BANCO CENTRAL DO BRASIL

Focus

January 3rd, 2002

MINUTES OF THE 66th MEETING OF THE BANCO CENTRAL DO BRASIL MONETARY POLICY COMMITTEE (COPOM)

Summary

Date: December 18th and 19th, 2001

Place: Central Bank's Headquarters 8th floor meeting room (on **Dec 18**) and 20th floor (on **Dec 22**) - Brasília - DF

Called to Order: 4:26 PM on **Dec 18** and 5:00 PM on **Dec 19**

Adjourned: 8:23 PM on **Dec 18** and 9:08 PM on **Dec 19**

In attendance:

Members of the Board

Arminio Fraga Neto - **President**

Carlos Eduardo de Freitas

Daniel Luiz Gleizer

Edison Bernardes dos Santos

Ilan Goldfajn

Luiz Fernando Figueiredo

Sérgio Darcy da Silva Alves

Department Heads (all present on Dec 18)

Altamir Lopes – Economic Department (DEPEC)

Felipe de Castro Ribeiro - International Reserve Operations Department (DEPIN)

Gustavo Bussinger - Research Department (DEPEP)

José Antônio Marciano - Department of Banking Operations and Payment System (DEBAN)

Sérgio Goldenstein - Open Market Operations Department (DEMAB)

Other participants (all present on Dec 18)

José Pedro Ramos Fachada Martins da Silva – Advisor to the Board

Alexandre Pundek Rocha - Advisor to the Board

João Borges - Press Secretary (ASIMP)

Fabia Aparecida de Carvalho - Coordinator of the Investor Relations Group

The Board analyzed the recent performance 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 recent behavior of the economic indicators have shown that the country's economy is gradually overcoming the several shocks that affected it throughout the year. The level of economic activity is indicating the end of the deceleration process which has been present since April, and a trend of gradual recovery is emerging for the coming months. At the same time, the trade balance maintained its surplus, as observed throughout the year, reinforcing the adjustment of the external accounts. On the fiscal side, the results remained favorable, outperforming the targets agreed upon with the International Monetary Fund (IMF).

Regarding retail commerce, preliminary results for November confirmed the trend of consumption recovery observed since August. Retailers real turnover increased by 1.8% in the Metropolitan Region of São Paulo, according to the data from the Federation of Commerce of the State of São Paulo (FCESP), seasonally adjusted by Central Bank's Economic Department (Depec), reflecting bigger sales of durable and non-durable consumer goods. Year to November, the real turnover declined 4.8%.

The recovery of the consumption continues to improve, according to recent results of surveys on consumer expectations. The Consumer Intentions Index (IIC), also surveyed by FCESP, increased for the third consecutive month in December, increasing by 3.5% in comparison to the previous month. This outcome resulted from the improvement of the two components of the index, current and future consumption intentions, reflecting the positive perception of consumers regarding the consequences of the domestic and external shocks. The National Consumer Expectations Index (INEC), issued quarterly by the National Confederation of Industries, presented similar behavior, recovering throughout the second semester by reaching 91.1 in June, 93.2 in September and 94 in November.

In spite of the favorable scenario of the retail trade, default rates increased considerably during last month. The net default rate, measured by the Commercial Association of São Paulo (ACSP), increased to 8.4% in November from 6.2% in October. According to ACSP, the main reasons for such behavior were the increase in unemployment and the fall in the real average income. Nonetheless, the ACSP expects the rate to decline in December, returning to the 6% level, as a seasonal occurrence and, as a result of the payment of 13th salaries plus seasonal consumer behavior, consequently recovering their credit status for end-of-year purchases. The share of checks with insufficient funds in relation to the total of cleared checks increased in November to 5.2% compared to 5.1% in the previous month. Regarding credit operations of the financial system, the ratio of loans in arrears for up to ninety days in relation to the overall credit balance reached 5.2% in November. Considering only private individuals operations, this ratio presented a small increase, reaching 6.9% compared to 6.8% in October.

