BANCO CENTRAL DO BRASIL

Minutes of the 171st Meeting of the Monetary Policy Committee (Copom)

Summary

Date: November 27th, 2012, from 4:11PM to 8:05PM, and November 28th, from 4:25PM to 7:35PM

Place: BCB Headquarters meeting rooms – 8th floor on November 27th and 20th floor on November 28th – 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
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on November 27th)
Adriana Soares Sales - Research Department (also present on November 28th)
Ariosto Revoredo de Carvalho - Department of Foreign Reserves
Bruno Walter Coelho Saraiva - International Affairs Department
Luiz Donizete Felício - Open Market Operations Department
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
Eduardo José Araújo Lima – Deputy-Head for the Research Department (present on November 28th)
Gustavo Paul Kurrle – Press Officer (present on November 27th)
Otávio Ribeiro Damaso – Chief of Governor ‘s Staff (present on November 27th)

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) stood at 0.59% in October, 0.02 percentage points (p.p.) above the registered in September. As a consequence, twelve-month trailing inflation reached 5.45%, compared to 6.97% in October 2011. Market prices changed 6.23% in the twelve months through October (7.24% in October 2011), and regulated prices, 3.23% (6.34% in October 2011). Among

market prices, the prices of tradable goods increased 4.00% in the twelve months through October (5.87% in October 2011), and the prices of non-tradable goods, 8.27% (8.41% in October 2011). The prices of food and beverages group, still impacted by domestic and external weather-related factors, increased by 1.36% in October (0.56% in October 2011) and reached 10.40% in twelve months. The prices of services rose 0.51% in September and in October, and reached 7.99% in twelve months (8.94% in October 2011). In short, services inflation still remains at high levels and the pressures in the food and beverages segment are decreasing.

2. The average of the underlying inflation measures calculated by the BCB has moved from 0.47% in September to 0.51% in October. On its turn, on a twelve-month trailing basis, the average change of the five core inflation measures moved from 5.23% in September to 5.25% in October. The smoothed trimmed means IPCA core inflation moved from 0.49%, in September, to 0.54% in October, while the non-smoothed trimmed means core inflation changed from 0.49% to 0.46% in the same period. Similarly, the double weight core inflation increased from 0.51% in September to 0.55% in October. At the same time, core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.47% in September to 0.51% in October, and the core inflation by exclusion of regulated prices and household food changed from 0.39% in September to 0.48% in October.

3. Inflation measured by the General Price Index (IGP-DI), decreased 0.31% in October, after increasing by 0.88% in September, resulting, on a twelve-month trailing basis, in 7.41% inflation (6.78% in October 2011). The main component of this indicator, the Wholesale Price Index (IPA), changed 7.92% in the twelve months through October, influenced by strong increase in the agricultural sector (17.21%), which was, on its turn, impacted by supply shocks. According to the breakdown by stage of production, there were increases in the prices of raw materials (9.27%), intermediate goods (9.00%) and final goods (5.48%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, stood at 5.97% in the twelve months through October (6.78% in October 2011). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.47%, in twelve months, partially driven by the increase in labor cost. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.72% in September (0.52% in August), and 6.99% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.

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 important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br decreased by 0.5% in September, after increasing by 1.0% in August. As a consequence, the indicator increased 1.2% in the third quarter, quarter-over-quarter, and 1.8% year-over-year. Therefore, the twelve-month accumulated growth stood at 1.1% in September. On its turn, the Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated in November, although it stands above the recent historical average of the index. On the other hand, the Services Sector Confidence Index (ICS) registered the third consecutive increase in November. Still according to the FGV, the Industry Confidence Index (ICI) retreated in November, according to the seasonally adjusted series, after three consecutive monthly increases. According to survey carried out by the IBGE, grains production should grow by 1.5% this year. For 2013, projections point to 5.1% expansion.

5. Industrial activity retreated by 1% in September, after expanding by three consecutive months, according to the series seasonally adjusted by the IBGE. Industrial production decreased in 16 of the 27 branches of activity. Year-over-year, industrial production fell 3.8% in September and 3.1% on a twelve-month accumulated basis, despite the 1.0% growth in the third quarter this year. According to the National Confederation of Industry (CNI), real revenues in the manufacturing industry decreased by 0.5% in September, year-over-year, and the number of hours worked retreated by 3.8%. As a consequence, real revenues grew by 3.1% between January and September, year-over-year, and the number of hours worked decreased by 2.0%.

6. Among the industry use categories, according to data seasonally adjusted by the IBGE, the production of durable consumer goods decreased by 1.4% in September, after three months of positive changes. The

production of semi-durable and nondurable consumer goods stood stable in September, while the production of capital goods and intermediate goods retreated 0.6% and 1.1%, respectively. Regarding the twelve-month accumulated growth through September, there were decreases in the production of durable consumer goods (-7.0%), semi-durable and non-durable consumer goods (-0.7%), capital goods (-9.6%) and intermediate goods (-1.9%).

