



# BANCO CENTRAL DO BRASIL

## Minutes of the 170<sup>th</sup> Meeting of the Monetary Policy Committee (Copom)

### Summary

Recent Economic Developments  
Assessment of Inflation Trends  
Monetary Policy Decision  
Inflation  
Economic Activity  
Surveys and Expectations  
Labor Market  
Credit and Delinquency Rates  
External Environment  
Foreign Trade and International Reserves  
Money Market and Open Market Operations

**Date:** October 9<sup>th</sup>, 2012, from 4:20PM to 7:57PM, and October 10<sup>th</sup>, from 4:52PM to 7:53PM

**Place:** BCB Headquarters meeting rooms – 8<sup>th</sup> floor on October 9<sup>th</sup> and 20<sup>th</sup> floor on October 10<sup>th</sup> – 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 October 9<sup>th</sup>)

Adriana Soares Sales - Research Department (also present on October 10<sup>th</sup>)  
Daso Maranhão Coimbra – Department of Banking Operations and Payments System  
Geraldo Pereira Júnior – International Affairs Department  
João Henrique de Paula Freitas Simão - Open Market Operations Department  
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves  
Renato Jansson Rosek – Investor Relations and Special Studies Department  
Tulio José Lenti Maciel – Economic Department

#### Other participants (present on October 9<sup>th</sup>)

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

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

### Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) rose to 0.57% in September (0.41% in August). As a consequence, twelve-month trailing inflation reached 5.28%, compared to 7.31% in September 2011. Market prices changed 5.93% in the twelve months through September (7.79% in September 2011), and regulated prices, 3.44% (6.17% in September 2011). Among market prices, the prices of tradable goods increased 3.37% in the twelve months through September (6.52% in September 2011), and the prices of non-tradable goods, 8.28% (8.88% in September 2011). The prices of food and beverages group,



## BANCO CENTRAL DO BRASIL

still impacted by domestic and external weather-related factors, increased by 1.26% in September (0.64% in September 2011) and reached 9.53% in twelve months. The prices of services rose 0.51% in September (0.49% in August) and 7.89% in twelve months (9.03% in September 2011). In short, services inflation still remains at high levels and there are localized pressures in the food and beverages segment.

2. The average of the underlying inflation measures calculated by the BCB has moved from 0.43% in August to 0.47% in September. On its turn, on a twelve-month trailing basis, the average change of the five core inflation measures moved from 5.26% in August to 5.23% in September. The smoothed trimmed means IPCA core inflation moved from 0.50% in August to 0.49% in September, and the non-smoothed trimmed means core inflation changed from 0.42% to 0.49% in the same period. Similarly, the double weight core inflation increased from 0.45% in August to 0.51% in September. At the same time, core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.40% in August to 0.47% in September; and the core inflation by exclusion of regulated prices and household food changed from 0.40% in August to 0.39% in September.
3. Broadest inflation, measured by the General Price Index (IGP-DI), decreased from 1.29% in August to 0.88% in September, resulting, on a twelve-month trailing basis, in 8.17% inflation (7.45% in September 2011). The main component of this indicator, the Wholesale Price Index (IPA), changed 9.18% in the twelve months through September, influenced by strong increase in the agricultural sector (18.06%), impacted by supply shocks. According to the breakdown by stage of production, there were increases in the prices of raw materials (11.84%), intermediate goods (9.76%) and final goods (6.13%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, stood at 5.73% in the twelve months through September (7.13% in September 2011). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.49%, according to the same comparison basis, driven by the increase in labor cost. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.53% in August (0.50% in July), and 7.53% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.
4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br increased by 0.4% in July, after registering an increase of 0.6% in June. As a consequence, the indicator increased 0.6% in the quarter ended in July, quarter-over-quarter, and increased 1.5% year-over-year. Therefore, the twelve-month accumulated growth remained stable at 1.2% in July. On its turn, the Consumer Confidence Index (ICC), from Getúlio Vargas Foundation (FGV), increased in September after four consecutive retreats, with improvement on both the perception of the current economic conditions and the expectations. Likewise, the Services Sector Confidence Index (ICS) increased, after five consecutive declines, influenced by the evident improvements in the market expectations.
5. The indicators of Credit Conditions, constructed by the Central Bank based on quarterly consultation held with representative institutions of each credit market segment, demonstrate, in general, more flexible conditions in the fourth quarter of 2012, compared to the third. Specifically about the credit to legal entities (large companies and micro, small and medium-sized companies), the analysis suggests a scenario moderately more flexible, quarter-over-quarter, when it comes to approving new credit lines. Related to consumer credit, the expectation for the fourth quarter indicates slight recovery in the percentage of credit approval. For housing credits, despite the demand at levels higher than those observed from July to September 2012, the expected approval of new lines tends to be similar to the previous quarter.
6. The Brazilian Institute of Geography and Statistics (IBGE) released information on Gross Domestic Product (GDP) for the second quarter of 2012. The expansion of activity was 0.5% year-over-year and 0.4% over the first quarter of 2012, according to seasonally adjusted data. Thus, the cumulative growth rate in four quarters fell from 1.9% to 1.2%, confirming the view that the economy has grown below its potential. From the aggregate supply side, the service sector and agriculture grew 0.7% and 4.9%, respectively, compared to the



## BANCO CENTRAL DO BRASIL

previous quarter, and industrial production fell by 2.5%, according to the same comparison basis. From the aggregate demand side, household expanded by 0.6% and government consumption increased by 1.1%, while Gross Fixed Capital formation (GFCF) contracted by 0.7%, quarter-over-quarter. On its turn, the contribution of the external sector was negative, with a decrease of 3.9% in exports and expansion of 1.9% in imports. In particular, foreign sales to Argentina and to the European Union were negatively impacted. In short, domestic demand, driven by moderate expansion of credit and by employment and income growth, has been the main factor sustaining activity.