The investment is another demand component that has performed favorably. The indicators still registered, in the last months, expansion of the production capacity of all sectors of the economy and the adaptation to the energy crisis. The composition of the growth rate of the production of capital goods showed the predominance of equipment related to the electric power generation, the civil construction sector and the agricultural activity. The demand for electric power generators will drop in the coming months, due to the reduction of the rationing targets. Nevertheless, the expectation of a hike in electricity tariffs will attenuate that reduction, by stimulating the search for energy self-sufficiency by industries. The production of agricultural equipment in the last few years has improved with the continuous expansion in grain crops, as well as other agricultural products, a trend expected to continue in 2002. In relation to the civil construction industry, the gap between the growth of production of equipment used by the sector and its modest performance in the last few years indicates favorable conditions for a future recovery.

Concerning the industrial sector, the analysis of production indicators in recent months shows that the negative effects from the constraints on electricity supply were absorbed. The 1.9% contraction in the October production, seasonally adjusted, resulted to a great extent from the strike of the petrol sector workers, affecting the mining industry and the production of the chemical industry. These effects apart, the variation of the industrial production in October is still negative, but close to zero, compatible with the scenario of leveling off of the industrial activity present since August. It is worth observing that, in spite of the unfavorable outcome in that month, twelve out of the 21 surveyed industrial sectors increased their production. Year to date, the results remained positive, with a 2.5% increase compared to the first ten months of 2000.

In November, the automobile industry produced 153.5 thousand vehicles, expanding by 8.5% year-to-date. Notwithstanding the seasonal influences, the monthly growth was 12.6%. Sales reached 148.1 thousand vehicles, an increase of 13.2% in the period (seasonally adjusted series). The production of agricultural machinery and equipment grew for the third consecutive month, registering a 1.6% elevation. The 25.1% increase ytd suggests the continuity of the increase of the agricultural productivity for the next crop, now being sowed.

The utilization rate of installed capacity, which had declined strongly in the months in which the restraints on energy supply were more intense, reflected the recent leveling off of the industrial production. Year to September the intensity of the reduction in the usage of industrial capacity fell, a process that presented signs of reversion in October, according to the statistics from the Federation of Industries of the State of São Paulo (FIESP) and the National Confederation of Industries (CNI), which registered utilization rates of industrial capacity of 79.4% and 79.6%, respectively, in the seasonally adjusted series.

The developments in the labor market reflected the lesser impact to the domestic and external shocks on industrial activity, the prospect of the end of economic deceleration, and the beginning of recovery. In industry, surveys revealed a lower number of dismissals than suggested by economic forecasts at the beginning of the electricity rationing, and October indicators point to the end of this trend. The open unemployment rate, calculated by the Brazilian Institute of Geography and Statistics (IBGE) for six Metropolitan Regions, reached 6.55% in October, compared to 6.15% in September, an increase originated from the 0.45% growth in the Economically Active Population (PEA), as the number of occupied workers remained stable. Data from the Ministry of Labor still indicated growth of the formal employment in October, as observed since the beginning of the year. The total number of formal labor positions in October corresponded to 23,830 thousand, increasing by 0.34% in comparison to the previous month and 2.94% ytd.

As for the financial system indicators, the outstanding balance of credit operations registered a 0.2% growth in November, reaching R$ 336.1 billion. This performance was basically due to the 1.1% fall in the operations with freely allocated resources, which represented 58.6% of the total operations, as compared with the 2.9% seasonal growth of resources directed to the rural sector, as well as the 7.3% expansion of on-lendings for investments from the National Bank of Economic and Social Development (BNDES).

The reduction of the stock of credit with freely allocated resources originated, to a great extent, from the appreciation of the Real in the period, affecting operations linked to the exchange rate and inducing the 1.6% reduction in the balance of operations with corporations. Regarding the 0.2% fall observed in the credit to private individuals, it is worth emphasizing the smaller use of overdraft accounts, in view of the increase of family incomes resulting from the receipt of part of the 13th salary in November.

