1.1 Introduction

This section describes the impact of the main events in the international scene over the national financial market, as well as the Brazilian economy reply to internal recovery factors.

Regardless the improved results shown by major European and American corporate institutions in 2009 vis-à-vis 2008, regulatory changes proposed and fears over the effects that might arise from the withdrawal of exceptional liquidity programs added new uncertainty within the banking system, which, along with the increase in sovereign risk, caused a raise in Credit Default Swaps (CDS) premiums of banks, and pressure on price of their shares.

The main monetary policy initiatives by the BCB, the behavior of long and short term interest rates, country risk, main inflation indexes, as well as of foreign exchange are presented. Lastly, the text depicts the recent evolution of Gross Domestic Product (GDP), fiscal policy results as well as that of financial markets, including private securities, derivatives and domestic public securities.

1.2 International financial markets

Although macroeconomic indicators showed improvement in the semester ending on February 2010, sovereign risk deterioration in European economies became the focal factor conditioning financial markets behavior, precipitating, as of mid December, a rise in risk aversion, which resulted in an increase in the US dollar exchange rate, a decline in stock markets and increased uncertainties over a sustainable economic recovery within the Euro Area.
Additionally, doubts on the effects of the withdrawal of extraordinary monetary easing measures and the increasing uncertainty over financial sector regulation in Europe and in the United States (US) had a negative impact on financial institutions stock prices and put pressure on premiums of CDS banking sector.

It is worth noticing that the expansionary monetary policies kept feeding the financial system with liquidity, as shown by the spread between the Libor and the Overnight Indexed Swap (OIS) in the US, Euro Area and UK.

Deterioration of fiscal solvency indexes of relevant economies is largely a consequence of fiscal stimulus and bank support measures, which were taken as of the collapse of Lehman Brothers, in September 2008. With the economic activity still slowly recovering, especially within the Euro Area, the increase in public sector financing demand caused a raise in risk premium of countries such as Portugal, Ireland, Italy, Spain, and especially Greece, whose sovereign CDS spread grew 240, to 364 b.p., between September 2009 and February 2010.

Increase in Greek sovereign risk also reflected in increased returns demanded to finance the country’s debt. At the end of January, ten-year bond yields – Hellenic Republic Government Bonds (HRGB) – reached 7.0%, representing a record spread of 398 basis point (b.p.) over German bonds with the same characteristics. By the end of February, owing to the announcement of measures to contain the Greek fiscal deficit, it went back to 314 b.p.

In more mature economies, yields on ten-year bonds remained relatively stable along the period, with a slight turn in the UK case, whose spread over German bonds of similar maturity increased from 31 b.p., at the end of August 2009, to 93 b.p. at the end of February 2010. This wider spread showed increasing fear over fiscal sustainability of the British economy and greater uncertainties with respect to the economic growth recovery in important countries within the Euro Area. At the end of February, the government bond yields of these economies rose after the announcement of an increase in the Federal Reserve’s discount rates, which had an impact on expectations about the end of the extraordinary support measures still in place.

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3/ On December 17, 2009, the Basle Committee on Banking Supervision announced a series of propositions aiming at rendering banks more resistant to future financial crisis, which will require banks to operate with lower leverage and higher share of capital, which tend to decrease credit risk of such institutions, but, on the other hand, can erode their profitability.
Sovereign risk premiums of main emerging markets, showing improved fiscal fundamentals and more solid growth expectations, were only marginally impacted by the turbulences occurred in some economies within the Euro Area, since the Emerging Markets Bond Index (EMBI+) demonstrated relative stability during this period.

Regarding the currency market, the euro exchange rate revealed a confidence crisis in the Euro Area members and the expectations created over the dynamism of the European economy recovery after the release of the information on the GDP decrease in the last quarter of 2009. In this context, between October 2009 and February 2010, the euro suffered some 8.0% depreciation against the US dollar. The demand for US dollars resulted in its appreciation relative to the British pound, as well as to the main emerging markets currencies, as of December 2009.

Until January, capital markets kept improving, both in mature and emerging economies, as shown in the last Financial Stability Report (FSR) published by the BCB, but increasing fear of a Greek sovereign default added volatility to such markets, which then started to record losses. In January, markets were also affected by fears of tighter monetary policy in China, upon announcement made by Chinese authorities regarding increases in reserve requirements for the largest financial institutions. In this context, the Financial Times Securities Exchange Index (FTSE 100); Standard and Poor’s 500 (S&P 500); Deutscher Aktienindex (DAX) and Nikkei, showed accumulated losses around 1.1%, 1.0%, 6.0% and 4% in 2009, as well as Shanghai Composite; São Paulo Stock Exchange Index (Ibovespa); Sensex; and Kospi, fell, respectively, 7.0%, 3.0%, 6.0% and 5.2% in the same period.

