12-month accumulated change in December was 8.30%. Core inflation calculated under the trimmed-mean method registered a 1.36% increase in December, a small change in relation to November (1.32%) but significantly higher than in October (0.78%). For the year, the trimmed-mean core measure increased 8.84%. Regarding core inflation of the IPC-BR, calculated under the symmetric trimmed-mean method, the inflation rate reached 1.39% in December and 8.76% in 12-months.

The increase of the IPCA accumulated in 12 months rose to 12.53% in December, after reaching 10.93% in November, 8.44% in October and 7.93% in September. In the last twelve months, free market prices contributed 7.95 p.p. to inflation, while prices administered by contracts and monitored contributed 4.58 p.p.

Regarding fiscal policy, it is assumed that the primary surplus target for this year and for the next years will be achieved. The other related assumptions established in the previous meeting were maintained.

From the simulation exercises with several specifications of the structural model, it has been concluded that the maintenance of the interest rate at 25.0% p.a. and of the exchange rate at a level close to the level on the eve of the Copom meeting indicates inflation slightly above the adjusted target of 8.5% for 2003, as specified in the Open Letter of the Governor of the Banco Central do Brasil to the Minister of Finance on January 21, 2003.

Monetary Policy Guidelines

Economic activity has stabilized at a higher level than at the beginning of last year. In November, industrial production increased for the sixth consecutive month, supported by sectors linked to exports and non-durable goods.

Economic indicators have been signaling that consumption should also continue to grow moderately in the upcoming months. Since August, the retail sector's revenues have remained stable in real terms at a relatively high level, slightly above the figures observed in 2000. Defaults are falling and, in January, future consumption intentions repeated the level of December, the highest since 2000. The disbursements of around R$10 billion from the FGTS during 2003 will also help to support consumption growth this year.

Besides consumption, the growth of net exports is another factor that has been supporting aggregate demand, although its contribution to growth in 2003 may be lower than in 2002, considering the substantial expansion of the trade surplus last year.

Last year, the large contraction in capital flows due to the increase in global risk aversion and the confidence crisis related to the Brazilian economy led to a strong adjustment in the current account deficit and, therefore, a more depreciated real exchange rate. In fact, the more depreciated exchange rate produced the external adjustment, with the current account deficit below US$8 billion in the year. On the other hand, there was great pressure on inflation in the last months of 2002. Despite the high inflation – considering only the last quarter the increase in IPCA reached 6.5% – inflation in 2002 can be more appropriately characterized as a change in relative prices, considering that the prices of tradable goods increased more than the prices of non-tradables. Accordingly, monetary policy has been conducted in order to limit the effects of the exchange rate depreciation to the change in relative prices, preventing the propagation of this shock and facilitating the convergence of inflation to its targets.

Since the last Copom meeting in December and, more visibly in the first weeks of January, an improvement in local financial markets has been observed as a consequence of lower risk perception. Mutual funds received net inflows, the FX coupon and fixed interest rates declined, and Brazilian banks and companies recovered access to external funding. Reflecting this better perception of Brazilian risk, the exchange rate appreciated, reaching the minimum level of R$3.28 per US dollar on January 14. However, during the days before the Copom meeting, the BRL started to depreciate again, mainly due to the possibility of war between the United States and Iraq.

The median of 2003 inflation expectations surveyed by the Investor Relations Group has remained relatively stable at a high level. Expectations of the "top 5" institutions for the IPCA fell to 10.23% on January 17 from 13.49% on December 30, 2002. Moreover, the median of the expectations for the next two months indicate a decline of inflation to 1.12% in February and 0.65% in March.

In fact, inflation indices have shown clear signs of deceleration. The increase in the IPCA fell to 2.10% in December from 3.02% in November. The increase in the IGP-DI declined to 2.70% in December from 5.84% in November. The increase in the IGP-10 fell to 2.29% in January from

4.87% in December. The increase in the IPA-10 declined to 2.60% in January from 5.91% in December. Finally, the increase in the IPC/Fipe fell to 1.83% in December and to 1.79% in the four-week period ended in the second week of January from 2.65% in November.

Moreover, preliminary price data collected in recent weeks indicate that inflation is falling in January, most visibly in the segment of food and beverages, which slowed the most in the week previous to the Copom meeting. Inflation expectations for the year should decrease as soon as this trend is confirmed, in a context where monetary policy demonstrates its strong commitment in driving inflation to the targets.

There will be no changes in the adjusted target during the year, except in the case of a relevant change in the forecast (upward or downward from the 14% already expected) for prices administered by contracts or monitored (excluding the exchange rate change), since these prices are not directly affected by monetary policy.

Although inflation has declined recently, inflation indices reached high levels at the end of last year, and the convergence of inflation to the adjusted targets depends on the speed at which inflation continues to fall. In this context, it is important to evaluate the impact on inflation of the accumulated 7 p.p. increase in the Selic rate that occurred in the last quarter of 2002. The maintenance of the target for the Selic rate at 25% would result in an inflation projection a little above the adjusted target of 8.5% in 2003.

As a result, the Copom decided, unanimously, to increase the target for the Selic rate to 25.5% p.a.

At the close of the meeting, it was announced that the Committee would meet again on February 18th, for technical presentations and on the following day, in order to discuss the monetary policy guidelines, as established in Communiqué 10,187, of October 2, 2002.

Minutes of the 81st Meeting of the Monetary Policy Committee (Copom)

Date: February 18th and 19th
Place: Central Bank's Headquarters meeting room of the 8th floor (on Feb 18th) and 20th floor (on Feb 19th) – Brasília – DF

Called to Order: 4:00 PM on Feb 18th and 11h15 AM on Feb 19th
Adjourned: 7:00 PM on Feb 18th and 4:40 PM on Feb 19th

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Beny Parnes
Carlos Eduardo de Freitas
Edison Bernardes dos Santos
Ilan Goldfajn
Luiz Fernando Figueiredo
Sérgio Darcy da Silva Alves
Tereza Cristina Grossi Togni

Department Heads (all present on February 18th)
Altamir Lopes – Economic Department
Daso Maranhão Coimbra – International Reserve Operations Department
José Antonio Marciano – Department of Banking Operations and Payment System
José Pedro Ramos Fachada Martins da Silva – Investor Relations Group
Marcelo Kfoury Muinhos – Research Department (also present on February 19th)
Sérgio Goldenstein – Open Market Operations Department

Other participants (all present on February 18th)
Antônio Carlos Monteiro – Executive Secretary
João dos Reis Borges Muniz – Press Secretary

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

Economic Activity

Recent economic indicators have pointed out some deceleration in activity. In December, both industrial output and retail sales contracted, after having posted monthly increases throughout the second half of 2002. The fall in real income and the worsening in credit market conditions persist as main contractive factors, offsetting the positive effect of the extraordinary disbursements from the FGTS. At the same time, the uncertain global environment does not encourage a recovery in domestic investment. Export growth and import substitution remain as key factors to support economic activity.

