BANCO CENTRAL DO BRASIL

Minutes of the 116th Meeting of the Monetary Policy Committee (Copom)

Date: January 17th, from 4:55PM to 7:15PM, and January 18th, from 4:30PM to 9:30PM
Place: BCB Headquarters meeting rooms - 8th floor on January 17th and 20th floor on January 18th – 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
Paulo Sérgio Cavalheiro
Rodrigo Telles da Rocha Azevedo
Sérgio Darcy da Silva Alves

Department Heads (present on January 17th)
Altamir Lopes – Economic Department
Daso Maranhão Coimbra – International Reserves Operations Department
Ivan Luís Gonçalves de Oliveira Lima – Open Market Operations Department
José Antônio Marciano – Department of Banking Operations and Payments System
José Pedro Ramos Fachada Martins da Silva – Investor Relations Group

Other participants (present on January 17th)
Alexandre Pinheiro de Moraes Rego – Special Advisor to the Governor
Alexandre Pundek Rocha – Advisor to the Board
André Minella – Advisor to the Research Department
Carlos Hamilton Vasconcelos Araújo – Deputy Head of the Research Department (also present on January 18th)
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. As anticipated in the last Copom Minutes, IPCA inflation subdued in December, to 0.36% from 0.55% in November, accumulating 5.69% in 2005, the third consecutive annual reduction (and the lowest annual change since the inception of the inflation targeting regime). For the second year in a row, the inflation target established by the National Monetary Council (CMN) was accomplished. The lower inflation in December was due to decelerating prices for both regulated prices (especially gasoline) and food prices (particularly perishable food). The IPCA diffusion index fell in December relative to the previous month, to 59% from 62.3%. Some acceleration is expected for the January IPCA, since there might be some price increases in urban transportation in Belo Horizonte, Brasilia, and Fortaleza, in addition to the effect of the fuel alcohol inter-harvest period. Partial data referring to January suggest that the IPCA increase shall be higher than the expected when the December Copom meeting was held.

2. In line with headline inflation, two core inflation measures also decelerated in December: smoothed trimmed means and non-smoothed trimmed means cores rose 0.43% and 0.33%, respectively, compared to 0.51% and 0.49% in November. On the other hand, core inflation by exclusion of household food items and regulated

prices rose from 0.27% to 0.30%. Despite the December deceleration, trimmed means cores rose in the quarter, relative to the previous quarter (to 0.51% from 0.44% per month for the smoothed core and to 0.44% from 0.31% for the non-smoothed one), while the core by exclusion was practically flat. Despite lower, respectively at 5.30% and 5.55%, non-smoothed trimmed means and exclusion cores ended 2005 close to the headline inflation index. However, smoothed trimmed means core rose 6.77% in the year, maintaining, however, the downward trend that characterized overall inflation in 2005.

3. The General Price Index (IGP-DI) rose 0.07% in December, the lowest change in three months. This decline was mainly due to the deceleration of the wholesale price component (IPA-DI), which fell 0.14%, compared to a 0.24% rise in November. For 2005, the IGP-DI and IPA-DI increased 1.22% and –0.97%, respectively. The deceleration of wholesale price inflation in December was mainly due to industrial prices, since agricultural prices remained stable relative to November. Twelve-month trailing agricultural IPA stood at -6.32% through December, while industrial IPA increased 0.88% in the period, the lowest change since end-1998. 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 recent Copom Minutes, the continuity and strength of this pass-through will depend on demand conditions and price-setters' expectations for the future inflation path.

4. According to seasonally adjusted data published by the Brazilian Institute of Geography and Statistics (IBGE), industrial output rose 0.6% in November, relative to October, below the rate suggested by leading and coincident indicators. It is worth mentioning that two thirds of the sectors surveyed by the IBGE presented favorable performances, signaling more diffusion in the industrial activity pickup. In the year through November, industrial output increased 3.1%, compared to the same period of 2004, and 3.5% in cumulative twelve months through November. Since June, seasonally adjusted industrial results have alternated positive and negative performances but, in general, industrial production remained at elevated historical levels. The three-month moving average declined in November for the third consecutive month, still reflecting the September decrease. Leading and coincident indicators anticipate a positive performance for December, both in month-on-month and three-month moving average terms.

