BANCO CENTRAL DO BRASIL

Minutes of the 115th Meeting of the Monetary Policy Committee (Copom)

Date: December 13th, from 4:55PM to 7:15PM, and December 14th, from 4:30PM to 7:55PM
Place: BCB Headquarters meeting rooms - 8th floor on December 13th and 20th floor on December 14th – Brasília – DF

In attendance:
Members of the Committee
Henrique de Campos Meirelles – Governor
Afonso Sant'Anna Bevilaqua
Alexandre Antonio Tombini
Alexandre Schwartsman
Antônio Gustavo Matos do Vale
João Antônio Fleury Teixeira
Rodrigo Telles da Rocha Azevedo
Sérgio Darcy da Silva Alves

Department Heads (present on December 13th)
Altamir Lopes – Economic Department
Felipe de Castro Ribeiro – International Reserves Operations Department
João Henrique de Paula Freitas Simão – Open Market Operations Department
José Antônio Marciano – Department of Banking Operations and Payments System
José Pedro Ramos Fachada Martins da Silva – Investor Relations Group
Marcelo Kfoury Muinhos – Research Department (also present on December 14th)

Other participants (present on December 13th)
Alexandre Pinheiro de Moraes Rego – Special Advisor to the Governor
Alexandre Pundek Rocha – Advisor to the Board
Carlos Hamilton Vasconcelos Araújo – Deputy Head of the Research Department
Flávio Pinheiro de Melo – Advisor to the Board
Jocimar Nastari – Press Secretary
Katherine Hennings – Advisor to the Board

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

Recent Economic Developments

1. IPCA monthly inflation stood at 0.55% in November, falling relative to October (0.75%). Although this reduction was expected, the actual IPCA change surpassed market expectations on the eve of the November Copom meeting, as had happened in the previous month. Despite the sharp acceleration of food price inflation, fuelled by perishable food prices, the IPCA reduction in November reflected mainly the deceleration of regulated prices, due to the depletion of the effects of the adjustment of oil derivatives in mid-September. For December, it is expected a lower IPCA inflation relative to November.

2. Core inflation measures also decelerated in November, in tandem with headline inflation. Core inflation by exclusion of household food items and regulated prices, smoothed trimmed means and non-smoothed trimmed means cores rose 0.27%, 0.51% and 0.49% in November, respectively, in comparison to 0.38%, 0.58% and 0.50% in October. Therefore, core measures confirm that the recent uptick in headline inflation has been caused by food and regulated prices. Taking a longer period, underlying inflation remains below the levels observed at the beginning of the year, although trimmed means cores continue above the levels consistent with the target path. In the July-November period, core by exclusion, smoothed trimmed means and non-smoothed trimmed means

averaged 0.32%, 0.48% and 0.38%, compared to 0.59%, 0.62% and 0.49% in the first half of 2005. 12-month accumulated core measures maintained the downward trend observed since May 2005.

3. The General Price Index (IGP-DI) rose 0.33% in November, as compared to 0.63% in October. This decline was mainly due to the deceleration of the wholesale price component (IPA-DI), which rose 0.24% in November, compared to 0.79% in October. For the year to November, the IGP-DI and IPA-DI increased 1.16% and –0.83%, respectively. On a twelve-month trailing basis, IGP-DI and IPA-DI increased 1.68% and -0.35%.

4. The deceleration of wholesale price inflation in November was observed in both industrial prices and, to a lesser extent, agricultural prices. Twelve-month trailing agricultural IPA stood at -6.19% through November, while industrial IPA increased just 1.64% in the same period, the lowest change since January 1999. There are consistent signs of accommodation in wholesale price inflation, with potential positive spillover effects on consumer prices in the coming quarters. As emphasized in prior Copom Minutes, the continuity and strength of this pass-through depend on demand conditions and price-setters' expectations for the future inflation path.

5. The first estimate by the Brazilian Institute of Geography and Statistics (IBGE) for the third quarter GDP posted a 1.0% increase in comparison to the same quarter of 2004, and a 1.2% reduction on a quarter-on-quarter, seasonally adjusted basis, thus interrupting the sequence of eight positive quarterly results initiated in the third quarter of 2003. Even considering a revised seasonally adjusted result in the second quarter (to 1.1% from 1.4%), third quarter GDP remained at a high level. In the year to the third quarter, GDP grew 2.6%, compared to the same period of 2004.

