



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 3 February 2026

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 3.85 per cent.

While inflation has fallen substantially since its peak in 2022, it picked up materially in the second half of 2025. The Board has been closely monitoring the economy and judges that some of the increase in inflation reflects greater capacity pressures. As a result, the Board considers that inflation is likely to remain above target for some time.

Capacity pressures reflect, in part, the greater momentum in demand seen in recent months. Growth in private demand has strengthened substantially more than expected, driven by both household spending and investment. Activity and prices in the housing market are also continuing to pick up. Financial conditions eased over 2025 and it is uncertain whether they remain restrictive. Credit is readily available to both households and businesses and the effects of earlier interest rate reductions are yet to flow through fully to aggregate demand, prices and wages. More recently, the exchange rate, money market interest rates and government bond yields have risen following a rise in market expectations for the cash rate.

Various indicators suggest that labour market conditions remain a little tight and that they have stabilised in recent months, in line with the pick-up in momentum in economic activity. The unemployment rate has been a little lower than expected and measures of labour underutilisation remain at low rates. Growth in the Wage Price Index has eased from its peak, but broader measures of wages growth continue to be strong and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation and the extent to which monetary policy is restrictive. On the domestic side, if growth in demand is stronger than expected, and growth in the economy's supply capacity remains limited, it is likely to add further to capacity pressures. Uncertainty in the global economy remains significant but so far there has been little or no depressing effect on the Australian economy; indeed, recent growth and trade in Australia's major trading partners has surprised on the upside.

- **Decision**

A wide range of data over recent months have confirmed that inflationary pressures picked up materially in the second half of 2025. While part of the pick-up in inflation is assessed to reflect temporary factors, it is evident that private demand is growing more quickly than expected, capacity pressures are greater than previously assessed and labour market conditions are a little tight.



The Board judged that inflation is likely to remain above target for some time and it was appropriate to increase the cash rate target.

The Board will be attentive to the data and the evolving assessment of the outlook and risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labour market. The Board is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.

Today's policy decision was unanimous.