7. Industrial activity registered the third positive monthly growth in August, according to the series seasonally adjusted by the IBGE. Therefore, industrial production rose 1.5% in August, after an increase of 0.5% in July. Production grew in 20 of the 27 branches of activity. Year-over-year, industrial production fell 1.9% in August and 2.9% on a twelve-month accumulated basis. Under the quarterly moving average criteria, industrial production increased 0.8% from June to August. Regarding revenues in the manufacturing industry, there was real growth of 7.0% in August, year-over-year, despite a 2.1% decline in the number of hours worked, according to the National Confederation of Industry (CNI).
8. Among the industry use categories, according to data seasonally adjusted by the IBGE, the production of durable consumer goods grew 2.6% in August, the third consecutive monthly increase. The production of semi-durable and nondurable consumer goods, capital goods and intermediate goods expanded in August 1.2%, 0.3% and 2.0%, respectively. Regarding the twelve-month accumulated growth through August, there were decreases in the production of durable consumer goods (-8.0%), semi-durable and non-durable consumer goods (-0.7%), capital goods (- 8.5%) and intermediate goods (-1.6%).
9. The unemployment rate for the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, retreated to 5.3% in August, 0.7 percentage points (p.p.) below the rate recorded in August 2011. According to BCB seasonally adjusted data, the unemployment rate changed from 5.3% in July to 5.2% in August, a record low since the beginning of the series in March 2002. Compared to August 2011, there were expansions of 1.5% of the working population and 0.7% of the Active Economic Population (PEA). The lower growth rate of the PEA in the recent past has contributed to stability, at low levels, of the unemployment rates, despite the moderation in the pace of job creation. Also according to the PME, the average real income rose 2.3% in August, year-over-year. As a result, real payroll, considering the average income of the employed population in the six metropolitan areas, increased 3.8%, compared to August 2011. Data released by the Ministry of Labor and Employment (MTE) show that, in August, 100.9 thousand formal jobs were created (190.4 thousand in August 2011). The sectors that contributed the most to this increase in the number of formal jobs in the month, in absolute terms, were the services and trade sectors. In short, the set of available data indicates that, although the labor market remains robust, there are signs of moderation at the margin.
10. According to the retail monthly survey (PMC) from IBGE, broad retail sales increased 10.2% in July, year-over-year, supported, in part, by fiscal stimuli. According to the seasonally adjusted series, broad retail sales decreased 1.5% in July, month-on-month, after expansion of 6.2% in June. Therefore, the accumulated growth rate in twelve months stood at 5.9% in July, with expansion in all ten sectors surveyed, with highlights for office, computer and communication material and equipment (19.9%) and furniture and appliances (14.2%). Since October 2011, the FGV, in partnership with the BCB, has released the Trade Confidence Index (ICOM). This indicator provides the current outlook and signals the evolution of commercial activity in a more timely manner. In September, the index expanded for the second consecutive month. For the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth, by the reduction in borrowing costs and by moderate credit expansion.
11. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, rose in September (84.9%), standing 0.5 p.p. above the level observed in September 2011. According to the seasonally adjusted series calculated by the FGV, the Nuci stood at 84.1% in September – the highest value since July 2011 - 0.5 p.p. above the level recorded in September 2011 and 2.6 p.p. below the record high of the series recorded in June 2008. Capacity utilization intensified in the consumer goods sector, which reached 86.7%, and retreated in the capital goods sector, which recorded 82.0%. In the



## BANCO CENTRAL DO BRASIL

sectors of intermediate goods and construction inputs, the levels stood at 85.1% and 88.0%, respectively. Still according to the FGV, the Industry Confidence Index continues a gradual recovery trajectory, reaching the highest level since July 2011 according to the seasonally adjusted series, mainly due to improvements in the expectations component. The share of companies that reported inventories at normal levels increased since the last Copom meeting.

12. The trade balance on a twelve-month accumulated basis continued a downward trajectory, dropping to US\$22.5 billion in September. This result stemmed from US\$246.6 billion in exports and US\$224.2 billion in imports, associated to changes of -0.1% and 3.6%, respectively, compared to the previous twelve months. As a consequence, the current account deficit in the same period reached US\$49.7 billion in August, equivalent to 2.1% of GDP, while foreign direct investment totaled US\$65.8 billion in the twelve months through August, equivalent to 2.8% of GDP, surpassing the need for external financing.
13. Global economy faces a period of above-than-usual uncertainty, with prospects of low growth for a prolonged period. Despite the high risk environment, the volatility and risk aversion decreased, since the last Copom meeting, partly influenced by unconventional monetary policy actions in major mature economies. High unemployment rates for a long period, coupled with the implementation of fiscal adjustments, the limited space for countercyclical actions and political uncertainties are translated into projections of low growth for mature economies. The compound leading indicator released by the Organization for Economic Cooperation and Development (OECD), related to August, indicates even greater moderation in the growth of the main economies. In the same sense, the disaggregated indicators of the Purchasing Managers Index (PMI) for September suggest moderate global activity - despite some improvement at the margin in the United States (US) -, highlighting the slowdown in the manufacturing sector. Regarding monetary policy, advanced economies persist with strongly accommodative stances. Unconventional measures announced by mature economies should increase liquidity in their respective markets, as well as commodities prices, in the short term. Nevertheless, core inflation measures have remained at moderate levels in the US, in the Euro Area and in Japan. In emerging economies, in general, the monetary policy bias is expansionist, which combines, in some cases, with additional countercyclical policies.
14. The price of Brent oil barrel has maintained above US\$110. It bears highlighting that the even higher geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. As measured by the Commodity Research Bureau (CRB), since the last Copom meeting, international prices of metallic and agricultural commodities have changed 2.5% and -1.0%, respectively. Therefore, relative to the record highs observed in April 2011, the changes reach -21.7% and -12.7%, respectively. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a fall of 9.3% until September, compared to the peak recorded in February 2011. In the recent past, the high volatility observed for the commodities prices was influenced by the abundant global liquidity, in a context where financial markets adjust to new expectations for growth and volatility in FX markets. Prospectively, it is plausible to affirm that the reduction of growth targets in China and India, coupled with the fragility of the global economy, tends to generate downward pressures over commodities prices in the medium run.