With reference to the foreign trade, a US$ 129 million surplus was obtained in the trade balance in the month up to the second week of December, increasing the year-to-date surplus to US$ 1.9 billion. The positive result of the trade balance throughout the year is mainly reflecting the reduction of imports, as a consequence of the exchange rate depreciation and the deceleration of domestic economic activity, and the expansion of exports, particularly basic products, as the exports of manufactured products grow at a less accelerated rate due to the contraction of important markets for Brazil such as Argentina and the European Union. The continuity of the growth of sales to the USA should be highlighted, in spite of the deceleration of that economy, plus the gradual incorporation and expansion of sales to new markets in Asia, Africa, Eastern Europe and the Middle East.

Thus, the current account deficit showed a declining trend, while foreign direct investments, an important source of funds to finance the balance of payments, reached US$ 2.2 billion in November, the highest result of the year, compared to a monthly average of US$ 1.4 billion in the period, August to October.

In summary, the evaluation of the recent performance of the indicators, both from the demand side and from the production sectors, permits the conclusion that that the economy has overcome, to a great extent, the negative effects related to the rationing of electricity supply and to the adversities of the international scenario, as demonstrated by the stability of the Gross Domestic Product (GDP) in the third quarter of the year, compared to the previous one, seasonal influences apart. The sustained dynamism of the domestic activity is also worth mentioning, furthermore thanks to the continuity of investments, the increases of agricultural income and the recovery in consumption, contributing to a gradual recovery in the growth trend.

External environment

Indicators recently released show that the world macroeconomic scenario is one of deceleration with reduction in inflationary pressure and low confidence of the agents, despite the efforts of the larger economies to adopt expansionist monetary and fiscal policies.

The U.S. economic indicators reinforce the decelerating trend of the expansion of economic activity, although at varying rates depending on the characteristics of each economic sector. In the third quarter, U.S. GDP contracted by 1.1%, reflecting reductions of 10.7% in private investment, and of 17.7% in exports. Consumption, which used to support outcome, expanded by 1.1%, and government expenditures grew by 0.8%, decelerating as compared with the previous quarter. From the supply side, factors of production are migrating from goods production to the services sector. In the job market, the increase in the unemployment rate observed in the last months is linked to the deterioration of corporate results, whose profits declined significantly in the third quarter. The job market is expected to remain in decline, as corporations adjust their costs by cutting investment and dismissing employees.

Agents' expectations surveyed among entrepreneurs (NAPM) and consumers (Conference Board) were distinct from each other in November. Expectations of manufacturers recovered in November, after the drop in October, but were still below 50 points, for the 16th consecutive month, indicating retraction. The index that measures consumer confidence contracted 31.8 points from August to November, reflecting the uncertainties about the economic scenario in the short run. This suggests that the U.S. economy will not bounce back quickly.

The propagation of economic fragility helps to maintain inflation under control. Inflation is showing signs of deceleration. The CPI rose by 1.9% in the 12 months ending in November, as compared to 2.13% in October and 3.62% in May. The CPI core in November, however, grew by 0.37% compared to 0.16% in October. Price increases were considered as normal for the period and will not translate into inflationary pressure in the coming months.

The U.S. economic scenario does not show consistent signs of recovery of the level of activity. Market forecasts indicate sustained growth recovery only after the third quarter of 2002.

The economies in the Euro area continue to present deceleration in their growth rate of economic activity. The latter is made worse by the retraction in world demand, which may revert the upward trend of the regional trade balance, as a result of unfavorable forecasts for business. The deceleration in the Harmonized CPI, which is in a converging trend to the annual reference of 2%, may lead the European Central Bank to ease monetary policy, in an attempt to bring dynamism to regional economic activity. An expansionist fiscal policy could be limited by the public deficit ceilings imposed by the Maastricht criteria.

