

Michele Bullock: Opening Statement to the Senate Economics Legislation Committee (Budget Estimates 2026–2027)

Opening statement by Ms Michele Bullock, Governor of the Reserve Bank of Australia, to the Senate Economics Legislation Committee (Budget Estimates 2026–2027), Canberra, 4 June 2026.

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Good afternoon, Chair and members of the Committee.

My colleagues, Sarah Hunter and Chris Kent, and I are here to answer your questions.

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 the February Estimates hearings, the Monetary Policy Board has increased the cash rate to help return inflation to target. I will briefly outline recent developments in the Australian and global economy, discuss inflation and the outlook, and then conclude with some remarks on the Bank's work on payments, including the recent review of card payments and Project Acacia.

International and domestic economic conditions

In the first half of 2025, inflation in Australia was coming down and had declined to be within our target range. Labour market conditions were easing, with employment growth slowing. And, of course, there was significant uncertainty about the economic outlook driven by developments in global trade policy. At the time, the Board judged that capacity pressures would continue to ease and that it was appropriate to remove some restrictiveness from the stance of monetary policy by lowering interest rates.

But inflation picked up notably in the second half of 2025, and to date remains too high. This increase in inflation reflected a strong increase in output growth, which had added to existing capacity pressures in the economy and tightness in the labour market. So inflation was too high even before the conflict in the Middle East began.

The conflict has led to a sharp increase in oil and other key commodity prices. This has already pushed inflation higher through higher consumer fuel prices. We have also seen some tentative signs that higher fuel-related costs may have been passed through to the cost of other goods and services, including new dwelling costs. And there are indications that there are likely to be second-round effects on the prices of goods and services more broadly. As I mentioned, this inflation impulse is in addition to the high inflation recorded around the start of 2026.

Developments in the Middle East remain highly uncertain but under a wide range of scenarios the conflict could well contribute to even higher global and domestic inflation. The effects of the conflict on economic activity are less certain and expected to vary across countries, but for Australia we judge that it will weigh modestly on growth. This would worsen the trade-off between inflation and economic activity.

As you know, the Monetary Policy Board has increased the cash rate by 75 basis points in total this year. These increases have been necessary to tighten financial conditions and slow growth in demand in the economy to ensure we get on top of inflation. We've already seen some signs that this tightening is starting to work, though it will take around 1 to 2 years for the effects to fully flow through the economy. One of the channels through which monetary policy can often start to have an impact quite quickly is the housing market. Conditions in the housing market have eased in recent months and that partly reflects tighter monetary policy.

Having said that, the recent increases in interest rates will have no impact on the increase in inflation already in train following increases in the prices of oil and related commodities. What these increases in the cash rate do, however, is to help to contain the domestic inflationary pressures and second round effects from higher oil and commodity prices.

I recognise that this is a difficult time for many households facing cost of living pressures.

But it is important that we bring inflation under control. If high inflation persists, it risks becoming embedded in price and wage-setting behaviour, particularly given the prolonged period over which underlying inflation has been above 3 per cent since the pandemic. That would result in more persistent inflation and would require even higher interest rates, and for longer, to return inflation to target.

High inflation hurts everyone. It reduces the purchasing power of all Australians and disproportionately affects those on lower incomes and the more vulnerable people in the community.

Economic outlook

As you know, we published our latest forecasts in the May Statement on Monetary Policy. Overall, the flow of data and developments since May has not been materially different to our expectations, and we will publish a full update in August.

We expect inflation to increase further in the near term. In our baseline forecasts published in May, headline inflation is expected to peak at over 4½ per cent in the June quarter, while underlying inflation remains above the target range until mid-2027.

GDP growth is expected to slow this year, reflecting the effects of higher interest rates and the conflict in the Middle East. We expect the unemployment rate to increase over the coming year or so, but still remain lower than before the pandemic. We will be carefully monitoring conditions to assess how the combined effects of higher interest rates and the energy price shock are playing out.

Employment is expected to continue growing gradually over time. And it's worth noting that the share of the population with a job remains high notwithstanding recent declines. This is a welcome development for those individuals, their families and the wider Australian economy.

However, forecasts are just that. And the outlook is highly uncertain. Alongside our most recent set of forecasts, we published two adverse scenarios that outline how the economy could evolve under a larger or more prolonged conflict in the Middle East. This would increase commodity prices further and would result in higher inflation and weaker growth than currently forecast.

While these are challenging conditions, the economy is still expected to grow, albeit modestly, even under these scenarios where oil prices are significantly higher than recent levels. Investment has been a bright spot recently and growth is expected to continue in sectors of the economy with strong structural tailwinds, such as software, data centres and renewable energy.

The Monetary Policy Board will continue to assess the incoming data and developments here and abroad. Having raised the cash rate three times, monetary policy is well placed to respond to developments. Inflation is too high, and the Board will do what it considers necessary to achieve our mandate to deliver price stability and full employment.

Payments

Finally, I will briefly highlight some of the Bank's work on payments.

Following our review of card payments, we announced three key changes. Surcharging on debit and credit cards should end from 1 October, we are lowering interchange fee caps on debit and consumer credit cards, and improving transparency around payment costs. Together, these reforms will simplify payments for consumers and improve outcomes for businesses.

In addition, the Bank, in partnership with the Digital Finance Cooperative Research Centre, recently published the findings of Project Acacia. This work explored how tokenisation of assets and money could enhance the functioning of Australia's wholesale markets. The project found that there is growing industry interest in the potential for tokenisation to improve efficiency and reduce risk in wholesale financial markets. Similar momentum is building in key financial centres around the world. The Bank is now in the planning phase on a range of subsequent initiatives aimed at promoting responsible financial innovation and ensuring the Australian financial system is well positioned for the digital age.

Thank you, and my colleagues and I are happy to take your questions.