BANCO CENTRAL DO BRASIL

Translation of the Open Letter sent by Banco Central do Brasil's Governor, Henrique de Campos Meirelles, to the Minister of Finance, Antonio Palocci Filho

Presi-2003/0177 Brasília, January 21, 2003.

Dear Minister,

As you are aware, the inflation rate measured through the change in the Consumer Price Index - Extended (IPCA) was 12.5% in 2002, above the upper limit of the tolerance interval of 2 percentage points above and below the 3.5% central target set for the year.

2. The sole paragraph of the 4th article of Decree n. 3,088, of June 21, 1999, which formally instituted the inflation targeting regime in Brazil, establishes that if the target is not fulfilled:

" Banco Central do Brazil's governor will publicly release through an open letter addressed to the Minister of Finance the reasons for the non fulfillment of the target. This letter should include:

I - detailed description of the causes for the non-fulfillment;
II - measures to ensure the convergence of inflation to the established targets;
III - time span in which the measures are expected to have effect."

Therefore, I address this open letter to you with the description and analysis of the causes that led to the non-fulfillment of the target, together with the measures that will be adopted to ensure that the inflation trajectory converges to the target path already set by the National Monetary Council (CMN).

Causes for Non-Fulfillment of the Target

3. The year 2002 featured a confidence crisis in the performance of the Brazilian economy and an increase in risk aversion in international markets. These constraints were reflected by

turmoil in the domestic financial market, by difficulties in public debt management and by a steep decrease of foreign credit flows, negatively affecting both inflation and the level of activity.

4. Demand for public securities declined significantly in the domestic financial market, particularly in the case of long tenure papers. The roll-over rate of securities issued by the National Treasury (TN) (excluding exchange rate linked securities and operations of exchange and purchase promoted by the CB) decreased significantly between June and September 2002, leveling off at around 30%, in comparison to an average roll-over rate of 74% in the first four months of the year. In that same period, one observed a significant increase in LFT discount rates. Between the end of March and mid-August, for LFTs with redemptions between 2004 and 2006, discount rates increased to 2.70% from 0.40%. Due to the difficulties in placing longer-term securities and the necessity to reduce the average tenure of some financial agents' portfolios, the short-term debt (redemptions up to 1 year) increased to 38.9% of the total domestic securitized debt at the end of 2002 from 25.6% at the end of 2001, and the average tenure of the public debt fell to 33 months in December 2002 from 35 months in December 2001.

5. The decrease in foreign financing was considerable. The decline in capital flows reached US$27.8 billion, reflecting the deterioration of the accounts related to direct investment, loans and financing, short-term capital and assets. Gross private financing, which includes the placement of securities, totaled US$4.4 billion in 2002, in comparison to US$12.4 billion in 2001, leading to a decline in the average rollover rate to 33%, from 98%. Net foreign direct investment flows, which had reached US$22.5 billion in 2001, decreased to US$16.6 billion in 2002. The contraction in capital flows included trade lines, which fell by 28%.

6. This fall of foreign funds to the country also resulted from a global process. Capital flows to emerging countries decreased to US$124.7 billion in 2002 from US$140.4 billion in 2001, including private net capital inflows (90.2%) and official flows(9.8%), according to data from the *Institute of International Finance*. In the case of Latin America, these flows de-

BANCO CENTRAL DO BRASIL

creased even more, to US$39.2 billion in 2002 from US$70.2 billion in 2001, a 44.2% decline

7. The domestic confidence crisis coupled with increasing global risk aversion had significant impacts on the economy. The higher risk perception inhibited aggregate investment, which dropped to 18.8% of GDP in the third quarter of 2002 (vs. 19.45% at the end of 2001). The crisis also effected aggregate consumption, which declined to 77.99% of GDP in the third quarter of 2002, from 79.82% of 2001 GDP. The current account of the balance of payments underwent an intense adjustment: the current account deficit declined to US$ 7.8 billion in 2002 (1.7% of GDP) from US$ 23.2 billion in 2001 (4.6% of GDP).

