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, 6 February 2026.

* * *

Good morning, Chair and members of the Committee.

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

As you know, our 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.

Since we last met with the Committee, the Monetary Policy Board judged that it was appropriate to tighten monetary policy to help to return inflation to target. I will start with some background to this decision and the outlook for the Australian economy. I'll then make some remarks on the payments system and cash distribution. And I'll 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 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.

On the first part of our mandate, inflation has fallen substantially since its peak in 2022. However, after a period of being within the 2–3 per cent target range, inflation picked up over the second half of 2025 to be materially higher than earlier anticipated. Underlying (trimmed mean) inflation – which removes the more volatile movements in any given quarter – had been easing and reached 2.7 per cent in mid-2025, before increasing to 3.4 per cent over the year to the December quarter 2025. The pick-up in inflation over the second half of 2025 was observed across a broad range of categories, including for services, retail goods and the cost of building new homes. Headline inflation – which has been affected by temporary cost-of-living relief measures – increased to be 3.6 per cent over the year to the December quarter.

On the second part of our mandate, various indicators continue to suggest that labour market conditions remain close to, if a little tighter than, full employment. After a period of easing, labour market conditions have stabilised in recent months, in line with the pick-up in the growth of demand. The unemployment rate, which averaged 4.2 per cent in the December quarter, is low by historical standards – and the share of the population with a job is close to a record high. There are 1.7 million more Australians in employment since the start of the pandemic. This is a welcome development for those individuals, their families and the wider Australian economy.

Recent monetary policy decisions and the economic outlook

Earlier this week the Monetary Policy Board decided to increase the cash rate target by 25 basis points to 3.85 per cent.

As I mentioned earlier, while inflation has fallen substantially since its peak in 2022, it picked up materially in the second half of 2025. As recently as August 2025, we were forecasting inflation to be sustainably back within the 2–3 per cent band by this year. Private demand had picked up but was not growing particularly strongly. Labour market conditions were easing gradually. And the world economy looked very uncertain, with global growth forecasts revised downwards. But over the second half of 2025, this picture progressively turned around, with a range of data increasingly suggesting that international conditions, domestic demand and inflation were turning out stronger than we expected. The Monetary Policy Board highlighted this evolving assessment in the statements accompanying its November and December meetings.

Much of the recent increase in inflation is judged to be temporary – but some of it seems to be persistent. Indeed, our outlook now sees inflation not coming back into the target band until the middle of next year. What has driven this change in outlook?

There are a few factors. First, financial conditions have eased. We previously judged monetary policy to have remained a bit restrictive through 2025 – but the recent inflation data and the pick-up in credit growth cast some question over this.

Second, the world economy has proved much more resilient than expected so that growth in our major trading partners has been much stronger than forecast. This partly reflects the resilience of the global trading system, which has adjusted faster than expected to tariff changes. But it's also a consequence of the ongoing boom in AI investment, which has spilled over to a number of high-income Asian economies that supply chips and other key inputs.

Third, private demand looks to have increased more strongly over the latter part of last year than we were expecting. Household consumption and business investment both drove this strength. Consistent with that strengthening of demand, the labour market has been a bit stronger than expected since November, and we judge that it remains a bit tight. We hear from surveys and our own liaison that some firms are still finding it difficult to find staff with the right skills and experience. This is another symptom of excess demand for goods and services in the economy.

Given the inflation outcomes, the Board judged that stronger-than-expected demand in aggregate was pushing up against the ability of the economy to supply all of the goods and services being demanded. In other words, there was more excess demand in the economy than earlier judged. This means that we need to dampen the growth of demand, unless the supply side of the economy can expand a little quicker. This is where productivity comes in. Faster productivity growth allows for stronger growth in incomes and spending without the emergence of inflationary pressures.

Based on its assessment that the economy is more capacity constrained, the Board judged that monetary policy needed to be tighter, to dampen aggregate demand growth and to help to return the economy to balance over the forecast period. It therefore judged that it was appropriate to raise the cash rate.

There are of course risks to this outlook – forecasts are always uncertain. One that the Board will be monitoring closely is the extent to which the stronger inflation we have observed is persistent or temporary – that is, the extent to which the economy is capacity constrained. The Board will be closely monitoring the incoming data and continually assessing the extent of capacity constraints. If growth in demand is stronger than expected, and growth in the economy's supply capacity remains limited, it is likely to add further to capacity pressures, and hence inflation persistence. If demand growth is weaker, or supply growth is stronger, inflation may return towards target more quickly. Significant uncertainties also remain in the global economy, with elevated trade and geopolitical risks: circumstances could change quickly.

I recognise the challenges that the cash rate increase brings for Australians with mortgages. But it is the right thing for the economy as a whole. We need to ensure that inflation is low and stable so that households and businesses can plan, invest and create jobs. High inflation hurts all Australians – whether you're paying a mortgage, renting, running a business, or just trying to make ends meet. It is especially tough on people with lower incomes and those in more vulnerable situations.

Payments system

Another key responsibility for the RBA is our regulation and oversight of the payments system. The RBA is committed to promoting and supporting a modern and innovative payment system in Australia.

