



BANCO CENTRAL DO BRASIL

Minutes of the 166th Meeting of the Monetary Policy Committee (Copom)

Summary

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Inflation
Economic Activity
Surveys and Expectations
Labor Market
Credit and Delinquency Rates
External Environment
Foreign Trade and International Reserves
Money Market and Open Market Operations

Date: April 17th, 2012, from 4:15PM to 7:26PM, and April 18th, from 4:48PM to 7:58PM

Place: BCB Headquarters meeting rooms – 8th floor on April 17th and 20th floor on April 18th – Brasília – DF

In attendance:

Members of the Committee

Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva
Sidnei Corrêa Marques

Department Heads (present on April 17th)

Adriana Soares Sales – Research Department (also present on April 18th)
Bruno Walter Coelho Saraiva – International Affairs Department
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Rodrigo Collares Arantes – Department of Banking Operations and Payments System
Tulio José Lenti Maciel – Economic Department

Other participants (present on April 17th)

Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor 's Staff

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

Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) reached 0.21% in March (0.45% in February and 0.56% in January), resulting in the sixth consecutive retreat of twelve-month trailing inflation, which moved from 5.85% in February to 5.24% in March (6.30% in March 2011). Market prices inflation increased 5.49% in the twelve months through March (7.04% in March 2011), while regulated prices inflation reached 4.58% (4.53% in March 2011). Regarding market prices, it bears highlighting that tradable goods inflation increased 3.41% in the twelve months through March, while inflation related to non-tradable goods increased 7.37%, compared to 6.04% and 7.93% in the same period of 2011, respectively. Specifically on



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services, inflation in this segment reached 0.52% in March, after rising 1.25% in February, totaling 7.75% in the twelve months through March (down from 8.53% in March 2011). In short, the set of available information suggests a declining trend of inflation on a twelve-month accumulated basis towards the inflation target, in spite of the fact that services inflation still remains at high levels.

2. Underlying inflation measures calculated by the BCB, in general, have performed similarly to headline inflation. The average of monthly changes moved from 0.52% in January to 0.46% in February and 0.25% in March. On its turn, on a twelve-month trailing basis, the average change of the five core inflation measures moved from 6.41% in January to 6.10% in February and 5.69% in March, sixth consecutive retreat. The smoothed trimmed means IPCA core inflation moved from 0.47% in January to 0.41% in February and 0.28% in March, while the non-smoothed trimmed means core inflation changed from 0.36% to 0.28% and 0.27% in the same period. Similarly, the double weight core inflation, after registering 0.59% in January, retreated to 0.47% in February and 0.26% in March. At the same time, core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.59% in January to 0.60% in February, before retreating to 0.21% in March, while the core inflation by exclusion of regulated prices and household food changed from 0.57% in January to 0.54% in February and 0.22% in March.
3. The General Price Index (IGP-DI) increased 0.56% in March, after increasing 0.07% in February and 0.30% in January. Thus, on a twelve-month trailing basis, the IGP-DI recorded the fifteenth consecutive retreat in March, to 3.32%, 7.77 percentage points (p.p.) below that registered in March 2011. The main component of the indicator, the Wholesale Price Index (IPA), changed 1.80% in the twelve months through March, reflecting an increase of 2.53% in the industrial IPA and a decrease of 0.14% in the agricultural IPA. According to the breakdown by stage of production, according to the same comparison basis, there were increases in the price of raw materials (0.02%), intermediate goods (2.17%) and final goods (2.96%). Inflation measured by the Consumer Price Index (CPI), the second most important component of the IGP-DI, stood at 5.50% in the twelve months through March (5.86% in March 2011). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 8.10%. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the IBGE, decreased 0.38% in February, after deflation of 0.43% in January. In twelve months, this index changed from 1.75% in January to 0.76% in February. In general, the recent evolution of the wholesale and producer price indices signals reduction of inflationary pressures in these segments.
4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes an important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br decreased by 0.2% in February, the same change observed in January, after expansion of 0.4% in December. Thus, the indicator increased 0.9% in the quarter ended in February, compared to the quarter ended in November 2011. In twelve months, the growth rate has been slowing since November 2010, and reached 1.9% in February. On its turn, the Consumer Confidence Index (ICC), from Getúlio Vargas Foundation (FGV), recorded the second consecutive rise in March. Similarly, the Services Confidence Index (ICS) registered the second consecutive increase in March, after six negative results.
5. Indicators on credit conditions, based on quarterly survey carried on by the BCB with institutions representative of each segment of the credit market, evidence, in general, more flexible conditions in the second quarter of 2012, quarter-over-quarter. Specifically on credit to great companies, the assessment suggests a still restrictive scenario (regarding credit approval), but with lower intensity. For micro, small and medium-sized companies, the indicators show increase in credit approval in the second quarter, quarter-over-quarter, with moderately stronger demand and still moderately restrictive supply, but with lower intensity. Regarding credit for consumption, the expectation for the second quarter indicates reduction in the share of credit approval, compared to the observed in the last quarter. For housing credit, despite the supply at levels similar to those observed between January and March 2012, the expectation of demand expansion tends to confirm scenario with elevation in the share of approval.
6. Industrial activity increased by 1.3% in February, according to data seasonally adjusted by the IBGE, after decreasing by 1.5% in January and increasing 0.5% in December. Production increased in 18 out of the 27



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branches of activity in February, with highlights for the recovery of the automotive vehicles sector (13.1%), after strong retreat in January. According to the quarterly moving average, industrial production increased 0.1% between December and February, the first positive figure according to this comparison basis recorded since July 2011. Year-over-year, production decreased 3.9% in February, while on a twelve-month accumulated basis, it decreased by 1.0%. On the other hand, compared to December 2008, month with the lowest output level during the 2008/09 crisis, the accumulated growth until February 2012 reaches 22.1%. According to seasonally adjusted data from the National Industry Confederation (CNI), revenues in the manufacturing industry recorded 1.5% real growth in February, month-on-month, while the number of hours worked increased 2.2%, according to the same comparison basis.

