BANCO CENTRAL DO BRASIL

Minutes of the 106th Meeting of the Monetary Policy Committee (Copom)

Date: March 15th, from 4:29PM to 6:53PM, and March 16th, from 4:43PM to 7:03PM
Place: BCB's Headquarters meeting rooms - 8th floor on March 15th and 20th floor on March 16th – Brasília – DF

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

Department Heads (present on March 15th)
Altamir Lopes – Economic Department
André Minella – Research Department (also present on March 16th)
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
Renato Jansson Rosek – International Reserves Operations Department

Other participants (present on March 15th)
Alexandre Pundek Rocha – Advisor to the Board
Flavio Pinheiro de Melo – Advisor to the Board
Hélio José Ferreira – Executive Secretary
João Batista do Nascimento Magalhães – Special Advisor to the Governor
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 Evolution of Inflation

1. Consumer inflation remained high in February mainly due to isolated price increases that overshadowed the deceleration of price increases in the majority of components of the indices. Seasonal adjustments to education costs were a key driver of the Broad National Consumer Price Index (IPCA) inflation. Meanwhile, despite the cooling of industrial price inflation, agricultural prices (particularly vegetables) were a key driver of ongoing wholesale price inflation.

2. In February, the IPCA rose 0.59%, after rising 0.58% in January. The accumulated increase in the twelve months through February reached 7.39%, versus 7.41% in January. Regulated prices in the IPCA rose 0.16% (0.51% in January) and accounted for 0.05 p.p. of the monthly change in the index. Market prices rose 0.77% (0.61% in January), accounting for the remaining 0.54 p.p. of the IPCA monthly change. In addition to education, which accounted for 0.25 p.p. of the monthly change, perishable food prices rose 6.39% and accounted for 0.09

p.p. of the result. Overall food prices increased 0.49%, despite the deceleration of important products in the essential basket of consumer goods.

3. The General Price Index (IGP-DI) rose 0.40% in February, compared to 0.33% in January, and accumulated a 10.86% increase in twelve months. Among the IGP-DI components in February, the Consumer Price Index – Brazil (IPC-Br) rose 0.43%, after a 0.85% increase in January, when it reflected the bulk of the seasonal impact of education price adjustments. The National Index of Civil Construction (INCC) rose 0.44%, below the 0.75% increase observed in January, due to stable labor costs in the period. The Wholesale Price Index (IPA-DI) rose 0.39%, versus 0.08% in January, accumulating a twelve-month increase of 12.74%.

4. The acceleration of IPA-DI inflation in February was due to the 1.28% increase in agricultural prices, compared to the 0.63% fall in January. Notable increases in the prices of eggs (26.3%), vegetables and fruits (13.6%), and coffee (9.1%) outweighed the fall in the prices of chicken, soy, swine, beans and bovines. Industrial prices rose only 0.08%, compared to 0.33% in January, due to a deceleration in inflation across the majority of industrial goods prices. IPA inflation for final (particularly perishable foods) and intermediate goods accelerated from January to February, while the fall in raw material prices was more intense in February (–1.10%), compared to January (–0.64%).

5. IPCA core inflation, calculated under the trimmed means methods, decelerated in February. The smoothed core reached 0.60%, compared to 0.66% in the previous month, and totaled 7.58% in the twelve months through February. The non-smoothed core slowed to 0.43% from 0.59% in January, with an accumulated twelve-month increase of 6.50% through February.

6. IPCA core inflation calculated by the exclusion of household food and regulated prices was affected by the increase in education prices in the month, reaching 0.93%, compared to 0.56% in January, and accumulating 7.78% in twelve months. Not considering education, the core by exclusion would have increased only 0.50% in the month.

7. IPC-Br core inflation, calculated by the Getúlio Vargas Foundation (FGV) under the symmetric trimmed means method, decelerated to 0.36% in February from 0.61% in January, for a cumulative twelve-month increase of 5.72%.

