

RBA Update August 2025

The Reserve Bank of Australia (RBA) Monetary Policy Board cut its interest rates by 25bps at its August meeting, taking the total size of the current easing cycle to 75bps.

Following today's decision, the cash rate target is at 3.60%, while the interest rate on Exchange Settlement Balances is 3.50%.

Post-meeting Statement

The post-meeting statement by the RBA Monetary Policy Board justified its decision as follows:

- trimmed mean inflation declined to 2.7% in Q2, and the updated forecasts suggest further moderation towards 2.5% by the end of 2027;
- labour market conditions remain 'a little tight', but have eased further in recent months; and
- there is 'a little more' clarity on global trade policies and the most extreme scenarios are likely to be avoided, but they will still have an adverse impact on global activity and uncertainty about the outlook remains elevated.

The forward guidance was unchanged from the previous statement, highlighting the cautiousness of the Board and stressing that there is space to respond to any international developments. Future decisions remain data-dependent.

Statement on Monetary Policy

The RBA updated its economic projections in the August Statement on Monetary Policy:

- trimmed mean inflation is forecast to decline to 2.6% by the end of 2025 and remain stable around that level until late 2027 when it is to reach the mid-point of the 2-3% target range;
- the unemployment rate is expected to remain steady at 4.3% until the end of the projection horizon to late 2027; and
- GDP projection for 2025 was revised down to 1.8% in 2025 from 2.1% in May and the 2026 projection was downgraded to 2.1% from 2.2%.

The Statement included two boxes. One of them contained insights from business liaison, with the bottom line being that fewer companies are increasing employment, while growth in selling prices will likely remain around the current levels in the coming year. The other box concluded that the net impact of a redirection in global trade in response to tariffs could have a dampening impact on some prices in Australia.

The RBA also downgraded its assumption of medium-term productivity growth to 0.7% from 1.0%. Lower productivity growth will weigh on GDP and wages growth, but the RBA assumes that it should not impact inflation to a significant extent.

Press Conference

In the press conference, RBA Governor Michele Bullock confirmed that a rate adjustment larger than 25bps was not discussed at the meeting.

She declined to comment on how far away the cash rate is from its neutral level, which the RBA assesses to be somewhere in the broad range between 1% and 4%.

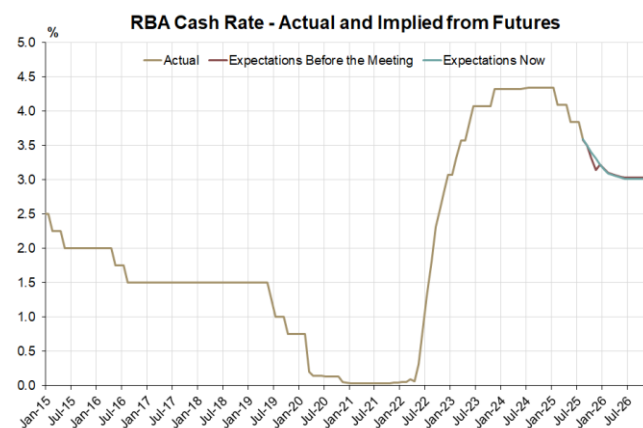
She did not rule out back-to-back interest rate cuts, even with the commitment to gradual cuts, stressing that decisions will be made on a meeting-by-meeting basis.

Governor Bullock provided more insights into the downgrade of the productivity growth assumptions, saying that they were triggered by consistently overestimating GDP and private consumption growth. She assessed that the downgrade was 'fairly conservative'.

Market Impact

The 25bps cut was widely expected by market participants, but the downward revision to GDP growth forecasts and productivity growth assumptions triggered some market moves:

- 3-year Commonwealth bond yields declined from 3.44% to 3.40% at the time of writing;
- 10-year yields ebbed from 4.27% to 4.25%; and
- the Australian dollar depreciated from US\$0.6503 to US\$0.6499.



Comment

The RBA did not surprise anyone by delivering the 25bps cut today. The forecasts that envisage a return of trimmed mean inflation to 2.5% over the projection horizon assume that the cash rate bottoms out at just below 3%. Governor Michele Bullock also stressed at the press conference that the projection rests on the assumption of 'a couple of' more cuts. We continue to expect further easing, pencilling in the next 25bps rate cut for November.

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