

Australian central bank lifts interest rate again as recession threat grows

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As was widely expected, the Reserve Bank of Australia (RBA) voted at its meeting yesterday to lift the base interest rate by 25 points to 4.10 percent following a hike by the same amount in February. The bank made it clear it would lift rates further, even driving the economy into recession if it considered that to be necessary.

It was a split decision with five of the central bank's governing body voting for the immediate rise and four voting to maintain the rate unchanged. But the board was not divided between so-called "hawks" and "doves."

At her press conference, RBA governor Michele Bullock insisted there was not a disagreement over the direction of interest rates but only on the timing with the minority wanting to delay the hike to the May meeting.

Undoubtedly the swing factor in the decision was the US-Israeli war against Iran and the hike in inflation—above all in the leap in petrol prices—which it has already produced.

Petrol prices have risen by at least 50 cents a litre, in some cases by more—a process which started immediately after the war began, well before the higher-priced oil flowed through to the pump. It has been estimated that the cost of filling up the tank of an average car has risen by \$40.

This means that workers, especially those in the cities who often travel long distances to and from work, will be hit with a cut in disposable income running at more than \$100 a week or even higher.

Shortages have been widely reported, and the possibility of petrol rationing is being discussed. The price of diesel has risen sharply bringing higher transport costs which are being reflected in higher prices in supermarkets.

Home buyers face an additional slug. As a result of the two interest rate rises this year payments on a mortgage of \$600,000 have risen by \$180 per month, with the prospect they could take a further hit in May. The hikes will be much larger for those with a higher mortgage, a large portion of home buyers, under conditions where the median price for a house in Sydney, the country's largest city, is \$1.75 million.

With the living standards of the working class already under attack via the inflationary surge, the RBA decision means this offensive is to be deepened. The interest rate hikes, advanced in the name of combating inflation, will do nothing to bring down prices at the petrol pump or anywhere else.

Even before the launching of the war against Iran, which has been backed from the outset by the Albanese Labor government with the complicity of the trade union bureaucracy, the RBA was considering a further rate rise.

This was not because of a surge in wages or a rise in consumption spending. Real wages have continued to fall, because of the role of the trade union bureaucracy in enforcing wage rises below the inflation rate. As the RBA noted in its statement on the decision, the "growth in unit labour costs declined" and "consumption was below expectations."

Like all central banks, the RBA is not a neutral body, somehow serving the interests of the population, but an arm of the capitalist state whose task is to serve the interests of finance capital, above all by the suppression of the working class.

Accordingly, its statement said that while part of the increase in inflation reflected temporary factors, "the Board judged that the labour market has tightened a little recently and capacity pressures are slightly greater than previously assessed."

Apart from the direct aim of reducing the “tightness” in the labour market by increasing unemployment, the focus on “capacity pressures” is also directed against the working class.

Bullock has insisted that inflation is a demand and supply problem and that the core issue is to lift the capacity of the economy to be able to meet existing demand. This has been the theme of numerous analyses in the financial press and elsewhere that productivity must therefore be lifted. This means that more production and profit must be extracted from the workforce and one of the means of achieving this is by lifting interest rates to a level where they induce a recession.

This prospect is now being openly raised. Responding to the statement by Labor Treasurer Jim Chalmers at the weekend that inflation could head to “between the mid to high fours” because of the impact of the oil price hikes—other estimates are that it could go higher—the chief economist at the global bank HSBC, Paul Bloxham, revealed the orientation of key sections of finance capital.

He said the “tough, hard and unfortunate reality” was that Australia needed a hit to economic growth either via a slowdown in global growth or through rate rises to bring inflation down.

“At a minimum, Australia almost certainly requires a downturn to dis-inflate the economy. Will it be a recession? Time will tell.”

Speaking to the ABC’s Business program, Bloxham said that “unemployment is too low.”

Pointing to the issues under discussion in financial circles, the ABC economics commentator, Alan Kohler, noted the day before the decision: “Tough talk, as both the governor and the deputy governor [of the RBA] have been doing lately, only goes so far. At some point, so the thinking goes, there’s a recession you have to have.”

At her press conference Bullock was directly asked whether she would be prepared to put the economy into recession if that is what it took to bring inflation down.

Her somewhat awkward reply was revealing because, after insisting that the RBA did not want to do that, and that its strategy was to bring down inflation while maintaining a stable labour market, she cut to the core issue.

“I would say that we do not want to do that, but the

bottom line is that if we don’t have low and stable inflation over time, we won’t have full employment.”

The RBA decision signals the start of a new offensive against the working class which will be intensified as a result of the war against Iran. The focus is now on the Labor government’s budget to be brought down in May.

The demands of finance capital were set out in an editorial in the *Australian Financial Review*. It said Chalmers should stop denying that government spending is contributing to the economy’s “disequilibrium” and “focus on ensuring May’s promised reform budget delivers the substantial fiscal restraint and meaningful productivity measures required to balance supply and demand.”

And as the RBA decision made clear that could well involve pushing the economy into recession.



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