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Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon. So as you know today the Board decided to leave the cash rate target unchanged at 4.35 per cent. The cash rate has been increased by 75 basis points since the start of the year. These increases are tough for households with mortgages who are also facing high inflation but they are necessary to slow demand, to make sure we get inflation down.

I want to be very clear that inflation remains too high. Leaving rates on hold today will allow the Board to assess how these previous increases are flowing through the economy. Overall the flow of data and development since May have been broadly consistent with our expectations. While we've seen weaker consumer sentiment and business confidence, spending and investment have not softened materially. We've also seen conditions in the housing market ease in recent months. Although that only partly reflects – we think that probably only partly reflects tighter monetary policy. It will take longer for the full effects of the recent tightening to flow through the economy.

Reports that an agreement has been reached to end the conflict in the Middle East are welcome. If the conflict does end and the Strait of Hormuz is reopened, this should support the flow of commodities and lower prices. But this could take some time and an orderly resolution is still not assured, meaning there are still upside risks to inflation and downside risks to growth.

It's important to bear in mind that we were dealing with capacity pressures before the conflict started. Although oil prices have eased in recent weeks, they remain high. We have seen some signs that high costs are starting to be passed through to the cost of other goods and services, including new dwellings. This was expected, but it is important that these effects are limited. If expectations of higher cost growth get embedded into price and wage setting decisions across the economy this would lead to even higher and more persistent inflation and it would require even more tightening in monetary policy to get inflation under control.



Today's decision does not rule out further tightening in monetary policy. That is what is required to bring inflation down. In making its decisions the Board will be focused on the data and what that suggests about the outlook and risks. Again, I understand that this is a difficult period for all households. That's why it's so important we get on top of inflation now. High inflation hurts all Australians, especially the most vulnerable. So thank you and I'm happy to take your questions.

Millie Muroi

Hi Governor, Millie Muroi from the Sydney Morning Herald and The Age. I know you don't usually answer questions around specific government policies but some of the tax changes in the recent Federal Budget alongside the Reserve Bank's tightening of monetary policy have probably at least – yes, have probably at least contributed to the slowdown in house prices. Does that slowdown and house price falls in some capital cities, which you flagged as well, make your job of getting inflation down a bit easier through the wealth effect?

Michele Bullock

Monetary policy does partly work through the housing market but as you say there's other things going on at the moment as well. I think we have to wait for all these things to settle down because I think there's a little bit of, at the moment, people are a little unsure, things aren't legislated yet, they're waiting. There's also the uncertainty in the Middle East. I think there's a whole lot of things that are affecting what you're highlighting which is the loss of momentum in the housing market and it's also worth noting that it wasn't too long ago housing prices were rising very quickly and they were very high, in fact they're at very high ratios relative to income. So will this help in terms of the wealth effect? Possibly. But there's a whole lot of things going on here. So I think it's too early to say that it's definitely going to be something that will slow the economy and work in favour of us. But we just have to wait and see. And, again, it's still a bit early to tell.

Ingrid Willinge

Ingrid Willinge from Sky News. If we see do the sustained peace deal and the Strait of Hormuz opens as it's expected to on Friday, obviously a big if, we'll still obviously see the second round effects from price pressures throughout the year but would that make you more confident that the tightening we've already seen has pulled enough out of inflation to bring it back to target, potentially without the need for more hikes?



Michele Bullock

So it's just worth noting that, I've said this before, and I said it in the opening statement, that we already had an inflation problem before the Strait of Hormuz. And that super charged things in the sense that there were many prices of quite salient goods and services, the prices of which were rising quickly, and petrol and fuel was one of them but there's other things, building costs now. You're starting to see those second-round effects coming in. So it's good news. If it comes to pass and over the next few months we start to see oil prices settle down and we start to see supply chains and other commodities start to work properly again then that will help, I think, to ensure that inflation doesn't get super charged but we still have to make sure that the inflation problem we had prior to the conflict, that that is addressed. That's really what the recent tightening has been about.