8. The IPCA diffusion index fell to 64.6% in February, after three consecutive months of steady increases (73.6% in January, 68.0% in December, and 67.6% in November).

Assessment of Inflation Trends

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

a) The projection for the adjustment of both gasoline and bottled gas prices for 2005 remained unchanged at 0%;

b) Projections for adjustments of fixed telephone rates and household electricity remained unchanged for 2005, at 8.7% and 9.5%, respectively;

c) For all regulated prices, which represented a total weight of 29.6% in the February IPCA, a 6.9% increase is projected for 2005 (0.2 p.p above the prior projection);

d) The projection for regulated price adjustments in 2006, following the model of endogenous determination, which takes into account seasonal components, the exchange rate, market price inflation, and the change in the IGP-DI, stands at 5.1%;

e) The projection for the 6-month spread over the Selic rate, following the specification of a Vector Autoregressive model based on the Selic and the swap rates on the eve of the Copom meeting, increases from 19 basis points in the first quarter of 2005 to 46 basis points in the last quarter of 2006.

10. 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 February Copom meeting were maintained.

11. Assuming the maintenance of the Selic rate at 18.75% p.a. and the exchange rate at the level prevailing on the eve of the Copom meeting (R$/US$2.70), the IPCA inflation rate was projected above the 5.1% objective for 2005, but below the 4.5% central target for 2006. Using the consensus Selic rate and exchange rate projections compiled by the BCB's Investor Relations Group (Gerin) on the eve of the Copom meeting, inflation was also projected above the 2005 objective and the 2006 central target.

Monetary Policy Decision

12. IPCA inflation rose 0.59% in February, a pace similar to that registered in January. Seasonal factors, particularly the annual adjustment of tuition fees, prevented the IPCA deceleration. In effect, the rise in education prices (5.28%) contributed 0.25 p.p. to the February IPCA result. In addition, due to weather conditions, perishable food prices rose 6.39% and contributed to the rigidity of IPCA inflation. Prices of non-tradable goods rose 1.68%, in contrast to the behavior of tradable goods and regulated prices, which increased 0.06% and 0.16%, respectively. Even though inflation remained at a level similar to that of January, there was a reduction in the number of items registering price increases, reversing the recent trend.

13. IGP-DI inflation accelerated slightly in February, reaching 0.40%, after two consecutive months of deceleration. The larger increase in wholesale inflation in February relative to January (0.39% compared to 0.08%) was due to strong pressure from agricultural prices, due to adverse weather conditions, and contrary to expectations for an anticipating favorable seasonal effect. Agricultural price increases may continue in the coming months, reflecting the recent increase in agricultural commodities prices in the international market. Industrial IPA continued the deceleration observed since December, rising just 0.08% in February, and accumulating a 0.79% increase in the three-month period to February. The minimal increases in the industrial IPA in recent months partially reflect the exchange rate appreciation in the period and the effects of monetary policy, and may positively affect the evolution of consumer prices. Naturally, the intensity of the pass-through will depend on prospective demand conditions and price setters' expectations relative to the inflation trajectory.

14. The smaller number of items subject to inflationary pressures contributed to the deceleration of trimmed-means core inflation, both with and without smoothing, reversing the trend observed through December. However, core IPCA inflation calculated by excluding household food items and regulated prices accelerated in February, due to the tuition fee increases, which had an unsurprisingly higher impact on the core than on headline IPCA. Had education costs not been considered, the core by exclusion would have decelerated.

