BANCO CENTRAL DO BRASIL

Minutes of the 179th Meeting of the Monetary Policy Committee (Copom)

Date: November 26th, 2013, from 4:11PM to 8:12PM, and November 27th, from 4:55PM to 8:07PM

Place: BCB Headquarters meeting rooms – 8th floor on November 26th and 20th floor on November 27th – 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 26th)
Ariosto Revoredo de Carvalho - Department of Foreign Reserves
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 November 27th)
João Henrique de Paula Freitas Simão - Open Market Operations Department
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on November 26th)
Gustavo Paul Kurrle – Press Officer
Lilian Carla dos Reis Arquete – Division Head of the Economic Department
Otávio Ribeiro Damaso – Chief of Governor ‘s Staff

The members of the Copom analyzed the recent performance 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) changed 0.57% in October, 0.02 percentage points (p.p.) below the one recorded in October 2012. As a consequence, inflation in twelve months retreated to 5.84% in October (5.45% until October 2012). Market prices changed 7.37% in twelve months (6.23% until October 2012), and regulated prices recorded the record low (1.01%) of the historical

series started in 1994, down from 3.23% until October 2012. Among market prices, the prices of tradable goods increased 6.38% (4.00% until October 2012), and the prices of non-tradable goods, 8.24% (8.27% until October 2012). The prices of food and beverages group registered 1.03% inflation in October, increasing by 8.88% in twelve months (10.40% until October 2012). On its turn, the prices of services rose 8.74% in twelve months (7.99% until October 2012). In short, regulated inflation retreats, at the same time that non-tradables inflation remains at high levels, and the tradables inflation is increasing.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.46% in September to 0.56% in October. As a consequence, on a twelve-month trailing basis, inflation reached 6.28% (1.03 p.p. above the one registered until October 2012). Specifically, the smoothed trimmed means IPCA core inflation changed from 0.43% in September to 0.58% in October. The double weight core inflation, from 0.46% to 0.61%; the core inflation by exclusion of regulated prices and household food, from 0.52% to 0.60%; the non-smoothed trimmed means core inflation, from 0.40% to 0.52%; and the core by exclusion, which excludes ten household food items and fuels, from 0.48% to 0.51%. The diffusion index stood at 67.7% in October (compared to 68.8% in the same month of the previous year).

3. The General Price Index (IGP-DI) increased 0.63% in October, after increasing by 1.36% in September, accumulating change of 5.46% in the twelve months through October (7.41% in the twelve months through October 2012). The main component of this indicator, the Wholesale Price Index (IPA), changed 5.07% (against 7.92% until October 2012). According to the breakdown by stage of production, in the last twelve months, there were increases of 2.79% in the prices of raw materials, 6.49% in the prices of intermediate goods and of 5.68% in the prices of final goods. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, changed 5.36% in the twelve months through October (5.97% in the twelve months through October 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 8.14% (7.47% in the twelve months through October 2012), partially driven by the labor cost, which increased 9.87% in the period. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.62% in September, expanding by 5.86% 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 estimate 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 remained unchanged in September, after increasing by 0.1% in August. Year-over-year, the IBC-Br grew 1.3% in August and 3.3% in September. In the last twelve months, the indicator grew 2.5%. The composite Purchasing Managers' Index (PMI) regarding Brazil pointed to intensification of the economic activity in October, when it reached the highest level since February. On its turn, the Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), expanded in November, according to the seasonally adjusted series, reverting part of the retreat observed in October. Likewise, the industrial businessmen confidence, measured by the Industry Confidence Index (ICI), pointed to recovery in November. Regarding agriculture, the Agricultural Production Systematic Assessment (LSPA), carried out by the IBGE, indicates that grains production should grow by 15.4% in 2013, relative to the 2012 harvest.

5. Industrial activity, after stability in August, expanded by 0.7% in September, according to the seasonally adjusted series released by the IBGE. Therefore, the industrial production stood 2.0% above the one registered in September 2012 (increase of 1.1% in the last twelve months). The monthly production between January and September was 1.6% above the one registered in the same period of last year, with highlight for the production of automotive vehicles, with expansion of 11.2%, as well as for oil refining and ethanol production, of 7.7%. The production pace grew in 16 out of the 27 surveyed activities, according to the same comparison basis. The PMI of the industrial sector regarding Brazil indicates new improvement in October. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry increased 4.9% in the first three quarters of the year, compared to the same period of the previous year, while the number of hours worked grew 0.1%.

6. Among the use categories, according to data seasonally adjusted by the IBGE, the production of capital goods increased 4.0% in September; the production of durable consumer goods, 2.3%; the production of intermediate goods remained unchanged and the production of semidurable and non-durable consumer goods retreated 1.4%. Regarding growth accumulated in the last twelve months through September, there were expansions in the production of capital goods (7.8%), durable consumer goods (3.1%), semidurable and non-durable consumer goods (0.2%) and in intermediate goods (0.1%).

7. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, retreated to 5.2% in October. Moreover, according to the BCB seasonally adjusted series, the unemployment rate in October reached again the record low of the historical series (5.3%), started in March 2002. It bears noticing that the reduction of the Working Age Population (WAP) growth rate in the last years has contributed for the maintenance of the idleness rate at historically low levels. In addition, in October, the economically active population share represented 57.1% of the WAP (1.0 p.p. below the observed in October 2012). Still according to the PME, the average real income increased 1.8% in October, year-over-year, while real payroll increased 1.4%, according to the same comparison basis. Data released by the Ministry of Labor and Employment (MTE) show that 95 thousand formal jobs were created in October (compared to 67 thousand in October 2012). In short, the set of available data indicates narrow idleness margin in the labor market, although there are some signs of moderation at the margin.

8. According to the retail monthly survey (PMC), released by the IBGE, broad retail sales volume, which includes vehicles and construction inputs, increased by 7.5% in September, year-over-year, and retail sales volume grew by 4.1%. According to the seasonally adjusted series, the month-on-month broad retail sales changed by -0.7%, and retail sales, by 0.5%. In the last twelve months, the broad retail sales growth rate reached 4.9%, with expansion in all ten sectors surveyed. The Trade Confidence Index (ICOM), measured by the FGV, recorded the third consecutive high in October, due to improvements both in the current situation and in expectations. The Copom evaluates that the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by the moderate credit expansion.

9. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, reached 85.5% in November (85.2% in November 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci in November reached 84.3%. Capacity utilization in the capital goods sector, according to the seasonally adjusted series, stood at 82.8%. In the sector of consumer goods, intermediate goods and construction inputs, the utilization capacity stood at 84.7%, 85.4% and 91.4%, respectively. On its turn, the absorption of capital goods grew 8.0% in the last twelve months ended in September.

10. The twelve-month trailing trade balance result retreated to US$218 million in October. This result stemmed from US$240.7 billion in exports and US$240.5 billion in imports, which diminished 2.3% and increased 7.1%, respectively, compared to the previous twelve months. On its turn, the current account deficit, accumulated in twelve months, reached US$82.2 billion in October, equivalent to 3.7% of the GDP. Foreign direct investment totaled US$59.1 billion in the twelve months through October, equivalent to 2.6% of the GDP.

11. In the global economy, a scenario of low growth prospects in important advanced economies prevails, notably in the Euro Zone, but, overall, a more benign scenario is anticipated for the upcoming year. High unemployment rates in Europe, coupled with the efforts of fiscal consolidation and political uncertainties, are translated into investment retreat and in low growth. On the other hand, the composite leading indicator, released by the Organization for Economic Cooperation and Development (OECD), referring to September, and the PMI coincident indicators, relative to October and November, signal improvements at the margin in several advanced and emerging economies, with prospects of growth in line with the trend or above it. Regarding monetary policy, accommodative stances have prevailed in the advanced economies. In emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate or low levels in the US, in the Euro Zone and in Japan.

12. The price of the Brent oil barrel has been volatile and has slightly increased since the previous Copom meeting. 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 the dependency of supply growth on long term risky investment projects. Since the last Copom meeting, the international prices of agricultural commodities have retreated 4.0%, while the ones relative to metals have increased 1.7%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), changed -5.3% in the twelve months through October 2013.

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 price for the whole year of 2013 was maintained at 5%, unchanged relative to the value considered at the October Copom meeting;
b) the projected adjustment for household electricity price points to a decrease of nearly 16%, unchanged relative to the October Copom meeting. This estimate considers the direct impacts of the sector charges reductions announced, as well as price hikes and ordinary tariff revisions planned for this year;
c) for the whole year of 2013, bottled gas prices are projected to increase by 2.5% and the fixed telephone tariff is projected to decrease 1.0%, the same values considered at the October Copom meeting;
d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated for the whole year of 2013, retreated to 1.2%, 0.3 p.p. below the value considered at the October Copom meeting; and
e) the projected cumulative adjustment for the set of regulated prices in 2014 was maintained at 4.5%, the same value considered at the October Copom meeting. 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 103 bps and 5 bps spreads for the fourth quarters of 2013 and 2014, respectively.

15. The structural primary surplus that derives from the primary surplus trajectories for 2013 is considered as the fiscal indicator, according to the parameters set out in the Budget Guidelines Law (LDO)/2013; and, for 2014, according to the parameters set out in the Budget Guidelines Law Project (PLDO)/2014. Therefore, in a given period, the inflation projection considers as fiscal impulse the variation of the structural surplus in comparison to the observed in the previous period.

16. Since the last Copom meeting, the median of the projections compiled by the Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA remained at 5.82%. For 2014, the median of the inflation projections decreased from 5.95% to 5.92%.

