BANCO CENTRAL DO BRASIL

Minutes of the 174th Meeting of the Monetary Policy Committee (Copom)

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Date: April 16th, 2013, from 4:12PM to 7:30PM, and April 17th, from 4:12PM to 7:56PM

Place: BCB Headquarters meeting rooms – 8th floor on April 16th and 20th floor on April 17th – 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 April 16th)
Bruno Walter Coelho Saraiva - International Affairs Department
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
Eduardo José Araújo Lima - Research Department (also present on April 17th)
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
Tulio José Lenti Maciel – Economic Department

Other participants (present on April 16th)
Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor ‘s Staff

The members of the Copom 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 0.47% in March, 0.26 percentage points (p.p.) above the registered in March 2012. As a consequence, inflation in twelve months reached 6.59% in March (compared to 5.24% in March 2012). Market prices changed 8.20% in twelve months (5.49% until March 2012), and regulated prices, 1.61% (4.58% until March 2012). Among market prices, the prices of tradable goods increased 6.90%, and the prices of non-tradable goods, 9.35%. The prices of food and beverages group, still impacted by weather-related factors, increased by 1.14% in March and reached

13.49% in twelve months (6.30% until March 2012). The prices of services rose 8.38% in twelve months (7.75% until March 2012). In short, services inflation remains at high levels, and there are pressures in the food and beverages segment.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.59% in February to 0.41% in March, and on a twelve-month trailing basis, it moved from 5.97% in February to 6.14% in March. Specifically, the smoothed trimmed means IPCA core inflation retreated from 0.53% in February to 0.47% in March, the non-smoothed trimmed means, from 0.61% to 0.48%, the double weight core inflation, from 0.55% to 0.46%, and the core inflation by exclusion of regulated prices and household food, from 1.00% to 0.31%. On the other hand, the core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.28% to 0.35%.

3. Inflation measured by the General Price Index (IGP-DI) increased 0.31% in March and 0.20% in February, and accumulates change of 7.97% in the twelve months through March (3.32% in the twelve months through March 2012). In this period, the main component of this indicator, the Wholesale Price Index (IPA), changed 8.78%, mainly influenced by pressures stemming from the agricultural sector, driven by unfavorable supply shocks. According to the breakdown by stage of production, there were increases in the prices of raw materials (8.48%), intermediate goods (9.00%) and final goods (8.64%), 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 6.16% in twelve months through March (5.50% in the twelve months through March 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.18% in the period (8.10% in the twelve months through March 2012), 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 7.73% in twelve months, despite the retreats of 0.10% in January and 0.33% in February. 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 retreated by 0.5% in February, after increasing by 1.4% in January. Year-over-year, the economy grew 3.8% in January and 0.4% in February, with twelve-month trailing growth moving from 0.8% in January to 0.9% in February. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated for the sixth consecutive month in March, considering seasonally adjusted data. On its turn, the Services Sector Confidence Index (ICS) increased in March, reflecting the improvement in the perception of the current situation. The industrial businessmen confidence, measured by the Industry Confidence Index (ICI), retreated in March, after three consecutive months of elevation. Regarding agriculture, the Agricultural Production Systematic Assessment, carried out by the IBGE, indicates that grains production should grow by 12.0% in 2013, relative to the 2012 harvest.

5. Credit conditions indicators, elaborated by the BCB based on quarterly consultation to institutions representing each credit market segment, evidence, for the second quarter of 2013, expectation of moderate increase in the pace of concessions of new credit operations for all segments. For corporate, the expectation of concessions' increase is partially due to the expectations of improvement in the domestic economy conditions and of retreat in the delinquency rate relative to micro, small and medium-sized companies. Regarding credit to individuals, an increase in concessions is expected, boosted by the retreat in delinquency and in the household banking debt service, in the case of consumer credit; and by the competition, in the case of the housing segment.

6. Manufacturing activity retreated 2.5% in February, after a 2.6% increase in January, according to the general industrial production series seasonally adjusted by the IBGE. Production decreased in 15 of the 27 branches of activity. Thus, the production grew 0.3% in the quarter ended in February, quarter-over-quarter. On its turn, industrial production accumulated in the last twelve months changed from -2.0% in January to -1.9% in February. According to data released by the National Confederation of Industry (CNI), real revenue in the

manufacturing industry increased 0.5% in February, compared to the same month of the previous year, and the number of worked hours decreased 0.9%.

7. Among the industry use categories, according to data seasonally adjusted by the IBGE, and considering the month-on-month growth in February, the production of capital goods grew 1.6%. At the same time, the production of intermediate goods changed -1.3%; the production of durable consumer goods, -6.8%, and the production of semi-durable and nondurable consumer goods, -2.1%. Year-over-year, the production of capital goods increased 9.1%, the production of intermediate goods retreated 4.4%, the production of durable consumer goods changed -2.2%, and the one related to semi-durable and non-durable consumer goods, -5.8%. Growth accumulated in the last twelve months through February showed retreat in all use categories: capital goods, -7.8%; intermediate goods, -1.5%; semi-durable and non-durable consumer goods, -0.4%, and durable consumer goods, -0.3%.

8. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated at 5.6% in February (5.7% in February 2012). According to the BCB seasonally adjusted series, the unemployment rate in March retreated to 5.3% - equal to the record low of the historical series started in March 2002. The reduction in the Working Age Population (WAP) growth rate during the last years has contributed to the process of reduction in the unemployment rates. On its turn, the occupation level retreated for the third consecutive month and reached 54.0% of the WAP in February. Still according to the PME, the average real income increased 2.4% in March, year-over- year, and real payroll increased 4.1%, also compared to February 2012. Data released by the Ministry of Labor and Employment (MTE) show that, in March, 112.5 thousand formal jobs were created (111.7 thousand in March 2012), with positive results in six out of the eight sectors of the economic activity. In short, the set of available data indicates narrow idleness margin in the labor market, despite some signs of accommodation at the margin.

9. According to the retail monthly survey (PMC) from IBGE, broad retail sales volume increased 1.2% in February, year-over-year. Retail sales volume retracted 0.2%, according to the same comparison basis. Month-on-month, broad retail sales changed by -0.7% in February, according to the seasonally adjusted series, and retail sales, by -0.4%. However, the broad retail sales growth rate in 2012 stood at 7.8%, with expansion in all ten sectors surveyed, with highlights for furniture and appliances (10.4%) and pharmaceutical, medical, orthopedic and perfumery articles (10.2%). On its turn, the Trade Confidence Index (ICOM), measured by the FGV, retreated for the fourth consecutive month in the quarter ended in March. 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.

10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, stood at 83.3% in March (83.0% in March 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci stood at 84.1% in March. Capacity utilization in the capital goods sector, according to the seasonally adjusted series, increased to 84.2%. In the sector of consumer goods, intermediate goods and construction inputs, the levels stood at 84.2%, 84.8% and 89.1%, respectively.

11. The twelve-month trailing trade balance result retreated to US$11.8 billion in March. This result stemmed from US$238.3 billion in exports and US$226.5 billion in imports, associated to changes of -8.3% and -1.9%, respectively, compared to the previous twelve months. On its turn, the current account deficit accumulated in twelve months reached US$63.5 billion in February, equivalent to 2.8% of GDP, while the foreign direct investment totaled US$63.7 billion in the twelve months through February, equivalent to 2.8% of GDP.

12. In the global economy, low growth prospects for a long period in important advanced economies remain and there was stability in the volatility and risk aversion indicators, despite negative shocks in the financial system in the Euro Zone. High unemployment rates, coupled with the fiscal consolidation and political uncertainties, are translated into projections of low growth for advanced economies, mainly in Europe. The compound leading indicator released by the Organization for Economic Cooperation and Development (OECD), related to February, continues to indicate growth in the United States (US) and in Japan, with possible recover of activity levels in the Euro Zone. On its turn, the disaggregated indicators of the Purchasing Managers Index (PMI), related to March, indicate continuity of growth in the US, in Japan and in important emerging economies,

especially in the Southeast Asia. Regarding monetary policy, the advanced economies have persisted with accommodative stances. The Bank of Japan (BoJ) has announced a larger-than-expected program for the monetary base expansion, with potential positive effects over economic activity and in the asset prices, especially in the Southeast Asia. In the emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate levels in the US and in the Euro Zone, and negative in Japan.

13. The price of Brent oil barrel has retreated, since the previous Copom meeting, for a level close to US$105. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which also reflects 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, the international prices of metallic commodities have retreated 4,5%, while the agricultural ones have increased 0.9%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a change of -1.7% in the twelve months through March 2013.

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 price in 2013 was maintained at 5%, unchanged relative to the March Copom meeting;
b) the projected adjustment for household electricity price points to a decrease of nearly 15%, unchanged relative to the March Copom meeting. This estimate considers the direct impacts of the sector charges reductions recently announced, as well as readjustments and ordinary tariff revisions planned for this year;
c) for 2013, bottled gas prices are projected to remain stable and fixed telephone tariff is projected to decrease 2.0%;
d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2013 remained at 2.7%, unchanged relative to the March Copom meeting; and
e) the projected adjustment for the set of regulated prices accumulated in 2014 was maintained at 4.5%, the same value considered at the March Copom meeting. This projection is 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).

15. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 47 bps and 18 bps spreads for the fourth quarter of 2013 and 2014, respectively.

16. Regarding fiscal policy, projections assume the achievement in 2013 of the public sector primary surplus of R$ 155.9 billion, according to the parameters set out in the Budget Guidelines Law (LDO) – 2013. For 2014, as a working hypothesis, a primary surplus of R$167.4 billion is accepted, according to the parameters set out in the Budget Guidelines Law Project (PLDO) – 2014.