15. The Brazilian Institute of Geography and Statistics (IBGE) announced that GDP grew 5.2% in 2004, the highest in the last ten years. Household consumption grew 4.3%, the highest annual rate since 1995. Gross fixed capital investment rose 10.9%, the highest rate since 1994. In the fourth quarter of 2004, household consumption rose 1.3% while gross fixed capital investment fell 3.9%, compared to the previous quarter (seasonally adjusted data). Considering the high growth rates recorded in the previous quarters for gross fixed capital formation, especially in the third quarter (6.8%), the fall registered in the last quarter may be only a temporary adjustment and reflective of the significant volatility of investment data. GDP grew 0.4% in the fourth quarter of 2004 in seasonally adjusted terms; given the strong growth in prior quarters, this accommodation was expected and is consistent with the continuation, at a more sustainable pace, of the expansion begun in the second half of 2003. As highlighted in previous Copom Minutes, it is natural that, after an initial strong impulse at the outset of the economic recovery, the growth process tends to converge to rates more compatible with the pace of output capacity expansion.

16. The economy has continued to expand in recent months, but as could be expected, at a slower pace than that registered throughout 2004. Although industrial output fell 0.5% in January in month-on-month seasonally

adjusted terms, this deceleration was not as strong as expected by analysts, and does not indicate a downward trend for the level of industrial output. In fact, production has been stable in recent months on a quarterly moving average basis, at levels above the already high levels registered in mid-2004. In the twelve-month period ending in January, industrial output continued to register a high growth rate (8.5%), compared to the preceding twelve months. Leading and coincident indicators anticipate a new increase in industrial output in February.

17. Non- and semi-durable consumer goods production grew 3.7% in January, the third consecutive month-on-month increase, accumulating a 7.4% expansion in three months. The other categories slowed in January compared to December. As highlighted in previous Copom Minutes, this performance underscores the recent shift in the composition of economic activity, as growth has increasingly been supported by more income-sensitive sectors. On a quarterly moving average basis, semi- and non-durable consumer goods expanded at increasingly higher rates in recent months, while other categories were stable or declined slightly.

18. The recent behavior of the labor market also confirms that an income-driven economic cycle is under way. According to IBGE, the unemployment rate increased to 10.2% in January, in line with seasonal patterns of reversion in relation to the end of the year. However, the January rate stood well below the 11.7% registered in January 2004. The number of employed workers declined in January, but payrolls increased. In the manufacturing sector, the National Industry Confederation (CNI) reported an increase in employment in January, continuing the positive trend observed since end-2003. Real industrial payrolls registered modest accommodation, nevertheless remaining 10.4% above the level registered in January last year.

19. Retail sales grew notably in recent months. The 0.3% decline measured by IBGE and seasonally adjusted by the BCB in January is not significant, considering that it occurred after retail sales had grown 3.8% in December, on a month-on-month basis. The most income- and employment-sensitive items have shown the strongest growth. On a quarterly moving average basis, hyper-and supermarket sales continued the strong growth trend begun in mid-2004. In the last two months, fabrics, clothing and shoes also posted strong growth. The Consumer Confidence Index (ICC) measured by the Federação do Comércio do Estado de São Paulo (Fecomercio-SP) showed a small decline in March relative to February, but remained at historic highs. In addition, non-earmarked credit grew 2.5% in February relative to January. These indicators, together with employment and income indicators, suggest that retail sales should remain on a growth trend.

20. As repeatedly emphasized in prior Copom Minutes, and due to the significant activity expansion observed since end-2003, the performance of aggregate supply in the coming quarters remains an important concern for prospective inflation dynamics. Installed capacity utilization, measured by the CNI and seasonally adjusted by the BCB, registered some accommodation in January, falling 0.3% relative to December, but still at record levels at 82.6%.

21. With regard to external trade, a robust surplus was maintained in February, and the outlook for the year remains highly favorable. Exports and imports continued to expand at high rates in the first two months of the year, relative to the same period of 2004. In the twelve months through February, exports grew 33.9%, relative to the previous twelve months, while imports rose 33.5%, responding to the strong expansion of domestic demand. The trade balance totaled US$35.1 billion in the twelve months through February, which represents a 34.6% expansion relative to the prior twelve months. In volume terms, and comparing January with the same month of 2004, manufactured exports continued to lead growth, while capital goods were the most notable category on the import side. The trade balance supported a current account surplus of US$11.7 billion, equivalent to 1.9% of GDP, in the twelve-month period through February.

