



By: TA | AP Brief

Australia's central bank raises interest rate after 3 cuts



Australia's central bank lifted its benchmark interest rate by a quarter percentage point to 3.85%, after three **rate cuts** last year and as inflation surges.

The Reserve Bank of Australia has boosted its **cash rate** for the first time since November 2023, when the rate rose from 4.10% to 4.35%.

The rate hike was widely expected after government data last week showed that inflation had run away to 3.8% for the 12 months through December. The annual rate had been 3.4% through November.

The bank adjusts interest rates to steer inflation toward a target band of between 2% and 3%.

"The board considers that inflation is likely to remain above target for some time," the bank said in a statement.

Inflation had fallen substantially since it peaked at 7.8% in the last three months of 2022, but had "picked up materially in the second half of 2025," the statement said.

"Uncertainty in the global economy remains significant but so far there has been little or no depressing effect on the Australian economy; indeed, recent growth and trade in Australia's major trading partners has surprised on the upside," the bank said.

Treasurer Jim Chalmers described the rate hike as "difficult news" for millions of Australians with mortgages and businesses.

Chalmers rejected criticism that government spending was fueling inflation. He noted the bank statement blamed growth in private demand driven by household spending and investment.

The inflation numbers

The bank had **reduced the cash rate** by 25 basis points last year in February, May and August.

The adjustment in February last year had been Australia's first rate cut since October 2020.

Last year, annual inflation fell from 2.4% in the March quarter to 2.1% in June, before rebounding to 3.2% in September.

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EY Oceania Chief Economist Cherelle Murphy said it was unusual for the bank to boost the cash rate only six months after cutting it.

"There is certainly a possibility here obviously, that last rate cut wasn't needed. But to be fair to the Reserve Bank, that was not obvious at all at the time," Murphy told Australian Broadcasting Corp.

"In fact, it looked like the inflation numbers had been coming down quite nicely. Obviously that's not turned out to be the case," Murphy added.

Murphy said she had been surprised by Australia's unemployment rate falling from 4.3% in November to 4.1% in December.

"It does seem like the economy is running a little bit too hot," Murphy said. "I certainly wouldn't rule out another rate hike later in the year."