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

18. Since the last Copom meeting, the median of the expectations compiled by Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA decreased from 5.70% to 5.68%. For 2014, the median of the inflation expectations increased from 5.50% to 5.70%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the median of the expectations for the 2013 IPCA changed from 5.67%, 5.73% and 5.61% to 5.66%, 5.71% and 5.68%, respectively. For 2014, the median of expectations changed from 5.55%, 5.80% and 5.38% to 5.70%, 5.85% and 5.50%, in the same order.

19. The baseline scenario assumes the maintenance of the exchange rate at R$2.00/US$1.00 and the Selic rate at 7.25% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation remained

stable relative to the figure considered at the March 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 with market analysts, in the period immediately prior to the Copom meeting, 2013 IPCA inflation forecast decreased, but is above the midpoint inflation target. For 2014, inflation forecast increased relative to the figure considered at the March Copom meeting and stands above the midpoint inflation target, in baseline scenario. According to the market scenario, 2014 IPCA inflation forecast decreased, but is above the midpoint inflation target.

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 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 prices 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.

21. The Copom understands that there were significant structural changes in the Brazilian economy, 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 in risk premia, a direct consequence of the accomplishment of the inflation target for the ninth 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 financial and capital markets, by the credit market deepening, as well as by the generation of primary surpluses consistent with the maintenance of the decreasing trend for the public debt-to-GDP ratio. For the Committee, all these transformations are characterized by 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.

22. The Copom also evaluates that the increase in the supply of external savings and the reduction of its funding cost, which, according to the Committee's assessment, are largely permanent developments, have contributed to the reduction of the domestic interest rates, including the neutral rate.

23. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the main economic blocks. In this context, despite identifying low probability of occurrence of extreme events in the international financial markets, the Committee considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity remained unchanged, with trend of intensification over the relevant horizon. In this context, there are localized improvements in advanced economies, although the space to use monetary policy remains limited and the fiscal restraint scenario prevails in this and in the upcoming years. In important emerging economies, however, the activity pace has intensified, supported by the resilience of domestic demand. The Committee also highlights evidences of accommodation of international commodities prices.

24. The Copom evaluates that, despite the limitations in the supply side, the pace of domestic economic activity intensified in the first quarter. Moreover, it notes that recent data point to a resumption of investment and a growth trajectory, in the relevant horizon, more in line with potential growth. The Committee notes that the domestic demand will continue to be driven by the lagged effects of monetary policy actions recently implemented, as well as the moderate expansion of credit supply, both for individuals and corporates. Additionally, the domestic activity will continue to be favored by the public transfers, as well as by the strength

of the labor market, which is reflected in historically low unemployment rates and wages growth, despite some accommodation at the margin.

25. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables, despite recent initiatives point to an expansionist position of the public sector balance. The Committee also notes 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, strengthens the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.

26. The Copom highlights that its main scenario also considers moderate credit expansion. Still regarding the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.

27. The Copom emphasizes that its main scenario includes more intense domestic activity in this an in the upcoming year. In this context, the Committee highlights the narrow idleness margin in the labor market, despite the signs of moderation in this market, and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation dynamics. It bears noticing the recently observed moderation in the price dynamics of some real and financial assets, which, in the assumption of remaining at the current levels, will constitute disinflationary strength.

28. The Copom evaluates that the high inflation level and the dispersion of price increases, among other factors, contribute for inflation to show resistance and demand a monetary policy response. On the other hand, the Committee considers that domestic and, mainly, external uncertainties surround the prospective scenario for inflation and recommend that monetary policy should be administered with caution.

29. The judgment of all the Copom members is convergent with respect to the need for a monetary policy action aimed at neutralizing risks that arise in the prospective scenario for inflation, especially for the next year. Part of the Committee, however, considers that there is an ongoing reassessment of global growth and that this process, depending on its intensity and length, may cause positive impacts over domestic prices dynamics. For those members of the Committee, an immediate action of monetary policy would not be recommended; however, this view was not supported by the majority of the Board.

30. In this context, the Copom decided to increase the Selic rate to 7.50% p.a., without bias, with six votes for the monetary policy action and two votes in favor of maintaining the Selic rate in 7.25% p.a..

31. The following members of the Committee voted for the increase of the Selic rate to 7.50% p.a.: Alexandre Antonio Tombini (Governor), Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Edson Feltrim and Sidnei Corrêa Marques. The following member of the Committee voted for the maintenance of the Selic rate at 7.25% p.a.: Aldo Luiz Mendes and Luiz Awazu Pereira da Silva.

32. The Copom evaluates that the 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. For the Committee, these effects, the programs of public services concession, the inventories at adjusted levels and the gradual recovery of businessmen’s confidence create prospects for investments intensification and industrial production recovery. The Committee considers that recent initiatives point to an expansionist position of the public sector balance. On the other hand, the Committee notes that the fragile international scenario still represents an aggregate demand restraining factor. These elements and the developments in the quasi fiscal framework 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.

33. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, shows that high inflation rates generate distortions that lead to higher risks and depress investments. These distortions are manifested, for example, in the shortening of the planning horizons of households, businesses and governments, as well as in the deterioration of the businessmen' confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over households' confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.

34. The Monetary Policy Committee notes that, in moments such as the current one, the monetary policy must remain especially vigilant in order to minimize risks that high inflation levels, as the observed in the last twelve months, persist through the relevant horizon for monetary policy.

35. At the end of the meeting, it was announced that the Committee will reconvene on May 28th, 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

36. The IPCA changed 0.47% in March, compared to 0.60% in February, increasing by 6.59% in the twelve months through March, compared to 6.31% in February, according to data released by the IBGE. The deceleration of the index in the month reflected the lower pressure of market prices, which changed 0.53% in March, compared to 1.13% in February, while regulated prices changed 0.26%, compared to -1.11% in the previous month. Regarding market prices, the movement reflected the prices deceleration of tradable goods, from 0.63% to 0.36% and non-tradable goods, from 1.58% to 0.69%, with services changing 0.26%, down from 1.30% in the previous month. The IPCA monthly deceleration was mainly favored by the deceleration from 5.40% to 0.56% in the prices of education, with contribution of 0.03 p.p., compared to 0.25 p.p. in February, and the retraction of 0.09% in transport, with a contribution of -0.02 p.p., compared to 0.16 p.p. in the previous month. The diffusion index stood at 69.04% in March, compared to 72.33% in February.

37. On a twelve-month basis through March, market prices showed acceleration compared to February, from 7.86% to 8.20%, as well as regulated prices, which increased from 1.53% to 1.61%. The evolution of market prices reflected the effect of prices acceleration of tradable goods, from 6.43% to 6.90%, and non-tradable goods, from 9.13% to 9.35%, in the analyzed period. The prices of services increased 8.38% in the last twelve months through March, compared to 8.66% and 8.61% in the same periods through February and January, respectively.

38. The IGP-10 changed 0.18% in April, after increasing by 0.22% in March, according to FGV, reflecting deceleration in the IPA and acceleration in the IPC and the INCC. The index accumulated increases of 1.12% in the year, compared to 1.09% in the same period of 2012, and of 7.45% in twelve months, compared to 8.01% in the twelve months ended in March.

39. The IPA-10 decreased 0.06% in the month, compared to an increase of 0.11% in March, accumulating increases of 0.44% in the year and 7.97% in twelve months. Industrial products prices increased 0.38% in the month, compared to 0.33% in March, accumulating increases of 1.85% in the year and 6.82% in twelve months. Agricultural prices decreased 1.17% in April, compared to -0.45% in the previous month, accumulating a fall of 2.99% in the year and an increase of 11.13% in twelve months. The monthly performance of industrial products prices evidenced, in particular, the increase in the prices of metallic minerals, 7.21%, and oil and alcohol byproducts, 1.16%, which contributed 0.37 p.p. and 0.10 p.p., respectively. Regarding agricultural products prices, the main influences stemmed from the items soybeans and corn, with respective changes of -5.56% and -7.83%, and contributions of -0.27 p.p. and -0.19 p.p. to the total change.

40. The IPC-10 increased 0.67% in April, up from 0.49% in March, accumulating 2.69% in the year, compared to 2.29% in the same period of the previous year, and 6.14% in twelve months. The IPC-10 acceleration in April was favored by the increase of 1.40% in the food group, compared to 1.26% in March, contributing 0.35 p.p., and by the acceleration in housing prices, to 0.64% from -0.43% in the previous month, contributing 0.16 p.p.. The INCC-10 changed 0.65% in April, up from 0.37% in March, with highlights for the acceleration in the prices of materials, equipment and services, to 0.56%, up from 0.41%, and in labor force costs, to 0.73% from 0.32%. The INCC-10 accumulated changes of 2.03% in the year and 7.08% in twelve months.

41. The IPP/IT retreated by 0.33% in February, after falling by 0.10% in January, accumulating -0.43% in the year and 7.73% in twelve months through February, compared to 7.63% through January. The monthly result of the IPP/IT was mainly influenced by the 2.56% retraction in the prices of food, with contribution of -0.51 p.p. for the index, partially offset by the change of 1.56% in the segment of coke, oil byproducts and biofuels, with a contribution of 0.17 p.p.. The change in the last twelve months through February reflected, mainly, the contribution of the industries of food products, 2.23 p.p., and other chemical products, 1.54 p.p..

42. The Commodities Index Brazil (IC-Br) decreased 1.82% in March, after a fall of 2.97% in February. The decrease in March reflected the respective devaluations of 0.66%, 6.02% and 2.51% in the segments of agriculture and livestock, metals and energy. In 2013, the IC-Br accumulates a decrease of 6.08%, with devaluations of 6.24%, 7.11% e 4.11% in the respective segments.