5. Regarding disaggregated industrial output data for November, the main use categories presented unique behaviors, reversing trends registered in October. Capital goods production rose 2.2% after falling 4.2% in the previous month, while durable goods production fell 1.3% compared to a 2.6% increase in October. As for intermediate, semi-, and non-durable consumer goods, output increased slightly. Three-month moving averages were stable for capital and intermediate goods, and fell for durable, semi- and non-durable consumer goods. Despite the weaker recent performance, durable goods production expanded 11.2% through the year and 11.6% in a twelve-month trailing basis, well above the industrial sector average. Semi- and non-durable consumer goods production increased 4.6% through the year and 4.8% in a twelve-month trailing basis, reflecting the effects of real income growth in the period.

6. 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 November. In comparison to November 2004, the unemployment rate declined 1 p.p., while the number of employed individuals rose 2%. Average real earnings rose 0.4% relative to October, up 2.1% if compared to November 2004, partially reflecting the positive effects of lower inflation on real wages. According to the National Industry Confederation (CNI), manufacturing employment rose 4.5% in the year through November and 4.7% over twelve months. On the same basis, real manufacturing payrolls increased 8.2% and 8.4%, respectively. These indicators confirm the recent trend associating more jobs with higher wages. Formal employment measured by the Ministry of Labor and Employment maintained its upward trajectory in 2005, accumulating 1.254 million new posts. Considering this result, in 2004-2005 more formal jobs were created than in the previous four years.

7. IBGE seasonally adjusted data for November showed a 0.3% increase in retail sales relative to October and a 4.9% increase relative to November 2004. Sales that are more sensitive to income and employment posted positive growth, counterbalancing the negative performance of more credit-sensitive sales (contrary to what happened in the beginning of the recovery cycle, when credit-sensitive sales led the process). Three-month moving average sales remained stable, close to the record high. Preliminary data for December suggest further rises. 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. From the second quarter on, the expansionist effect of a higher minimum wage must also be considered. .

8. Installed capacity utilization in the manufacturing industry increased in November, as measured by the CNI and seasonally adjusted by the BCB, after two declining months. The November upsurge took 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. In this regard, capital goods absorption rose 4.6% in the year through November, mainly driven by the increase in capital goods imports, which rose 27.9% in volume in the same period. 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.

9. Recent data confirm that external trade performance in 2005 was notably better than in 2004. Twelve-month cumulative exports reached US$118.3 billion, driven primarily by the growth in manufactured exports (up US$12.2 billion or 56% of the total exports growth). The twelve-month cumulative trade balance reached US$44.8 billion, with imports totaling US$73.5 billion. Year-over-year, exports rose 22.6%, while imports increased 17.1%. Through 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 brought the current account surplus to US$14.2 billion in 2005, or 1.8% of GDP. Although 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. Expectations for international trade in 2006 remain positive.

10. International financial markets improved relative to the scenario considered in the December Copom meeting, with indications that the U.S. monetary tightening cycle would be completed soon. Brazil risk premium registered new record lows since November, reflecting consistent improved fundamentals, noticeably strong trade surpluses, together with adequate consolidated public sector primary surpluses, continued disinflation, accumulation of international reserves and a better pubic debt profile, contributing to safeguard the domestic economy from adverse external shocks. In line with these results, Brazil risk for the first time reached levels below 300b.p. at the beginning of January. 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.

11. International oil prices, after reaching record highs in August, fell sharply until November, reversing course since December. On the eve of the January Copom meeting, oil prices remained volatile and registered the highest levels since beginning of September. Given the increase in domestic fuel prices implemented in mid-September, the Copom maintains a scenario in which there is no change to domestic prices in 2006. Nevertheless, international oil prices remain a risk factor to future inflation, potentially affecting the prices of oil-intensive products, as well as price-setters' inflation expectations.

Assessment of Inflation Trends

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

a) Gasoline and bottled gas prices will not suffer any adjustment in 2006, as considered at the December 2005 issue of the Inflation Report,

b) Regarding fixed line telephone rate adjustments, the 2.5% projection for 2006, presented at the Inflation Report, was maintained. The projection for household electricity adjustments was also maintained in 4.2%, similar to the last Inflation Report;

c) For all regulated prices, and considering their composition change discussed in the December Inflation Report, the Copom maintained the 4.6% adjustment projection for 2006. These items, according to the weights released by the IBGE in December, represent 33.33% of the total IPCA;

d) The projection for regulated prices inflation in 2007, based on the endogenous determination model, remained at 6.2%, as presented in the last Inflation Report. This model considers the effects of seasonal components, of the exchange rate, of market prices inflation and of the IGP;

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 –113 basis points in the first quarter of 2006 to 48 basis points in the last quarter of 2007.

