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THE EVOLUTION OF GLOBAL MONETARY POLICY INSTRUMENTS IN
2020–2025: LESSONS FROM THE US, EU, AND CHINA

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Annotation. The period 2020–2025 reshaped global monetary policy more dramatically than any time since the global financial crisis. The COVID-19 shock, the post-pandemic inflation surge, Russia's invasion of Ukraine, energy and food price spikes, and subsequent growth slowdowns forced central banks to redesign and then rapidly re-calibrate their toolkits. Traditional policy rate changes were combined with large-scale asset purchases, targeted lending schemes, and new standing facilities.

This thesis briefly analyses how the instruments of monetary policy evolved in three major jurisdictions – the United States (Federal Reserve), the euro area (European Central Bank, ECB) and China (People's Bank of China, PBoC) – and draws lessons for future policy design and for smaller, open economies.

Key words: Global monetary policy, Monetary policy instruments, Federal Reserve (Fed), European Central Bank (ECB), People's Bank of China (PBoC), Quantitative easing (QE), Quantitative tightening (QT), Policy rate, Standing Repo Facility (SRF), Overnight Reverse Repo Facility (ON RRP). Targeted longer-term refinancing operations (TLTRO III), Pandemic Emergency Purchase Program (PEPP), Reserve requirement ratio (RRR)

In 2020, the initial response of most central banks was an emergency shift to ultra-loose policy: policy rates were cut to or near the effective lower bound, while balance sheets expanded sharply through asset purchases and liquidity facilities. The IMF notes that from 2022 a historically synchronized global tightening cycle began, as central banks rapidly raised interest rates to bring inflation back to target and in some cases started to shrink their balance sheets.⁵

At the same time, academic and policy work highlighted that such synchronous tightening generates powerful cross-border spillovers, increasing the risk of a global downturn. This environment put a premium not just on *how much* to tighten, but on *which instruments* to use and how flexibly they could be adjusted.

1. United States: from crisis facilities to a permanent corridor system. The Federal Reserve's toolkit over 2020–2025 illustrates the evolution from ad-hoc crisis measures towards a more structured operating framework. Emergency tools (2020–2021). In response to the COVID-19 shock, the Fed cut the federal funds rate to near zero and deployed a broad set of facilities: large-scale asset purchases (quantitative easing), corporate and municipal credit facilities, and massive repo operations to stabilise short-

⁵ [Central Banks Hike Interest Rates in Sync to Tame Inflation Pressures](#)



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term funding markets.⁶ These instruments aimed both at easing financial conditions and at preventing a systemic liquidity crisis.

From 2021 onwards the Fed shifted from temporary emergency tools to permanent instruments embedded in its operating framework. A key innovation was the Standing Repo Facility (SRF), which provides liquidity against high-quality collateral at a rate set at the top of the federal funds target range. On the other side of the corridor, the overnight reverse repo facility (ON RRP) offers a floor for money-market rates. Together, these instruments allow the Fed to control short-term interest rates in an “ample reserves” regime while keeping financial markets stable.

In parallel, the Fed used the size and composition of its balance sheet as an additional tool. After expanding asset holdings to around 9 trillion USD during the pandemic, it later began “quantitative tightening” by allowing securities to run off, before signalling a possible end to balance-sheet reduction as liquidity conditions tightened.

2. Euro area: targeted refinancing and flexible asset purchases

The ECB entered the pandemic with negative policy rates and an already large balance sheet. Its room to cut rates was limited, so it relied heavily on innovative instruments. In March 2020, the ECB launched the Pandemic Emergency Purchase Programme (PEPP), a large and flexible bond-buying scheme designed both to ease monetary conditions and to prevent fragmentation of financial markets across member states. Unlike earlier programmes, PEPP allowed the ECB to deviate from the capital-key benchmark and to adjust purchases across jurisdictions and asset classes, making it a powerful instrument to stabilise sovereign bond markets.

Even after net purchases ended, the ECB has used reinvestments of maturing PEPP holdings as an active tool, redirecting them across countries where financial conditions tighten unjustifiably.

3. China: structural and targeted monetary tools

Unlike the Fed and the ECB, the PBoC operates in a bank-dominated financial system and in an economy with extensive administrative and macroprudential controls. As a result, China relied more on *quantity-based* and *targeted* tools than on aggressive headline rate cuts.

Reserve requirement ratios (RRR) and policy rates. Between 2020 and 2024 the PBoC repeatedly lowered banks’ reserve requirement ratios to support credit growth while keeping broad monetary aggregates on a “reasonable” path, as documented in its Monetary Policy Reports. In 2024–2025 it complemented RRR reductions with modest cuts to key policy rates such as the seven-day reverse repo rate and the loan prime rate (LPR).

Structural and sector-specific facilities. The PBoC also expanded a range of structural monetary policy tools: relending and rediscount facilities for agriculture and

⁶ [What did the Fed do in response to the COVID-19 crisis? | Brookings](#)



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small and micro enterprises, programmes supporting green finance, technology innovation and social services, and targeted lending schemes for sectors hit hardest by the pandemic. People's Bank of China+1 These instruments channeled credit to priority areas while avoiding broad-based stimulus that might worsen financial imbalances.

Conclusion. Between 2020 and 2025, monetary policy instruments in the US, euro area and China evolved from emergency, “unconventional” measures into a more permanent, diversified toolbox. The period began with unprecedented easing through asset purchases, credit facilities and targeted lending, and then shifted to a synchronized tightening cycle that used policy rates, balance-sheet adjustments and standing facilities in combination.

For policymakers in other countries, three practical lessons emerge. First, building a flexible toolkit – including standing liquidity facilities and, where appropriate, targeted refinancing – increases resilience to shocks. Second, clear rules and communication about how these instruments are used can support credibility and reduce market volatility. Third, in an increasingly integrated global financial system, major central banks’ instruments generate powerful spillovers, so smaller economies must closely monitor not only the level of global interest rates, but also the evolving *structure* of foreign central banks’ policy toolkits.

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