

## The effects of the Funding for Lending Programme (FLP) on funding costs and mortgage rates

This Analytical Note is released as part of our review and assessment of monetary policy (RAFIMP).

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### [The effects of the Funding for Lending Programme on funding costs and mortgage rates](#)

As part of a package to deliver monetary stimulus to the economy during the pandemic, in 2020, the Reserve Bank deployed the Funding for Lending Programme (FLP) to offer low-cost, 3-year funding to banks. **The purpose of the FLP is to lower the funding costs of banks and, consequently, encourage banks to pass on the lower cost to households and businesses and increase lending.** This paper evaluates this objective using a counterfactual analysis.

## Key findings

- The Funding for Lending Programme lowered the weighted-average funding spread of commercial banks by about 15 basis points from the policy announcement date — 12 August 2020 to the end of 2020.
- Pass-through from funding costs to mortgage rates is slow.
- As a result, the 6 month, 1-year, and 2-year mortgage rates would fall by about 10 to 20 basis points over a period of up to 1 year. These results may underestimate the full impact of the programme, as pass-through likely continues beyond the sample period of this study. Other estimation approaches may also yield higher estimated effects of FLP than those reported in this paper.

## More information

### Review and assessment of monetary policy

RAFIMP is a review of how we have made decisions about monetary policy in the past 5 years.

### Evaluating our forecasting performance

This Bulletin article looks at the accuracy of our forecasts, if they were unbiased and how it compares to forecast modeling.