13. Regarding fiscal policy, it is assumed that the consolidated public sector primary surplus target of 4.25% of GDP in 2006 and 2007 will be achieved. The related assumptions considered in the previous meeting were maintained.

14. Since the December Copom meeting, median IPCA inflation expectations for 2006, compiled by the BCB's Investor Relations Group, rose from 4.50% to 4.59%. Despite the little recent increase, market consensus seems to be in line with the 4.5% inflation target established by the CMN for the year. As mentioned again and again in prior Copom minutes, this fact 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.

15. Though below the 4.5% inflation target for the year, the 2006 inflation forecast under the benchmark scenario – which assumes the maintenance of the Selic rate at 18.0% p.a. and the exchange rate at R$/US$ 2.25 during the forecast period - increased relative to the December Copom meeting, reflecting the Selic rate reduction. The forecast based on the market scenario – which incorporates the consensus exchange rate and Selic rate trajectories on the eve of the meeting – also increased, continuing above the target. For 2007, the benchmark forecast remained below the 4.5% inflation target, but also increased compared to December. On the other hand, the forecast under the market scenario remained above the inflation target, but decreased compared to December due to the lower exchange rate depreciation expected by market participants for the year.

Monetary Policy Decision

16. The Copom reaffirms the view that current and expected inflation demonstrate that the monetary stance adopted since September 2004 has contained short-term inflationary pressures and consolidated a more favorable long-term macroeconomic environment. Economic activity data suggest the progressive consolidation of an upward trend 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 the external financing conditions to Brazil. Therefore, a benign inflation environment continues to evolve. As in the December meeting, the Committee emphasizes that the main challenge for monetary policy is to ensure the consolidation of these favorable developments.

17. The inflation upsurge in the beginning of 2006, captured by different price indices, has been occurring with a higher intensity than originally anticipated. The recent increase is partially due to specific seasonal factors, which may impact the inflation in the first two months of the year, easing over time without, necessarily, contaminating longer time horizons. Therefore, the Copom 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.

18. 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 cautionary 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 consistent with the recent benign inflation outlook. In this way, the gradual monetary easing will not compromise the important achievements made in reducing inflation and preserving economic growth with job creation and rising real incomes.

19. Considering the current scenario, the Copom unanimously decided to continue the monetary easing process and reduce the Selic rate target to 17.25% p.a., without bias. Considering the uncertainties regarding the monetary transmission mechanisms and the risks associated to the scenarios established in different occasions, the Committee considers that it will be necessary to closely follow the evolution of the inflation outlook until the next meeting, at which time it will define the next steps in its monetary policy strategy.

20. At the conclusion of the meeting, it was announced that the Copom would reconvene on March 7, 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

21. The IPCA decelerated to 0.36% in December, from 0.55% in November, accumulating 5.69% in the year (7.60% in 2004). The lower pressure of transportation and food prices were the main drivers of the December deceleration. Market prices reached 0.29%, compared to 0.42% in November, while regulated prices inflation decreased to 0.53% from 0.85% in the same months. Food was the main driver of the IPCA deceleration in 2005, especially the products included in the basic food basket, such as rice, whose price fell 21.4% in the year. Other tradable agricultural products, such as wheat flour and soy oil, also presented price reductions due to the BRL appreciation.

22. The IGP-DI rose 0.07% in December, compared to 0.33% in the previous month. Still under the effect of five negative monthly results, the index posted a 1.22% change in 2005. The IPC-Br component rose 0.46% in the month, compared to 0.57% in November, favored by the deceleration in food prices. The National Index of Civil Construction (INCC) increased 0.37%, compared to 0.28% in November. The IPA-DI, the sub-index with the largest weight in the IGP-DI, declined 0.14% in December, after an increase of 0.24% in the previous month, for a -0.97% change in 2005.

