Further easing in monetary policy

A Funding for Lending Programme will commence in December to lower interest rates and support the economy.

The Monetary Policy Committee uses a range of instruments to support full employment and keep inflation stable. The Funding for Lending Programme is an additional instrument to the OCR and asset purchases already in use. The programme affects interest rates in the economy, including bank lending rates and term deposit rates, which affect employment and inflation. The seven members of the Monetary Policy Committee have agreed that monetary policy will need to remain supportive for a long time.

Latest key statistics

- Economic growth: -12.4 percent (June quarter 2020)
- Inflation: 1.4 percent (September quarter 2020)
- Unemployment rate: 5.3 percent (September quarter 2020)
Economic activity rebounded as restrictions to contain COVID-19 eased

- The lockdown in April caused the largest recorded drop in economic activity that New Zealand has seen, albeit less than we initially expected. New Zealanders have since been able to return to many of their usual everyday activities. Businesses reopened and household spending rebounded. The Wage Subsidy and savings accumulated during the lockdowns helped.

- The Auckland outbreak in August highlighted the ongoing risk of another widespread outbreak and the impact that would have on the economy. Similarly, restrictions in many other economies have tightened again as the virus continues to spread. Ongoing restrictions and uncertainty are dampening the rebound in global economic activity.

Border restrictions are suppressing demand in some sectors

- Border restrictions remain in place. These are significantly affecting industries such as international tourism and education, which together would normally account for a fifth of New Zealand’s exports. Border restrictions also reduce the inflow of migrants and restrict access to skilled workers from overseas.

- Many firms are reducing costs because of the weaker economy. New investment projects are being put on hold or cancelled. Firms are reducing labour costs, initially by reducing wages and hours, but also by laying off workers. As a result, households have less income, which reduces their ability to spend.
**The Monetary Policy Committee is using its tools to support the economy**

- Monetary policy plays a key role in stabilising the economy through the business cycle. The aim is to support high and sustainable employment and to maintain inflation within a range of 1 to 3 percent.

- During the COVID-19 pandemic, the Monetary Policy Committee has used a couple of policy tools to reduce interest rates for households and businesses. The Committee reduced the Official Cash Rate (OCR) to an all-time low of 0.25 percent. They also enacted a $100 billion government bond purchase programme.

- To provide even more support, the Committee has announced a Funding for Lending Programme. This provides cheap funding to eligible participants, reducing interest rates further and supporting the supply of credit to the economy.

**The economic outlook is uncertain**

- COVID-19 and the response by the Government to contain its spread has been unprecedented. The pandemic is by no means over and subsequent waves of infection continue to emerge globally. New Zealand remains at risk of another outbreak.

- The government and monetary policy actions to support the economy have been significant. While the pandemic has severely affected economic activity, initiatives like the Wage Subsidy have helped to limit job losses. However, the Wage Subsidy has largely come to an end. There may be further job losses, but at this stage it is unclear how many.

- Uncertainty is making it harder for households and firms to plan. This causes them to be more cautious in their spending decisions.