

Infographic: monetary policy

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After yesterday's [infographic on fiscal policy](#), it seemed right to do one on monetary policy:

Monetary policy

Box 1
What is monetary policy?

- A government's monetary policy manages money, credit and interest rates in a jurisdiction
- In the UK, it is largely controlled by the Bank of England
- Its decisions shape borrowing costs, saving returns, investment and demand
- It also manages the quantitative easing and quantitative tightening processes

Box 2
Interest rates redistribute income

- Higher rates → borrowers pay more
- Mortgage holders, renters, businesses and government lose
- Banks, wealthy savers and owners of financial asset gain
- This is a political choice, not a neutral adjustment
- With lower rates the opposite is true

Box 3
The economic impact

- High interest rates lower investment
- They increase unemployment
- They reduce demand
- These supposedly reduce the rate of inflation
- With low interest rate, the opposite may be true

Box 4
Interest rates are a blunt tool

- Interest rates can reduce demand
- But that can take a long time – the lag can be up to two years
- And excess demand is not the only cause of inflation
- Recent UK inflation came mainly from supply shortages, high imported energy costs, Brexit, war, and profiteering.
- Higher interest rates cannot address these issues
- Using them cannot control; the inflation they create

Box 5
Higher rates inflate business costs

- Businesses pay more interest
- Landlords face higher mortgage costs
- These costs may be passed into prices and rents
- High interest rates can themselves be inflationary, then
- Tight monetary policy can, then, add to inflation while weakening employment, investment and household finances, which reduces demand

Box 6
Using the right response

- Supply shocks need direct government action, not higher rates
- They can be tackled using regulation, price controls, excess profit taxes and public investment to overcome supply chain issues
- And tax can be better at withdrawing excess spending power where demand is the problem
- Different causes of inflation require different policies

Box 7
Money paid to banks

- Monetary policy has created other problems
- The Bank of England has since 2006 paid interest on commercial banks' reserve accounts
- But these reserves are created by the state, not the banks
- Paying interest on all of them delivers large public subsidies to private banks
- Most reserve balances should receive little or no interest
- We don't need to subsidise private banks

Box 8
Democratic control

- Monetary policy is managed by the Bank of England
- If it is not co-ordinated with government policy
- Too often, the government the two conflict
- We get bad economic policy as a result
- The Bank of England often harms employment, public services home ownership, business, and productive investment.
- Monetary policy should serve public purpose, not protect financial wealth from democratic choice.
- It needs to be under Treasury control

Monetary policy is never neutral: interest rates distribute income, power and opportunity, so they must be judged by whom they serve and by whether they solve the real cause of inflation.

funding the future <https://www.taxresearch.org.uk/Blog/>
Richard Murphy's blog on political economy

And a question. This one has been turned into a PDF, which can be [downloaded here](#). Does that work for printing purposes, or is a border needed?