22. International capital market conditions have deteriorated since the last Copom meeting. In the United States, heightened inflation concerns by the Federal Reserve (FED) and the comments of FED authorities regarding the adequacy of the price adjustment of long-term bonds provoked a rise in the long end of the yield curve, with repercussions for emerging market countries. Brazilian country risk increased and, following the adjustment in several other emerging market currencies, the *real* depreciated. As stressed in prior Copom Minutes, abundant international liquidity and market stability remain tied to macroeconomic conditions in the industrialized countries, especially the U.S., and to the FED´s potential monetary policy response to economic developments.

Despite the volatility of recent weeks, the Copom continues to attribute a low probability to a significant deterioration in international financial markets driven by abrupt changes in the conduct of U.S. monetary policy.

23. International oil prices have risen, almost continuously, since the second week of February, and recently reached new highs, above those of last October. Oil prices have been driven by news related to demand conditions and the available oil stock in the main consumer countries – particularly in light of weather conditions in the northern hemisphere – as well as possible supply restrictions among producing countries. With the increase in oil prices, international gasoline prices have returned to levels above those in the domestic market. The persistence of prices at these levels remains surrounded by a considerable degree of uncertainty, such that the Copom maintained the assumption in its benchmark scenario that domestic fuel prices will not be upwardly adjusted in 2005. However, the more unfavorable external environment now represents a bigger risk to the future inflation trajectory than it did at the February Copom meeting. Even if this recent uptick in international prices has not translated into an increase in domestic gasoline prices, it affects the prices of petroleum derivatives and market inflation expectations.

24. Since the previous Copom meeting, the median of market expectations for 2005 IPCA inflation increased slightly to 5.77% from 5.72%. As mentioned in prior Copom Minutes, inflation expectations for 2005 remain high, despite favorable developments that could dampen inflationary pressures, such as signs of a deceleration in economic growth, the reevaluation of market expectations for the exchange rate trajectory, the decline in wholesale industrial prices, and the more restrictive monetary stance of recent months. The marginal increase in inflation expectations for the year is, however, related mainly to the higher than expected adjustment of some regulated prices, as was the case for urban bus fares, and to the less favorable international environment. Nonetheless, inflation expectations for the next twelve months and for 2006 remain stable, suggesting that the more restrictive monetary stance has prevented short-term inflationary pressures from contaminating longer-term inflation expectations.

25. Under the benchmark scenario – which assumes the maintenance of the Selic rate at 18.75% p.a. and the exchange rate at R$/US$ 2.70 during the forecast period – projected inflation rose in comparison to the February meeting, standing above the 5.1% objective for the year. The deterioration was due to a range of factors, such as higher than expected February inflation, the updating of the output gap with fourth quarter data, the exchange rate depreciation between the February and March meetings, and the revision of estimates for regulated price changes in 2005. The forecasts based on the market scenario – which incorporates the consensus exchange rate and Selic rate trajectories on the eve of the Copom meeting – exceeded the benchmark scenario forecast, but fell relative to the previous month, due to lower projections for exchange rate depreciation and expectations of a steeper yield curve. For 2006, the forecasts showed an improvement at the margin, with the benchmark scenario forecast below the target established by the National Monetary Council (CMN) for the year, and the market scenario forecast above the target. The improvement in projections for 2006 reflects the consolidation of the monetary tightening process begun in September, and also the fact that the factors affecting 2005 inflation forecasts are concentrated in the first quarter.

26. The Copom also analyzed inflation forecasts for the 12-month periods ending in March, June and September of 2006. The results for these periods will be more responsive to current monetary policy decisions than those of calendar year 2005, and the available inflation projections are more reliable than those for calendar year 2006. The benchmark scenario forecast for the twelve-month period ending in March 2006 is slightly above the value interpolated from the 5.1% inflation objective for 2005 and the 4.5% target established by the CMN for 2006. The benchmark scenario forecasts for the twelve-month periods ending in June 2006 and September 2006 are below the values of the inflation target trajectory for these periods.

