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**Michele Bullock**

Governor

## Transcript

**Michele Bullock**

Thank you for coming. Today as you know, the Board decided to raise the cash rate by 25 basis points to 4.1 per cent. The data we've seen since the February meeting has shown that the economy grew faster than its potential growth rate over the second half of last year. The labour market has tightened a little recently, rather than being stable as we'd expected, and underlying inflation remains high. Taken together, the data suggests there is slightly more excess demand in the economy than we thought in February, and inflationary pressures are therefore somewhat greater.

This is before considering what higher energy prices arising from the conflict in the Middle east could mean for our economy. Higher petrol prices will add to inflation, but they're not the reason for today's decision. Inflation was already too high, reflecting the fact that demand is outstripping supply. Higher fuel costs will not slow demand enough on their own to address this. If we do not act, these price pressures will spread and the eventual adjustment would be harder. This all suggests that the risks to inflation have tilted to the upside. We must also ensure that higher inflation does not result in inflation expectations drifting up. Short term expectations for inflation have moved up a bit, but we need to ensure that this does not translate into higher inflation expectations over the longer term. Longer run inflation expectations will only remain anchored if people are convinced that we will take action to bring inflation back to target.

The Board concluded that the cash rate was not at a level consistent with returning inflation to target within a reasonable time frame. If the Middle East conflicts get worse or are not resolved soon, higher fuel costs will push inflation here even higher. There's also a risk that global growth slows, which could flow onto lower growth here. But even abstracting from the global environment, domestic inflation remains too high and high inflation hurts all Australians. We had a very robust conversation over the past two days about whether we should hold until May. This would have given us an opportunity to consider more data on inflation and the labour market. And it would also have perhaps provided a bit more clarity on the potential



impact of the conflict in the Middle East. But the discussion was very much centred around the timing of a rate increase. All members agreed that another rate increase was needed to address domestic inflationary pressures.

Ultimately, with inflation that is already too high, the balance of risk tilted to the upside on inflation. The Board decided raising the cash rate was the right call. The Board will continue to be guided by incoming data and what it tells us about the economy and the outlook. Thank you and I'm happy now to take your questions.

### **Patrick Commins**

Thanks Governor, Patrick Commins from Guardian Australia. There was obviously a split decision. Five voted in favour and then four voted in favour of a hold. The statement comes across as quite a united, almost vision of inflation and the need to hike the interest rates. But the split decision would suggest that it was a lot closer run than that. Can you tell us a little bit more about what the arguments were in favour of holding the cash rate? Were they worried about the growth outlook and the ultimate impact of the global energy shock? What were the main reasons?

### **Michele Bullock**

So I mentioned it in my opening remarks. But it's worth mentioning again. The things that all the members agreed on were that inflation is too high, that there are still inflationary pressures from excess demand in the economy and that inflation expectations, we need to make sure they're anchored. Where the difference was, was in the timing. The members that voted to hold were voting to hold in a hawkish sense. They were still focused on the fact that there'd probably need to be another rate rise. The reason for holding, I think was twofold. One was that with all the things going on in the Middle East, it wasn't quite certain what was going to happen there, and it could be quick and it could all be resolved, or if it wasn't, what the potential implications of that might be for growth in the world economy and growth in Australia. And so maybe it was prudent just to wait for another seven weeks, which it is to the next meeting and just see. So the uncertainty was a big thing there. The second thing was again some more confirmation in data from labour market and inflation in particular that we are where we thought we would be. It harks back a little bit to the July decision last year where we had a split vote you'll remember coming down, the minority wanted to go in July and the majority decided to wait. Similar concept. So the issue wasn't the direction, the issue was really the timing and. And it came down, I think, to different judgements. Reasonable people can differ, I think, in the circumstances we're in on where the risks lie and the relative weights they put on those risks. So I'd say they put more weight on the uncertainty and wanting a little bit more information and certainty before moving, but the direction wasn't the issue.



### **Lea Jurkovic**

Thanks Governor Lea Jurkovic from the Australian Financial Review. Given the options seem to be raise rates or a hawkish hold, was there all that much debate about how much the Board will continue to lean on the full employment side of the mandate? And did the Board discuss their tolerance at all for needing to generate some spare capacity in the domestic economy to offset these repeated inflation shocks?