In Japan, main demand and supply indicators point to the deepening of recession. The maintenance of the zero interest rate monetary policy, associated to expansionist fiscal measures, are not producing positive results. Industrial production maintains a declining trend having reached in October a 12-month accumulated variation of -11.9%, one of the lowest levels since 1988.

The economic deceleration simultaneously observed in the more developed economies reflects on the performance of the emerging markets. In China and in Korea, domestic demand sustains economic growth, compensating the retraction in external demand. The approval of China's entry to the WTO, on November 10, means that export markets will be widened, as well as imposing new challenges due to the deep transformation that will occur in key sectors of the Chinese economy. In Turkey, the IMF emphasized the good results of the fiscal efforts taken by the government and the advances in the restructuring of the banking sector. The IMF announced that it intends to negotiate additional US$10 billion financing for Turkey, to permit the compliance with external financing needs in 2001 and in 2002, widened due to the effects of the September 11 events.

In Argentina, the deepening of the recession is a scenario of difficult solution. The deterioration of public accounts and the several economic packages in the last months failed to reestablish market confidence and barely contributed to the recovery of economic activity. The degree of popular dissatisfaction was shown through pillaging in the capital and in the main cities, leading to a decreed state of siege and the resignation of the Minister of Finance.

Prices

In November, the inflation rates measured by the main price indices declined. The Consumer Price Index - Extended (IPCA) varied 0.71%, compared to 0.83% in October, accumulating 6.98% in 2001 and 7.61% in the last twelve months. The smaller monthly variation of the IPCA was mainly due to the lower impacts of cigarette and fuel price increases, both occurred at the beginning of October. The reduction of the rate was not more intense due to increases of the expenditures with food, mainly cereals and meat, to the adjustments of electricity tariffs in the cities of Rio de Janeiro and Porto Alegre, as well as to the increase in urban bus tariffs, also in Rio.

The General Price Index – Domestic Supply (IGP-DI) showed a 0.76% variation in November, compared to 1.45% in October, accumulating 10.18% in the year and 11.02% in 12 months. Relative to the previous month, the variation of the Consumer Price Index (IPC-DI) accelerated 0.85% compared to 0.71%, mainly due to increases of administered prices in Rio de Janeiro, more intensively impacting on the IPC rather than the IPCA, in addition to the residual effect of cigarette prices in October. The slowdown in the variation of the Wholesale Price Index (IPA-DI), 0.73% in November compared to 1.88% in October, was the main reason for the behavior of the index in the month. The 0.93% hike in agricultural prices and the 0.65% increase in industry prices, 1.74% and 1.94%, respectively, in October, led to this deceleration in the Wholesale prices. The National Index of Civil Construction (INCC-DI) increased by 0.74%, from 0.93% in the previous month.

For the coming months more favorable forecasts are being made. Many factors are contributing to this, such as the recent behavior of the exchange rate, the deceleration observed in the agricultural prices, namely cereals and meat, the absence of strong pressures from administered prices and the prospect of reduction in fuel prices. Thus, even if there are, in the next few months, seasonal pressures from the readjustments of school monthly payments and increase in domestic gas and electricity prices, the aforementioned factors should prevail, allowing for a decrease in the inflation rates.

Money market and open market operations

The yield curve showed higher volatility since the last Copom meeting. After the declarations of the Central Bank board confirming that it will firmly pursue the achievement of the 2002 inflation target and also after the announcement of the firm offer of 16-month LTN, the slope of the curve increased, with the spread between the one-year interest rate and the Over-Selic rate rising to 418 basis points on November 29th, the auction date, from 186 basis points on November 21st. The perception of an improvement in the domestic economy due to the appreciation of the Real against the U.S. dollar, the positive results of the trade balance, and the announcement of the external funding, favored the partial reversion of the trend of the interest rate slope, reducing this spread to 239 basis points on December 14th.