7. The unemployment rate for the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated at 5.3%, 0.5 p.p. below the rate recorded in October 2011. According to the series seasonally adjusted by the BCB, the unemployment rate changed from 5.5% in September to 5.4% in October. The occupation level – which represents the share of occupied people relative to the share of people at working age – reached a record high for the series in October (55.0%). Still according to the PME, the average real income rose 4.6% in October, year-over-year. On its turn, real payroll increased 7.8% compared to October 2011. Data released by the Ministry of Labor and Employment (MTE) show that, in October, 67.0 thousand formal jobs were created (126.1 thousand in October 2011). The sectors that contributed the most to this increase, in absolute terms, were trade and services. In short, the set of available data indicates a heated labor market, although with some signs of moderation at the margin.

8. According to the retail monthly survey (PMC) from IBGE, retail sales volume increased 8.5% in September, year-over-year, and broad retail sales increased 2.0%, according to the same comparison basis. Month-on-month, retail sales expanded by 0.3% in September, according to the seasonally adjusted series, and broad retail sales fell by 9.2% - partially due to the reversion of gains, which happened in August, and which stemmed from fiscal stimuli to the vehicles segment. As a consequence, the broad retail sales growth accumulated in the twelve months through September stood at 6.6% in September, with expansion in all ten sectors surveyed, with highlights for office, computer and communication material and equipment (17.9%) and furniture and appliances (13.3%). The Trade Confidence Index (ICOM), measured by the FGV, increased for the third consecutive month in October, with improvement in the perception of current situation and in expectations. For the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by moderate credit expansion.

9. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, slightly retreated in November to 85.2%, standing 0.7 p.p. above the level observed in November 2011. According to the seasonally adjusted series calculated by the FGV, the Nuci stood at 84.0% in November, 0.7 p.p. above the level recorded in November 2011 and 2.7 p.p. below the record high of the series recorded in June 2008. Capacity utilization intensified in the consumer goods sector throughout the last months, and reached 86.8% in November. In the sectors of capital goods, intermediate goods and construction inputs, the levels stood at 80.9%, 85.3% and 90.3%, respectively.

10. The trade balance on a twelve-month accumulated basis retreated to US$21.8 billion in October. This result stemmed from US$246.3 billion in exports and US$224.5 billion in imports, associated to changes of -1.8% and 2.2%, respectively, compared to the previous twelve months. On its turn, the current account deficit in the same period reached US$52.2 billion in October, equivalent to 2.3% of GDP, while foreign direct investment totaled US$66.0 billion in the twelve months through October, equivalent to 2.9% of GDP, surpassing the need for external financing.

11. Global economy faces a period of above-than-usual uncertainty, with prospects of low growth for a prolonged period, despite the recent accommodation in the volatility and risk aversion indicators. High unemployment rates for a long period, coupled with the implementation of fiscal adjustments, the limited space for countercyclical actions and political uncertainties are translated into projections of low growth for mature economies, mainly in Europe. The compound leading indicator released by the Organization for Economic Cooperation and Development (OECD), related to September, indicates stabilization in the growth of the United States (US) and China and some deterioration in the Euro Area and in Japan. The disaggregated indicators of the Purchasing Managers Index (PMI) for October, as well as the preliminary results for November, suggest moderate global activity, mainly in the manufacturing sector, despite signaling growth in the US and in the main emerging economies. Regarding monetary policy, advanced economies persist with strongly accommodative stances. Core inflation measures have remained at moderate levels in the US, in the

Euro Area and in Japan. In emerging economies, in general, the monetary policy bias is expansionist, which combines, in some cases, with other countercyclical policies.

12. The price of Brent oil barrel has remained above US$110. It bears highlighting that the even higher 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. As measured by the Commodity Research Bureau (CRB), since the last Copom meeting, international prices of metallic commodities have remained stable, while those of agricultural commodities have retreated 1.7%. Therefore, relative to the record highs observed in April 2011, the changes reached -21.7% and -14.2%, respectively. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a fall of 10.3% until October, compared to the peak recorded in February 2011. In the recent past, the high volatility observed for the commodities prices was influenced by the abundant global liquidity, in a context where financial markets adjust to new expectations for growth and to volatility in FX markets.

Assessment of Inflation Trends

13. 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, for 2012, was maintained at 0%, the same value considered at the October Copom meeting;
b) the projected adjustment for electricity, for 2012, was maintained at 1.4%, the same value considered at the October Copom meeting;
c) the projected adjustment for 2012 for bottled gas, for 2012, increased to 3.5%, up from 0% considered at the October Copom meeting;
d) The projected adjustment for fixed telephone tariff, for 2012, was reduced to -1.6%, down from -1.3% considered at the October Copom meeting;
e) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2012, was reduced to 3.4%, down from 3.6%, considered at the October Copom meeting; and
f) the projected adjustment for the set of regulated prices accumulated in 2013 was maintained at 2.4%, the same value considered at the October Copom meeting; for 2014, the projection is 4.5%. These projections are based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).

14. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates -9 bps, 40 bps and 30 bps spreads for the fourth quarter of 2012, 2013 and 2014, respectively.

15. Regarding fiscal policy, projections assume the achievement in 2012 of the public sector primary surplus around 3.10% of GDP, with adjustments. Furthermore, as a working hypothesis, a primary surplus around 3.10% of GDP for 2013, without adjustments, is accepted, according to parameters set out in the Budget Guidelines Law (LDO) - 2013. For 2014, as a working hypothesis, a primary surplus of 3.10% of GDP is accepted, without adjustments.

16. The set of projections incorporates the estimated effects of the reduction in the neutral interest rate identified over the last years.

17. 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 increased from 5.42% to 5.43%. For 2013, the median of inflation expectations decreased from 5.44% to 5.40%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the median of expectations for the 2012 IPCA changed from 5.39%, 5.44% and 5.40% to 5.41%, 5.43% and 5.43%, respectively. For 2013, the median changed from 5.47%, 5.51% and 5.40% to 5.34%, 5.46% and 5.39%, in the same order.

18. The baseline scenario assumes the maintenance of the exchange rate at R$2.10/US$1.00 and the Selic rate at 7.25% p.a. during the forecast period. Under this scenario, the projection for the 2012 inflation increased relative to the figure considered at the October Copom meeting and stands above 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, 2012 IPCA inflation forecast increased and stands above the midpoint inflation target. For 2013, the inflation projection remained stable in both scenarios – also above the midpoint target in both cases. For 2014, the inflation forecast is around the midpoint inflation target in both scenarios.

Monetary Policy Decision

19. 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 Copom 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 macroeconomic policy actions may influence the prices 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.

20. 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 investments 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.

21. The Copom considers that, since its 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. In this context, despite identifying a decrease in the probability of occurrence of extreme events in international financial markets, the Copom considers that the external environment remains complex. The Copom understands that, overall, the prospects of moderate global activity have remained unchanged. It also notes that, in mature economies, there seems to be limited leeway for monetary policy actions, and a scenario of fiscal restraint also prevails, in this and in the upcoming years. On the other hand, in important emerging economies, the pace of activity has intensified, supported by the resilience of domestic demand. The Copom also highlights the evidences of moderation of localized price pressures in agricultural commodities segment, which had arisen between the second and third quarters of the year and were a consequence of an unfavorable supply shock.

22. The Copom considers that the prospects for domestic economic activity are favorable, in this and in the upcoming semesters, 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 corporations, and by the fact that the consumers' confidence and, in a lower scale, the businessmen's confidence, stand at a high level. The Committee believes, additionally, that the domestic activity will continue to be favored by public transfers, as well as by labor market force, which is reflected in historically low unemployment rates and in wage growth, despite some accommodation at the margin.

23. The Copom notes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It is noteworthy that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, will strengthen the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.

24. 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.

25. The Copom emphasizes that its main scenario includes prospects for stronger economic activity in this and in the upcoming semesters and limited 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 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 is below the long-term trend, in other words, it is contributing to the opening of the output gap and to contain prices pressures. Furthermore, the Copom emphasizes that the outlook for the upcoming semesters indicates moderation in the price dynamics of some real and financial assets. Under the Committee's view, evidences such as the accommodation of wholesale prices indicate the cooling of pressures on consumer prices, resulting from the instability in the prices of *in natura* products and grains observed in the last months.

26. In short, the Copom considers that the prospective scenario for inflation shows favorable signs and reaffirms its view that inflation accumulated in twelve months tends to move towards the target path, even in a non-linear way.

27. In this context, the Copom unanimously decided to maintain the Selic rate at 7.25% p.a., without bias.

28. The following members of the Committee voted for this decision: Alexandre Antonio Tombini, Governor, Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.

29. The Copom evaluates that domestic demand tends to show robustness, especially regarding 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. For the Committee, these effects, the programs of public services concession and the gradual recovery of businessmen's confidence create good prospects for investment in this and in the upcoming semesters. The Committee considers that recent initiatives indicate the balance of the public sector moving from a position of neutrality to expansionism. On the other hand, the Committee notes that the fragile international scenario represents an important factor restraining aggregate demand. These elements and the developments in the quasi fiscal field and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

30. The Copom understands that the Brazilian economy has experienced significant structural changes, which determined retreat in 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's current solid indicators of solvency and liquidity.

31. 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.

32. In light of the above, considering the balance of risks to inflation, the domestic activity recovery and the complexity involved in the international environment, the Committee believes that the stability of monetary conditions for a sufficiently long period of time is the most appropriate strategy to ensure the convergence of inflation toward the target, even in a non-linear way.