In this scenario, pressure over CDS premiums and stock prices of the banking sector institutions within the Euro Area became the greatest risk for the financial stability of the region. In the third quarter of 2009, according to the Bank for International Settlements (BIS), French and German banks only, showed a US$1.6 trillion joint exposure in Greek, Spanish, Portuguese, Italian, and Irish markets. Furthermore, the announcement that the sixth largest Austrian bank would be nationalized caused additional pressure over the European banks CDS in December. Thus, the average CDS premium of five relevant European banks, after maintaining relative stability along the four latest months of 2009, went up to 98 b.p. in the first two months of 2010.
Greek Banks in particular demonstrated greater vulnerability, owing to funding difficulties. It is worth noticing that additional long-term Greek debt downgrades could have rendered their sovereign bonds ineligible as collaterals on bank refinancing operations with the European Central Bank (ECB), further restricting liquidity conditions of such institutions.

Euro area banks still face risks resulting from holding mortgage-backed assets in their balance sheets. Regardless of improved corporate results of banks in 2009 vis-à-vis 2008, in December ECB advised that between October 2009 and December 2010 European banks still could face potential losses up to €187 billion, owing to their exposure to loans and to the mortgage-backed “toxic assets”. Furthermore, credit risks deriving from higher unemployment rate, exchange rate, and exposure in East and Central Europe markets still persisted upon these institutions.

In the US, notwithstanding low banking system exposure to sovereign default risk of European countries, bank CDSs followed the same path as European banks, showing not only fears of possible contamination, but also uncertainties hovering over the regulatory environment that the US Government has been drawing for the sector.

Proposals already sent to the US Congress aim at restricting the field of action of banks with wide base of public deposits, limiting their size and preventing their exposure to high-risk financial instruments, including derivatives, and other forms of investment that may carry systemic risk, such as hedge funds and private equity funds. These measures especially impacted large financial institutions, whose exposure to higher risk markets contribute towards their greater gains. In addition, US Government announced the creation of a new tax to be levied on institutions that was assisted by the federal Government during the crisis, aiming at obtaining a refund equivalent to US$90 billion over the next decade.

The improvement in liquidity conditions as shown by spreads between Libor and OIS rates, and in the overall economic activity, allowed the Federal Reserve (Fed) to announce, in February 2010, the end of an important part of the liquidity support programs, including currency swap lines established with a number of central banks. Still in February, Fed decided to raise the discount rate from 0.50%

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4/ In December, Fitch, Standard & Poor’s and Moody’s lowered Greece’s long-term sovereign rating to BBB+, BBB+ e A2, respectively.

5/ This set of proposals sent to the US Congress is known as Volker rule.
to 0.75% aiming to normalize its facilities programs, which increased the spread between this rate and the Fed Funds’ upper limit of the band to go from 0.25% to 0.50%.

The improved economic environment reflected in better banking sector results, allowing major institutions that resorted to Government aid, when the crisis deepened, to refund most part of the credit received. According to the Federal Deposit Insurance Corporation (FDIC), in the fourth quarter of 2009, the US banking industry reached a liquid result of US$914 million, as compared to a liquid loss of US$37.8 billion recorded in the last quarter of 2008. Nonetheless, US banks still faced difficulties along the period, especially medium-size institutions that have limited funding access and face tighter restrictions on credit operations to obtain larger gains. In the fourth quarter of 2009, write-offs totaled US$53 billion and the loan and lease arrears increased to US$391.3 billion. Both the net annualized write-off rate of 2.89% and the 5.3% delinquency rate reached the highest levels of the past twenty six years, according to FDIC publications.

In Asia, where disturbances caused by the financial crisis were smaller from the start, financial markets were relatively stable. Thus, supervising and monetary authorities concentrated their concern in progressively adjusting the liquidity injected during the crisis, so as to hold the financial system balanced. Especially in China, where growth rate is expanding again, there were fears of a new real estate bubble. Therefore, the People’s Bank of China (PBC), aside from raising interest rates on three and twelve-month bonds, reinstated in January and February 2009 the increase in reserve requirements, suspended between December 2008 and 2009.

