

# Eurozone inflation unexpectedly rises to 2.2%

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Yesterday's annual figure was above the prediction by economists in a Reuters poll that inflation would hold steady at 2.1 per cent.

The increase comes after annual inflation in the currency area's largest member state, Germany, rose to 2.6 per cent in November from 2.3 per cent in October, higher than analysts forecast.

The closely watched figure for services inflation — a gauge for domestic price pressures that has remained well above the ECB's medium-term 2 per cent target for more than three years — increased for the third month in a row. At 3.5 per cent in November, it reached the highest level since April.

Core inflation, excluding volatile food and energy prices, remained steady at October's level of 2.4 per cent.

Joe Nellis, economics professor and adviser to accountancy firm MHA, said the trend of a slowing pace of inflation was "intact but still fragile".

Separately, data yesterday showed that the unemployment rate in the currency bloc unexpectedly came in at 6.4 per cent for October, higher than economists' 6.3 per cent forecast.

The ECB, which will meet for the last time this year on December 18, is expected to keep its benchmark interest rate unchanged at 2 per cent.

ECB president Christine Lagarde said last Friday that the rates "we settled on at the last meetings are, in my view, set correctly".

Market expectations for rate cuts were stable following the inflation data release, with swaps contracts continuing to imply only a roughly 30 per cent chance of a quarter-point rate cut by the ECB's June meeting next year. Previously, the central bank made eight cuts between mid-2024 and mid-2025 that halved borrowing costs.

Diego Iscaro, an economist at S&P Global Market Intelligence, called November's inflation data "disappointing" and stressed that it would "cement markets' expectations that the ECB will keep rates on hold" this month.

While Iscaro expects that price pressures will ease next year, he said that the slowdown would not be strong enough to convince the ECB that further cuts in interest rates were necessary.

The euro was little changed after the data release, down 0.1 per cent against the dollar at \$1.160 by late afternoon.