33. At the end of the meeting, it was announced that the Committee will reconvene on January 15th, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665 of June 27th, 2012.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

34. The IPCA-15 rose 0.54% in November, down from 0.65% in October, totaling 5.05% in the year and 5.64% in twelve months, compared to 5.56% in the twelve months through October, according to data released by the IBGE. The monthly result reflected deceleration in market prices and acceleration in regulated prices. Regarding market prices, which increased 0.60% in November, compared to 0.76% in October, the movement was influenced by the behavior in the prices of tradable goods, which decreased from 1.16% to 0.79%, while the prices of non-tradable goods accelerated to 0.43%, up from 0.40%, reflecting mainly the acceleration in the prices of services, which increased 0.71% in November, up from 0.43% in October. Regulated prices rose 0.36% in November, up from 0.31% in October. The monthly IPCA-15 change mainly stemmed from the increases in the prices of food and beverages, which contributed 0.20 p.p., and housing and transportation, both with identical contributions of 0.09 p.p.. The diffusion index stood at 63.84% in November, down from 66.03% in October.

35. On a twelve-month basis through November, market prices accelerated in relation to October, from 6.27% to 6.32%, and regulated prices accelerated, from 3.55% to 3.67%. The evolution of market prices reflected the effect of the acceleration in the prices of tradable goods, from 4.27% to 4.56%, while the prices of the non-tradable goods decelerated, from 8.07% to 7.91%. The prices of the services segment increased 7.76% in the last twelve months through November, compared to 7.61% and 7.64%, in the corresponding periods through October and September, respectively.

36. The IGP-10 changed -0.28% in November, after increasing 0.42% in October, according to the FGV, reflecting the retreat in the IPA and deceleration in the IPC and INCC. The index accumulated an increase of 6.75% in the year and 6.95% in twelve months.

37. The IPA-10 changed -0.57% in the month, compared to 0.40% in October, totaling 7.36% in the year and 7.33% in twelve months. The prices of agricultural and livestock products decreased 1.10% in November, up from 0.53% in the previous month, totaling 16.06% in the year and 15.93% in twelve months. The prices of industrial products decreased 0.35% in the month, up from the rise of 0.34% in October, totaling 4.23% in the year and 4.24% in twelve months. The monthly performance of the prices of agricultural and livestock products evidenced, in particular, the changes registered in the prices of soybeans (-5.94%) and tomatoes (-32.61%), with respective contributions of -0.39 p.p. and -0.11 p.p. for the IPA-10 result. Among the prices of industrial products, the main influences were exerted by metallic minerals and vegetable oils and fats, with respective retreats of 4.71% and 4.13%, and individual contributions of -0.23 p.p. and -0.14 p.p. to the monthly index.

38. The IPC-10 rose 0.36% in November, down from 0.57% in October, totaling 5.05% in the year and 5.73% in twelve months. The IPC-10 change in November was mainly influenced by the lower increases in the prices of the food group, whose contribution dropped from 0.27 p.p. in October to 0.07 in November. The INCC-DI changed 0.22% in the month, down from 0.24% in the previous month, as a result of the acceleration in the costs of labor force (from 0.00% to 0.09%) and of the deceleration in the prices of materials, equipment and services (from 0.50% to 0.35%). The INCC-DI accumulated increases of 6.67% in the year and 7.23% in the twelve months.

39. The IPP/IT increased 0.72% in September, after increasing 0.52% in August, accumulating 6.35% increase in the year, compared to 1.99% in the same period of last year, and expanding by 6.99% in the twelve months through September, compared to 7.53% in the same period through August. The monthly result of the IPP/IT was mainly influenced by the increases in the prices related to the industries of other chemical products, food and beverages, which contributed 0.40 p.p., 0.17 p.p. and 0.13 p.p., respectively, partially offset by the contributions concerning divisions of motor vehicles, trailers and bodies, -0.09 p.p., and metallurgy, -0.06 p.p.. The index change in the twelve months through September reflected, mainly, elevation related to the contribution stemming from the industries of food products, 2.93 p.p..

40. The Commodities Index Brazil (IC-Br) decreased 0.71% in October, after increasing by 0.29% in September, reflecting changes of -1.02%, -0.67% and 0.97% related to the segments of agriculture and livestock, metal and energy, respectively. In the year, the index accumulates an increase of 8.17%, with expansions of 7.82%, 10.68% and 7.67%, in the respective sub-indexes. In the last twelve months through September, the index accumulates an increase of 6.11%, with increases of 5.15%, 8.78% and 8.21% in the sub-indexes, in the same order.

Economic Activity

41. The Economic Activity Index of the BCB (IBC-Br) decreased 0.52% in September, month-on-month, considering seasonally adjusted data. In the quarter ended in September, the index increased 1.15%, over the quarter ended in June, when it had increased 0.61%, according to the same comparison basis. Considering observed data, the IBC-Br increased 0.44% in September, year-over-year, compared to the 2.73% expansion recorded in August, according to the same comparison basis. The index increased 1.20% in the year and 1.14% in the twelve months through September.

