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## Economic Comment

### Inflation slips below the target

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CPI inflation surprised to the downside again, falling in November from 2.8% y/y to 2.4% y/y, versus market consensus and our forecast at 2.6% y/y. The main source of the downward surprise must have been core inflation, which – according to our estimate – dropped in November from 3.0% y/y to 2.6–2.7% y/y. It looks like inflation may remain below 2.5% target for the better part of 2026. Therefore, we are changing our view on monetary policy outlook. We think that a 25bp interest rate cut in December is now very likely. It may be followed by a two-month pause, and in March the MPC may resume the easing cycle and – moving in small steps – bring the NBP key rate down to 3.5% or lower.

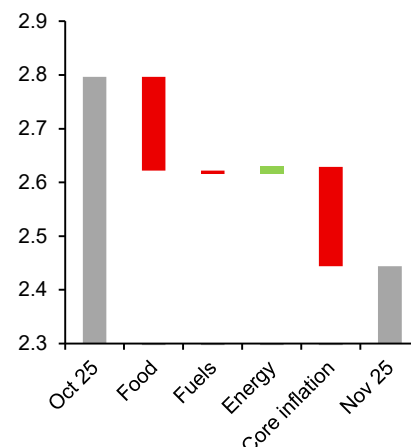
CPI inflation surprised to the downside again, falling in November from 2.8% y/y to 2.4% y/y, versus market consensus and our forecast at 2.6% y/y. Prices of food inched up 0.1% m/m, in line with our assumption, fuel prices rose 2.2% m/m, more than we anticipated, and energy prices rose also by 0.1% m/m, lower than we had thought. Apparently, the gradual rise in heating prices observed in the past few months has already stopped.

The main source of the downward surprise must have been core inflation, which – according to our estimate – dropped in November from 3.0% y/y to 2.6–2.7% y/y. At this stage, we cannot say to what extent this reflects the disinflationary effect of cheap consumer goods imported from Asia, and to what extent it represents a slowdown in services prices. Possibly both have played a role.

The much lower-than-expected November reading lowers our predicted inflation trajectory for the coming months: CPI is likely to tick higher in December due to the base effect, but in January it may drop again and remain below 2.5% target for the better part of 2026.

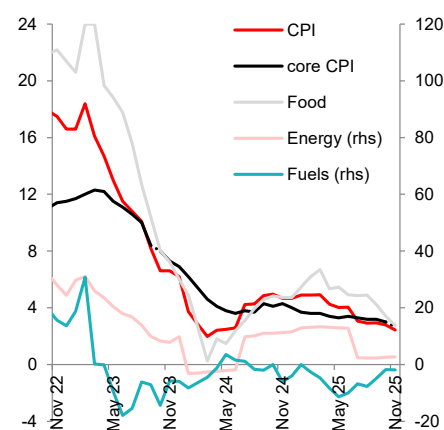
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CPI inflation, % y/y, structure of the change



Source: GUS, Santander

CPI, main categories, % y/y



Source: GUS, Santander

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