### Assessment of Inflation Trends

15. 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 adjustments for gasoline, for 2012, were maintained at 0%, the same value considered at the August Copom meeting;
  - b) the projected adjustments for bottled gas prices, for 2012, were maintained at 0%, the same value considered at the August Copom meeting;
  - c) the projected adjustments for 2012 for fixed telephone tariffs were reduced from -1.0%, which was considered at the last meeting, to -1.3%, and the projected adjustments for electricity remained at 1.4%, unchanged relative to the August Copom meeting;



## BANCO CENTRAL DO BRASIL

- d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2012, was maintained at 3.6%, considered at the August Copom meeting; and
  - e) the projected adjustment for the set of regulated prices accumulated in 2013 reduced to 2.4% from 4.5% considered at the August Copom meeting. Such 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). It is worth mentioning that, in large part, the retreat in the projection for 2013 is due to the estimated reduction in electricity tariffs.
16. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates -27 bps and 27 bps spreads for the fourth quarter of 2012 and 2013, respectively.
  17. Regarding fiscal policy, projections assume the achievement in 2012 of the public sector primary surplus around 3.10% of GDP. Furthermore, it is accepted, as a working hypothesis, a primary surplus around 3.10% of GDP for 2013, without adjustments, according to parameters set out in the Budget Guidelines Law (LDO) - 2013. For 2014, it is accepted, as a working hypothesis, a primary surplus of 3.10% of GDP, without adjustments.
  18. The set of projections incorporates the estimated effects of the reduction in the neutral interest rate identified over the last years.
  19. The main scenario does not include the occurrence of extreme events in international financial markets, but considers the estimates of the impacts caused by changes in the external environment on the Brazilian economy. In particular, it incorporates the estimated effect of the recent supply shock in agricultural commodities.
  20. Since the last Copom meeting, the median of the expectations compiled by the BCB's Investor Relations and Special Studies Department (Gerin) for the 2012 IPCA increased from 5.19% to 5.42%. For 2013, the median of inflation expectations decreased from 5.50% to 5.44%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the median of expectations for the 2012 IPCA changed to 5.39%, 5.44% and 5.40% from 5.20%, 5.19% and 5.19%, respectively. For 2013, the median changed to 5.47%, 5.51% and 5.40% from 5.50%, 5.67% and 5.46%, in the same order.
  21. The baseline scenario assumes the maintenance of the exchange rate at R\$2.05/US\$1.00 and the Selic rate at 7.50% p.a. during the forecast period. Under this scenario, the projection for the 2012 inflation remained stable relative to the figure considered at the August Copom meeting and stands above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin in the period immediately prior to the Copom meeting, IPCA inflation forecast for 2012 remained stable, standing above the midpoint inflation target. For 2013, the inflation projection decreased in both scenarios, but still stands above the midpoint target in both cases. For the third quarter of 2014, the inflation forecast is above the midpoint inflation target in both scenarios.

### Monetary Policy Decision

22. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly price setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms



## BANCO CENTRAL DO BRASIL

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.

23. International evidence, ratified by the Brazilian experience, indicates that high inflation rates lead to the increase in risk premia, both for private and public funding, and to the shortening of planning horizons, both for households and companies. Consequently, high inflation rates reduce investments and economic growth potential, in addition to presenting regressive effects on income distribution. In other words, high inflation rates do not originate any lasting results for economic and employment growth; on the contrary, they create permanent damage to these variables in the medium and long terms. Therefore, the strategy adopted by the Copom aims to ensure the convergence of inflation towards the targets path, which requires that possible deviations from the target path be promptly corrected. Such strategy takes into account the time lags in the transmission mechanism and is the most adequate to deal with the uncertainty inherent to the process of monetary policy formulation and implementation.
24. The Copom considers that, since its last meeting, the risks to global financial stability have remained high, particularly those deriving from the ongoing deleveraging process observed in the main economic blocks. The Committee understands that, overall, the prospects of moderate global activity have remained unchanged, and the restrictions to which several mature economies were exposed have changed little. It also notes that, in these economies, there seems to be limited leeway for monetary policy actions, and a scenario of fiscal restraint also prevails, in this and in the upcoming years. Moreover, in important emerging economies, despite the resilience of domestic demand, the pace of activity remained moderate. On the other hand, since the penultimate meeting, there were evidences of localized pricing pressures, stemming from an unfavorable supply shock in agricultural commodities. For the Committee, this shock tends to be less intense and less lasting than the one observed in 2010/2011, as well as it tends to reverse in the medium term. Therefore, despite manifesting inflationary bias in the short term, the international scenario looks disinflationary in the medium term.
25. For the Copom, there are cumulative evidences supporting the view that the transmission of external developments to the Brazilian economy materializes through several channels, among others, moderation of total trade, moderation in investment flows and tighter credit conditions. Another transmission channel of great importance is the impact over businessmen confidence.
26. The Copom evaluates that prospects for economic activity in this and in the upcoming semesters are favorable, with some asymmetry among the several sectors. This assessment is supported by signs that point to moderate expansion of credit supply, both for individuals and corporate, and by the fact that consumers' and, to a lesser extent, businessmen's confidence stands at high levels and in an upward trend. The Committee understands, additionally, that the domestic activity will continue to be benefited by public transfers, as well as by the labor market vigor, mirrored in historically low unemployment rates and in wages growth, despite some accommodation at the margin.
27. The Copom reaffirms its view that inflation accumulated in twelve months tends to move towards the targets path, even in a non-linear way.
28. The Copom notes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It bears highlighting that the generation of primary surpluses in line with the hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, will strengthen the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.
29. The Copom highlights that its main scenario also considers moderate expansion in the credit market. Still about the credit market, the Committee considers opportune the initiatives with the aim of moderating the concession of subsidies through credit operations.
30. The Copom evaluates as decreasing the risks stemming from the persistence of the mismatch, in specific segments, between supply and demand growth rates. However, it highlights the narrow idleness margin in the



