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Michele Bullock

Governor

Transcript

Michele Bullock

Well, thank you all for coming. So today as you know the Board decided to raise the cash rate by 25 basis points to 3.85 per cent. The recent run of data gives the Board a clear enough view that the underlying pulse of inflation is too strong. We've updated our assessment and outlook for the economy and concluded that the cash rate was no longer at the right level to get inflation back to target in a reasonable timeframe. The RBA's target for inflation is 2.5 per cent and data for the December quarter showed year-ended headline inflation was 3.6 per cent, and underlying inflation was 3.4 per cent. High inflation hurts all Australians. It's important to note in judging the outlook for inflation that we don't just look at current inflation. We're trying to target inflation over the next one to two years, given the time it takes interest rate changes to flow through the economy. The outlook for inflation depends not just on the inflation number today but on the strength in demand and whether the economy has capacity to meet that demand, and on global conditions as well.

Based on the data we've seen and the conditions here and around the world, the Board now thinks it will take longer for inflation to return to target and this is not an acceptable outcome. Now I know this is not the news that Australians with mortgages want to hear but it is the right thing for the economy. I said in December that the Board had been alert to signs of a pick-up in inflation and we cannot allow inflation to get away from us again. Over the last two days the Board has been examining what has changed since our assessment in November and what's driving the pick-up in inflation we've seen in recent quarters. I think the key point to make here is that it's not just one thing. The pick-up is due to a combination of factors across a broad range of components and sectors. Our updated view, driven by the latest data is that demand was stronger than expected over the second half of 2025 and we think some of that strength has carried into 2026. That strength has also meant that conditions in the labour market have held up well and unemployment has remained lower than thought. Secondly, the economy is closer to its supply capacity than we previously thought which means supply constraints are binding in some more sectors and it's not taken much of a pick-up in demand to generate price pressures. Years of weak to no productivity growth is a big part of the story.



Thirdly, the global economy has turned out to be much more resilient than we thought despite the ongoing high level of uncertainty and unpredictably. And finally financial conditions have eased, and it is uncertain now whether they remain restrictive overall. The recent pick-up in inflation and credit growth are enough to make us question this.

So taking all these factors together the Board decided it was necessary to raise the cash rate. We remain focused on returning inflation to target. The Board will continue to be driven by what the incoming data tells us about where the economy has been and what this means for the outlook. So thank you and I'm happy to take your questions.

Jassmyn Goh

Jassmyn Goh from Capital Brief. Ted O'Brien put forward today that government spending was partly to blame for rising inflation. What do you think of that? And has the RBA raised any concerns directly with the Treasurer about the government's level of spending over the past inflation cycle?

Michele Bullock

So the first point to make here is that we base our forecasts on total demand which is public and private. And as I said, what's happened over the last six months or so is that private demand has turned out to be much stronger than we had been forecasting and that, together with what we think is a bit of a weakness in supply, is meaning we think there is - whereas we thought we might have been at sort of balance, we don't think we are now. We think there's excess demand. I'm not going to comment on fiscal policy because it's an independent policy. The governments, I should say, because there's state and federal government here, governments have - they have to supply services, they have to supply goods to people, they have to build infrastructure, they have to make those policy decisions. We take that as given and together with private demand look at whether or not it means that inflation is going to be under pressure, upward pressure or not. That's our focus.

Juliette Saly

Governor, hi, Juliette Saly from Ausbiz TV. This is a fast pivot from where we saw the cut in August. How confident should households be that this is the start of aggressive series of hikes? Oxford Economics have said that you are not mucking around with inflation and KPMG saying you cannot be the only team fighting the inflation dragon.

Michele Bullock

So you won't be surprised to hear me say I won't give forward guidance. The Board felt today was necessary to make an adjustment and the Board will remain focused on data as it becomes available and will be continually monitoring and updating its forecasts. Our forecasts



do see inflation above the target for the next year basically coming back in early next year into the band but that's partly reflecting a judgment that we've made that some of the recent uptick in inflation is in fact a little bit temporary. So there's some sectors that we think maybe the inflation is going to ease off a little bit there but there's enough persistence in what we saw, it was pretty broad based market services again are still quite strong, those sorts of things are suggesting to us, along with our concerns that perhaps financial conditions aren't as tight as we thought they were, that we needed to adjust up. I'm not making any predictions for what it might involve going forward but for the moment we are concerned that we don't want this high level of inflation entrenched.