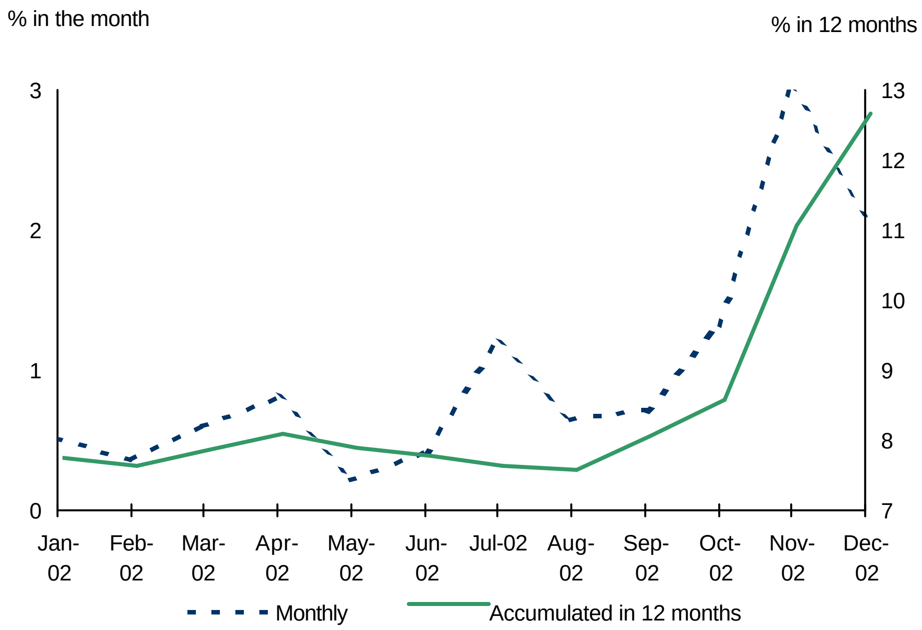
8. The difficulties faced by the country were reflected mainly in the exchange rate and inflation expectations. The steep exchange rate depreciation and the deterioration of inflation expectations had important impacts on inflation rates, leading to the non-fulfillment of the target for 2002.

9. In this respect, the non-fulfillment of the target in 2002 may be attributed to three factors: i) the sharp exchange rate depreciation; ii) the evolution of prices administered by contracts and monitored; and iii) the deterioration in inflation expectations.

10. Inflation did not behave uniformly throughout 2002 (Graph 1). In the first half of the year, inflation was relatively stable at around 1.5% per quarter. In the second half, inflation strongly increased, reaching 2.6% on the third quarter and accumulating 6.6% in the last three months of the year. In the second half of the year, and particularly in the last quarter, the three aforementioned factors were more intense. The exchange rate depreciated by 39% from the first to the second half of 2002, taking into account the mean values in every period. Inflation in administered and monitored prices, which had been 4.9% in the first half, rose to 10% in the second half of the year, 7.1% of which occurred only in the fourth quarter. Finally, the median of inflation expectations for 12 months ahead, surveyed by the Banco Central do Brasil's Investor Relations Group (Gerin), leveled out at around 4.5% through Septem-

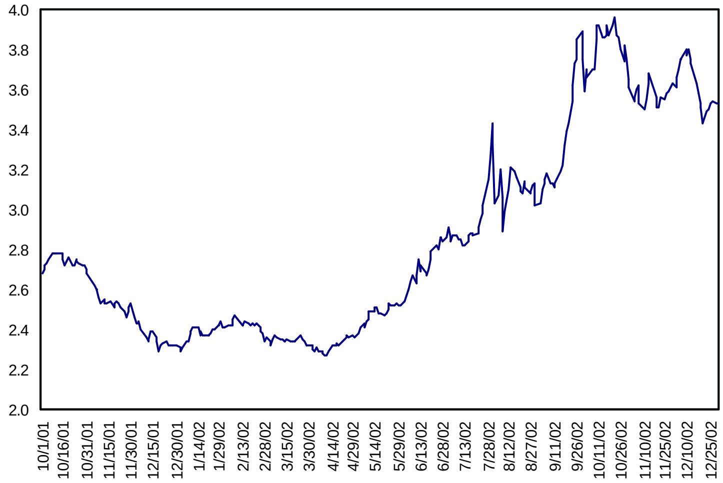
through September, but then rapidly deteriorated afterwards and reached 11% at the end of December.

Graph 1 – Monthly and 12-month accumulated inflation of IPCA in 2002



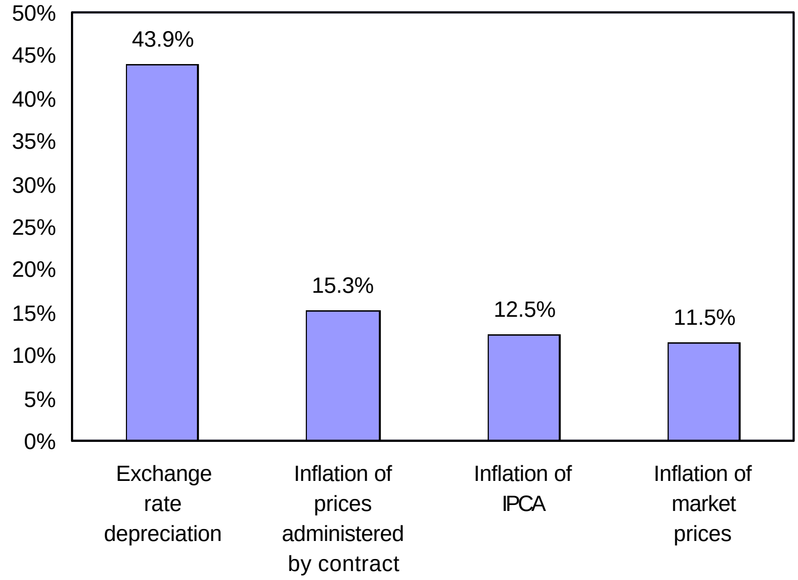
11. The price of the US Dollar increased from a mean value of R$2.55 in the fourth quarter of 2001 to R$3.67 in the fourth quarter of 2002, implying a 43.9% change in the period (Graph 2). Both external and domestic factors explain the exchange rate depreciation. Domestically, the uncertainties regarding the evolution of the Brazilian economy partly due to the electoral process, led to an increase in risk aversion. On the external front, a number of factors including low global growth, accounting problems in large American companies, the crisis in emerging markets and the likelihood of another Gulf war caused risk aversion to increase, with a consequent reduction in the inflow of foreign funds. The depreciation of the real put considerable pressure on domestic prices.

