Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 11 August 2026

At its meeting today, the Board decided to leave the cash rate target unchanged at 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 the increase reflected greater capacity pressures. While the impact of the Middle East conflict on inflation has so far been less than expected, headline inflation is still too high. Trimmed mean inflation also remains elevated and is little changed from the March quarter. Oil and most related commodity prices remain higher than they were prior to the Middle East conflict. Some firms experiencing cost pressures are increasing the prices of their goods and services and others are looking to do so. Short-term measures of inflation expectations have eased but remain higher than earlier in the year.

Financial conditions have tightened in response to three increases in the cash rate target this year. Money market interest rates and government bond yields have risen, and the exchange rate has appreciated. There are signs that consumer spending growth is slowing gradually as expected, while growth in business debt and investment is strong. Momentum in the housing market has shifted, with housing prices falling in some capital cities and new housing loans declining noticeably. Labour market conditions have eased by a little more than expected in recent months. Labour market leading indicators point to only limited easing in the near term.

There continue to be heightened uncertainties about the outlook for domestic economic activity and inflation. Resolution of the Middle East conflict remains uncertain, and there are scenarios where inflation is higher and activity lower than forecast. Global oil supply will take time to recover, maintaining upward pressure on global energy prices and inflation, in which case domestic inflationary pressures could be higher than expected. A period of prolonged uncertainty may also cause growth to be lower overseas and in Australia. So far, growth in Australia's major trading partners has been stronger than expected, as the boost from AI-related investment has outweighed the adverse effects of the Middle East conflict. In Australia, historically weak productivity growth continues to constrain potential growth.

- **Decision**

The disruption to global oil supply is adding directly to inflation and there are indications that higher fuel prices are being passed through to prices of other goods and services, so inflation is likely to remain high for some time. This inflation impulse is in addition to the effect of capacity pressures in the economy.

The Board remains focused on ensuring that high inflation does not become embedded. To achieve this, growth in aggregate demand needs to remain subdued to reduce capacity pressures and bring inflation back to target. Following three increases in the cash rate target since the beginning of the year, financial conditions are now tighter than they were, and the economy appears to be slowing as expected. But inflation is still too high. It is not expected to return to around the midpoint of the target range until late 2027 and there are upside risks to this projection. With monetary policy judged to be somewhat restrictive, the Board decided to leave the cash rate target unchanged while it assesses how the economy is evolving. The Board will continue to do what it considers necessary to bring inflation sustainably back to target, including increasing the cash rate target further if upside risks materialise.

Accordingly, the Board will be attentive to the data and the evolving assessment of the outlook and risks to guide its decisions. Monetary policy is well placed to respond to developments and the Board is focused on its mandate to deliver price stability and full employment.

Today's policy decision was unanimous.