Note about the inflation target breach

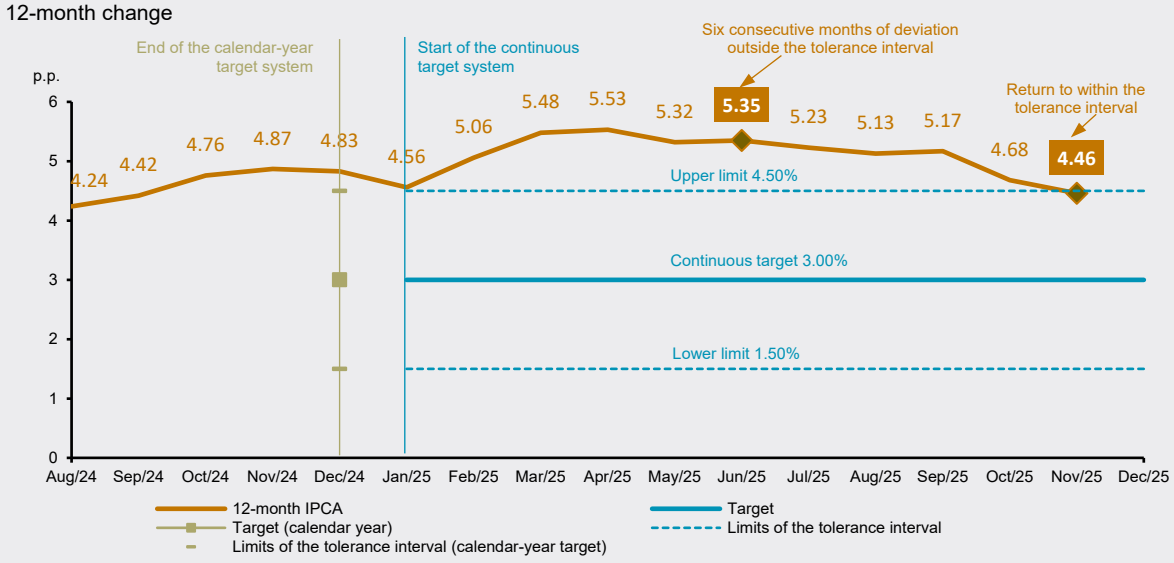
The goal of this note is to monitor the evolution of the inflation outlook and the measures adopted by the Banco Central do Brasil (BCB) to ensure the convergence of inflation to the target. The open letter and the note in the Monetary Policy Report (MPR) are instruments provided for in the Decree 12,079 of 2024 which established the continuous inflation-targeting framework. These instruments shall be released when the inflation target is breached.

About the target breach

The current inflation target, set by the National Monetary Council (CMN) by means of Resolution 5,141 of June 26, 2024, is 3.00%, with a tolerance interval of plus or minus 1.50 percentage points (p.p.). The target is deemed breached when inflation remains outside its respective tolerance interval for six consecutive months.

In June 2025, the 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), reached 5.35% and exceeded the upper limit of the 4.5% tolerance interval for the inflation target. In November 2025, 12-month inflation reached 4.46% and returned to the tolerance interval of the 3,00% target.

Figure 1 – Recent dynamics of the IPCA
12-month change



Whenever the target is not met, the BCB shall disclose the reasons in an open letter[1] addressed to the Minister of Finance and a note in the MPR. The BCB previously informed that it will produce a quarterly note on the MPR not only when the breach is formalized, pursuant to the decree, but throughout the period in which the non-compliance lasts, thereby reinforcing transparency and accountability to society.

1/ Article 6 of Decree 12,079 of June 26, 2024. See the open letter that formalized the target breach, released on July 10, 2025, at https://www.bcb.gov.br/controleinflacao/historicometas (Portuguese only).

Therefore, the BCB provides an update to the note released in the September 2025 MPR, as the target remained breached during part of the current quarter. The note shall detail (i) the evolution of the inflation outlook; (ii) the effects of the measures taken for bringing inflation back to the target tolerance interval; and (iii) the monitoring of the dynamics of inflation convergence.

Dynamics of inflation convergence

Inflation measured by the IPCA remained above the upper limit of the tolerance interval of the 3.00% target until October and ended November around the upper limit. The deceleration in consumer prices is consistent with the reference scenario projections released in the September 2025 MPR and with the inherent uncertainty around these projections. The current scenario of the Monetary Policy Committee (Copom) continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures.

The moderation in aggregate demand is a relevant element for the dynamics of inflation convergence outlined in conditional projections. There are signs of this moderation in recent readings on economic activity. For example, in 2025Q3, household consumption growth was lower than in previous quarters, reflecting the slowdown of disposable income. Moreover, the high debt-to-income (DTI) ratio and the increase of the debt to service ratio (DSR) may also have contributed to reduce the ability to expand consumption.