6. On quarter-on-quarter seasonally adjusted terms, agriculture and industry output declined 3.4% and 1.2%, respectively, while services output remained stable. With regard to demand, gross fixed capital formation and government consumption declined 0.9% and 0.4%, respectively, while household consumption, exports and imports grew by 0.8%, 1.8% and 1.4%, respectively. These results are consistent with a 0.4% growth in aggregate demand, according to IBGE data seasonal adjustment by the BCB (versus a 2.2% growth rate in the second quarter). Comparing to the third quarter of 2004, aggregate demand grew 2.4%, producing a 3.1% expansion in the year September and a 4.0% expansion in four quarters. Despite the quarterly decline in fixed capital investment (after a strong 4.7% expansion in the second quarter), continuing household consumption and net exports growth support favorable expectations for GDP growth in the near future. Leading and coincident indicators for economic activity suggest a GDP recovery in the coming quarters.

7. Considering seasonally adjusted data published by the IBGE, industrial output remained stable in October, relative to September. In the year to October, industrial output increased 3.4%, and 4.1% in the twelve months through October. Since June, seasonally adjusted industrial results alternate positive and negative performances but in general, industrial production remained at elevated levels by historical standards. The three-month moving average declined in October, but at a lower pace than that registered in September. Leading and coincident indicators anticipate a recovery of industrial output in November, both in monthly and three-month moving average terms.

8. Regarding disaggregated industrial production data for October, the main use categories presented opposite behaviors, reversing trends registered in September. Capital goods production fell 3.9%, while intermediate goods production remained relatively unchanged. As for consumer goods, production grew 1.3%, boosted by a recovery of durable goods. Three-month moving averages increased for capital goods production, fell in the case of consumer goods and remained flat for intermediate goods. Differently from September, durable goods production growth outpaced that of semi and non-durable goods. Even so, semi and non-durable goods production grew 5.1% in the year to October and 5.3% over twelve months, consistent with the increasing significance of the labor market in sustaining economic growth. Despite the weaker recent performance, durable goods production expanded 12.6% through the year and 13.5% in a twelve-month trailing basis, well above the industrial sector average.

9. The labor market sustained a positive trend, in line with the more stable macroeconomic environment and the historically high levels of economic activity. The unemployment rate measured by the IBGE stood unchanged at 9.6% in October. In comparison to October 2004, the unemployment rate declined 0.9p.p., while the number of

employed individuals rose 2.1%. Average real earnings fell relative to September, although up 1.8% if compared to October 2004. Partially reflecting the positive effects of lower inflation on real wages, average real earnings were 1.7% higher in the June-October period, versus the first five months of the year. According to the National Industry Confederation (CNI), manufacturing employment rose 4.8% in the year through October and 5.2% over twelve months. On the same basis, real manufacturing payrolls increased 8.6% and 8.9%, respectively. These indicators confirm the recent trend, associating more jobs with higher wages.

10. IBGE seasonally adjusted data for October showed stable retail sales relative to September, with a 3.7% increase relative to October 2004. As had happened in September, goods that are more sensitive to income and employment posted positive growth, counterbalancing the negative performance of goods that are more credit-sensitive. Thus, the composition of retail sales continued to adjust, comparatively to the beginning of the recovery cycle, when credit-sensitive sales led the process. Three-month moving average sales also remained stable, close to the record high. In the year through October, retail sales rose 4.8%, compared to the same period of 2004. Preliminary indicators for November suggest that sales will likely rebound. The favorable outlook for retail sales in the coming months is supported by positive labor market developments, credit expansion and the recovery in consumer confidence.

11. Installed capacity utilization in the manufacturing industry increased in October, as measured by the CNI and seasonally adjusted by the BCB. This increase takes place in a period of maturing investment projects made in recent years. As emphasized in prior Copom Minutes, the future inflation trend remains directly linked to current and prospective developments regarding the expansion of supply, to adequately meet demand conditions. Capital goods absorption rose 4.8% in the year through October, mainly driven by the increase in capital goods imports (which rose 30.0% in volume terms in the year). Even with increasing evidence of rising investment, the performance of aggregate supply in the coming quarters remains a key concern with regard to future inflation dynamics.