### 1.3National financial market

#### 1.3.1 National financial market analysis

Along the second semester of 2009, better performance of the world economy resulted in lower risk aversion in the international markets, and consequently Embi+ and Embi+Brazil kept its dropping course. From mid-January 2010 on, however, this trend was reversed. The overcoming of the worldwide economic and financial crisis required Government stimuli, whose amounts instigated investors concerns, despite the results achieved, as the US economic recovery, Chinese growth, as well as some emerging countries’ growth, including Brazil. Expressive fiscal deficits
of economies within the Euro Area, which ended up in downgrading Greek and Spanish sovereign ratings, raised uncertainties as to the economic recovery of the European countries. Such facts along with the restrictive economic policy signals observed in China generated an increase in risk aversion as of the second ten-day period of January. Still in the end of February, however, Embi+ and Embi+Brazil went back to levels prevailing before the worsening of the global financial crisis, at 292 and 212 points, respectively meaning a 34.4% and 24.6% fall in eight months. The greater resilience of the Brazilian economy was evidenced by the economic recovery in the second semester of 2009, with a small reduction in primary surplus and favorable perspectives for inflation control. This prompted an improvement in our foreign currency debt risk evaluation, in September, which upgraded Brazil to the investment grade rating by Moody’s.

Commodities markets, in general, followed the unfolding of the world economy in the period. Oil prices were also influenced by accentuated variations in climate conditions. After an increase of some US$25.00 in Brent oil barrel prices, in the first semester of 2009, the upward trend weakened in the following semester, showing more price volatility. From July 2009 to February 2010, price went up from US$68.34 to US$76.68, and during July, October and January presented a variation range over US$10.00. Considering the 7.4% appreciation of the real vis-à-vis the US dollar in the same period, the oil price variation in Real was lower and the average barrel price of R$130.62 basically confirmed the level of price once reached in the end of first semester of 2009.

At the beginning of the second semester of 2009, an inflation benign scene and the perception that it would require longer time for a consistent recovery both of the global and domestic economy, contributed towards another basic interest rate reduction. On July 22nd, Monetary Policy Committee (Copom) proceeded the easing cycle, started in January with an additional 0.5 p.p. cut in the Selic rate target, accumulating a 5.0 p.p. annual reduction. Longer term forward interest rates varied without a defined trend up to early September, reflecting the inconsistency of economic activity indicators in the US and in the Euro Area countries. However, low current inflation levels, as well as the expectation that they remain so, kept shorter term interest rates low and stable.

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6/ Standard & Poor’s and Fitch already had upgraded Brazil to investment grade in the second quarter of 2008.
7/ US$81.97 maximum price for the period was registered on January 6, 2010.
8/ At the end of the first two months of 2010, the Selic rate target remained at 8.75%, and was not changed in Copom meetings held on 9/2/2009, 10/21/2009, 12/9/2009 and 1/27/2010.
From the second ten-day period of September through mid-December, interest rates went up in the intermediary and long-term sections of the yield curve, and kept relatively stable in the short end, up to three-month maturities, resulting in an increase in the yield curve inclination. As expectations on both economic growth and narrowing output gap improved, concern with inflation increased. These factors, plus the beginning of a tightening monetary cycle by the Australian Central Bank in October, contributed towards the increase of expectations with respect to the beginning of the restrictive monetary policy cycle in Brazil, creating pressure on shorter-term interest rates as well as a reverse effect on two and three year-rates following the second half of December. This was strengthened early in 2010, due to an increase in current and expected inflation, that somewhat mirrors robust results on credit markets, retail sales and total wages.

In the first two months of 2010, longer-term interest rates showed a rather erratic behavior. The concern with the output gap narrowing in Brazil, in addition to the uncertainties brought about by wider range of credit restrictions in China, and to US proposals limiting activities and risks taken by large banks pushed longer-term rates up. This trend was reversed by uncertainties in the external scenario, owing to the fear that fiscal instability in some European countries might hinder global activity recovery process, which caused a stop loss movement on long positions within the Brazilian interest rate market. At the end of this period, long-term rates went up, owing to the publication of significant Federal tax revenues in January and the closing of position in future interest rate market, by investors who were betting on a flatter yield curve. On February 24, pursuing the phasing out of anti-crisis measures taken as of October 2008, the BCB published the changes in reserve requirements on time deposits, and in the additional requirement, reversing some 70% of the R$99.8 billion released in the second semester of 2008 to mitigate credit scarcity and improve its distribution to medium and small banks.