The output gap remains at positive levels, suggesting high utilization of productive factors and contributing to explain the dynamics of inflation. The resilient labor market, with an unemployment rate near historical lows and real growth of salaries, albeit more moderately, indicates that the Brazilian economy operates with a low degree of slack, despite signs of slowdown. The prospective scenarios for inflation project a gradual reduction in the output gap throughout next quarters, in line with the lagged effects of the monetary policy and its impacts on credit and consumption.

In November, actual 12-month inflation reached 4.46%, still above the 3% target. In this same metric, the average of core inflation measures ended November at 4.72%. The dynamics of inflation indicators involved different IPCA components, reflecting several pressure factors on consumer prices. In particular, the following stands out:

- Food-at-home: inflation dropped from 7.01% to 2.46% in twelve months, with relevant contributions from the exchange rate appreciation and lower international prices for some agricultural commodities. In 2024, food-at-home inflation was 8.22%, particularly pressured by high meat prices;

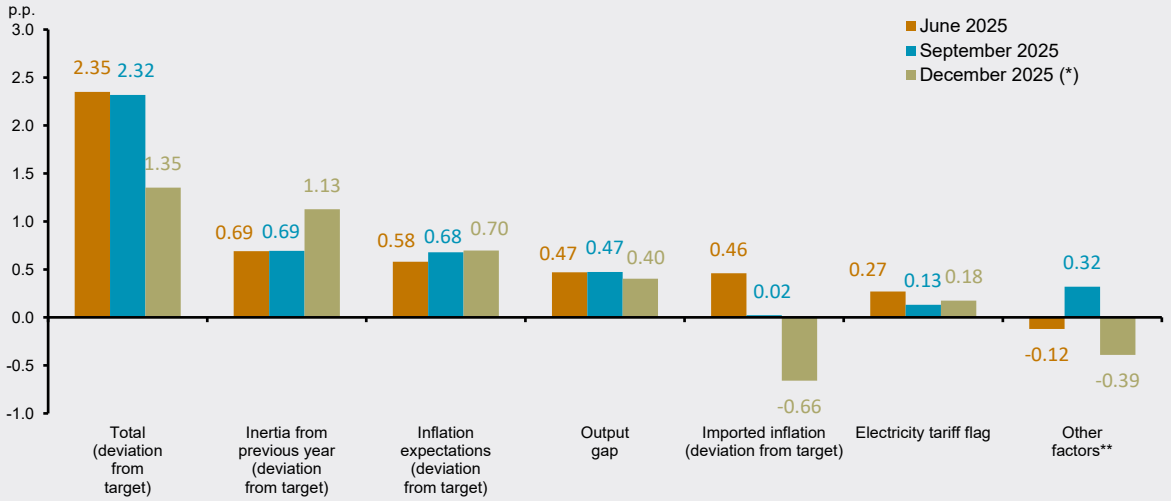
- Industrial goods: inflation reached 2.52% in the twelve months ending in November, but yet remaining at a level considered high for this group. In 2024, inflation in this segment reached 2.89%. The recent moderation reflects relevant contributions from exchange rate appreciation and lower demand, with significant decline in prices of electronics and cell phones;

- Services: after closing 2024 at 4.77%, services inflation has shown resilience at the margin, reaching a 12-month change of 5.95% in November. A relevant downside oscillation was observed in some components, such as cinema, banking services, and car insurance, while inflation measures that emphasize more labor-intensive services continue under pressure.

- Administered prices: inflation reached 5.34% in the twelve months ended in November. In 2024, inflation in this group reached 4.66%. Recent dynamics revealed an acceleration of the group at the margin, reflecting the reversal of the discount associated with the Itaipu bonus and a moderate increase in retail gasoline prices.

For December, the projected inflation is 0.41% p.m., which corresponds to a projected 12-month change of 4.35% p.a. by the end of 2025. Considering this projection, it is possible to update the breakdown of the IPCA deviation from the 3.00% target and compare it with the breakdown released in the July open letter and the note in the September MPR. Using the breakdown of factors[2] through small-scale semi-structural models, one can observe the factors that currently contribute to sustaining the projected deviation of 1.35 p.p. from the target in this quarter. Among the key factors are inertia from the previous twelve months (contribution of 1.13 p.p.); high inflation expectations (0.70 p.p.); positive output gap (0.40 p.p.); imported inflation (-0.66 p.p.); electricity tariff flag (0.18 p.p.); and other factors (-0.39 p.p.).

Figure 2 – Breakdown of the IPCA deviation from its target
12-month contribution (p.p.)



* Observed data until November and nowcast for December
** Contribution to the inflation as deviation from the target after excluding the following factors: inertia associated with the share of the previous year's inflation that deviated from target; expectations as a deviation from target; imported inflation as a deviation from target; and output gap.