12. Recent data confirm that external trade performance in 2005 will outpace that of last year. In October, twelve-month cumulative exports reached US$116.6 billion, driven primarily by the growth in manufactured exports. The twelve-month cumulative trade balance reached US$43.9 billion, with imports totaling US$72.7 billion. In value terms, exports rose 24.0% over the preceding twelve months, while imports rose 18.9%. Capital goods imports rose 17.5% in November, as against November 2004, accumulating a 27.5% expansion in 2005 - over the course of the year, the relative participation of capital goods imports in total imports has risen, to the detriment of raw materials and intermediate goods. The favorable performance of the trade accounts in the twelve months through November brought the current account surplus to US$14.9 billion, or 2.0% of GDP. While the contribution of external demand to the ongoing economic expansion has diminished somewhat in recent months, it remains positive and above that expected at the start of the year.

13. International financial markets improved relative to the scenario considered in the November Copom meeting, with indications that the U.S. monetary tightening cycle would be completed soon. Brazil risk premium registered the record low since 1997, reflecting consistent improved fundamentals, noticeably strong trade surpluses, together with adequate public sector primary surpluses and continuous disinflation, contributing to safeguard the domestic economy from adverse external shocks. The significant improvement in macroeconomic fundamentals enabled the anticipation to end-2005 of the repayment of the entire obligations to the IMF, amounting to SDR10.789 billion – equivalent to US$15.5 billion and originally scheduled to be repaid until 2008. Despite uncertainties in the global economy, such as concerns regarding ongoing inflation both in the U.S. and in the euro area, the Copom continues to assign a low probability to a significant deterioration in international financial markets conditions.

14. International oil prices, after reaching record highs in August, fell sharply and converged to levels close to those of the beginning of the year. Despite the considerable drop, however, prices remain volatile and at elevated levels. Given the increase in domestic fuel prices implemented in mid-September, the Copom maintains a scenario in which there is no further change to domestic prices in 2005. Nevertheless, international oil prices remain a risk factor to future inflation, potentially affecting the prices of oil-intensive products, as well as economic agents' inflation expectations.

Assessment of Inflation Trends

15. The inflation shocks and their impacts were reassessed according to newly available information. The scenario considered in the simulations utilized the following assumptions:

a) The projection for gasoline price adjustments in 2005 was increased to 8.0% from 7.6%. The projection for bottled gas prices was increased to –0.3% from –0.9%;

b) The projection for fixed line telephone rate adjustments in 2005 remained unchanged at 6.7%, while the projection for household electricity adjustments was increased to 8.0% from 7.8%;

c) For all regulated prices, which represented a total weight of 30.4% in the November IPCA, the Copom increased its projection for 2005 adjustments to 8.8% from 8.2%;

d) The projection for regulated price adjustments in 2006 was reduced to 4.6% from 4.9%, since all items in the group had their price changes individually projected;

e) The projection for the six-month spread over the Selic rate, using a Vector Autoregressive model based on the Selic and swap rates on the eve of the Copom meeting, increased from an average of –90 basis points in the last quarter of 2005, to 26 basis points in the last quarter of 2006.

16. Regarding fiscal policy, it is assumed that the consolidated public sector primary surplus target of 4.25% of GDP for 2005 and 2006 will be achieved. The related assumptions considered in the November meeting were maintained.

17. Since the November Copom meeting, median IPCA inflation expectations for 2005, compiled by the BCB's Investor Relations Group, rose from 5.52% to 5.68%. The increase is attributable to the fact that the survey on the eve of the November meeting had underestimated November inflation (median expectation of 0.40%, versus actual inflation of 0.55%). For 2006, expectations have fallen to 4.50% from 4.55%, reaching for the first time the inflation target established by the National Monetary Council (CMN) for the year. As mentioned in prior Copom Minutes, this trend suggests that the recent monetary policy stance has both contained short-term inflationary pressures and contributed to the consolidation of a more favorable longer-term macroeconomic scenario.