7. Among the industry use categories, according to data seasonally adjusted by the IBGE, in February the production of durable consumer goods decreased 4.3%, while the production of non-durable and semi-durable consumer goods increased by 1.1%. The production of intermediate goods grew 2.3%, while capital goods expanded by 5.7%, after decreasing by 16.1% in January. In the twelve months through February, there were decreases in the production of durable consumer goods (-6.1%), non-durable and semi-durable consumer goods (-0.5%), intermediate goods (-0.3%) and capital goods (-1.0%).
8. The unemployment rate in the six metropolitan regions covered by the IBGE Monthly Labor Survey (PME), according to observed data, reached 5.7% in February, after reaching 5.5% in January and 4.7% in December. The February rate was 0.7 p.p. below the rate recorded in the same month last year. According to data seasonally adjusted by the BCB, the unemployment rate reduced from 5.6% in January to 5.5% in February, the record low for the series initiated in March 2002. In twelve months, there were increases of 1.9% in the occupation level and 1.3% in the economically active population. Regarding occupied population, the share of formal employees in the private sector – which has been growing consistently in the last years – reached 49.7% in February, but data released by the Ministry of Labor and Employment (MTE) indicate moderation in this process. In fact, in March, 111.7 thousand formal jobs were created (compared to 150.6 thousand jobs created in February), and expansion in the number of formal jobs in six out of the eight sectors of economic activity, with the main contributions stemming from the sectors of services and civil construction. According to PME, real average earnings increased 1.2% in February and 4.4% in twelve months. As a consequence, real payroll, considering the average earnings of occupied population in the six metropolitan regions, expanded 6.4% year-over-year. In short, the set of available data indicates that, although the labor market remains robust, there are signs of moderation at the margin.
9. According to the retail monthly survey (PMC) from IBGE, expanded retail sales increased 2.5% in February, year-over-year, after recording 8.3% growth in January and 4.3% in December, according to the same comparison basis. According to the seasonally adjusted series, expanded retail sales decreased by 1.1% in February, month-on-month, after increasing by 1.8% in January and 1.6% in December. Thus, in the last twelve months through February, the volume of sales increased 5.5%. The volume of sales in all ten sectors surveyed expanded in the last twelve months, with highlights for equipment and supplies for office, computer and communication (22.1%) and furniture and appliances (15.5%). Since October, the FGV, in partnership with the BCB, has been releasing the Trade Confidence Index (ICOM). This indicator provides important additional information, as it portrays the current state and signals the evolution of commercial activity in a more timely manner. In March the index evolved positively, after five negative figures, boosted by the improvement in expectations for the future. In the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth, by the improvement in the consumer confidence level and by moderate credit expansion.
10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, moved from 82.9% in February to 83.0% in March, 0.5 p.p. below the level observed in March 2011. According to the seasonally adjusted monthly series calculated by the FGV, the Nuci stood at 83.8% in March – 2.9 p.p. below the record high recorded in June 2008. Capacity utilization is more significant in the sector of construction inputs (86.0%), although a 4.5 p.p. retreat in this sector has occurred since November 2011. In the sector of intermediate goods, the Nuci stood at 84.4%, compared to 82.7% in the sector of capital goods, and 82.4% in the sector of consumer goods. According to the Confederation of National Industry (CNI) data, seasonally adjusted by the BCB, the Nuci stood stable at 82.3% in February. It is



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worth noticing that the difference between the proportion of companies that reported excess inventories and those which reported insufficient inventories fell in March for the third consecutive month.

11. The trade balance surplus on a twelve-month accumulated basis increased from US\$28.6 billion in February to US\$29.1 billion in March. This result stemmed from US\$259.9 billion in exports and US\$230.8 billion in imports, equivalent to 21.5% and 20.5% changes, respectively, in the last twelve months through March. The current account deficit accumulated in twelve months changed from US\$54.1 billion in January to US\$52.4 billion in February, equivalent to 2.09% of GDP. On its turn, foreign direct investment reached US\$65.0 billion in the twelve months through February, equivalent to 2.60% of GDP.
12. Global economy continues to face a period of above-than-usual uncertainty, despite some stability in the risk aversion level, and with prospects of low growth. Since the last Copom meeting, a more positive perception about the activity in the United States (US) and Japan has consolidated, but risks, such as the ones related to the oil price and to the scenario of fiscal constraint, persist. The unlimited provision of liquidity by the European Central Bank (ECB) reduced the probability of occurrence of extreme events, but elevated risks to global financial stability persist, among other factors, due to international banks exposure to sovereign debts of countries with fiscal imbalances. High persistent unemployment rates, coupled with the need for fiscal adjustments, the limited scope for anticyclical policy actions and the political uncertainty, have contributed for projections of low growth in mature economies, despite the heterogeneity among countries. In fact, both the composite leading indicator released by the Organization for Economic Cooperation and Development (OECD), for February, and the disaggregate indicators of Purchasing Managers Index (PMI), for March, point to fragile activity in the Euro Area. At the same time, activity in China decelerated in the first quarter, and recorded the lowest growth rate since the first quarter of 2009. Regarding monetary policy, mature economies have persisted with strongly accommodative monetary stances and, in some cases, with non-conventional policy initiatives. Despite this fact, inflation core measures have continued at moderate levels both in the US and in the Euro Area and Japan, considering the relatively moderate prospects for the activity level. In emerging economies, in general, the monetary policy bias is expansionist.
13. The price of Brent oil barrel remained above US\$115, reflecting, in part, political instability in important producing countries and lags in the process of production resumption. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. Regarding the other commodities, it is noteworthy the downward movement for agricultural and metal international prices since the last Copom meeting, with respective decreases of 4.6% and 2.8%, as measured by the Commodity Research Bureau (CRB). Compared to the peak recorded in April 2011, the cumulative decline in both categories stands at 17.5% and 20%, respectively. The food price index, calculated by the Food and Agriculture Organization of the United Nations (FAO), which considers 55 items, accumulates a fall of 6.5% until March, since the peak observed in February 2011. In the recent past, the high volatility observed for the commodities prices was strongly impacted by the abundant global liquidity, in a context where financial markets adjust to new expectations for growth and volatility in FX markets. Prospectively, it is plausible to affirm that the Chinese authorities' announcement of reduced growth targets tends to generate some impact on commodities prices.