The convergence dynamics of inflation have shown a deceleration in prices, although the 12-month measure continues above the 3% target. Gradual disinflation can be observed in some components of the breakdown by factors, particularly in imported inflation. The twelve month inertia accounts for the largest contribution because the lagged inflation measure over four quarters increased in the moving window. Conditional projections for inflation over the coming quarters indicate that the factors determining the deviation are expected to show further accommodation, responding to the effects of the transmission of contractionary monetary policy.

Measures taken and their effects on inflation

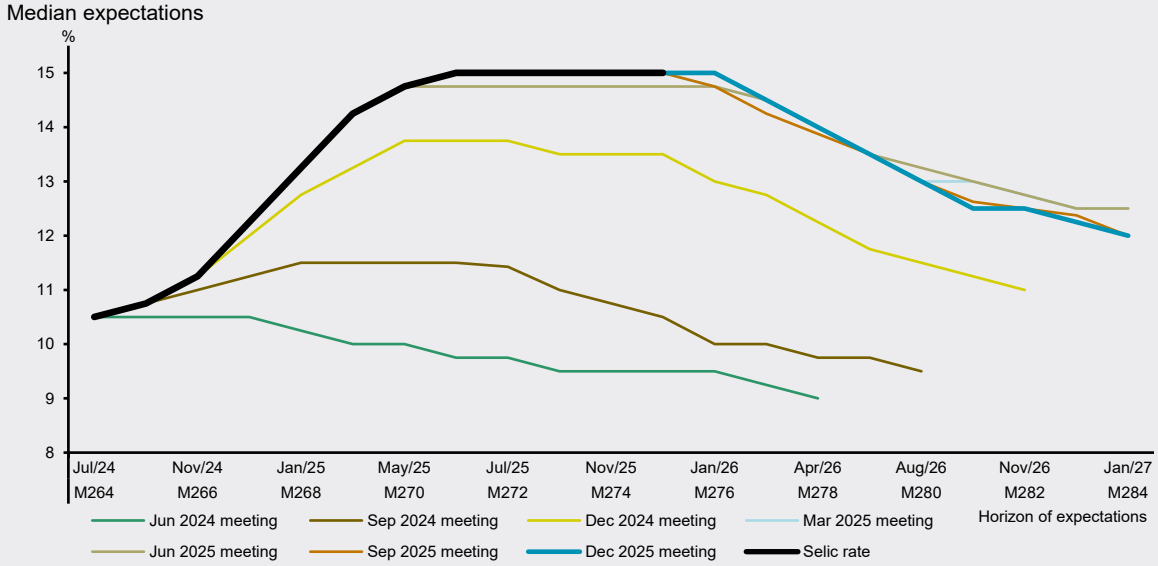
The BCB has implemented measures to mitigate inflationary risks and bring inflation back to the target. Copom decisions have led monetary policy to significantly contractionary levels, always considering the lagged effects of the interest rate on economic activity and inflation convergence to the target in the relevant horizon.

Throughout the year, the Committee has adjusted its communication to convey its assessment of the current stage of monetary policy, highlighting the growing confidence in the disinflation process. First, it is worth noting the firm increase in the policy rate to counteract a deterioration in the inflation scenario. After completing the tightening phase, the Committee paused to assess whether the prevailing interest rate level would be sufficient to ensure inflation convergence. The Committee reinforced that its strategy would be to keep the interest rate level for a very prolonged period. At first, Copom debated whether such a rate was sufficient, then judged that it was, and, in December meeting, concluded that the ongoing strategy

2/ The breakdown is produced using the small-scale semi-structural model. For more methodological details, see box 2017 inflation decomposition in the March 2018 Inflation Report.

of maintaining the current level of interest rate for a very prolonged period is appropriate to ensure the convergence of inflation to the target.

Figure 3 – Evolution of expectations for the Selic rate
Median expectations



Evolution of prospective inflation scenarios

Copom evaluates several prospective scenarios that consider different trajectories for the Selic rate and market expectations for the interest rate. The prospective scenarios consider updated economic data, analysis of recent developments, and short- and medium-term projections, in addition to the Committee assessment of the current state and prospects for the economy.

In particular, Copom regularly releases the reference scenario as a monetary policy communication tool. This scenario assumes that the Selic rate will follow the median trajectory extracted from the Focus survey and that the exchange rate will follow the purchasing power parity (PPP). Updated projections for the reference scenario were presented in section 2.2 (see Table 2.2.1 in this MPR).

The BCB is committed to the continuous inflation target of 3.00% and its decisions aim to achieve this goal throughout the relevant monetary policy horizon. Bringing inflation back to the established tolerance intervals is a natural step in the process of inflation convergence to the target. The open letter and the note are elements of communication pursuant to the law within the institutional framework for the conduct of monetary policy under the continuous inflation-targeting regime. The legislation defines objective criteria to formalize the breach of the inflation target and determines actions to be taken by the BCB for accountability to society in terms of bringing inflation back to the tolerance interval of the continuous target. Such objective elements provided for by law reinforce society's control over the performance of the continuous inflation-targeting regime. This additional note increases transparency and accountability.