18. The 2005 inflation forecast under the benchmark scenario – which assumes the maintenance of the Selic rate at 18.5% p.a. and the exchange rate at R$/US$ 2.25 during the forecast period – increased relative to the November Copom meeting, and is above the 5.1% inflation objective for the year. The forecasts based on the market scenario – which incorporates the consensus exchange rate and Selic rate trajectories on the eve of the Copom meeting – also increased, and are also above the 5.1% inflation objective. For 2006, the benchmark forecast remained below the 4.5% target established by the CMN, but increased relative to November, due to the more depreciated exchange rate and the lower six-month swap rate projected according to the Vector Autoregressive model using a lower Selic rate. The forecast under the market scenario decreased slightly, mainly due to the lower depreciation of the real throughout 2006 expected by market participants. However, the inflation projection under the market scenario remains above the 4.5% inflation target.

Monetary Policy Decision

19. The Copom reaffirms the view expressed in prior Minutes, that actual and expected inflation results demonstrate that the monetary tightening cycle begun in September 2004 has contained short-term inflationary pressures and consolidated a more favorable long-term macroeconomic environment. Economic activity should recover in the coming months and continue to expand at a pace consistent with supply conditions, such that it will not introduce significant inflationary pressures. In addition, despite continued volatility in international financial markets and the persistence of high oil prices, the external environment remains favorable, particularly with regard to external financing conditions for the country. Therefore, a benign inflation environment continues to evolve. As in

the November meeting, the Committee emphasizes that the main challenge for monetary policy is to ensure the consolidation of these favorable developments.

20. The Copom considers that the increase in short-term inflation in the October-November period is being driven largely by the domestic fuel price adjustment implemented in mid-September, as well as by the partial reversal of the favorable food price dynamics observed in recent months. Since these are transitory pressures, it is expected that they will ease over time without necessarily contaminating longer time horizons. Nevertheless, while the uptick in inflation was broadly expected in the September meeting, the magnitude significantly exceeded expectations prevailing at that time. Therefore, the Committee will continue to closely monitor the evolution of headline and core inflation in the coming months, distinguishing between one-off and more generalized or persistent price adjustments and adapting its monetary stance to the circumstances, in order to ensure that the gains achieved thus far in reducing inflation are made permanent.

21. The uninterrupted convergence of inflation to the target path and the resulting consolidation of a long lasting macroeconomic stability will contribute to the progressive reduction in perceived macroeconomic risk, a process already underway for several years. The scope for a reduction in real interest rates in the future will naturally follow. The Copom considers that its cautious monetary policy stance has been critical to increasing the probability of inflation convergence to the target path. For this to materialize, however, it is important that forward-looking inflation indicators remain compatible with the more recent benign inflation outlook. In this way, the gradual monetary easing will not compromise the important achievements made in lowering inflation and preserving economic growth with job creation and rising real incomes.

22. Considering the current scenario, the Copom unanimously decided to continue the monetary easing process begun in the September 2005 meeting. Two committee members voted for a 0.75 p.p. reduction in the Selic rate, which, in their understanding, would be more appropriate considering the current balance of risks between activity and inflation. To the majority of the committee members, however, a 0.5 p.p reduction was the adequate decision. This reduction would better fit the optimal speed of implementation of the easing cycle and contribute to increase the magnitude of the total adjustment.

23. The Copom therefore decided, by six votes against two, to reduce the Selic target rate to 18% p.a., without bias.

24. At the conclusion of the meeting, it was announced that the Copom would reconvene on January 17 for technical presentations and, on the following day, to discuss the monetary policy decision, as established in Communiqué 13,821 of October 31, 2005.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

25. The IPCA decreased in November to 0.55%, compared to 0.75% in October, accumulating increases of 5.31% in the year and 6.22% in the last twelve months. The lower monthly change was primarily due to the decrease in regulated prices, especially due to lower adjustments of fuel and airplane ticket prices. Regulated price inflation decelerated to 0.85% in November from 1.62% in October, contributing 0.26 p.p. versus 0.49 p.p to the monthly result, respectively. Market prices increased 0.42% in November compared to 0.38% in October, primarily due to the increase in prices of perishable food (9.67% in November from –2.21% in October).

