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Economic Comment

Inflation finished the year below the target

Bartosz Białas, tel. +48 517 881 807, bartosz.bialas@santander.pl

Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

Final data for December confirmed CPI inflation at 2.4% y/y and 0.0% m/m, compared with 2.5% y/y in November. In our estimate, core inflation stood at 2.8% y/y, slightly above November's reading. Services inflation eased to 5.2% y/y from 5.3% y/y, while goods inflation declined to 1.3% y/y from 1.4% y/y. Downside pressure from imported goods and the relatively small increase in energy prices in 2026 may push CPI below 2% y/y in January. In our view, the MPC will remain in "wait-and-see" mode through February, after which it will consider further policy easing. By mid-year, we expect the key rate to stand at 3.50%.

Final data for December confirmed CPI inflation at 2.4% y/y and 0.0% m/m, down from 2.5% y/y in November. The readings for food (2.4% y/y), fuel (-3.1% y/y) and energy (2.8% y/y) were also the same as in the preliminary release, so we leave our December core inflation estimate at 2.8% y/y (up from November's 2.7%). Super-core inflation, which we calculate by removing regulated prices from the core measure, rose from 2.1 to 2.2% y/y.

Cheap imported goods (supported by supply from China and a strong złoty) should continue to keep domestic inflation under downward pressure in the coming months, likely pushing CPI below 2% in January and February and restoring the downward trend in core inflation. In our view, in 2026 there is still room for further slowdown in food inflation, while the January increase in energy prices should be moderate, around 1% m/m. We believe CPI inflation will be below the NBP target in many months this year, which may bring the annual average below 2.5% y/y.

We assume that the Monetary Policy Council remains focused on the inflation path, and a deeper decline below the target in the coming months will lead to further rate cuts. Limited data visibility at the start of the year (no flash readings for January and February; the effect of rebasing with new weights for those months will only be visible in mid-March) and the need to assess the economy's reaction to the cuts already delivered (with help from the next NBP projection) suggest that the MPC will refrain from further rate cuts at least until March, but could reduce the key rate to 3.50% before the end of 1H26.

Core inflation may have temporarily increased in December

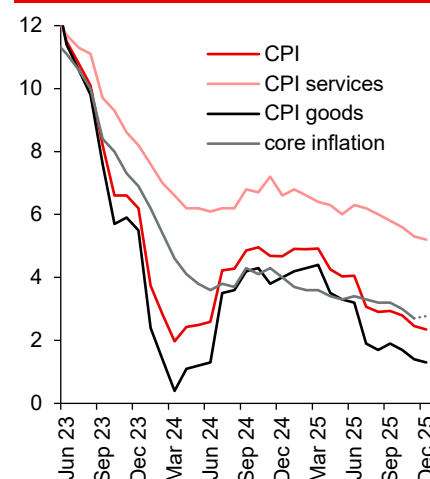
Detailed CPI data showed continued disinflationary pressure in household appliances (-1.2% m/m, -5.1% y/y), electronics (telecom equipment -2.2% m/m, -15.6% y/y; audio-video, photographic and IT equipment -1.6% m/m, -8.8% y/y), sports equipment (-5.4% m/m) and passenger cars (27th consecutive decline, this time by 0.8% m/m, -7.0% y/y) – i.e. mostly imported goods. Software prices also fell markedly, by 7.3% m/m. On the other hand, furniture prices rebounded (+4.5% m/m).

The 5.2% y/y pace of services inflation in December was the lowest since October 2019, yet still signalling persistence of inflation in this part of the CPI basket. In December itself there were modest increases in the prices of medical services and services related to home maintenance and renovation. A natural seasonal rebound in transport services amounted to 7.6% m/m, slightly more than a year ago (5.6%) but less than the 10-year average (11.9%). Insurance prices also rose, on average by 0.5% m/m, along with recreation and sports services (1.1% m/m) and personal care services (0.3% m/m). Organised tourism, in contrast, became cheaper m/m (-0.9%).

