



Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 5 May 2026

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 4.35 per cent.

Inflation picked up materially in the second half of 2025, and information since the beginning of this year confirms that some of this increase reflected greater capacity pressures. **In addition, the conflict in the Middle East has resulted in sharply higher fuel and related commodity prices, which are already adding to inflation. There are early signs that many firms experiencing cost pressures are looking to increase prices of their goods and services.** Short-term measures of inflation expectations have also risen.

The Bank has updated its forecasts to incorporate recent data and developments in the Middle East. The baseline forecast, which assumes that the conflict is resolved soon and fuel prices decline, sees underlying inflation peaking higher than was expected in February. It then declines as demand growth slows and capacity pressures ease in response to higher interest rates.

Financial conditions have tightened this year. Money market interest rates and government bond yields have risen, and the exchange rate has appreciated. But credit is readily available to both households and businesses.

There are materially heightened uncertainties about the outlook for domestic economic activity and inflation. With the conflict in the Middle East continuing, there are plausible scenarios where inflation is higher and activity lower than envisaged under the baseline forecast. A longer or more severe conflict could put further upward pressure on global energy prices; this would push up near-term inflation and could also increase inflation further out as these costs are passed through and if price rises get built into longer term inflation expectations. But higher prices and prolonged uncertainty may cause growth to be lower in Australia's major trading partners and also in Australia.

- **Decision**

As expected, developments in the Middle East are having an impact on inflation. Higher fuel prices are adding to inflation and there are indications that this is likely to have second-round effects on prices for goods and services more broadly. This inflation impulse is in addition to the high inflation recorded around the start of 2026, reflecting capacity pressures in the economy.



In light of these considerations, the Board assessed that inflation is likely to remain above target for some time and that the risks remain tilted to the upside, including to inflation expectations. It was therefore judged 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. Having raised the cash rate three times, monetary policy is well placed to respond to developments and the Board is focused on its mandate to deliver price stability and full employment. It will do what it considers necessary to achieve that outcome.

Today's policy decision was made by majority: eight members voted to increase the cash rate target by 25 basis points to 4.35 per cent; one member voted to leave the cash rate target unchanged at 4.10 per cent.