23. The fall in the IPA-DI in December reflected mainly industrial prices, as the increase in agricultural prices was virtually unchanged. Industrial prices decreased 0.37%, after a 0.13% increase in November, mainly driven by the fall in chemical prices. The IPA-DI by production stage registered a reversal in raw materials prices, to –0.30% in December from 0.29% in November, a sharper drop in intermediate goods prices, to –0.91% from –0.21% in the same months, and an increase in final goods prices, to 1.1% from 0.88%, mainly driven by perishable food prices.

24. Trimmed means cores decelerated in December, in line with headline inflation. Smoothed trimmed means core decelerated to 0.43%, compared to 0.51% in November, for a twelve-month trailing increase of 6.77%. Non-smoothed trimmed means core inflation decreased to 0.33% from 0.49% in November, bringing 2005 inflation to 5.30%. Core inflation calculated by the exclusion of household food and regulated prices reached 0.30%, compared to 0.27% in the prior month, for a 5.55% change in 2005.

25. The IPC-Br core inflation, calculated by the FGV under the symmetric trimmed means method, reached 0.36% in December, compared to 0.31% in November, for an increase of 5.07% in 2005.

26. The IPCA diffusion index (measuring the number of items in the IPCA registering price increases) was 59.0% in December, down from 62.3% in November.

27. Inflation is expected to accelerate in January, mainly due to seasonal factors. Wholesale agricultural prices will also be affected by increasing weights for internationally traded prices, in an unfavorable seasonal period. After falling in December, fuel prices will likely increase in January, mainly driven by fuel alcohol prices. Partial data released for January consumer inflation have confirmed higher-than-expected pressures in the beginning of the year.

Economic Activity

28. According to the IBGE's survey, seasonally adjusted retail sales increased 0.3% month-on-month, 4.8% in the year and 5.5% on a cumulative twelve-month basis.

29. Automotive sales increased 3.5% in December, on a month-on-month seasonally adjusted basis. Domestic sales and exports rose 15.1% and 6.8%, respectively, in the same period. In 2005, the production of vehicles reached 2,448 thousand units, while domestic sales and exports totaled 1,651 thousand and 818 thousand, respectively, all historical highs. On the other hand, the production of agriculture equipment declined 23.8% in the year, mainly due to the 59.5% fall in the production of harvest machines.

30. Domestic production of capital goods and construction inputs increased 2.2% and 1.4% in November, respectively, on a month-on-month seasonally adjusted basis. According to the Fundação Centro de Estudos do Comércio Exterior (Funcex), capital goods imports declined 14.1% in November, versus October, seasonally adjusted. In the year through November, these indicators increased 3.2%, 0.8% and 27.9%, respectively. Medium- and long- term loans disbursed by the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) reached R$39.7 billion in the year through November, up 12.6% compared to the same period of 2004.

31. According to the IBGE's survey, industrial production increased a month-on-month seasonally adjusted 0.6% in November. This result was due to the 1.2% expansion in manufacturing output, while mining production was stable compared to the previous month. In the year through November, industrial production rose 3.1%, due to the 2.7% increase in manufacturing and the 10.3% increase in mining.

32. Seasonally adjusted data for industry showed that 15 of the 23 surveyed sectors increased production in November. Capital goods production expanded 2.2%, after contracting 4.2% in the previous month. On the other hand, durable consumer goods production, which had increased 2.6% in October, declined 1.3% in November. Semi- and non-durable consumer goods production grew 0.5% in November, for a cumulative 1.1% expansion in October-November, not enough to offset the 3.7% drop registered in September. Intermediate goods production, with the largest weight in the industrial production index, grew 0.2%, for a 1.0% cumulative growth in the year through November.

33. According to CNI, real industrial sales rose 2.7% in November, on month-on-month seasonally adjusted terms, while worked hours contracted 0.6%. In the year through November, these indicators increased 2.1% and 4.8%, respectively. Installed capacity utilization stood at 80.8% in the month, seasonally adjusted, up 0.2 p.p. from October. In non-seasonally adjusted terms, installed capacity utilization stood at 81.4%, 2.4 p.p. below the level recorded in November 2004.

34. Leading indicators point to an increase in industrial activity in December. Vehicle production and corrugated cardboard shipments grew more than 3%, in seasonally adjusted terms. Energy consumption and the highway tolls index also posted positive performances.