The Central Bank carried out buyback auctions of NBCE simultaneously with the selling auctions of NTN-D from the National Treasury, aiming at partially redistributing the redemption of NBCEs that will take place between February and April 2002. The net financial impact of this operation was neutral due to the purchase of R$1.1 billion of NBCE and the sale of R$1.1 billion of 3-year and 5-year NTN-D (64% and 36% of the total, respectively). The auctions indicated a stronger demand from the market for the reversion of the positions of shorter-term exchange rate indexed securities than opening positions in longer tenures.

Within the period, there was also the rollover of exchange rate indexed securities maturing on 2 different dates. The strategy adopted was based on the full rollover of the principal added to the final interest payments through the placement of 3-year and 5-year NTN-D. The total placement reached R$2.2 billion, with the 3-year securities representing around 70% of the total.

Since November 27th, there have been 7 auctions of LTN. The National Treasury promoted the lengthening of the issuance tenure, placing 16-month securities. These LTN were auctioned on three different dates, the first one being through a firm offer. The average interest rates ranged from 24.7% to 21.87%, while the demand/supply ratio ranged between 1.2 and 2.9. There were also 4 offers of 6-month securities. The upward trend in the average interest rates observed for the first 2 events (20.41% and 20.89%) were reverted in the last 2 auctions (20.18% and 20.35%). The demand/supply ratio ranged between 1.3 and 1.8. The resulting financial volume of the placements transacted reached R$8.1 billion, of which 91% referring to securities maturing in six months.

Considering the financial settlements occurred between November 21st and December 18th, there was monetary expansion of R$3.3 billion. This impact resulted, mainly, from the net redemptions of LTN (1.6 billion), LFT (R$0.8 billion) and exchange rate indexed securities (R$1.1 billion).

During a 20 working day period, the Central Bank intervened thirteen times in the open market, aiming at administering the very short-term interest rate. In all operations, the Central Bank provided liquidity to the market at a hurdle yield of 19.05% p.a. The average volume of the interventions was of R$16 billion.

In November, the secondary market showed a growth in the trading of fixed rate securities compared to the previous month, with an average daily turnover of LTN growing to R$3.9 billion from R$2.5 billion, due to the increase in the volume of primary offers (to R$7.6 billion in November, from R$5 billion in October), to a more favorable economic scenario and to the expectations of a reduction in interest rates in the medium term.

The 6.6% appreciation of the Real in November was the main factor explaining the R$10.2 billion (-1.6%) reduction of in the domestic securitized debt and also the decline in the share of the debt indexed to the exchange rate to 31.1% from 32.9% in the previous month.

Assessment of inflation trends

The identified shocks and their impacts were reassessed in light of newly available information. The scenario considered in the simulations contemplates the following hypotheses:

1. November inflation rate, measured by the IPCA, reached 0.71%, a result higher than expected;
2. Regarding oil by-products, the hypothesis assumed was that, with the opening of the domestic market in January 2002, the prices of oil by-products will be determined by market forces, floating in accordance with supply and demand conditions. The forecast for gasoline, diesel oil and GLP prices for January 2002 were calculated by applying the price variation coefficient in Reais of December compared to November 2001 on the effective prices prevailing in December 2001. For the rest of 2002, the hypothesis assumed the variations of the prices in the futures market of Brent crude oil negotiated in the International Petroleum Exchange (IPE) for gasoline and diesel, and the future contracts of propane gas on the New York Mercantile Exchange (NYMEX) for GLP. For GLP, the hypothesis of elimination of subsidies was incorporated. Thus, in contrast with what should occur with the other oil by-products, domestic gas should increase by 16.4% in first quarter and 15.2% throughout the year. Even though this increase will be substantial, it is more than compensated by the average reduction expected for the prices of gasoline and diesel oil for consumers in 2002;
3. The projection for the readjustment of electricity tariffs in 2001 remained at approximately 20%. For 2002, the forecast of the readjustment was reduced to 19%;
4. For the wider set of administered prices, the 10.7% readjustment in 2001 remained practically unchanged in relation to the previous month. For 2002, the expected readjustment is of 5.2%;
5. The projected slope of the domestic yield curve, measured as the difference between 180-day term DI rate and 1-day Selic rate, was significantly reduced to an average of 290 b.p. for the fourth quarter of 2001, declining to100 b.p. in the second quarter of 2002;
6. The trend of the US Fed Funds rate, forecast based on the maturity of future contracts, was modified to reflect an average rate of 2.15% in the fourth quarter of 2001, declining to 1.75% in the first quarter of 2002, with a moderate rise thereafter;