### **Michele Bullock**

So yes, the labour market always gets a good going over and I think there's general agreement that the labour market is in a much better place than we thought it was, and that the risks now are more on the upside for inflation than they are on the downside for employment. That doesn't mean there wasn't a good debate about it. There was. And the Board's strategy has still not changed. The Board's strategy is still to try and bring inflation back without excess employment ... try to maintain as many of the gains as we can employment. We don't want to see a recession or a large rise in unemployment if we can avoid it. That's part of our dual mandate. So it was considered. But at the moment the risks just tip more to the inflation side given the position that the labour market is currently in.

### **John Rolfe**

Governor John Rolfe from the Telegraph and Herald Sun. Petrol is up about \$40 a tank. Last month the Reserve pushed up the cost of the average mortgage by about \$110 a month. Another \$110 a month now. It's difficult to give up the commute. It's difficult, no one wants to give up their mortgage. What do you suggest that households cut?

### **Michele Bullock**

Well, let me first say John, that I understand that this is tough news for people with mortgages. I understand that. And the fact that petrol prices are up so substantially as well is just another problem. My issue though is that, and the Board's challenge, is that if we don't raise interest rates and we're going to see second round effects coming from petrol prices and fuel prices, they'll get into supply chains. Obviously it's going to go into businesses costs and so on. If we don't bring the excess demand down, then businesses are just going to build that into their costs. So it's going to be even worse for everyone. So I personally cannot tell people how to manage their finances but I do understand that it's going to be tough for some people and this hit with fuel prices and this additional rise in mortgage rates is going to be hard for some people. I do understand that. But it will be much worse if inflation gets built into the fibres and then we will see the costs of everything going up and that will be a much worse outcome.



### **Chris Kohler**

Governor Chris Kohler from Nine News. Following on from John's question there, do you think the Reserve Bank has a communication issue or is there an understanding issue among Australians? Because millions of them will be saying this afternoon, ok, my fuel bill has gone up the cost of everything's gone up and now keeping a roof over my head in the form of mortgage or rent goes up as well. Are they on Board with the plan here to get inflation under control or not?

### **Michele Bullock**

So we have tried, I think, very hard to explain why it is that we only have one instrument and that is the interest rate. And the interest rate works through a few channels, and I'll try to set them out in simple terms. The first is obviously what we call the cash flow channel. So that is those people that have mortgages pay more on interest and that means that they have less spare money. So that's the cash flow channel. There's two other channels. There's one which is basically, if you put interest rates up, people are encouraged to save more and spend less now. So that puts a bit of downward pressure on demand. And the third and quite important channel is the exchange rate. And as the exchange rate rises, it puts downward pressure on inflation. It makes imports cheaper. People tend to buy imported goods rather than domestic, and so it puts less pressure on the domestic side of things. So that's how I try to explain to people how the interest rate works its way through. Now, having said that, I understand that for people with mortgages, all they see is the cash flow and it's tough. But as I've said, and I said in response to John, you know, if we don't do what we think we need to do to bring inflation down, ultimately the outcome is worse for people. And people haven't seen high inflation. Up until '22 or so, people hadn't seen high inflation in decades. And that gave people a taste of what if you let inflation get a roll on how hard it will be continually for people. So it is hard, I understand that, but it is the only instrument we have and it is important that we get inflation down.

### **Edward Boyd**

Governor Edward Boyd at Sky News. You mentioned the word recession just a minute ago. I mean, if the war in Iran continues indefinitely, Strait of Hormuz remains shut. I mean, how concerned is the RBA Board about this looming recession risk?

### **Michele Bullock**

Well, we don't know what's going to happen in that context. And in fact, there's been lots of predictions that the world economy would, particularly after the tariff problems in early '25, that the world would go into recession, that abated, and the world economy actually ended up doing ok, doing quite well in some cases. It's still possible, if this resolves, that everything



will turn out ok. Having said that, the Board is alert to risks of that nature and if circumstances change, and if it does look like the world economy is in big trouble, then that will have different implications for inflation and we will be looking very hard at what we need to do in those circumstances. That's all by way of saying that the Board is going to be monitoring this stuff very closely and if we have to change tack, we will.

