

Michele Bullock: Opening statement - House of Representatives Standing Committee on Economics

Opening statement by Ms Michele Bullock, Governor of the Reserve Bank of Australia, to the House of Representatives Standing Committee on Economics, Canberra, 22 September 2025.

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Good morning, Chair and members of the Committee.

These hearings are an important part of the accountability process for the Reserve Bank and my colleagues and I are pleased to be here to answer your questions.

I'm pleased to see the new members of the Committee. As you would be aware, the RBA's mission is to promote the economic prosperity and welfare of the Australian people, now and into the future. We do this by conducting monetary policy with the aim of maintaining low and stable inflation and full employment, and we also support the stability of the financial system. But our responsibilities go beyond this – we work to support a reliable, efficient and competitive payments system, deliver efficient and effective banking services to Australian government agencies and provide secure and reliable banknotes.

There have been some important changes at the RBA since we appeared before the previous incarnation of this Committee in February. From 1 March, the amended Reserve Bank Act 1959 came into force, creating a new Monetary Policy Board and a separate Governance Board.

And since we last met with the Committee, the Monetary Policy Board has lowered the cash rate target – our key monetary policy tool – by a further 50 basis points to 3.6 per cent, following the 25 basis point cut decided by the previous Board in February.

I will start with some background to these monetary policy decisions and the outlook for the Australian economy. I will then make some remarks on the payments system and banknote distribution. I will finish off with an update on our progress towards achieving the objectives of the RBA Review.

Inflation and employment

As I noted, the Monetary Policy Board conducts monetary policy with the aim of maintaining low and stable inflation and full employment. The Statement on the Conduct of Monetary Policy – which was updated in July – sets out our agreement with the Government that an appropriate goal is consumer price inflation between 2 and 3 per cent. To achieve this, we set policy such that inflation is expected to return to the midpoint of the 2–3 per cent target range. But there is flexibility around the timeframe in which we meet our inflation objective to balance this with meeting our full employment objective – achieving the maximum level of employment that is consistent with low and stable inflation in the medium term.

Consistent with this, the Board's strategy to achieve our dual mandate over the past three years or so has been to bring inflation sustainably back to target within a reasonable timeframe while allowing the labour market to adjust gradually towards full employment.

On the first part of our mandate, inflation has fallen substantially since the peak of 7.8 per cent in 2022 and is now within the 2–3 per cent target range. The higher interest rates over that period helped to put downward pressure on inflation and to keep inflation expectations anchored. Underlying (trimmed mean) inflation – which removes the more volatile components of the index – fell to 2.7 per cent over the year to June 2025. Headline inflation, which has been affected by temporary cost of living relief measures, was 2.1 per cent over the year.

On the second part of our mandate, labour market conditions are close to full employment. The unemployment rate of 4.2 per cent in August remains low by historical standards and the share of the population with a job is close to a record high – this is good news! While labour market conditions have eased a little since we last met, with the unemployment rate rising a little, we assess that some tightness remains. Though there is always considerable uncertainty around this assessment.

Throughout this adjustment towards full employment, the economy has continued to expand – and growth in economic activity has also picked up since we last met, driven by the recovery in private demand. In terms of jobs, there are 1.1 million more Australians in employment than in mid-2022, which is clearly a welcome development for those individuals, their families and the wider Australian economy.

Recent monetary policy decisions and the economic outlook

Over the period since we last met with the Committee, the Board judged that it was appropriate to ease monetary policy to keep inflation close to target and the labour market at full employment. As I mentioned, we have lowered the cash rate by a total of 75 basis points since the start of the year to now be 3.6 per cent after being held steady for a time at 4.35 per cent since November 2023.

RBA forecasts from the August Statement on Monetary Policy suggested that underlying inflation will moderate a little further to around the midpoint of the 2–3 per cent range. These forecasts were conditioned on the market-implied cash rate path at the time, which included some further modest easing of monetary policy. The recent interest rate cuts are expected to support spending by households and businesses, and growth in the Australian economy is expected to pick up a little further over the next year. The recovery in household consumption growth is forecast to be sustained as real incomes continue to grow. Since the August meeting, domestic data have been broadly in line with our expectations or if anything slightly stronger – the Board will discuss this and other developments at our meeting next week.

But forecasts are just that – forecasts. And the economic outlook continues to be clouded by uncertainty. This is especially so the further into the future we look. So we need to be alert to the risk that circumstances may change and be prepared to respond if necessary. The global environment is particularly uncertain and unpredictable, but monetary policy is well placed to respond if it seems international developments could

have a material impact on Australia's economy. There is also a risk that the recent pick-up in growth in domestic economic activity is not sustained, or, on the other hand, it could be materially stronger than we anticipate. Finally, there may be more excess demand in the economy and labour market outcomes may be stronger than expected. We are mindful that productivity growth has not picked up and growth in unit labour costs remains high.

The Board will remain attentive to the data and the evolving assessment of risks to guide its decisions.

We've made real progress in bringing inflation down. But our job is to make sure it stays within the target range in a way that's sustainable – not just for now, but for the long term. Low and stable inflation is important because it means that households and businesses can plan, invest and create jobs without having to worry about inflation.