26. The IGP-DI rose 0.33% in November, compared to 0.63% in the previous month. Still due to the negative changes registered from May to September, IGP-DI accumulated a 1.16% increase in the year and a 1.68% increase in the last twelve months. Considering its components, the Consumer Price Index – Brazil (IPC-Br) rose 0.57% in the month, compared to 0.42% in October, reflecting the increase in food and clothing prices and the decrease in transportation prices. The National Index of Civil Construction (INCC) rose 0.28%, compared to 0.19% in October. The IPA-DI, the component with the largest weight in the IGP-DI, fell to 0.24% in November from 0.79% in the previous month, and accumulated changes of –0.83% in the year and –-0.35% in twelve months.

27. The lower change in wholesale prices in November is attributable to both industrial and agricultural prices. The agricultural IPA rate decreased to 0.62% in November from 0.80% in October, primarily due to the decline in meat prices. However, fruit and vegetable prices (especially tomato, potato, rice and sugar) pressured wholesale inflation. Industrial prices decreased to 0.13% in November from 0.78% in October, due to the deceleration in fuel prices. Other important segments in the manufacturing industry, such as metallurgical, electric material, rubber and leather registered price falls. Considering the IPA-DI according to the processing stages, only final goods prices accelerated, up 0.88% in November compared to 0.42% in October (reflecting mainly the surge in perishable food prices). Intermediate goods prices increased 0.21% (1.03% in October) and raw-material prices increased 0.29% (0.80% in the previous month).

28. The IPCA core measures followed the deceleration in headline IPCA in November. Smoothed trimmed means core inflation decreased to 0.51%, compared to 0.58% in October, and totaled 7.02% in twelve months. Non-smoothed trimmed means core inflation decreased to 0.49% in November from 0.50% in October, accumulating 5.64% in twelve months. Core inflation calculated by the exclusion of household food and regulated prices stood at 0.27%, compared to 0.38% in the previous month and accumulating 5.94% in twelve months.

29. The IPC-Br core inflation, calculated by the Getúlio Vargas Foundation (FGV) under the symmetric trimmed means method, reached 0.31% in November, compared to 0.37% in October, and accumulated increases of 4.69% in the year and 5.2% in twelve months.

30. The IPCA diffusion index (measuring the number of items in the IPCA registering price increases) was 62.3% in November, compared to 59.2% in October, increasing for the third consecutive month, after meaningful declines from May to August.

31. Consumer price inflation is expected to continue decelerating in December, as regulated prices pressures subside. However, clothing and food prices will exert seasonal pressures on the IPCA.

Economic Activity

32. The GDP fell 1.2% in the third quarter of 2005 compared to the previous quarter, seasonal adjusted, and grew 1% compared to the third quarter of 2004. Agriculture, industry and services GDP contracted 3.4%, 1.2% and 0.03%, respectively, compared to the second quarter, after seasonal adjustment. With regard to demand components, household consumption grew by 0.8% in the quarter while government consumption contracted by

0.4%. Exports and imports expanded 1.8% and 1.4%, respectively. Gross fixed capital formation fell 0.9% in the quarter, after an expressive increase of 4.7% in the previous quarter.

33. According to the IBGE's survey, seasonally adjusted retail sales increased 0.06% in October compared to September, virtually stable for the fourth consecutive month (the highest level of the series since its inception in January 2000). Recent sales stability reflected different behaviors among retail sectors. While hyper and supermarkets and fabric and clothing sales increased in the four-month period through October, furniture and appliance and fuel sales contracted in the same period.

34. Vehicles sales increased 7.8% in November, seasonally adjusted, after two consecutive months of decline. In the year through November, vehicles sales grew 9.3% compared to the same period of 2004.

35. In October, domestic production of capital goods and construction inputs contracted 3.9% and 1.2%, respectively, on a month-on-month seasonally adjusted basis. In the year through October, these indicators expanded by 3.2% and 0.4%, respectively. According to Funcex (*Fundação Centro de Estudos do Comércio Exterior*), capital goods imports grew 0.6% in volume terms in October, seasonally adjusted, and 30% over the year. Medium and long-term loans disbursed by the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) reached R$33.8 billion from January to October, up 6.5% relative to the same period of 2004.