### **Matt Cranston**

Matt Cranston from the Australian. Last week, well into the Iran war, UBS put out a note and said this direct quote. Australian government payments are booming 8 per cent year on year in an economy operating above potential. The RBA concedes this adds to capacity and inflation pressure. In the December quarter, we saw that public demand increased or grew more than twice that of private demand. And in your statement today you do make mention of the composition being a surprise in the December quarter. My question is this. How much more difficult has that really high rate of public demand made your decision today? And in your attempts to address excess demand, what would be better? A slight easing in private or public demand, or both?

### **Michele Bullock**

You're asking me to make a value judgment which I'm not going to make, Matt. You know as well as I do that aggregate demand is  $C + I + G + X - M$ . That's what it is. And so therefore, if  $G$  goes up, then that adds to aggregate demand. If  $I$  goes up, that adds to aggregate demand. So we take that as given and we set policy appropriate for what we think will be enough to bring aggregate demand in line with aggregate supply. Value judgements on private versus public are not for me to make. They are for the government.

### **David Chau**

Hi, Governor David Chau from ABC News. My question is, if necessary, would you be prepared to put Australia into recession if that's what it takes to bring inflation much lower?

### **Michele Bullock**

Well, we don't want to do that, David. The strategy, as I said earlier, is still the same. We still want to bring the output gap down at the same time as we bring inflation down. And we've been trying to do that and we think we had some success, but inflation has sprung up again. And so I wouldn't say we want to do that. But the bottom line is that in the end, if we don't have low and stable inflation over time, we won't have full employment. It doesn't work like that. Best contribution we can make to full employment and in fact to things like investment and productivity and so on, is to have low and stable inflation. So we do need to keep our eye focused on that ball. We don't want to have a recession, but if it's hard to get inflation down, then you know we're going to have to deal with that possibly.



### **Matt Wade**

Thanks. Governor Matt Wade from the Sydney Morning Herald. Two parts to my question. One is what would be the effect on the economy if oil prices stay at \$100 a barrel or indeed move higher to say \$150? Has the Bank investigated or modelled that type of scenario, if it was to remain that way for an extended period and if so, what did you find? And my second part, sorry, I was also saying it was a split decision. My question is if the Bank has kind of got mixed views or the members of the committee have mixed views, how can borrowers have full confidence that it was the right decision?

### **Michele Bullock**

On the second one, I think they should take a great deal of confidence in the fact that it was a split decision because it shows that the Board, unlike some people think, actually actively debates and challenges and we bring lots of different views to the Board. So I think that strengthens the decision making process, not weakens it. It's actually a much better decision making process and I think that demonstrates it. We haven't fully modelled, in answer your question, we've done some modelling on sort of just very first round pass throughs of petrol price rises to inflation. But we haven't done any modelling on potential impacts if the war goes on and there's continued ... So that's something obviously we're looking at. I think Treasury is looking at as well, but we haven't done anything on that yet.

### **Stella Qiu**

Hi, Governor Stella Qiu from Reuters. Did the RBA recommend a rate hike to the Board at the meeting this week? Because it does feel like you and Deputy Governor, you're pushing for the case to hike before the meeting. And if you can't tell us that, are you defending a rate hike you didn't personally vote for?

### **Michele Bullock**

Okay, I'm going to answer neither of those. What I will say is no, I won't tell you what the recommendation was. What I would say though is that you characterise the Deputy Governor and I of actually agitating for a hike in our comments. I would actually push back against that entirely. All I said in my remarks, my fireside chat, was that March is a live meeting. Every meeting is a live meeting. There is new information. That was what I said. Right. And the Deputy Governor, as far as I can tell reading his remarks, was that here is the arguments for holding, here are the arguments for raising. He did not express a view one way or the other. So I would push back against that. But I won't tell you what the recommendation was. But again, I would go back to the point that this was an actively, very active discussion. The direction wasn't the issue, it was the timing.



### **Tom Richardson**

Hi, Governor Tom Richardson from The Nightly. You said in your comments earlier that the jobs market was perhaps tighter than you expected. You've lifted rates today which might push unemployment up a little. And your own forecasts don't really have unemployment going above 4.5 per cent, 4.6 per cent I think is the top in 2028. But recently we've seen a lot of job losses in the tech sector being linked to AI. You see these forecasts for a horrendous jobless rate, 5, 10, 15 per cent. I think I saw PwC saying 30 per cent of jobs could be automated by the mid-2020s. So those, you could call them doomsday forecasts or doom mongering forecasts don't seem to be incorporated into the Bank's own forecasts at the moment. Can you just comment on that? Thanks.