Before I move on to other parts of the RBA's work, I want to acknowledge what many Australians have been through over the past few years.

We know that high inflation has pushed prices up across the board over the past few years. As my colleague Sarah Hunter explained in a fireside chat last week, while inflation has fallen materially, the price level isn't coming back down. The higher price level has affected everyone-whether you're paying a mortgage, renting, running a business, or just trying to make ends meet. It's been especially tough on people with lower incomes and those in more vulnerable situations. This is why, as I've said, it's so important that inflation remains low and stable.

Payments system

Another critical area of work for the RBA is our regulation and oversight of the payments system. We are conducting a review of surcharging and merchant card payment costs. We published a Consultation Paper in July, which outlined the Payment System Board's preliminary views. The current framework has effectively been in place for around 25 years and it has served its original aims. But recent and likely future changes in the payments system mean that it is less fit for the future. We have received over 170 submissions in response to the consultation – we value this strong engagement and are now following-up with stakeholders to discuss submissions in further detail. It is fair to say that different stakeholders come at the issue from different perspectives, and we've seen this reflected in a wide range of views. The task now for our Payments System Board is to carefully consider all this feedback, so that we arrive at policy settings that best promote competition, efficiency and safety in the card payments system.

We also thank the Parliament for recently passing amendments to the Payment Systems (Regulation) Act 1998. These amendments will modernise Australia's payments regulatory framework so that a broader range of participants in the payments system – such as three-party schemes, mobile wallets and buy-now-pay-later providers – will be included in our regulatory oversight. We will soon consult to identify the priority areas that should be addressed under the expanded remit. We want to ensure that Australia's payments system remains world class well into the future.

Banknote distribution

Another issue I would like to update the Committee on is recent developments in the cash distribution system. Cash remains a critical part of a resilient and inclusive payments system for all Australians. Although the use of cash for everyday payments has declined in recent decades, 1½ million Australians depend on it to participate in the economy, including more vulnerable groups and Australians in regional areas. Cash also continues to be used as a store of wealth, particularly during periods of economic uncertainty, and can be a useful backup for electronic methods of payment. As a result, cash in circulation is around \$105 billion, which is a record high level. The RBA is committed to supporting the Australian Government's policy objective to ensure cash remains a viable means of payment for as long as Australians want or need to use it.

As you are aware, the cash distribution system has faced significant challenges over recent years. Lower transactional use has made it more costly to store, process and distribute cash. These issues are most pressing for rural and regional areas where these services are most expensive. As you know, the logistics of moving cash to bank branches, ATMs and retailers is undertaken by cash-in-transit companies and the industry needs to work together towards a more sustainable distribution system. Linfox Armaguard, the main provider of these services, has faced financial strain and has been receiving industry funding for the past year.

The Council of Financial Regulators (CFR), which I chair, together with the ACCC, have met several times this year to discuss the challenges the industry is facing. In July, the CFR and ACCC jointly consulted on a proposed regulatory framework for cash distribution services. This would establish essential guardrails to support resilience and fair access to critical cash distribution services. The CFR and ACCC are currently reviewing feedback from the consultation, and expect to advise Government on options for the design of a regulatory framework in the near future.

As the issuer of Australian banknotes, the RBA also plays a key role in cash distribution. We provide banknotes to the major banks, who distribute these to the broader community. We provide incentives to support efficiency of distribution, encouraging banks to hold cash across the country, trade with each other and ensure notes of appropriate quality. We recognise that these arrangements need to adapt given changes in the industry, and so we are also reviewing the incentives we provide on wholesale banknotes to ensure they remain fit for purpose. We continue to work with industry participants to develop solutions that will best meet the needs of the community.

Progress towards achieving the objectives from the Review of the RBA to be fit for the future

The RBA Review provided a valuable opportunity to reflect on the RBA's monetary policy analysis, decision-making and transparency. As you know, we incorporated meaningful changes prior to the commencement of the new Monetary Policy Board including press conferences after each meeting, publishing more information on our forecasts and key judgements, the media statement following meetings being issued by the Board rather than the Governor and the minutes of the Board meeting providing a more fulsome record of the discussion. We have an ongoing commitment to communication and transparency, and one recent change is to publish an unattributed

record of votes in the post-meeting statement. I believe these changes have and will continue to be valuable in enhancing the communication and accountability of our decisions.

The establishment of the Governance Board is also supporting the efforts we are making to strengthen the Bank's management, culture and operations including lifting risk management practices to meet the challenges of a modern central bank.

And more generally, we have made substantial progress in responding to the recommendations of the Review and to embed meaningful and lasting change. I can already see the impact of these changes. We are seeing signs of cultural shift, underpinned by a commitment to be more open and dynamic, which we will build on in coming years. While much has been achieved, we recognise that this is an ongoing journey of transformational change and continuous improvement.

The Governance Board will report on our progress on achieving the objectives of the Review by the end of this year. These changes are all designed to strengthen our ability to do our work and enhance the welfare of the Australian people

Thank you for listening. My colleagues and I look forward to answering your questions.