Economic Activity

43. The Economic Activity Index of the BCB (IBC-Br) decreased 0.52% in February, month-on-month, considering seasonally adjusted data. In the quarter ended in February, the index expanded 0.72%, quarter-over-quarter, when it had grown 0.26%, according to the same comparison basis. According to the observed data series, the IBC-Br increased 0.44% in the month, year-over-year, compared to an expansion of 3.84% in January, according to the same comparison basis. The IBC-Br increased 2.14% in the year and 0.87% in the last twelve months through February.

44. Broad retail sales, which include vehicles and construction inputs, retreated by 0.7% in February, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after increasing 0.3% in January and 0.8% in December. As a result, the average of the quarter ended in February expanded 1.9%, quarter-over-quarter, when it had decreased 2.8%. By segment, six out of the ten surveyed segments decreased, with highlights for other articles of domestic and personal use (-2.9%); fuels and lubricants (-2.1%); and vehicles, motorcycles, parts and pieces (-1.7%); in contrast to the expansion of 5.2% in office, computer and communication material and equipment. Retail sales volume decreased 0.4% in February, month-on-month seasonally adjusted, after increasing by 0.5% in January and retreating by 0.5% in December, according to the same comparison basis. Considering seasonally adjusted data, retails sales expanded by 0.1% in the quarter ended in February, quarter-over-quarter. In the year and in twelve months through February, retail sales volume increased 2.9% and 7.4%, respectively.

45. Considering observed data, broad retail sales increased 1.2% in February, year-over-year, with expansion in six segments, highlighting the increase of 6.9% both in pharmaceutical, medical, orthopedic, perfumery and cosmetic articles and books, newspapers, magazines and stationery. In the twelve months through February, broad retail sales grew 7.8%, with highlights for furniture and household appliances (10.4%); pharmaceutical, medical, orthopedic, perfumery and cosmetic articles (10.2%); other articles of domestic and personal use (9.5%); and vehicles, motorcycles, parts and pieces (8.4%).

46. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 283.9 thousand units in March, decreasing 5.5% year-over-year. Sales increased 1.2% month-on-month, after changes of -15.8% in February and 2% in January, according to the Automotive Vehicles Distribution National Federation (Fenabrave) data, seasonally adjusted by the BCB. In the first quarter of 2013, sales decreased by 0.3%, compared to the last quarter of 2012, when it had retreated 8.4%. In the last twelve months through March, automobile vehicles sales increased 4%, as a consequence of the increase in the sales of cars (6.8%)

and light commercial vehicles (0.8%); in contrast, the sales of trucks and buses fell by 20.6% and 16.7%, respectively.

47. Capital goods imports quantum index, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, increased 4.6% in March, month-on-month. According to the observed data, the index increased 4.1% year-over-year, 7.1% in the year and 1% in the twelve months through March.

48. Capital goods production increased 1.6% in February, accumulating an expansion of 4.7% in the quarter, compared to the previous one ended in November, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The performance of the category in the month mirrored the increase in the production of equipment for the sectors of electrical energy (16.5%), agricultural goods (11.1%) and equipment for industrial use (7.9%); as opposed to the retraction of the segments agricultural pieces (-49.6%) and transport equipment (-1.7%).

49. Construction inputs production decreased by 1.4% in February, accumulating a decrease of 0.1% in the quarter ended in February, quarter-over-quarter, considering seasonally adjusted data. Compared to the same periods of 2012, the segment decreased 3.8% in the month, and expanded by 0.8% in the twelve months through February.

50. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R$168.7 billion in the twelve months through March, 21.8% above the one registered in the same period in 2012, with highlights to the growth of commerce and services (59%), followed by the agriculture and livestock sector (41%) and industry (29%). In the period, the industry absorbed 33% of the total resources, followed by infrastructure (31%), commerce and services (28%) and agriculture and livestock sector (8%).

51. Industrial production decreased 2.5% in February, month-on-month, according to IBGE seasonally adjusted data, after a 2.6% increase (revised) in January, influenced by the retractions of 2.7% and 1.9% in the manufacturing and mining industries, respectively. According to the use categories, there were retractions in the production of durable consumer goods (-6.8%), semi and non-durable consumer goods (-2.1%), and intermediate goods (-1.3%), whereas capital goods expanded by 1.6%. Fourteen out of the 26 manufacturing industry activities surveyed decreased in the month, with highlights for the segments of pharmaceutical industry (-10.8%), furniture (-9.9%) and automotive vehicles (-9.1%), in contrast to the increases of 36.2% and 9.6%, respectively, in the segments of tobacco and other transportation equipment. The industrial production increased 0.3% in the quarter ended in February, quarter-over-quarter, when it had increased by 0.6%, reflecting changes of 0.9% in the manufacturing industry and -2.9% in the mining industry. The quarterly evolution was favored by the performance of clothing (6.8%), electric machinery, appliances and material (5.6%), electronic material and communication equipment (4.5%) and furniture (4.4%); on the other hand, tobacco decreased 36.4%. Considering observed data, industrial production decreased 3.2% in February, year-over-year, influenced by the decreases of 5% in consumer goods and 4.4% in intermediate goods, partially offset by the expansion of 9% in capital goods. In the first two months of the year, the expansion of 1.1% stemmed from the increases in the industries of capital goods (13.3%) and durable consumer goods (4%), while in the twelve months through February, the 1.9% decrease reflected, in particular, the declines of 7.7% in capital goods and 1.5% in intermediate goods.

52. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.1% in March, remaining stable compared to February, according to FGV seasonally adjusted data. Among the use categories, capital goods increased 1.8 p.p. and non-durable consumer goods remained stable, while decreases were registered for construction inputs (-0.4 p.p.), durable consumer goods (-0.1 p.p.), and intermediate goods (-0.1 p.p.). Considering the observed series, the Nuci increased 0.3 p.p., year-over-year, reaching 83.3%, as a result of the increases in construction inputs (2.6 p.p.), durable consumer goods (1.7 p.p.), capital goods (1.6 p.p.), and intermediate goods (0.2 p.p.); in contrast, non-durable consumer goods decreased 0.6 p.p..

53. Vehicles output reached 319.1 thousand units in March, representing an increase of 6.6% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the first quarter of 2013, the production decreased by 0.1%, quarter-over-

quarter. Considering observed data, vehicles output increased 3.4% year-over-year, 12.1% in the year and 3.5% in twelve months through March.

54. Still according to data released by Anfavea, national vehicle licensing increased 4% in March, month-on-month, and decreased 3.2% in the quarter ended in March, considering data seasonally adjusted by the BCB. Regarding observed data, there were a decrease of 0.4% year-over-year and expansions of 6.3% in the year and 10.8% in twelve months. Automobile exports totaled 43.5 thousand units in March, representing changes of 3.1% year-over-year, -0.2% in the year and -18.8% in twelve months through March. According to the series seasonally adjusted by the BCB, exports increased 10.9% in the month, month-on-month, and 21.3% in the quarter ended in March, as compared to the quarter ended in December.

55. The LSPA survey carried out by the IBGE regarding March projected 181.3 million tons for the 2013 national harvest of grains, representing an increase of 12% year-over-year and a decrease of 1.2% over the previous crop estimate. Regarding the 2012 harvest of grains, the new prognosis evidences, in particular, the expected increase of 23.2% for the soybean production. Regarding the other main crops, respective increases of 14.8%, 12.1%, 5.1% and 5% are being estimated for the harvests of beans, wheat, rice and corn, respectively. Moreover, a 9.8% increase over the previous year is estimated for the harvest of sugar cane.

Surveys and Expectations

56. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), decreased for the sixth consecutive month, changing -2% in March, month-on-month, reaching 113.9 points, reflecting decreases of 3.4% in the Current Situation Index (ISA) and 1.5% in the Expectations Index (IE). According to observed data, the ICC decreased 7%, year-over-year, due to changes of -12.5% in the ISA and of -3.5% in the IE.

57. The ICS, calculated by the Services Survey, carried out by the FGV, increased 0.3% in March, month-on-month seasonally adjusted, moving from 122.1 to 122.4 points, as a result of changes of 1.7% in the Current Situation Index (ISA) and -0.8% in the Expectations Index (IE). The ICS decreased 5.5%, year-over-year, as a result of the 7.7% decrease in the ISA and of 4% in the IE.

58. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 122.4 points in March, decreasing 5.4% year-over-year. The result reflected the decrease of 8.9% in the Expectations Index (IE-COM) and the increase of 0.1% in the Current Situation Index (ISA-COM). In the quarter ended in March, the ICOM decreased 2.3% year-over-year, due to the retraction of 6.4% in the IE-COM, in opposition to the expansion of 4.1% in the ISA-COM.

59. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), after remaining virtually unchanged for two consecutive months, decreased from 106.6 to 105 points, a retraction of 1.5% in March, month-on-month, driven by the contractions of 1.4% in the Current Situation Index (ISA) and 1.6% in the Expectations Index (IE). The ICI increased 2.1% year-over-year, as a result of the increases of 0.7% in the ISA and 3.6% in the IE.

60. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 120.5 points in March, decreasing 6.7% year-over-year. The result reflected retreats of 9.3% in the Current Situation Index (ISA-ICST) and 4.5% in the Expectations Index (IE-ICST). In the quarter ended in March, the ICST decreased 7.9%, year-over-year, influenced by the changes of -9.9% in the ISA-ICST and -6.3% in the IE-ICST.