Chris Kohler

Afternoon, Governor. Chris Kohler from 9News. Understand you won't give any forward guidance. What do you say to Australians who thought inflation was under control, especially given some of the commentary broadly last year, including from the government? What do you say about this disappointment now?

Michele Bullock

Well, I understand they're disappointed. I do understand for mortgage holders this isn't a great outcome. Having said that and I've said this in the past, what's also not great for them or for anyone else is if inflation remains elevated because every time they go to the shop, every time they go to buy their groceries, every time they go to get personal services, medical, if inflation is high that's going to keep going up. Ultimately it is best if we get inflation under control and our instrument is the interest rate and I understand that people with mortgages find that hard, but the alternative is potentially even harder. So I empathise with them but I think when we were looking back at what was going on last year, you might recall we all sat in this room after having - with the press conference and the issues were all about the downside risks, particularly the world economy. Some of these things have just not come to pass. And, in fact, what we've observed is that with financial conditions easing as the cash rate has eased, private demand has responded and that's sort of what it's supposed to do, but it looks like it's come back more quickly than we'd thought.

Stella Qiu

Stella from Reuters. I have two very simple questions, if I may. The first one is did you discuss the possibility of a 50 basis point rate hike?

Michele Bullock

No.



Stella Qiu

And the market pricing suggesting 80 per cent chance of a follow-up hike in May, what do you say to that?

Michele Bullock

What I normally say is I don't dismiss market expectations but I'm also not driven by them. The Board will monitor and make its own decisions about what's appropriate. The market is taking a view on that which is fine but I won't basically be driven by the market.

Lea Jurkovic

Lea Jurkovic from The Financial Review. Uncertainty was a key theme in the SMP and another uncertainty you highlighted like you did in November was just how restrictive financial conditions are. The Board obviously felt that monetary policy needed to move in one direction, but were there different opinions on just how restrictive financial conditions are and so uncertainty on the stance of monetary policy?

Michele Bullock

I wouldn't say there's differences of opinion. I think the fact that credit is growing quite strongly, the housing market has recovered very strongly, there's lots of credit available for businesses and households. If you want to get technical we talk about our neutral rate. It's around about our estimates. I think there's a question. I don't think there's disagreement but I think the Board generally feel that at the margin maybe conditions were just a little bit loose, particularly given what we're seeing in the recovery of private demand.

Swati Pandey

Governor, Swati Pandey from Bloomberg News. Based on your forecast that you have provided today, the RBA does not expect inflation to return to the midpoint of the target, even through next year. Right. And that is assuming two rate hikes. Are you comfortable with that outlook or would you want to return inflation to target or the midpoint target earlier than that? Because that would be a key signal of whether two interest rate hikes are enough for the Board to be comfortable.

Michele Bullock

So let's just go back to the forecast. So that's the central forecast based on the technical assumption, which we use, which is the market path. So it's not our forecast. It's the technical assumption. But that is the central forecast and as you know and I've said a number of times, forecasts the further out you go get more and more uncertain. And you can see that, for example in the *Statement of Monetary Policy*, where we show our fan charts and the fan



charts show you the range of possible outcomes around the central forecasts, if you had historical errors which are the same as in the past. So it can vary a lot. And, in fact, you will only have to go back to our August SMP to see that our forecast turned out not to be right. It wasn't until September, and then November and then December that we realised inflation was going to be much stronger than we thought it was going to be. That's my first point. The reason that's relevant is that the Board doesn't have a particular path in mind. What it has done is adjusted the interest rate up because they felt financial conditions weren't quite firm enough. And then they're going to monitor and wait, as they did on the way down. They were cautious. They didn't hurry. They waited for evidence and in fact I'd have to say the evidence all came out as inflation was tracking down. Then we got the surprises. The question, I think, is where do the risks lie. In our November *Statement* we highlighted, and in the August *Statement* we highlighted actually the potential risk that excess demand was potentially a risk we weren't picking up. That has turned out to be a risk that has eventuated. So I don't think I want to put any emphasis on what that means for the path of interest rates from here. I want to emphasise that the Board is committed, but it's going to be cautious, and I think you should take a reading from the way it has approached this when it was decreasing interest rates as a way that they're going to approach it now.