### **Michele Bullock**

So yeah, I see lots of those anecdotes as well and lots of those doomsayers as well. But we're not seeing it show up in the unemployment rate, the underemployment rate and we're not seeing it show up in things like the forward-looking indicators like vacancies, job openings, layoffs, those sorts of things. So notwithstanding we hear a lot of these anecdotes. I don't know the answer to that. But the only point I would make is that what you're talking about in those circumstances, if those doomsday scenarios come to bear, is we're talking about a structural issue in the employment market and that goes to what is the full employment that is consistent with low and stable inflation and in those circumstances with structural issues in the employment market, we can't address those. That's something that has to be addressed more by government policies and how to retrain people. So that impacts what is the unemployment rate, if you like, that can be sustained with low and stable inflation. But there's nothing we can do about that.

### **Cecile Lefort**

Governor Cecile Lefort from the Financial Review. Does today's rate hike represent a front-loading of tightening and does it reduce the chances of further tightening? And I realise forward guidance, yes, markets are still pricing at least one rate hike for this year.

### **Michele Bullock**

Yeah, look, it doesn't say anything about the forward path at the moment. It was felt for the reasons we set out that because of the excess demand that's still in the economy, the starting point that we're in, we've now got an additional external inflation impulse which has the potential ... We can't do anything about the inflation rate that's going to pop out in the next few quarters. If the current oil price is sustained, that will just be what will be. But what we might be able to do and what we're hoping to do is bring the excess demand down so that as that washes through we'll end up with less pressure on the second round effects. That's what



we're hoping. So that's the reason for it. Now what does it mean? I don't know. It's going to depend very much on what else happens because as we've already discussed, there could be some really bad outcomes for the world economy if the current conflict gets worse. So those are the sorts of things we're going to have to consider. So I can't give commitments one way or the other. I can't say whether or not this has just ended up being a front loading or the first of many. But I would just highlight that what we are trying to address here is a domestic demand problem. It's a domestic demand probably is the wrong way of putting it, domestic problem. It's an issue to do with excess demand in the Australian economy relative to the supply. That's what we're trying to address.

### **Cameron Micallef**

Hi Governor Cameron from Newswire. Consumer confidence data out today shows Australians are feeling as bad as they did at the start of the COVID pandemic. I guess, how would that impact the decisions you're making moving forward?

### **Michele Bullock**

Yes. So it all depends on how confidence flows through into what people actually do in terms of spending. Confidence has been low for some time but the consumers have been continuing to spend. So there's this issue about the relationship between consumer confidence in these surveys and what people actually do. I think the consumer confidence numbers for some time have been reflecting basically concerns about how much things cost. How are people reacting? Well, we know that people are reacting often by looking for bargains. We hear this through our liaison that people are consuming but they're looking to spend in smart ways. They're looking for sales and discounts and so on. So yes, we look at consumer confidence but ultimately what matters is what people actually do and that's what matters for demand.

### **Brandon How**

Thanks Governor Brandon How from Capital Brief. To follow on an earlier question, market economists have been interpreting Deputy Governor Andrew Hauser's podcast with The Conversation last week as a signal for what the Monetary Policy Board would decide today. Just wanted to confirm, do you think they were wrong to think that this was signalling from the RBA? And do you think it was potentially a misstep from the RBA to have the Deputy Governor speak so close to a policy meeting?

### **Michele Bullock**

Yeah. Thanks, Brandon. So, yes, a misinterpretation. I think if you read what he said, you'll see he was giving an argument on both sides. It would be entirely inappropriate, and I've said this before and he would agree with this, for either of us to front run the Board because you don't know, the Board might disagree with you. So it wasn't a signal that this was what the Board



would decide, because we can't say what the Board will decide until the Board sits and meets. That podcast had been scheduled for some weeks. It wasn't sort of hurriedly scheduled just before the blackout and in the middle of the conflict. It wasn't done like that. It was done weeks in advance. Although I believe it wasn't clear to the market economists that this thing had been organised so far in advance. So maybe a learning for us is, make it clear a little bit more in advance that this is coming up and it doesn't come as such a surprise.

**Juliette Saly**

Governor, hi, Juliette Saly from AusBiz TV. In one way, energy prices are a tool against inflation. They're going to cause people to spend less, as other people have highlighted. With this rate hike coming so soon on the back of the February one, is there a concern you may have made a policy error or that your tool, which you continue to say you've only got one and it's blunt, is structurally broken?