Assessment of Inflation Trends

14. The identified shocks and their impacts were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:
 - a) the projected adjustment for gasoline and bottled gas prices, for 2012, were maintained at 0%, the same value considered at the March meeting;
 - b) the projected adjustments for 2012 for fixed telephone was maintained at 1.5%, the same value considered at the March meeting, while the electricity projection was decreased to 1.3%, down from 2.3% considered at the March meeting;
 - c) the projection for regulated prices inflation accumulated in 2012, based on individual items, according to the benchmark scenario, was maintained at 4.0%, the same value considered at the March meeting;



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- d) the projection for regulated prices inflation accumulated in 2013, according to the benchmark scenario, remained at 4.5%, the same value considered at the March Copom meeting. Such projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, foreign exchange rate changes, market prices inflation and the IGP (General Price Index) change; and
 - e) the projection for the spreads over the Selic rate, based on the 360-day swap rates, on the benchmark scenario, estimates 23 bps and 11 bps spreads in the fourth quarters of 2012 and 2013, respectively.
15. Regarding fiscal policy, projections assume the achievement in 2012 of the public sector primary surplus target (R\$139.8 billion), around 3.10% of GDP, without adjustments, according to the parameters contained in the Budget Guidelines Law (LDO) - 2012. Furthermore, it is accepted as a working hypothesis, a primary surplus of R\$ 155.9 billion for 2013, around 3.10% of GDP, without adjustment, according to parameters set out in Draft Budget Guidelines Law (PLDO) - 2013. For 2014, it is accepted as a working hypothesis a primary surplus of 3.10% of GDP, without adjustments.
 16. The set of projections incorporated the estimated effects of the reduction in the neutral interest rate identified over the last years.
 17. As a working hypothesis, the main scenario also considers that the current deterioration in the international scenario will have an impact on the Brazilian economy equivalent to one fourth of the impact observed during the 2008/2009 international crisis. It is noteworthy that part of this estimated impact is already being observed in the most recent economic activity indicators.
 18. Since the last Copom meeting, the median of the expectations compiled by the BCB's Investor Relations and Special Studies Department (Gerin) for the 2012 IPCA decreased to 5.08% from 5.24%. For 2013, the median of inflation expectations increased to 5.50% from 5.20%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the median of expectations for the 2012 IPCA changed to 5.08%, 5.06% and 5.08%, from 5.21%, 5.24% and 5.27%, respectively. For 2013, the median changed to 5.50%, 5.73% and 5.30%, from 5.20%, 5.40% and 5.00%, in the same order.
 19. The benchmark scenario assumes the maintenance of the exchange rate at R\$1.85/US\$1.00 and the Selic rate at 9.75% p.y. during the forecast period. Under this scenario, the projection for the 2012 inflation increased relative to the figure considered at the March Copom meeting, and it stands around the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin in the period immediately prior to the Copom meeting, IPCA inflation forecast for 2012 also increased and stands around the midpoint inflation target. For 2013, the inflation projection rose in the reference scenario and remained stable in the market scenario, standing above the midpoint target in both cases.

Monetary Policy Decision

20. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly price setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other actions of macroeconomic policy may influence the price trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant to guarantee that pressures detected in shorter horizons do not spread to longer horizons.



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21. International evidence, ratified by the Brazilian experience, indicates that high inflation rates lead to the increase in risk premia, both for private and public funding, and to the shortening of planning horizons, both for households and companies. Consequently, high inflation rates reduce investment and economic growth potential, in addition to presenting regressive effects on income distribution. In other words, high inflation rates do not originate any lasting results for economic and employment growth; on the contrary, they create permanent damage to these variables in the medium and long terms. Therefore, the strategy adopted by the Copom aims to ensure the convergence of inflation towards the targets path, which requires that possible deviations from the target path be promptly corrected. Such strategy takes into account the time lags in the transmission mechanism and is the most adequate to deal with the uncertainty inherent to the process of monetary policy formulation and implementation.
22. The Copom considers that, since the last meeting, the risks to global financial stability have remained high, particularly those deriving from the ongoing deleveraging process observed in the main economic blocks. The Committee understands that, in general, the restrictions to which several mature economies were exposed have changed little. It also notes that, in these economies, there seems to be limited scope for using monetary policy, and a scenario of fiscal restraint also prevails, in this and in the upcoming years. Moreover, in important emerging economies, despite the resilience of domestic demand, the pace of activity has moderated, in part, as a consequence of policy actions and the weakening of external demand, through the external trade channel. In specific cases, changes in the growth pattern are anticipated, a development that tends to be permanent. Therefore, until now, the Committee evaluates that the international scenario has shown disinflationary bias.
23. For the Copom, there are cumulative evidences supporting the view that the transmission of external developments to the Brazilian economy materializes through several channels, among others, moderation of total trade, moderation in investment flows and tighter credit conditions. The Committee understands that the effects of the complexity surrounding the international environment added up to those stemming from the moderation of domestic activity. In other words, the moderation process the Brazilian economy was already experiencing in the first half of last year was intensified by the weakness of the global economy.
24. The Copom evaluates, however, that although domestic demand expansion has also been moderate, prospects for economic activity in this and in the upcoming semesters are favorable, with some asymmetry among the several sectors. This assessment is supported by signs that point to moderate expansion of credit supply both for individuals and corporate; and by the fact that consumers' and businessmen's confidence, stands at high levels. The Copom understands, additionally, that the domestic activity will continue to be benefited by public transfers, as well as by the labor market vigor, mirrored in historically low unemployment rates and in wages growth, despite some accommodation at the margin.
25. The Copom reaffirms its view that inflation accumulated in twelve months, which started to retreat in the last quarter of last year, tends to continue the decline and, therefore, to move towards the targets path. The Committee evaluates that the reversion in the inflation trend will contribute to improve the economic agents' expectations, especially price setters', about the dynamics of inflation in the upcoming quarters. Additionally, the Committee understands that this improvement in the sentiment tends to be boosted by the ongoing process of moderation in the dynamic of producer prices and at wholesale markets.
26. The Copom notes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It bears highlighting that the generation of primary surpluses in line with the hypotheses considered for inflation projections, in addition to contributing to reduce the mismatches between supply and demand growth rates, will strengthen the reduction trend of the public debt-to-GDP ratio.
27. The Copom highlights that its main scenario also considers moderate expansion in the credit market. Still about the credit market, the Committee considers opportune the initiatives with the aim of moderating the concession of subsidies through credit operations.
28. The Copom evaluates as decreasing the risks stemming from the persistence of the mismatch, in specific segments, between supply and demand growth rates. However, it highlights the narrow idleness margin in the