9/ In the second half of 2009, the industrial capacity utilization level (NUCI) compiled by National Industry Confederation (CNI) went up 2.39 p.p. on a seasonally-adjusted basis, and closed the year at 81.3%, still 2 p.p. under the top reach in September 2008. In January 2010, a 0.08 p.p. reduction occurred.

10/ On 10/6/2010 it was the first G-20 central bank to start the withdrawal of incentives to the economy since the worsening of the global financial crisis.

11/ Seasonally-adjusted NUCI calculated by Getulio Vargas Foundation (FGV) reached 84.0% in February, the higher since October 2008, when it reached 85.1%.

12/ Worth noting among these measures, the temporary tax reduction, in December 2008, such as Industrial Production Tax (IPI), initially applicable until the end of March, later postponed for three months, and by the end of June maintained until October. From then on, tax rates were gradually reversed until January 2010, when they returned to their original levels.
During the second semester of 2009, interest rate volatility maintained downward trend begun in November 2008. There were sharp raises on medium-term rates, in September, and for long-term rates, in October. The rapid increase in one-year rates to 10%, promptly enhanced volatility in September, while the increase in October was the result of investors’ reaction, since they were expecting a reduction in the inclination of the yield curve, and reduced their position in view of the Tax on Financial Operations (IOF) levied on the entry of foreign investors’ funds\textsuperscript{13}. In the subsequent three months, as the smooth and consistent interest rate increase took place, the volatility of longer-term rates reduced and only went up again in February, as a result of the increase in risk aversion and the subsequent increase in the respective rates. Even in such a context, volatility in the long-term section of the yield curve was below the one recorded in months prior to the crisis. Volatility of short-term rates, up to three months, however, increased as of November, as the beginning of a tightening monetary cycle conducted by the BCB approached, rendering shorter-term interest rates more vulnerable.

General Price Index – Domestic Supply (IGP-DI) shifted between monthly deflations and small price increases along the second half of 2009, but showed strong recovery in the first two months of 2010, influenced by wholesale price acceleration reflected in Wholesale Price Index – Domestic Supply (IPA-DI) evolution. While in the second semester IPA-DI recorded a 0.33% deflation, in the first two months of 2010 alone, it increased 2.35%. Concerning the Broad National Consumer Price Index (IPCA), prices rose 3.26% from July 2009 to February 2010 and 4.31% in 2009, below the 4.5%\textsuperscript{14} inflation target. The worsening of the international financial crisis and of its impacts on the real sector of the Brazilian economy was evidenced in lower inflation expectations up to May 2009. Afterwards, they stabilized around 4.07% up to August. As of September expectations increased again, converging towards the target in January, where it remained. Price acceleration recorded in consumer price indexes as of the last quarter of 2009 reflected the trend towards the economic activity recovery\textsuperscript{15}.

\textsuperscript{13/} IOF tax on foreign investors’ foreign exchange operations related to capital inflows driven to financial and capital markets. On 10/20/2009, these operations were taxed at a 2% rate, 0.5 p.p. higher than the one that was applicable between March and October 2008 and. Such tax was restricted to foreign investments in private fixed income securities and government bonds.


\textsuperscript{15/} More recently, the descending path of core inflation measures and diffusion indexes observed in 2009 were reversed and, in early in 2010, there was seasonal pressure over prices.
In the second half of 2009, exchange rate fell until October, when it reached 1.70R$/US$, and kept relatively stable around 1.73R$/US$ up to early December. The speedy Brazilian economic recovery intensified the capital flows, which remained positive as of May, and increased foreign exchange flow to US$14.6 billion in October, out of which the financial sector was responsible for US$13.1 billion. Such capital inflows, as well as decreased risk aversion in international markets, and certain concerns among investors with respect to the fiscal situation in US, allowed for an emerging economies’ currency recovery vis-à-vis the US dollar. Aiming at regulating capital flow, at the end of October, the Brazilian Government levied a 2% Tax on Financial Operations (IOF) on foreign capital inflows driven to portfolio investments, comprising both equity and fixed income, exempting direct investments. In November, financial flow dropped 81.4% to US$2.4 billion. As of December, the US dollar strengthened against the Euro, as a result of regulatory uncertainties and fiscal deterioration in some mature economies. The Real exchange rate against the US dollar, however, remained relatively stable, resulting in a 6.5% Real appreciation against the Euro in three months.