27. As in the February meeting, the Copom considered that the more favorable inflation results in the beginning of the year, and the BCB and market projections for longer periods, reflect the effects of the tighter monetary policy stance initiated last September. Economic activity continues to expand, but at a slower pace and more in line with supply conditions, so as not to result in significant inflationary pressures.

28. On the other hand, specific pressures on current inflation and the recent deterioration of the external environment (with increasing oil prices and higher uncertainty regarding U.S. monetary policy) increased the risks to inflation convergence to the target path, in comparison to the Copom's evaluation in the February meeting.

29. Under the inflation-targeting regime, the monetary authority's decision-making process is oriented around the projected inflation path, analyzing alternative scenarios for the main variables that affect prices dynamics. Heightened risks for short-term inflation tend to increase the uncertainty surrounding the future path of inflation, so that both the monetary authority's assessment of scenarios and the coordination of private sector expectations become more difficult. In such an environment, heightened uncertainty caused by risk factors that may reverse in the short term could have a more lasting affect on inflation expectations. Therefore, the monetary authority must remain vigilant so that short-term pressures do not contaminate longer time horizons.

30. Considering the reasons stated above, the Copom unanimously decided to increase the Selic rate target to 19.25%, with no bias, and to carefully monitor the evolution of the inflation outlook until its next meeting, to then define the next steps in the monetary policy strategy implemented since September. As highlighted in the last Copom Minutes, the monetary authority should be ready to adjust the pace and magnitude of the interest rate adjustment process to the circumstances, if there is a deterioration in the risk factors monitored by the Committee.

31. At the conclusion of the meeting, it was announced that the Copom will reconvene on April 19 for technical presentations, and on the following day to discuss the monetary policy decision, as established in Communiqué 12,631 of October 29, 2004.

SUMMARY OF DATA ANALYZED BY THE COPOM

Economic Activity

32. According to the IBGE nationwide survey, retail sales (seasonally adjusted by the BCB) fell 0.3% in January, relative to December. All sectors' sales included in the index fell. The most notable decline, however, was in autos, motorcycle and spare parts sales, which is not included in the general index (-2.6%). On a year-on-year basis in January, sales expanded 9.3%.

33. After steady increases in prior months, São Paulo Trade Association (ACSP) data showed a 1.0% decline in the number of database consultations for credit sales and a 1.2% reduction in consultations of the Usecheque system, both on a month-on-month seasonally adjusted basis. In the year through February, these indicators increased 6.7% and 5.0%, respectively, in comparison to the same period of 2004.

34. The March Fecomercio-SP survey showed a 0.6% month-on-month decline in the Consumer Confidence Index, which had reached a record level in February. The decrease in the month was attributable to a 1.4% decline in the Consumer Expectations Index (IEC), which more than offset the 0.8% increase in the Current Economic Conditions Index (ICEA). The ICEA reached a record level of 126.6 in February (on a scale of 0 to 200).

35. Capital goods imports increased 2.6% month-on-month in January, in seasonally adjusted terms, accelerating the expansion begun last year. On the other hand, domestic capital goods production declined 1.5% month-on-month in January, after a 19.7% growth in 2004. The production of construction inputs fell 0.2% in January, in seasonally adjusted month-on-month terms, but grew 2.6% compared to the same month of 2004.

36. According to IBGE, industrial production declined 0.5% in January (month-on-month seasonally adjusted) as a result of a 1.1% increase in mining and a 0.3% fall in manufacturing. The three-month moving average series registered a 0.1% increase in industrial output in January, reaching a record high.

37. Analysis of industrial production by activity reveals that the January production fall reflected declines in 13 of the 23 activities, and 3 of the 4 use categories. The production of semi- and non-durable consumer goods, the only category recording month-on-month growth (of 3.7%), recorded a 7.4% cumulative increase in the three-month period to January, confirming the rebound in domestic demand.

