



Speech to the Senate

'Banks should pass on cuts in interest rates in full Including to farmers and small business'

By Senator Mathias Cormann on 11 November 2008

[Senator CORMANN](#) (Western Australia) (8:20 PM) —Australians are entitled to be extremely disappointed with our major banks and their approach to interest rates, in particular their refusal to pass on successive cuts in the official interest rates in full. Small businesses and farmers in particular are entitled to be very disappointed. They are entitled to be disappointed with our banks and they are entitled to be disappointed with the lack of action from our federal government—a government that does not seem to care, a government that is quick to claim credit but a government that has failed to stand up to our major banks when it comes to interest rates. The government has provided unprecedented support to the banks, on the face of it without any, or at least without sufficient, strings attached. The lack of action by the federal government is an absolute disgrace. The Treasurer, Wayne Swan, has previously claimed credit for insisting that banks pass on some interest rate cuts to mortgage holders, but he has been missing in action with respect to small business and farmers.

Just over a month ago the Reserve Bank cut the official interest rate by one per cent. This came after a 0.25 per cent rate cut in September. Since the September meeting of the Reserve Bank, official interest rates have been cut, in fact, by two per cent. This is great news. Well, it should be great news. It should be great news for families across Australia. But not only for families; it should also have been great news for small businesses, for farmers and for all participants in our economy with loans. Just over a month ago, on that day when the Reserve Bank announced a one per cent cut in interest rates, the Prime Minister was quick to go out there and bask in the glory of that announcement.

There he was, on 7 October, saying:

The Government welcomes the relief that the Reserve Bank of Australia's decision will provide to working families and to Australian small businesses.

Many constituents of mine took the Prime Minister at his word. They thought that the cut in official interest rates as announced by the Reserve Bank would indeed translate into a one per cent cut to their small-business loans. But nothing could be further from the truth. Since then, the RBA has cut official interest rates by a further 0.75 per cent to bring those official cuts in interest rates to a total of two per cent. Yet, to this day, hardly any of it has been passed on to small businesses or farmers. Trying to find out how much has in fact been passed on, or how much will be passed on, is like pulling teeth. My office phoned all of the major banks after both the October and the November rate cuts to find out how much of the rate cuts would be passed on to small businesses and to farmers for their loans and overdrafts. Eventually we were able to get the following information—as I understand it, the last available information in relation to the major banks. I urge them to correct me if I get this wrong and tell me that they have passed on the

rate cuts in full. But the information that my office has received is that Westpac has passed on 0.8 per cent, ANZ has passed on 0.6 per cent, the NAB has passed on 0.2 per cent and CBA has passed on 0.65 per cent. That is between 0.2 and 0.8 per cent of a two per cent cut in official interest rates, which is all that has been passed on by our major banks to small businesses across Australia.

Compare this to the approach to residential mortgages. The major banks have passed in excess of 1.6 per cent of the cuts on to Australians with residential mortgages—and that is, of course, great news for families with mortgages. But small businesses have not seen those interest rate cuts flow through to their small-business loans to anywhere near the same extent. Farmers have not seen those interest rate cuts flow through to their overdrafts to anywhere near the same extent. And the banks should of course have passed all of it on. Given that the Commonwealth is now underwriting the banks and giving them significant support, given the huge advantage delivered to the banks by the government through its guarantee on deposits, and given the profitability of the major banks in Australia, there is absolutely no excuse for the banks not to pass on in full the two per cent rate cut to people and businesses who have loans with them. It is of course critically important for small businesses and farmers to get the full benefit of interest rate cuts from the Reserve Bank to ensure that they can continue to provide jobs. Small businesses are at the coalface when it comes to helping to take Australia forward in the context of the current economic crisis.

What have we got? We have got a government that is basking in the glory of official cuts in interest rates and pushing out the propaganda on how fantastic all these cuts in official rates are for small business. But, when you scratch the surface, when you look beyond the spin, the government has let small business down. The government has gone soft on the banks. It is about time that the Prime Minister and the Treasurer stood up to the banks. It is time that the Prime Minister and the Treasurer put a bit of pressure on the banks to do the right thing by the Australian people, to do the right thing by Australia's small businesses and farmers. The two per cent cut in the official interest rate since September must be passed on to the real economy, to small businesses and to farmers, as well as to households, mortgage holders and families. It should be passed on in full. It should be passed on immediately.