According to seasonally adjusted data from Fecomercio-SP, real retail sales in greater São Paulo fell 4.3% in December as compared to the previous month. In January, preliminary data suggest a new contraction, of 1.68%. Accounting for the January figures, retail sales returned to the first half of 2002 level.

The Fecomercio-SP survey on consumer confidence showed deteriorating expectations in February, mirroring the growing inflation concerns. The IIC stood at 102.5 in February from 106.7 in January, in a scale ranging from 0 to 200, with reductions of 1.9% and 4.9% for current and future consumption intentions, respectively. These decreases took place after a substantial recovery in the last quarter of 2002.

Regarding default rates in the retail trade sector, the share of returned checks substantially increased in January, reaching 5.3%, the historical peak for the series. ACSP data indicated that, though the cancelled default registrations remained high in January, the fact that the number of new arrears increased forced the delinquency rate up, when compared to December.

The default rate in non-earmarked credit operations did not follow the trend in the retail sector, remaining at 8%. Corporate default rates increased 0.1 p.p. in January to 4.3%, roughly stable since July 2002. As far as individuals are concerned, the default rate diminished 0.3 p.p., standing at 14.5%. It is worth stressing the 0.9 p.p. fall in arrears in overdraft accounts.

Investment indicators fell again in December, repeating the trend observed throughout the semester due to the uncertainties of the period. Considering December data, the investment rate closed the year at 17.7% of GDP compared to 19.2% in 2001. All components of fixed investment fell in 2002.

Regarding capital goods, the 27% drop in output of energy generation machinery should be mentioned, due to the conclusion of the investment cycle triggered by the energy rationing. On the other hand, agricultural machines output grew 18.6% due to the increase in this sector real income.

Industrial output fell 1.8% s.a. in December as compared to November, breaking off the growing trend noticed since June. The fall in manufacturing affected 18 out of 20 industrial activities and followed the reduction in industrial sales surveyed by the CNI in November and December (-7.1% and –1.1% s.a., respectively). The 7% reduction in mineral extraction output was due to prescheduled maintenance interruptions in oil and gas fields. Considering the December figure, industrial production grew 2.4% in 2002, boosted by the 10.7% expansion in mineral extraction output, mainly oil and gas. The 1.4% growth rate in manufacturing output was led by the agribusiness and exports' sectors.

Concerning business sentiment, the CNI survey tracked some recovery in confidence at the end of 2002 and in the beginning of 2003. The FGV survey of the manufacturing sector, conducted with 1,100 companies all over Brazil, indicated that the business community expects a recovery in demand in a 6-month horizon, though anticipating a short-term contraction. The low level of industrial inventories is one factor that boosts business confidence. Also worth mentioning, the level of capacity utilization in January (80.8%) does not restrict activity except in very specific industries.

Employed workers grew 0.2% in December, s.a., and 3.6% for the year when compared to 2001, according to data from the Ministry of Labor and Employment. The jobless rate measured by the new monthly survey by IBGE, including the six largest metropolitan areas of Brazil, fell to 10.5% in December from 10.9% in November.

The trade balance posted a US$1.2 billion surplus in January, with a 21% growth in exports (US$4.8 billion) and a 4.1% fall in imports, both compared to the same month of 2002. Up to the second week of February (including 10 working days), the trade surplus reached US$789 million, averaging US$253 million/day for exports and US$175 million/day for imports.

Adding up briefly, activity level lost *momentum* at the end of 2002, after a positive performance throughout the second half of the year. Despite the continuity of the external adjustment, as well as positive signs in business sentiment, domestic expenditure contracted due to the fall in real income, the worsening in credit market conditions and the falling investment caused by the uncertain environment, mainly on the external front.

External Environment

The external scenario remained stressful in the last few weeks, reflecting growing tension about a possible war in the Middle East. Besides the direct concerns about the war, in relation to length and its economic, social and political outcomes, global financial markets anticipated the risks that any decision is not unanimously taken by the UN Security Council.

This framework helped to pull up oil prices, deteriorating the uncertainties regarding the global economy prospects, even in a short-lasting war scenario. This environment complicates the outlook for emerging market economies, mainly the ones dependent of external funding.

Doubts about the US recovery persist, as the uncertainties about war in Iraq do not encourage investment expenditure. GDP growth decelerated in the last quarter of 2002, to 0.7%, supported by government consumption expenditures (up 4.6%). Personal consumption (about 2/3 of GDP) increased by only 1%, the lowest rate in nearly ten years.

In the euro area economic stagnation continues, led by the German economy. The European Central Bank maintained the main refinancing rate at 2.75% in its last meeting

In Japan, the most recent economic data showed that the economy has stabilized, but doubts persist about a sustained recovery. In December, though exports fell, industrial orders increased when compared to November. GDP grew 2% in annual terms in the last quarter of 2002, according to a preliminary estimate.

In Argentina, economic activity resumed the upward trend, supported by the import substitution process. The sharp fall in imports helped to achieve a record US$16.4 billion trade surplus in 2002.

Prices

In January, the trend of the main price indices was not uniform. Consumer inflation grew, after having decelerated somewhat in December, whilst wholesale inflation fell again, particularly for agricultural prices. The IPCA increased 2.25% compared to 2.10% in December. The IGP-DI reached 2.17% in the month (2.70% in December), reflecting changes of 2.21% in the IPA, 2.32% in the IPC and 1.51% in the INCC. For the first time since April 2002, the IPCA monthly growth was higher than the IPA's.

The growth of consumer price indices was mainly due to the increases of fuel prices and urban transport fares. Food prices decelerated, following the trend observed since the end of November for wholesale agricultural prices.

In the IPCA, prices of non-food goods increased 2.28% and contributed 1.74 p.p. to the monthly variation. Gasoline, with a 8.82% increase, and readjustment of urban transport tariffs in 5 out of the 11 surveyed capitals by IBGE (Porto Alegre, Fortaleza, Salvador, Belo Horizonte, and São Paulo), with an average increase of 4.99%, were the items that mostly contributed to the monthly result, 0.39 p.p. and 0.23 p.p., respectively. Food prices, even having increased significantly, grew less in January (2.15%) as compared to December (3.91%).