## BANCO CENTRAL DO BRASIL

labor market, despite the signs of moderation in this market, and considers that, under such circumstances, an important risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation dynamics. On the other hand, the Copom notes that the level of installed capacity utilization is below the long-term trend, in other words, it is contributing to the opening of the output gap and to contain prices pressures. The Committee also highlights risks stemming from the instability in the prices of *in natura* products and grains, which manifests, for example, in the dynamics of wholesale prices.

31. The Committee highlights that the main scenario encompasses more intense pace of activity in this semester and next year. The Committee identifies decrease in the probability of extreme events in international financial markets, but, at the same time, it argues that the external environment remains complex, given the lack of a final solution for the European financial crisis, and the risks associated to the ongoing deleveraging process – of banks, households and government - in the main economic blocks. It also notes that the scenario for the main emerging economies appears more challenging than anticipated. Although the inflation prospective scenario has been negatively impacted by supply shocks related to domestic and foreign climatic events in the short term, it maintained favorable signs for longer periods. Thus, the Committee also notes that, according to the main scenario adopted, inflation tends to move towards the target path.
32. In this context, the Copom decided to reduce the Selic rate to 7.25% p.a., without bias, with five votes for the monetary policy action and three votes in favor of maintaining the Selic rate at 7.50% p.a..
33. The following members of the Committee voted for the reduction of the Selic rate to 7.25% p.a.: Alexandre Antonio Tombini, Governor, Aldo Luiz Mendes, Altamir Lopes, Luiz Awazu Pereira da Silva and Luiz Edson Feltrim. Accordingly, the majority of the Committee members argued, in particular, that the remaining uncertainties about the pace of economic recovery, largely due to the prospects that the period of weakness in the global economy will be more prolonged than anticipated, will have disinflationary impact on the domestic economy. Furthermore, it was highlighted that the recent price pressures stem mainly from supply shocks, both domestic and external, which tend to reverse in the medium term. Therefore, according to these five members of the Committee, the prospective scenario for inflation justified a final adjustment in monetary conditions.
34. The following members of the Committee voted for the maintenance of the Selic rate at 7.50% p.a.: Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo and Sidnei Corrêa Marques. In this sense, the minority of the Copom members argued that the activity recovery tends to be supported by monetary, fiscal and credit impulses already introduced in the economy. Occasionally, demand and cost pressures may have impact on inflation. Hence, according to the view of these three members of the Committee, the prospective scenario for inflation would not recommend a further adjustment in monetary conditions.
35. The Copom evaluates that domestic demand tends to show robustness, especially regarding household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the effects of monetary policy actions recently implemented, which are, in short, lagged and cumulative. For the Committee, these effects, the programs of public services concession and the gradual recovery of businessmen's confidence create good prospects for investment in this and in the upcoming semesters. The Committee considers that recent initiatives indicate the balance of the public sector moving from a position of neutrality to expansionism. On the other hand, the Committee notes that the fragile international scenario represents an important factor restraining aggregate demand. These elements and quasi fiscal developments 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.
36. The Copom understands that the Brazilian economy has experienced significant structural changes, which determined retreat in interest rates in general and, in particular, in the neutral rate. Among the factors that support this view, it bears highlighting the reduction of risk premia, a direct consequence of the accomplishment of the inflation target for the eighth consecutive year, of the macroeconomic stability and of institutional improvements. Moreover, the process of interest rates reduction was favored by changes in the



## BANCO CENTRAL DO BRASIL

structure of the financial and capital markets, by the credit market deepening, as well as by the generation of primary surpluses consistent with the maintenance of decreasing trend for the public debt-to-GDP ratio. For the Committee, all these changes are characterized by a high degree of persistence – although, due to the economic cycles themselves, specific and temporary reversions may occur – and contribute for the Brazilian economy's current solid indicators of solvency and liquidity.

37. The Copom also considers that the increase in the supply of external savings and the reduction of its funding cost have contributed to the reduction of the domestic interest rates, including the neutral rate, which, according to the Committee's assessment, are largely permanent developments.
38. In light of the above, considering the balance of risks to inflation, the recovery in domestic activity and the complexity involved in the international environment, the Committee believes that the stability of monetary conditions for a sufficiently long period of time is the most appropriate strategy to ensure the convergence of inflation toward the target, even in a non-linear way.
39. At the end of the meeting, it was announced that the Committee will reconvene on November 27<sup>th</sup>, 2012, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 21,213 of June 29<sup>th</sup>, 2011.

