

The irrationality of central banks

Published: September 29, 2026, 7:17 am

The madness of raising interest rates to tackle inflation caused by the war in the Gulf continues worldwide. As [The Guardian](#) reports this morning:

The [Reserve Bank of Australia](#) has lifted its key interest rate to 4.6%, its highest level since 2011, while warning of further hikes.

The widely expected fourth increase to the cash rate this year will add to repayment costs for millions of mortgage holders across the country. Before Tuesday's meeting, it sat at 4.35%.

In a statement accompanying the RBA's rate setting board's unanimous decision, it warned its fears about inflation were beginning to be realised and it was ready to lift interest rates again.

Did Australian mortgage holders need to be punished as a consequence of Donald Trump and Benjamin Netanyahu starting a profoundly unethical war in the Gulf, which they now do not know how to bring to a halt? The answer is obviously no.

Will increasing costs for Australian mortgage holders address the problems that the inflation in question is creating within the Australian economy? The answer is, again, no.

Is there any chance that raising interest rates in Australia will improve its resilience in a world where multiple supply shocks are being created as a consequence of this war, climate change, El Niño and other events entirely beyond the control of the Australian government or its central bank? Again, the answer is no.

In that case, the question has to be, why is the Reserve Bank of Australia undertaking a policy that is so obviously inappropriate and which will impose real, and unnecessary costs on the people of Australia whilst reducing the economic resilience of that country, increasing its rate of unemployment, and reducing the level of economic activity that might create income to pay the increased, and unnecessary, interest demands that banks will now make of the people of the country? To that rational question, there is no

rational answer.

The people of Australia should be up in arms, as should people around the world in the face of the massive injustice that they are facing as a consequence of an unjust war over which they had no say, no control and no part.

The least people can expect from their governments, and their agencies, is rationality. That is the last thing central banks are supplying now.