Matt Cranston

Matt Cranston from The Australian. Governor, last year the RBA made a very conservative decision to strengthen its relation and communications with Treasury. In light of that I'm wondering has the RBA got any Treasury modelling or had any Treasury liaison when it comes to the tax changes in the Budget and their impact on what is your mandate of financial stability, including things like investment, housing market, consumption. If so, what have you learnt from that? And if not, why haven't you got such important information?

Michele Bullock

So we do talk to Treasury and we do talk to them about their forecasts and we look at our forecasts and where ours are relative to theirs. But they are independent forecasts, Matt. We don't do some of the forecasting they do. A lot of the stuff that they do in the budget – we don't analyse all of the different budget measures that they do. We take those as given when they're legislated and then we'll work through what we think that means for aggregate demand in the economy and total. Yes, we've talked to them generally about what they mean for the forecast of the economy but in terms of getting their very specific modelling of individual policies that the government is introducing, that's not something that is our bailiwick. We're not there to offer advice and views on individual policy measures by the government in the Budget. Our focus is on what it means for the aggregate of public demand and what that means for the economy and the forecasts.

Matt Cranston

But isn't all that stuff important for financial stability?



Michele Bullock

Well, it depends on what you mean. If you're talking specifically about the Capital Gains Tax and the investors, that is of interest for financial stability but I think you will see if you look at the most recent Financial Stability Review, we think that the banks are very, very resilient and very, very solid. And, in fact, also if you look, for example, at our recent Bulletin article on the role of investors – it's actually facts about investment in the property market. And you'll see that generally they're higher income, they have lower default rates. There's not a massive financial stability issue necessarily there. In fact, what the concern about sometimes with investors in the housing market from a financial stability perspective, I'm not talking about whether it's right or wrong, but they tend to come into the market when the market is going up and they tend to get out of the market when the market's going down so they tend to exacerbate the housing cycles and that could have financial stability implications. But even that is quite muted at the moment because the housing market's been so strong, negative equity is very, very low and the banks have been lending responsibly with good loan to valuation ratios.

Lin Lin

Lin Lin from ABC News. Governor, are you concerned that the Australian economy is shrinking this quarter and the RBA has caused it?

Michele Bullock

We are not forecasting that the economy is going to shrink this quarter. We are forecasting that growth is going to slow but growth has to slow and the key reason for that is that we have excess demand and unless demand grows more slowly than the supply side of the economy for a time we're not going to get inflation down. So, no, we're not forecasting that the economy is going to shrink in this quarter. We think it will grow slowly but that's what's needed to try and get inflation down.

Swati Pandey

Governor, Swati from Bloomberg. Just to follow up from that question. Generally the economy is expected to slow down. With inflation, if inflation remains stubborn, how difficult will it be for you to raise interest rates further?

Michele Bullock

Thanks, Swati. So I think I've said this before but I'll say it again, unless we have low and stable inflation we're not going to go able to have an economy that has a good level of employment and grows as well as it can. Now, I say as well as it can because we've got a supply side problem. So we estimate that the economy can only grow by about 2 per cent, that's the supply side,



so much stronger growth than that's going to cause inflation. So, again, don't be surprised if growth is slow because it's constrained by the supply side of the economy. If we can't get inflation down and the economy is slowing that's what we have to address inflation for. So I would say you've got to expect a slowing in the economy and when we see it people shouldn't be alarmed about that. That's what actually has to happen in order to bring inflation down. So we often talk about how we trade off our two mandates, the two sides of our mandate, but I think I've said before that unless we can get inflation down then ultimately it's going to lead to higher unemployment. So we do need to make sure that we get inflation back down.

Cecile Lefort

Governor, Cecile Lefort from The Financial Review. The Fair Work Commission, you haven't mentioned it. Do you see that as a material development for inflation?

Michele Bullock

I wouldn't say it's material, Cecile. I think the outcome was higher than we had forecast and had factored into our forecast but let me be very clear here. This is the wage rises for the people at the very lowest incomes. This is the people who are the most vulnerable and the most affected by inflation. So it probably means that it's a little bit of an upward revision of our wage forecasts but it's also true that our forecasts see the labour market easing and that's going to put a bit of downward pressure on wages growth as well. So how that plays out is going to be a very important thing that we'll be watching. But again I'd emphasise that this is about the lowest paid in the economy. It also reminds me again why it's really important to get inflation down because even that wage rise probably doesn't get them – they still don't get a real wage rise over a period of years, so it's challenging, and they're the people who are most badly affected, I think, by inflation.