17. The baseline scenario assumes the maintenance of the exchange rate at R$2.30/US$1.00 and the Selic rate at 9.50% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation decreased relative to the value considered at the previous Copom meeting, however, it remains 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, the 2013 IPCA inflation forecast also decreased relative to the value considered at the October meeting, and also stands above the inflation target. For 2014, in the baseline scenario, the inflation forecast remained stable, and in the market scenario, it decreased, relative to the figures considered at the October Copom meeting, standing both above the 4.5% target. For the third quarter of 2015, the inflation forecast stands above the target in both scenarios.

Monetary Policy Decision

18. The Copom evaluates that the monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative

scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly 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.

19. 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. 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 this year have remained, with trend of intensification over the relevant horizon for the monetary policy. There are 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 not matched the expectations, despite the resilience of domestic demand. The Committee highlights evidences of accommodation of commodities prices in the international markets, as well as the presence, since the last meeting, of some tension and volatility episodes in the currencies' markets.

20. The Copom evaluates that the main scenario encompasses a more intense domestic activity pace in this and in the upcoming year. Recent information indicate resumption of investments and continuity of household consumption growth, the latter favored by public transfers and by the vigor in the labor market - which reflects in historically low unemployment rates and in wages' growth. In general, domestic absorption has expanded at rates higher than GDP growth rates and tends to be benefited by the effects of fiscal policy actions, by the expansion of credit supply, by the program of public services concessions, and by the program of permission for oil exploration, among other factors. Regarding the external component of the aggregate demand, the main scenario anticipates a more benign trajectory than that registered in recent years. However, the Committee notes that the speed of materialization of these expected gains depends on the confidence strengthening of companies and households.

21. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. For the Committee, conditions are created so that, in the relevant horizon for monetary policy, the balance of the public sector shifts to the neutral zone. The Committee also notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, on the one hand, would contribute to reduce the mismatch between supply and demand growth rates; on the other hand, it would contribute to create a positive perception regarding the macroeconomic environment in the medium and long terms.

22. 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.

23. In the factors market, the Copom highlights the narrow idleness margin in the labor 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. Despite the moderation signs, the Committee evaluates that the wages dynamics remains originating inflationary cost pressures.

24. The Committee considers that the exchange rate depreciation and volatility observed in the recent quarters enable a natural and expected correction in relative prices. For the Committee, these movements in the local currency market, to some extent, reflect prospects for the transition of international financial markets towards normality, among other dimensions, in terms of liquidity and interest rates. It is also important to highlight that,

for the Committee, the aforementioned exchange rate depreciation is a source of inflationary pressure in shorter periods. However, the secondary effects stemming from it, and that would tend to materialize over longer periods, can and should be limited by appropriate monetary policy handling.

25. The Copom evaluates that the high consumer inflation level in the last twelve months contributes for inflation to still show resistance. In this context, the formal and informal indexation mechanisms and the economic agents' perception regarding the inflation dynamics are also included. Considering the damage that the persistence of this process would cause to the decision-making process on consumption and investment, in the Committee's view, it is necessary that, with the due promptness, it is reverted. In this context, the Committee considers that it is appropriate to continue the ongoing adjustment pace of the monetary conditions.

26. Therefore, continuing the adjustment process of the basic interest rate, initiated at the April 2013 meeting, the Copom unanimously decided to increase the Selic rate to 10.00% p.a., without bias.

27. 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.

28. The Copom evaluates that the domestic demand tends to be relatively robust. On the one hand, household consumption tends to continue expanding, due to the effects of stimulus factors, such as income growth and moderate credit expansion; on the other hand, favorable financial conditions, concessions of public services, expansion of oil exploration areas, among others, create good prospects for investments. However, the Committee notes that the fragile international scenario still represents an aggregate demand restraining factor, despite the prospects of progress in the relevant horizon. 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.

29. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, indicates 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, companies 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 household's confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.

30. The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation rates, such as the one observed in the last twelve months, persist in the relevant horizon for the monetary policy. At the same time, the Committee considers that the transmission of the effects of monetary policy actions over inflation occurs with lags.

31. At the end of the meeting, it was announced that the Committee will reconvene on January 14th, 2014, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 24,064, of June 12th, 2013.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

32. The IPCA-15 changed 0.57% in November, compared to 0.48% in October, according to the IBGE. The monthly acceleration reflected the increases of 0.07 p.p., to 0.66%, in market prices, and of 0.16 p.p., to 0.28%, in regulated prices. The evolution of market prices reflected the acceleration in the prices of non-tradable goods, from 0.28% to 0.59%, with highlights for the prices of services, from 0.49% to 0.63%, and deceleration in the prices of tradable goods, from 0.94% to 0.73%. The IPCA-15 monthly acceleration was favored, mainly, by the increases in the prices of transportation (from 0.08% to 0.39%), with contribution of

0.07 p.p. for the index, compared to 0.02 p.p. in October, and in the prices of food and beverages (from 0.70% to 0.84%), with contribution of 0.21 p.p. for the index, compared to 0.17 p.p. in October. The diffusion index reached 70.68% in November, compared to 65.75% in October.