With respect to the IGP, the 2.21% increase in the IPA resulted from increases of 1.16% in agricultural prices and 2.64% in industrial prices, both decelerating as compared to the previous two months. Regarding agricultural prices, the deceleration was even sharper due to the beginning of the new harvest, besides decreases in the prices of some agricultural *commodities*, resulting from lower international prices and an appreciated exchange rate (monthly averages). In the industrial prices, the deceleration was less intense, although some groups as chemicals (fuel and lubricants) and textiles still posted some pressure.

In February, inflation shall cool down somewhat. In the IPCA, regulated and monitored prices are expected to be under pressure due to the residual effect of the readjustments of fuel prices and urban transport fares, let alone the mobile phone tariffs that were readjusted in February. Among the free market prices, the highest variations may come from the segment of education. The readjustment of monthly school fees, for methodological reasons, influences the IPCA variation with more intensity in February, differently from other indices, whose higher effect occurred in January.

Money Market and Open Market Operations

Uncertainties in the external scenario and the release of inflation figures above market consensus brought about expectations of a higher over-Selic target on the Copom February meeting. On February 18th, eve of the Copom decision, the spreads of 1-month and 6-month interest rates were 120 and 284 b.p., respectively.

A total of US$4.2 billion in securities and FX swaps maturing in February was rolled over through swap contracts. On the February 3 rollover, the equivalent to US$1.7 billion was placed as contracts with tenures ranging from 1 month to 5 years. The auctions were carried out at rates higher than in the January 22 rollover, due to the increase in the slope of the exchange rate coupon curve. The February 13 rollover (US$2.5 billion of swaps were contracted with tenures ranging from 1 to 29 months) benefited by the decrease of the short-term coupon, due to new private external funding and the rollover of the Banco Central's FX credit lines.

The Treasury carried out four LFT auctions, with higher volumes at each event. Financial volume reached R$20.8 billion, with an average maturity of 348 days. Aiming at reducing the concentration of maturities, the Treasury held a purchase auction of LFT, draining the equivalent to R$1.6 billion from the market, in securities maturing in April. In the period, approximately R$0.7 billion was placed in NTN-C, with tenures of 5, 14 and 18 years.

From January 24 on, the Banco Central has altered its strategy of intervening in the open market, aiming at lengthening the tenure of its repo operations. Usual interventions had their tenures lengthening from 1 to up to 5 working days. Also, five 1-month repo operations were carried out, draining R$37.2 billion from the market.

Securities settlements from January 23 to February 18 caused a contractive monetary impact of R$6.5 billion, basically due to net placements of R$10.6 billion of LFT, partially offset by net redemptions of FX-indexed securities (R$4.4 billion).

In January, domestic securitized public debt increased by R$13.7 billion (+2,2%), due to net placements of R$2.6 billion in securities and interest accrual.
Assessment of Inflation Trends

The identified shocks and their inflationary impact were reassessed according to newly available information. The scenario considered in the simulations assumes the following hypotheses:

The projection for the increase in gasoline prices was revised to 8.0% for 2003, including the rises in the beginning of the year. An increase of 8.0 p.p. is forecasted for the prices of bottled gas, as compared to the January Copom meeting;

Regarding the previous meeting, the forecasted rise in household electricity tariffs for 2003 decreased to 27.1% from 30.3%, due to the revision of the readjustments proposed by the Aneel for this year;

For the set of regulated and monitored prices, which had a weight of 27.9% in the January IPCA, an increase of 15.9% is projected for 2003, from which 3.8% has already occurred in January. The decrease in the projections for household electricity tariffs was offset by higher prices of gasoline, bottled gas, urban transport, and interstate transport. For 2004, the forecast increase for the set of regulated and monitored prices is 8.7%. The increase of 0.7 p.p. compared to the January estimate was due to the revision of expectations for the IGP-M, since the Copom assumes that all the regulated and monitored prices follow the change of the IGP-M for the specified year.

The projection for the 6-month spread over the Selic rate, which utilizes an error correction-based model specification, was 200 b.p. for the first quarter of 2003 though gradually reaching –150 b.p. at the end of 2004.

Core inflation calculated with the exclusion of household food items and of regulated and monitored prices posted a 1.38% increase in January, a significant decrease in comparison to the 1.66% observed in December, but still higher than the observed in the previous months. In January, the 12-month accumulated change was 9.69%. Core inflation calculated under the trimmed-mean method registered a 1.32% increase in January, back to the value registered in November 2002 and slightly below the December figure (1.36%). In the last 12 months, the core increased by 9.70%. Regarding core inflation of IPC-BR, calculated under the symmetric trimmed-mean method, the inflation rate reached 1.39% in December and 8.76% in 12 months.

The accumulated variation for the IPCA in 12 months increased to 14.47% in January 2003, as compared to 12.53% in December 2002. In the last 12 months, free market prices contributed 8.74 p.p. to inflation, while prices regulated and monitored contributed 5.73 p.p.

Regarding fiscal policy, it is assumed that the primary surplus target for this year will be achieved (4.25%). The other related assumptions established in the previous meeting were maintained.

From the simulation exercises with several specifications of the structural model, it has been concluded that the maintenance of the interest rate at 25.5% p.a. and of the exchange rate at the prevailing on the eve of the Copom meeting indicates inflation higher than the adjusted target of 8.5% for 2003.

Monetary Policy Guidelines

In the last year, the confidence crisis regarding the future of the Brazilian economy and the increase in global risk aversion resulted in a U$30 billion decrease in capital inflows to Brazil and a current account deficit adjustment of nearly 3% of the GDP. This external adjustment triggered a sharp exchange rate depreciation (44%), since GDP has grown around 1.6%. The significant exchange rate depreciation represented an important shift in relative prices, what resulted in an inflation rate of 6.6% in the last quarter of 2002. This higher inflation was the major cost inherited from the last year crisis.

The Brazilian economy has been reacting to the last year shock through measures that have recovered the confidence and allowed capital flows to return. The FX inflow was positive in January (US$1.1 billion) for the first time since March 2002, a trend sustained in February. Regarding the primary placement of public securities, the Treasury has been issuing larger volumes of LFT with no pressures on yields or tenures. On its turn, inflation to the consumer has been decelerating. IPCA moved from the 3.02% peak in November to 2.25% in January. Similarly, free market prices inflation has been decreasing since the 2.53% peak in November to 2.32% in December and 1.64% in January.