In the eight months ending in February 2010, Brazilian exports fell 16.1% in relation to the same period in the previous year, while imports rose 9.9%, a US$27.1 billion worsening in our balance of trade. Nonetheless, the balance of foreign exchange operations went from a negative US$15.6 billion to a positive US$26.7 billion, as a result of the reversion in financial operations. From July 2009 to January 2010, net foreign direct investment (FDI) fell 53.5% as compared to the same period in the previous year. BCB maintained its policy towards recovery of international reserves that totaled US$241 billion in February 2010, according to the international liquidity concept, signifying a 15.8% increase in eight months.

### 1.3.2 Assets market

As of the second quarter of 2009, the Brazilian economy began to grow, more vigorously in the second half of the year. Nonetheless, a 0.2% GDP contraction occurred in 2009. Decrease in tax revenues, and tax reduction policy within the set of anti-cycle measures implemented by the

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16/ From December 2009 to February 2010, there was a 2.9% devaluation of the real vis-à-vis the dollar. In January alone, there was a 8.1% depreciation which was partially recovered in February.

17/ In the third and fourth quarters, GDP growth relative to previous quarters reached 1.7% and 2% respectively.
Government, worsened the fiscal result along the year. Consolidated public sector primary surplus totaled R$64.5 billion, equivalent to 2.06% of the GDP, a 1.48 p.p. reduction in relation to 2008 surplus, while nominal deficit grew 1.43 p.p., to 3.34% of the GDP. Despite global economic disturbances, Government policies conduced to an economic recovery and an expressive capital market performance. Furthermore, cautious management of the internal federal public debt (DPMFi) enabled achievement of the goals set in the 2009 Annual Borrowing Plan (PAF), reducing the public debt cost as well as lengthening debt maturity.

On futures interest rate market, traded within BM&FBovespa, as international crisis effects subsided, the contracts’ maturities rose. In the eight months ending in February 2010, contracts with maturities between six months and two years went up to 57.2% of the average daily turnover, while those under six months fell to 29.1%. As compared to the same period in the previous year, it represents a 6.6 p.p. increase and a 5.3 p.p. reduction, respectively. In dollar futures market, average daily trading volume showed consistent recovery as of December 2008. In February, it had almost doubled, as 361 thousand deals were closed. As global economy gradually improved, non-resident investors (NRI) began to shift from long to short positions and, in July and August 2009 they were, in average, short. However, as of September they became long again, whose balance reached US$3.5 billion in February 2010.

Ibovespa, the main Brazilian stock index, kept its recovery path in the second half of 2009, mainly up to November. Various factors contributed to this evolution, especially: successive upper revisions for world growth; Brazil’s credit rating raised to investment grade by Moody’s, with a positive perspective for the sovereign debt; Central Bank’s easing monetary policy; and fiscal incentives which contributed to improve economic agents’ mood, as well as that of national consumers and investors. Nonetheless, influenced by IOF tax changes, October and November volatility was high. As of December, Ibovespa hasn’t showed a clear trend, strongly oscillating around 67.500 points due to the risk aversion that

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18/ In April, 2009 public sector primary surplus target went down from 3.8% to 2.5% of GDP and 2010 target was set at 3.3% of GDP.
19/ Such results met the primary surplus target adjusted for the year at 1.93% of GDP, discounting investments under the Growth Acceleration Program (PAC) allowing reduction (0.57% of GDP).
20/ In January 2010, the accumulated 12-months primary surplus reached R$73.3 billion (2.32% of GDP), while nominal deficit reached R$94.9 billion (3% of GDP). January’s R$2.2 billion nominal surplus reflects the fiscal recovery already under way.
21/ Futures contract maturing in January 2011 was the most traded and took up 38.9% of the average daily turnover.
22/ Aside from charging 2% IOF in October, a 1.5% charge on depositary receipts was levied in November so as to strengthen the capital market.
prevailed in the market. All months in the second half of 2009 showed positive net foreign investment flow, totaling R$10.5 billion. In January and February 2010, however, there was a R$3.4 billion outflow. In the past eight months ending in February, Ibovespa rose 29.2% in nominal terms and 39.6% in dollar, while the Morgan Stanley Capital International Emerging Markets Index (MSCI EM) grew 22.9%.