Surveys and Expectations

35. The Fecomercio-SP survey registered a 0.5% increase in consumer confidence in January, compared to December, accumulating a 1.5% rise in a twelve-month basis. The monthly result was favored by the 1.1% increase in consumer expectations, counterbalancing a 0.5% fall in current economic conditions.

36. According to FGV´s survey, consumer confidence reached 103.6 in December, up 0.6% from November. Current situation perception improved 3.6%, while expectations contracted by 1.0%.

37. According to preliminary data of the next FGV quarterly industrial survey, the manufacturing sector remains cautious at the start of 2006. Global demand for industrial goods is considered “strong” or “weak” by 9% and 20% of business enterprises, respectively, in comparison to 13% and 21% in the October survey. Inventory adjustments begun in the second half of 2005 have continued. Out of the companies surveyed, 12% of them consider the

inventory levels excessive, compared to 13% in the previous survey. Also in comparison to the October survey, expectations for the coming months show greater optimism regarding the overall business outlook, but employment levels are expected to decline.

Labor Market

38. According to the Ministry of Labor and Employment, 286.7 thousand jobs were lost in the formal market in December, as expected by seasonal standards (in December 2004, the loss reached 352.1 thousand jobs). In seasonally adjusted terms, formal employment increased 0.41%, month-on-month. The net creation of 1.3 million jobs in the formal market in 2005 corresponds to an increase of 5.65% in the employment level, compared to 2004.

39. According to the IBGE survey in the six main metropolitan regions of the country, the unemployment rate remained at 9.6% in November for the third consecutive month. This result reflects a 0.2% and 0.3% increases in the labor force and in the number of employed workers, respectively, while the number of unemployed workers remained virtually unchanged. The unemployment rate declined 1 p.p. compared to November last year. With the net creation of 51 thousand jobs, the number of employed workers reached 20.1 million in November, while the labor force was estimated at 22.3 million people. Still according to the survey, real average earnings rose 0.4% in November, month-on-month, up 2.1% from November 2004.

40. According to the BCB's seasonal adjustment of the CNI series, real industrial payrolls remained stable in November, when industrial employment fell 0.4%. In the year through November, these indicators rose 8.2% and 4.5%, respectively.

Credit and Delinquency Rates

41. Non-earmarked credit grew 0.8% in December, month-on-month. Credit operations with individuals fell 0.3%, while corporate credit with domestic and foreign fundings rose 1.6% and 2.1%, respectively. In the year, these operations increased 25.6%, 37.0%, 22.9% and 4.1%, respectively. It is worth mentioning the 46.4% annual expansion in personal credit, mainly due to the increase in payroll-deducted credit, benefiting mainly retired people.

42. The average interest rate on non-earmarked credit operations decreased in December, reflecting the fall in the Selic interest rate and the more intense competition among institutions (possibly due to weaker demand in the period). The average rate on credit operations with individuals declined 1.1 p.p., to 59.3%, while the average rate on corporate credit fell 0.7 p.p., to 31.7%.

43. Delinquency rate for non-earmarked credit (loans in arrears for more than 90 days) remained stable in December compared to November, at 4.2%. Delinquencies in corporate credit operations also remained stable, at 2%, while delinquency for credit operations with individuals rose to 6.8% in December, from 6.7% in November.

44. Net delinquency rate for retail credit, measured by the BCB based on data of the São Paulo Trade Association (ACSP), stood at –1.8% in December, due to the cancellation of 370 thousand registers and the inclusion of 342 thousand new registers.

External Environment

45. Geopolitical factors affected oil prices at the start of the year. The instability in Nigeria and the recent Iranian decision regarding its nuclear program were the main drivers of price volatility, since the two countries account for 8% of the daily global oil production. Other factors also favored price volatility, as the severe winter in the Northern Hemisphere, and the market reactions to reports on inventories levels, mainly in the U.S.

46. Despite energy price surge in 2005, consumer inflation remained virtually unaffected in the developed economies, proving the adequacy of their respective monetary policies.

47. In the U.S., new economic data will influence the Fed's decisions in the coming months, despite mounting expectations of an end to the monetary tightening cycle. Activity in Europe remains weak, with improved prospects for 2006, despite the December increase in the main refinancing rate by the European Central Bank. In Japan, industrial production and exports growth confirm a more consistent economic recovery.

