Difference Between Monetary Stimulus and Fiscal Stimulus

Monetary stimulus and fiscal stimulus refer to two different tools that can significantly impact the economic activity of a country. The major difference between monetary stimulus and fiscal stimulus is that monetary policies are managed by the central banks of a country and are concerned with the interest rates and management of the money supply in an economy, while fiscal policy is concerned with how the government manages various aspects of spending and taxation.

The difference between monetary stimulus and fiscal stimulus is given below.

Key Difference between Monetary Stimulus and Fiscal Stimulus	
Monetary Stimulus	**Fiscal Stimulus**
Monetary stimulus is regulated primarily by central banks that focus on low inflation rates to stabilise the growth of the economy by increasing the amount of money available	Fiscal stimulus is mainly a government-regulated measure that deals with changes in government spending and taxation to revive the economy
Monetary stimulus reduces interest rates and enhances the money supply by injecting more cash into the economy	Fiscal stimulus is a measure that is done by the government through direct spending and enhancing hiring to promote growth and employment
Monetary stimulus is undertaken by central banks to regulate the money supply in the country through interest rates	Fiscal stimulus is used by the government to influence overall supply and demand by altering taxes, increasing spending and boosting overall economic growth
The monetary stimulus enables people to have access to extra money during times of recession	Fiscal stimulus, on the contrary, is the last resort to achieve steady

	economic growth and price stability

What is a Monetary Stimulus?

A monetary stimulus involves the central bank either expanding the supply of money or reducing the cost of money or rate of interest to encourage consumer spending. It measures the interest rates applicable for lending money in the economy.

The goal of monetary stimulus is to get individuals to use that money. The government aims to make it simpler for firms and consumers to spend money by lowering loan rates or just flooding the market with new capital.

What is a Fiscal Stimulus?

A fiscal stimulus involves the Government taking various measures to stimulate the economy or cutting tax rates to put more money in the hands of consumers. It provides the much-needed liquidity stimulus in the economy and helps revive a range of economic activities, especially during the economic slowdown.

Fiscal stimulus operates through direct expenditure. This often operates in one of two ways. Most frequently, a government will increase spending and hiring. The government will start more projects, acquire additional materials and tools, and hire more personnel.