### SUMMARY OF DATA ANALYZED BY THE COPOM

#### Inflation

40. The IPCA rose 0.57% in September, up from 0.41% in August, totaling 3.77% in the year and 5.28% in twelve months, compared to 5.24% in the twelve months through August, according to data released by the IBGE. The monthly result reflected acceleration both in market and in regulated prices. Regarding market prices, which increased 0.66% in September, compared to 0.50% in August, the movement was influenced by the behavior in the prices of tradable goods, which increased from 0.44% to 0.92%, while the prices of non-tradable goods decelerated to 0.43%, down from 0.55%, despite the acceleration in the prices of services, which increased 0.51% in September, up from 0.49% in August. Regulated prices rose 0.30% in September, up from 0.13% in August. The monthly IPCA change mainly stemmed from the increases in the prices of food and beverages and housing, which contributed 0.30 p.p. and 0.10 p.p., respectively. The diffusion index stood at 66.30% in September, up from 65.48% in August.
41. On a twelve-month basis through September, market prices accelerated in relation to August, from 5.75% to 5.93%, while regulated prices decelerated, from 3.77% to 3.44%. The evolution of market prices reflected the effect of the acceleration in the prices of tradable goods, from 2.96% to 3.37%, while the prices of the non-tradable goods decelerated, from 8.33% to 8.28%. The prices of the services segment increased 7.89% in the last twelve months through September, compared to 7.89% and 7.90%, in the corresponding periods through August and July, respectively.
42. The IGP-DI changed 0.88% in September, after increasing 1.29% in August, according to the FGV, with deceleration in the IPA and in the INCC, while the IPC accelerated in the period. The index accumulates an increase of 7.46% in the year and 8.17% in twelve months.
43. The IPA-DI changed 1.11% in the month, compared to 1.77% in August, totaling 8.89% in the year and 9.18% in twelve months. The prices of agricultural and livestock products increased 1.98% in September, down from 5.19% in the previous month, totaling 18.73% in the year and 18.06% in twelve months. The prices of industrial products increased 0.76% in the month, up from 0.47% in August, totaling 5.39% in the year and 5.98% in twelve months. The monthly performance of the prices of agricultural and livestock products evidenced, in particular, the change registered in the prices of soybeans (2.48%), bovines (3.96%), manioc (16.37%) and rice (13.58%), with respective contributions of 0.17 p.p., 0.13 p.p., 0.12 p.p. and 0.10 p.p. for the IPA-DI result, respectively. Among the prices of industrial products, the main influences were exerted by meats, meat and fish products and chemical products, with respective increases of 6.95% and 2.31%, and individual contributions of 0.23 p.p. and 0.22 p.p. to the monthly index.





## BANCO CENTRAL DO BRASIL

44. The IPC-DI increased 0.54% in September, compared to 0.44% in August, totaling 4.07% in the year and 5.73% in twelve months. The IPC-DI change in September was mainly influenced by the 1.23% increase in the food group, which contributed 0.29 p.p. to the monthly index. The INCC-DI changed 0.22% in the month, down from 0.26% in the previous month, as a result of the deceleration in the costs of labor force (from 0.13% to 0.00%) and of the acceleration in the prices of materials, equipment and services (from 0.39% to 0.46%). The INCC-DI accumulated changes of 6.37% in the year and 7.49% in the twelve months through September.
45. The IPP/IT increased 0.53% in August, after increasing 0.50% in July, and accumulated 5.59% increase in the year, compared to 0.75% in the same period of last year, and expanded by 7.53% in the twelve months through August, compared to 7.14% in the same period through July. The monthly result of the IPP/IT was mainly influenced by the increases in the prices related to the industries of food products, which contributed 0.41 p.p. to the index, partially offset by the contribution relative to other chemical products, of -0.16 p.p. to the index. The index change in the twelve months through August reflected, mainly, elevation related to the contribution stemming from the industries of food products, 3.32 p.p..
46. The Commodities Index Brazil (IC-Br) increased 0.29% in September, after decreasing by 0.08% in August, reflecting changes of -0.89%, -1.28% and 8.05% related to the segments of agriculture and livestock, energy and metal, respectively. In the year, the index accumulates an increase of 8.93%, with expansions of 8.94%, 6.64% and 11.44%, in the respective sub-indexes. In the last twelve months through September, the index accumulates an increase of 3.61%, with increases of 3.05%, 7.39% and 2.88% in the sub-indexes, in the same order.

### Economic Activity

47. The Economic Activity Index of the BCB (IBC-Br) increased 0.42% in July, month-on-month, considering seasonally adjusted data. In the quarter ended in July, the index increased 0.61%, over the quarter ended in April, when it had increased 0.38%, according to the same comparison basis. Considering observed data, the IBC-Br increased 2.34% in July, year-over-year, compared to the 0.99% expansion recorded in June, according to the same comparison basis. The index increased 1.08% in the year and 1.24% in the twelve months through July.
48. Broad retail sales, which include vehicles and construction inputs, decreased 1.5% in July, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after increase of 6.2% in June and 0.1% in May. With this result, broad retail sales grew 4.6% in the quarter ended in July, relative to the quarter ended in April, when it had increased by 1.4%. By segment, eight out of the ten surveyed segments increased, with highlights for the increase of 9.7% in office, computer and communication material and equipment, in contrast to the 8.9% fall in the sales of vehicles, motorcycles, parts and pieces. In the year, broad retail sales increased 7.5%. Retail sales volume increased 1.4% in July, month-on-month seasonally adjusted, after increase of 1.6% in June and fall of 0.8% in May, according to the same comparison basis. There were expansions of 1.3% quarter-over-quarter, considering seasonally adjusted data, 8.8% in the year and 7.5% in twelve months.
49. Considering observed data, broad retail sales increased 10.2% in July, year-over-year, with expansion in all segments, with highlights for the increases in the sales of vehicles, motorcycles, parts and pieces (16.4%); furniture and household appliances (12.5%); office, computer and communication material and equipment (11.4%); and pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (11.3%). In the twelve months through July, broad retail sales increased 5.9%, mainly driven by increases in the sales of office, computer and communication material and equipment (19.9%), furniture and household appliances (14.2%); and pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (10%).
50. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 288.1 thousand units in September, retreating by 16.2%, month-on-month, after increasing by 8.7% in August and decreasing by 6% in July, according to the Brazilian Federation of Automobile Vehicles Distribution (Fenabrave) data, seasonally adjusted by the BCB. In the third quarter, sales expanded by 14.2%, compared



## BANCO CENTRAL DO BRASIL

to the 3.7% increase in the previous quarter. In the year, automobile vehicles sales increased 4%, as a consequence of the increase in the sales of cars (6.9%) and light commercial vehicles (0.9%); in contrast, the sales of trucks and buses fell by 22.8% and 13%, respectively.