36. According to the IBGE's monthly industrial survey, industrial output increased 0.1% in October, on a month-on-month seasonally adjusted basis, driven by the 0.5% increase in mining. In the year through October, industry grew 3.4%, due to expansions of 3.0% in manufacturing and 10.2% in mining.

37. Thirteen out of the twenty-three industrial sectors grew in October. Capital goods were the only category to contract (-3.9%). Consumer goods production expanded 1.3%, due to the increases of 2.8% and 0.5% in durable and semi and non-durable goods production, respectively. Intermediate products production, the component with the higher weight in industrial production, increased 0.1%, accumulating 1.1% in the year.

38. According to CNI, manufacturing activity stabilized in October, after contracting in the third quarter. Real industrial sales decreased 0.2% and hours worked remained stable compared to September, considering seasonally adjusted series. In the year through October, industrial sales grew 2.3% and hours worked expanded 5.3%. Installed capacity utilization stood at 80.8% in the month, seasonally adjusted, increasing 0.2 p.p. compared to September. In non-seasonally adjusted terms, installed capacity utilization reached 81.8%, 2.6 p.p. below the level of October 2004.

39. Leading industrial indicators anticipate a recovery in industrial output in November. Vehicle production totaled 213 thousand, with an expansion of 3.5% relative to October, seasonally adjusted. Corrugated cardboard shipments also expanded in November, after seasonal adjustment.

Surveys and Expectations

40. The Fecomercio-SP survey showed a month-on-month increase of 12% in consumer confidence in December compared to November, accumulating a 3.6% expansion in 2005. The monthly result was due to the 10% increase in current economic conditions (to 127.5, a record high), and a 13.2% growth in consumer expectations.

Labor Market

41. According to the IBGE survey in the six main metropolitan regions of the country, the unemployment rate stood at 9.6% in October, stable compared to September. The labor force remained stable (22.2 million people) while the number of unemployed workers fell 0.3% (9,000 jobs created). Compared to October 2004, the

unemployment rate declined 0.9 p.p.. According to the same survey, real average earnings fell 1.4%, partially attributable to the higher registered in October. Compared to October 2004, real average earnings grew 1.8%.

42. According to seasonally adjusted CNI data, real payrolls increased 0.3% in October, compared to September, while employment in manufacturing remained stable. In the year through October, manufacturing real payrolls grew 8.6% and employment in manufacturing grew 4.8%.

Credit and Delinquency Rates

43. Non-earmarked credit used as reference for interest rates grew 2.4% in November (month-on-month). Credit operations with individuals rose 2.7%, mainly driven by the expansion of vehicles financing. Corporate credit with domestic funding increased 3.9%, while externally funded operations decreased 2.3%.

44. The average interest rate on non-earmarked credit operations decreased 1.1 p.p. in November, reaching 47.1% p.a., reflecting the decrease in the Selic rate and more competition. The average rate on personal credit operations declined 1.3 p.p. to 60.4% p.a., while the average rate on corporate credit decreased 1.0 p.p., to 32.4% p.a.

45. Delinquency rates for non-earmarked credit (loans in arrears for more than ninety days) increased to 4.2% in November from 4.0% in October. Delinquency rates for credit operations with individuals increased to 6.7% (6.5% in October). Delinquencies in corporate credit operations increased 0.1 p.p., to 2.0%.

46. Net delinquency rates for retail credit, measured by the São Paulo Trade Association (ACSP), remained stable at 4.6% in November, due to the increases of 1.1% and 1.2% in the number of cancelled registers and new registers, respectively.

External Environment

47. The global economy gradually resumed its expansionary trend, after overcoming the effects on prices and activity of the natural disasters that hit North America. This is particularly evident in the U.S., where the labor market and consumer sentiment recently rebounded.

48. Despite the increase in basic interest rates for the euro area and expectations of a longer monetary tightening process in the U.S., the relative stability in recent months in global longer-term interest rates reflects expectations that the recent increase in inflation will be moderate and temporary.

49. Faster job creation and growing domestic demand in the U.S., continued improvement in economic conditions in Japan, evidence of investment expansion in Europe and a robust growth in China are positive signals for the global economy in 2006.