7. On the external front, the assumption for the average risk premium using Brazil's Global 04 Bonds incorporates a declining path from current levels to a plateau close to 700 b.p. from the first quarter of 2002 on, with stability thereafter.

The core inflation of the IPCA, calculated under the symmetric trimmed-mean method, rose in November to 0.77%, from 0.57% in October. Accumulated in 12 months, this core index increased by 7.05%. The core inflation of the IPC-BR, calculated under the symmetric trimmed-mean method, rose in November to 0,77%. Accumulated in 12 months, this core recorded a 6.87% variation. The core inflation calculated with the exclusion of the administered prices - considering the wide set of these items weighting 30.7% of the IPCA in November - and household food prices increased by 0.68% in November, with accumulated variation of 4.85% in 12 months.

The IPCA accumulated variation year-to-date reached 6.98% in October, reflecting a 2.9% contribution (10.0% variation) from administered prices and 4.1% contribution (5.7% variation) from free prices. A 0.2% contribution (0.7% variation) is expected from administered prices for the rest of the year. The evolution of these prices should directly contribute with 3.1% for the yearly inflation, compared to the 3.2% forecast in November. In 2002, the lower inflation of administered prices is due mainly to the readjustments of oil by-products prices, which will be determined by the market. It is expected a 5.2% increase of administered prices (direct contribution of 1.6%, which excludes the second-round effects on inflation), influenced by 19% hikes in electricity for the domestic consumer.

Regarding fiscal policy, it was assumed that the primary surplus targets for the consolidated public sector stated in the Economic Program of the Government will be achieved. The remaining assumptions established in the previous meeting were maintained.

Simulation exercises with several specifications of the structural model led to the conclusion that the maintenance of the interest rate at 19.0% p.a. and of the exchange rate at the same plateau as of the eve of the Copom meeting would result in an inflation over the upper limit of the target for 2001. For 2002, the projected inflation is closer to the medium range of a 3.5% target. For 2003, the projected inflation is significantly lower than the medium range target of 3.25%, using the scenario of constant interest rates at 19%.

Monetary Policy Guidelines

The economic scenario presented improvements since the last Copom meeting. The exchange rate appreciated quickly, in response to the positive evolution of the external accounts and the differentiation between the Brazil risk with Argentina's, which resulted in the reduction of the risk premium. Government forecasts for the readjustment of administered prices in 2002 were revised downward due to lower readjustments of the electricity tariffs, the liberalization of the market of oil derivatives and the changes in the taxation of this sector, which will revert into substantial price reductions. The reduction in the slope of the yield curve will have positive impacts on economic growth.

Consistently with the favorable prospects expressed in the Minutes of the last Copom meeting, the indicators of economic activity in the third quarter signal a smooth recovery of the level of economic activity next year. Even being lower than the forecast at the beginning of the year, the GDP growth in 2001 will be close to 2% but slightly higher in 2002. In the third quarter, the economy grew by 0.3% compared to the previous quarter (2.17% ytd). The agriculture and livestock activity contributed positively to the GDP growth, offsetting the negative evolution of the industrial sector. The industrial production, measured by IBGE's Monthly Survey of Industries (PIM) declined by 3.4% in the month, seasonally adjusted figures. In 2001, the investment rate will be higher than 23% of GDP. More pronounced increases in investment will be observed in the sectors of capital goods related to agricultural tractors, high tension transformers, railway wagons, and equipment for the civil construction industry.