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labor market, despite the signs of moderation in this market, and considers that, under such circumstances, an important risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation dynamics. On the other hand, the Copom notes that the level of installed capacity utilization has stabilized and is below the long-term trend, in other words, it is contributing to the opening of the output gap and to contain prices pressures.

29. The Copom considers that the deceleration of the Brazilian economy in the second half of 2011 was deeper than expected, that recent events indicate the postponement of a final solution for the European financial crisis, and that the risks related to the deleveraging process – stemming from banks, families and government - under way in major economic blocks remain elevated. These and other elements, therefore, constitute an economic environment in which a much above-than-usual uncertainty level prevails. For the Committee, the prospective scenario for inflation, since the last meeting, has maintained favorable signs. The Committee also notes that, according to the main scenario adopted, the inflation rate stands around the target in 2012.
30. In short, the Copom considers that, at the present moment, the risks to the inflation trajectory remain limited. The Committee also notes that, until now, due to the global economy's fragility, the external sector contribution has been disinflationary.
31. In this context, continuing the process of monetary conditions adjustment, the Copom unanimously decided to decrease the Selic rate to 9.00% p.a., without bias.
32. The Copom evaluates that domestic demand tends to show robustness, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the effects of monetary policy actions recently implemented, which are, in short, lagged and cumulative. On the other hand, the Committee considers that recent initiatives reinforce a scenario for restrained public sector expenditures. Another important factor to curb aggregate demand is the still fragile international scenario. These elements and quasi fiscal developments are an important part of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.
33. The Copom understands that Brazilian economy has experienced significant structural changes, which determined retreat in the interest rates in general and, in particular, in the neutral rate. Among the factors that support this view, it bears highlighting the reduction of risk premia, a direct consequence of the accomplishment of the inflation target for the eighth consecutive year, of the macroeconomic stability and of institutional improvements. Moreover, the process of interest rates reduction was favored by changes in the structure of the financial and capital markets, by the credit market deepening, as well as by the generation of primary surpluses consistent with the maintenance of decreasing trend for the public debt-to-GDP ratio. For the Committee, all these changes are characterized by a high degree of persistence – although, due to the economic cycles themselves, specific and temporary reversions may occur – and contribute for the Brazilian economy to currently present solid indicators of solvency and liquidity.
34. The Copom also considers that the increase in the supply of external savings and the reduction of its funding cost have contributed to the reduction of the domestic interest rates, including the neutral rate, which, according to the Committee's assessment, are largely permanent developments.
35. In light of the above, even considering that the activity recovery has occurred more slowly than anticipated, the Committee believes that, given the cumulative and lagged effects of policy actions implemented so far, any movement of additional monetary easing should be conducted with parsimony.
36. At the end of the meeting, it was announced that the Committee will reconvene on May 29th, 2012, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 21,213 of June 29th, 2011.