Foreign trade and international reserves

50. Results for the external trade accounts in November confirmed the ongoing expansion, with daily average record highs for both imports and exports. The trade surplus reached US$4.1 billion, bringing the year-to-November surplus to US$40.4 billion and the twelve-month cumulative surplus to US$43.9 billion. For the same periods, total external trade reached US$17.5 billion, US$174.4 billion and US$ 189.3 billion, respectively. In the first seven working days of December, the trade surplus reached US$1.3 billion.

51. Exports totaled US$10.8 billion in November, recording average daily levels of US$540 million, a 32.2% increase over November 2004, with highlights for manufactured and semi-manufactured items (daily averages of US$295 million and US$73.9 million, respectively, 26.4% and 16.7% higher than November 2004). The growth in

manufactured exports was mainly due to gasoline and fuel oil, grading machines, iron and steel products, tractors, cargo vehicles, transmitters and receptors, auto-vehicles and parts. Among semi-manufactured, there were noticeable increases in sugar, soybean oil, cellulose, iron products, leather, and aluminum. Average values of exported primary products grew 50.5% relative to November 2004, mainly due to increased sales of soy products, oil, iron ore, and chicken. Exports performance benefited from both higher prices and higher volume, continuing with products and markets diversification.

52. Imports totaled US$6.7 billion in November, a 10.1% increase in daily average terms compared to the same month of 2004. All import categories expanded in the month. Of note were increases of 29.1% and 17.3% in consumer and capital goods imports, respectively. In the year through November, there was a 27.6% increase in capital goods imports, 23.1% for consumer goods, 15.2% for fuel and 13% for raw material and intermediate goods, all measured in daily averages compared to the same period last year.

53. At the end of November, international reserves totaled US$64.3 billion and net adjusted reserves totaled US$50.8 billion, an increase of US$4.0 billion and US$4.4 billion, respectively, relative to end-October.

Money Market and Open Market Operations

54. In the period following the November Copom meeting, the yield curve maintained the downward trend observed in the previous period, especially after November 30, when the lower-than-expected third quarter GDP growth was released. Other factors influencing the downshift were: the favorable inflation outlook; the decrease in the expectations for 2006 IPCA inflation; continuing robust foreign exchange flows; and the improvement in the sovereign risk. Between November 24 and December 14, one-, three-, and six-month and one-, two-, three-year interest rates fell 0.40 p.p., 0.32 p.p. 0.35 p.p., 0.47 p.p., 0.68 p.p., and 0.66 p.p., respectively. Real interest rates measured by the differential between the one-year forward nominal interest rate and smoothed twelve-month ahead inflation expectations decreased to 11.50% on December 14 from 11.78% on November 23.

55. With the objective of reducing the public sector's foreign exchange exposure, the BCB conducted 12 FX swap auctions, in which the BCB assumes a long FX position and short interest rate position, totaling US$6.3 billion. In the year through December 14, the net redemption of FX instruments, including interest payments, totaled US$22.7 billion.

56. Since the November meeting, the National Treasury raised a total of R$17.2 billion via fixed-rate securities issuance: R$16.7 billion via issuance of LTNs maturing in 2006, 2007, and 2008; and R$0.5 billion via issuance of NTN-Fs maturing in 2010 and 2012. Issuance of floating-rate LFTs, with maturities in 2009 and 2010, totaled R$0.8 billion, while the issuance of inflation-linked NTN-Bs, maturing in 2007, 2008, and 2009, totaled R$7.0 billion.

57. In its open market operations, the BCB conducted six three- and five-month fixed rate repo operations, as well as shorter-term repo operations (six of which were overnight lendings, and four of which were overnight borrowings). The BCB also conducted daily liquidity management operations. The excess liquidity sterilized from the banking reserves market via operations with tenors of three and five months averaged R$49.1 billion. Operations with tenors less than thirty days averaged R$0.8 billion.

58. Aimed at reducing excess liquidity projected for the first quarter of 2006, the BCB sold in three auctions LTNs maturing in April 2006 and purchased LTNs maturing in January 2006. These operations totaled R$4.4 billion.

59. In November, net securitized public debt stood at R$960 billion, a 2.4% increase compared to the previous month, with net issuance of securities reaching R$10.0 billion. The share of fixed-rate debt increased to 26.9%, from 24.5% at the end of October.