Swati Pandey

You're not worried enough to do back-to-back hikes, like the data you've seen since the third quarter is not worrying enough, is that what ...

Michele Bullock

The two numbers that we've seen for September and December are two high quarterly numbers, this is underlying, 1 and 0.9. You can't have those sorts of quarterly numbers if you're going to be back in the band. We think there's some temporary numbers that are growing to basically sort of come down and that's going to help. And then hopefully a little bit of tightening in financial conditions will also help. But reading the technical assumption as that's the path of interest rates I guess I'm discouraging people from doing that because we have to make those sorts of assumptions because we have to have forecasts. But we know that the forecasts are very uncertain the further out we get. So could we do a lot of rate rises and bring inflation back down very quickly? Possibly. I don't know. But it might have big implications for the unemployment rate and the economy. And the bottom line is the strategy really hasn't changed here. We are still trying to bring inflation down and keep employment as strong as we can. As close to sustainable full employment as we can.



David Chau

David Chau from ABC News. So a lot of people are hoping the Reserve Bank is one and done with the rate hikes, but should they be expecting the RBA to undo or reverse more of last year's rate cuts?

Michele Bullock

More versions of the same question. I'm not sure what I can add other than to say that the Board has taken a cautious approach. They've made one rate rise this time, and we'll observe now what happens to financial conditions. We're already observing some tightening in financial conditions, including through the exchange rate a bit. We'll wait and see what the response is on some of the credit and housing, those sorts of things. That's what we'll be doing. I'm not predicting there will be more rate rises but I'm also not saying that if inflation does remain too high that there mightn't be. So I'm going back to that never ruling anything in or out phrase, I suppose, at this stage.

David Chau

Just one last question quickly, so the last rate cut in August, in hindsight would that have been a mistake and there was a bit of regret about it?

Michele Bullock

I would only say that I would take you back to the first half of last year and what we were facing into. The market was expecting three rate cuts. Domestic demand was soggy, inflation was coming back, it was in the band. Everything was in line. So I think you've got to think - I think we were doing the right thing. Circumstances change. We change. We've got to change our outlook. We've got to take into account the information we now have and that's changed our outlook.

Jacob Shteyman

Hi Governor, Jacob Shteyman from AAP. My question is on the narrow path. You sort of discussed it a couple of questions ago but you previously said it was a deliberate strategy to, I guess, hike rates a bit lower and slower than peer central banks to preserve those gains in the labour market. Is that strategy something that you plan to continue as you look to get inflation under control going forward?

Michele Bullock

Thanks. The strategy is still - the Board still has basically the same strategy. They're still looking to bring inflation down without giving up so many of the gains we've had. This interest rate rise sort of comes across quite negatively. We're actually in a good position. The labour market



is really strong. Domestic demand is recovering. These are good things but it's just that we're supply constrained. And we think we're even a little more constrained than we thought back a little while ago. So, yes, the strategy is still trying to bring the economy back into balance and the labour market back into balance without overshooting and some other countries have done that. They've got high unemployment rates because that's the strategy they took. So it's still the same strategy, I would say, but it was always going to be difficult when you were getting into a position of balance and, are we restrictive, are we not? Is the economy in balance, is it not? It's not clear cut. So still the same strategy.

Shane Wright

Shane Wright from the SMH and The Age. In the 10 years to December, inflation was in the RBA band 8 of 40 quarters and now you're forecasting another six outside of it. If I was a football team kicking 8 from 40 I'd be off the team. Why has the Reserve Bank got it so wrong and are you comfortable being that wrong for ultimately just one of your two main targets?