51. Capital goods imports quantum index, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 1% in August, month-on-month. According to the observed data, the index decreased 7.1% year-over-year and increased 1.4% in the year and 1.9% in the twelve months through August.
52. Capital goods production increased 0.3% in August, accumulating a 1% increase in the quarter ended in August, compared to the one ended in May, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The performance of the category in the month was favored by the increase in the production of agricultural capital goods (2.5%); in contrast, the other segments retreated in the period, with highlights for the reductions of 28% in the production of equipment for construction, and of 8.8% relative to capital goods for non-industrial series use and also for pieces for agricultural use.
53. Construction inputs production increased by 1.3% in August, accumulating an increase of 0.5% in the quarter ended in August, relative to the quarter ended in May, considering seasonally adjusted data. Compared to the same periods of 2011, the segment production expanded by 3.6% in the month, 2.8% in the year and 3.2% in twelve months.
54. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R\$137.6 billion in the twelve months through July, 16.6% below the one registered in the same period of 2011, mainly mirroring the retraction of 44.4% in funding for the manufacturing industry. In the period, the infrastructure sector absorbed 37% of the total funds released, followed by industry, 32%, commerce and services, 24%, and agriculture and livestock, 7%.
55. Industrial production increased 1.5% in August, according to IBGE seasonally adjusted data, after a 0.5% increase (revised) in July, reflecting expansions of 1.6% in manufacturing industry and 0.1% in mining. By use categories, it bears highlighting the increases of 2.6% in the durable goods production, 2% in the production of intermediate goods, 1.2% in the production of semi and non-durable consumer goods, and 0.3% in the production of capital goods. Nineteen out of the 26 manufacturing industry activities surveyed increased in the month, with highlights for the segments of tobacco (35%), furniture (6.3%), and electronic material and communication equipment (5.9%). On the other hand, diverse sectors, medical-hospital instrumentation equipment and also machinery and equipment presented the sharpest monthly retractions, of 5%, 2.7% and 2.6%, respectively. The industrial production increased 0.4% in the quarter ended in August, over the quarter ended in May, when it had decreased by 0.9%, according to the same comparison basis, reflecting expansion of 0.4% in the manufacturing industry, while mining decreased 1.3%. The quarterly evolution was influenced by the increase in the industries of tobacco (22.3%), other transportation equipment (5.4%) and perfumery and cleaning products (4%); in contrast, medical-hospital instrumentation equipment and clothing recorded the sharpest falls, of 6% and 3%, respectively, in the analyzed period. Considering observed data, industrial production decreased 1.9% in the month, year-over-year, 3.4% in the year and 2.9% in twelve months, mainly reflecting the unfavorable performance of the capital goods industry.
56. The Nuci in the manufacturing industry reached 84.1% in September, a 0.1 p.p. increase month-on-month, according to data seasonally adjusted by the FGV. All the use categories retracted, according to the same comparison basis, with highlights for the reductions of 1.5 p.p. in capital goods production, and of -0.6 p.p. in construction material and in non-durable consumer goods. Considering the observed series, the Nuci increased 0.5 p.p., year-over-year, reaching 84.9%, as a result of the increases of 3.6 p.p. in non-durable consumer goods and of 2.9 p.p. in durable consumer goods, as opposed to the decrease in the indicators related to construction inputs (-2.5 p.p.), capital goods (-2.9 p.p.) and intermediate goods (-0.1 p.p.).
57. Vehicles output reached 282.5 thousand units in September, representing decrease of 1.1% month-on-month and increase of 6.9% in the third quarter, according to data released by the National Association of Automotive



## BANCO CENTRAL DO BRASIL

Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. Considering observed data, the production changed 8.2% year-over-year, -5.7% in the year and -6.1% in twelve months.

58. Still according to data released by Anfavea, national vehicle licensing decreased 15% in August, month-on-month, and increased 16.8% in the quarter ended in September, relative to the previous quarter, considering data seasonally adjusted by the BCB. Regarding observed data, there were increases of 0.4% year-over-year, 5.8% in the year and 0.6% in twelve months. Automobile exports totaled 27.2 thousand units in September, representing retractions of 40.3% year-over-year, 18% in the year and 8.4% in twelve months. According to the series seasonally adjusted by the BCB, exports decreased 26.9% in the month and 5.8% in the third quarter, quarter-over-quarter.
59. The LSPA survey carried out by the IBGE regarding September projected 163.7 million tons for the 2012 national harvest of grains, representing increase of 2.2% year-over-year and retraction of 0.5% over the August crop forecast. The new prognosis presented more favorable prospect for the harvest of wheat, with increase of 7.8% month-on-month, in contrast to the forecasts for the crops of soy, corn and beans, which reduced by 0.9%, 0.6% and 0.5%, respectively, according to the same comparison basis. Regarding the 2011 harvest of grains, the new projection estimates expansion in the harvest of corn (28.5%), reflecting an expected increase of 75.8% for the second harvest, as opposed to the declines projected for the harvests of beans (-18.1%), rice (-15%), soybeans (-12.8%) and wheat (-7.1%). In addition, a decrease of 7.7% is projected for the harvest of sugarcane, year-over-year, 0.4% above the previous estimate.