42. Broad retail sales, which include vehicles and construction inputs, decreased 9.2% in September, month-on-month, according to data seasonally adjusted from the IBGE’s retail monthly survey (PMC), after increase of 2.7% in August and decrease of 1.0% in July. With this result, broad retail sales grew 1.7% in the quarter ended in September, relative to the quarter ended in June, when it had increased by 3.2%. By segment, six out of the ten surveyed segments increased, with highlights for the fall of vehicles, motorcycles, parts and pieces (-22.6%) and office, computer and communication material and equipment (-9.2%), in contrast to the 0.9% increase in fuels and lubricants, and in hypermarkets, supermarkets and food products. In the year, broad retail sales increased 7.8%. Retail sales volume increased 0.3% in September, month-on-month seasonally adjusted, after increases of 0.2% in August and 1.3% in July, according to the same comparison basis. There were expansions of 2.3% quarter-over-quarter, considering seasonally adjusted data, 8.9% in the year and 8.1% in twelve months.

43. Considering observed data, broad retail sales increased 2% in September, year-over-year, with expansion in eight segments, with highlights for the increases in fuels and lubricants (10.9%); other articles of domestic and personal use (9.9%); hypermarkets, supermarkets and food products (9.4%); and pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (8.1%); in contrast to the contraction of 9.5% in vehicles, motorcycles, parts and pieces. In the twelve months through September, broad retail sales increased 6.6%, mainly driven by increases in the sales of office, computer and communication material and equipment (17.9%), furniture and household appliances (13.3%); and pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (10%).

44. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 341.7 thousand units in October, expanding by 0.1%, month-on-month, after decreasing by 15.9% in September and increasing by 8.9% in August, according to the Automotive Vehicles Distribution National Federation (Fenabrave) data, seasonally adjusted by the BCB. In the quarter ended in October, sales expanded by 2.3%, compared to the 17.7% increase in the previous quarter. In the year, automobile vehicles sales increased 5.7%, as a consequence of the increase in the sales of cars (8.4%) and light commercial vehicles (3.5%); in contrast, the sales of trucks and buses fell by 21.5% and 14.3%, respectively.

45. Capital goods imports quantum index, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, increased 8.9% in October, month-on-month. According to the observed data, the index increased 13.8% year-over-year, 1.8% in the year and 3.1% in the twelve months.

46. Capital goods production decreased 0.6% in September, accumulating a 0.5% increase in the quarter, compared to the one ended in June, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The performance of the category in the month was influenced by the decrease in the production of equipment for construction (-9.4%), agricultural capital goods (-7.6%) and equipments of mixed use (-5%); partially offset by the expansion of other segments, with highlights for the increase of 7.3% in transportation equipment.

47. Construction inputs production decreased by 3.2% in September, accumulating an increase of 1% in the quarter, compared to the quarter ended in June, considering seasonally adjusted data. Compared to the same periods of 2011, the segment recorded changes of -3.2% in the month, 2.2% in the year and 2.5% in twelve months.

48. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R$141.8 billion in the twelve months through September, 7.4% above the one registered in the same period of 2011, with highlights for the expansion of 15.8% in funding for the manufacturing industry. In the period, the infrastructure sector absorbed 35% of the total funds released, followed by industry, 34%, commerce and services, 24%, and agriculture and agriculture and livestock, 7%.

49. Industrial production decreased 1% in September, according to IBGE seasonally adjusted data, after a 1.7% increase (revised) in August, reflecting retraction of 1.6% in the mining industry and 0.6% in the manufacturing industry. By use categories, most of the categories recorded retraction, except in the production of the semi and non-durable consumer goods, which remained stable: durable consumer goods (-1.4%), intermediate goods (-1.1%) and capital goods (-0.6%). Fifteen out of the 26 manufacturing industry activities surveyed decreased in the month, with highlights for the segments of tobacco (11.7%), and perfumery and cleaning products (10%). On the other hand, pharmaceutical products and other transportation equipment presented the sharpest monthly increases, of 6% and 4.4%, respectively. The industrial production increased 1% in the quarter ended in September, over the quarter ended in June, when it had decreased by 0.9%, according to the same comparison basis, reflecting expansion of 1.1% in the manufacturing industry, while the mining industry decreased 1.9%. The quarterly evolution was influenced by the increase in the industries of tobacco (30%), automobile vehicles (6.2%) and of pharmaceutical products (5%); in contrast, office machines and computer equipment and metal products recorded the sharpest decreases, 4.6% and 4.2%, respectively, in the analyzed period. Considering observed data, industrial production decreased 3.8% in the month, year-over-year, 3.4% in the year and 3.1% in twelve months, mainly reflecting the decreases of 14%, 12.4% and 9.6%, in order, of the capital goods segment.