We are completing our review of surcharging and merchant card payment costs. This review has benefited from extensive engagement from a broad range of stakeholders, including over 170 written submissions to our consultation paper. The staff have also conducted over 100 bilateral meetings and gathered additional evidence from stakeholders. The Payments System Board will publish its conclusions by the end of March 2026.

After the review of merchant card payment costs and surcharging, we will consult on which issues should be prioritised by the RBA under the amended Payment Systems

(Regulation) Act 1998. These amendments expanded the RBA's remit to a broader range of payment systems and their participants – including three-party card schemes, mobile wallets, 'buy-now, pay-later' providers and e-commerce platforms. This consultation is expected to take place in mid-2026. We acknowledge that on 8 December 2025 this Committee commenced its Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector. The RBA has made a submission to the inquiry and looks forward to your deliberations. We see the Committee's work as complementary and concurrent to the RBA's own consultations in the payments area.

The RBA has also contributed to the Council of Financial Regulators 'Better Regulation Roadmap', which is promoting streamlined regulation to help drive stronger productivity growth in our economy. As part of this, the RBA is supporting innovation by exploring how new forms of digital money can support tokenised asset markets and creating a plan for modernising Australia's core settlement infrastructure – the Reserve Bank Information and Transfer System (RITS).

I also wanted to note that on 27 January, the RBA experienced a system issue that disrupted some payment and property settlement services. We restored settlement for these services in the afternoon, but a second issue for property settlements meant that full restoration was not achieved until the evening. We apologise for the disruption caused by the incident. We recognise the critical role we play in the payments system and are conducting a full review of the incident, which we plan to publish before the end of February. This incident reinforces the importance of the RBA's active program of work to strengthen the operational stability of its critical settlement systems.

Cash distribution

I would also like to update the Committee on recent developments in the cash distribution system. Cash remains a critical part of an inclusive and resilient payments system. Although the use of cash for everyday payments has declined in recent decades, a range of indicators suggest cash use has stabilised in the past few years. The RBA remains 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.

The cash distribution system has faced significant challenges. These issues are most pressing for rural and regional areas. The industry needs to work together towards a more sustainable distribution system that supports the needs of all Australians. Linfox Armaguard – which is the main provider of cash-in-transit services – and its major banking and retail customers have been working towards a future pricing model. This is aimed at supporting more sustainable and efficient distribution arrangements. Any proposed model would need to be considered by the ACCC.

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 are continuing to work with industry so that the RBA's arrangements and incentives support efficient distribution and encourage banks to hold cash across the country.

We also continue to work closely with other public agencies to support the long-term availability of cash in the public interest. The Council of Financial Regulators (CFR), which I chair, together with the ACCC, is taking an active interest in cash distribution. Last year, the CFR and ACCC jointly consulted on potential regulatory guardrails to support resilience and fair access to critical cash distribution services. The Government also recently introduced a mandate for large grocery stores and petrol stations to accept cash, which aims to support Australians who want to pay in cash for essential goods.

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

As you know, the RBA Review was released in April 2023. The Review recognised the RBA's longstanding contribution to Australia's economic success and the professionalism of our staff, while identifying areas for improvement. It focused on a few key areas – monetary policy, governance, transparency and culture – that are central to our effectiveness as Australia's central bank. The findings from the Review have shaped our transformation agenda since that time.

Some recommendations from the Review involved actions that we could undertake ourselves – changes to the number and timing of Board meetings, our Board processes, and our culture and leadership capabilities.

But other recommendations required legislative change, including the creation of a separate Governance Board. So, in March 2025, the most significant reforms to the RBA since the 1990s came into effect. Our work is now overseen by three boards: the Governance Board, the Monetary Policy Board and the Payments System Board.

The Governance Board is now the accountable authority under the Public Governance, Performance and Accountability Act 2013. It is effectively responsible for overseeing the operations of the RBA including strategy, risk, resourcing, budget and the balance sheet. But there is one important difference with boards in commercial organisations – we are a policy institution and so there are circumstances where policy takes precedence over normal commercial considerations. A good example is use of the balance sheet for monetary policy or financial stability considerations. Nevertheless, the creation of the Governance Board has sharpened our focus, strengthened decision-making and improved accountability, supporting our commitment to modernising the RBA.

In line with its new responsibilities, the Governance Board published a report on our progress in meeting the recommendations of the Review in December last year. To date, the RBA and the Government have addressed 41 of the 51 recommendations. Clear implementation plans are in place for the remaining recommendations, and the necessary work is well under way. We will implement two further recommendations in 2026: publication of a framework for additional monetary policy tools and convening of an external expert advisory group on monetary policy. The remaining recommendations are ongoing commitments, where we have established the structures, processes and capabilities needed to sustain progress in these areas. They include initiatives to strengthen leadership, embed cultural change, enhance analytical expertise and deepen our understanding of monetary and fiscal policy interactions. We have also committed to conducting future reviews of the monetary policy framework and our institutional capability.

Our work does not end with the implementation of specific recommendations. In the spirit of the Review, we are embracing a mindset of continuous improvement – recognising that the environment in which we operate is dynamic and that our institutional practices must continue to evolve. We remain committed to pursuing excellence in everything we do as we build an RBA that is fit for the future.

I will finish on that note. My colleagues and I look forward to answering your questions.