**Michele Bullock**

Thanks, Juliette. I don't think it's structurally broken because as I said earlier, it works through three channels, one of which is the cash flow. And the petrol price rise, that is also effectively affecting people's cash flow. So it's going to impact demand in some way to the extent that people have got constrained budgets and many people do. I know. So that is going to be hard. Some people might have to have to make tough decisions on what they do with transport, but basically it's pretty inelastic. There's not a lot of room to move I don't think, on that. So that is going to have a cash flow impact. But the interest rate does have those impacts through those other channels. And I come back to the exchange rate channel again because it is very important. As it rises, it makes imports cheaper, it puts downward pressure on inflation and that helps. If we don't raise interest rates, then we don't get that impact because that works because of our interest differential between us and the rest of the world. So I wouldn't say it's broken because it works through these other channels. But I do understand the point you're making and it's hard because not only have you got this completely exogenous shock to the amount of money you're spending on petrol, but now you have got, unfortunately, an interest rate increase on top of that. And I can tell you the Board did not make this decision lightly.

**Juliette Saly**

I just want to follow up. Because it's also making the asset-rich richer, in terms of people that don't have mortgages.

**Michele Bullock**

This is always the case that there are distributional changes and when interest rates are going down, I get lots of complaints from people who don't want to earn less. And then when interest rates are going up, I get the reverse. This is just a fact that interest rates do have



distributional consequences. But I come back again to the point that high inflation hurts absolutely everyone. And so that is why we need to focus on that. If that gets out of hand, then that is bad for everyone and particularly, I would say, for people who are on low and fixed incomes, and they typically don't have mortgages at all. They're in the renter bucket. They're the ones who are particularly badly hit by inflation.

### **Sophia Rodrigues**

Sophia Rodrigues from Central Bank Intel. A different take on the previous recession question. Given persistent inflation risk, how long will you wait before declaring a shift in your monetary policy strategy to just acknowledge that we need to create some spare capacity to get inflation to target? Perhaps this language could help manage expectations.

### **Michele Bullock**

So this is a really interesting debate, Sophia. Do you need to create a negative output gap in order to get inflation back down? We have in our outlook, we think if we can bring the positive output gap, if you like, down to zero, then that will help to bring down the pressure and we will bring inflation down with it, provided inflation expectations stay anchored. So we still think that strategy can work, and that is still the strategy. I know that some people say you actually need to create a negative output gap, so you need to have some sense in which you get spare capacity to get it down. That's sort of not our strategy. Our strategy continues to be to try and bring the output gap down from the positive and with anchored inflation expectations, which will only stay anchored if people think we will do what we need to do to get inflation down.

### **Swati Pandey**

Governor Swati Pandey from Bloomberg News. RBA is one of eight major central banks which is holding its rate decision this week. All other major central banks, BoE, Fed, they're all expected to leave interest rates unchanged, so RBA has been an outlier. Would you have hiked today if the Iran war had not broken out?

### **Michele Bullock**

I couldn't answer that sort of hypothetical question about what we would have done in the absence of the war. What I can say is that certainly it heightened our concerns about inflation on an ongoing sense. So as I said earlier, inflation is going to go up in the next few quarters if petrol prices stay where they are, if oil prices stay where they are, that's a given. We can't do anything about that. What we can watch for is the second round effects. It really is about the starting point for us relative to others. We started in a position of excess demand. Other countries didn't. Having said that, if you look at what's happened to interest rate expectations for those other central banks, they're on holds. They were cuts. So the whole curve for most



countries, Japan's an exception, won't go into it. But for most of those countries, they now have, Bank of England, for example, does not have a cut and I think might even have a small hike in there now. So the whole Middle Eastern situation has resulted in obviously concerns about inflation and as a result a lift in expectations for central bank interest rates.

### **Jacob Shteyman**

Hi, Governor Jacob Shteyman from AAP. You mentioned earlier, households already doing it, tough petrol prices going up. This is only going to make it harder. The temptation for governments would be to put in place cost of living measures like cutting fuel excise or energy rebates. What impact would these measures have on underlying inflation?