50. The Nuci in the manufacturing industry reached 84% in November, a 0.2 p.p. decrease month-on-month, according to data seasonally adjusted by the FGV. Expansions were registered for construction inputs (2.6 p.p.) and non durable consumer goods (0.3 p.p.). On the other hand, decreases were recorded for intermediate goods (0.5 p.p.), capital goods (0.4 p.p.) and durable consumer goods (0.2 p.p.). Considering the observed series, the Nuci increased 0.7 p.p., year-over-year, reaching 85.2%, as a result of the increases in durable consumer goods (4.7 p.p.) and non-durable consumer goods (3.5 p.p.), as opposed to the decrease in

the indicators related to capital goods (2.4 p.p.), construction inputs (0.2 p.p.), and intermediate goods (0.1 p.p.).

51. Vehicles output reached 318.7 thousand units in October, representing increases of 2.5% month-on-month and 6.7% in the quarter ended in October, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. Considering observed data, vehicles output increased 20.2% year-over-year, and decreased 3.3% in the year and 3.7% in twelve months.

52. According to data released by Anfavea, national vehicle licensing increased 3.1% in October, month-on-month, and 5.3% in the quarter ended in October, considering data seasonally adjusted by the BCB. Regarding observed data, there were changes of 33.6% year-over-year, 8.3% in the year and 4.3% in twelve months. Automobile exports totaled 41.8 thousand units in October, representing retractions of 21.2% year-over-year, 18.4% in the year and 10.8% in twelve months. According to the series seasonally adjusted by the BCB, exports increased 20.6% in the month, month-on-month, and 10.2% in the quarter ended in October, as compared to the quarter ended in July.

53. The LSPA survey carried out by the IBGE regarding October projected 162.6 million tons for the 2012 national harvest of grains, representing an increase of 1.5% year-over-year and a decrease of 0.7% over the September crop forecast. The new forecast presented less favorable prospect for the harvest of wheat and corn, with decrease of 8.5% and 1.1%, respectively, month-on-month. Regarding the 2011 harvest of grains, the new projection estimates expansion in the harvest of corn (27.1%), exclusively reflecting an expected increase of 73.4% for the second harvest, as opposed to the declines projected for the harvests of beans (-18.8%), rice (- 15.0%), wheat (-14.9%) and soybeans (-12.5%). In addition, a decrease of 7.5% is projected for the harvest of sugarcane, year-over-year, 0.2% above the previous estimate. Still according to the IBGE, which prepared the first forecast for the 2013 harvest, grain production is estimated to reach 170.9 million tons, 5.1% higher than the projection for 2012, specially favored by the expected increase of 21.5% in the production of soybean.

Surveys and Expectations

54. The Consumer Confidence Index (ICC), considering data seasonally adjusted from the nationwide Consumer Expectations Survey (FGV), decreased 1.4% in November, month-on-month, to 120 points, driven by the reduction of 0.7% in the Current Situation Index (ISA) and of 1.9% in the Expectations Index (IE). The ICC increased 0.9% year-over-year, considering observed data, as a result of the increase of 3.1% in the IE and retreat of 2.4% in the ISA.

55. The ICS, calculated by the Services Survey carried out by the FGV, increased 3.2% in November, month-on-month seasonally adjusted, moving from 121.5 to 125.4 points, as a result of the increases of 4.5% in the Current Situation Index (ISA-S) and 2.3% in the Expectations Index (IE-S). The ICS decreased 3.7%, year-over-year, as a result of a 7.2% decrease in the ISA-S and the 0.7% in IE-S.

56. The Commerce Confidence Index (ICOM), measured by the Commerce Survey from the FGV, reached 131.7 points in October, increasing 3.4% year-over-year. The result reflected increases of 3.6% both in the Current Situation Index (ISA-COM) and in the Expectations Index (IE-COM). In the quarter ended in October, the ICOM decreased 0.7% year-over-year, due to the retreats of 0.8% in the ISA-COM and 0.5% in the IE-COM.

57. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), decreased 0.8% in November, month-on-month, to 105.2 points, driven by the reduction of 0.6% in the Current Situation Index (ISA) and of 1.0% in the Expectations Index (IE). The ICI increased 4.3% year-over-year, as a result of the increases of 5.0% in the ISA and of 3.7% in the IE.

58. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 120.7 points in October, decreasing 2.4% year-over-year. The result reflected increase of 0.6% in the Current Situation Index (ISA-ICST) and decrease of 5.0% in the Expectations Index (IE-ICST). In the quarter ended in

October, the ICST decreased 5.1%, year-over-year, due to the retreats of 5.5% in the ISA-ICST and 4.7% in the IE-ICST.