SUMMARY OF DATA ANALYZED BY THE COPOM



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Inflation

37. The IPCA-15 rose 0.21% in March, down from 0.45% in February, totaling 1.22% in the year and 5.24% in the twelve months through March, compared to 5.85% in the twelve months through February, according to data released by the IBGE. The monthly result reflected the slowdown in market and regulated prices. Regarding market prices, which increased 0.22% in March compared to 0.51% in February, the movement reflected the strong deceleration in the prices of non-tradable goods, to 0.49% down from 1.17%, mainly influenced by the deceleration in the services rate, which decreased to 0.52% from 1.25%, while the prices of tradable goods changed -0.08%, compared to -0.21% in the previous month. Regulated prices rose 0.18% in March, down from 0.26% in February. The monthly IPCA change was mainly due to the increase in the groups of housing, food and beverages, and personal expenses, with respective contributions of 0.07 p.p., 0.06 pp and 0.05 pp, while education was the group most responsible for the deceleration of the index in March, with a contribution of 0.02 pp, down from 0.26 pp in February. The diffusion index stood at 57.26% in March, down from 59.11% in February.
38. On a twelve-month basis through March, market prices and regulated prices slowed down relative to February, changing from 5.98% to 5.49% and from 5.48% to 4.58%, respectively. The evolution of market prices was due to the deceleration in the prices of tradable goods, from 3.77% to 3.41%, and of non-tradable goods, from 7.97% to 7.37%. The prices of the services segment increased 7.75% in the last twelve months through March, compared to 8.10% and 9.20%, in the corresponding periods through February and January, respectively.
39. The IGP-10 totaled 0.70% in April, up from 0.27% in March, according to FGV, reflecting the acceleration in the prices of IPA, IPC and INCC. The index accumulated an increase of 1.09% in the year, compared to 2.95% in the same period of 2011, and 3.43% in twelve months, compared to 3.29% in the twelve months through March.
40. The IPA-10 changed 0.76% in the month, compared to 0.24% in March, totaling 0.54% in the year and 2.17% in twelve months. The prices of agricultural and livestock products increased 1.23% in the month, up from 0.56% in March, totaling 2.54% in the year and 0.64% in twelve months. The industrial products' prices increased 0.59% in April, compared to 0.12% in the previous month, totaling a fall of 0.18% in the year and an increase of 2.74% in twelve months. The monthly performance of prices of agricultural and livestock products evidenced, in particular, the impact of the 12.43% change in the price of soybeans, which contributed 0.50 p.p. for the IPA-10 result. Among the prices of industrial products, the main influence was exerted by vegetable oils and fats, which increased 6.97%, with a contribution of 0.17 p.p. to the monthly index.
41. The IPC-10 increased 0.53% in April, compared to 0.40% in the previous month, totaling 2.29% in the year, compared to 3.21% in the same period of the previous year, and 5.21% in twelve months. The acceleration in April reflected the increase to 0.51% from 0.25% in the food segment. The INCC changed 0.71% in the month, up from 0.19% in March, reflecting the acceleration in the costs of labor force (from 0.06% to 0.98%) and in the prices of materials, equipment and services (from 0.32% to 0.42%). The INCC accumulated changes of 2.00% in the year and 7.96% in the twelve months through April.
42. All the five IPCA core measures calculated by the BCB decelerated in the month and in the twelve months through March. Month-on-month, the core inflation by exclusion, which excludes ten items of household food and fuels, increased 0.21% in the month, down from 0.60% in February, accumulating 5.61% in the twelve months through March, down from 6.12% in the twelve months through February. The core inflation by exclusion of household food and regulated prices increased 0.22% in March down from 0.54% in February, totaling 5.64% in the twelve months through March, compared to 6.14% in the twelve months through February. The smoothed trimmed means increased 0.28% in March, down from 0.41% in February, accumulating 6.38% in the twelve months through March, compared to 6.60% in the twelve months through February. The non-smoothed trimmed means core inflation increased 0.27% in March, down from 0.28% in February, accumulating 4.80% and 5.15% in twelve months, in this order. The double weight core inflation increased 0.26% in March, down from 0.47% in February, accumulating 6.02% in the twelve months through March, compared to 6.48% in the twelve months through February.



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43. The IPP/IT retreated 0.38% in February, compared to the decrease of 0.43% in January and increase of 0.60% in February of the previous year. In the year, the IPP/IT declined 0.81%, compared to 1.01% in the same period of 2011 and increase of 0.76% in the last twelve months ending in February, compared to 1.75% in January. The monthly result of IPP/IT was mainly influenced by the fall of prices associated with the industries of food products and other chemical products, with respective contributions of -0.24 p.p. and -0.11 p.p. for the index. The index change in the twelve months ending in February reflected especially elevations associated to contributions stemming from the industries of automotive vehicles, 0.27 p.p., food, 0.26 p.p., and footwear and leather goods, 0.25 p.p., offset by the performance of the industry of computer equipment, electronic and optical products, which contributed -0.26 p.p..
44. The Commodity Index Brazil (IC-Br) increased 2.67% in March, reflecting respective changes of 1.94%, 2.60% and 6.45% related to the segments of agriculture and livestock, metal and energy. In the last quarter, the accumulated change of the IC-Br reached 0.20%. Notwithstanding, the IC-Br in the twelve-months through March presented marked reduction, reaching -9.34%.

Economic Activity

45. The Commodities Index – Brazil (IBC-Br) decreased 0.23% in February, month-on-month, considering seasonally adjusted data. In the quarter ended in February, the index increased 0.87%, compared to the quarter ended in November, when it had declined 0.37%, according to the same comparison basis. Considering observed data, the IBC-Br increased 0.86% in February, year-over-year, compared to the increase of 1.44% in January, according to the same comparison basis. The index increased 1.15% in the year and 1.91% in the twelve months ended in February.
46. Expanded retail sales, which include vehicles and construction inputs, decreased 1.1% in February, month-on-month, according to data seasonally adjusted from IBGE's monthly survey (PMC), after increases (revised) of 1.8% in January and 1.6% in December. With this result, expanded retail sales grew 3.4% in the quarter ended in February, relative to the quarter ended in November. By segment, five out of the ten surveyed segments presented decreases, with highlights for the retreats of 3.6% in textiles, clothing and footwear, 2.7% in books, newspapers, magazines and stationary office and 2.1% in hypermarkets, supermarkets and food products. On the other hand, the most remarkable expansions stemmed from the increases in office equipment and material (3.1%), fuels and lubricants (1.9%) and other articles of personal and domestic use (1.6%). In the year, expanded retail sales increased 5.4%. Retail sales volume decreased 0.5% in February, month-on-month, after increases of 3.3% in January (revised) and 0.5% in December, according to the same comparison basis, accumulating growth of 3.4% quarter-over-quarter, seasonally adjusted, 8.7% in the year and 6.7% in twelve months.
47. Considering observed data, expanded retail sales increased 2.5% in February, year-over-year, mainly influenced by increases in the sales of office, computing and communication equipment and material (26.6%), furniture and household appliances (13.3%), hypermarkets, supermarkets and food products (11.8%) and pharmaceutical and medical articles (9.5%), offset by the sales of vehicles and motorcycles, parts and pieces, which decreased 10%. In the twelve months ended in February, expanded retail sales increased 5.5%, mainly driven by increases in the sales of office, computing and communication equipment and material (22.1%), furniture and household appliances (15.5%), pharmaceutical and medical articles (9.3%) and construction inputs (8.3%).
48. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, decreased 5.5% in March, month-on-month, compared to the decrease of 2.1% in February, according to Fenabrave (Brazilian Federation of Automobile Vehicles Distribution) data, seasonally adjusted by the BCB. Sales decreased 0.6% in the quarter ended in March, compared to the -0.4% change in the quarter ended in December. Automobile vehicles sales decreased 0.7% in the year, as a consequence of the fall in the sales of trucks (5.6%) and automobiles (0.8%) and increase in the sales of buses (4.4%) and light commercial vehicles (0.6%).