Further decline in food price inflation

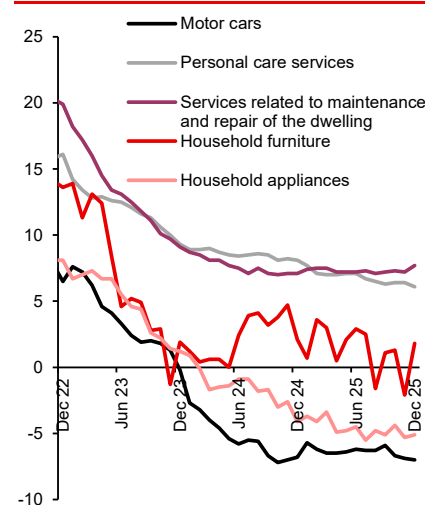
Food and non-alcoholic beverages inflation fell from 2.7% y/y in November to 2.4% y/y in December. The slowdown in food price growth was driven primarily by declines in inflation of: butter (from -4.4% to -11.6% y/y), eggs (from 16.7% to 12.6% y/y), and poultry meat (from 4.4% to 2.4% y/y). Lower inflation – although with a smaller impact on overall food

CPI inflation, % y/y



Source: GUS, Santander

CPI, selected categories, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 691 393 119

Bartosz Białas +48 517 881 807

Adrian Domitrz +48 571 664 004

Marcin Łuziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

inflation – was also recorded for bread prices, where growth eased from 3.0% to 2.7% y/y, and for cheese and curd, where inflation fell from 3.3% to 2.6% y/y.

The decline in overall food inflation was limited by vegetable prices whose growth rate, after three months of declines, rebounded from -3.1% to -1.7% y/y, mainly due to rising inflation in tomato prices (from -7.0% to -2.8% y/y) and cucumbers (from 19.0% to 35.9% y/y).

We expect food price inflation to continue decreasing in the coming months, potentially falling below 2.0% y/y at the beginning of the second quarter of 2026. Factors supporting lower food inflation include strong domestic harvests of vegetables and fruit last year, rising milk supply, and forecasts of solid cereal crops in the 2025/2026 season.

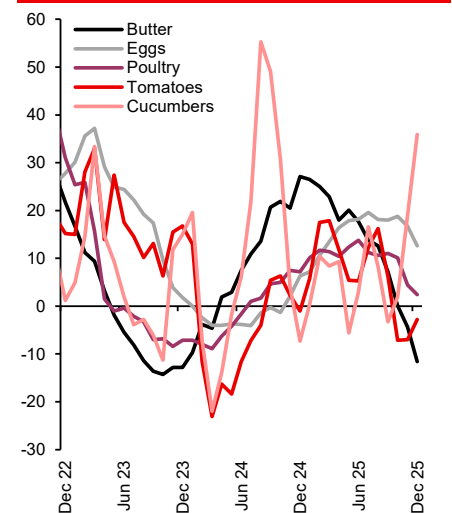
Energy price inflation slightly up, fuel price inflation slightly down

Energy-carrier inflation increased in December by 0.1pp to 2.8% y/y, mainly due to increases in price growth of solid fuel (from -3.6% to -3.2% y/y) and heating (from 3.4% to 3.5% y/y). On the other hand, gas price inflation slipped from -2.3% to -2.4% y/y, and liquid fuel inflation fell from -5.0% to -11.4% y/y.

Fuel prices for private transport declined, with their growth rate falling from -1.9% to -3.1% y/y. This mainly reflected a decrease in diesel inflation (from 0.5% to 0.3% y/y) and a further decline in petrol inflation (from -1.9% to -3.9% y/y).

We forecast that in 2026 energy-carrier inflation should remain relatively stable. As for fuel price growth, its sharp declines in 2025 imply that it is likely to rise again in 2026, exceeding 5% y/y in the second half of the year, mainly due to statistical base effects.

CPI, selected categories, % y/y



Source: GUS, Santander

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.