The international financial crisis had an impact in Brazil’s public bonds market and in DPMFi, mainly along the first quarter of 2009, when maturities of new issues shortened and the portion of fixed rate bonds has decreased. Slowly, as the internal economic growth took up, and the international economic scenario looked less gloomy, it went back to normal. In the past eight months ending in February 2010, the share of inflation-linked bonds increased 2 p.p., offsetting the fall in the share of fixed rate bonds. Overall these two categories made up 60% of DPMFi, equally distributed among them. The share of floating-rate bonds greatly varied along the second semester, but in February 2010 went back to the same level as in June 2009 (38%). DPMFi increased 5.7% in these eight months and at the end it totaled R$1.4 trillion.

In the eight-month period ending in February 2010, there was a reduction in the share of short-term maturing debt as well as a maturity lengthening of new issues. This lengthening was particularly significant as of January and in February it reached a 61.3 months record. After keeping relatively stable around 29% in the third quarter of 2009, the twelve-month maturing portion of the DPMFi suffered a setback in the fourth quarter, and at the end of February 2010 it was at the same level (25%) as before the global financial crisis deepened. In addition, the progressive confidence recovery, as of the second quarter of 2009, facilitated the 17.4 p.p. reduction in the portion of fixed rate bonds maturing in next twelve-months to 40.2% at the end of February. Treasury bond substitution transactions were an important DPMFi management instrument during the period. Between June 2009 and February 2010, early redemption of bonds

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23/ MSCI EM index represents the behavior of emerging countries stock exchange as measured by Morgan Stanley.
24/ However, while increased share of such bonds was gradual, that of fixed rate bonds was more erratic: they increased 4 p.p. from July to December 2009 to 34%, but in January it went back to a 30% relative share.
25/ Differently from the previous period, this calculation was not affected by BCBs foreign exchange swap exposure, which was neutral since the end of the first semester.
26/ Representing an increase of 24.3 months in one year.
27/ 23.5 p.p. reduction from March to December 2009 and 6.0 p.p. increase in the first two months of 2010.
with maturities of less than a year totaled R$24.8 billion, while new issues with maturities over one year, linked to substitution transactions, totaled R$36.6 billion.

In managing banking liquidity, the Central Bank performed daily intraday and overnight repos as well as weekly six-month maturity repos. In the eight-month interval ending in February 2010, the financial volume of long-term repos totaled R$110.7 billion, a 83.1% increase over the same period in the previous year. At the end of February, 19.2% of the balance of repos was comprised of six-month transactions. After reaching a R$509 billion record in January, the balance of repos performed by BCB closed at R$472 billion in February, a 22.4% growth since June 2009.

1.4 Conclusion

Along the second half of 2009, the improvement in world economy allowed for a decrease in risk aversion in international markets, which favored capital inflows into Brazil, and contributed to the Real appreciation and to the good performance of capital markets, and in the eight months ending in February 2010, Ibovespa accumulated a 40% dollar-appreciation. However, along with the reviews of growth expectations in major economies and the high fiscal deficits stemming from anti-crisis measures, uncertainties as to the conditions to fulfill such expectations grew, reflecting in Brazil’s interest market. Although a consistent recovery in the level of domestic activity and a slightly ascending trend in longer-term interest rates were in place, especially after the second half of September, corresponding volatilities remained low, with brief peaks reflecting such uncertainties.

In face of the increase in the capacity utilization and in inflation expectations, shorter-term rates gradually increased as of November, in anticipation of a preventive and prompt attitude on the part of the BCB.

Stimuli measures created by the Government to face the crisis were gradually reversed as internal demand expanded.

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28/ Bond issues of over one year maturities, attached to substitution transactions, were distributed as follows: R$11.1 billion National Treasury Bills (LTN), R$5.2 billion Treasury Financial Bills (LFT), R$19.3 billion National Treasury Notes – B Series (NTN-B) and R$1.0 billion National Treasury Notes – F Series (NTN-F).

29/ As of April 24, 2009, these repo auctions became accessible to all financial institutions as opposed to dealers only, while five and seven months transactions were replaced by a six months maturity. Balance of five and seven months deals were zeroed on 9/14/2009 and 11/16/2009 respectively.

30/ Compared to the eight previous months (November 2008 to June 2009) the increase is smaller, just 59.2%.

31/ Regarding changes in reserve requirements announced by February end, there should be a R$37 billion rise on reserve balance as of March 24 and an additional R$34 billion as of April 9.
and economic performance improved in the second half. In 2009, inflation remained 0.19 p.p. below the 4.5% target. There was a small (0.2%) GDP contraction, and a primary surplus of 2.06% of the GDP. Moreover, once the crisis was overcome, it was possible to lengthen the maturity of DPMFi issues and decrease the short-term maturing portion, recovering pre-crisis level.