### Surveys and Expectations

60. The Consumer Confidence Index (ICC), considering data seasonally adjusted from the nationwide Consumer Expectations Survey (FGV), increased 1.4% in September, month-on-month, to 122.1 points, driven by the expansion of 2.2% in the Current Situation Index (ISA) and 1.8% in the Expectations Index (IE). The ICC increased 1.8% year-over-year, considering observed data, as a result of the increase of 1.1% in the ISA and 2.1% in the IE.
61. The ICS, calculated by the Services Survey carried out by the FGV, increased 2.9% in September, month-on-month seasonally adjusted, moving from 117.5 to 120.9 points, as a result of the increases of 0.2% in the Current Situation Index (ISA-S) and 5.1% in the Expectations Index (IE-S). The ICS decreased 5%, year-over-year, driven by the reduction of 8.9% in the ISA-S and 1.8% in the IE-S.
62. The Commerce Confidence Index (ICOM), measured by the Commerce Survey from the FGV, reached 132.8 points in September, decreasing 1.4% year-over-year. The result reflected reductions of 2.1% in the Current Situation Index (ISA-COM) and 1% in the Expectations Index (IE-COM). In the quarter ended in September, the ICOM decreased 3.1% year-over-year, due to the retreats of 2.2% in the ISA-COM and 3.7% in the IE-COM.
63. The Industry Confidence Index (ICI), considering seasonally adjusted data from the Survey of Manufacturing Industry (SCIT-FGV), increased 0.9% in September, month-on-month, reaching 105 points, as a result of the decrease of 0.1% in the ISA and increase of 1.7% in the IE. The ICI increased 3.5% in September, year-over-year, due to increases of 2% in the ISA and 5% in the IE.
64. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 122.6 points in September, decreasing 3% year-over-year. The result reflected retreats of 2.9% in the Current Situation Index (ISA-ICST) and 3.1% in the Expectations Index (IE-ICST). In the quarter ended in September, the ICST decreased 7.8%, year-over-year, due to the retreats of 9.4% in the ISA-ICST and 6.4% in the IE-ICST.

### Labor Market

65. According to the General Record of Employment and Unemployment (Caged), of the Ministry of Labor and Employment (MTE), 100.9 thousand formal jobs were created in August, highlighting the opening of 54.3



## BANCO CENTRAL DO BRASIL

thousand jobs in the service sector, 31.3 thousand in commerce, 16.4 thousand in manufacturing industry and 11.3 thousand in civil construction, as opposed to the net closing of 16.6 thousand jobs in the agriculture and livestock sector, reflecting seasonal factors. In the year through August, 1.1 million thousand jobs were created and in twelve months, 1.07 million, compared to 1.6 million and 1.8 million, respectively, in the same periods of 2011. Month-on-month, formal job creation expanded by 0.2%, considering data seasonally adjusted by the BCB.

66. According to the IBGE employment survey (PME), conducted in the six major metropolitan areas, the unemployment rate reached 5.3% in August, with decreases of 0.1 p.p. month-on-month and 0.7 p.p. year-over-year. The monthly result reflected an increase of 0.7% in the employed population and 0.6% in the Economically Active Population (PEA). Considering seasonally adjusted data by the BCB, unemployment reached 5.2% in August, down from 5.3% in the previous month. According to the same survey, the average real income usually earned by workers grew 1.9% month-on-month, 2.3% year-over-year, and 4% in the year. Real payroll expanded by 2.6%, 3.8% and 5.9%, respectively, according to the same comparison bases.

### Credit and Delinquency Rates

67. Outstanding credit in the financial system reached R\$2,211 billion in August, increasing by 1.2% in the month, 8.9% in the year and 17% in twelve months, equivalent to 51% of GDP. Non-earmarked credit operations, which represented 63.8% of the total of the financial system, increased 1% in the month, 8.1% in the year and 15% in twelve months, reflecting respective increases of 1.3%, 7.8% and 13.9% for credit operations to individuals, and 0.8%, 8.4% and 16.1% for credit operations to corporate, in the same order. Earmarked credit operations increased, respectively, 1.6%, 10.4% and 20.6% according to the same comparison bases, highlighting the expansions of 3.2%, 24.3% and 37.3%, respectively, in housing credit.
68. The average annual interest rate on reference credit operations reached 30.1% in August, decreasing 0.6 p.p. in the month and 9.6 p.p. in twelve months. The average annual rate on credit for individuals and corporate reached, respectively, 35.6% and 23.1%, registering respective decreases of 0.6 p.p. and 0.5 p.p., month-on-month, and 10.6 p.p. and 7.8 p.p., year-over-year.
69. The average tenure on reference credit operations increased three days in August, reaching 507 days. The tenure related to individuals and corporate segments increased four and two days, respectively, reaching 614 and 408 days, in the order.
70. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) reached 5.9% in August, showing stability in the month and an increase of 0.6 p.p. year-over-year. The indicator for the operations with individuals reached 7.9% in the month, remaining stable month-on-month, and increasing 1.1 p.p. in twelve months. The delinquency rate for credit operations to the corporate segment reached 4.1%, increasing 0.1 p.p. and 0.2 p.p. according to the same comparison bases.

### External Environment

71. Since the last Monetary Policy Committee meeting, the global activity continues at a moderate pace. In the US, GDP growth in the second quarter was revised to 1.3%, down from the previous estimate of 1.7%. Industrial production fell 1.2% in July and August, moving the average index of those months to the same level observed in the second quarter of the year. The average of job creation totaled 146 thousand in the third quarter, a faster pace than observed in the previous quarter, and the unemployment rate fell to 7.8% in September, down from 8.3% in July. Average housing prices, measured by the Case-Shiller index, rose in July for the sixth consecutive month and recorded the first increase year-over-year in June. In the Euro Area, the unemployment rate remained at 11.4% in August, for the third consecutive month, the record high for the series, contributing to the retreat of the economic sentiment index in the region for the seventh consecutive month in September. The composite PMI for the region reached 46.1 in September down from 46.3 in August, indicating contraction for the eighth consecutive month. Retail sales rose 0.1% in August, registering the third consecutive monthly increase. In China, despite the maintenance of the slowdown in the year-over-year data,



## BANCO CENTRAL DO BRASIL

the monthly average growth rates observed in the July-August period for industrial production and retail sales advanced in relation to the averages of the second quarter, in contrast to the observed for investments in fixed assets. The projections for global growth in 2012 and 2013 published in October in the World Economic Outlook by the International Monetary Fund (IMF) were reduced to 3.3% and 3.6%, respectively, from 3.5% and 3.9%, as forecast in the July update.