There are reasons to believe that inflation may continue to decrease. On one hand, economic activity seems to be decelerating. In the retail sector, the sharpened decrease in real sales in December reflects the fall of real income and worsened credit conditions for the consumers. Industrial production, in the same month, interrupted the growing trajectory drawn in the previous six months and, based on leading indicators, may continue to move backwards in January. In this sense, it is important to consider the future impact on inflation of the accumulated increase of 750 b.p. in the over-Selic rate since last October. On the other hand, the maintenance of the pace of capital inflows observed in the beginning of this year may imply a higher supply in the FX market and, on a less adverse external scenario, allow some favorable pressure on the exchange rate.

Notwithstanding, there is the risk of inflation to continue in a high level, as the current inflation level shows some rigidity. Due to the inertial mechanism of price formation in the Brazilian economy, the high inflation of the last year has been reflecting in a higher inflation in the beginning of this year. IPCA core inflation in January moved backward as compared to the previous month, but the variation was higher than the observed in the three first quarters of 2002. Estimates for consumer price indices in February continue to show high rates of inflation, higher than in January. In the second 4-week estimate of February, IPC-Fipe increased by 2.13%, slightly below the first week (2.23%), but well above the second preview of January (1.79%).

Preliminary data of prices collected in the last weeks indicate that free market prices inflation has been decreasing in February, even though there is a strong pressure of items such as *in natura* food and school fees. However, the results of these price collections suggest a high variation in the IPCA compared to the adjusted inflation target trajectory.

As in the last years' trend, regulated and monitored prices continue to put a strong pressure on the consumer inflation. In January, IPCA inflation moved upward due to the significant increase in regulated and monitored prices (3.83%), 2.3 times higher than the free prices average increase. Even weighting 27.9%, regulated and monitored prices were responsible for 47% of the January IPCA rate and 40% of the IPCA accumulated in the last 12 months.

As an example, while free market prices inflation reached 1.64% in January, the price of gasoline for the consumer rose by 8.82%, the major individual contribution to IPCA in the month. This increase was due to the passthrough of the 12.8% rise in the refineries on last December 29, besides the increase caused by changes in the basis for calculating the ICMS. Alcohol-based fuel prices increased by 5.96% in January, as compared to 2.96% in the previous month, mainly because of rises endorsed by producers. Prices of diesel oil increased by 11.88% in January, added to the 8.01% increase in December. Price increase in January reflected mainly the 11.3% readjustment in the refineries on December 29.

The readjustment of 4.99% in urban transport fares has also put a strong pressure on regulated prices in January, even after the strong increase in December (2.67%). Local governments of Belo Horizonte (10.43%), São Paulo (10.00%), Salvador (8.18%), Porto Alegre (4.17%), and Fortaleza (1.67%) practiced the most significant increases. Interstate bus fares were also readjusted by 7.18%, with pressure coming from the increases in Belo Horizonte (17.18%), São Paulo (12.63%), Belém (6.36%), Porto Alegre (5.93%) and Salvador (5.33%).

Moreover, the 2.73% increase in the household electricity tariff was due to the readjustments in Rio de Janeiro (10.97%) and Brasília (8.43%). In Rio, one of the concessionaries carried out a 28.56% contractual readjustment.

It should be highlighted that the effects of the readjustments in regulated and monitored prices may not only contribute directly to inflation but also risk propagating secondarily to free market prices.

It is important to say that over the three first quarters of 2003 the 12-month accumulated inflation shall remain high, carrying the statistical effects of the inflation of the last quarter of 2002. Under this scenario, it is important the perception that inflation over 2003 keeps falling.

Copom understands that in this moment, when inertia in Brazilian economy transfers the impact of the last year’s shock to a higher inflation this year, monetary policy should be firm enough to eliminate the risk of a shift in the inflation level. So, Copom evaluates an additional effort in monetary policy as appropriate.

Besides, Copom understands that not only the economic policy actions of the Government but also the reactions of the society against inflation are important to a less costly reduction of inflation. In this sense, recent measures adopted by the Government aiming at reaffirming fiscal responsibility and fiscal consistence together with structural reforms are beneficial not only in the direct related areas but also boost the monetary policy efficiency. As the Brazilian experience clearly shows, the effort that society make to keep prices stable is fundamental to protect itself against the inflation tax and its regressive impacts and to the development strategy. The stability ensures the capacity of planning and investing through a more accurate predictability and lengthening of horizons.

As a result, the Copom decided, unanimously, to increase the target for the over-Selic rate to 26.5% p.a. Afterwards, the Central Bank's Board decided, unanimously, to increase the reserve requirements on demand deposits to 60% from 45% as to contribute for the fall in inflation in the coming months and to diversify the instruments of monetary policy.

At the close of the meeting, it was announced that the Committee would meet again on March 18th, for technical presentations, and on the following day, in order to discuss the monetary policy guidelines, as established in Communiqué 10,187, of October 2, 2002.

Acronyms

ac 12m	accumulated in 12 months
ACC	Anticipated Exchange Rate Contracts
ACSP	São Paulo Trade Association
Aneel	National Electric Energy Agency
b.p.	basis points
BCB	Banco Central do Brasil
BM&F	Mercantile and Futures Exchange
BRL	Brazilian Real
CDI	Interbank Futures Contract
CETIP	Center for Financial Custody and Settlement of Private Securities
Cide	Contribution on Intervention on the Economic Domain
CNI	National Confederation of Industries
CPMF	Provisory Contribution on Financial Transactions
CSLL	Social Contribution on Net Profit
DI	Interbank Deposit
ECB	European Central Bank
Fecomércio	São Paulo State's Federation of Commerce
FED	Federal Reserve System
Fenabrave	National Federation of Auto Distributors
FGTS	Time in Service Guarantee Fund
FOMC	Federal Open Market Committee
FRA	Forward Rate Agreement
GDP	Gross Domestic Product