Labor Market

59. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 67 thousand formal jobs were created in October, of which 49.6 thousand jobs were created in the retail sector, 32.7 thousand jobs in the services sector and 17.5 thousand jobs in the manufacturing industry, opposed to the net close of 20.2 thousand jobs in the agriculture and livestock sector and 8.3 thousand jobs in civil construction. In the year, 1.3 million thousand jobs were created and, in twelve months, 953.7 thousand, compared to 1.9 million and 1.7 million, respectively, in the same periods of 2011. Month-on-month, formal job creation expanded by 0.2%, considering data seasonally adjusted by the BCB.

60. According to the IBGE employment survey (PME), conducted in the six major metropolitan areas, the unemployment rate reached 5.3% in October, with decreases of 0.1 p.p. month-on-month and 0.5 p.p. year-over-year. The monthly result reflected an increase of 0.9% in the employed population and 0.8% in the Economically Active Population (PEA). Considering seasonally adjusted data by the BCB, unemployment reached 5.4% in October, down from 5.5% in the previous month. According to the same survey, the average real income usually earned by workers grew 0.3% month-on-month, 4.6% year-over-year, and 4.1% in the year. Real payroll expanded by 1.2%, 7.8% and 6.1%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

61. Outstanding credit in the financial system reached R$2,269 billion in October, increasing by 1.4% in the month, 11.8% in the year and 16.6% in twelve months, equivalent to 51.9% of GDP. Non-earmarked credit operations, which represented 63.4% of the total of the financial system, increased 1.1% in the month, 10.3% in the year and 14.2% in twelve months, reflecting respective changes of 1%, 9.1% and 11.3% for credit operations to individuals, and 1.2%, 11.4% and 17.2% for credit operations to corporate, in the same order. Earmarked credit operations increased, respectively, 1.9%, 14.5% and 20.9% according to the same comparison bases, highlighting the expansions of 2.7%, 30.8% and 37.8%, respectively, in housing credit.

62. The average annual interest rate on reference credit operations reached 29.3% in October, decreasing 0.6 p.p. in the month and 10.2 p.p. in twelve months. The average annual rate on credit for individuals and corporate reached, respectively, 35.4% and 22.1%, registering respective decreases of 0.4 p.p. and 0.5 p.p., month-on-month, and 11.7 p.p. and 7.7 p.p., year-over-year.

63. The average tenure on reference credit operations increased thirteen days in October, reaching 522 days. The tenure related to individuals and corporate segments increased four and twenty-one days, respectively, reaching 620 and 432 days, in the order.

64. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) remained stable at 5.9% in October, for the fourth consecutive month, representing an increase of 0.4 p.p. year-over–year. The indicator for the operations with individuals reached 7.9% in the month, remaining stable month-on-month, and increasing 0.8 p.p. in twelve months. The delinquency rate for credit operations to the corporate segment reached 4.1%, increasing 0.1 p.p. in the month and in twelve months.

External Environment

65. Since the last Copom meeting, the global activity continues at a moderate pace and heterogeneous development, with expansion in the US and China and contractions in the Euro Area and Japan. In the third quarter, the GDP annualized quarterly changes reached 2% in US, 9.1% in China, -0.2% in the Euro Area and -3.5% in Japan, compared to respective variations of 1.3%, 8.2%, -0.7% and 0.3 % recorded in the previous quarter. In the US, the acceleration in growth reflected expansions in household consumption and in the

federal government expenditures, and additional improvements in the housing market, reflected in growth of housing prices, in the amount of new houses being built and in the building confidence index. Although the unemployment rate continues at a high level, 7.9% in October, non-rural job creation reached 171 thousand in the same month, with upward revisions in the data relative to the previous three months. In the Euro Area, which registered, in the third quarter, four straight consecutive quarters with no growth, the most recent indicators for industrial production, consumption, economic sentiment and unemployment rate, suggest the continuity of this scenario. In Japan, all components of demand recorded contractions in the third quarter, with highlights for the reduction of 18.7% in exports. In China, average monthly growth rates observed in the third quarter, compared to the previous quarter, indicated improvement in industrial production and retail sales and slowdown in fixed asset investment. In October, the three-month moving average for these same variables increased relative to September. It bears highlighting the recovery in Chinese exports in September and October, with growth of 9.9% and 11.6%, year-over-year, respectively.

66. The financial and commodities markets were affected, since the last Copom meeting, by uncertainties related to the fiscal issue in the US and definitions regarding the continuity of adjustment programs in some countries of the Euro Area. Additionally, the pressure over the prices of grains was reduced, as a result of better prospects regarding the 2012/2013 South American harvest and favorable revisions in estimates released by the USDA (United States Department of Agriculture). Under this scenario, most commodities, including soybeans, wheat, coffee, sugar and Brent oil, have depreciated since the last Copom meeting. In financial markets, the stock markets of major countries presented divergent trajectories, a fact that was repeated regarding the US dollar exchange rate against other currencies. The CBOE VIX index remained high until the first week of November and since then it started to retreat, reaching the same level of the previous meeting.