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49. Capital goods imports quantum index, released by Funcex and seasonally adjusted by the BCB, decreased 2.5% in March, month-on-month. Observed data showed a 3.5% retreat year-over-year and expansions of 4.3% in the year and 8.2% in the twelve months ended in March.
50. Capital goods production increased 5.7% in February, accumulating a 5.4% decrease in the quarter, compared to the one ended in November, according to data seasonally adjusted from the Monthly Industrial Survey (PIM) by the IBGE. The main contribution to its positive performance in the month stemmed from the 21.9% expansion in the production of transportation equipment, as opposed to the falls of 12% and 7.3% in the production of agricultural equipment and capital goods for non-industrial series use, respectively.
51. Construction inputs production increased 1.3% in February, accumulating a decrease of 0.9% in the quarter, compared to the one ended in November, considering seasonally adjusted data. The segment production increased 1.2% year-over-year, with cumulative increases of 2.2% in the year and 3% in twelve months.
52. Industrial production increased 1.3% in February, according to IBGE seasonally adjusted data, after a change (revised) of -1.5% in January, reflecting expansions of 1.3% in manufacturing industry and 9.3% in mining. By use categories, it bears highlighting the production of capital goods, which increased 5.7% month-on-month, followed by respective increases of 2.3% and 1.1% in intermediate and semi and non-durable goods production, respectively, while durable goods production decreased 4.3%. Seventeen out of the 26 manufacturing industry activities surveyed increased in the month, with highlights for the segments of medical equipment, automotive vehicles and office machines and computer equipment, which rose by 23.8%, 13% and 9.5%, respectively. In the quarter ended in February, industrial production dropped 0.2%, compared to the quarter ended in November, when it had fallen 2.2%, as a consequence of the decrease of 2.1% in mining, while manufacturing industry increased by 0.5%. The quarterly performance reflected, in part, the impact of the retreats in the industries of automotive vehicles (11.1%), office machines and computer equipment (10.6%) and tobacco industry (9.9%). Considering observed data, industrial production registered decreases of 3.9% in the month, year-over-year, 3.4% in the year and 1% in twelve months, influenced mainly by the unfavorable performance of durable consumer goods and capital goods production.
53. The Nuci in the manufacturing industry in March reached 83.8%, an increase of 0.1 p.p. month-on-month, according to data seasonally adjusted by FGV. The segments of capital goods and construction inputs retracted 1.3 p.p. month-on-month, while those regarding intermediate goods and consumer goods rose 0.5 p.p. Considering the observed series, the Nuci declined 0.5 p.p., year-over-year, as a result of the decrease in the indicators related to construction inputs (3.2 p.p.), capital goods (2.3 p.p.), intermediate goods (1.1 p.p.) and consumer goods (0.3 p.p.).
54. Vehicles output reached 308.5 thousand units in March, representing changes of 6.2% month-on-month and -3.1% in the quarter, according to data released by Anfavea, seasonally adjusted by the BCB. Considering observed data, there was an increase of 4.5% year-over-year and decreases of 10.9% in the year and 3.1% in twelve months.
55. Still according to data released by Anfavea, national vehicle licensing decreased 6% in March, month-on-month, and increased 1.7% in the quarter ended in March, quarter-on-quarter, considering seasonally adjusted data. Regarding observed data, there were decreases of 5.8% year-over-year, 3.9% in the year and 3.6% in twelve months. Automobile exports totaled 42.2 thousand units in March, representing changes of -1% year-over-year, -6.7% in the year and 6.6% in twelve months. According to data seasonally adjusted by the BCB, exports decreased 1.1% in the month and 10.2% in the quarter.
56. The LSPA survey carried out by the IBGE regarding March projected 158.6 million tons for the 2012 national harvest of grains, representing decrease of 0.9% year-over-year and an increase of 0.7% over the last crop forecast released in February. The new prognosis presented more favorable prospect for corn and beans, with increases of 4.3% and 0.7% respectively, compared to the estimate of the previous month, in contrast to the predictions for the crops of soybeans and rice, which project retreats of 1.8% and 1.2%, respectively, according to the same comparison basis. Regarding the 2011 harvest of grains, the new projection estimates



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increases in the harvests of corn (17.3%), cottonseed (1.5%) and beans (0.2%), as opposed to declines in the harvests of rice (-14.2%), soybeans (-11.1%) and wheat (-9.9%).