Michele Bullock

Well, our mandate is inflation between two and three and more recently aiming at 2.5, and sustainable full employment basically. Prior to COVID you will recall we were actually well below, and we'd lowered interest rates a long way and they were down around - the cash rate was down around 1.5 per cent which meant when COVID happened there wasn't much to go, we didn't have much room. So we were trying to get it up into the band at the time. We couldn't. Subsequently, we are now you're quite right, we are above the band and we're trying to bring it back down. I have no particular response other than to say, we are determined and the Board is determined to bring it back down into the band. But this is a - it's not a science. It's a bit of an art really and there's so many things that can push you off course. There are things that push us off course before COVID and there was COVID which completely pushed us off course. So we've just got to respond as best we can.

Matt Cranston

Matt Cranston from the Australian. In all the modelling in today's *Statement* on the output gap it only ever finds a positive output gap. You've repeatedly said this is a supply side problem. Little bit of demand but supply side is where it's at. What are you labelling the cause of that supply side problem on? What's causing that supply side problem? And about eight months ago you mentioned that you would team up with Treasury, working closely with Treasury, review. Can you give us any examples of how you're working with Treasury that would help you improve your conduct and your abilities around monetary policy?



Michele Bullock

So in terms of Treasury, fiscal policy is independent of monetary policy. They are two separate arms. What the review was asking us to do was consider interactions between them. There's been a couple of things we've done since then. One is that we held a conference back in 2025 about monetary fiscal interactions, basically a bit of theoretical, a bit of practical. And then more recently - we've always engaged with Treasury. We have separate forecasting teams. We have separate forecasting processes. But we've always engaged with Treasury. But we're trying to formalise that a little bit more. We've tried to sort of engage with that. That doesn't mean we have to be on the same page. And it doesn't mean we tell them what to do or they tell us what to do. It's more an information sharing process which I think is really important. We understand where they're coming from and they understand where we're coming from. So that's sort of what we're doing in terms of working with Treasury. What was the first question, sorry?

Matt Cranston

The supply side problem.

Michele Bullock

I don't blame anyone for the supply side problem.

Matt Cranston

What about productivity?

Michele Bullock

Well, productivity, yes, is the issue. And I'm not the productivity czar. Danielle Wood has plenty of good ideas about what we can be doing for productivity but it's hard. A lot of people have a lot of hope in terms of AI, in terms of productivity, but we can't do anything about productivity. The only point I'm making is that the economy can't grow more quickly than the potential. And if we think potential growth is around about 2 per cent, then the minute the private demand starts to pick up above that then it potentially poses challenges for inflation because we're constrained.

Matt Cranston

Thank you.

Tom Richardson

Hi Governor, Tom Richardson from The Nightly. You've said a couple of times today that 2.5 per cent is your actual target and you want to get it back there within a reasonable



timeframe, but looking at your updated forecasts today I don't think you've got core or trimmed mean at 2.5 per cent until at least the second half of 2028 and that's if it happens. So that's two and a half to three years away. Is that a reasonable timeframe for you? Can you just explain why? Thank you.

Michele Bullock

Well, the Board in the sense that it raised interest rates today thinks that that probably isn't an acceptable timeframe. They are uncomfortable, and I said this in December, the Board members are uncomfortable with inflation at the level it is. It's not and our forecasts aren't suggesting it's shooting off but if it stays persistently at that level that's not acceptable. That is what the Board has decided today and that is why they have raised interest rates. Now, will it take that long? There are uncertainties about how much of the most recent rise in inflation we've seen is persistent and how much might sort of naturally drop out and different people have different views on that. We're putting some weight on each of those. But that's going to be a key issue that as we get more information, that will help us to make a gauge on how quickly some of that is going to drop out or whether or not it's more persistent and as we discussed earlier, we might have to raise further. But at the moment the Board's response is exactly that.

Nic Fildes

Nic Fildes from Financial Times. You've referenced uncertainty in the global economy which it's always referenced obviously, but it doesn't seem to have had an impact to this point. Are you factoring it in this year and how will it affect your decision-making and the challenges that the economy faces?