The Balance of Payment accounts improved. The trade balance has accumulated a US$1.9 billion surplus ytd until the second week of December, explained by the depreciation of the Real in the second and third quarters. For the first time since 1994, the trade balance will finish the year with a positive result. The foreign direct investment registered higher than expected net inflows of US$2.2 billion in November, and will finish the year with net inflows higher than US$20 billion. In addition, the external funding, which was hindered by September 11 events, was reactivated by private firms. This set of favorable factors contributed to the reversal of the depreciating trend of the Real.

Market expectations for inflation, surveyed by the Central Bank, for the next quarters have been declining in the past weeks. This movement may be partly associated with the recently observed appreciating trajectory of the exchange rate. In the case of this trend persisting, the prospects for inflation may show additional decline, since the risk of the passthrough of the exchange rate depreciation accumulated this year to next year's inflation also declines. Noteworthy is that a significant part of the difference between Copom's projections and the market ones is explained by a more depreciated trajectory of the exchange rate used by the market.

The world scenario is uncertain. The deceleration of the world economy, intensified by the recession in the USA and the by the persistence of recession in Japan reinforce the perception that a recovery of the economy of industrialized countries will be postponed to the second half of 2002. This set of uncertainties, aggravated by the worsening of the Argentine economy, reflects in unfavorable expectations for the exchange rate and the inflation in 2002.

November inflation measured by the IPCA, as well as its core, remained at a high level. The exchange rate passthrough and the decompression of the profit margins seem to be the responsible for the high increases in the consumer price indices and yet the degree of influence of these factors in the next few months is uncertain, mainly in a context of economic recovery. Nonetheless, the four-week index, measured by the IPC-Fipe, already points to a reversal trend.

In summary, a sum of factors contributes to a scenario of interest rate reduction in the coming years. The simulation exercises with the various specifications of the structural model points to inflation near the medium range target in 2002. However, the uncertainties regarding the recovery of the international economy, the improvement in the inflation indices due to a lower passthrough of the exchange rate depreciation, and the evolution of the Argentine crisis recommend that we wait for a confirmation of the more favorable scenario that starts to materialize.

Accordingly, COPOM unanimously decided to maintain the target for the Selic rate at 19%.

At the close of the meeting, it was announced that the Committee would meet again on January 22nd, at 3:00 p.m, for technical presentations and, on the following day, at 4:30 p.m., in order to discuss monetary policy guidelines, as set in Calendar of Copom's Ordinary Meetings, published in the Central Bank Communiqué n. 8911, of 10.3.2000.

Acronyms

ac 12m accumulated in 12 months

ACC Anticipated Exchange Rate Contracts

BM&F Mercantile and Futures Exchange

bp Basis Points

CDI Interbank Futures Contract

CETIP Center for Financial Custody and Settlement of Private Securities

CNI National Confederation of Industries

CPMF Provisory Contribution on Financial Transactions

CSLL Social Contribution on Net Profit

DI Interbank Deposit

FCESP Commerce Federation of the State of São Paulo

FED Federal Reserve System

FOMC Federal Open Market Committee

FRA Forward Rate Agreement

GDP Gross Domestic Product

IBGE Brazilian Institute of Geography and Statistics

IF Financial Institution

IGP-DI General Price Index – Domestic Supply

IIC Consumer Intentions Index

INCC Civil Construction National Index

IPA Wholesale Price Index

IPC Consumer Price Index

IPCA Consumer Price Index – Extended

IPC-BR Consumer Price Index - BR

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)

LTN National Treasury Notes (fixed rate)

NAPM National Association of Purchasing Managers

NBC-E Central Bank Note - E Series (indexed to the exchange rate)

NTN-D National Treasury Note – D Series (indexed to the exchange rate)

p.a. per annum

p.m. per month

PEA Economically Active Population

pp percentage point

STN National Treasury Secretariat

ytd year-to-date