Surveys and Expectations

57. The Consumer Confidence Index (ICC), considering data seasonally adjusted from the nationwide Consumer Expectations Survey (FGV), increased 2.8% in March, month-on-month, to 122.7 points, the best result since July 2011, driven by increases of 1.6% in the Current Situation Index (ISA) and 3.6% in the Expectations Index (IE). The ICC increased 2.2% year-over-year, influenced by the changes of -1.2% in the ISA and 4.8% in the IE.
58. The ICS, calculated by the FGV, decreased by 1% in March, year-over-year, reaching 130 points, as a result of the decrease of 2.7% in the ISA, while the IE increased 0.3%. Month-on-month, the ICS expanded by 0.3% in March, due to changes of 1.6% in the ISA and -0.6% in the IE, according to observed data.
59. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from FGV, reached 129.4 points in March, decreasing 0.1% year-over-year. The result reflected changes of 0.7% in the Current Situation Index (ISA-COM) and -0.6% in the Expectations Index (IE-COM). In the quarter ended in March, the ICOM decreased 4.3% year-over-year, due to the retreats of 4.1% in the ISA-COM and 4.5% in the IE-COM.
60. The Industry Confidence Index (ICI), considering seasonally adjusted data from the Survey of Manufacturing Industry (SCIT-FGV) increased 0.5% in March, month-on-month, reaching 103 points. The result was driven by the increases of 0.2% in the ISA and 1% in the IE. The ICI fell 8% in March, year-over-year, due to decreases of 7.8% in the ISA and 8.3% in the IE.
61. The Construction Confidence Index (ICST), measured by the Construction Survey, from FGV, reached 129.1 points in March, decreasing 4.3% year-over-year. The result reflected retreats of 6.9% in the Current Situation Index (ISA-ICST) and 2% in the Expectations Index (IE-ICST). In the quarter ended in March, the ICST decreased 6.6%, year-over-year, due to the retreats of 9.3% in the ISA-ICST and 4.2% in the IE-ICST.

Labor Market

62. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 111.7 thousand formal jobs were created in March, of which 83.2 thousand jobs in the services sector, 35.9 thousand jobs in civil construction and 6.4 thousand jobs in commerce. Month-on-month, formal job creation expanded by 0.3%, considering seasonally adjusted data. In the year through March, 381.2 thousand jobs were created and 1.4 million in twelve months, compared to 525.6 thousand and 2 million, respectively, in the same periods of 2011.
63. According to the IBGE employment survey (PME), carried out in the six main metropolitan regions of the country, the unemployment rate reached 5.7% in February, increasing 0.2 p.p., month-on-month, and decreasing 0.7 p.p. year-over-year. The monthly result was driven by the increases of 0.4% in occupation and 0.7% in the Economically Active Population (PEA). Considering seasonally adjusted data, the unemployment rate reached 5.5% in February, compared to 5.6% in the previous month. According to the same survey, average real earnings usually earned by the workers increased 1.2% month-on-month and 4.4% year-over-year. Real payroll, defined as the number of persons employed times real average earnings, increased 1.6% month-on-month and 6.4% year-over-year.

Credit and Delinquency Rates

64. Outstanding credit in the financial system reached R\$2,034.8 billion in February, equivalent to 48.8% of GDP, increasing by 0.4% in the month, 0.2% in the year and 17.3% in twelve months. Non-earmarked credit operations changed 0.1% in the month, -0.1% in the year and 15% in twelve months, reflecting the respective increases of 0.3%, 1.3% and 15.5% for credit operations to individuals and -0.1%, -1.5% and 14.6% for credit operations to corporate, in the same order. Earmarked credit operations increased 0.8% in the month and in



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the year and 21.4% in twelve months. It bears highlighting the expansion of 2.3%, 4.9% and 41.7% in housing credit, according to the same comparison bases.

65. The average annual interest rate on reference credit operations increased 0.1 p.p. in February, reaching 38.1%. The average annual rate on credit for individuals and corporate reached 45.4% and 28.6%, respectively, registering 0.3 p.p. and -0.1 p.p. changes month-on-month and 1.6 p.p. and -2 p.p. year-over-year, respectively.
66. The average tenure on reference credit operations decreased from 499 days, in January, to 498 days in February. The tenure related to individuals decreased two days, reaching 597 days, while the one related to corporate segments remained stable at 404 days.
67. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) stood at 5.8% in February, with the maintenance of the previous levels relative to operations with individuals and corporate, at 7.6% and 4.1%, respectively. Year-over-year, the delinquency rate for credit operations increased by 1.1 p.p., as a result of an increase of 1.8.p.p relative to individuals and 0.5 p.p. relative to the corporate segment.

External Environment

68. Prospects for world economic growth continue to be subject to significant downward risks, considering the ongoing European crisis, the uncertainties regarding the deceleration pace in China and the sustainability of the US growth, in addition to the geopolitical tensions in the Middle East. In this context, the assessment of purchase managers, after pointing to increase in the global PMI to 55.4 points in February, pointed to decrease to 54.6 points in March. In the US, despite the ongoing recovery, the annualized change of GDPQ4, held at 3% after revision, and the creation of 120 thousand jobs in March were below expectations. Amongst the downward risks to activity growth, it bears highlighting that, in February, the monthly increases of retail sales and consumption, 1.1% and 0.5%, respectively, found support in the decline in the savings rate, which reached 3.7%, the lowest level since January 2008. In the Euro Area, where the main highlights were for the contractions in the German monthly industrial production, -1.1% in February, and the change of the composed PMI to 49.1 points in March, with further contraction in the manufacturing and orders sub-indices, the unemployment rate reached 10.8% in February, the highest level since the creation of the Monetary Union. In China, the annualized quarterly GDP growth in the first quarter of this year decreased to 7.4% from 8.2% in the previous quarter and, on an inter-annual basis, it decreased to 8.1% from 8.9%, marking the worst performance of the activity since the first quarter of 2009, with highlights for the slowdown in gross fixed capital formation, 21.1% and 18.2%, in the same order. In Japan, the revision of annualized GDPQ4 pointed to smaller contraction, from -2.3% to -0.7%. In that country, the PMI services reached a record high for the historical series, 53.7 points in March, while retail sales maintain their growth trajectory, at 2% in February.
69. Since the last Copom meeting, financial markets presented two moments. Until mid-March, the upward trajectory begun in December was maintained, with the US stock market indices reaching the best first quarter since 1998. In the Euro Area, the announcement that the temporary European Financial Stability Facility (EFSF) will work together with the permanent European Stability Mechanism (ESM) until July 2013, increasing the loan capacity against crises from €500 billion to €700 billion, as well as the Greek debt restructuring and the IMF and the European Union's approval for the second aid package to Greece, brought relief to the markets. In this context, the volatility, measured by the VIX index, retreated to 14.3% on March 26th. Afterwards, this trend reversed. The bad results for the March PMIs in China and in the European countries, with consequent expansion of the risk of recession in the continent, and the below-than-expected payroll results in March in the US, combined with the Spain's securities auction in early April and the release of Chinese GDP for the first quarter of 2012, resulted in a decrease of the risk appetite, sharp drop in the stock markets, increase of the VIX to 20.4% on April 10th, reduction in the US, German and UK ten-year securities' yields, and increase in the government bonds yields of European countries, particularly Italy and Spain. It bears highlighting that, on April 13th, the Spain CDS reached record level of 502 b.p. Under this scenario of increase in risk aversion, the US dollar valued against the euro and the currencies of emerging countries exporters of commodities.