48. In the financial markets, abundant global liquidity and low risk-aversion translated into record private capital inflows to emerging markets in 2005, with some likely reduction in 2006, according to preliminary estimates. In January this year, stock markets presented some volatility due to the release of big companies' financial results and, in Japan, fraud investigations on an internet services provider and gridlocks in the Tokyo stock exchange trading system.

Foreign trade and international reserves

49. December external trade results confirmed the ongoing expansion, with record highs for both exports and imports. The US$4.3 billion trade surplus is the second highest monthly figure ever registered. Total external trade reached US$17.5 billion, also a record high for December. For the year, exports and imports posted historical records of US$118.3 billion and US$73.5 billion, respectively, for a trade surplus of US$44.8 billion and a total external trade of US$191.8 billion. In the first ten working days of January, the trade balance reached US$1.3 billion, with exports and imports totaling US$4.2 billion and US$2.9 billion, respectively, up 18.3% and 16.2% over the average daily levels of January last year.

50. Exports totaled US$10.9 billion in December, averaging US$495 million per working day, a 23.9% increase over December 2004. Manufactured, semi-manufactured and primary products reached daily averages of US$283.5 million, US$68.3 million e US$133.8 million, respectively, growing 14.3%, 26.1% and 49.9%, over the average daily levels of December 2004. In the year, Brazilian exports grew 23.1%, outpacing the 14.0% global exports growth, as estimated by the IMF. Global economy growth fuelled external demand for Brazilian products and contributed to the increase in commodity prices. Higher prices affected mainly exports of primary and semi-manufactured products, while higher volumes prevailed for manufactured exports. The exports expansion was led by oil products and transportation material, contributing US$3.3 billion and US$3.1 billion to the annual exports growth. The diversification of products and destinations was remarkable.

51. Imports totaled US$6.6 billion in December, a 20.4% increase in daily average terms compared to the same month of 2004. All import categories grew, with highlights for the 35.4% increase in consumer goods imports. In the year, there were increases of 27.4% in capital goods imports, 24.2% in consumer goods, 16.2% for fuel and 13.1% for raw material and intermediate goods, all measured in daily averages.

52. At the end of December, international reserves totaled US$53.8 billion, a reduction of US$10.5 billion compared to November due to the early repayment of the IMF loan.

Money Market and Open Market Operations

53. In the period following the December Copom meeting, the yield curve shifted downwards, particularly after the release of the November industrial production survey, and of the December IPCA (in line with market consensus). Between December 14 and January 18, one-, three-, and six-month interest rates fell by 0.43 p.p. and the one-, two-, and three-year interest rates dropped 0.52 p.p., 0.75 p.p. and 0.82 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 10.89% on January 18 from 11.50% on December 14.

54. From December 15 to January 18, aiming at reducing the public sector's foreign exchange exposure, the BCB conducted 23 FX swap auctions (total US$9.8 billion), in which the BCB assumes a long FX position and short interest rate position. The net redemption of FX instruments, including interest payments, totaled US$26.5 billion in 2005 and US$6.1 billion so far in 2006.

55. Since the December Copom meeting, the National Treasury raised a total of R$20.5 billion via fixed-rate securities issuance: R$19.7 billion via issuance of LTNs maturing in 2006, 2007, and 2008; and R$0.8 billion via

issuance of NTN-Fs maturing in 2010 and 2012. Issuance of floating-rate LFTs, with maturities in 2010, totaled R$1.6 billion, while the issuance of inflation-linked NTN-Bs, maturing in 2007, 2008, 2009, 2010, 2015, 2024, and 2045 totaled R$39.6 billion, of which R$13.6 billion were paid in cash and R$26 billion, in government securities.

56. In its open market operations, the BCB continued to conduct three- and five-month fixed rate repo operations, as well as daily liquidity management operations. In addition, the BCB conducted 22 shorter-term repo operations (twelve of which were overnight lendings, and ten of which were overnight borrowings). The excess liquidity sterilized from the banking reserves market via operations with tenors of three and five months averaged R$48.2 billion, R$31.4 billion of which were five-month operations. Shorter-term operations, including daily liquidity management, averaged R$0.1 billion.

57. Aimed at reducing excess liquidity projected for the first and second quarters of 2006, the BCB carried out four auctions of LTNs maturing in April and July 2006 and purchased LTNs maturing in January and April 2006. These operations totaled R$3.3 billion.