67. In October, the annual change in the global CPI, regarding data from the International Financial Statistics (IFS) from the IMF, decreased to 3.3%, down from 3.4% in September. According to the same source, the annual change in the CPI for the advanced economies increased to 1.9%, up from 1.8% in September, the third consecutive month of increase, while for emerging and developing countries, available data until September, the annual change in the CPI decreased to 5.8%, down from 5.9% in August. Among the advanced economies, it bears noticing the increase in the US, with the CPI registering annual growth of 2.2% in October. Among emerging economies, it bears highlighting the reduction in China's CPI to 1.7% in October, largely due to the slowdown in food prices, the lowest annual growth since January 2010, when consumer inflation reached 1.5%.

68. In developed economies, official interest rates were maintained at the record low levels in the US, between 0 and 0.25%; in the Euro Area, 0.75%; in Japan, between 0 and 0.1% and in the UK, 0.5%. In other economies, the rates also remained at the current levels, with the exception for Colombia, South Korea, Thailand, the Philippines, Poland and Israel, which have reduced their respective basic interest rates by 25 b.p., for the Czech Republic, whose rate was reduced by 20 b.p. to 0.05% p.a., and for Hungary, which decreased by 50 b.p. Regarding unconventional measures of monetary policy, the BoJ expanded again the size of its program of asset purchases, from ¥ 11 trillion to ¥ 91 trillion, amount to be paid at the end of 2013.

Foreign Trade and International Reserves

69. The Brazilian trade surplus reached US$1.7 billion in October, as a result of US$21.8 billion in exports and US$20.1 billion in imports. In the year through October, the trade surplus totaled US$17.4 billion, down from US$25.4 billion in the same period of 2011, reflecting retreat of 5.5% in exports and 1.9% in imports, according to the daily average criterion. Total external trade declined 3.8% in the year through October, according to the daily average criterion, totaling US$387.3 billion, down from US$398.9 billion in the same period of 2011.

70. International reserves reached US$377.8 billion in October, decreasing US$973 million month-on-month and increasing US$25.7 billion year-over-year. In the month, there were no BCB´s interventions in the domestic exchange rate spot market.

BANCO CENTRAL DO BRASIL

Money Market and Open Market Operations

71. After the October Copom meeting, the domestic yield curve showed relative stability. During the period, discreet increase in the interest curve slope was observed, with retreat in the short-term rates and increase in the long-term part. Domestically, concerns with the impact of the dollar valuation against the BRL over future inflation, the possible increase in fuel prices and the reduction of electricity tariffs below expectations contributed to this movement. Between October 8th and November 26th, one- and two-month interest rates fell by 0.09 p.p. and 0.07 p.p., respectively. The rate for one-year maturity increased 0.03 p.p.. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, increased from 1.67% on October 8th to 1.81% on November 26th, mainly due to the reduction in inflation expectations.

72. Between October 9th and November 26th, the BCB carried out reverse FX swap auctions maturing in December 2012 and January 2013, in an amount equivalent to US$3.1 billion. It also carried out, on November 23rd, traditional FX swap auctions maturing in December 2012, in an amount equivalent to US$1.6 billion. The net balance of BCB swap operations is US$3.4 billion, long in FX change.

73. In its open market operations, the BCB carried out weekly, between October 9th and November 26th, repo operations borrowing R$13.9 billion for a three-month period and R$47.7 billion for a six-month period. The average daily balance of the long-term operations increased from R$140.9 billion, between August 28th and October 8th, to R$180.1 billion, between October 9th and November 26th. In the same period, the BCB also borrowed money through very short term repo operations with tenure of thirty-two working days, increasing the average daily balance of short-term borrowing operations to R$368.6 billion. The BCB also conducted very short-term operations through 32 borrowing operations, and carried out leveling operations, at the end of the day, with tenures of two working days. The average daily balance of these operations totaled R$40.3 billion in the period, borrowing. The average daily balance of the total outstanding of repurchase agreements of the BCB increased from R$586.8 billion, between August 28th and October 8th, to R$589.0 billion, between October 9th and November 26th. Considering the operations for the most recent period, the total outstanding of repurchase agreements decreased from R$606.8 billion on October 8th to R$577.8 billion on November 26th. The main factors that contributed to the contraction of liquidity in the period were the net revenues of the Union and the net issuance of securities by the National Treasury.

74. Between October 9th and November 26th, the National Treasury issuance regarding the traditional auctions totaled R$42.5 billion. The sale of fixed-rate securities reached R$31.9 billion, of which R$28.8 billion in LTNs maturing in 2013, 2015 and 2016, and R$3.1 billion in NTN-Fs maturing in 2018 and 2023. The sales of LFTs totaled R$1.4 billion, with the issuance of securities maturing in 2018. In auctions of NTN-Bs, securities maturing in 2016, 2018, 2022, 2030, 2040 and 2050 were sold, totaling R$9.2 billion.