Graph 2 – Exchange rate evolution (R$/US$)



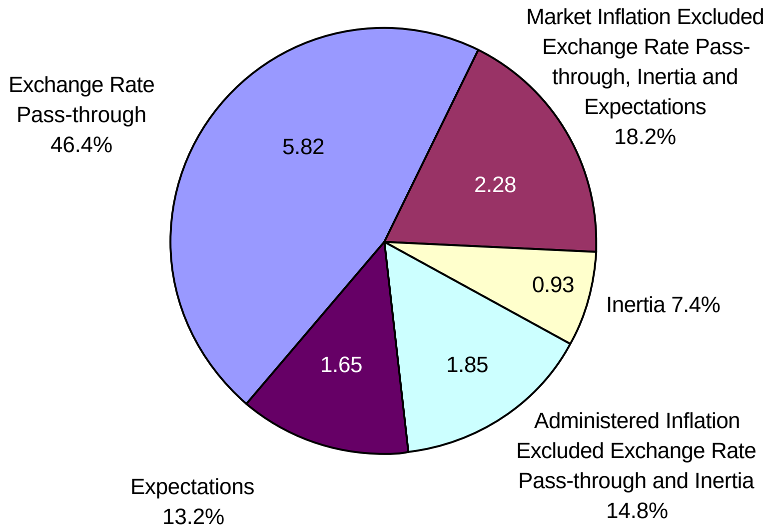
12. It is important to note that the exchange rate depreciation produced a change in relative prices, as opposed to a spiral process of exchange rate-inflation. The roughly 44% depreciation of the nominal exchange rate was significantly higher than the inflation measured by the IPCA (12.5%), resulting in a depreciation of the real exchange rate (Graph 3). Another way to verify the change in relative prices is by comparing the evolution of tradable goods prices, which account for 39% of the IPCA and are more directly impacted by changes in the exchange rate, with inflation in non-tradable goods, whose share in the IPCA is 33%. In 2002, inflation in tradable goods was 14.9%, compared to 7.4% in non-tradables. The counterpart of this change in relative prices was a deep adjustment in the trade balance, which was necessary in view of the reduction in capital flows throughout 2002.

Graph 3 – Exchange rate depreciation and inflation in 2002 (% p.a.)



13. The inflation breakdown depicted in Graph 4 allows for an individual analysis of the contribution of the **exchange rate depreciation**, the **inertia** associated with the share of inflation that outstripped the inflation target in 2001, the above target **inflation expectations**, the **inflation in market prices** and the **inflation in prices administered by contracts and monitored**. It should be highlighted that the share of inflation stemming from the exchange rate depreciation also takes into account its indirect effects - i.e. its impact upon market prices and upon some prices administered by contract and monitored - and thus the share that is due to the increase in market prices excludes the effects of the exchange rate pass through, as well as of inertia and expectations. The share that is due to administered prices excludes the impacts from the exchange rate depreciation and inertia.

Graph 4 – Contributions for inflation: January to December 2002
(in percentage points and as a percentage contribution)



14. It is estimated that the exchange rate depreciation contributed 5.8 p.p. to inflation in 2002. Of this total, 3.8 p.p. refer to the impact upon market prices, with the remaining 2.0 p.p. corresponding to the pass through to prices administered by contracts and monitored. This evaluation is based on a pass through of the exchange rate depreciation to market prices of around 17% in the last quarter of 2002, which is higher than what is estimated based on the historical behavior of the exchange rate and of inflation, and is different from what is usually utilized in the Monetary Policy Committee (Copom) projections. The choice of a higher pass through coefficient more adequately mirrors the economic scenario in the last quarter of the year, which featured strong exchange rate pressure, deterioration in expectations and a perception of maintenance of the exchange rate at higher levels. Had the exchange rate pass through coefficient remained near the historical average of 7% on the last quarter of 2002, the contribution of the exchange rate depreciation to inflation would have been 4.4 p.p., corresponding to 35% of the effective inflation. In this case, the contribution of market prices to inflation, excluding inertial effects, expectations and exchange rate pass through, would have increased to 3.7 p.p., equivalent to 29% of the effective inflation.