### **Michele Bullock**

Thanks, Jacob. So you'll recall that what we've been doing is in recent year or so, focusing on underlying inflation. Not because that's our target, our target is headline inflation. But headline inflation has been thrown around quite a lot by these, particularly the energy subsidies. So they bring inflation down a long way and then as they come up, inflation pops up. So it's very volatile. So that's the reason for focusing on underlying. But our target is headline, and ultimately they will come back together. I don't know what governments are going to do, but if there are subsidies for certain things, then yes, that will have an impact on headline inflation, depending on how big those sorts of subsidies are. On underlying inflation, it depends because underlying inflation is about trimming out the sort of the edges, the very high ones that are increasing by a lot and ones that aren't increasing by much or decreasing, and then taking the middle sliver if you like or the middle chunk. So if those subsidies, if they did do that, like they did with the petrol subsidies, they tended to get trimmed out and that was the focus for underlying. So underlying can be affected, but probably less so than headline.

### **Jonathan Shapiro**

Governor Jonathan Shapiro from the Financial Review. The cash rate set, just one hike away from being at its previous peak and the market is forecasting that it will go above. Just wonder if you can give us some guidance as to the previous rate hiking cycle where interest rates got to. Given the current set of mixes, when rates were previously at 4.1 per cent and 4.35 per cent, whether it's currency, household budgets, et cetera, for some guide about how much more tighter monetary policy needs to get to achieve its objective.

### **Michele Bullock**

Yeah, look, I. So let me go back to history. So the hiking cycle, the increase in interest rates that occurred from sort of mid '22 up to '23, was very high and fast. But remember it was coming from zero and we were very, very accommodative. So we had to first of all remove all the accommodation and then we had to get into what might be restrictive territory. Now there



isn't one sort of individual cash rate that necessarily represents restrictive or non-restrictive. We do talk about neutral rates and we do watch those sorts of things, but they're theoretical concepts and they're difficult to measure. The way we've been thinking about it more is in terms of financial conditions and that's more than just the cash rate. And one cash rate can be associated with slightly tighter financial conditions or slightly weaker financial conditions. So for example, we saw in terms of financial conditions, things tightening a little bit prior to this cash rate rise. So financial conditions were tightening a bit. We were seeing expectations rise, bond yields were rising. Short term, long term, things were ... So in those circumstances, the cash rate didn't change, but financial conditions were moving. Having said that, if the cash rate doesn't change, ultimately financial conditions will probably settle back down to somewhere else. So, short answer, I can't give you a particular cash rate which is restrictive or non-restrictive. In terms of neutral, we're sort of in the middle of a range of estimates of neutral. Some are below, some are above. We are focusing also, but not just on the cash rate, as I said, on financial conditions. And some of the things there that we're looking at are things like credit growth, we're looking at what households are doing in terms of non-required payments on their mortgages, those sorts of things which are giving us a bit of a feel for how financial conditions are impacting the economy. So I'm sorry, it's not a simple answer but, you know, at the moment we are not certain how restrictive financial conditions are. And part of that, as I said, is because inflation is high and unacceptably high. So that's maybe telling us something about financial conditions.

#### **Hannah Kwon**

Hi, Governor Hannah Kwon, SBS World News. Would it make your decision making easier if the government was spending less?

#### **Michele Bullock**

It wouldn't make ... It's a bit of an answer that I gave earlier. It is what it is. The government spending is what it is and our decision making is based on what's happening with inflation. So the fact that we're in excess demand means that we need to bring that excess demand down and we need to raise interest rates. So the combination of, you know, C plus I plus G, consumption, investment, government spending, whatever that combination is, isn't as important as what the total is doing. And that's what we're trying to focus on. So I think it's the same concept for us. We take it all as given and we work with that.

#### **David Taylor**

Governor David Taylor, ABC News. Inflation is nowhere near the target. We're at 3.8 according to your website. You know your target's two and a half per cent. You're nowhere near it.



**Michele Bullock**

No.

**David Taylor**

Why didn't you hike by 50 basis points today and get the job done?

**Michele Bullock**

Because, David, there's lots of uncertainty around and we think that we can get into restrictive territory and bring it down in a reasonable time. Critical to that, as I said earlier, is anchored inflation expectations and we still have them anchored and that's what's helped us bring inflation down from practically 8 per cent down to 3. And at one point, of course, it was in the band and it was down near two and a half. It's popped back up again. And so we do need to do something to bring it back down, which we are doing. 50 is a lot. We're trying to do this in a way, as I said, the strategy being bring the excess demand down without giving up a lot of the gains in the labour market, keeping a reasonably stable labour market. So that is still the strategy. And you know, added to that, the uncertainty of what's going on in the Middle East, I think is just another reason to be a little bit cautious.