33. Considering twelve-month periods, the IPCA-15 reached 5.78% in November, compared to 5.75% in October. Market prices accelerated from 7.26% to 7.33%, mirroring the increase in the prices of non-tradable goods, from 8.22% to 8.40%, and the cooling in the prices of tradable goods, from 6.20% to 6.14%. Regulated prices change reached 0.93%, compared to 1.01% in the twelve-month period ended in October. The prices of services increased 8.70%, compared to 8.79% and 8.73% in the twelve-month periods ended in October and September, respectively.

34. The IGP-10 changed 0.44% in November, after an increase of 1.11% in October, according to the FGV, as a result of the IPA and INCC decelerations, and of IPC acceleration. The indicator accumulates increases of 4.93% in the year, compared to an increase of 6.75% in the same period of 2012, and of 5.59% in twelve months, compared to 4.84% up to October.

35. The IPA-10 increased 0.40% in November, compared to 1.48% in October, accumulating increases of 4.57% in the year and of 5.26% in twelve months. Industrial products prices increased 0.45% in the month, compared to 1.57% in October, accumulating increases of 7.12% in the year and of 7.59% in twelve months. Agricultural products prices increased 0.27% in November, compared to 1.24% in the previous month, accumulating decreases of 1.64% in the year and of 0.45% in twelve months. The monthly performance of industrial products prices evidenced the increase in the prices of metallic minerals, 3.90%, which contributed 0.22 p.p. to the index. Regarding agricultural products, it bears noticing the changes in the items tomato, 48.77%; and pork, 11.25%; with contributions of 0.08 p.p. and 0.07 p.p., respectively.

36. The IPC-10 changed 0.61% in November, compared to 0.33% in October, increasing by 4.76% in the year, compared to 5.05% in the same period of the previous year, and 5.44% in twelve months. The monthly acceleration of the IPC-10 in November reflected, mainly, the increases in the prices of some groups, such as food, to 1.06%, up from 0.18% in October; housing, to 0.66%, up from 0.54%; and health and personal care, to 0.59%, up from 0.40%, with contributions of 0.26 p.p., 0.16 p.p. and 0.07 p.p., respectively. The INCC-10 changed 0.32% in November, compared to 0.44% in October, with deceleration in the prices of materials, equipment and services, from 0.93% to 0.52%, and increase of 0.14% in the costs of labor force, compared to stability in the previous month. The INCC increased 7.69% in the year and 8.07% in twelve months.

37. The IPP/IT increased 0.62% in September, compared to 1.43% in August, accumulating 4.91% in the year, compared to 6.31% in the same period of 2012. The monthly result of the IPP/IT reflected, mainly, the respective increases of 1.58%, 1.16%, 0.96% and 3.61% in the prices of food; coke, oil byproducts and biofuels; other chemical products; and beverages, contributing respectively 0.32 p.p., 0.13 p.p., 0.11 p.p. and 0.10 p.p. to the index. In twelve months, the IPP/IT changed 5.86% in September, compared to 5.92% in August, with highlights to the contributions of food, 1.15 p.p.; other chemical products, 1.10 p.p.; and coke, oil byproducts and biofuels, 0.69 p.p..

38. The Commodities Index Brazil (IC-Br) decreased 2.67% in October, after decreasing 2.82% in September, with devaluations of 2.83%, 2.03% and 2.78% in the segments of agriculture, energy and metals commodities, respectively. The IC-Br accumulated a decrease of 2.07% in the year through October, a result of the devaluations of 3.54% and 1.74% in the segments of agriculture and metal commodities, respectively, and of the valuation of 4.07% in the segment of energy commodities.

Economic Activity

39. The IBC-Br remained virtually unhanged in September, changing -0.01%, month-on-month, considering seasonally adjusted data. The index decreased 0.12% in the quarter ended in September, compared to the quarter ended in June, when it had increased 0.84%, according to the same comparison basis. Considering observed data, the IBC-Br changed 3.33% year-over-year, compared to 1.32% in August, according to the

same comparison basis, and accumulated increases of 2.82% in the year and of 2.49% in the twelve-month period through September.

40. Broad retail sales, which include vehicle and construction inputs, decreased 0.7% in September, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after stability in August and increase of 0.5% in July. Sales increased 0.2% in the quarter ended in September, quarter-over-quarter, when they had grown 1%, according to the same comparison basis. By segment, six out of the ten surveyed segments increased, with highlights for other articles of domestic and personal use, 2.4%; and pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 1.3%. In contrast, it is worth mentioning the downturn in the sales of vehicles and motorcycles, parts and pieces (-5.1%). Retail sales increased 0.5% in September, month-on-month, after increases of 0.9% in August and 2.1% in July, accumulating an expansion of 3.2% in the quarter ended in September, compared to the previous quarter.