72. The financial and commodities markets were positively affected by announcements of the European Central Bank (ECB) about the program of unlimited purchases of sovereign securities of up to three years in the secondary market, under conditions; by new measures of monetary easing by the Federal Reserve, in the US, and the Bank of Japan; and by the new fiscal stimulus package in China. Since the last Copom meeting, the Composite EMBI+ and the CBOE VIX Index retreated, the major representative indexes of stocks exchanges appreciated, and the dollar fell against the major currencies. Regarding the international commodities prices, it is worth mentioning the significant advance in the prices of metals, heavily influenced by the aforementioned measures. The agricultural commodities showed variations in opposite directions, with declines in the international prices of grains and increases in sugar and coffee prices. The price of a barrel of Brent crude oil, despite oscillating, declined during the analyzed period.
73. In August, the annual change in the CPI for the advanced economies, data from the International Financial Statistics (IFS) from IMF, increased to 1.7% up from 1.4% in July, due to the behavior of energy prices, interrupting the sequence of ten consecutive months without elevation for that index. In emerging and developing countries, disinflation also suffered inflection in August, driven largely by the increases in the prices of food and raw materials over the past few months. The annual change in the CPI for the developing economies, according to the IFS/IMF, rose to 5.9% in August, up from 5.8% in July, after four consecutive months without growing.
74. In developed economies, official interest rates were maintained at the record low levels in the US, between 0 and 0.25%; Euro Area, 0.75%; Japan, between 0 and 0.1% and the UK, 0.5%. In other economies, the rates also remained at the current levels, with the exception for Sweden, Czech Republic, Hungary and Australia, which have reduced their respective basic interest rates by 25 b.p., and Russia and Uruguay, which increased by 25 b.p..

### Foreign Trade and International Reserves

75. The Brazilian trade surplus reached US\$2.6 billion in September, as a result of US\$20 billion in exports and US\$17.4 billion in imports. In the year through September, the trade surplus totaled US\$15.7 billion, down from US\$23.1 billion in the same period of 2011, reflecting retreat of 4.9% in exports and 1.2% in imports, according to the daily average criterion. Total external trade declined 3.2% in the year, according to the daily average criterion, totaling US\$345.5 billion.
76. International reserves reached US\$378.7 billion in September, increasing US\$1.5 billion month-on-month and US\$26.7 billion year-over-year. In the month, there were no BCB's interventions in the domestic exchange rate spot market.

### Money Market and Open Market Operations

77. After the August Copom meeting, the domestic yield curve showed decline in its entire length. Domestically, the drop in interest rates was influenced by the release of data regarding formal employment and economic activity below market estimates and by expectations of continued monetary easing cycle. On the international scenario, concerns about the developments of the crisis in the Euro Area and the prospect of low global growth strengthened the downward movement of long-term rates. Between August 28<sup>th</sup> and October 8<sup>th</sup>, one-, three- and six-month interest rates fell by 0.24 p.p., 0.17 p.p. and 0.14 p.p., respectively. The rates for maturities of one, two and three years declined 0.23 p.p., 0.41 p.p. and 0.37 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, decreased from 1.78% on August 27<sup>th</sup> to 1.67% on October 8<sup>th</sup>, mainly due to the reduction in nominal rates.



## BANCO CENTRAL DO BRASIL

78. Between August 28<sup>th</sup> and October 8<sup>th</sup>, the BCB carried out reverse FX swap auctions maturing in October, November and December 2012 and January 2013, in an amount equivalent to US\$7.0 billion. The net balance of BCB swap operations is US\$4.9 billion, long in FX change.
79. In its open market operations, the BCB carried out weekly, from August 28<sup>th</sup> to October 8<sup>th</sup>, repo operations borrowing R\$38.4 billion for a six-month period. The average daily balance of the long term operations increased from R\$131.8 billion, between July 10<sup>th</sup> and August 27<sup>th</sup> to R\$140.9 billion between August 28<sup>th</sup> and October 8<sup>th</sup>. In the same period, the BCB also borrowed money through very short term repo operations with tenures between thirteen and twenty-nine working days, increasing the average daily balance of short-term borrowing operations to R\$390.4 billion. The BCB also conducted very short-term operations through 29 borrowing operations, and carried out leveling operations, at the end of the day, with tenures of one and two working days. The average daily balance of these operations totaled R\$55.5 billion in the period, borrowing. The average daily balance of the total outstanding of repurchase agreements of the BCB increased from R\$567.5 billion, between July 10<sup>th</sup> and August 27<sup>th</sup> to R\$ 586.8 billion, between August 28<sup>th</sup> and October 8<sup>th</sup>. Considering the operations for the most recent period, the total outstanding of repurchase agreements increased from R\$567.4 billion on August 27<sup>th</sup> to R\$606.8 billion on October 8<sup>th</sup>. The main factors that contributed to the expansion of liquidity in the period were the net expenditures of the Union and the release of funds from compulsory deposits.
80. Between August 28<sup>th</sup> and October 8<sup>th</sup>, the National Treasury issuance regarding the traditional auctions raised a total of R\$41.4 billion. The sale of fixed-rate securities reached R\$30 billion, of which R\$28.2 billion in LTNs maturing in 2013, 2014, 2015 and 2016, and R\$1.8 billion in NTN-Fs maturing in 2018 and 2023. The sales of LFTs totaled R\$0.1 billion, with the issuance of securities maturing in 2018. In auctions of NTN-Bs, securities maturing in 2016, 2018, 2022, 2030, 2040 and 2050 were sold, totaling R\$11.3 billion.