15. On the domestic front, special notice should be given to the sharp increase in prices administered by contract and monitored, mainly bottled gas, which rose by 48.3%, fuel alcohol (31.5%), and electricity (19.9%). Inflation in this set of prices was 15.3%, higher than market price inflation (11.5%) and the effective change of the IPCA (12.5%) (Graph 3). The definition of prices administered by contracts and monitored comprises those items that are less sensitive to supply and demand forces, although this does not necessarily imply that they are directly regulated by the government[1]. Prices administered by contracts or monitored had a 1.85 p.p. contribution to inflation, after deducting the effects of exchange rate pass through and 2001 inflation inertia from 2001.

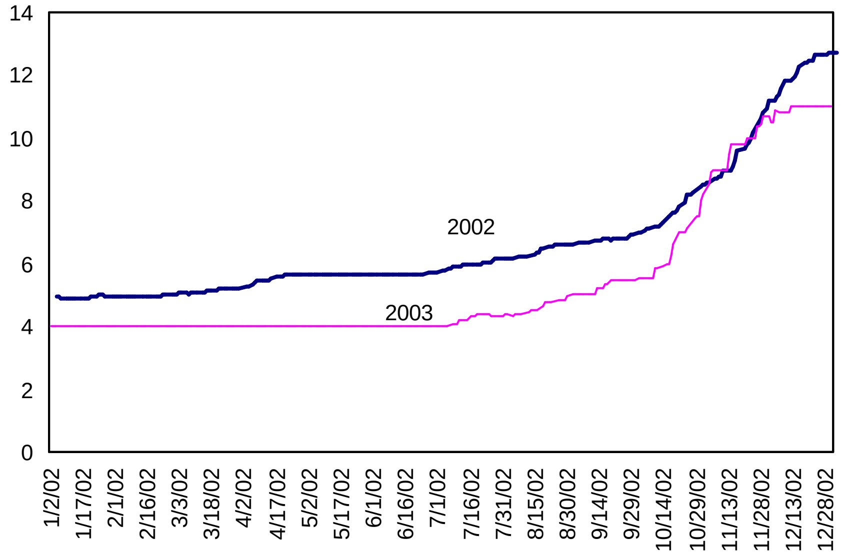
16. Due to the confidence crisis in the Brazilian economy, inflation expectations outstripped the target and contributed 1.65 p.p. to inflation in 2002[2]. After mid 2002, the expectations surpassed the upper limit of the tolerance interval and, after September, posted a strong deterioration, both for 2002 and 2003, as Graph 5 depicts.

---

[1] The definition of prices administered by contracts and monitored was altered by the Copom in November 2002, excluding the items "wood coal", "school transportation", and "household employees". According to the new definition, the set of prices administered by contracts and monitored had a 28.0% weight in the December 2002 IPCA, compared to 31.3% in the previous definition. This set of prices includes items such as electricity (which had a 4.19% weight in the December 2002 IPCA), gasoline (4.41%), fixed telephones (3.04%), urban bus fares (4.58%), health plans (2.49%), water and sewage (1.61%) and bottled gas (1.68%).

[2] The calculation takes into account only the part of the inflation expectations that outstripped the target.

Graph 5 – Market Inflation Expectations



17. The inflation inertia inherited from 2001 contributed 0.9 percentage points to the IPCA in 2002. After excluding the exchange rate pass through, the inertia inherited from 2001 and the impact of inflation expectations above the target, market price inflation contributed 2.3 percentage points to the IPCA in 2002.

18. In order to evaluate the impact of exchange rate depreciation, the deterioration of inflation expectations, and the readjustment of administered and monitored prices on 2002 inflation, simulations were conducted to estimate 2002 inflation if: (i) the exchange rate had not depreciated; (ii) inflation of administered and monitored prices was the same as market prices; and (iii) inflation expectations had remained in the center of the target.

19. This exercise shows that if the exchange rate had remained at R$2.55, as observed in the fourth quarter of 2001, i.e. assuming nil depreciation, while administered price inflation came out as observed in 2002 (15.3%), inflation as measured by the IPCA would have been 8.9%, 3.6 p.p. lower than the effective result. If, in addition to nil depreciation, inflation of administered and monitored prices was equal to the inflation of market prices, the change in the IPCA in 2002 would have been 5.98%. If, in addition to the neutralization of the effects

of the exchange rate and administered and monitored prices, market inflation expectations had remained in the center of the target, 2002 inflation as measured by the IPCA would have reached 4.3%, a figure comfortably within the tolerance interval and 8.2 p.p. lower than actual inflation.

Table 1 – Inflation in 2002

	(%)
Actual inflation (IPCA)	12.53
excluding exchange rate pass-through	8.92
excluding administered prices	5.98
excluding expectations impact	4.30

Central Bank Policy in 2002

20. Throughout 2002, the decisions of monetary policy were based on the comparison between inflation projections and the adjusted target.