41. Considering observed data, broad retail sales increased 7.5% in September, year-over-year, with emphasis in the expansion of office, computer and communication equipment and materials (16.5%); other articles of domestic and personal use (14.8%); vehicles and motorcycles, parts and pieces (13.9%); pharmaceutical, medical, orthopedic, perfumery and cosmetic articles (11.9%); and construction inputs (10.1%). Broad retail sales increased 4.8% in the twelve-month period ended in September, with highlights for the increase of other articles of domestic and personal use (11.1%); pharmaceutical, medical, orthopedic, perfumery and cosmetic articles (9.3%); and construction inputs (7.6%). The retail sales increased 4.1% year-over-year and 4.8% in the twelve-month period through September.

42. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 330.2 thousand units in October, decreasing 5.6% month-on-month, according to data from the Automotive Vehicles Distribution National Federation (Fenabrave), seasonally adjusted by the BCB. These sales decreased 5.7% in the quarter ended in October, compared to the one ended in July, when they had increased 2.2%, according to the same comparison basis. Considering twelve-month periods, automobile vehicles decreased 1.2% in October, due to the decrease of 2.9% in the sales of automobiles. In contrast, the sales of buses, trucks and light commercial vehicles increased 11.7%, 9.1% and 2.5%, respectively.

43. Capital goods imports quantum, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, increased 0.9% in October, month-on-month. The observed data analysis showed increases of 2.4% compared to October 2012, of 3.5% in the year, and of 2.1% in the twelve-month period ended in October.

44. Capital goods production increased 4% in September, accumulating an expansion of 1.4% in the quarter ended in September, compared to the previous quarter, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The monthly result reflected, especially, the increases in the production of transport equipment, 7%; capital goods for construction, 4.4%; and of serial industrial equipment, 4.1%. In contrast, it bears highlighting the respective decreases of 4.2% and 3.8% in the segments of capital goods for non-serial industrial equipment and for the electric energy sector. Considering the observed data, the expansion of 24.1%, year-over-year, reflected, mainly, the increase in the production of capital goods for construction, 78.9%; of agricultural equipment, 32.2%; of transport equipment, 23.8%; and of capital goods for serial industrial use, 22.5%.

45. The production of typical construction inputs rose 0.3% in September, retreating 0.2% in the quarter ended in September, compared to that ended in June, considering seasonally adjusted data. Considering the last twelve months through September, the segment production increased 1.4%.

46. The physical production of the overall industry increased 0.7% in September, month-on-month, according to seasonally adjusted data from the IBGE, after registering stability in August. The mining and the manufacturing industries grew by 0.8% and 0.5%, respectively, in the month. Among the use categories, the highlight is the production of capital goods, which increased by 4% in September, followed by a 2.3% growth in durable consumer goods and stability in the production of intermediate goods. In contrast, semi and non-durable consumer goods retreated 1.4% in the analysed period. Twelve out of the 26 manufacturing industry

activities surveyed increased in the month, with highlights for the industry of other transportation equipment, 8.6%; perfumery, soaps, detergents and other cleaning products, 8.4%, and motor vehicles, 6.2%; in opposition to the decreases of 12.2% and 10.5% in the publishing, printing and reproduction and apparel industries, respectively. Industrial production declined 1.4% in the third quarter, compared to the second, when it had increased by 0.9%, reflecting changes of 2.2% in mining and -1.8% in manufacturing industries. It bears highlighting the increases in the industries of miscellaneous, 5.4%; tobacco, 4.7%, and metal products, 3.3%, and the retreat in the pharmaceutical, 10.5%; office machines and computer equipment, 7.4%; publishing, printing and reproduction, 6.3%, and motor vehicles, 4.6%. Considering observed data, the physical production of the overall industry increased 2%, compared to September 2012 , reflecting increases of 0.7% in mining and 2% in manufacturing industries, with highlights for the expansion of 24.1% in the capital goods production, followed by the respective growth rates of 1.5 % and 0.4% in the durables consumer goods and intermediate goods industries, in contrast to a decline of 1.6% in the production of semi-durable and non-durable consumer goods. The increase of 0.8 % recorded in the quarter ended in September, year-over-year, was due primarily to the 15.9% increase of the capital goods industry, while the 1.1% increase in twelve-month period ended in September was driven mainly by the increases in the production of capital goods (7.8%) and durable consumer goods (3.1%).

47. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.1% in October, a fall of 0.1 p.p. month-on-month, according to data seasonally adjusted from FGV. There were declines of 1.1 p.p. in the intermediate goods and of 0.6 p.p. in the capital goods industries; and increases of 1.9 p.p. in the durable consumer goods, 0.8 p.p. in construction inputs, and 0.7 p.p. in non-durable consumer goods. Considering the observed series, the Nuci fell by 0.1 p.p. year-over-year, reaching 85.3%, as a result of the decreases in the production of durable consumer goods (3.8 p.p.) and intermediate goods (0.1 p.p.) and respective increases of 2.9 p.p., 0.8 p.p. and 0.4 p.p. in the segments of construction inputs, capital goods and non-durable consumer goods.

48. Vehicles output reached 323.8 thousand units in October, representing a decrease of 8.3% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the quarter ended in October, the production of vehicles increased by 1.9%, compared to the quarter ended in July, when it had increased 4.5%, according to the same comparison basis. Considering observed data, vehicles output increased 0.5% year-over-year, 12.4% in the year and 11.3% in the twelve months through October.

49. Still according to data released by Anfavea, national vehicle licensing decreased 2.8% in October, month-on-month, and 4.9% in the quarter ended in October, considering data seasonally adjusted by the BCB. Regarding observed data, there were changes of -4.9% year-over-year, 2.2% in the year and 3.4% in twelve months. Automobile exports totaled 51.8 thousand units in October, representing increases of 22.9% year-over-year, 30.6% in the year and 17.6% in twelve months. According to the series seasonally adjusted by the BCB, exports decreased 6.3% in the month, month-on-month, and 0.2% in the quarter ended in October, compared to the one ended in July.

50. The LSPA survey carried out by the IBGE, regarding October, projected 186.8 million tons for the 2013 national harvest of grains, representing changes of 15.4% year-over-year and -0.1% over the September crop estimate. Compared to 2012, the estimated expansion is due, in particular, to the expected growth in the production of soybeans (23.8%), followed by the growth estimates for corn (12.9%), wheat (11.5%), beans (4.9%) and rice (2.7%). Moreover, a 6.2% increase is estimated for the harvest of sugar cane and respective declines of 14.2% and 6.9% are expected for the harvests of orange and coffee, according to the same comparison basis. Also according to the IBGE, which prepared the first forecast for the 2014 harvest, it is estimated that grain production will reach 184.2 million tons, 1.4% lower than the one projected for 2013, mainly influenced by the expected decline of 10.3% in the production of corn, partially offset by an estimated increase of 6.1% for the soybean crop.

51. According to the Monthly Service Survey (PMS), carried out by the IBGE, the nominal revenue from the services sector increased 9.6% in September, year-over-year, compared to 6.6% in August and 9.1% in July. The result mainly reflected the increase of transportation, support activities for transportation and mailing

activities (12.1%). The nominal revenue in the services sector increased 8.4% in the year through September, with highlights for the segment of transportation, support activities for transportation and mailing activities (10.9%) and service rendered to families (10%).

Surveys and Expectations

52. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), reached 112.8 points in November. The increase of 1% month-on-month reflected changes of 1.4% in the Expectations Index (IE) and -0.2% in the Current Situation Index (ISA). According to observed data, the ICC decreased 6.1% year-over-year, due to decreases of 11.6% in the ISA and of 2.5% in the IE.

53. The ICS, carried out by the FGV, considering seasonally adjusted data, reached 116.1 points in October. The decrease of 0.2% month-on-month reflected changes of -0.5% in the Expectations Index (IE) and 0.3% in the Current Situation Index (ISA). The ICS decreased 4.7%, year-over-year, due to decreases of 5.3% in the IE and 4.1% in the ISA.

54. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 125.2 points in October, decreasing 4.9% year-over-year. The result reflected the decreases of 10.2% in the Current Situation Index (ISA-COM) and 1.4% in the Expectations Index (IE-COM). In the quarter ended in October, the ICOM decreased 3.9%, year-over-year, due to the retractions of 5.6% in the ISA-COM and 2.9% in the IE-COM.

55. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), reached 99 points in November. The increase of 1.2% month-on-month was driven by the increases of 1.8% in the Current Situation Index (ISA) and 0.6% in the Expectations Index (IE). The ICI decreased 6.5% year-over-year, as a result of the decreases of 5.9% in the ISA and 7.1% in the IE.

56. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 115.9 points in November, decreasing 3.7% year-over-year. The result reflected retreats of 5.7% in the Current Situation Index (ISA-ICST) and 1.8% in the Expectations Index (IE-ICST). In the quarter ended in November, the ICST also decreased 3.7%, year-over-year, influenced by the decreases of 5.9% in the ISA-ICST and 1.7% in the IE-ICST.

Labor Market

57. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 94.9 thousand formal jobs were created in October, up from 67 thousand in the same month of 2012, of which 52.2 thousand in commerce, 33.5 thousand in the manufacturing industry and 32.1 in the services sector, partially offset by the contraction of 22.7 thousand jobs in agriculture. In the year, 1.1 million jobs were created and , in the twelve months through October, 681.8 thousand, compared to 1.3 million and 953.7 million, respectively, for both equivalent periods of 2012. Month-on-month, formal job creation expanded by 0.2% in October, considering data seasonally adjusted by the BCB.

58. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.2% in October, representing retraction of 0.2 p.p. month-on-month and and 0.1 p.p. year-over-year. The monthly result reflected the increase of 0.4% in the employed population, higher than the Economically Active Population (PEA), 0.1%. Year-over-year, the employed population dropped 0.4%, compared to a rise of 0.1% in September, according to the same comparison basis. Considering seasonally adjusted data, the unemployment rate decreased from 5.4% in September to 5.3% in October. According to the same survey, the average real income usually earned by workers decreased 0.1% month-on-month and increased 1.8% year-over-year. Real payroll, defined as the product of the number of persons employed by the usual real average income of the main work, changed 0.2% and 1.4%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

59. The total credit in the financial system, including the non-earmarked and earmarked credit operations, totaled R$2,610 billion in October, with expansions of 0.5% in the month and 14.7% in twelve months. The credit-to-GDP ratio reached 55.4%, retreating 0.1 p.p. month-on-month and increasing 3 p.p. year-over-year. The balance of non-earmarked credit operations, equivalent to 56.2% of the total credit outstanding in the financial system, rose 0.2% in the month and 8% in twelve months, reflecting respective changes of 0.6% and 8.1%, respectively, for credit operations with individuals and -0.3% and 7.8%, respectively, for credit operations with corporate. The earmarked credit operations increased, respectively, 0.9% and 24.6%, according to the same comparison bases, with highlights for the increases of 1.9% and 28.8%, respectively, of rural credit, and of 2.2% and 34.5%, respectively, in mortgages, for the segment of individuals, and 1.7% and 25.9%, respectively, in the mortgages destined to corporate.

60. The overall average interest rate of loans in the financial system reached 19.8% p.a. in October, representing expansions of 0.4 p.p. month-on-month and 0.8 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 26.1% and 14.8%, corresponding to expansions of 0.6 p.p. and 0.1 p.p., respectively, month-on-month, and of 0.6 p.p. and 0.8 p.p., year-over-year.

61. The overall average tenure on credit operations reached 95.6 months in October, representing a decrease of 1.1 months, month-on-month, and an increase of 8 months, year-over-year. The average tenure related to individuals reached 136.1 months, increasing 1.2 month, month-on-month, and 17.1 months, year-over-year. In the corporate segment, the average tenure reached 63.7 months, decreasing 3.3 months, month-on-month, and increasing 0.2 months, year-over-year.

62. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, reached 3.2% in October, retreating 0.1 p.p. month-on-month and 0.7 p.p. year-over-year. The indicators related to operations with individuals and corporate reached 4.6% and 2%, respectively, in October, with a decrease of 0.2 p.p. and stability, in the same order, month-on-month, and reductions of 1.1 p.p. and 0.4 p.p., respectively, in twelve months.

External Environment

63. The global economic recovery has remained at a moderate pace, highlighting the acceleration in the US, UK and China. In the third quarter, the GDP annualized quarterly changes reached 9.1% in China, 3.2% in the UK, 2.8% in the US, 1.9% in Japan and 0.4% in the Euro Area, compared to respective variations of 7.8%, 2.7%, 2.5%, 3.8% and 1.1% in the previous quarter. The global composite PMI for October reached 55.5, its highest level since February 2011, suggesting an increase in the overall growth rate in the period. In the US, the labor market continues in slow recovery. In October, despite the generation of 204 thousand non-rural jobs, the unemployment rate rose to 7.3%, up from 7.2% in September. The real estate sector keeps recording rise in residential property prices. However, the increase of the mortgage rates represents a risk to this recovery. The Euro Area increased for the second consecutive quarter, but at a slower pace. The unemployment rate remained at the high record of 12.2% in September. In October, the composite PMI fell to 51.9, down from 52.2 in September, remaining, for the fourth consecutive month, at a level indicating expansion, while the index of economic sentiment, despite at low levels, expanded for the sixth consecutive month. In Japan, GDP growth slowed down for the second consecutive quarter, despite the recovery of exports in October, benefited from the increased sales to the US, the EU and China. At the same time, the Japanese composite PMI, at 56 points, achieved its highest value of the historical series. The business sector's investments in fixed assets recorded increase, favored by the growth in corporate profits, although private consumption continued decelerating. In China, the manufacturing PMI registered an average of 50.7 in the October- November period, up from 49.3 in the quarter ended in September.