IBGE	Brazilian Institute of Geography and Statistics
ICMS	Tax on the Circulation of Goods and Services
IDB	Interamerican Development Bank
IF	Financial Institution
IGP-DI	General Price Index – Domestic Supply
IGP-M	General Price Index – Market
IIC	Consumer Intentions Index
IMF	International Monetary Fund
INCC	National Index of Civil Construction
IPA	Wholesale Price Index
IPA-DI	Wholesale Price Index – Domestic Supply
IPC	Consumer Price Index
IPCA	Consumer Price Index – Extended
IPC-BR	Consumer Price Index – Brazil
IPC-FIPE	Consumer Price Index of the Economic Research Institute Foundation
IPCH	Consumer Price Index – Harmonized
IPP	Producer Price Index
IR	Income Tax
IRF-M	Market Fixed Income Index
IRRF	Withholding Income Tax
LFT	National Treasury Letters (floating)
LFT-B	National Treasury Letters – B series (selic rate)
LTN	National Treasury Letters (fixed rate)
NAPM	National Association of Purchasing Managers
NBCE	Central Bank Note – E Series (exchange rate variation)
NTN–C	National Treasury Note – C Series (price index)
NTN–D	National Treasury Note – D Series (exchange rate)
p.a.	per annum
p.m.	per month
PEA	Economically Active Population
PIM	Monthly Industrial Survey
pp	percentage point
s.a.	seasonally adjusted
Selic	Central Bank’s Custody and Settlement Center
SPC	Credit Protection Service
STN	National Treasury Secretariat
UN	United Nations
ytd	year-to-date

Economic policy measures

Measure related to the financial system and credit market

Circular 3,165, 12.4.2002 – Instituted the System of Information on Entities of Interest to Banco Central (Unicad). This is a new system that has the objective of integrating various reference information bases on financial institutions, other institutions authorized to operate by Banco Central and group buyer association administration companies. It also includes information on natural persons and legal entities connected to those institutions, such as stock and quota holders, directors and others occupying positions defined in their bylaws or articles of incorporation. Unicad is available on the Banco Central electronic address and may be consulted by society in general. The information that migrates to this system should be completed and updated by the financial institutions themselves.

Circular 3,169, 12.19.2002 – Redefined the rules on compulsory reserves and reserve requirements on demand resources. Daily adjustments are to be made that take due account of transit documents processed through the Central Clearance System of Checks and Other Papers (Compe) and those that generate transfers among Banking Reserve accounts, including cleared checks, credit documents (DOC) and charging instruments, so that the reserve requirement can also be levied on the institutions' readily available reserve positions. In the light of operational difficulties, the stated circular eliminated the obligation that these adjustments be carried out in each demand deposit account and account subject to prior notification. As a result, such adjustments can be effected on the basis of total deposits.

Resolution 3,054, 12.19.2002 – Authorized repo operations involving sales of fixed income securities in those cases in which the seller does not effectively have proprietorship of such papers at the time of negotiation. These operations are to be registered and settled within a single entity or clearance and settlement service provider authorized to perform deferred settlement operations on the basis of the net result of transactions. In this case, the agents in question act as central counterparts in the settlement operation, receiving papers from seller institutions at net value and transferring papers to the buyers. Permission for these operations will result in greater liquidity for the papers that back monetary market financing operations, making the process of determining the prices of these assets more consistent.

Resolution 3,055, 12.19.2002 – Authorized investment of the resources of closed complementary pension fund entities in bank credit notes. These instruments should be included in the fixed income portfolios of these entities, and are considered as having low risk levels or as medium or high credit risk, according to the classification system applied by the ranking agency operating in the country.

Resolution 3,056, 12.19.2002 – Deals with internal audits at financial institutions and other institutions authorized to operate by Banco Central. In the framework of the control of financial system operational risks related to the degree of efficiency of the internal control systems, the institutions should maintain working papers, reports and any other documents elaborated by the internal auditing staff available to Banco Central and ensure that the institution will have unrestricted access to such items.

Resolution 3,059, 12.20.2002 – Defined new rules for the accounting records of tax credits consequent upon fiscal losses in the calculation of the income tax and social contribution on net profits. Stricter rules were defined for accounting these assets, determining that only those amounts with expectation of being realized over a maximum period of five years can be registered as tax credits, based on technical studies that demonstrate the probability of the occurrence of future tax and contribution liabilities. The time limit for offsetting tax credits impedes financial institutions from increasing net worth through issues of assets with undetermined periods of realization, thus making undue growth in leverage more difficult.

Resolution 3,060, 12.27.2002 – Sets the Long-term interest rate at 11% per year to remain in effect in the first quarter of 2003. This rate had been defined at 10% per year for the final quarter of 2002.

Circular 3,177, 2.19.2003 – Altered the rate of compulsory reserves on demand resources, as well as the deduction applied to the calculation base of this reserve. The rate was increased from 45% to 60% and the deduction from R$4 million to R$44 million, to go into effect as of the third week of February. The calculation base of this compulsory deposit remains at the arithmetic average of the Amounts Subject to Reserve (VSR) calculated in the period of calculation and including demand deposit accounts, deposits subject to prior notification, among others related to readily available resources.

Circular 3,179, 2.26.2003 – Regulated Resolution 3,040, dated 11.28.2002, which deals with the requirements and procedures for constitution, operating authorization, transfers of stock control, stock reorganizations and cancellation of financial institution operating authorizations, since the acts involved in these operations depend of Banco Central approval. In terms of operating authorization, examination of the process depends on a constitutive act to be taken by the organization, as well as the deposit of an amount equivalent to the minimum net worth demanded for that specific modality of financial institution. In order to cancel operating authorization, a declaration in this sense is to be sent to Banco Central for the purpose of terminating the company or altering its business objective to that of nonfinancial institution. In this declaration, it should be stated that all of the liability operations typical of the original institution should be settled.

Resolution 3,067, 2.27.2003 – Instituted a credit line reserved to the financing of the coffee harvest and stocking operations for the 2002/2003 agricultural period, with resources of the Coffee Economy Defense Fund (Funcafé). Conversion of harvest operations into stocking operations is permitted. The amount was set at up to R$250 million, with the possibility of being further increased to as much as

R$300 million, depending on the availability of Funcafé budget and financial resources at the time of contracting of the financing. Financial charges were set at 13% per year.

Resolution 3,068, 2.27.2003 – In light of continued rural sector demand for farm machines, additional allocations of up to R$800 million were authorized for the Program of Modernization of the Fleet of Farm Tractors and Related Implements and Harvesters (Moderfrota), to be invested up to June 30, 2003, based on funding from the National Bank of Economic and Social Development (BNDES) and the Special Industrial Financing Agency (Finame). It should be noted that a new limit on the annual gross income of rural producers was defined, with a reduction from the current level of R$250 thousand to R$150 thousand, which is the amount that segregates the beneficiaries into two groups. Financial charges were also altered, with the effective interest rate being set at 9.75% per year for the group of beneficiaries with annual gross income of less than R$150 thousand and 12.75% per year for those with income levels equal to or greater than R$150 thousand. Previously, these rates corresponded to 8.75% per year and 10.75% per year, respectively.