21. In the February and March meetings, in light of a favorable economic scenario characterized by the stability of the exchange rate at around R$ 2.40 and by the projection for 2002 inflation in line with the adjusted target, the Copom twice reduced the Selic rate target by 0.25 p.p., setting the Selic rate at 18.5% p.a. from March onwards. A new reduction of the Selic rate target, to 18% p.a., occurred in July. At that time, the inflation projection for 2002 was somewhat higher than the adjusted target, but still within the tolerance interval set by the CMN. However, due to the existing lags in the transmission mechanism of monetary policy, it was necessary to adjust monetary policy aiming also at 2003 inflation, whose projections were then significantly below the target. Another relevant factor was the revision of the 2003 target, to 4.0% from 3.25%, by the CMN in June.

22. In August and September, the Copom decided to maintain the Selic rate target at 18% p.a., as the inflation projections for 2003 were in line with the adjusted target. The basic scenario delineated in the September *Inflation Report* assumed an exchange rate of R$3.20, the figure observed on the eve of the meeting, and a median of 5.20% for 2003 inflation ex-

pectations. Based on this hypothesis, the inflation forecast was 4.5% for 2003. However, the domestic scenario deteriorated steeply from the first days of September on, with the exchange rate reaching R$3.90 at the end of that month. The continuation of the exchange rate at depreciated levels and the release of preliminary price indices projecting an increase in inflation in October contaminated inflation expectations for 2003. Between September 16 and October 11, the median of inflation expectations for 2003 surveyed by Gerin increased to 5.85% from 5.20%. The Copom's inflation projections also increased in that period, leading the Committee to hold an extraordinary meeting at which it decided to increase the Selic rate target by 300 b.p. to 21% p.a..

23. At the November and December meetings, based on the increase of inflation projections and the steep deterioration of market expectations for 2003 inflation, which shifted from 5.2% in September to almost 11% in December, the Copom decided to further increase the Selic rate, initially by 100 b.p. and later by 300 b.p., so that the Selic rate was at 25% p.a. at the end of the year. If the target for the Selic rate had not been altered, the *ex-ante* real interest rate would have fallen, facilitating the propagation of supply shocks and allowing for secondary effects to arise. It is noteworthy that even with readjustments occurring in the majority of prices in the IPCA, the inflation observed in the last quarter of 2002 may be better characterized as a change in relative prices between tradable and non-tradable goods. Therefore, the interest rate increase was intended to inhibit price readjustments, to contribute to the coordination of expectations, to impede the self-fulfillment of deteriorated inflation expectations and to avoid the propagation of supply shocks, inhibiting a generalized increase in prices. It should be highlighted that the increases of the interest rate target in the last quarter of 2002 had as their main goal the return of 2003 inflation projections towards a trajectory compatible with the inflation targets. Table 2 shows the Selic rate target set at each of the 2002 meetings of the Copom.

Table 2: Copom Decisions in 2002

Meeting #	Date	Validity Period from		to	**Selic Rate Target**
67ª	01.23.2002	01.24.2002	to	02.20.2002	19.00
68ª	02.20.2002	02.21.2002	to	03.20.2002	18.75
69ª	03.20.2002	03.21.2002	to	04.17.2003	18.50
70ª	04.17.2002	04.18.2002	to	05.22.2002	18.50
71ª	05.22.2002	05.23.2002	to	06.19.2002	18.50
72ª	06.19.2002	06.20.2002	to	07.17.2002	18.50
73ª	07.17.2002	07.18.2002	to	08.21.2002	18.00
74ª	08.21.2002	08.22.2002	to	09.18.2002	18.00
75ª	09.18.2002	09.19.2002	to	10.14.2002	18.00
76ª (extraordinary)	10.14.2002	10.15.2002	to	10.23.2002	21.00
77ª	10.23.2002	10.24.2002	to	11.20.2002	21.00
78ª	11.20.2002	11.21.2002	to	12.18.2002	22.00
79ª	12.18.2002	12.19.2002	to	01.22.2003	25.00

