



# ECFH Financially Speaking

East Caribbean Financial Holding Company Limited

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**Monetary Policy** is the process that a country's government, central bank or monetary authority uses to control the supply, availability and cost of money. The establishment of this policy is geared towards attaining stability and growth in the country's economy and to stabilize its currency. A country's **monetary policy** can either be expansionary in which the aim is to increase the supply of money in the economy or contractionary which aims to reduce the supply of money.

## **What does this mean for you?**

There are some measures that governments and central banks take as part of their **monetary policy** that affect all of us in a number of ways. For example, during a recession, a government can use its monetary policy to control the cost of goods and services thus ensuring that the cost of people can afford to maintain a decent standard of living. Another example is when a central bank decreases interest rates, banks in turn decrease their interest rates which results in increased spending. People tend to take advantage of the reduced rates to purchase consumer items and take out mortgages. However, if interest rates are increased this can result in a comparable increase in interest rate charges on loans and credit cards which could result in people spending less.