Labor Market

61. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 123 thousand formal jobs were created in February, of which 82.1 thousand jobs in the services sector and 33.5 thousand jobs in the manufacturing industry, as opposed to the net close of 10.4 thousand jobs in the commerce sector and 9.7 thousand jobs in the agriculture and livestock sector. In the

year, 152.3 thousand jobs were created and, in twelve months through February, 751.1 thousand, compared to 269.5 thousand and 1.4 million, respectively, in the same periods of 2012. Month-on-month, formal job creation expanded by 0.2%, considering data seasonally adjusted by the BCB.

62. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.6% in February, with increase of 0.2 p.p. month-on-month and retreat of 0.1 p.p. year-over-year. The monthly result reflected decreases of 0.7% in the employed population and 0.6% in the Economically Active Population (PEA). The employed population increased 1.6%, year-over-year, with highlights for the expansion of 3.5% in industry. Considering data seasonally adjusted by the BCB, unemployment decreased 0.2 p.p., reaching 5.3% in February, the same level of August 2012, the record low for the time series. According to the same survey, the average real income usually earned by workers increased 1.2% month-on-month and 2.4% year-over-year. Real payroll recorded increases of 0.5% and 4.1%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

63. The total credit in the financial system, including the non-earmarked and earmarked credit operations, reached R$2,384 billion in February, with expansions of 0.7% in the month and 16.8% in twelve months. The credit-to-GDP ratio, which remained stable at 53.4% compared to January, increased by 4.6 p.p. compared to February 2012. The balance of non-earmarked credit operations, equivalent to 58.5% of the total credit outstanding in the financial system, rose 0.5% in the month and 12.8% in twelve months, reflecting respective changes of -0.1% and 9,5% for credit operations with individuals and 1% and 16.3% for credit operations with corporate. The earmarked credit operations increased, respectively, 1.1% and 22.9%, according to the same comparison bases, with highlights for the increases of 2% and 34.3%, respectively, in mortgages, for the segment of individuals, and 2.1% and 17.8%, respectively, in rural credit, for the operations destined to corporate.

64. The overall average interest rate of loans in the financial system rose by 0.1 p.p. in February, reaching 18.7% p.a., representing a fall of 5.1 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 24.9% and 14%, corresponding to growth of 0.2 p.p. and stability, respectively, month-on-month, and retreats of 6.2 p.p. and 4.2 p.p., year-over-year.

65. The overall average tenure on credit operations reached 86.8 months in February, representing a retreat of 6.8 months, month-on-month, and an increase of 9.6 months, year-over-year. The tenure related to individuals increased 0.3 months and 18.2 months, respectively, and that related to the corporate segment fell 12.5 months month-on-month and increased 3.1 months, year-over-year, reaching 125.6 months for individuals and 57 months for corporate.

66. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, stood at 3.7% in February, remaining stable compared to January and December and falling 0.1 p.p. compared to February 2012. The indicator related to operations with individuals reached 5.4%, decreasing 0.1 p.p. in the month and 0.5 p.p. in twelve months, while the one referring to corporates remained stable at 2.3% in the month, and recorded increase of 0.1 p.p. in twelve months.

External Environment

67. Since the last Copom meeting, the global activity has showed moderate expansion and heterogeneous development. In the US, the GDP for the fourth quarter of 2012 was revised from stable to 0.4%; the industrial production recorded an annualized growth of 5% in the first quarter, the biggest gain since the first quarter of the previous year, and the housing market remains recovering, with home prices and licensing of new constructions in high. However, signaling that the activity recovery is still subject to downside risks, 88,000 jobs were generated in March – compared to the expectation of 190,000 -; the PMI manufacturing and services, measured by the Institute for Supply Management (ISM) showed retreats; there were a decrease in the consumer confidence, measured by the Conference Board, and a drop of 0.4% in retail sales. In the Euro Zone, despite the recovery of 0.4% in industrial production in February, the unemployment rate reached a new historical record high, recording 12% in the month, and in March, the economic sentiment index showed

further decline, while the Composite PMI fell to 46.5 points, the lowest level since October 2012. In Japan, industrial production fell 0.1% in February, but the composite PMI for March reached 53.2 points, better assessment of purchasing managers in the last twelve months, in line with the monthly increase of 1.7% in retail sales, in February. In China, the GDP in the first quarter recorded the second consecutive slowdown, recording 6.6% growth, according to a seasonally adjusted and annualized basis, compared to the previous quarter. The outlook for global growth this year, released in the World Economic Outlook of April, by the International Monetary Fund (IMF), was reduced to 3.3% from 3.5%, according to the estimate released in January, reflecting growth prospects of 1.2% for advanced economies and 5.3% for emerging economies.