Stella Qiu

Hi Governor, Stella from Reuters. I have two questions, if I may, very simple ones.

Michele Bullock

I might answer one. We'll see how I go.

Stella Qiu

First, did you consider hiking interest rates at the meeting this week?

Michele Bullock

No, we didn't.



Stella Qiu

And the second one is that the statement seems to have dropped the reference that risks to inflation are still tilted to the upside and would you say that risks are no longer tilted to the upside?

Michele Bullock

No, I wouldn't say that. I would say the Board are still concerned and if you read the statement, and particularly the last sentence in the statement it says, if we need to increase again we will. I think the Board feels now, and I think I said this last time, that we're in a better position than we were at the beginning of the year when interest rates were three quarters of a percentage point lower. So we still think that there are risks to the upside because, two reasons, one, we already had an inflation problem before the conflict started. And two, we've had an increase in fuel prices and other prices, other commodities and so on, which we are seeing it feed in second-round effects. So they're the two reasons I think we still need to be concerned and watching inflation.

Juliette Saly

Governor, Juliette Saly from Ausbiz TV. A little bit of a follow up on that because the rates market is only showing 6 basis points of hikes in August, 13 basis points by the end of the year. Do you think financial markets might be misreading your reaction function by assuming rates have peaked, especially given a lot of economists are now calling for cuts?

Michele Bullock

Yes, so I think there's a bit of a split here, I think, amongst the economists. I think some are calling for cuts but not till next year, so it's not imminent. Some are still thinking that there's a rate rise and I think there's a little bit of a difference here, and economists do differ on their interpretations of the data, on how much weight to put on perhaps some of the softness in the economy and how much weight to put on the fact that inflation is still above target. So I think there's a difference of opinion and judgment there. The rates market has come down over a period of time and there was a couple of things that brought it down. One was a lower-than-expected headline CPI. And the other was the unemployment rate going up to 4.5 in April. I think it's worth remembering these are monthly numbers. There is volatility. So I wouldn't be jumping on those numbers quite so firmly. I think we do need to wait. The other point I would make is that underlying inflation actually is pretty much dead on where we thought it would be. The miss on headline wasn't replicated on underlying. So I think the rates market are doing their best to interpret what they think is coming for the economy and what we will do. I guess what I'm saying is I can't rule out that if inflation doesn't respond in the way we expect it to do then we might have to do more. I'm just not ruling that out.



Chris Kohler

Afternoon, Governor, Chris Kohler from 9News. The statement talks about the higher-than-expected unemployment rate in April. It didn't seem like you and the Board were too worried about it. Could I get your thoughts on that. And also, I guess, a follow up question too that is if you're not too worried about it, when does it become a concern? How many more Australians will lose their job before it becomes a real problem that you may need to address somehow?

Michele Bullock

Sure, Chris. So the unemployment rate is only one thing we look at. The unemployment rate went up and as I said earlier it's a monthly number and you might remember, I think it was maybe earlier this year, the number dropped quite suddenly and everyone thought, oh, things are much tighter and then it jumped back up again so you've got to be a little bit careful. Right. So that's the first point. The second point is we look at a range of employment indicators. One interesting thing that came out of that release was the underemployment rate fell so people were getting more hours, who preferred more hours, and the underemployment rate dropped at the same time the unemployment rate went up. So the other thing is that if you look at some of the leading indicators, including vacancies and job ads and those sorts of things, they're either pretty stable or look like they've improved a little bit in terms. So there's a whole range of things. There's a bit of a mix, so that's the point I'd make there. Now, on your statement, how many people lose their – that's not the way we think about it. The unemployment rate can go up with people still getting employment. It's just that it takes them longer to get employment. Maybe there's a bit of a skills mismatch as well. So this idea that somehow the unemployment rate going up means that there's a whole lot of job losses isn't quite right. I think you've got to think about it in terms of what it's telling you about the tightness of the labour market, how easy it is to get jobs, how easy it is to change jobs. As I said earlier to an answer, I think it might have been – I'm not sure who it was to. Anyway, what I said then was the unemployment rate will drift up and activity has to slow. That is part of what is going to bring inflation down. So we shouldn't be alarmed that these things are happening. We think the labour market is a bit tight. We think we've got a bit of excess demand. Those things have to ease if we are going to bring inflation down.