Michele Bullock

We're very conscious of the uncertainty there but I'd have to say that if you go back to these press conferences, back sort of around April, May, or after the May meeting when things looked very dire, I think everyone was thinking for the worst and basically all forecasts of growth had been downgraded, inflation forecasts for the US upgraded. None of that has come to pass. And, in fact, all the forecasts have been re-revised upwards again. Trade flows have found ways to move anyway, despite tariffs. Tariffs haven't turned out to be quite as bad as people thought. So there's a whole lot of reasons. I think we're still very conscious of that but at the moment our forecasts for major trading partner growth is pretty good. So we're not factoring in a lot of that. Really our focus at the moment is less on what might happen overseas to impact us. We think we're probably going to be okay at the moment but it's the domestic which is obviously of much more focus for us at the moment.



Patrick Commins

Patrick Commins from Guardian Australia. Clearly the RBA Board has decided the economy is running too hot and it needs to tap the brakes and deliver a rate hike to slow things down. How can the RBA see the economy as being too hot, or how can there be a huge divergence in how the RBA sees the economy and the experience on the ground among a lot of households who feel like they're still doing it tough? So they'd be surprised to hear the economy is running too hot when a lot of people feel like they're struggling to make things meet and things are quite hard. Can you try to square this circle a little, please?

Michele Bullock

So it's always true that there are different experiences across the population and some people are doing it tougher, as you've mentioned, and that might be people, for example, with mortgages on lower incomes perhaps who have got less spare income. And there's other people that are not going to feel it quite as much and, in fact, what we know is that there is a large chunk of people with mortgages that as interest rates have come down, have opted, in fact, to save it. They're not saving it. They're socking it away. So there are different experiences. The interest rate though is a very blunt instrument, as I've said before, and we know that it does work in slowing the economy. It works for the lag, but it does impact people in different ways. My only thing I would say to people who are badly affected by this and are struggling to make ends meet is that part of the reason they are struggling to make ends meet, it's not just people with mortgages, renters are often struggling as well, inflation is what's caused them lots of trouble. It's the price level. The price level has gone up 20 to 25 per cent over the last few years. And people see that every time they walk into a supermarket or they go to the doctor or whatever. That's, I think, what's hurting people. That's why people, I don't think, are very confident when you see consumer confidence surveys. So the interest rate is our only instrument we've got but ultimately we've got to aim at getting that inflation down so it doesn't have those effects on people more broadly.

Matt Taylor

Hi, thanks, Governor. Matt Taylor from Sky News. I know you say you don't want to talk about fiscal policy but isn't it true fiscal policy and monetary policy should work hand in hand and be complementary? You said in December you hadn't had any difficult conversations with the government about public spending. In light of the inflation story and what you've had to do today, is it now time to have a difficult conversation with government and to have fiscal and monetary policy a little bit closer aligned?



Michele Bullock

No, I'm not going to tell the government what to do with fiscal policy. That's not my business. As I said earlier, we work with aggregate demand and basically we are seeing aggregate demand, public and private, push up against the limits of growth and that's what we're seeing in terms of inflation at the moment. I actually would say that I think, at least what I've heard the Treasurer say, is that he is focused on inflation. It's his number one thing he's focusing on at the moment. So I think he's conscious of it. But I think we can work - I think the idea that somehow we work hand in glove is not the way these things work. We are independent. They are independent. We work with what we've got.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. What are the odds that the RBA might have to go back to back and hike in March? And I'm asking this in the context of GDP because what I read from this is you were surprised with the higher-than-expected GDP outcome in September quarter because that told you there was more capacity pressures in the economy than you previously expected. So if the next GDP outcome is better than you expect, better economy than you expected, all other things being equal should rate hike be on the table?

Michele Bullock

Well, I won't go probabilities but I would only comment that if demand is still recovering and - if demand is stronger than we're expecting going forward, even with one rate hike, then yes we might - and it's pushing up against supply then we might have to consider a further rate hike. But we don't know that and we also don't know if supply might actually improve. That's a possibility as well. Now, we haven't seen it yet but it's possible that productivity improves and we don't find ourselves as bound by potential growth as it seems to be we are at the moment. So that's a possibility as well. But I'm not going to - you know better than that. I'm not going to put a probability on it.