Fiscal policy measures

Law 10,633, 12.27.2002 – Instituted the Federal District Constitutional Fund, which is an accounting fund that is designed to provide the resources required for organizing and maintaining security organizations and the health and education sectors. For 2003, the inflow of resources will come to R$2.9 billion, and this amount will be continued into the following years and will be updated according to the change in federal government's net current revenues.

Law 10,636, 12.30.2002 – Deals with the investment of resources originating in the Contribution on Intervention in the Economic Domain (Cide) on imports and marketing of petroleum and its derivatives, natural gas and its derivatives and ethyl alcohol, in keeping with the provision in paragraph 2 of article 1 of Law 10,336, dated 12.19.2001, and created the National Transportation Infrastructure Fund (FNIT).

Decree 4,591, 2.10.2003 – Deals with the question of compatibility between the revenue inflow and spending operations and with federal government budget and financial programming for the 2003 fiscal year. Programming included the conditioning of R$14.1 billion in current expenditure and investment outlays, in order to offset the rise in spending on constitutional transfers (R$1.9 billion) and on personnel and social security benefits (R$10.9 billion). The federal government's targets for the primary surplus were increased from 2.80% of GDP to 3.15%; while those for regional governments and their government enterprises were raised from 0.95% of GDP to 1.10%. The fiscal effort underlying these new targets is equivalent to R$13.5 billion, of which R$9.44 billion will be the responsibility of the central government (National Treasury, Social Security System and state enterprises) and R$4.06 billion will have to be generated by regional governments (states, municipalities and their respective state companies).

Measures related to external sector

Camex Resolution 30, 12.4.2002 – Effective until 12.28.2003, included "Corn in Grain" on the List of Exceptions to the TEC.

Decree 4,510, 12.11.2002 – (Brazil-Argentina Automotive Agreement) – Annulled the provisions included in the 30th Additional Protocol and substituted them with those included in this Protocol. The "Agreement on Common Automotive Policy between Argentina and Brazil" is incorporated into the ACE-14. This Protocol has been in effect since 8.1.2000, with the exception of that which concerns the trade management rules set down in articles 12 to 23 of the cited Agreement, which went into effect on 1.1.2001.

Camex Resolution 33, 12.16.2002 – Defined guidelines for utilization of Proex. According to this instrument, Proex-Financing will have the objective of supporting the export operations of micro, small and medium companies. The participation of operations carried out by large scale companies in this modality is permitted exclusively for purposes of complying with government commitments consequent upon bilateral Brazilian credit agreements. In its turn, Proex-Equalization will continue supporting companies of any size. The reference values used in classifying companies in terms of their size are defined by MDIC Directive 176/02 or legislation subsequently published on the basis of Decree 3,889/01, which deals with the updating of the limits.

Law 10,603, 12.17.2002 – Deals with protection of unannounced information submitted for approval of the marketing of products and takes other measures. Validates the acts carried out on the basis of Provisional Measure 69, dated 9.26.2002.

Camex Resolution 38, 12.18.2002 – Altered the ad valorem rate of the Import Tax on Capital goods and Informatics and Telecommunications Products and the specified Integrated Systems (SI) to 4% until 12.31.2004. In this case, the tax treatment foreseen in this article only applies when dealing with the import of the totality of the components specified in each system when they are to be used as a whole in the productive activity of the importer. These products can be associated with control or measurement instruments or accessories, such as conductors and electrical cables designed to make their operations possible, provided that the respective classification in the indicated Common Mercosul Nomenclature (NCM) be maintained.

Camex Resolution 39, 12.18.2002 – Extended the period of validity defined in article 2 of Camex Resolution 4, dated 2.19.2002, to 6.30.2003, altering the *ad valorem* rates of the Import Tax on the Capital Goods and Informatics and Telecommunications Products specified therein to 4%.

Law 10,605, 12.18.2002 – Deals with federal government assumption of civil liabilities to third parties in the case of terrorist attacks or acts of war against aircraft registered in Brazil and operated by public Brazilian air transportation companies, excluding air taxi companies. The overall amount of outlays on civil liabilities is limited to a ceiling of US$1,000,000,000.00 (one billion US dollars).

Secex Circular 62, 12.20.2002 – Specified rules for bilateral trade in the automotive sector until such time as the Mercosul Automotive Policy goes into effect. This policy distributes a quota of 5,000 light cargo vehicles of up to 1,500 kg cargo capacity among the companies cited therein. These units are granted a benefit of 100% of tariff preference in exports from Brazil to Uruguay.

Provisional Measure 95, 12.26.2002 – Introduced new wording into article 4 of Law 6,704, dated 10.26.1979, which dealt with export credit insurance and takes other measures. This alteration has the purpose, in the name of the government, of granting IRB-Brazil Re responsibility in the area of export credit insurance, contracting an institution qualified to operate this insurance segment in order to operate all of the services related to credit insurance, including analysis and accompaniment of operations involving the granting of guaranties against extraordinary commercial and political risks, according to the terms of Law 6,704, dated 1979. Within a short time, the credit insurance model in effect will gain in dynamism and efficiency as a result of the fact that IRB Brazil - Re will be able to operate in the entire process of credit insurance coverage, at the same time in which its responsibility in granting guaranties in the name of the federal government is maintained.

Law 10,637, 12.30.2002 – Deals with the non-cumulative nature of the levying of the contribution to the Social Integration Program (PIS) and Program of Civil Service Asset Formation (Pasep), in the cases specified therein; with payment and installment settlement of federal tax debts, offsetting of fiscal credits, declarations of nonqualification of legal entities for registration, customs legislation and takes other measures.

Decree 4,565, 1.1.2003 – Reduced the rates of the Contribution on Intervention in the Economic Domain (Cide) levied on imports and marketing of petroleum and its derivatives, natural gas and its derivatives and ethyl fuel alcohol, as instituted by Law 10,336, dated 12.19.2001, and takes other measures.

Provisional Measure 106, 1.22.2003 – Authorized the Executive Branch to institute the Autonomous Social Service Export Promotion

Agency of Brazil (Apex-Brasil), alters articles 8 and 11 of Law 8,029, dated 4.12.1990, and takes other measures.