38. CNI manufacturing data showed stability in real industrial sales and a decline of 1.4% in hours worked in January, on a month-on-month seasonally adjusted basis. Compared to the same month of 2004, real industrial sales and hours worked increased 3.1% and 8.2%, respectively. Installed capacity utilization reached 82.6% in January, with a 0.3% decline in the month-on-month seasonally adjusted series, and an increase of 1.9% compared to the same month of 2004.

39. Leading indicators for the industrial sector anticipate some recovery in February, compared to January. Particularly notable are the positive growth rates in automotive production, the number of road tolls paid by trucks, and shipments of corrugated cardboard.

Labor Market

40. In January, formal employment rose 0.6% (seasonally adjusted, month-on-month) according to the Ministry of Labor and Employment. Compared to the same month of 2004, there was a 6.6% expansion in formal employment, with the creation of 1,539 thousand jobs, led by manufacturing.

41. According to the IBGE survey in the six main metropolitan regions of the country, the unemployment rate reached 10.2% in January, versus 9.6% in December and 11.7% in January last year. The increase in unemployment was seasonal, with a 5.0% monthly increase in the number of unemployed individuals and a 1.4%

decline in the number of employed individuals. The labor force, estimated at 21.7 million individuals, fell 0.7% in the month.

42. In the industrial sector, according to the CNI indices seasonally adjusted by the BCB, employment rose 0.3% and real payrolls fell 0.1% in January, on a month-on-month basis. Compared to the same month of 2004, real payroll and employed workers grew 10.4% and 7.1%, respectively.

Credit and Delinquency Rates

43. Non-earmarked credit grew 2.5% in February. Credit operations with individuals increased 3.2%, driven mainly by the expansion in personal credit, as a result of the increase in payroll-deducted loans. Corporate credit with domestic funding expanded by 1.9%, mainly driven by working capital loans. Corporate credit with external funding increased 2.3%, with increases in export-linked loans.

44. The average interest rate on non-earmarked credit increased from 46.8% p.a. in January to 47.5% p.a. in February. The average corporate rate stood at 32.4% p.a., a 0.2 p.p. increase in the period. The average rate for credit to individuals increased 0.6 p.p. to 64.0% p.a.

45. The default rate on non-earmarked credit (considering payments delinquent for 15 days or more) was unchanged at 7.3% in February. The corporate default rate fell to 3.5% from 3.6%, while the individual default rate was 12.4%, unchanged from January.

46. The retail sales default rate measured by the ACSP increased to 7.0% in February, from 4.7% in January, roughly the same level of February last year. The number of new negative registers rose 4.6%, while the number of cancelled registrations fell 7.9%. In the year to February, the average default rate stood at 5.9%, versus 6.0% in the first two months of 2004.

External Environment

47. In the U.S., GDP grew 4.4% in 2004. Recent data show the favorable economic momentum, with ongoing activity expansion and a recovery in employment. However, greater concern is being paid to some indicators, such as productivity trends, unit labor costs, and the pass-through of higher producer price inflation to consumer price inflation, given the implications for medium- and long-term price stability. The Treasury market has become more volatile, following the moves in the foreign exchange markets, and mirroring the uncertainties regarding the sustainability of the fiscal and external deficits.

48. In the Euro Area, economic indicators for the fourth quarter of 2004 showed deceleration. In Japan, revised fourth quarter GDP data showed a 0.1% growth, compared to the previous quarter, for a 2.7% expansion in the year.

49. In the main economies, there are still no signs of inflationary surges in the near term, which has eased concerns about changes in the monetary policy stances. Annualized consumer price inflation decelerated in January in the U.S., UK and Japan, reaching 3.0%, 1.4%, and –0.1%, respectively. However, annualized consumer price inflation rose in the Euro Area and in China, reaching 2.1% and 3.9%, respectively, in February.