Sophia Rodrigues

The productivity numbers have also been in the same national account so we get that -

Michele Bullock

We'll get lots more information. I mean, back to the previous point, the Board is going to be actively monitoring all of this information in order to make judgments particularly about excess capacity, as I said. You'll read in the *Statement on Monetary Policy*, we think that we were underestimating the degree of excess demand. So more information as we get it will give us a better reading on that and a better idea of where we think our forecasts will go.



Sophia Rodrigues

Thank you.

Cameron Micallef

Hi, Governor. Cameron from Newswire. Did the jump in the Aussie dollar factor into today's decision at all? Are you worried about lifting rates while other countries are cutting rates?

Michele Bullock

So the Aussie dollar is certainly a part of the transition mechanism. So when we talk about the transmission of monetary policy people focus quite a lot on what we call the cash flow channel. So that's the impact on people who have mortgages and they have to pay higher interest rates. Or the other way, when we lower interest rates it gives them more cash flow. But there's a couple of other mechanisms as well. One is what we call an intertemporal channel which means basically if you put interest rates up people are encouraged to save a bit more and that encourages people to consume less now and save more. And then there's the exchange rate. And the exchange rate depends a little bit on what's going on overseas as well. Certainly an appreciation of the exchange rate, if it's sustained and if it's big enough, does help to buffer the economy and it would help to lower import prices and that would maybe get passed through to the prices that consumers are seeing from import prices. So there's a sense in which an appreciation of the exchange rate can help to slow the economy a little bit. But it's already factored into our forecast. We already have a higher exchange rate factored into the forecast so it's not additional to that. And it's really reflecting at the moment the cash rate path, I think, that the market is now expecting. So it's all bound up together. At the margin I think it's helpful. But if you want to see really big impacts of the exchange rate these sorts of things happen over a longer period and with much bigger impacts, much bigger movements and sustained movements. At the moment, yes, we've seen it shift up but we expected it to because the interest differential was moving in our favour.

John Rolfe

Governor, John Rolfe from the Telegraph and Herald Sun. I could understand your reluctance to comment on fiscal policy if Jim Chalmers was paying you the same courtesy with monetary policy but of course he's not. He's said previously the rate rises are smashing the economy. I'd like to know has anyone in the Albanese Government told you or anyone within the RBA, to your knowledge, not to comment on their spending and whether or not it's pushing up inflation.



Michele Bullock

No-one has made that comment to me and the Board obviously makes its decisions independently of the government.

David Taylor

David Taylor from ABC News, a yes or no answer to this is perfectly okay. Is monetary policy now in a tightening cycle?

Michele Bullock

You've only given me yes and no.

David Taylor

You can elaborate if you want to.

Michele Bullock

I would say I don't know if it's in a cycle. Certainly it's an adjustment and we are waiting to - as I said earlier, the Board is going to be actively monitoring. I can't say one way or the other now. I don't want to rule out and I don't want to rule in. It's not the same as the tightening cycle when we were coming out of COVID, when we were coming from 0.1 per cent cash rate. It was quite clear that we had to go up and we had to go up quickly. This isn't as clear. As I said earlier, we are in a position where we think we might be around neutral, in terms of financial conditions. We used to think we were a bit in balance. Now we think there's a bit of excess demand. We're in this period where it's not clear one way or the other. So I can't answer you a yes or no. But what I can say is that the Board is going to be very actively monitoring data to try and figure out whether or not we think we've got the settings right enough to bring inflation back down to the target.

David Taylor

Just as I hand over the mic though, do you get that that adds to the uncertainty for mortgage borrowers and the stress?

Michele Bullock

I do understand it adds to uncertainty for people, I do understand that. As you know I'm very wary of giving forward guidance because people don't take the forward guidance in the way it's meant. They've tended to take it literally. So I don't like to give forward guidance. And I understand the uncertainty but we live actually quite frankly in a very uncertain world at the moment. We don't know if we wake up tomorrow morning what might have gone on in the rest of the world which might completely throw everything out.