Samina Rakhshani

Good afternoon, this is Samina Rakhshani from Newswire. With this heightened uncertainty nationally and internationally, are you supportive of businesses increasing – passing on the pressure and increasing their prices?



Michele Bullock

I'm neither supportive nor going to criticise, it's part of the market mechanism and businesses can pass on cost increases to the extent that consumers will still demand the goods and services, if they pass on those cost increases. And part of the process of bringing excess demand down is lowering the pressures so that businesses might find it a bit harder to pass on cost increases. Having said that, a lot of these businesses, they're small businesses, they make a living out of these things, they need to make a living so you would expect them to pass on some of the costs that they're seeing from – particularly from the transport costs and so on. You'd expect them to do it and that's their business. That's their livelihood. So I think we need to just recognise that, yes, part of selling prices is the costs that are being incurred by businesses but the extent to which they are able to pass them on is going to be constrained by the extent to which people are willing to continue to buy those goods and services.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. So you gave us three scenarios last – six weeks back, the baseline and two adverse scenarios. Are we still on the baseline or – I'm asking this because you reminded us of the plausible scenario where inflation is going to be higher than expected and activity lower. In that scenario we actually expect more rate hike than what you have given in the baseline. And this is in contrast to what the market is thinking where inflation is going to be lower than your baseline and hence not as many rate hikes as –

Michele Bullock

So the – I'm not 100 per cent sure what you're asking but if you're asking about what the current futures – the curve looks like for oil at the moment, it's pretty much on the baseline. Our baseline – so the adverse scenario was that oil prices go much higher and stay much higher. In fact, what we've observed is that over time it's come down and – I'm not sure it's literally as we speak but certainly towards the end of last week and the beginning of this week when the Board was meeting the oil price curve was pretty much on the baseline. So that's where we are.

Sophia Rodrigues

So at this point we are not thinking that inflation could be lower than your baseline forecast?

Michele Bullock

Well, we haven't redone our forecasts. All I'm saying is the assumptions we made about oil prices for our baseline forecasts at the moment look to be pretty much where the oil price curve is at the moment. It's the same as the baseline.



Sophia Rodrigues

But that's purely on oil price. I'm asking based on oil price, activity, labour market, et cetera.

Michele Bullock

The national accounts came out pretty much as expected for us. Trimmed mean inflation looks pretty much where we thought it would be. The unemployment rate is a little bit higher than we thought but we've got another set of forecasts to be done in August so you'll know then.

Sophia Rodrigues

Thank you.

John Rolfe

Governor, John Rolfe from the Telegraph and Herald Sun. To me the statement and your comments here today suggest there's a fine line between whether or not there will need to be a fourth rate hike this year. In that context would it be unhelpful for the fuel excise cut to be extended beyond June 30?

Michele Bullock

I'm not going to cast a view on the fuel excise in terms of helpful or not and I'm not sure what you mean helpful. In terms of what it means for the headline inflation rate it's going to mean that instead of rolling off and the headline inflation jumping up it will just stay down. But we understand that. So our focus is on the underlying rate. So it's not going to make, I don't think, a lot of difference to us in terms of us thinking about inflation and determining what's going to be done for inflation.

John Rolfe

But doesn't it just put another billion dollars in the pockets of households which can be spent in the economy, therefore increasing pressure on the Reserve Bank to take that money out of the economy?

Michele Bullock

We don't know, John, because there's also a lot of uncertainty around. You've got all the tax changes and so on now. You see consumer confidence and business confidence. Consumption is still growing but it's growing weakly. It's not really strong. So there's a whole lot of other things going on that I think just that by itself, I don't think it's particularly helpful to think of that by itself given everything else that's going on.



John Rolfe

Right. Thank you.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. Just to follow on the previous question, with regards to the fuel excise discount, would an extension to that discount be helpful in keeping inflation expectations under control? And if it's not extended, would this worsen the cost of living and potentially lead to more public frustration at Australia's major institutions?