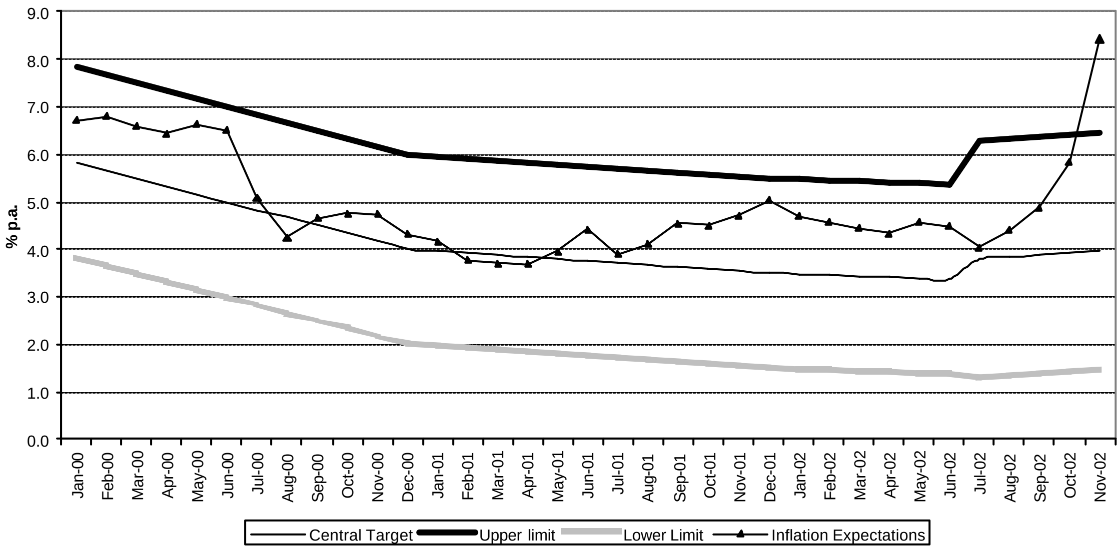
24. In order to evaluate monetary policy in 2002, three important factors must be considered. In the first place, the trajectories observed in 2002 for the exchange rate, administered and monitored prices and inflation expectations were extremely different from the ones foreseen in the beginning of the year. The December 2001 *Inflation Report* presented expectations of a stabile exchange rate around R$2.36 in 2002 (compared to the actual 2002 average of R$2.93), and projected administered and monitored price inflation of 5.3%, in comparison to the actual figure of 15.3%. Based on these hypotheses, the *Inflation Report* forecasted inflation of 3.7% for 2002. At that time, the information surveyed by Gerin on December 31, 2002 indicated a median of market expectations for 2002 inflation of 4.8% and an end-year exchange rate of around R$2.60.

25. Second, and regarding the argument above, the shock that occurred in the forth quarter was much larger than expected. At the end of September, both the CB and the market were foreseeing inflation close to 1.3% for that period, around 5.3 p.p. below the actual figure.

26. Third, the management of monetary policy was able to control inflation expectations for the majority of the year. Graph 6 shows 12-month ahead inflation expectations and the respective inflation targets as the weighted average of the pre-set targets for the end of each

calendar year, since 2000. As one can see, only in the final quarter of 2002, as the confidence crisis intensified, did the median of market expectations rise above the tolerance interval. This deterioration of expectations caused the elevations of the Selic rate in the last quarter of the year, which will allow the return of expectations to levels compatible with the inflation target.

Graph 6: Inflation Expectations and 12-month Ahead Inflation Target 2000:01-2002:12 (%p.y.)



27. The CB calibrates monetary policy based on the evaluation of the future trend of inflation. In order to do this, the CB uses the best available information, both quantitative, through structural models, simulations and other statistical measures, and qualitative and disaggregated, which demands a more subjective analysis. When the projections indicate that inflation is detaching from the target, the Copom evaluates the causes of the increase in the projection to define the convergence trajectory of inflation towards the pre-set target, considering the costs of the adjustment in terms of production and income, which are related to the occurrence of inflationary inertia. In other words, the CB does not follow a policy of achieving the target no matter the costs; the CB considers the nature and persistence of the shock and the costs regarding the level of activity.

28. As a result, the CB operates with the concept of an adjusted target, in which the primary effect of the shock to administered and monitored price inflation, and the inflation inertia inherited from the previous year to be accommodated in the current year, are added to the target previously set by the CMN. As it pursues the adjusted target, monetary policy follows the theoretical recommendation and the practice of other central banks. Facing cost shocks, such as the exchange rate depreciation and the increase of administered and monitored prices above the inflation of the other prices of the economy, monetary policy should be guided in order to accommodate the direct impact of shocks on the price level, but to fight their secondary effects. Furthermore, the inertial impacts of the previous year's inflation should not necessarily be fought in a sole calendar year. Also based on best international practice and bearing in mind inflation in 2001, the Copom believes that inertial effects should be fought over a period longer than one year.

Inflation convergence towards the targets

29. The goal of monetary policy in 2003 is to pursue a trajectory of convergence towards the targets already defined by the CMN and recently reaffirmed by the economic ministers (4% in 2003 and 3.75% in 2004, with tolerance of +/- 2.5p.p.) considering that this convergence will not be instantaneous. In this way, monetary policy is calibrated in order to reduce inflation to levels compatible with the medium term targets and to avoid the accommodation of inflation at a higher level.

30. It is a standard practice among Central Banks when facing supply shocks of great magnitude to postpone the convergence of current inflation towards the targets over a longer period, avoiding unnecessary costs to the economy. This was the case faced by Brazil in the last year.