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70. Since the last Copom meeting, international commodities prices have decreased, reacting to the favorable prospects for grain crops in the northern hemisphere, to the increase of risk aversion in financial markets, to the increase of risks related to a sharper deceleration in the Chinese economy and, in the case of oil, to the increase of inventories in the US.
71. In the US, the Federal Reserve kept interest rates between 0% and 0.25%, and ratified the prospect of maintaining this level until the end of 2014, considering the trajectory of declining inflation, the annual change in the consumer price index (CPI), which reached 2.7% in March, the sixth consecutive decline, and the perception that the growth sustainability still depends on exceptional monetary stimuli. In Japan, where the CPI, in rise, reached 0.3% in February, the Bank of Japan (BoJ) maintained the basic interest rate between 0% and 0.1% and, on March 13th, expanded the Growth-Supporting Funding Facility from ¥3.5 trillion to ¥5.5 trillion to strengthen growth, detailing the rules for managing the Fund. Similarly, the ECB did not alter its benchmark interest rate of 1%. According to the Eurostat, the annual change of consumer price inflation in the Euro Area reached 2.7% in March. In the United Kingdom, the annual CPI change in March totaled 3.5%, remaining at a level significantly lower than the 5.2% recorded in September 2011. Under this scenario, the BoE decided to maintain the base interest rate at 0.5% p.y. and the amount of £325 billion for the program of assets purchase. In China, the CPI slightly increased to 3.6% in March, compared to 3.2% in February, without compromising, however, its downward trajectory, after reaching the 6.5% record high in July last year. In most of the other developing economies, since the last Copom meeting, favorable scenario for inflation and the maintenance of accommodative monetary policy stances prevail.

Foreign Trade and International Reserves

72. The Brazilian trade surplus reached US\$2 billion in March, as a result of US\$20.9 billion in exports and US\$18.9 billion in imports. In the first quarter of the year, the trade surplus totaled US\$2.4 billion, down from US\$3.1 billion in the same period of 2011, reflecting expansions of 7.5% in exports and 9.5% in imports. In the year, total trade grew 8.5%, totaling US\$107.7 billion, compared to US\$99.3 billion registered in the first quarter of 2011.
73. International reserves reached US\$365.2 billion in March, increasing US\$8.9 billion month-on-month. Compared to December 2011, the reserves increased US\$13.2 billion. The BCB bought net US\$3 billion in the FX spot domestic market in the month.

Money Market and Open Market Operations

74. After the March Copom meeting, the domestic interest rate yield curve fell in all its extension. This movement was influenced, at the local scenario, by the prospect of continuity of the monetary easing cycle and by the favorable trajectory of price indices. At the external scenario, the possibility of Europe's debt crisis deepening, the release of weaker economic indicators in Europe, US and China and the retreat of the North American treasuries rates have also contributed to the reduction of the future rates. Between March 5th and April 16th, the one-, three- and six-month interest rates fell by 0.86 p.p., 0.67 p.p. and 0.40 p.p., respectively. The rates for maturities of one, two and three years decreased by 0.34 p.p., 0.38 p.p. and 0.39 p.p., respectively. The real interest rate, as measured by the ratio between the nominal rate of one year and expected inflation (smoothed) for the next twelve months, decreased from 3.54% on March 5th, to 3.10% on April 16th, mainly due to the reduction in the nominal rates.
75. On March 27th, the BCB carried out reverse FX swap auctions destined to the rollover of securities maturing on April 2nd, totaling US\$2.1 billion in notional value.
76. In its open market operations, the BCB carried out weekly, between March 6th and April 16th, repo operations borrowing R\$19.9 billion for a six-month period. The average daily balance of the long term operations decreased from R\$161.0 billion, between January 17th and March 5th, to R\$144.2 billion, between March 6th and April 16th. In the same period, the BCB also borrowed money through repo operations with tenures between twelve and twenty nine working days, increasing the average daily balance of short-term borrowing



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operations to R\$283.2 billion. The BCB also borrowed money through 29 very short-term operations. The average daily balance of these operations totaled R\$52 billion in the period. The average daily balance of the total outstanding of repurchase agreements of the BCB increased from R\$443.3 billion, between January 17th and March 5th, to R\$479.4 billion, between March 6th and April 16th. Considering the operations for the most recent period, the total outstanding of repurchase agreements increased from R\$443.3 billion on March 5th to R\$488.4 on April 16th. The main factors that contributed to the expansion of liquidity in the period were the Central Bank intervention in the foreign exchange market, the net redemption of securities by the National Treasury and the release of reserve requirements resources.

77. Between March 6th and April 16th, the National Treasury issuance regarding the traditional auctions raised a total of R\$39.9 billion. The sale of fixed-rate securities reached R\$26.4 billion, with R\$22 billion via issuance of LTNs maturing in 2012, 2013, 2014 and 2016, and R\$4.4 billion via NTN-Fs maturing in 2018 and 2023. The sales of LFTs totaled R\$3.2 billion, with issuance of securities maturing in 2018. The sales of inflation-linked NTN-Bs reached R\$10.3 billion, for securities maturing in 2016, 2018, 2022, 2030, 2040 and 2050.