68. Financial markets have operated in an environment of low volatility in most of the period, since the last Copom meeting, except for the increase in the CBOE VIX index to 17.3 points on April 15th, from 12.1 points in the eve, reflecting both the release of China's GDP and the bomb explosions in the city of Boston. In this scenario, the dollar showed low oscillation, rising against the currencies of Japan, Korea, Russia and Brazil and depreciating against the euro and the pound sterling. In the same period, most of the stock exchanges recorded losses, among them, the ones from Germany, UK, Brazil, China, India, Mexico and Russia. Conversely, it bears highlighting the new appreciation of the Nikkei index, accumulating an increase of 27.7% in the year, until April 15th. In the international commodities market, it bears noticing the maintenance of a downward trend in prices, due to the improvement in the supply of grains and to the slow recovery in global activity. The S&P GSCI Commodity Spot and its respective sub-indices for agricultural, metallic industrials and energy registered declines in the period, with highlights for the reduction in the prices of corn, soybeans and Brent crude oil.

69. In February, the annual change in the global CPI, according to data from International Financial Statistics (IFS), from the International Monetary Fund (IMF), increased to 3.6%, up from 3.4% in January, reflecting the increase in the index in the advanced economies, from 1.4% to 1.7%, and in the emerging economies, from 6.5% to 6.8%.

70. The central banks in the US, Euro Zone, Japan and the UK maintained their respective official interest rates at historical minimum lows, while the monetary authorities of the major mature and emerging economies maintained their basic rates unchanged, except for Colombia, Mexico, Hungary, Turkey and India, which reduced. It is noteworthy that in Japan, on April 4th, there was a change in monetary policy in order to achieve, in the shortest time horizon, the 2% p.a. inflation target. Therefore, the BoJ decided to change and double the assets purchase program and chose monitoring the monetary base as the main operational target, instead of monitoring the non-collateralized overnight rate, stating that it plans to expand the monetary base at an annual rate of ¥60-70 trillion.

Foreign Trade and International Reserves

71. The Brazilian trade balance showed a surplus of US$161 million in March, as a result of US$19.3 billion in exports and US$19.2 billion in imports. The accumulated deficit in the first quarter of the year totaled US$5.2 billion, compared to a surplus of US$2.4 billion in the same period of 2012, reflecting a decrease of 3.1% in exports and an increase of 11.6% in imports, according to the criterion of daily average. The total external trade expanded by 4.1% in the period, considering the daily averages, totaling US$106.8 billion.

72. International reserves, according to the liquidity and cash concepts, totaled US$376.9 billion in March, with a reduction of US$1.7 billion and an increase of US$3.8 billion, respectively, compared to the end of 2012. In the month, there was no spot intervention in the domestic exchange market. The Central Bank sold off US$2.8 billion, already programmed, in lines repurchase, closing the outstanding of repurchase lines.

Money Market and Open Market Operations

73. After the March Copom meeting, the domestic yield curve had an increase throughout its length, with greater moderation for longer periods. Among the factors underpinning this movement, it bears highlighting the disclosure of still more pressured current inflation indices, including the various core measures, the maintenance of inflation projections at high levels and expectations of agents regarding the start of the

monetary tightening cycle by the Central Bank. Between March 4th and April 15th, 2013, one-, three- and six-month interest rates increased by 0.36 p.p., 0.59 p.p. and 0.64 p.p., respectively. The rates for one-, two- and three-year maturities increased by 0.64 p.p., 0.44 p.p. and 0.32 p.p., respectively. 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 1.98%, on March 4th, to 2.77% on April 15th, a movement that resulted from the combined effect of rising nominal interest rates and lower inflation expectations.

74. On March 11th, the BCB carried out reverse FX swap auctions maturing on May 2nd, in an amount equivalent to US$1.0 billion. On March 27th, the BCB carried out traditional FX swap auctions, maturing on May 2nd, with an amount equivalent to the previous operation. As a result of the operations in the period, the BCB had its net position in foreign exchange swap contracts reduced to zero.

75. In managing the liquidity of banks' reserves market, the BCB carried out, weekly, from March 5th to April 15th, repurchase agreements with maturities of three and six months, borrowing funds in the amount of R$138.5 billion and R$17.2 billion, respectively. The overall daily average of the long-term operations outstanding increased from R$361.1 billion between January 15th and March 4th, to R$419.7 billion, between March 5th and April 15th. In the same period, the BCB conducted repurchase agreements with maturity in 29 working days, reducing the overall daily average of short-term borrowing operations to R$168.6 billion. The BCB also carried out overnight repo agreements on 29 occasions, on 28 of them as a borrower. It also conducted leveling operations at the end of the day, with tenure of two business days. The overall daily average of such overnight operations was R$93.5 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB increased from R$624.1 billion between January 15th and March 4th, to R$681.7 billion between March 5th and April 15th. Considering the period between March 4th and April 15th, the outstanding of repurchase agreements increased from R$624.8 billion to R$698.6 billion. The main factor driving the liquidity expansion in the period was the net redemption of securities by the National Treasury.