31. The convergence trajectory is defined based on the adjusted targets for the following years, each of which consist of the sum of three components: i) the inflation target pre-established by CMN; ii) the inertial impacts of the previous year's inflation; iii) the primary effect of shocks to administered and monitored prices. The primary effect corresponds to the

part of administered and monitored price inflation that exceeds the target, deducting the effects of the exchange rate and inertia[3]. The adjusted target may also be changed, as new estimates for the primary effects of administered and monitored price shocks are made[4].

32. The adjusted inflation target for 2003 is 8.5%. The calculation assumes administered price inflation of 14% and that one-third of the inertia will be fought this year. Throughout 2002 the Central Bank aimed at neutralizing half of the inflation inherited from the previous year. However, as 2002 inflation stood 9.0 p.p. above the target, with the highest figure occurring in the last quarter of the year, the forecast inertial impact on 2003 inflation is 4.2 p.p., considered excessively high and requiring a more gradual reduction. For 2004, the adjusted inflation target is 5.5%, under the hypothesis of administered price inflation of 7.6%. Bearing in mind the magnitude of the inertial impact of 2002 inflation and the primary effects of administered and monitored prices, the adjusted target stays above the upper limit of the target interval pre-set by CMN. Table 3 shows the composition of the adjusted target for 2003 and 2004.

Table 3: Adjusted Targets for 2003 and 2004

	Itemization	2003	2004
(a)	Target for inflation set by C.M.N	4.0	3.75
(b)	Administered and monitored price shocks[1]	1.7	1.1
(c)	Inertia to be fought in following years[2]	2.8	0.6
	Inherit inertia from the previous year (total)	4.2	1.0
	of administered prices	1.4	0.4
	of market prices	2.8	0.6
(d)	Adjusted targets (=(a)+(b)+(c))	8.5	5.5

1) For the calculation of the shock, the effect of inertia and exchange rate on administered and monitored prices inflation is deducted.
2) The inertia to be fought in the following years corresponds to 2/3 of the inertia inherited from the previous year.

33. The decision to pursue an inflation trajectory based upon these adjusted targets considers that monetary policy will be able to lead inflation to converge to the target tolerance interval in two years. Other trajectories with steeper decreases of inflation imply an excessive loss of

[3] The methodology for the calculation of the adjusted target was presented in the June 2002 *Inflation Report* and in Central Bank Technical Note # 22.

output growth. Simulations based on a set of assumptions indicate that a convergence trajectory that reaches 6.5% in 2003, the ceiling of the target tolerance interval, would imply a 1.6% drop in GDP (see Table 4). Moreover, a trajectory that reaches the center of the target, 4%, in 2003, would imply an even larger decline in GDP (7.3%).

Table 4: Convergence Trajectory and GDP Growth for 2003

Inflation in 2003	GDP Growth in 2003
8.5%	2.8%
6.5%	-1.6%
4.0%	-7.3%

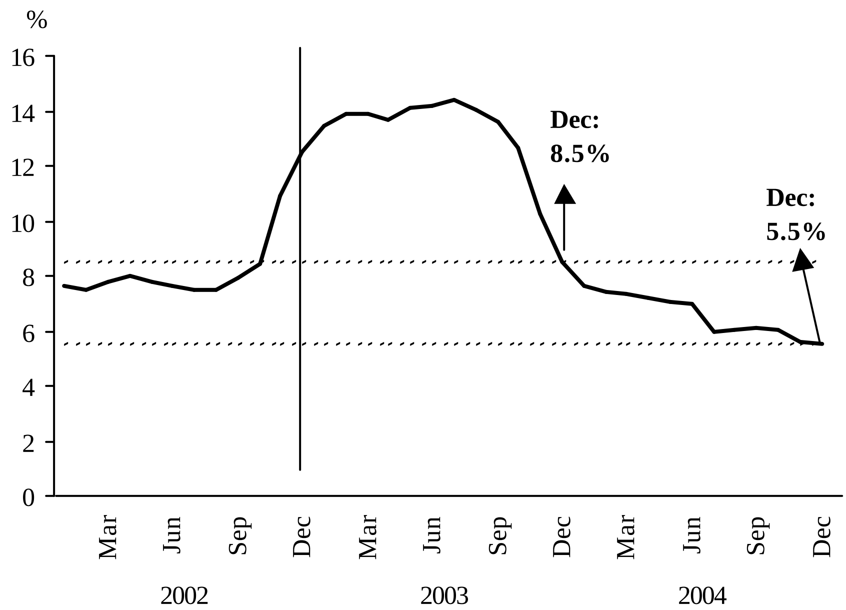
34. Besides the effect on production, other convergence trajectories of inflation could imply a disproportional effort in the first year, resulting in inflation substantially below the target in 2004.