Decree 4,584, 2.5.2003 – Instituted the Autonomous Social Service Export Promotion Agency of Brazil (Apex-Brasil) and takes other measures.

Provisional Measure 107, 2.10.2003 – Altered provisions of Laws 10,637, dated 12.30.2002 (which treats of the non-cumulative nature of the levying of the PIS-Pasep) and 9,317, dated 12.5.1996, and takes other measures.

Secex Circular 9, 2.14.2003 – (Brazil-Mexico Automotive Agreement) – distributed a quota of 140,000 vehicles among the companies specified therein, as determined in the Brazil/Mexico Automotive Agreement for the first year of its validity (2003).

Decree 4,598, 2.18.2003 (Mercosul and Mexico) – Deals with execution of Economic Complementation Agreement 54 among Brazil, Argentina, Paraguay, Uruguay and Mexico, dated 7.5.2002.

Decree 4,604, 2.21.2003 (Mercosul and CAN) – Deals with execution of Economic Complementation Agreement 56 among Bolivia, Colombia, Venezuela, Ecuador and Peru, Andean Community Member Countries, and Brazil, Argentina, Paraguay and Uruguay, which are the Mercosul signatory countries, dated 12.6.2002.

Bacen Circular 3,181, 3.6.2003 – Defined form, limits and conditions for declaring valuables held abroad by individuals and legal entities resident, domiciled or headquartered in the country.

Appendix

Banco Central do Brasil Management

Members of the Monetary Policy Committee (Copom)

Banco Central do Brasil Management

Board

Henrique de Campos Meirelles
Governor

Beny Parnes
Deputy Governor

Carlos Eduardo de Freitas
Deputy Governor

Ilan Goldfajn
Deputy Governor

João Antônio Fleury Teixeira
Deputy Governor

Luiz Augusto de Oliveira Candiota
Deputy Governor

Paulo Sérgio Cavalheiro
Deputy Governor

Sérgio Darcy da Silva Alves
Deputy Governor

Members of the Monetary Policy Committee (Copom)

Voting members

Henrique de Campos Meirelles
Governor

Beny Parnes
Deputy Governor

Carlos Eduardo de Freitas
Deputy Governor

Ilan Goldfajn
Deputy Governor

João Antônio Fleury Teixeira
Deputy Governor

Luiz Augusto de Oliveira Candiota
Deputy Governor

Paulo Sérgio Cavalheiro
Deputy Governor

Sérgio Darcy da Silva Alves
Deputy Governor

Non-voting members

Altamir Lopes
Head of the Department of Economics (Depec)

Daso Maranhão Coimbra
Head of the Department of International Reserve Operations (Depin)

José Antonio Marciano
Head of the Department of Banking Operations and Payments Sistem (Deban)

Marcelo Kfoury Muinhos
Head of the Research Department (Depep)

Sérgio Goldenstein
Head of the Department of Open Market Operations (Demab)

Acronyms

Abimaq	Brazilian Association of Machinery and Equipment Industry
ac.12m.	In accumulated terms for 12 months
ac.a.	In accumulated terms for the year
ACC	Anticipated Exchange Rate Contracts
ACSP	São Paulo Trade Association
ADR	American Depositary Receipts
AIE	Energy International Agency
Aneel	National Electric Energy Agency
Anefac	National Association of Finance, Administration and Accounting Executives
Anfavea	National Association of Automotive Vehicle Manufacturers
ANP	National Petroleum Agency
Apex-Brasil	Autonomous Social Service Export Promotion Agency of Brazil
BAI	Business Activity Index
Banacci	Grupo Financiero Banamex - Accival
Banxico	Bank of Mexico
BIB	Brazil Investment Bonds
BIS	Bank for International Settlements
BIT	Informatics and Telecommunication Goods
BM&F	Commodities & Futures Exchange
BNDES	National Bank of Economic and Social Development
BNDESpar	BNDES Participações S.A.
BoJ	Bank of Japan
Bovespa	São Paulo Stock Exchange
Cadin	Information File on Outstanding Credits of the Federal Public Sector
Caged	General Reference File of the Employed and Unemployed
Camex	Chamber of Foreign Trade
CAN	Andean Community Member Countries
CBEE	Brazilian Emergency Energy Marketing Company
CBO	Congressional Budget Office
CCR	Reciprocal Payments and Credits Agreement
CDB	Bank Deposit Certificates
CDE	Energy Development Account
CDI	Interbank Deposits Certificate
CDL	Net Domestic Credit
CEF	Federal Savings Bank
Cepal	Economic Commission for Latin America and the Caribbean

Cetes	Treasury Certificates
Cetip	Center of Financial Liquidation and Custody of Securities
CFT-E	Treasury Financial Certificates
CGPC	Council of Complementary Social Security Management
Cide	Contribution on Intervention in the Economic Domain
CIP	Interbank Chamber of Payments
CIR	Currency System
CMN	National Monetary Council
CNI	National Confederation of Industry
Cofins	Contribution to Social Security Financing
Compe	Central Clearance System of Checks and Other Papers
Copom	Monetary Policy Committee
Cosif	Accounting Plan of National Financial System Institutions
CPI	Consumer Price Index
CPMF	Provisional Contribution on Operations or Transmission of Values and Credits and Rigths of a Financial Nature
CSLL	Social Contribution on the Profits of Legal Entities
CSN	National Steel Company
CVM	Securities and Exchange Commission
CVRD	Vale do Rio Doce Company
Demab	Department of Open Market Operations
Depec	Department of Economics
DI	Deposits among financial institutions
Diset	Board of Sectoral Studies
DJIA	Dow Jones Industrial Average
DLSP	Net public sector debt
DOC	Credit documents
DOU	Federal Official Gazette
DRU	Disencunberment of Federal Government Funds
DV	demand deposits
EC	European Commission
ECB	European Central Bank
EMI	Monthly Industrial Estimator
EU	European Union
FAT	Worker Support Fund
FBC	Gross Capital Formation
FBCF	Gross Fixed Capital Formation
FECMG	Trade Federation of the State of Minas Gerais
Fecomercio SP	Trade Federation of the State of São Paulo
Fed	Federal Reserve Bank
Fenabrave	National Federation of Automotive Distribution
FGTS	Severance Fund Contribution
FGV	Getulio Vargas Foundation
Fiesp	Federation of Industries of the State of São Paulo
FIF	Financial investment funds
Finame	Special Industrial Financing Agency
FITVM	Investment funds in securities and stocks