Jonathan Barrett

Jonathan Barrett at Guardian Australia. You've said you don't want to see inflation get entrenched but we're heading back to headline inflation above 4 per cent this year, according to your forecast. So we're back kind of where we were in 2023. Is it already entrenched?

Michele Bullock

Well, that's what the Board is trying to guard against. We don't think it's entrenched but it is at a higher rate than we are comfortable with and that's the message. And that's why the Board has raised the interest rate today. The Board felt that if it didn't raise the interest rate today it would be signalling a tolerance for inflation above target, that they are prepared to see inflation entrenched above target, and that's not the message that they want to give. They want to give the message that they needed to be coming down. Now, the forecasts do see it ultimately coming down. The thing with four-quarter ended or 12-month ended rates is that once you get a couple of chunky numbers early on it takes them time to drop out. So we're going to have to see what happens with the quarterly numbers but they're going to have to come down and we're going to be looking at whether or not there's some temporary factors dropping out here or it's much more persistent than we think it is.

Cecile Lefort

Governor, Happy New Year.

Michele Bullock

Thank you.

Cecile Lefort

Cecile from The Financial Review. Why would a cash rate of 4.35 per cent work now if it didn't break inflation in 2024?

Michele Bullock

Well, I would argue that it did contribute to inflation coming down. And, in fact, at that time we did think that we were a bit restrictive. We were seeing the economy slow. Some other people suggested much worse outcomes but I think we saw the economy slow, we saw demand slow, we saw inflation come back down into the band. And our forecasts at that time were for that to continue. Now, it's turned out that as we lowered interest rates just a few percentage points, 75 basis points, that that's obviously given much more impetus, I think, short-term impetus than we were possibly expecting. I think the housing market has been a big part of that. So we may not need to go - if we had to go further, I'm not saying that 4.35 is something we'd have to go above because I think our judgement at that point we were



restrictive and it was working. The question is what's happened since and are we still restrictive as it is. We always said we didn't go up as far and we may not have to come down as far. And that's what we're facing into.

Tom Stelzer

Tom Stelzer from Livewire Markets. Given that the recent rise in inflation has been due to things like housing and energy, is there a concern that hiking rates might just decrease demand in areas of the economy that aren't necessarily driving inflation?

Michele Bullock

The things that are driving the uptick in inflation really are housing, durable goods and market services. And all those things you can sort of see reasons why. The housing market has recovered quite strongly. Construction has recovered. Consumer durables, that's one of the ones we're thinking is that permanent or - and market services, which is really driven by wage costs. And we know that unit labour costs are running still quite hot. So all of those things are things that are contributing to the rise. Now, how persistent will they be? The way that we would address those is raising interest rates to slow demand and hopefully bring demand for some of those things down a bit and off the limits of the economy, if you like. So that's what we're trying to do. So I think the interest rates will work on those areas and they are the important areas at the moment in terms of strength and inflation.

Millie Muroi

Hi Governor, Millie Muroi from the Sydney Morning Herald and The Age. We know that productivity growth is key to driving, I guess, economic growth without stoking inflation and that business investment which has picked up recently can be a contributor to that. Are you worried at all about rate hikes dampening investment by businesses, especially just as it's starting to pick up?

Michele Bullock

I think the research and the way we think about investment is typically interest rates don't have a direct effect on investment. Investment is more driven by what businesses expect from - happens in demand. So to the extent that interest rates dampen demand that might impact on business investment but it's also true that if you look at the business surveys, for example, that businesses are still reporting capacity constraints. So that should suggest to you that maybe they want to be investing to address those capacity constraints. And certainly business investment surprised on the upside in the latest national account. So I wouldn't say there's a direct impact of a 25 basis point rate rise on business investment. I think there's a question about if the economy slows a little bit, will that impact investment? But certainly I would have



thought that with capacity constraints there would be a good incentive for businesses to continue investing. Thank you.