Michele Bullock

So we often talk about headline inflation and what sort of feeds into people's expectations for inflation. It's true that fuel is quite a salient price in people's minds. So they look at it, I think it's because we buy it regularly, certainly I drive along and I pass a number of petrol stations and I'm always looking at the price. So it's all embedded in people's minds. So if it goes up, yes, that probably at the margin means people think, oh, the prices have gone up again. But I think that there's also other things that are very salient and grocery prices and those sorts of things are other things that people are focused on as well. So I think I've said in the past, certainly when we were looking at subsidies back earlier, that sometimes if it brings down the headline inflation at the margin that might be helpful for inflation expectations but it reverses. So that's why I think we've really got to focus on what's happening in an underlying sense and getting the message out there to people that what really matters here is what's going on in an underlying sense because that's where inflation is ultimately going to settle, not where the headline is jumping up and down.

David Taylor

Governor, David Taylor from ABC News. I'm going to focus on a bit of a boring angle but I think it's important. So there's a lot of emphasis on the demand side of the equation, to the extent that I think people are pretty sure about what's working and what isn't and aggregate demand needs to come down but the supply side is so important and the national accounts, GDP, productivity was negative. Overall it's not too bad but you've got an assumption of 0.7 per cent. And productivity seems to me to not just be awful but not improving and it's so important to get wage rises without sparking inflation. So how important is productivity for you in your decision to keep interest rates on hold?

Michele Bullock

Well, productivity is really important, as you've highlighted, because if you don't get productivity then the economy can't expand very quickly because demand runs up against supply constraints. And the other big impact is that the way people get real wage rises is by



increasing productivity. They get paid more because they are producing more with what they do. So it's really important for the economy as a whole. Quarter by quarter and meeting by meeting it isn't the thing that you would focus on. But over a period of a couple of years, which is what our forecasts are over, it is important because it's telling us how quickly – if productivity isn't growing very quickly and we think that as you said our medium term productivity assumption is 0.7 per cent per annum, that means the economy can't grow much faster than 2 per cent. So demand can't grow much faster than 2 per cent and it means that wages can't rise by very much either because there's no productivity growth. So it's not great. It's really important. As I said though, it's not a meeting by meeting decision. But it is a consideration over a period of a year or two.

Jonathan Shapiro

Governor, Jonathan Shapiro from The Financial Review. The earlier question mentioned economists' adjustments to rate expectations and you mentioned the change in interest rate markets. I'm wondering if post the Budget, I'm wondering if that's consistent, those changes are consistent with the RBA's liaison work and the economic modelling on using forward indicators in the property market.

Michele Bullock

So we haven't done a lot of liaison that I can talk to you about post-Budget. So I can't really help you there. What I can tell you is that since the conflict started at the end of February we have been doing a lot of liaison and we have been getting very much a message from liaison that businesses are looking to pass on costs where they can. They are feeling the pressure. Some of them are finding it – asking the question whether or not they're able to pass it on because of the point I made earlier that consumers – they're worried consumers mightn't accept high prices. They might not have the demand there. So we're very much seeing that. The area that we're – I think we're seeing it in liaison and we're actually seeing it in the data is the construction industry, that prices are going up there. So not much since the Budget but certainly since the conflict started at the end of February, very much seeing in liaison those price pressures are reflected on what we're hearing from businesses.

Ian Verrender

Governor, Ian Verrender from the ABC. For the past four years you've been focused entirely on keeping inflation in check. Do you think the pendulum may be starting to swing back to the point where you have to consider protecting jobs?