FMI	International Monetary Fund
FMP	Mutual Privatization Funds
FNIT	National Transportation Infrastructure Fund
FOMC	Federal Open Market Committee
FRA	Forward Rate Agreement
Funcafé	Coffee Economy Defense Fund
GCI	Brazil - Investor Relations Group
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
Gerin	Investor Relations Group
HCPI	Harmonized Consumer Price Index
IBGE	Brazilian Institute of Geography and Statistics
Ibovespa	Bovespa Index
IBRD	International Bank for Reconstruction and Development
ICEI	Industrial Confidence Indicator
ICMS	Tax on the Circulation of Merchandise and Services and the Rendering of Interstate and Intermunicipal Transportation Services and Communications
IDB	Interamerican Development Bank
IED	Direct Foreign Investments
IF	Financial institution
IFO	Institute for Economic Research
Igae	Global Indicator of Economic Activity
IGP-DI	General Price Index - Internal Supply
IGP-M	General Price Index - Market
IHT	Index of Hours Worked by Laborer
IIA	Index of Current Intentions
IIC	Consumer Intentions Index
IIF	Index of Future Intentions
IIF	Institute of International Finance
Imacec	Monthly Economic Activity Indicator
INCC	National Cost of Construction Index
Indec	Instituto Nacional de Estadísticas y Census
INE	Instituto Nacional de Estadísticas
Inegi	National Institute of Statistics, Geography and Informatics
INPC	National Consumer Price Index
Insee	Institut National de la Statistique et des Études Économiques
INSS	National Social Security Institute
IOF	Financial Operations Tax
IPA	Wholesale Price Index
IPA-DI	Wholesale Price Index - Domestic Supply
IPA-OG-DI	Wholesale Price Index - Overall Supply - Industrial Products
IPA-OG-PI	Wholesale Price Index - Overall Supply - Industrialized Products
IPC	Consumer Price Index
IPC	Índice de Precios al Consumidor
IPCA	Broad National Consumer Price Index
IPC-BR	Consumer Price Index – Brazil
IPC-Fipe	Consumer Price Index issued by the Institute of Economic Research Foundation

Ipea	Institute of Applied Economic Research
IPI	Industrialized Products Tax
Ipim	Índice de Precios Internos al por Mayor
IPM	Índice de Precios al por Mayor
IPO	Index of Occupied People
IPP	Producer Price Index
IR	Income Tax
IRF-M	Market Fixed Income Tax
IRRF	Withheld Income Tax
Isac	Synthetic Index of Construction Activity
Isae	Istituto di Studi e Analisi Economica
ISM	Institute for Supply Management
IVA	Tax on Aggregate Value
IVF	Index of Physical Volume
Laia	Latin American Integration Association
LBTR	Gross Settlement in Real Time
LDL	Postponed Net Settlement
LDO	Budget Guidelines Law
Lecops	Province Liability Cancellation Bill
LFT	Treasury Financing Bills
LRF	Fiscal Responsibility Law
LSPA	Systematic Farm Production Survey
LTN	National Treasury Bills
MAA	Ministry of Agriculture and Supply
MAE	Electricity Wholesale Market
Mapa	Ministry of Agriculture, Livestock and Supply
mdb	million barrels per day
MDIC	Ministry of Development Industry and Foreign Trade
MEC	Ministry of Education
Mercosul	Southern Common Market
Moderfrota	Program of Modernization of the Fleet of Farm Tractors and Associated Implements and Harvesters
MTE	Ministry of Labor and Employment
Nafta	North-American Free Trade Association
Nasdaq	National Association of Securities Dealers Automated Quotations
NBCE	Banco Central Notes - Special Series
NCM	Common Mercosul Nomenclature
NFSP	Public Sector Borrowing Requirements
NTN-B	National Treasury Notes - Series B
NTN-C	National Treasury Notes - Series C
NTN-D	National Treasury Notes - Series D
OCDE	Organization for Economic Development Cooperation
OFPUB	System of Electronic Formal Public Offers
OMC	World Trade Organization
Opec	Organization of Petroleum Exporting Countries
p.a.	per annum
p.b.	Base points

p.m.	per month
p.p.	percentage point
p.y.	per year
PAF	Financial Assistance Program
Pasep	Program of Civil Service Asset Formation
PCC	Job Position Classification Plan
PEA	Working Population
Pesa	Special Program for Asset Reordering
PIM	Monthly Industrial Survey
PIS	Social Integration Program
PLE	Required Net Worth
PMAT	Program of Tax Administration Modernization and Management of Basic Social Sectors
PMC	Monthly Trade Survey
PME	Monthly Employment Survey
PMI	Purchasing Managers Index
PMPP	currency held by the public
PMSS	Program of Modernization of the Sanitation Sector
PNB	Gross National Product
PPE	Specific Price Share
PPI	Producer Price Index
PR	Reference Worth
Procera	Special Program of Credits to Agrarian Reform
Proex	Export Financing Program
Proinfa	Program of Incentives to Alternative Electricity Sources
Pronaf	National Program of Strengthening Family Farming
PSBR	Public Sector Borrowing Requirements
RCC	Resolution and Collection Corporation
Refis	Fiscal Recovery Program
RGPS	General Social Security System
RJU	Single Juridical System
RMSP	Metropolitan Region of São Paulo
RV	Sale Registration
SCC	Swap Contract with Periodic Adjustment
Selic	Special System of Clearance and Custody
SFH	Housing Financial System
SGP	Generalized System of Preferences
Simples	Integrated System of Tax and Contribution Payments by Micro and Small Business
Sindimaq	National Union of the Machine Industry
Sitraf	Fund Transfer System
SIUP	Public utility industrial services
SPB	Brazilian Payments System
SPC	Credit Protection Service
SRF	Supplementary Reserve Facility
STR	Reserve Transfer System
TEA	Scheduled Electronic Transfer
TEC	Common External Tariff
Tecban	Banking Technology Corp.

TED	Available Electronic Transfer
TJLP	Long-Term Interest Rate
TN	National Treasury
TR	Reference Rate
UE	European Union
ULC	Unit Cost of Labor
Unicad	System of Information on Entities of Interest to Banco Central
USA	United States of America
VAT	Value Added Tax
VSR	Amounts Subject to Reserve
WPI	Wholesale Price Index
WTO	World Trade Organization