**Luca Ittimani**

Thanks Governor Luca Ittimani, from The Guardian. Thanks for giving us some perspective on the strategy today. It sounds like the Bank believes it can fine tune demand down to a specific point where industry won't be able to pass on higher costs out of the conflict, limiting the second round effects. So could you give us some benchmark or some kind of benchmarks to measure the success of that? How much of a slowdown in consumer demand or private demand should we expect or is expected to be necessary to achieve that?

**Michele Bullock**

Thanks, Luca. Well, the best guide to what we're thinking would be our forecasts from February and we'll be revisiting those in May. We think we do need to see demand in total come off and some of that will be consumer demand. So I'm not going to give you numbers because I'm probably going to get the forecasts wrong. I haven't got them tattooed in my head. But, but that is the best benchmark I think, to go and look at in terms of what we think is required to bring inflation back down. And I would highlight two things about those forecasts. The first is that it does incorporate an interest rate rise in it. It's an assumption. It's based on the cash rate path. And the second point is that inflation doesn't get quite back down to the middle of the target band by the end of the forecasts. Now, we all know that forecasts are uncertain and what those forecasts say for two years hence is probably not going to turn out to be right. But it's the best benchmark. It's the best benchmark we've got.



### **Michael Janda**

Governor Michael Janda from ABC News. The most recent private sector measures show household spending now falling and consumer confidence plunging to pandemic levels. Is there a risk you're fighting last year's battles and might crunch an already weakening economy with this rate rise?

### **Michele Bullock**

Well, it's possible, I suppose. It's not our central forecast. And the reason I say it's not our central forecast, a few of the factors that we watch, inflation is in fact the outcome of supply and demand. So remember, and we talked about this I think at the last press conference with the forecasts, demand can't grow very quickly if supply isn't growing very quickly. So the days of, you know, 2.5 per cent, 3 per cent growth rates of demand are very difficult where you've got a supply constrained economy. So our central forecast is not for that to happen. Our central forecast is that we will end up with inflation coming down and we will close the gap between demand and supply. And there are some areas in the inflation numbers which demonstrate where you're seeing that supply-demand crunch. One is in market services where you continue to see elevated costs there, elevated prices, elevated inflation. New housing has been another one that went through a period where it was a bit lower, but it sprung back again, again demonstrating a demand-supply sort of imbalance. So again, it's not the central forecast and we hope we don't have to do that. But ultimately we've got to get inflation back down. That's got to be the goal.

### **Michael Heath**

Governor Michael Heath from Bloomberg. I just wanted to bring you back to the split decision that came out and something you mentioned earlier about neither you or the Deputy Governor wanting to front run the Board because I might disagree with you. There's a bit of interest, I guess in the composition of the Board and the new mechanism and there's a perception, at least among some people, that there's an effort to put more doves on the Board to worry about employment a bit more than inflation. So I guess my question is if the RBA was to, the staff were to recommend a hike, you and the Deputy Governor and one or two other people support that view, but then you're outvoted by the Board. How is that interpreted? Is that a vote of no confidence in you as chair of the Board? Is that how you would perceive it? Because I know previous governors have sort of had that view that they need to then rethink how that would work or is that just the reality of the situation you're in and you take it with good grace?



## Michele Bullock

The reality of our Board, as you have pointed out, it's quite unusual in that respect in that the Bank representatives, there's two and there's seven non-bank representatives, that is very unusual. I'm not sure if there's any other countries around the world that have that, most have a majority representation by the Bank staff if you like. So that's just the way it is. And as I said earlier, particularly in circumstances like this where, you know, it's very difficult, it's uncertain, there are two very good arguments to do two different things, then reasonable people can differ and that's a positive thing. The other point that the Review made was it did feel that the Bank was a little too insular. And so if we are being challenged by outside views, then I don't take that personally. That is a positive thing. I don't know if that is going to happen. But you know, my own view is that this is the structure we've got, we've got to work with it. And ultimately economics is, this is not a science. This is, you know, this is difficult stuff and reasonable people can hold different views very reasonably. And I think the meeting today, with its split decision and the process it went through, I thought was an excellent demonstration of how that can be very positive. Thank you. Thank you.