35. Graph 7 shows 12-month inflation for a trajectory compatible with the adjusted targets. As may be seen, to attain the adjusted targets, 12-month inflation will remain around 14% until the third quarter of 2003. This high level would be justified, first by the inclusion of the abnormally high inflation that occurred in the last quarter of 2002 in the calculation of accumulated inflation. In addition, in the first months of 2003, the inflation of market prices will suffer the inertial effects of the previous year's inflation. Finally, the readjustment of electricity tariffs and phone services, concentrated in June and July, will incorporate the exchange rate depreciation and the high inflation measured by the IGPs (wholesale price indices) during the second half of 2002. With the dissipation of these effects and as the high inflation of November and December 2002 are taken out the calculation, 12-month inflation will fall rapidly in the last quarter of 2003. In 2004, inflation will continue to decrease, albeit not so sharply, until it reaches 5.5% in December. The lower inflation in 2004 in comparison to 2003 would be due to the improvement of expectations, to the lower inertia inher-

[4] The forecast of the inertial effects of 2002 inflation does not depend on future developments, as it has already occurred.

ited from the previous year and to the assumption of the absence of exchange rate depreciation, which reduces the pressure over market, and administered and monitored prices.

Graph 7: 12-month IPCA Inflation

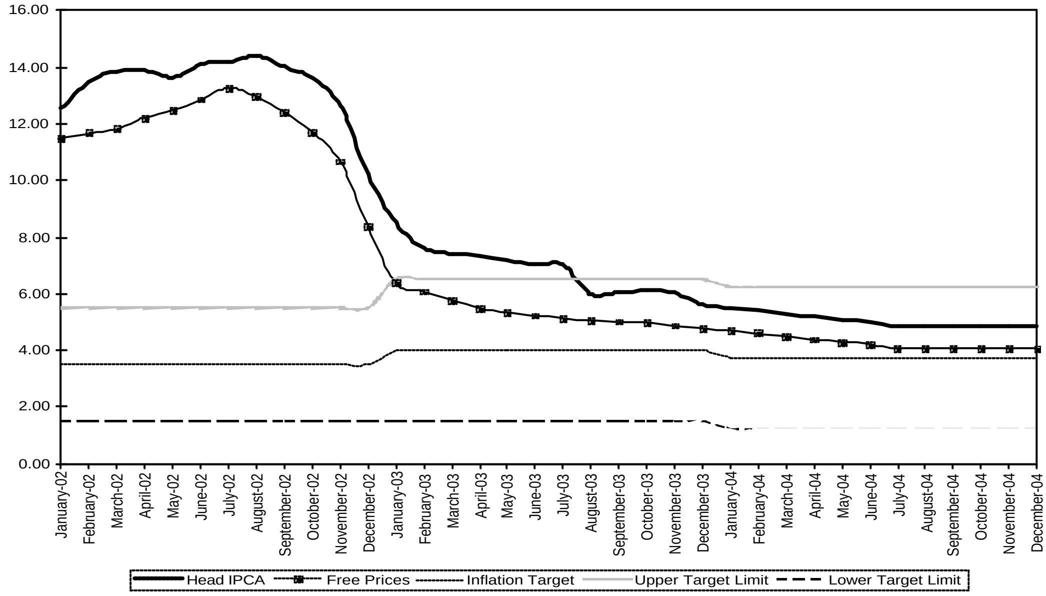


36. Graph 8 shows 12-month ahead accumulated inflation[5] consistent with the same trajectory presented in Graph 7. It may be noticed that the 12-month ahead inflation of market prices is inside the tolerance interval already in the beginning of 2003 and approaches the central target in the second quarter of 2004. The total IPCA, in turn, converges to the tolerance interval from the second half of 2003 on and, in December 2003, shows annualized figures of around 4.8%.

[5] The figures of 12-month ahead inflation in 2004 were obtained by annualizing the results accumulated until the end of the year.

BANCO CENTRAL DO BRASIL

Graph 8 – Market Inflation and IPCA 12-month ahead



37. It is noteworthy that the inflation projections of the CB may not necessarily coincide with the adjusted target. These projections depend on assumptions and evaluations that may change over time. The CB will calibrate monetary policy so that projected inflation converges towards the adjusted target.

38. Summarizing, the macroeconomic regime in Brazil based on inflation-targeting, floating exchange rate and fiscal responsibility have demonstrated the capacity to deal with sharp shocks to the economy. Inflation in 2002 reached 12.5% (of which more than half occurred in the last quarter), a figure far above the target interval ceiling, due to the sharp exchange rate depreciation, the evolution of administered and monitored prices and the deterioration of expectations. Monetary policy in the following two years will be calibrated so that inflation converges towards the adjusted targets of 8.5% in 2003 and 5.5% in 2004. In this way, the Central Bank will pursue an inflation trajectory that will lead to an important reduction of inflation this year, reaching the target tolerance interval in 2004.

Respectfully,

Henrique de Campos Meirelles

Governor