Michele Bullock

So we always try to keep the job market in mind when we are trying to bring inflation back down and that has been a hallmark of what the Board has tried to do ever since the inflation



peak in 2022–2023. That has been always what we have been trying to do. It is true though that unless we get inflation down, ultimately that won't be good for the jobs market because if inflation rises we'll have to raise interest rates and ultimately that will be bad for the jobs market. So I wouldn't say – I don't think we have lost sight of the jobs market. We have still got it in mind but at the moment it's just much more important that we get inflation down because if we don't get it down then we're going to have to respond even more strongly and that will be worse for the labour market. And as I said earlier, and I can't stress this enough, inflation is really bad for everyone and it's really bad for the most vulnerable in the community. And the other thing I want to impress upon people, because I'm not sure it's well understood sometimes, is that bringing inflation down does not mean the price level comes down. We have got permanently higher prices for everything because of the inflation that we've experienced in the past. So that's why it's important we get it down to low and stable rates so that we're not consistently seeing big jumps in the price level all the time. But it doesn't mean, the petrol prices might be an exemption, the oil price goes up, it comes down. You might see prices go up and down but generally what happens when inflation goes up, it's a new price level and it doesn't come back down. So I want to make sure people understand we do still have in mind the labour market but if lowering interest rates or easing monetary policy to stimulate the labour market results in higher inflation, that's just going to be a bad outcome all round.

Cameron Micallef

Hi Governor, Cameron Micallef from Newswire. The statement said you would do what it takes to slow inflation down. Does that include putting the economy into a recession?

Michele Bullock

Well, partly in what I said to Ian, we don't want to put it into recession. We want to slow it enough that we can bring the inflation rate back down to our target of 2.5 while trying to keep employment growing as well as we can and the unemployment rate as low as possible. That is the aim. We are not aiming to put the economy into a recession. That is not the aim. This is why it's such a difficult time and some of these are very difficult decisions. How do we bring inflation down at the same time. In some ways it would be very easy and some countries did this. They put interest rates up much higher than we did and their unemployment rates went up and they ended up in a situation where their output was declining. We haven't had that and I really hope we don't have to have it and that's the focus of the Board.

Luca Ittimani

Thanks, Governor. Luca Ittimani from The Guardian. You've noted that economists are a bit split on what happens next from here and part of that is the uncertainty of the global situation but also there's the uncertainty over the Board's thinking. So I was just hoping you could help



make that a bit clearer. Medically you're not alarmed about unemployment at 4.5 per cent but what would alarm you? Would you be alarmed by unemployment at 4.5 per cent for a number of months or quarterly GPP growth of 0.2 per cent at this time? Like what would alarm you?

Michele Bullock

What would alarm me, I can't put a number on what would alarm me. I would back to what I said earlier though which is if you look at our forecasts we have the unemployment rate drifting up to about 4.7 per cent so it is going to rise as the economy slows. We're not forecasting a recession. We're forecasting that growth will slow and it has to for the reasons I've already discussed. If it looked like our forecasts were suggesting that the unemployment rate was going to increase much more substantially than that then we would have to think about whether or not the monetary policy settings were appropriate but it might be that inflation comes back down to target a bit more quickly as well, which also might be good because at the moment inflation is only forecast to come back to target by middle of 2028, that's still two years away. So these sorts of decisions from the Board are going to have to weigh up, do we want inflation to come back a bit more quickly? What might the implications of that be for the labour market? And weigh those two decisions up. But I'm not going to give you a number that I'd be alarmed at.

Luca Ittimani

But just on that alarm idea, say inflation broadly follows the path you're expecting but unemployment stays at this higher than expected level for a number of months, would that alarm you?

Michele Bullock

Well, at 4.5 even though it's higher than we were sort of expecting we still think the labour market is a bit tight at that level. I wouldn't say that's alarming us. That is increasing. We expected that to increase but we need the labour market to ease a bit because that's part of the capacity pressures that are increasing inflation in the economy.

Michael Heath

Governor, Michael Heath from Bloomberg. Just on the previous question, do you want to hear the inflation stick snap or are you prepared to potentially move and ease policy – you know, if you've got the downward sort of trajectory like you had last year, in other words, are you going to be a bit more cautious this time than you were in 2025?



Michele Bullock

That's a very interesting question, Michael. I think the issue is that if you wait until you see it you might be too late. And I think that was sort of the conclusion when inflation exploded in 2022–23. We waited until we saw it and by then it was too late. Part of the easing process through 2025 was recognising that things seemed to be going in the right direction and don't wait until you see it because you might be too late. So I do think the Board really still tries to think in those terms, that if you wait – you call it snapping the stick – if you absolutely wait until you've got all the evidence and you're looking in the rear vision mirror, it's probably too late. Thanks.