64. Since the last Copom meeting, equity markets posted significant gains in developed economies, while in the emerging economies this performance was more volatile, resulting from uncertainties associated with their growth and the start of reducing the monetary stimuli (tapering) by the Federal Reserve (Fed). In this environment, the annual yield of ten-year US Treasury bonds continued in a down trend until the definition of a

solution, albeit partial, for the fiscal deadlock in that country, when they reached 2.50% on October 23rd, returning to an upward trajectory, having reached 2.80% on November 20th. The dollar fell against the currencies of Korea, Mexico and the UK, and appreciated against the currencies of Australia, Japan, South Africa, Brazil, Chile, India and Turkey.

65. In the international commodities market, the agricultural ones retreated, reflecting the progress of the grain harvest in the US and in the grain crops in South America, and the comfortable global supply of sugar, coffee and cotton. Regarding metal commodities, it bears highlighting the advance in the price of iron ore and the decline in the price of aluminum. In the energy segment, it bears highlighting the increase in the price of Brent oil barrel, due to the reduction of production in Libya and the deterioration of the tensions in Iraq.

66. According to the International Financial Statistics, from the International Monetary Fund (IMF), the annual change in the global CPI decreased to 3.2% in September, from 3.6% in July, reflecting the slowdown in price increases in advanced economies, from 1.6% to 1.2%, and in developing countries, from 6.6% to 6.2%, respectively, in July and in September. On November 7th, the European Central Bank (ECB) cut its basic interest rate (main refinancing rate) by 0.25 percentage points, to the new record low of 0.25 % p.a.. The central banks in the US, Japan and the UK maintained their respective official interest rates at historical low levels, as well as the size of their assets purchases programs, at the time that the monetary authorities of Chile, Hungary, Israel, Mexico, Peru, Romania and Thailand increased the expansionary stance of their policies, reducing their respective basic rates. In the opposite direction, the central banks of India and Indonesia raised their basic interest rates.

Foreign Trade and International Reserves

67. The Brazilian trade balance showed a deficit of US$224 million in October, as a result of US$22.8 billion in exports and US$23 billion in imports. The accumulated deficit in the year totaled US$1.8 billion, compared to a surplus of US$17.3 billion in the same period of 2012, reflecting a decrease of 1.4% in exports and an increase of 8.8% in imports, according to the daily averages. The total external trade stood at US$402.8 billion in the first ten months of the year, an expansion of 3.5%, compared to the same period of 2012, considering the daily average criterion.

68. The international reserves according to the liquidity concept, which includes repurchase lines, totaled US$376.9 billion in October, an increase of US$851 million month-on-month and a decrease of US$1.7 billion in the year. According to the cash concept, the outstanding totaled US$364.5 billion, a decrease of US$4.1 billion month-on-month and of US$8.6 billion compared to December 2012. In October, the net sales of repurchase agreements lines amounted US$5 billion, while the outstanding totaled US$12.4 billion.

Money Market and Open Market Operations

69. In the period that followed the October Copom meeting, the domestic interest rate curve showed an increase on its entire length, with emphasis on the long stretch. Focusing on the domestic environment, the market expectations for the continuity of the adjustment cycle of the basic rate, concerns about the fiscal policy stance and rumors of revision of Brazil's credit rating by the rating agencies, influenced the increase of the rates. Externally, the expected change in the US monetary policy, the global appreciation of the dollar and the rising rates of the US Treasury bonds contributed to this movement. Between October 7th and November 25th, the one-, three- and six-month rates increased by 0.48 p.p., 0.54 p.p. and 0.69 p.p., respectively. The rates for the maturities of one, two and three years increased by 0.82 p.p., 1.04 p.p. and 0.99 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 3.54% on October 7th to 4.42% on November 25th, mainly due to to the increase in nominal interest rates .

70. From October 8th to November 25th the BCB carried out traditional FX swap auctions maturing between March and October 2014. These operations totaled the equivalent to US$27.5 billion, of which US$14 billion relative to the rollover of the contracts maturing on November 1st and December 2nd 2013. On November 25th, the FX short net result of the BCB regarding this instrument totaled the equivalent to US$66.1 billion in notional value.

71. In the management of the liquidity of the banking reserves' market, the BCB daily conducted, from October 8th to November 25th, daily, repurchase agreements with maturity of 3 months, borrowing R$55.3 billion and, weekly, repurchase agreements with maturity of six months, borrowing the total of R$1.6 billion. The average daily balance of the outstanding long-term operations increased from R$265.9 billion, between August 27th and October 7th, to R$267.4 billion, between October 8th and November 25th. In the same period, the BCB conducted repo operations with maturity of 34 working days, totaling R$311.7 billion. The BCB also carried out leveling operations, at the end of the day, on 34 occasions, as a borrower. The overall daily average of such overnight operations was R$84.7 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB decreased from R$700.3 billion, between August 27th and October 7th, to R$666.7 billion, between October 8th and November 25th. Considering the period between October 7th and November 25th, the outstanding of repurchase agreements decreased from R$691.7 billion to R$631.9 billion. The main factors driving the liquidity expansion in the period were the net issuance of securities by the National Treasury and the net revenues of the Union.