50. Agricultural commodity prices reversed their downward trajectory in February, due to worse than expected harvests. Oil and metal prices have risen consistently since mid-February, with futures prices at even higher levels.

Foreign Trade and Balance of Payments

51. In February, the Brazilian trade balance posted record highs – on monthly, year-through-February accumulated, and twelve-month accumulated bases. In the month, the trade balance posted a US$2.8 billion surplus. Exports and imports rose 35.6% and 32.5%, respectively, compared to February 2004 daily averages, to reach US$7.8 billion and US$5.0 billion. In the first two weeks of March (nine working days), the trade surplus

reached US$1.4 billion, with exports and imports growing by 21.6% and 11.6%, respectively, compared to March 2004 daily averages.

52. The increase in key export products has been accompanied by an increase in growth of typically low-participation items, underscoring the export diversification currently under way. In addition, it is important to highlight the broadening of export destinations, even to markets with low participation in Brazilian exports. Export revenues have also beneficed from the rise in prices of important export products.

53. Import growth in February and in the first two months of 2005 was disseminated. In the first two months of the year, imports of non-durable consumer goods (37.6%), capital goods (27.9%), and intermediate goods grew 37.6%, 27.9% and 24.6%, respectively, compared to the same period of 2004. Fuel and lubricant imports increased 49.4% in the same period.

54. Both international reserves and adjusted net reserves (IMF concept) increased US$6.1 billion in February, compared to the end of 2004, to levels of US$59.0 billion and US$31.4 billion, respectively.

Money Market and Open Market Operations

55. After the release of the February Copom Minutes, the long end of the yield curve shifted downward. Between February 16 and March 16, the 1-month interest rate increased by 0.16 p.p., while the 6-month, 1-year, 2-year and 3-year rates fell by 0.12 p.p., 0.19 p.p., 0.04 p.p. and 0.05 p.p., respectively. In the same period, the real interest rate measured by the ratio between the one-year nominal interest rate and the 12-month-ahead inflation expectation increased to 12.42% from 12.32%.

56. With the objective of reducing the public sector's foreign exchange exposure, the BCB continued conducting FX swap auctions, in which the BCB assumes a long FX position and short interest rate position. The auctions conducted since the beginning of February totaled US$7.3 billion. As a result, the net redemption of FX instruments totaled US$14.5 billion in the year.

57. The National Treasury raised a total of R$15.9 billion via four auctions of LTNs, with maturities in April 2006 and January 2007. The Treasury raised additional R$620 million via four NTN-F auctions, with maturities in January 2008 and January 2010. The Treasury also conducted eight auctions of LFTs maturing in 2006, 2007 and 2008, four of which were sales and four of which were exchanges. The four sales of LFTs totaled R$12.4 billion, and the four exchanges totaled R$8.1 billion.

58. In its open market operations – aimed at reducing excess liquidity projected for the second quarter – the BCB conducted four auctions, selling, from its portfolio, LTNs maturing in July 2005, and buying LTNs maturing in April 2005. These operations totaled R$3.8 billion. The BCB also conducted four additional sales from its portfolio of LTNs maturing in July 2005, for a total amount of R$7.5 billion.

59. The BCB also intervened in the open market on a weekly basis with 3-month fixed-rate repo operations and 1-month floating-rate repo operations, and conducted daily liquidity management operations. The BCB also conducted eighteen fixed-rate overnight repo operations, nine of which were overnight borrowings and nine of which were overnight lendings. The excess liquidity sterilized from the banking reserves market via operations with tenors less than 30 days averaged R$14.3 billion, and the amount sterilized via operations with three-month tenors averaged R$37.4 billion.

60. In February, net securitized domestic public debt grew 2.3%, due to the accrual of interest and the net placement of R$9.5 billion in securities. The dollar-linked share in net securitized domestic debt fell to 6.0% in February from 8.0% in January, mainly due to the net redemption of FX instruments.